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The Federal Circuit



CONTEMPT JUDGMENT A PREREQUISITE TO APPEALABILITY OF DISCOVERY ORDER

Nonparty, FDA, may only secure review of order to compel testimony of scientists by refusing to comply with order and appealing consequent contempt order. *Connaught Labs., Inc. v. SmithKline Beecham, P.L.C.*, No. 98-1471 (Fed. Cir. Jan. 25, 1999)1

CORROBORATION UNDER § 102(g) NOT NECESSARY FOR NONPARTY INVENTORS OF UNPATENTED INVENTION

Corroboration rule is needed only to corroborate the self-interests of a testifying inventor against the patentee. *Thomson S.A. v. Quixote Corp.*, No. 97-1485 (Fed. Cir. Jan. 25, 1999)1

MARKMAN DID NOT DISQUALIFY INVENTOR AS WITNESS ON CLAIM SCOPE

Though an inventor cannot by later testimony change invention and claims from meaning at time patent was drafted, an inventor is competent witness to explain background of invention and what was intended to be conveyed by specification and covered by claims. *Voice Tech. Group, Inc. v. VMC Sys., Inc.*, No. 97-1465 (Fed. Cir. Jan. 8, 1999)2

TRANSFER OF GOODS UNDER SETTLEMENT AGREEMENT IS NOT SALE OF GOODS UNDER STATE LAW

Party that failed to expressly provide for warranties of goods transferred under settlement agreement is not entitled to UCC-type implied warranties of fitness and merchantability. *Novamedix Ltd. v. NDM Acquisition Corp.*, No. 97-1507 (Fed. Cir. Jan. 28, 1999)3

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Terminal disclaimer responsive to obviousness-type double patenting simply serves statutory function of removing double patenting rejection and raises neither presumption nor estoppel on merits of rejection. *Sash Controls, Inc. v. Talon, L.L.C.*, No. 98-1152 (Fed. Cir. Jan. 27, 1999) (nonprecedential decision)6

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Court affirms award of over \$80,000 in attorney fees and expenses given patentee's failure to investigate patent infringement and breach of contract claims. *Stanis v. Allied Signal Inc.*, No. 98-1515 (Fed. Cir. Jan 29, 1999) (nonprecedential decision)6

PROSECUTING ATTORNEY'S GOOD FAITH AND CANDOR AVOIDS INEQUITABLE CONDUCT

Prosecuting attorney, upon learning of precritical date sales information, made effort to investigate and disclose facts, as he understood them, to PTO with good faith and candor. *Destron/IDI, Inc. v. Electronic Identification Devices, Ltd.*, No. 98-1242 (Fed. Cir. Jan. 26, 1999)(nonprecedential decision)7

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Prior art suggests obviousness of thirty-seven year old claims to laser-based, satellite communications system. *Pfund v. United States*, No. 98-5097 (Fed. Cir. Jan. 20, 1999) (nonprecedential decision)10

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"SHOULDER SURFING" PATENT "WIPED OUT"

Motivation to combine references comes from references themselves. Claims unpatentable for obviousness. *In re Newburger*, No. 98-1187 (Fed. Cir. Jan. 11, 1999) (nonprecedential decision)11

Washington, DC
202-408-4000

Palo Alto
650-849-6600

Atlanta
404-653-6400

Tokyo
011-813-3431-6943

Brussels
011-322-646-0353

EDITED BY VINCE KOVALICK

Contempt Judgment a Prerequisite to Appealability of Discovery Order

Virginia Carron

[Judges: Mayer (author), Clevenger, and Gajarsa]

The Federal Circuit, in *Connaught Laboratories, Inc. v. SmithKline Beecham, P.L.C.*, No. 98-1471 (Fed. Cir. Jan. 25, 1999), dismissed for lack of jurisdiction an appeal filed by the United States Food and Drug Administration (“FDA”) and two of its scientists from an order of the United States District Court for the District of Delaware compelling the FDA to comply with subpoenas requiring testimony from its employees.

This appeal is from an ancillary discovery proceeding arising out of a patent infringement action brought by Connaught Laboratories, Inc. (“Connaught”) against SmithKline Beecham, P.L.C. and SmithKline Beecham Corp. (collectively “SB”) for infringement of U.S. Patent No. 5,667,787 (“the ‘787 patent”). SB sought documents and testimony from the FDA relating to research performed by the FDA on subject matter relating to the ‘787 patent. While the FDA provided documents, it refused to permit its employees to testify in response to a request for testimony by SB under 21 C.F.R. § 20.1. SB then served three subpoenas on the FDA and moved to compel compliance with the subpoenas in the District of Delaware. The FDA, in turn, moved to quash the subpoenas. The district court granted SB’s motion to compel and denied the FDA’s motion to quash.

The Federal Circuit explained that its jurisdiction is limited to review of final decisions of district courts. As a result, the “nonappealability of orders requiring the production of evidence from witnesses has long been established” and applies both to discovery orders on parties as well as nonparties. *Connaught Labs.*, slip op. at 3. Parties and nonparties alike “may secure review of a discovery order by refusing to comply with it and appealing a consequent contempt order, which is considered final.” *Id.*

The FDA nevertheless argued that the Federal Circuit had jurisdiction to hear its appeal either by way of the collateral order doctrine or writ of mandamus, which are avenues around the finality rule. The Federal Circuit noted that a collateral order under the Supreme Court’s decision in *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), must be effectively unreviewable on appeal from a final judgment. Moreover, to justify issuance of a writ of mandamus, a petitioner must establish that it lacks adequate alternative means to obtain the relief sought. According to the Court, the “FDA’s avenue of refusing to comply with the order and

appealing a subsequent contempt citation is an adequate alternative’ that provides an effective review’ of the order.” *Connaught Labs.*, slip op. at 4.

The Federal Circuit then rejected the FDA’s assertion that review after final judgment would not be effective. It explained that since issues of privilege were not at stake, the FDA could obtain adequate review after final judgment.

Finally, the Court rejected the FDA’s assertion that the government should not be required to risk contempt to obtain appellate review. While the Supreme Court in *United States v. Nixon*, 418 U.S. 683 (1974) had ruled that the President of the United States could seek review of a discovery order without facing contempt, the Federal Circuit found that the separation of powers concerns in *Nixon* did not apply here where SB had sought testimony from scientists at the FDA—not high level FDA officials. The Court concluded that the “precedent requiring nonparties to challenge a discovery order through noncompliance with that order is substantial and we see nothing here that warrants an exception.” *Connaught Labs.*, slip op. at 6.

