



# FINNEGAN

## Last Month at the Federal Circuit

January 2010

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**Abbreviations**

ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act
APJ	Administrative Patent Judge
Board	Board of Patent Appeals and Interferences
Commissioner	Commissioner of Patents and Trademarks
CIP	Continuation-in-Part
DJ	Declaratory Judgment
DOE	Doctrine of Equivalents
FDA	Food and Drug Administration
IDS	Information Disclosure Statement
ITC	International Trade Commission
JMOL	Judgment as a Matter of Law
MPEP	Manual of Patent Examining Procedure
NDA	New Drug Application
PCT	Patent Cooperation Treaty
PTO	United States Patent and Trademark Office
SJ	Summary Judgment
TTAB	Trademark Trial and Appeal Board

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## Spotlight Info

Over the past year, the Federal Circuit has issued multiple opinions on the issue of transfer, including *In re TS Tech USA Corp.*, No. 09-M888 (Fed. Cir. Dec. 29, 2008), and *In re Genentech, Inc.*, No. 09-M901 (Fed. Cir. May 22, 2009). Last month, the Court once again turned its attention to this hotly contested topic. On two separate occasions, the Federal Circuit overturned decisions of the Eastern District of Texas and transferred the respective cases to more convenient and appropriate jurisdictions.

In *In re Hoffmann-La Roche Inc.*, No. 09-M911 (Fed. Cir. Dec. 2, 2009), Novartis Vaccines and Diagnostics, Inc. (“Novartis”) brought suit against Hoffmann-La Roche Inc. (“Roche”) and Trimeris, Inc. (“Trimeris”) in the Eastern District of Texas, despite the fact that Novartis is a California corporation, and the bulk of the development and testing efforts by Roche and Trimeris took place in North Carolina. After the district court refused to transfer the case to North Carolina, the Federal Circuit reversed, observing that the Eastern District of North Carolina’s interest in the case was “self-evident,” while the case had virtually no meaningful connection to the Eastern District of Texas. Slip op. at 8.

Similarly, in *In re Nintendo Co.*, No. 09-M914 (Fed. Cir. Dec. 17, 2009), Motiva, LLC brought suit against Nintendo Co., Ltd. of Japan and Nintendo of America Inc. of Redmond, Washington (collectively “Nintendo”), in the Eastern District of Texas. Observing that none of the parties were incorporated in Texas or had offices in Texas, no witnesses resided in Texas, and no evidence was located in Texas, the Federal Circuit granted Nintendo’s petition for a writ of mandamus and transferred the case from the Eastern District of Texas to the Western District of Washington. See full summaries below.

## Looking Ahead

On January 8, 2010, Microsoft Corporation (“Microsoft”) filed a combined petition for panel rehearing and rehearing en banc from panel opinion, *i4i Ltd. Partnership v. Microsoft Corp.*, No. 09-1504 (Fed. Cir. Dec. 22, 2009). In its petition, Microsoft characterizes two of its challenges as “precedent-setting questions of exceptional importance:

1. Whether a \$290,000,000 damages award—the largest ever sustained on appeal in a patent infringement case—can stand where:
  - a. The award rests on expert testimony that fails minimum standards of reliability and is unmoored to the real world; and
  - b. Microsoft preserved its objection to the excessiveness of the award by moving for new trial or remittitur?
  
2. Whether injunctive relief can be predicated solely on past harm?”

Pet. 1. Microsoft also contends that the panel misapprehended a point of fact when it stated that Microsoft “does not challenge . . . the sufficiency of the evidence supporting the jury’s willfulness finding.”  
*Id.* It remains to be seen whether the Court will grant Microsoft’s petition.

## Federal Circuit Again Orders Transfer from Eastern District of Texas

Zhenyu Yang

**Judges: Lourie, Friedman, Gajarsa (author)**

**[Appealed from E.D. Tex., Chief Judge Folsom]**

In *In re Hoffmann-La Roche Inc.*, No. 09-M911 (Fed. Cir. Dec. 2, 2009), the Federal Circuit held that the U.S. District Court for the Eastern District of Texas clearly abused its discretion in denying the defendants' motion to transfer venue pursuant to 28 U.S.C. § 1404(a). The Federal Circuit granted the petition for a writ of mandamus to direct the district court to transfer the case to the Eastern District of North Carolina.

Hoffmann-La Roche Inc., Roche Laboratories Inc., Roche Colorado Corp. (collectively "Roche"), and Trimeris, Inc. ("Trimeris") make Fuzeon®, an HIV inhibitor drug. Trimeris developed the drug in North Carolina. Roche manufactures and markets the drug at various facilities and through several subsidiaries in Colorado, Michigan, New Jersey, and Switzerland. Novartis Vaccines and Diagnostics, Inc. ("Novartis"), a company headquartered in California, brought this suit in the Eastern District of Texas, alleging that Fuzeon® infringed its patent. Roche and Trimeris moved to transfer the case to the Eastern District of North Carolina.

The district court denied the transfer motion, reasoning that in this "decentralized" case, transfer would merely shift inconveniences among witnesses. The district court noted its subpoena power over one of the potential witnesses to attend trial and emphasized that Novartis had transferred 75,000 pages of documents in electronic format to the district. It also found no localized interest in the case in either venue. Roche and Trimeris filed a petition for a writ of mandamus with the Federal Circuit.

The Federal Circuit observed "a stark contrast in relevance, convenience, and fairness" between the two venues. Slip op. at 5. According to the Court, multiple factors favored the transfer to the Eastern District of North Carolina. First, Trimeris developed and tested Fuzeon® within the district and still maintains the bulk of the key documentary evidence there. Second, the district has strong local interest because the case calls into question the work and reputation of individuals who reside in or near the district and conduct business there. Third, if the case were transferred, the district court could compel at least four nonparty witnesses, all of whom reside within 100 miles of the district, for both deposition and trial testimony. Also, the Eastern District of North Carolina has a less congested docket and may be able to resolve the dispute expeditiously.

**“While the sale of an accused product offered nationwide does not give rise to a substantial interest in any single venue, if there are significant connections between a particular venue and the events that gave rise to a suit, this factor should be weighed in that venue’s favor.” Slip op. at 8 (citations omitted).**

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On the other hand, the Court discerned no connection between the case and the Eastern District of Texas. It first rejected the labeling of the 75,000 pages of documents transferred to the district in electronic format as “Texas” documents. Only in anticipation of this litigation did Novartis’s counsel in California convert these documents into electronic format and transfer them to its Texas local counsel, the Court noted. Through such a maneuver, the Court concluded, Novartis created a “fiction” to manipulate the propriety of venue. But, § 1404(a) prohibits this type of litigation tactic, the Court admonished, because the statute “prevent[s] parties who are opposed to a change to venue from defeating a transfer which, but for their own deliberate acts or omissions, would be proper, convenient and just.” *Id.* at 6 (quoting *Van Dusen v. Barrack*, 376 U.S. 612, 625 (1964)).

The Federal Circuit next concluded that the Eastern District of Texas gave too much weight to its ability to compel one witness to attend trial. This witness resides in Texas but more than 100 miles outside the district. Thus, under Rule 45 of the Federal Rules of Civil Procedure, even though the district court has authority to compel her attendance at trial, it cannot compel her attendance at a deposition within the district as any such subpoena would be subject to a motion to quash, the Court analyzed. Because the Fifth Circuit defines “absolute subpoena power” as subpoena power “for both depositions and trial,” the Eastern District of Texas does not have absolute subpoena power over this witness, the Federal Circuit concluded. In contrast, the Eastern District of North Carolina has absolute subpoena power over at least four nonparty witnesses.