Corroboration Under § 102(g) Not Necessary for Nonparty Inventors of Unpatented Invention

Lori-Ann Johnson

[Judges: Rich (author), Schall, and Gajarsa]

In *Thomson S.A. v. Quixote Corp.*, No. 97-1485 (Fed. Cir. Jan. 25, 1999), the Federal Circuit held that corroboration of inventor testimony under 35 U.S.C. § 102(g) is necessary only: (1) when a testifying inventor is asserting a claim of derivation or priority of his or her invention and is a named party, an employee of or assignor to a named party; or (2) when the testifying inventor is in a position where he or she stands to directly and substantially gain by his or her invention being found to have priority over the patent claims in issue.

Thomson S.A. (“Thomson”) owns four patents directed to information storage devices such as compact discs. Thomson makes and markets equipment for playing CDs but grants licenses under its patents to CD manufacturers. Quixote Corp. (“Quixote”) makes and markets CDs.

Thomson appealed the district court’s adverse decision on their motion for Judgment as a Matter of Law to overturn a jury verdict of invalidity for lack of novelty under 35 U.S.C. § 102(g). At trial, Quixote had presented evidence to establish that Thomson’s claims were anticipated by an unpatented laser videodisc developed by a nonparty, MCA.

Thomson's primary argument on appeal was that the jury verdict rested upon testimonial evidence by two inventors of the MCA videodisc and that this testimonial evidence was insufficient as a matter of law because it was uncorroborated. Corroboration, according to the Federal Circuit, is a means for balancing the interests of the patentee against the self-interest of a testifying inventor. In this case, the witnesses were known to supply goods and services to Quixote, however, the Court stated that this did not rise to the level of self-interest required to trigger a need for corroboration. The Court stated that the numerous methods under the Fed. R. Civ. P. by which one can challenge or rebut testimonial evidence protect patentees from erroneous findings of invalidity under these circumstances. Thus, the Court ruled that the uncorroborated testimony of a nonparty inventor was sufficient unless the inventor was subject to some substantial gain associated with the holding of the patents invalid.

Markman Did Not Disqualify Inventor as Witness on Claim Scope

Kara F. Stoll

[Judges: Newman (author), Rich, and Lourie]

In *Voice Technologies Group, Inc. v. VMC Systems, Inc.*, No. 97-1465 (Fed. Cir. Jan. 8, 1999), the Federal Circuit reversed the district court's grant of summary judgment ("SJ") of noninfringement, rejecting the district court's claim construction and remanded the case to the district court for a determination of infringement based on the proper claim construction. In interpreting the patent claims *de novo*, the Court ruled that an inventor is a competent witness to explain the invention and what was intended to be conveyed by the specification and covered by the claims.

VMC Systems, Inc. ("VMC") owns U.S. Patent No. 5,222,124 ("the '124 patent") relating to a communications device that enables communications between a telephone switching apparatus, such as a private branch exchange or "PBX" system, and an adjunct processor, such as a voice mail processor. In particular, the telephone switching apparatus communicates the origin, status, and destination of incoming calls to the communications device, and the communications device in turn passes this information to the adjunct processor. The communications device is physically connected to a line card in the telephone switching apparatus through two pairs of wires, a data pair and a voice pair. The critical claim element at issue, claimed in means-plus-function form, requires means for communicating information between the

telephone switching apparatus and the adjunct processor.

In the district court, VMC asserted that certain devices made by Voice Technologies Group, Inc. ("VTG") infringed the '124 patent. VTG filed a motion for SJ of noninfringement, arguing that the claimed "means for communicating information between the telephone switching apparatus and the adjunct processor" was limited to devices incapable of "telephone emulation." Since its devices performed "telephone emulation," VTG, argued, they had not infringed the '124 claims.

The parties did not agree on the meaning of the term "telephone emulation" as used in the specification. In particular, VTG asserted that "telephone emulation" referred to the replication of the electrical or functional characteristics of a telephone set to indicate to the switching apparatus the presence of a talk path. To support this interpretation, VTG offered the statements of an expert witness, as well as the statements of a developer of the accused device. These witnesses also testified that the accused device would be inoperable if it did not perform "telephone emulation" under this definition.

VMC responded with a cross-motion for SJ, asserting that even if the claims were limited to systems that do not perform "telephone emulation," that term—as defined in the specification—does not exclude VTG's devices. According to VMC, the specification defines "telephone emulation" as nothing more than the transmission of voice data between the switching apparatus and the communications device. In support of its interpretation, VMC submitted the deposition of one of the inventors of the '124 patent.

The district court found the meaning of "telephone emulation" as used in the specification unclear and rejected VMC's claim interpretation. Turning to extrinsic evidence, the district court excluded the inventor testimony regarding the meaning of the claims as irrelevant under *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (in banc), *aff'd*, 517 U.S. 370 (1996). Left with little else, the district court adopted the definition offered by VTG's expert witness. Based on its adopted claim construction, the district court granted SJ of noninfringement in favor of VTG.

VMC appealed the district court's decision, asserting that the district court's definition of "telephone emulation" had been entirely inconsistent with the specification. Agreeing with VMC, the Federal Circuit held that the specification clearly defines "telephone emulation" as the establishment of a "direct talk path" . . . to carry voice sounds and connected to voice detection circuitry." *Voice Tech.*, slip op. at 16. Continuing, the Federal Circuit stated that "[w]hen the meaning of a term as used in a patent is clear, that is the meaning that must be

applied in the construction of the claim and in the infringement analysis.” *Id.*

The Federal Circuit also found that the district court erred in excluding the inventor testimony offered by VMC. In particular, the Court expressed concern that its decision in *Markman* may have led the district court to exclude the inventor testimony. The Court stated that its statements in *Markman* do not mean that district courts should automatically disqualify inventors as witnesses. Rather, the Court explained, “an inventor is a competent witness to explain the invention and what was intended to be conveyed by the specification and covered by the claims.” *Voice Tech.*, slip op. at 20. In addition, the Court continued, the testimony of the inventor may provide background information, including an explanation of the problems that existed at the time the invention was made and the inventor’s solution to these problems.