In addition, the Federal Circuit found that the district court failed to assess convenience and fairness to all the potential witnesses. The Court observed that the one witness over whom the Eastern District of Texas has authority would have to travel more than 100 miles to attend trial; on the other hand, the four witnesses subject to the absolute subpoena power of the Eastern District of North Carolina could attend both trial and deposition without incurring similar inconvenience. Under *In re Volkswagen of America, Inc.*, 545 F.3d 304, 316 (5th Cir. 2008) (en banc), the district court should have considered the factor of subpoena power in favor of transfer, the Federal Circuit noted.

The district court also erred in finding that neither venue had local interest in this case, the Federal Circuit held. Citing *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008), and *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009), its first two decisions transferring patent infringement cases out of the Eastern District of Texas, the Court repeated that “[w]hile the sale of an accused product offered nationwide does not give rise to a substantial interest in any single venue, if there are significant connections between a particular venue and the events that gave rise to a suit, this factor should be weighed in that venue’s favor.” Slip op. at 8 (citations omitted). According to the Court, the Eastern District of North Carolina’s interest in this matter is “self-evident,” while the Eastern District of Texas has no meaningful connection to the case. *Id.* And because the district court ignored this significant contrast and exclusively relied on other *forum non conveniens* factors, it rendered the factor of local interest meaningless.

For all these reasons, the Federal Circuit granted the petition for a writ of mandamus and directed the

district court to transfer the case to the Eastern District of North Carolina.

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## Finding a Patent Obvious Using Common Sense Requires Reasoning Articulated with Clarity

Melanie R. Grover

**Judges: Linn (author), Dyk, Prost**

**[Appealed from S.D. Fla., Senior Judge Ryskamp]**

In *Perfect Web Technologies, Inc. v. InfoUSA, Inc.*, No. 09-1105 (Fed. Cir. Dec. 2, 2009), the Federal Circuit agreed with the district court that the claims of U.S. Patent No. 6,631,400 (“the ‘400 patent”) were obvious, holding that an obviousness analysis may include recourse to logic, judgment, and common sense when its reasoning is sufficiently articulated. Accordingly, the Federal Circuit affirmed the district court’s SJ ruling of invalidity.

Perfect Web Technologies, Inc. (“Perfect Web”) owns the ‘400 patent, which claims a four-step method of managing bulk e-mail distribution to groups of targeted consumers. Step (A) matches a target recipient profile with a group of target recipients, step (B) transmits bulk e-mails to the target recipients, and step (C) calculates the number of successfully received e-mails. The final step (D) repeats steps (A)-(C) until a minimum quantity of e-mails is successfully received. Perfect Web sued InfoUSA, Inc. (“InfoUSA”) for infringement of the ‘400 patent. After a *Markman* hearing, but without issuing a formal claim construction order, the district court granted InfoUSA’s SJ motion for invalidity. Using Perfect Web’s claim construction, the district court found steps (A)-(C) disclosed in the prior art and step (D) obvious to virtually anyone. Perfect Web appealed.

On appeal, the Federal Circuit found that the district court properly applied common sense in its determination of obviousness. The Court noted that common sense can be a source of reasons to combine or modify prior art references, as observed by the Supreme Court in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007). The Court explained that in order to invoke common sense, an obviousness analysis requires a factual foundation and a reasoned explanation that avoids conclusory generalizations, and that fact-finders may use common sense in addition to record evidence. The Court held that while an obviousness analysis depends on evidence supporting the required *Graham* factors, “it also may include recourse to logic, judgment, and common sense available to the person of ordinary skill that do not necessarily require explication in any reference or expert opinion.” Slip op. at 9. Finally, the Federal Circuit stressed that when extrapolating a conclusion of obviousness from prior art, the district court must make its analysis explicit, articulating its reasoning with sufficient clarity for review.

**“[O]n summary judgment, to invoke 'common sense' or any other basis for extrapolating from prior art to a conclusion of obviousness, a district court must articulate its reasoning with sufficient clarity for review. Slip op. at 9-10.**

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The Federal Circuit found that the district court had based its reasoning on evidence appearing in the record and had adequately explained its invocation of common sense. The Court explained that Perfect Web conceded that the prior art disclosed steps (A)-(C), that step (D) simply recited repetition of a known procedure until success is achieved, and that the district court correctly pointed out that one could do little else than try again if the first three steps were not successful. The Court posited that if the technology were complex, an expert opinion may be required to appreciate the value of repeating known steps, but that this was not required in the present case.

Although the Federal Circuit found that expert evidence was not necessary in this case, it stated that expert evidence supported the district court's conclusion. The Court cited the opinions of InfoUSA's two experts, each concluding that it would be obvious to repeat the matching, transmitting, and calculating steps until the delivered quantity was achieved. Although Perfect Web's expert stated that the '400 patent was not obvious, the Court found his opinion insufficient to prevent SJ because it was based on irrelevant prior art and did not directly address the nonobviousness of repeating steps (A)-(C).

Next, the Court found that the record supported a conclusion that the invention would have been obvious to try. Noting that the experts identified three potential solutions to the problem, the Court stated that simple logic suggested that repeating the first three steps would produce the most successful solution and there was no evidence to show this method offered unexpected results. The Court held that the finite number of identified, predictable solutions suggested that the claimed methods were obvious to try.

The Federal Circuit then rejected Perfect Web's argument that the district court should have construed the claims before deciding validity. In doing so, the Federal Circuit noted that the district court properly adopted Perfect Web's claim constructions, that none of the claim terms in dispute were relevant to the obviousness of repeating steps (A)-(C), and that Perfect Web failed to identify any construction that would change the obviousness analysis.

Having found the claims obvious, the Federal Circuit rejected Perfect Web's contention that the evidence showed the invention satisfied a long-felt and unmet need. The Court stated that no evidence existed to explain how long the need was felt or when the problem first arose. Although Perfect Web's expert testified that the '400 patent provided improved efficiency, the Court remarked on the lack of supporting data, for example, showing that the invention actually reduced marketing costs, time, or the number of consumers who opted out. Finally, the Court reiterated that evidence of secondary considerations does not always overcome a strong prima facie showing of obviousness.

Because the Court found the '400 patent invalid for obviousness, it declined to address other alternative reasons for holding the '400 patent invalid.

## When a Claim Element Is Undetectable in a Product, a Patent May Not Be Unenforceable Due to Laches

Mary E. Chlebowski

**Judges: Lourie (author), Dyk, Prost**

**[Appealed from C.D. Cal., Chief Judge Stotler]**

In *Ultimax Cement Manufacturing Corp. v. CTS Cement Manufacturing Corp.*, Nos. 08-1218, -1439 (Fed. Cir. Dec. 3, 2009), the Federal Circuit vacated and remanded the district court's finding that CTS Cement Manufacturing Corporation ("CTS") infringed the claims of Ultimax Cement Manufacturing Corporation's ("Ultimax") U.S. Patent No. 4,957,556 ("the '556 patent"); reversed the SJ of unenforceability of the '556 patent based on laches; reversed the SJ of indefiniteness of claim 17 of Ultimax's U.S. Patent No. 6,113,684 ("the '684 patent"); and dismissed Ultimax's appeal of SJ that Ultimax's U.S. Patent No. 6,405,534 ("the '534 patent") was invalid and not infringed. The Federal Circuit also affirmed the district court with respect to Ultimax's motion to amend its complaint, SJ disposing of Ultimax's trade secret claims, denying Ultimax's motion to disqualify CTS's counsel, and denying CTS's motion to make the case exceptional and award attorney fees.