Having rejected the district court’s claim interpretation, the Federal Circuit reversed the district court’s grant of SJ of noninfringement. The Federal Circuit then remanded the case to the district court to resolve factual disputes on whether the accused device infringed the claims under the proper claim construction.

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Transfer of Goods Under Settlement Agreement Is Not Sale of Goods Under State Law

Vince Kovalick

[Judges: Smith (author), Rich, and Newman]

In *Novamedix Ltd. v. NDM Acquisition Corp.*, No. 97-1507 (Fed. Cir. Jan. 28, 1999), the Federal Circuit affirmed a district court’s decision denying a motion by Novamedix Ltd. (“Novamedix”) to enforce a consent judgment, holding that a settlement agreement between Novamedix and NDM Acquisition Corp. (“NDM”) incorporated into the consent decree is not a contract for the sale of goods and therefore the New York State’s implied warranties of fitness and merchantability do not apply.

The patents at issue concern medical foot pumps that, when inserted into specially designed slippers, regularly inflate and deflate to improve blood flow from the feet of bedridden patients.

In settlement of patent infringement litigation, Novamedix and NDM entered a settlement agreement (“Agreement”) under which NDM agreed to: (1) admit to the validity, enforceability, and infringement of Novamedix’s patents; (2) cease infringement; (3) deliver its inventory of accused products, along with its customer list, to Novamedix; (4) grant Novamedix an exclusive

license under NDM’s own patents; and (5) pay Novamedix \$47,500.00. Novamedix agreed to release NDM of further liability, and agreed not to depose certain NDM employees in other litigation. Novamedix was also required to send a notice to all NDM customers, informing them of the inventory transfer and stating that “Novamedix or its designee would like to service the needs of customers on mutually accepted terms.” The district court entered the settlement agreement as part of a consent judgment.

As required by the Agreement, NDM delivered its inventory to Novamedix, but Novamedix could not sell the inventory because it failed to meet FDA requirements for number of inflation/deflation cycles. Consequently, Novamedix moved to enforce the consent judgment, arguing that the Agreement was a contract for sale and was subject to implied warranties of fitness and merchantability state law. The district court denied the motion, finding that the consent judgment should not be treated as a contract for the sale of goods.

Applying the law of the Sixth Circuit, the Federal Circuit noted that both consent decrees and settlement agreements are construed in the same manner as other contracts. In interpreting the Agreement, the Court applied the state of New York law, as specified in the Agreement. In the Court’s mind, the issue turned on whether the objective language of the Agreement showed the parties’ intent to create a contract for the sale of goods. If that intent were true, according to the Court, then by law the parties intended to include the implied warranties.

The Federal Circuit held, however, that the predominant purpose of the Agreement was not for the sale of the slippers. Rather, the essential nature of the Agreement was to settle a patent infringement law suit. It ruled that had Novamedix desired a warranty as to the quality of the slippers, it could have bargained for inclusion of such warranty in the Agreement. Having chosen to forego such an express warranty, it now must live with the consequences.

Gone Today, Hair Tomorrow?

Eyal H. Barash

[Judges: Mayer (author), Newman, and Rader]

In *In re Cortright*, No. 98-1258 (Fed. Cir. Jan. 19, 1999), the Federal Circuit reversed-in-part and affirmed-in-part a decision from the United States Patent and Trademark Office (“PTO”) Board of Patent Appeals and Interferences (“Board”) rejecting the claims of Applicant Joyce A. Cortright. The Court found one appealed claim valid, but rejected

the other appealed claim, albeit on different grounds than the Board.

Cortright filed a patent application in 1992 directed to methods of treating baldness with a commercially available product called Big Balm[®], which had been used to soften cow udders. Claim 1 recited a method of “treating scalp baldness,” while claim 15 recited a method of “offsetting” the effects of low levels of male hormone supplied by the arteries to “the papilla of scalp hair follicle,” which supposedly would cause hair to grow on the scalp.

The Examiner had rejected the claims under 35 U.S.C. § 101 for lack of utility, arguing that it is generally accepted that baldness is incurable and, therefore, the Applicant would be required to submit clinical data in order to prove utility. The Examiner had also rejected claim 15 because no claimed offset was evident from the disclosure. Finally, the Examiner had rejected the claims as anticipated because the written description admitted that Big Balm[®] had been applied to the skin. The Examiner had perceived that the scalp as being merely skin on the head.

The Board reversed the § 101 rejection, ruling that the Examiner had not set forth sufficient reasons for a finding that Cortright’s invention was not credible. The Board explained that no *per se* rule required clinical evidence to establish utility. The Board also reversed the Examiner’s § 102(a) rejection because it found that the prior art disclosure did not address applying Big Balm[®] to the “bald, human scalp.”

The Board introduced a new rejection, however, based on 35 U.S.C. § 112 ¶ 1, ruling that the claims were based on a nonenabling disclosure. In so ruling, the Board determined that Cortright’s written description did not teach one of ordinary skill in the art how to practice the invention without undue experimentation.

Specifically, the Board ruled that claim 1 failed to provide any teaching on how to administer the drug to restore hair growth and that claim 15 failed to teach how to offset the effect of lower levels of male hormone being supplied by the arteries to the papilla of scalp hair follicles. On reconsideration, the Board retreated on claim 1 and ruled that it was not commensurate with the scope of the disclosure. The Board, however, maintained its general nonenablement rejection of claim 15.

On appeal, the Federal Circuit reversed the Board’s rejection of claim 1 and upheld the rejection of claim 15, but on different grounds. In deciding the merits of the Board’s decision, the Federal Circuit expressly differentiated between the two kinds of § 112 ¶ 1 rejections available to the Board. In one, although the written description enables something within the scope of the claims, the claims go beyond the boundaries of the written

description. This is the kind of § 112 ¶ 1 rejection the Board issued on reconsideration with respect to claim 1. In the other, the written description does not enable any subject matter within the claims. In that case, both § 112 ¶ 1 and § 101 may be implicated. A § 101 rejection, however, can only be made when the PTO has established that the written description is inherently unbelievable or scientifically implausible. By contrast, the Federal Circuit noted that treatments for baldness have recently gained acceptance.