Hassan Kunbargi, the owner of Ultimax, and Edward K. Rice, the owner of CTS, have a long history of working together. Kunbargi was Rice's graduate student, worked for Rice's company CTS, and was an independent contractor with Rice for Fibermesh, Inc. ("Fibermesh"). In 1989, Kunbargi ceased working for Rice. After the split, the three patents at issue were granted to Kunbargi and are now owned by Ultimax. Each of the patents relates to rapid-hardening, high-strength cement. In 2002, Ultimax and Heartland Cement Sales Company (collectively "Plaintiffs") sued CTS for infringement of the '684 and '534 patents, misappropriation of trade secrets, and several business torts. After amending their complaint twice, Plaintiffs further alleged infringement of the '556 patent.

On appeal, the Federal Circuit divided the case into four patent-related and four nonpatent-related issues. First, the Federal Circuit considered the district court's finding of noninfringement of the '556 patent. All of the asserted claims of the '556 patent recite "soluble  $\text{CaSO}_4$  anhydride." In finding noninfringement, the district court construed the term "anhydride," based primarily on one dictionary definition, to be "a compound formed from an acid by removal of water." Because CTS's cement did not contain an acid from which water had been removed, the district court granted SJ of noninfringement. On appeal, Ultimax argued that the district court erred in its construction because it used a stand-alone

definition of “anhydride” without considering the context. Further, Ultimax argued that the district court’s definition was inconsistent with the specification and the art.

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**“In the case of a claim limitation whose presence is undetectable in a finished product, it is reasonable that Ultimax might not have known or been able to find out whether CTS infringed.” Slip op. at 15.**

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The Federal Circuit found that, in the context of the claim, “anhydride” modified the calcium sulfate compound. The Federal Circuit noted ambiguity in dictionary definitions, looking beyond the single dictionary relied on by the district court. The specification, where “anhydride” appears only as a modifier of calcium sulfate, further supported that position. Finally, the Federal Circuit stated that interpreting the claim element to mean “soluble anhydrous calcium sulfate” is not rewriting the claim or correcting a typographical error. The Court noted that the neutral expert admitted that, in the context of the specification, the claim drafter probably meant “anhydrite” (i.e., anhydrous calcium sulfate) rather than “anhydride.” Further, evidence showed that CTS itself used the words “anhydride” and “anhydrite” interchangeably. Accordingly, the Federal Circuit vacated the holding of noninfringement and remanded the issue to the district court.

The Federal Circuit then reviewed the district court’s grant of SJ that the ’556 patent was unenforceable due to laches. The district court found that the Plaintiffs should have known of their claim against CTS because of Kunbargi’s history of working with Rice, his prior affiliation with CTS, and the fact that Kunbargi had demonstrated his invention to Rice before the ’556 patent issued. Because Plaintiffs waited twelve years after the ’556 patent issued to sue, the district court presumed prejudice to CTS and found prejudice in loss of witnesses and records. Ultimax argued that there was no evidence that it knew or should have known of infringement because it had no way to test for soluble anhydrous calcium sulfate in CTS’s product and that Rice had assured Kunbargi that CTS was not using soluble anhydrite. Ultimax further argued that CTS was not prejudiced because alternative witnesses and documents remained available to CTS.

The Federal Circuit noted that, to prevail on a defense of laches, an accused infringer must prove two elements: (1) plaintiffs delayed filing of suit for an unreasonable and inexcusable length of time from the time they knew or reasonably should have known of their claim, and (2) the delay operated to the prejudice or injury of the accused infringer. In the instant case, the Court found a genuine issue of material fact as to whether Ultimax had a reasonable belief of infringement that precluded SJ. The Court noted that Kunbargi’s hiring of a private investigator led to no conclusive evidence of infringement and that CTS did not dispute that Ultimax could not test for soluble anhydrite in CTS’s products. Further, the Federal Court found a genuine issue as to whether Ultimax fulfilled its duty to investigate by hiring the private investigator, especially given Kunbargi’s allegation that Rice assured him that CTS was not infringing.

Next, the Court considered the grant of SJ that claim 17 of the ’684 patent was indefinite. The district court found indefiniteness based on the formula  $C_9S_3b_3Ca(f\ cl)_2$  and the formula  $(C,K,N,M)_4(A,F,Mn,P,T,S)_3(cl, b)$ , which the specification refers to as crystal X. The district court found that crystal X is a crystalline compound where each element in the formula could be substituted for another at a particular site on the crystal structure, leading to over 5,000 possible compounds. Declining to limit crystal X to a single compound, the district court found the claim indefinite as too broad. Additionally, the

district court held the formula  $C_9S_3b_3Ca(f\ cl)_2$  and “cl.”

The Federal Circuit held that the district court erred in holding crystal X to be indefinite solely because it encompassed a large number of compounds. The Court reasoned that a claim to a formula encompassing 5,000 different compounds is not ambiguous if the claim sufficiently notifies the public of its scope. Based on its reversal of SJ, the Court declined to consider Ultimax’s argument, made to overcome the finding of indefiniteness, that crystal X should be interpreted as a single compound.

With respect to formula  $C_9S_3b_3Ca(f\ cl)_2$ , the Federal Circuit held that the district court erred in declining to view the notation in light of the knowledge of one of skill in the art. The Court explained that, although courts cannot rewrite claims to correct material errors, if the correction is not subject to reasonable debate to one of ordinary skill in the art, namely, through claim language and the specification, and the prosecution history does not suggest a different interpretation, then a court can correct an obvious typographical error. Slip op. at 21. The Federal Circuit noted that, in this case, the district court found that the formula  $C_9S_3b_3Ca(f\ cl)_2$  corresponds to no known material and that one of ordinary skill in the art would know that the formula should contain a comma. Thus, the Federal Circuit reversed the district court and entered SJ that the claim at issue was not indefinite based on either formula.

Finally, regarding the '534 patent, the district court granted SJ that the patent was anticipated, obvious, lacked written description support, and was not infringed. On appeal, Ultimax requested reversal of the district court’s determination, especially with respect to the noninfringement determination. However, at oral argument, Ultimax stated that it was not concerned with the district court’s finding of invalidity. Consequently, the Federal Circuit dismissed the appeal, holding that Ultimax waived the argument that the '534 patent was not invalid, thus rendering its infringement arguments moot.

The Court then considered the four nonpatent-related issues. First, the Federal Circuit reviewed the district court’s denial of Ultimax’s motion to file a third amended complaint after the deadline for amendments had passed. Following Ninth Circuit law, the Court found no abuse of discretion, explaining that the district court was within its discretion to deny the motion based on undue delay and a burdensome need to reopen prosecution. Further, the Court noted that the Plaintiffs had amended their complaint twice before. According to the Federal Circuit, Ultimax did not overcome its own failure to show good faith by showing lack of prejudice to CTS or by noting the district court’s allowance of CTS’s untimely SJ motions.

The Federal Circuit then considered the grant of SJ disposing of Plaintiffs’ trade secret claims. On appeal, CTS argued that Ultimax’s supposed secret was published in a Japanese patent and elsewhere, while Ultimax argued that CTS obtained the secret from Ultimax rather than any publication. Following California state and Ninth Circuit law, the Federal Circuit found no abuse of discretion given that Ultimax did not establish an essential element of its claim—that it had a secret. Accordingly, Ultimax’s arguments of how CTS obtained the information was irrelevant and the Court affirmed the grant of SJ.

Next, the Federal Circuit reviewed the district court’s denial of the Plaintiffs’ motion to disqualify CTS’s counsel, including attorney James W. Geriak, who had power of attorney in the prosecution of Rice and Kunbargi’s U.S. Patent No. 4,866,992 (“the '992 patent”). Under the Ninth Circuit’s “sound basis” standard, the Federal Circuit found that the district court’s refusal to disqualify was supported by the district court’s finding that no working attorney-client relationship existed between Kunbargi and Geriak.

The Court pointed to the district court's finding that Kunbargi was obligated to assign his work to Fibermesh and that the power of attorney was executed for the company's benefit, even though the '992 patent was never actually assigned to Fibermesh.

Finally, the Federal Circuit vacated the district court's denial of CTS's motion to make the case exceptional and award attorney fees, explaining that, based on its reversal and vacatur of certain SJ decisions that had favored CTS, and because the prevailing party had not yet been determined, the exceptional case issue was moot.

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## Implied Assertion of Patent Rights Sufficient to Give Rise to DJ Jurisdiction

*Mukta Jhalani*

**Judges: Michel (author), Newman, Moore**

**[Appealed from D. Del., Judge Robinson]**

In *Hewlett-Packard Co. v. Acceleron LLC*, No. 09-1283 (Fed. Cir. Dec. 4, 2009), the Federal Circuit reversed the district court's grant of patent holder's motion to dismiss for lack of DJ jurisdiction. The Court found DJ jurisdiction arising from a "definite and concrete" dispute between Hewlett-Packard Company ("HP") and Acceleron LLC ("Acceleron").

Acceleron, a patent holding company, acquired U.S. Patent No. 6,948,021 ("the '021 patent") on May 31, 2007. On September 14, 2007, Acceleron wrote to HP identifying the '021 patent as relating to HP's Blade Server products and asking for an opportunity to discuss the patent. Acceleron specifically asked HP to agree that "all information exchanged between the parties will not be used for any litigation purposes whatsoever, including but not limited to any claim that Acceleron has asserted any rights against any of [HP's] ongoing or planned activities, or otherwise created any actual case or controversy regarding the enclosed patent." Slip op. at 2. Acceleron gave HP fourteen days to respond to its letter.

In response, HP expressed an interest in learning more information about the '021 patent in order to fully evaluate it. HP agreed to not file a DJ action against Acceleron in exchange for Acceleron's agreement to not file an action against HP during a 120-day period. Acceleron responded by denying that HP had any basis for filing a DJ action. Giving HP another fourteen days to agree to its previous letter, Acceleron stated that it would interpret HP's failure to sign and return Acceleron's previous letter to mean that HP had nothing to say about "the merits of this patent, or its relevance to [HP's] Blade Server products." *Id.* at 2-3.

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**"Our decision in this case undoubtedly marks a shift from past declaratory judgment cases." Slip op. at 9.**

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Upon receiving this letter, HP sought DJ of noninfringement and invalidity of the '021 patent. The district court granted Acceleron's motion to dismiss the case for lack of subject matter jurisdiction, finding that litigation remained too speculative to support DJ jurisdiction.

On appeal, the Federal Circuit explained that DJ jurisdiction exists where alleged facts demonstrate a substantial controversy between parties with adverse legal interests. Particularly in patent cases, DJ jurisdiction exists where a patentee asserts rights under a patent and where the alleged infringer asserts the right to engage in the accused activity without license.

The Court disagreed with HP's position that the letter from Acceleron identifying its patent and HP's products sufficiently established their adverse legal interests. The Court also rejected Acceleron's argument that it never asserted its rights under the '021 patent. Noting that a party cannot avoid a DJ action simply by avoiding words such as "litigation" or "infringement," the Court looked at the totality of the circumstances to determine if a case or controversy existed to support DJ jurisdiction. *Id.* at 5-6.

After considering all relevant facts, the Court held that HP correctly interpreted Acceleron's letters as implicitly asserting its rights under the '021 patent. First, although a patent owner may contact another party for legitimate business reasons, such was not the case here. Second, Acceleron's letters asserting the '021 patent as "relevant" to HP's specific product line, imposing a short fourteen-day deadline for a response, and insisting that HP not file suit reasonably demonstrated its intent to enforce the patent. *Id.* at 7. And finally, given Acceleron's business model and its status as "solely a licensing entity," the '021 patent benefitted Acceleron only when enforced. *Id.* at 8. In a footnote, the Court commented on the lack of litigation history regarding the '021 patent, emphasizing the short three and a half months that elapsed between Acceleron's acquisition of the '021 patent and the initiation of its contact with HP regarding that patent.

The Court also dismissed Acceleron's argument that HP had not determined that its legal interests were adverse to Acceleron. Acknowledging that in its letter, HP expressed an interest in obtaining more information from Acceleron to conduct an accurate assessment of the '021 patent, the Court noted the possibility that HP had conducted a thorough investigation by the time it filed the DJ action. Although not required to make a formal declaration of adverse legal interests, HP's filing of the DJ suit sufficiently indicated its belief that Acceleron was threatening to assert its rights under the '021 patent.

The Court concluded by recognizing that the decision "in this case undoubtedly marks a shift from past declaratory judgment cases." *Id.* at 9. The Court noted that the Supreme Court's holding in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), has altered the way in which the DJ Act applies to patent law cases and that the Court's jurisprudence must consequently also evolve.

## Don't Quote the District Court: Federal Circuit Reverses SJ Decisions on Invalidity and Infringement in Light of Issues of Material Fact

Meenakshy Chakravorty

**Judges: Rader (author), Plager, Schall**

**[Appealed from D.N.J., Senior Judge Debevoise]**

In *Source Search Technologies, LLC v. LendingTree, LLC*, Nos. 08-1505, -1524 (Fed. Cir. Dec. 7, 2009), the Federal Circuit vacated-in-part the district court's grant of SJ on the issues of invalidity based on obviousness and infringement. The Federal Circuit also affirmed the district court's denial of SJ of invalidity based on indefiniteness.

Source Search Technologies, LLC ("SST") is the owner of U.S. Patent No. 5,758,328 ("the '328 patent"). The '328 patent claims a computerized procurement service for matching potential buyers with potential vendors over a network, such as the Internet. According to the claimed system, buyers submit requests for quotations ("RFQs") for standard goods or services, which are broadcast via the network to vendors selected based on filter criteria set by buyers, sellers, and/or network operators. The selected vendors' responses to the RFQs are then communicated to buyers over the network. Slip op. at 2.

LendingTree, LLC ("LendingTree") operates a website, which refers prospective borrowers to potential lenders for a variety of home, auto, and personal loans. *Id.* at 3. Prospective borrowers provide financial information about themselves by filling out a "qualification form" ("QF") on the website. LendingTree then uses the information submitted in the QFs to match borrowers with potential lenders. *Id.* at 4. When potential lenders respond with loan offers, LendingTree communicates the details of such offers to the prospective borrowers. After loan offers are communicated to borrowers, LendingTree plays no further role in the loan process. *Id.*

In 2006, SST brought suit against LendingTree, alleging that LendingTree's website infringed, among others, claim 14 of the '328 patent. Over the course of the dispute, the parties filed various motions for SJ. The district court granted LendingTree's motion for SJ of invalidity on obviousness grounds. *Id.* at 5-6. Nevertheless, the district court granted SST's motion for SJ of infringement. In addition, the district court denied LendingTree's motion for SJ of invalidity based on indefiniteness. Both LendingTree and SST appealed the respective adverse judgments.

On appeal, the Federal Circuit first noted that the district court's grant of SJ of obviousness was based on

two sets of prior art, namely, the “e-commerce” prior art and the “bricks and mortar” prior art. *Id.* at 7. The former consisted of early e-commerce systems that employed the Internet for access and distribution, while the latter consisted of pre-Internet referral services (e.g., home contractor networks and social services networks) used by consumers to locate suitable service providers for particular projects.