The Federal Circuit disagreed with the Board’s decision on claim 1 based on interpretation of the claim language “to restore hair growth.” The Federal Circuit ruled that the Board’s interpretation that such claim language required full and complete restoration to a full head of hair contradicted constructions found in other patents. The Federal Circuit examined some of the numerous other patents directed to treating baldness and found that the PTO, in prior cases, had not interpreted hair restoration to require complete restoration. The Federal Circuit concluded that in light of the disclosures of issued U.S. patents, one of ordinary skill would not interpret “restoring hair growth” to mean “returning the user’s hair to its original state.” Accordingly, the Federal Circuit reversed the Board on claim 1 because the written description did indicate that some hair growth was restored.

The Federal Circuit also disagreed with the Board’s analysis of claim 15, but ultimately came to the same conclusion as the Board and rejected the claim. The Board had ruled that because the written description stated that the mechanism by which the observed phenomenon occurred was unpredictable, the accuracy of the written description was cast into doubt. The Federal Circuit rejected this argument and ruled that patentees are not required to correctly know or identify why their inventions work. The Federal Circuit also ruled that just because an observed physiological phenomenon is unpredictable or unexplained, it is not inherently suspect. As a result, the Board erred in suggesting that it was Cortright’s responsibility to prove the underlying cause of hair growth resulting from the use of her invention.

The Federal Circuit did, however, reject claim 15 under § 112 ¶ 1 because the written description had failed to disclose that the active ingredient reaches the papilla or that offsetting occurs as recited in the claims. The Federal Circuit noted that the written description provided that people had observed hair growth in response to treatment; however, there was no disclosure that anyone had observed the active ingredient reaching the papilla or an offset of male hormones. Although the disclosure speculated the mechanism of action, no actual observations were recorded.

Accordingly, the Federal Circuit concluded that claim 15 did not satisfy § 112 ¶ 1, either expressly or inherently and affirmed-in-part, reversed-in-part, and remanded the decision of the Board.

Jury “Charges” Infringer \$5 Million on Battery Plate Patent

Sean A. Passino

[Judges: Rich (author), Smith, and Newman]

The Federal Circuit, in *Tekmax, Inc. v. Exide Corp.*, No. 97-1386 (Fed. Cir. Jan. 27, 1999) affirmed a district court judgment sustaining a jury verdict finding that Exide Corp. (“Exide”) infringed Tekmax, Inc.’s (“Tekmax”) U.S. Patent No. 4,758,126 (“the ‘126 patent”), and affirmed the district court’s summary judgment of noninfringement on Tekmax’s U.S. Patent No. 4,407,063 (“the ‘063 patent”).

Tekmax, a manufacturer of lead battery manufacturing equipment, sued Exide for infringement of the ‘126 and ‘063 patents, based on Exide’s manufacture and sale of its battery enveloping machine, the FSS-400. Such envelopes separate the positive and negative plates of a lead battery and allow ions to flow freely between the two plates to create electric current for a functioning battery.

Regarding the ‘126 patent, the parties disputed the interpretation of two elements from claim 1; specifically, “(c) means associated with said carrier for compressing said stack of plates sufficiently to position the forwardmost plate in said stack a predetermined distance from the periphery of said carrier when said air inlet opening is radially offset from said stack of plates by a specified angle; and (d) vacuum means for drawing a sufficient volume of air into said air inlet means to pull said forwardmost plate across said predetermined distance into contact with the periphery of said carrier when said air inlet is radially aligned with said stack of plates.”

Regarding the compression means of element (c), the question was whether the rollers and their placement on Exide’s carrier are the same or equivalent structure to that described in the ‘126 patent’s written description. One corresponding structure identified in the written description is rollers “which protrude from the periphery of the carrier. One roller is provided for each vacuum inlet opening and it is angularly offset from its associated opening . . . in order that it will be clear of the plate when the plate is in a position to be pulled toward the carrier by the vacuum.”

Exide admitted that it has rollers attached to the carrier that compress the stack of battery plates for a “predetermined” distance. The fact that the rollers stay in contact with the plate, however, does not eviscerate the function performed by the

rollers; the critical difference that Exide had relied upon. Thus, according to the Federal Circuit, substantial evidence exists to support the jury’s determination that Exide’s FSS-400 machine has the compression means limitation as claimed in claim 1, because the rollers and their placement on the carrier could at least be found “equivalent” under § 112 ¶ 6 to the rollers described in the specification.

Regarding the vacuum means in element (d), whether Exide’s FSS-400 machine contains the vacuum means limitation turned on the construction of the associated functional language: “when the air inlet is radially aligned with the stack of plates.” “Radially aligned” was not specifically defined in the written description. However, according to the Court, “radially aligned” indicates that the vacuum means is in a position to exert enough force on the forwardmost plate to pull it across the predetermined distance created by the push-back rollers. The function for the “vacuum means” in claim 1 does not require the rollers to be clear of the plate for the vacuum means to become radially aligned with the stack of battery plates. The fact that the vacuum heads in Exide’s FSS-400 are independently controlled, did not prevent the jury’s finding of infringement when substantial evidence existed for the jury to find that Exide’s FSS-400 performs the function required with at least equivalent means. Thus, the Court affirmed the district court’s denial of Exide’s motion for judgment as a matter of law.

Regarding the ‘063 patent, the limitation at issue on appeal read: “continuously sealing the overlapping edges of the [polyethylene] sheet [of the battery plate envelope] by compressing the edges into one another between the sealing wheels, the compressive force being applied uniformly along the entire extent of said overlapping edges and being within the range of the plastic flow of the material.” The issue was whether Tekmax had created a genuine issue of material fact as to whether Exide’s FSS-400 machine applies such “compressive force” uniformly along the extent of the overlapping edges creating the seal.

Tekmax’s expert contended that a battery envelope sealed by the Exide FSS-400 was compressed within the range of plastic flow because he had observed a change in color in the seal. He declared that he had observed the seal under an electron microscope and observed fibrils bridging between opposing seal surfaces indicating that the sheets of plastic had flowed together. According to the Federal Circuit, however, the observation that the seal changes color did not establish that the applied compressive force is uniform along the extent of the seal. Also, the scanning electron micrographs are taken at particular points along the seal only covering a very small portion of the seal. Thus, this evidence failed to establish a genuine issue of material fact concerning whether the com-

pressive force is continuously applied to create a uniform, integrated seal. Therefore, the Federal Circuit held that Exide's FSS-400 did not literally infringe the '063 patent.