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**“Thus, even beyond the problem of no quote in the prior art systems, the claimed invention’s filtering system presents factual issues preventing a conclusion that one of ordinary skill in 1996 would find the advances of the ’328 patent easy, obvious, routine, or within the grasp of a common sense application of prior art to the apparent problems.” Slip op. at 15.**

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The Federal Circuit also noted that claim 14, the only claim at issue, required obtaining “quotes” from potential sellers and forwarding “said quotes” to potential buyers. *Id.* at 12. Additionally, the district court had construed the phrase “request for a quotation” to mean “a request for the price and other terms of a particular transaction in sufficient detail to constitute an offer capable of acceptance.” *Id.* The record revealed that the “quotes” forwarded back to potential customers in the e-commerce prior art were “non-binding, inventory availability responses, *not* contractual offers.” *Id.* Indeed, potential sellers retained options to reject and renegotiate offer terms. Likewise, the bricks and mortar prior art also failed to supply a qualifying “quote,” as required by claim 14. In these systems, a “quote” in any meaningful sense of the word could only arise at or after meetings between clients and potential service providers—meetings over which the bricks and mortar systems had no control. *Id.*

The Federal Circuit further found that combining the bricks and mortar prior art with the e-commerce prior art did not produce the invention taught in the ’328 patent. *Id.* at 14. Specifically, the Federal Circuit observed that even if the combined prior art included a quoting feature, it lacked any meaningful *filtering* process—a process on which the claimed invention placed great emphasis. *Id.* The bricks and mortar prior art could be read to disclose a “filtering” process involving the use of human judgment, but such a disclosure would still require a person of ordinary skill to make the additional nontrivial connection between such filtering and the search results of the e-commerce prior art. *Id.* Although the e-commerce prior art generally disclosed filtering in the computer context, it did not apply the filtering methods to the particular context of matching buyers with vendors. *Id.*

Based on these findings, the Federal Circuit concluded that the lack of a quote or appropriate filtering system in the prior art systems presented factual issues that precluded the grant of SJ on the issue of invalidity based on obviousness. *Id.* at 15.

The Federal Circuit next considered LendingTree’s argument that the district court had erred in granting SJ of infringement because its service lacked the “request for a quotation” and “goods and services” limitations of claim 14. *Id.* First, the Court considered whether LendingTree was collaterally estopped from arguing that its website does not provide “quotes” based on the decision in a different case between LendingTree and IMX, Inc. (“IMX”). The Federal Circuit found no error in the district court’s conclusion that the doctrine of estoppel did not apply because the *IMX* litigation involved an unrelated patent, with different asserted claims, and dissimilar claim constructions. In other words, the issues presented in the *IMX* case were wholly different from those in this case. *Id.* at 17.

Continuing its review of the infringement decision, the Federal Circuit stressed that, in keeping with its well-established precedent, claims are to be “construed the same way for both invalidity and

infringement.” *Id.* at 18. Based on the same construction of the term “quote” applied in the context of invalidity, the Court concluded that a lack of undisputed facts showing that LendingTree’s site provides “quotes,” as required in claim 14, mandates vacating the district court’s SJ on the issue of infringement as well. *Id.* at 19.

Despite the Federal Circuit’s conclusion, it nevertheless sustained the trial court’s ruling that LendingTree’s website did indeed meet the “goods or services” limitation of claim 14. *Id.* at 20. The Federal Circuit observed that LendingTree’s website provided a location where potential borrowers sought *loans*, which were essentially promises to repay sums of money in exchange for lenders’ promises to advance sums of money. *Id.* at 19-20. In advancing money, lenders did in fact offer *services*, namely, financial services. *Id.* at 20. Additionally, the Federal Circuit sustained the district court’s holding that these loans were “standard” services within the meaning of the ’328 patent. *Id.* Citing language within the ’328 patent that the “[s]tandardization of product or service descriptions is essential to avoid confusion,” the Federal Circuit explained that the loans associated with LendingTree’s website were “standard” items, in that both borrowers and lenders had a shared understanding of the promises made and the financial services offered, and that there was therefore no fundamental likelihood of misunderstanding or confusion. *Id.* (alteration in original).

Finally, in reviewing the district court’s denial of SJ of indefiniteness, the Federal Circuit first noted that absolute clarity is not necessary to overcome charges of indefiniteness, and only claims that are “not amenable to construction” or “insolubly ambiguous” are indefinite. *Id.* at 21 (quoting *Exxon Research & Eng’g Co. v. United States*, 265 F.3d 1371, 1375 (Fed. Cir. 2001)). The Federal Circuit found that, although it might be difficult to determine the bounds of a “standard” product or service, a person of ordinary skill in the art, based on his/her understanding of the system in view of its applications to various specific networks and markets, will be able to supply an objective definition for a “standard” product or service. *Id.* Based on this finding, the Federal Circuit upheld the district court’s denial of LendingTree’s SJ motion of invalidity for indefiniteness.

January 2010

## Suit Dismissed Based on Prior Agreements for Failure to Prove Ownership of Patents

*Daniel A. Nadel*

**Judges: Michel (author), Newman (dissenting), Prost**  
**[Appealed from D. Conn., Judge Arterton]**

In *Tyco Healthcare Group LP v. Ethicon Endo-Surgery, Inc.*, Nos. 08-1269, -1270 (Fed. Cir. Dec. 7, 2009), the Federal Circuit affirmed a dismissal without prejudice where Tyco Healthcare Group LP (“Tyco Healthcare”) had failed to prove ownership of the asserted patents and thus lacked standing to sue. Because Tyco Healthcare might later show or obtain ownership of the asserted patents, and because Ethicon Endo-Surgery, Inc. (“Ethicon”) would not be unduly prejudiced by a renewed suit, the Court upheld the dismissal without prejudice.

As of March 1999, all necessary rights to enforce the three patents-in-suit resided in U.S. Surgical Corporation (“USSC”). On April 1, 1999, USSC entered into a Contribution Agreement that transferred the patents to Kendall LLP (“Kendall”), except “[a]ny and all patents and patent applications relating to any pending litigation involving USSC.” Slip op. at 2 (alteration in original). Kendall eventually changed its name to Tyco Healthcare. *Id.*

On the same day that the Contribution Agreement was executed, USSC and Ethicon entered into a Settlement Agreement, whereby the parties agreed to resolve five pending patent litigations and several interference proceedings between them. The Settlement Agreement further granted Ethicon immunity from infringement liability for certain then-existing Ethicon products, and it dismissed the then-pending litigations with prejudice. At the time of these two agreements, the asserted patents in this litigation had not yet issued.

In October 2004, Tyco Healthcare initiated its lawsuit against Ethicon. At trial, Tyco Healthcare produced the Contribution Agreement and provided testimony that the asserted patents were not excluded from the transfer between USSC and Tyco Healthcare. Ethicon then moved for—and the district court granted—JMOL regarding Tyco Healthcare’s lack of standing because Tyco Healthcare purportedly did not own the asserted patents. Tyco Healthcare appealed the dismissal and Ethicon cross-appealed, alleging that the dismissal should have been with prejudice.

**“In sum, Tyco Healthcare bore the burden of proving that the patents-in-suit are not ‘related to’ any litigation pending at the time the Contribution Agreement was executed. Tyco Healthcare failed to do this.” Slip op. at 8.**

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On appeal, the Federal Circuit concluded that the ownership of the patents-in-suit rested on the correct interpretation of the contractual phrase “related to pending litigation” under Third Circuit law. Finding no evidence to suggest that the parties intended anything other than the “ordinarily broad understanding” of the phrase, the Court construed the phrase to mean that the patents “could not have been asserted in or affected by any litigation pending as of April 1, 1999.” *Id.* at 6. Because Tyco Healthcare bore the burden of proving that the patents-in-suit were not “related to” any litigation pending at the time the Contribution Agreement was executed, but failed to do so, the Court affirmed the dismissal.