Considering the doctrine of equivalents, the Court pointed out that to overcome a rejection during examination of the corresponding '063 application, Tekmax had amended the claims in dispute to add the very limitations at issue as discussed above. Thus, the Court concluded, Tekmax could not now recapture such claim scope under the doctrine of equivalents.

Terminal Disclaimer Does Not Admit Obviousness

Vince Kovalick

[Judges: Rich, Plager, and Rader (per curiam)]

In *Sash Controls, Inc. v. Talon, L.L.C.*, No. 98-1152 (Fed. Cir. Jan. 27, 1999) (nonprecedential decision), the Federal Circuit vacated a district court's decision finding a design patent invalid for obviousness and affirmed the district court's denial of summary judgment ("SJ") of unenforceability for inequitable conduct with respect to the design patent.

This dispute centered on two design patents for sliding glass door handles: Design Patent Nos. 340,398 ("the '398 patent") and 320,334 ("the '334 patent"). The design of the '334 patent was on sale for purposes of 35 U.S.C. § 102(b) on September 29, 1989. Applicants filed the application for the '398 patent more than one year after the on-sale date for the '334 patent. The Examiner, being unaware of the earlier sales, rejected the '398 patent design under obviousness-type double patenting based on the '334 patent and two other designs. Applicants filed a terminal disclaimer to obviate the rejection.

The district court ruled that because the '398 design was on sale more than a year before the '334 application, it qualified as prior art. Moreover, through its terminal disclaimer, the district court concluded, Applicants had admitted that the '334 design was obvious over the '398 design. Accordingly, the district court found the '398 patent invalid.

Citing its earlier precedent that a terminal disclaimer is not an admission of obviousness of the later filed claimed invention in light of the earlier filed disclosure and raises neither a presumption nor estoppel on the merits of the rejection, the Federal Circuit held that the district court had abused its discretion in estopping the patentee from arguing that the claimed design of the '398 patent is not obvious.

Because the district court had improperly estopped the patentee from discovering and presenting evidence of secondary considerations of nonobviousness, the Federal Circuit vacated the district court's judgment holding the '398 patent invalid and remanded for admission and consideration of secondary considerations.

As to inequitable conduct, the Federal Circuit recognized that the previous sales of the '334 patent design were material, but agreed with the district court that a genuine issue of material fact existed concerning what the prosecuting attorneys knew or should have known concerning those sales. Thus, the Court affirmed the district court's denial of SJ for inequitable conduct.

Federal Circuit Affirms Award of Fees and Expenses Under 35 U.S.C § 285 and Fed. R. Civ. P. 11

Vince Kovalick

[Judges: Rich, Newman, and Rader (per curiam)]

In *Stanis v. Allied Signal Inc.*, No. 98-1515 (Fed. Cir. Jan. 29, 1999) (nonprecedential decision), the Federal Circuit affirmed a district court's grant of summary judgment ("SJ") of noninfringement and its award of fees and expenses under 35 U.S.C. § 285 and Fed. R. Civ. P. 11.

John W. Stanis ("Stanis"), owner of U.S. Patent No. 5,095,746 ("the '746 patent") for an aircraft banking angle indicator, wrote the Defendants (collectively "Allied Signal") offering it the opportunity to buy the rights to the '746 patent. Allied Signal asked Stanis to sign a "Request to Consider Submission," ("the Submission"), which Stanis ultimately signed. When nothing came of the disclosure, Stanis's attorney wrote to Allied Signal accusing it of infringement. Allied Signal responded that it did not infringe and expressly pointed out two limitations of the only independent claim that could not be found in the accused Ground Proximity Warning System ("GPWS"). Stanis then filed suit in June of 1996. Based on his signing the Submission, Stanis asserted that he had a contract with Allied Signal to sell the rights to the invention, for which Allied Signal owes him millions of dollars.

The district court found on SJ that indeed Allied Signal's GPWS lacked the two claim limitations Allied Signal had identified. The district court also dismissed Stanis's contract claim for failure to plead facts establishing the existing of a license agreement. Allied Signal then moved for attorney fees and expenses under 35 U.S.C. § 285 and Fed. R. Civ. P. 11. The district court judge awarded over \$80,000 in attorney fees and expenses for Stanis's

lack of investigation and vexatious and baseless correspondence with Allied Signal.

On appeal, the Federal Circuit confirmed that the two asserted means-plus-function limitations could not be found in the accused systems.

As to the breach of contract claim, the Submission signed by Stanis expressly stated that it did not create a license agreement. Moreover, Stanis failed to address any factual findings made by the district court in its assessment that the case was exceptional and that Stanis had violated Rule 11. Thus, the Federal Circuit affirmed on all grounds.

Prosecuting Attorney's Good Faith and Candor Avoids Inequitable Conduct

Vince Kovalick

[Judges: Mayer, Rich, and Michel (per curiam)]

In *Destron/IDI, Inc. v. Electronic Identification Devices, Ltd.*, No. 98-1242 (Fed. Cir. Jan. 26, 1999) (nonprecedential decision), the Federal Circuit affirmed a district court finding that misinformation provided by Destron/IDI, Inc. and Hughes Aircraft Co. (collectively "Destron") to the United States Patent and Trademark Office ("PTO") did not result from an intent to deceive the PTO, and therefore, did not constitute inequitable conduct.

In a previous decision, the Federal Circuit had determined that information withheld by Destron from the PTO was material. See *Destron/IDI, Inc. v. Electronic Identification Devices, Inc.*, No. 96-1382 (Fed. Cir. July 24, 1997). In that opinion, the Federal Circuit expressed concern with Destron's assertions to the PTO that all of its precritical date sales had been experimental, as well as with Destron's incorrect citation of *IMI-Tech Corp. v. Gagliani*, 691 Supp. 214 (S.D. Cal. 1986). The Court remanded the case for determination of whether the misrepresentations demonstrated an intent to deceive the PTO.

The district court, after examining extensive testimony and evidence, found no intent to deceive. Indeed, the district court found that Destron's attorney made a good faith effort to disclose precritical date sales information. He made a good faith investigation and divulged facts to the PTO as he understood them with good faith and candor. In particular, he expressly advised the PTO of conflicting evidence that his investigation had revealed. The district court was also satisfied by the attorney's explanation for citing *IMI-Tech* and found his testimony credible. Although the district court found some evidence that Destron was disorganized and that there had been poor communication

among its agents, it found no evidence to show clear and convincing evidence that Destron intentionally had attempted to deceive the PTO.

The Federal Circuit found nothing to suggest that these findings were clearly erroneous and was therefore unwilling to override the district court's judgment.

Patentee's T.V. Rights "Turned Off" by Prior Art

Esther H. Lim

[Judges: Rich (author), Michel, and Lourie]

In *Personalized Media Communications, L.L.C. v. International Trade Commission*, No. 97-1532 (Fed. Cir. Jan. 7, 1999) (nonprecedential decision), the Federal Circuit affirmed the determination of the International Trade Commission ("ITC") that claim 35 of U.S. Patent No. 5,335,277 ("the '277 patent") is invalid under 35 U.S.C. § 102(b).

The '277 patent generally relates to systems for use in television broadcasting. Claim 35, the only claim at issue, is directed to an automatic tuning feature in which the user can preset a television to automatically tune to a particular program at a specific time. Personalized Media Communications, L.L.C. ("PMC") filed a complaint with the ITC, asserting that the digital satellite system receivers imported and sold by various parties infringed the '277 patent. The respondents moved for a summary determination that claim 35 of the '277 patent was anticipated by a prior art "Heathkit" TV. As described in a manual published before the critical date, a "Heathkit" TV, a programmable color television receiver kit, stores viewing time and channel information to automatically tune itself to the specified channel at the specified time.

Reviewing the ITC's summary determination *de novo*, the Federal Circuit affirmed. In so doing, the Court first construed the critical claim limitation, and more specifically, whether "information" in the claimed phrase "information of a selected television program unit" only includes time and channel data or whether "information" must also include a unique program-identifying code. Relying on the ordinary meaning of the claim language, the Federal Circuit ruled that "information" is a generic term and that "channel and time" are merely one type of information. The Court found that the specification uses the term "information" broadly to embrace many different types of information, and unique program code is described in a single embodiment of the invention. Claim 35, the Court noted, simply does not recite a unique program identifier and thus is not so limited.

Having construed the claim, the Court turned to whether the properly construed claim encompasses the prior art structure. Noting that PMC had not disputed that the “Heathkit” TV stores channel and time data or that the “Heathkit” TV met the remaining limitations of claim 35, the Federal Circuit affirmed the ITC’s holding that the “Heathkit” TV anticipates claim 35.

Court “Hangs Up” Hanger Patent

Paolo M. Trevisan

[Judges: Bryson, (author), Rich, and Gajarsa]

The Federal Circuit, in *Carlisle Plastics, Inc. v. Spotless Enterprises, Inc.*, No. 98-1170 (Fed. Cir. Jan. 26, 1999) (nonprecedential decision), affirmed a district court’s decision, after a bench trial, that the asserted claims were not infringed, but not invalid. In this action, Spotless Enterprises, Inc. (“Spotless”) sued Different Dimensions, Inc. (“DDI”) (purchased by Carlisle Plastics, Inc. (“Carlisle”) during the action) for infringing U.S. Patent No. 4,322,902 (“the ‘902 patent”), which claims hangers with garment-size indicators thereon. DDI responded by filing a Declaration Judgment action in the United States District Court for the Eastern District of New York to invalidate the ‘902 patent and by seeking a decision that DDI’s “top sizers” did not infringe the ‘902 patent.

During the pendency of the case, the U.S. Patent and Trademark Office (“PTO”) reexamined the ‘902 patent, resulting in the amendment of several claims and the cancellation of one claim. The PTO confirmed the patentability of several other claims, including the four new claims.

The district court rejected Carlisle’s contention that the asserted claims of the ‘902 patent were invalid, but agreed that Carlisle’s top-sizer hanger did not infringe the asserted claims. The district court also denied Carlisle’s request to denominate the case exceptional and to award Carlisle attorney fees.

Carlisle appealed the district court’s judgment that the asserted claims of the ‘902 patent were not invalid for obviousness, and the refusal to find the case exceptional. The claims in question recite a hanger with an enlarged display portion projecting above the top contour of the hanger hook, and an indicating device with a hollow body that receives at least a portion of the display portion. Carlisle argued that the claimed invention would have been obvious from several prior art hangers designed to accept cards or tags, and other prior art references with indicating devices having hollow bodies used to attach the indicators to the hangers. The asserted references had been before the Examiner during

reexamination, and the Examiner rejected the assertion of obviousness. The district court had found that nothing in the prior art suggested the combination proposed by Carlisle, and further found that the commercial embodiment of the patent had experienced substantial financial success.

On appeal, while the elements of the invention were plainly present in the prior art references, the Federal Circuit did not overturn the district court’s ruling that Carlisle had failed to satisfy its burden of providing clear and convincing evidence that the invention of the ‘902 patent was obvious, particularly following the successful reexamination of the ‘902 patent. The commercial success of the invention and the failure of anyone else to combine the prior art elements before the inventor also supported the conclusion that the invention was not obvious.

The Federal Circuit also affirmed the district court’s refusal to characterize this case as exceptional and impose Carlisle’s attorney fees on Spotless. Spotless’s argument with respect to infringement under the doctrine of equivalents was reasonable, the Court concluded, even if ultimately unpersuasive. Therefore, the district court had not abused its discretion in finding that this case was not exceptional.

Spotless’s cross-appeal sought to overturn the district court’s finding of no infringement, but the Federal Circuit upheld that finding. Spotless’s infringement argument turned on claim construction. Each asserted claim recites a hanger hook having an enlarged display portion that projects above the top contour of the hook and receives an indicating device. The district court construed the term “enlarged” in accordance with its dictionary definition to mean larger or greater than that formerly, usually, or normally present.