Turning to the nature of the dismissal, the Federal Circuit concluded that the district court did not abuse its discretion in dismissing without prejudice because Tyco Healthcare may become able to cure the ownership deficiency. Moreover, because the ownership issue was not identified to the district court as an issue to be litigated during trial, but was first raised during cross-examination of a witness at trial, the Federal Circuit found no undue prejudice to Ethicon.

In a dissenting opinion, Judge Newman stated that Tyco Healthcare established, and Ethicon did not dispute, that the patents-in-suit were not related to any litigation pending on April 1, 1999, and, thus, the patents were transferred by USSC to Tyco Healthcare in accordance with the Contribution Agreement. Rejecting Ethicon’s theory that all future USSC patents could be encompassed by the Settlement Agreement’s grant of immunity, Judge Newman would have interpreted the Contribution Agreement to effectuate the parties’ intent of complete asset transfer. In Judge Newman’s view, the majority’s reading of the contract disregards the parties’ intent, for Tyco Healthcare would never have agreed to receive USSC’s business assets without also receiving the patents that protected Tyco Healthcare’s use of those assets.

## Court Upholds SJ of Noninfringement Where Patentee Did Not Link Its Expert's Statements Regarding Claimed Structures to Elements in the Accused Device

Sean A. O'Donnell

**Judges: Rader (author), Archer, Gajarsa**

**[Appealed from E.D. Mich., Senior Judge Cohn]**

In *Intellectual Science & Technology, Inc. v. Sony Electronics, Inc.*, No. 09-1142 (Fed. Cir. Dec. 15, 2009), the Federal Circuit affirmed the district court's SJ of noninfringement in favor of defendants Sony Electronics, Inc. ("Sony"), US JVC Corp., JVC Americas Corp. (collectively "JVC"), and Panasonic Corp. of North America ("Panasonic").

Intellectual Science and Technology, Inc. ("Intellectual Science") owns U.S. Patent No. 5,748,575 ("the '575 patent"), relating to an apparatus that enhances information processing by reading information simultaneously from multiple locations on one or more optical discs. The '575 patent describes using a structure called an intelligent time-division multiplexer ("ITDM") to transmit multiple information sets in a single data stream. The disclosed ITDM receives the data stream from a high-speed system control bus and transmits it to a host interface bus, which, with the help of read only and random access memory ("ROM/RAM"), sends the data to a host computer. The Court noted that this case focused on the disclosed data-transmitting structure and whether such structure was present in the accused devices.

Defendants jointly moved for SJ of noninfringement before claim construction. In support of their SJ motion, the defendants submitted an expert declaration stating that the means-plus-function claim limitation of "data transmitting means" should be construed to require a structure that includes at least a control system bus, an ITDM, a host interface bus, and ROM/RAM. The declaration also stated that the accused devices did not have a "data transmitting means" because they lacked both an ITDM and a host interface bus.

Intellectual Science's expert did not dispute the defendants' expert's construction, but did assert that the required elements were present in the accused devices. The Court noted that Intellectual Science relied exclusively on only three paragraphs from its expert's declaration ("Dr. Michalson's declaration") and the circuit diagrams cited therein.

**declaration does not impose too high a burden at summary judgment, especially where, as here, the structural elements are allegedly common.” Slip op. at 12.**

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The district court appointed a special master to provide a Report and Recommendation (“Report”) on the SJ motion. The Report indicated that Intellectual Science’s showing was insufficient to survive SJ, because the statements in Dr. Michalson’s declaration were merely conclusory.

The district court agreed with the special master and granted SJ in favor of defendants. Intellectual Science appealed with respect to all three defendants, but settled with JVC and Panasonic prior to the appeal. The Court therefore focused its opinion only on the sufficiency of the evidence supporting Intellectual Science’s evidence of infringement by Sony.

On appeal, the Federal Circuit noted that neither party disputed the district court’s construction of the means-plus-function term “data transmitting means,” and thus focused on a comparison of the allegedly infringing devices with the undisputed claim construction.

The Court stated that a patentee’s expert must set forth the factual foundation for his infringement allegation in sufficient detail for the Court to be certain that features of the accused product would support a finding of infringement under the adopted claim construction, with all reasonable inferences favoring the nonmovant. The Court then found that Dr. Michalson’s declaration did not sufficiently identify the structural elements of the claimed “data transmitting means,” and that his unsupported conclusion on the ultimate issue of infringement would not create a genuine issue of material fact. In particular, the Court held that Dr. Michalson’s statements failed to pinpoint where those elements were found in the accused devices and were insufficient to support Intelligent Science’s SJ argument.

The Court held that Dr. Michalson’s citation to a page number in Sony’s Service Manual for each representative product provided no specific showing of an infringing structure. According to the Court, the schematics contained on each page displayed only an unexplained array of electronic symbols. The Court therefore found that Intellectual Science failed to present a triable issue of fact that a person of skill in the art would recognize that the symbols appearing in these schematics depict an infringing device.

The Court also found deficient Dr. Michalson’s statement that the signal selection device “perform[s] the same function as the claimed ‘data transmitting means’ (*i.e.*, transmitting to the host computer), in the same way (*i.e.*, through a time division multiplexed structure) to achieve the same result (*i.e.*, transmitted information sets).” Slip op. at 11. The Court found this statement was merely conclusory, and it failed to supply “at a minimum some description about the specific features of the accused playback signal selection device’s multiplexing of the audio information stream.” *Id.*

The Court also found that arguments from counsel for Intelligent Science did not offer any clarity to Dr. Michalson’s declaration. The Court rejected Intelligent Science’s reliance on *Applied Medical Resources Corp. v. United States Surgical Corp.*, 448 F.3d 1324 (Fed. Cir. 2006), to support the proposition that it was not required to link the expert’s statements to particular structures in an accused device. According to the Court, this position conflicted directly with the rule it applied in *Applied Medical*, where it found that the patentee’s expert provided an explanation as to why one of skill in the art would view a particular structure as functioning in substantially the same way to achieve substantially the same result. The Court noted that, unlike this case, the patentee’s expert in *Applied Medical* had pinpointed the

relevant structure in the accused device. The Court stated that it has never held that a patentee could survive SJ of noninfringement on an apparatus claim without specifically identifying the allegedly infringing structure in the accused device. The Court held that to do so would conflict directly with the express language of Fed. R. Civ. P. 56(e)(2), which requires a nonmovant to set out “specific facts” showing a genuine issue for trial. Slip op. at 14.

Intellectual Science also appealed the district court’s construction of the term “with multitasking function.” The Court, however, did not address the issue, because the construction of that term did not affect Intellectual Science’s failure to show a genuine issue of material fact on infringement of the “data transmitting means” limitation in the accused devices.

**FINNEGAN**

## Ordinary Observer Test Is the Sole Test for Anticipation of Design Patents

Tyler M. Akagi

**Judges: Bryson, Clevenger (dissenting-in-part), Dyk (author)**

**[Appealed from S.D. Fla., Senior Judge Ryskamp]**

In *International Seaway Trading Corp. v. Walgreens Corp.*, No. 09-1237 (Fed. Cir. Dec. 17, 2009), the Federal Circuit affirmed the district court's holding that the ordinary observer test is the sole test of invalidity of a design patent. The Federal Circuit, however, vacated and remanded the district court's holding that the asserted claims were invalid.

International Seaway Trading Corporation ("Seaway") owns U.S. Design Patent Nos. D529,263 ("the '263 patent"), D545,032 ("the '032 patent"), and D545,033 ("the '033 patent") (collectively "the Seaway patents"). The Seaway patents claim designs for footwear known as "clogs."