The Federal Circuit held that enlarged is a relative term; to be enlarged means that the enlarged object must be larger than some reference object. Spotless’s definition of “enlarged display portion” did not recognize this basic point. The Federal Circuit accepted the district court’s claim construction reflecting the common usage of the term “enlarged,” and sustained the conclusion that the accused products did not literally infringe any of the asserted claims of the reexamined ‘902 patent.

The Federal Circuit concluded that prosecution history barred Spotless from asserting that Carlisle’s products infringed under the doctrine of equivalents. Spotless was not permitted to add a claim in reexamination that would have substituted the term “supporting means” for “enlarged display portion” because the proposed claim would have been anticipated by a prior art device having a size indicator attached to the top of an ordinary wire hanger. Similar estoppel occurred during the original prosecution.

The Federal Circuit agreed that the clear inference from the Applicant's responses to the Examiner during prosecution and reexamination of the patent was that the Applicant gave up a supporting means that is not larger than the normal size of the hanger hook. Thus, the Court agreed that Spotless also had failed to prove infringement under the doctrine of equivalents.

Patentee Fails to "Connect" on Telecom Connection Patent

Vince Kovalick

[Judges: Clevenger, Schall, and Bryson (per curiam)]

The Federal Circuit, in *Independent Technologies, Inc. v. Siemon Co.*, No. 98-1256 (Fed. Cir. Jan. 29, 1999)(nonprecedential decision), affirmed a district court's grant of summary judgment ("SJ") of no infringement concerning Independent Technologies, Inc.'s ("ITI") U.S. Patent No. 4,878,848 ("the '848 patent") for a telecommunications interface adaptor.

The '848 patent concerns a telecommunications interface adaptor designed to interface with a 110-type terminal block, a device widely used in the telecommunications industry. The '848 patent discloses a modular adaptor with a bent wire jack connected via a printed circuit board ("PCB") to a plurality of metal blades. The blades extend from the PCB for insertion into an array of insulation displacement contacts ("IDCs") on a 110-type terminal block. The inserted blades provide the electrical contacts and add friction-fit stability to the connection.

The electrical contacts in the accused Siemon Co's ("Siemon") device differ from those disclosed in the '848 patent in that they are spring-biased and cylindrical. They extend from the PCB and move toward and away from the PCB along their lateral axes. They do not insert into the IDCs, but merely touch the IDCs at their outermost edges based on the spring biasing.

The infringement issue turned on the proper interpretation of the term "blades" as used in each independent claim. The Federal Circuit looked at the definition of blade in a technical dictionary and the specification, both of which referred to a generally rectangular configuration, preferably flat or planar, and found these definitions at odds with the cylindrical shape of the accused contact pins. Moreover, during prosecution of the '848 patent, Applicants had amended the claims from a broader recitation of "electrical contacts" to the narrower

"blade" limitations, and had made it clear that the amendments were being made to distinguish the prior art.

The Court further found that the claimed blades had two functions: to provide electrical contact, and to provide support. Although the Court found a genuine issue of fact regarding whether the accused pins provide stability in substantially the same way and yield substantially the same result as the claimed blade elements, it found no such question of fact with regard to the electrical contact issue.

The Court concluded that the blade elements provide an electrical connection by physical, metal-to-metal connections over a large portion of the blade's surface area, whereas the accused cylindrical contacts provide an electrical connection with insertion into the IDCs and provide only a metal-to-metal connection over a relatively small portion of the contact surface area near their tips.

Thus, the Court ruled that the two methods of providing electrical connection could not be found to be substantially the same and affirmed the SJ of noninfringement.

Failure to Construe Claims Vacates Summary Judgment Decision

Vince Kovalick

[Judges: Michel (author), Clevenger, and Bryson]

In *AFG Industries, Inc. v. Cardinal IG Co.*, No. 98-1375 (Fed. Cir. Jan. 5, 1999)(nonprecedential decision), the Federal Circuit vacated a summary judgment of noninfringement after finding that the district court had wrongfully resolved or failed to resolve crucial questions of claim construction.

AFG Industries, Inc. ("AFG") owns U.S. Patent No. 4,859,532 ("the '532 patent"), which covers a transparent laminated product having thin, optical coatings deposited in successive layers on glass to reflect infrared energy thereby reducing heat transfer through the glass. In particular, AFG's patent claims a five-layer filter composed of alternating layers of zinc oxide and silver.

The Federal Circuit found that the district court's apparent claim construction of the term "layer" was incorrect, and found that other disputed claim terms had not been defined at all. The Federal Circuit did not interpret the claims, but remanded the case for further claim construction and proceedings as necessary.

Patentee Fails to Communicate Validity of Laser-Based, Satellite Communications Claims

Lawrence F. Galvin

[Judges: Plager, Clevenger, and Rader (per curiam)]

In *Pfund v. United States*, No. 98-5097 (Fed. Cir. Jan. 20, 1999) (nonprecedential decision), the Federal Circuit affirmed a decision of the United States Court of Federal Claims holding twenty-two claims invalid as being obvious.

Charles E. Pfund ("Pfund") had asserted at trial that thirteen devices manufactured by or for the United States infringed twenty-two claims of his U.S. Patent Nos. 4,279,036 ("the '036 patent"); 4,664,518 ("the '518 patent"); and 4,764,982 ("the '982 patent"). These patents cover laser-based satellite communications, which provides significant advantages for submarine and other covert operations because its transmissions defy jamming and do not disclose the transmitter's geographic location. The claims of the '036 patent had been filed in 1962, but did not issue until 1981 due to secrecy orders, interference proceedings, and other administrative delays.

At trial, the Court of Federal Claims found that the combination of a specific technical report, that differed from the claimed invention only in its teaching of sunlight (rather than a laser) as a preferred signal source, with one or more of a group of six other prior art references teaching laser-based communications, rendered all twenty-two claims invalid as obvious under 35 U.S.C. § 103.

On appeal, Pfund offered three primary arguments. First, he asserted that no motivation existed to combine the seven cited references. Second, he argued that the trial court had used impermissible hindsight in making its obviousness determination and that it had failed to consider secondary factors of nonobviousness. Third, he contended that the technical report was not prior art.

The Federal Circuit, however, found the record replete with motivation to combine the seven cited references. It also found that the lower court carefully had avoided using hindsight in making its obviousness determination and properly weighed secondary factors of nonobviousness, particularly long-felt need and a government-imposed secrecy order. Finally, the Court found clear evidence of public availability of the specific technical report prior to Pfund's established conception date.