Seaway asserted that Walgreens Corporation ("Walgreens") and Touchsport Footwear USA, Inc. ("Touchsport") infringed the Seaway patents. Walgreens and Touchsport filed a motion for SJ contending that the Seaway patents were invalid as anticipated under 35 U.S.C. § 102(a) and (e) or as obvious under 35 U.S.C. § 103. The district court applied the ordinary observer test and issued SJ that the Seaway patents were invalid as anticipated by a patent assigned to Crocs, Inc. ("Crocs"), namely, U.S. Design Patent No. D517,789 ("the Crocs '789 patent"). The district court did not address obviousness. Seaway appealed.

On appeal, the Federal Circuit first affirmed the district court's exclusive application of the ordinary observer test to the question of invalidity. The Court observed that it had previously abandoned the point of novelty test for design patent infringement, and held that the ordinary observer test should serve as the sole test for design patent infringement. Slip op. at 5 (citing *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665, 678 (Fed. Cir. 2008) (en banc)). Recognizing that the point of novelty test for anticipation was not mandated by precedent, and that with limited exception the same test must be used for both infringement and anticipation, the Court extended *Egyptian Goddess* to conclude that "the ordinary observer test must logically be the sole test for anticipation as well." *Id.* at 10.

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**"[T]he ordinary observer test must logically be the sole test for anticipation . . . ." Slip op. at 10.**

The Federal Circuit noted that its decision would prevent an inconsistency from developing between the infringement and anticipation analyses. The Court also noted problems inherent in the now-discarded point of novelty test. First, the point of novelty test was difficult to apply and encouraged the focus on minor differences between the prior art reference and the patented design. Second, the point of novelty test created the need to canvass the entire prior art to identify the points of novelty. Third, eliminating the point of novelty test avoids the debate over the extent to which a combination of old design features could serve as a point of novelty.

Rejecting Seaway's arguments against the ordinary observer test, the Court held that there is no potential for jury confusion regarding the distinctions between the ordinary observer tests for obviousness and anticipation. According to the Court, the role of one of ordinary skill in the art in the obviousness context ends with the determination whether to combine earlier references to arrive at a single piece of art or modify a single prior art reference for comparison. Once that comparable piece of prior art has been constructed, the Court held, obviousness (like anticipation) requires application of the ordinary observer test with a focus on the overall designs. *Id.* at 11.

The Federal Circuit then considered Seaway's contention that even under the ordinary observer test, the district court erroneously failed to compare the entirety of the patented designs, including the clogs' insoles, with the Crocs '789 patent. The Federal Circuit vacated the district court's decision not to consider the clogs' insoles and remanded for a determination in light of its holding. According to the Court, the design patent anticipation inquiry must encompass those features visible at any time in the "normal use" lifetime of the accused product—i.e., after it has been manufactured and before it is ultimately destroyed. In the Court's view, the clogs' insoles would be visible at various points during their normal use lifetime.

Walgreens and Touchport failed to present any evidence that the insole contributes little to the overall appearance of the shoe to an ordinary observer with knowledge of the prior art. Moreover, the Federal Circuit found the insole pattern for the Seaway patents to differ distinctly from the Crocs insole pattern. Thus, the Court held that a genuine issue of material fact existed as to whether the insole designs would be viewed as substantially similar in the eyes of the ordinary observer armed with the knowledge of the prior art.

The Federal Circuit agreed with the district court that no genuine issue of material fact existed with respect to the features of the clogs beyond the insole, i.e., features of the clogs' uppers, toes, and outsoles. According to the Court, these minor variations were insufficient to preclude a finding of anticipation because they do not change the overall visual impression of the shoe.

Although the district court declined to address obviousness, the Federal Circuit addressed the issue on appeal because it had been raised by Walgreens and Touchsport below. The Federal Circuit held that the district court's failure to compare the clogs' insoles precluded a finding of obviousness.

Judge Clevenger dissented-in-part with respect to the majority's holding that the insole designs of the Seaway patents and the Crocs '789 patent differed sufficiently by themselves to preclude anticipation as a matter of law. Noting that the ordinary observer test requires assessment of the designs as a whole, Judge Clevenger viewed the majority's conclusion as impermissibly carving out the insole design from the overall design for purposes of the remanded anticipation and obviousness determinations. According

to the dissent, the district court should be directed on remand to evaluate the differences in the designs as a whole—not just the insoles.

**FINNEGAN**

## Federal Circuit Orders Transfer from Eastern District of Texas Yet Again

Sulay D. Jhaveri

**Judges: Rader (author), Clevenger, Dyk**

**[Appealed from E.D. Tex., Judge Davis]**

In *In re Nintendo Co.*, No. 09-M914 (Fed. Cir. Dec. 17, 2009), the Federal Circuit granted Nintendo Co., Ltd. (“NCL”) and Nintendo of America Inc.’s (“NOA”) (collectively “Nintendo”) petition for a writ of mandamus holding that the district court clearly abused its discretion in denying Nintendo’s motion to transfer venue under 28 U.S.C. § 1404(a).

Motiva, LLC (“Motiva”) filed suit in the U.S. District Court for the Eastern District of Texas against Nintendo alleging that the Nintendo Wii infringed Motiva’s U.S. Patent No. 7,292,151 (“the ’151 patent”). NCL is a Japanese corporation with headquarters in Kyoto. NOA is a Washington corporation, with its principal place of business in Redmond. Motiva is an Ohio limited liability company, with its principal place of business in Dublin. At the time of Nintendo’s transfer request, four witnesses lived in Washington, three lived in Japan, and the two inventors lived in Ohio and New York; none of the parties were incorporated in Texas or had offices in Texas; no witnesses resided in Texas; and no evidence was located in Texas.

The district court denied Nintendo’s motion to transfer. Nintendo timely moved for reconsideration of the district court’s order and filed a petition for a writ of mandamus.

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**“[I]n a case featuring most witnesses and evidence closer to the transferee venue with few or no convenience factors favoring the venue chosen by the plaintiff, the trial court should grant a motion to transfer.” Slip op. at 4-5.**

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The Court noted that application of the “public” and “private” factors, as recited in *In re TS Tech USA Corp.*, 551 F.3d 1315, 1319 (Fed. Cir. 2008), determine *forum non conveniens* when deciding a § 1404(a) motion to transfer venue in the Fifth Circuit. The private interest factors include “(1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive.” Slip op. at 4. The public interest factors include “(1) the

administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of law or in the application of foreign law.” *Id.* Of these, the Federal Circuit agreed with the district court that private interest factors (2) and (4), and public interest factors (1), (3), and (4) were neutral, and thus entitled to no weight in the § 1404(a) analysis.

The Federal Circuit agreed with the district court that, due to Nintendo’s extensive contacts, the local interest of the Western District of Washington was high, while the Eastern District of Texas had little relevant interest in the dispute. The Court found that no parties, witnesses, or evidence had any material connection to the venue chosen by the plaintiff, and held that the local interest in Washington clearly favored transfer.

In considering the cost of attendance for willing witnesses, the Court acknowledged the Fifth Circuit’s 100-mile guideline that, beyond 100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance to be traveled. The Court observed that four of the identified witnesses lived in Washington, the four Japanese witnesses would each have to travel an additional 1,756 miles or 7 hours by plane to Texas as compared with Washington State, and the remaining six witnesses would have to travel approximately an additional 700 miles more to Texas than Washington. The Court held that the cost of attendance for willing witnesses clearly favored transfer to Washington.