Finding no clear error in the lower court's factual findings and concurring in the lower court's ultimate conclusion of obviousness regarding each of the twenty-two claims in suit, the Federal Circuit affirmed what it termed a thorough, well-reasoned, and exemplary opinion.

Contract Ambiguity Precludes Summary Judgment

Anand K. Sharma

[Judges: Clevenger (author), Smith, and Schall]

In *Scherbatskoy v. Halliburton Co.*, No. 98-1290 (Fed. Cir. Jan. 11, 1999) (nonprecedential decision), the Federal Circuit: (1) affirmed the Fifth Circuit's conclusion that jurisdiction was proper; (2) reversed the district court's grant of summary judgment for Halliburton Co. ("Halliburton") on Serge A. Scherbatskoy et al.'s ("Scherbatskoy") contract claim; and (3) affirmed the district court's grant of summary judgment for Halliburton on Scherbatskoy's fiduciary duty claim.

Scherbatskoy owns several patents relating to measurement-while-drilling ("MWD") technology, which it has licensed to Gearhart-Owen Industries. Gearhart was subsequently acquired by Halliburton, at which point Scherbatskoy and Halliburton disputed the rights and obligations under the existing license. To resolve their dispute, Scherbatskoy and Halliburton entered into a settlement agreement and a license agreement ("Agreement"). The Agreement provides, in pertinent part, that if Halliburton acquires a corporation or business entity that provides MWD services covered by any valid Scherbatskoy patent, Halliburton must pay either an up-front fee or additional royalties.

After executing the Agreement, Halliburton acquired Smith Industries, Inc.'s ("Smith") directional drilling systems ("DDS") business, which employed MWD technology. From the outset, Halliburton and Scherbatskoy disputed whether the acquisition of Smith's DDS business triggered the additional royalty fee contemplated by the Agreement. In particular, the parties debated whether Smith's DDS business constituted a "business entity" for purposes of the Agreement and whether Smith's DDS business infringed any Scherbatskoy patents.

Although Scherbatskoy filed suit in Texas state court alleging state law claims, Halliburton successfully removed the action to federal district court. The district court, upon Halliburton's motion, granted summary judgment ("SJ"), stating simply that Scherbatskoy "take[s] nothing from Halliburton Company." On appeal, the Fifth Circuit affirmed the district court's denial of Scherbatskoy's motion to remand to the Texas state court, and transferred the appeal to the Federal Circuit in view of its exclusive jurisdiction over cases arising under the patent laws.

As an initial matter, the Federal Circuit addressed the issue of jurisdiction. Relying upon Supreme Court precedent, the Federal Circuit concluded that the Fifth Circuit's decision had been proper, because it was plausible and not clearly

erroneous. The Federal Circuit focused on the Fifth Circuit's reasoning that Scherbatskoy's state law contract claim implicated the resolution of a substantial question of patent law, namely, a showing that Smith's DDS business engages in an activity "covered by" a valid Scherbatskoy patent.

In reviewing the merits, the Federal Circuit concluded that ambiguity in the Agreement precluded SJ on Scherbatskoy's contract claim. According to the Court, Scherbatskoy's contract claim hinged upon whether the definition of "business entity" is broad enough to cover Smith's DDS business, which constituted only forty percent of Smith's total assets. Halliburton argued that "business entity" must refer to a traditionally recognized separate legal entity. The Federal Circuit rejected Halliburton's arguments, concluding instead that "business entity," as used in the Agreement, is reasonably susceptible to more than one meaning, and is therefore ambiguous as a matter of law. Because the Federal Circuit noted that this ambiguity will require the introduction and consideration of extrinsic evidence by a factfinder, it vacated the district court's grant of SJ on Scherbatskoy's contract claim.

As to the fiduciary duty claim, the Federal Circuit agreed with the district court that the claim was time barred. The Federal Circuit noted that Scherbatskoy had failed to adhere to the Texas statute of limitations by filing suit more than two years after it had become aware of Halliburton's actions. Thus, the Federal Circuit affirmed the district court's grant of SJ on Scherbatskoy's fiduciary duty claim.

"Shoulder Surfing" Patent "Wiped Out"

Louis M. Troilo

[Judges: Newman (author), Skelton, and Michel]

In *In re Newburger*, No. 98-1187 (Fed. Cir. Jan. 11, 1999) (nonprecedential decision), the Federal Circuit affirmed a decision of the Board of Patent Appeals and Interferences ("Board") holding certain claims of Application No. 08/003,323 ("the '323 application") unpatentable under 35 U.S.C. § 103.

The '323 application pertains to a system to guard users of public telephones against "shoulder surfing," the stealing of calling card numbers by persons who watch over a phone user's shoulder. According to the '323 specification (citing a 1992 *N.Y. Times* article) shoulder surfing results in approx-

imately six hundred million dollars in calls annually in the United States. The '323 application describes a telephone system in which the caller is asked, through the earpiece and after the caller enters a telephone access code, a question that is selected at random from a list of stored questions. If the caller answers the question correctly, via the keypad, then the system processes the call. Since the shoulder surfer cannot hear the question, and the question is randomly selected from several stored possibilities, the system enhances telephone security.

The Board affirmed the rejection of all the claims over a combination of three references. Specifically, the primary reference taught a telephone security system employing a question-based security check, and each of the secondary references taught the use of questions selected randomly in access card-based security systems, rather than access number-based systems. Asserting that the private communication of the questions through the telephone earpiece is an important feature of his invention, Newburger argued that one of ordinary skill would not have looked to the secondary references to supplement the telephone prior art because there is no motivation to do so. Newburger further argued that the secondary references do not solve the problem of shoulder surfing since they display or speak the questions and require an access card.

In affirming the Board's decision, the Federal Circuit found that the Board did not commit clear error in deciding that a person of ordinary skill in the telephone security field would have looked to access control systems such as those of the secondary references. According to the Federal Circuit, a reference is relevant, if the field is one that would reasonably have commended itself to an inventor's attention in considering his problem."

Newburger also argued that a patent substantially similar to his, but filed after the '323 application, evidenced the allowability of his invention. The Federal Circuit essentially ignored his argument because the '323 application had failed to meet the requirements of § 103.

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