In considering the relative ease of access to sources of proof, the Court observed that neither Motiva nor Nintendo had any relevant documentation or any other evidence in the Eastern District of Texas and that the majority of NOA’s relevant documents were located in Washington. The Federal Circuit disagreed with the district court’s assumption that Nintendo’s relevant documents were equally spread between headquarters in Japan and Washington, and satellite offices in California and New York, and with the district court’s hypothesis that the Eastern District of Texas could serve as a centralized location. The Federal Circuit held that the district court erred in not weighing this factor heavily in favor of transfer. The Federal Circuit also concluded that the district court gave the plaintiff’s choice of venue too much deference.

For these reasons, the Court concluded that Nintendo had met its difficult burden of demonstrating a clear and indisputable right to a writ.

In determining that granting the writ was appropriate, the Court concluded that Nintendo had shown that it has no other means for obtaining relief. The Court noted that Nintendo had already presented facts showing entitlement to a transfer, and reasoned that it was not required to wait for the district court’s decision on the motion for reconsideration because the district court clearly had abused its discretion when deciding the original motion. The Court further noted that Nintendo would not have an adequate remedy for an improper failure to transfer the case by way of an appeal from an adverse final judgment because it would not be able to show that it would have won the case had it been litigated in the other venue.

January 2010

## Permanent Injunction Against Microsoft Is Proper Where Scope of Injunction Is Narrow and Monetary Damages Are Inadequate

*Sherry X. Wu*

**Judges: Schall, Prost (author), Moore**

**[Appealed from E.D. Tex., Judge Davis]**

In *i4i Limited Partnership v. Microsoft Corp.*, No. 09-1504 (Fed. Cir. Dec. 22, 2009), the Federal Circuit affirmed the district court's claim construction as well as the jury's findings of infringement and validity, finding that the district court did not abuse its discretion in admitting certain evidence as to damages or in granting enhanced damages. The Federal Circuit further affirmed the entry of the permanent injunction with a modified effective date.

i4i Limited Partnership ("i4i") owns U.S. Patent No. 5,787,449 ("the '449 patent"). The '449 patent claims an improved method for editing documents containing markup languages like XML. The improvement stemmed from storing a document's content and metacodes separately, primarily by creating a "metacode map," a data structure that stores the metacodes and their locations within the document. The document's content is stored in a data structure called "mapped content."

Since 2003, versions of Microsoft Word ("Word") have had XML editing capabilities, including the ability to define custom metacodes. In 2007, i4i filed this action in the district court against Microsoft Corporation ("Microsoft"), alleging infringement of the '449 patent. i4i further alleged that Microsoft's infringement was willful, based on Microsoft's working knowledge of i4i's patented product prior to developing Word 2003.

Before the case was submitted to the jury, Microsoft moved for JMOL on the issues of infringement, willfulness, and validity. The district court denied Microsoft's motions, and the case was submitted to the jury. The jury found that Word infringed all asserted claims of the '449 patent, that the '449 patent was not invalid, and that Microsoft's infringement was willful. It awarded \$200 million in damages. After trial, Microsoft renewed its motions for JMOL on infringement, validity, and willfulness. In the alternative, Microsoft moved for a new trial based on errors in the claim construction, evidentiary rulings, and jury instructions. The district court denied Microsoft's motions, granted i4i's motion for a permanent injunction, and awarded \$40 million in enhanced damages. Microsoft appealed.

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**“[The injunction] applies only to users who purchase or license Word after the date the injunction takes effect. Users who purchase or license Word before the injunction’s effective date may continue using Word’s custom XML editor, and receiving technical support.” Slip op. at 42.**

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On appeal, the Federal Circuit first addressed the district court’s claim construction of the ’449 patent. Microsoft argued that the claim term “distinct,” which is used to describe how the metacode map and the mapped content are stored, added two requirements: (1) storing the metacode map and mapped content in separate files, not just separate portions of the computer’s memory; and (2) the ability to edit the document’s content and its metacode map “independently and without access” to each other. Slip op. at 7.

Regarding Microsoft’s argument that “distinct” adds the requirement of storage in separate files, the Court found that the claim’s plain language, which included the term “storage means,” did not require storage in separate files. Further, the specification used “structures.” The Court explained that both “storage means” and “structures” are broader terms than “file,” suggesting no particular format. The Court also noted that sample algorithms disclosed in the specification did not say that storage means were restricted to “files.” As such, the Court saw no clear intent to limit the claim scope to storage in files. As for the prosecution history, the Court explained that i4i did not limit the storage means to files. The Court noted that during prosecution, i4i made clear that what distinguished its invention from the prior art was not the storage type, but rather the separation of a document’s content and structure. Accordingly, the Court rejected Microsoft’s argument that the term “distinct” required storage in separate files.

Microsoft also argued that “distinct” required independent manipulation of the metacode map and mapped content. The Court concluded that none of the claims mentioned “independent manipulation” of the mapped content and metacode map. Similarly, the Court noted that the specification referred to “separate,” rather than “independent,” manipulation of the document’s architecture and content. The Court explained that, in the specification, “separate manipulation” described the user’s ability to work on only the metacode map or content, and that behind the scenes, the invention kept the metacode map and content synchronized. Moreover, the Court found that the prosecution history revealed no statements that unequivocally narrowed the claims to require independent manipulation. Accordingly, the Court rejected Microsoft’s argument that “distinct” required “independent manipulation.”

The Court turned next to two issues regarding the validity of the ’449 patent. First, Microsoft argued that the invention would have been obvious to one of skill in the art in light of some combination of an SGML editor known as Rita or U.S. Patent No. 6,101,512 (“DeRose”) with U.S. Patent No. 5,587,902 (“Kugimiya”). The Court found that Microsoft had waived its right to challenge the factual findings underlying the jury’s implicit obviousness verdict because it did not file a preverdict JMOL on obviousness for these references. The Court noted that Microsoft’s preverdict JMOL on anticipation, based on an early software program from i4i named SEMI-S4 (“S4”), was insufficient to preserve its right to postverdict JMOL on obviousness or on different prior art. As such, the Court explained that it must presume the jury resolved underlying factual disputes in i4i’s favor because the jury made no explicit factual findings. The Court therefore limited its review to determining whether the district court’s legal conclusion of nonobviousness was correct based on the presumed fact-findings.

The Court then examined Microsoft’s argument on appeal and noted that the argument depends heavily on (1) the scope of the prior art and (2) whether a person of ordinary skill would have been motivated to

combine the references' teachings, which are both questions of fact. As the Court would view the evidence in the light most favorable to the verdict, all of these questions must be resolved against Microsoft and in favor of i4i. Accordingly, the Court found that Microsoft had not established that the asserted claims would have been obvious.

Second, Microsoft argued that it was entitled to JMOL because it established a prima facie case of anticipation based on the sale of S4, which i4i could not rebut by relying on the inventors' testimony alone, absent corroboration. Alternatively, Microsoft contended that the evidence was not sufficient to support the verdict of no invalidity. The Court disagreed with Microsoft's contention that i4i was required to come forward with corroboration to "rebut" Microsoft's prima facie case of anticipation. The Court noted that this was not a case where witness testimony was being used to overcome prior art by establishing an earlier date of invention. The Court held that the corroboration was not required where the testimony was offered to rebut a claim of anticipation and pertained to whether the prior art practiced the claimed invention. The Court further concluded that there was sufficient evidence for a reasonable jury to find that the '449 patent was not anticipated by the sale of S4.

Microsoft also argued that the burden of proof for invalidity should have been less than clear and convincing, when considering prior art that was not before the PTO. The Court concluded that the jury instructions were in accordance with the Court's precedent, which requires the challenger to prove invalidity by clear and convincing evidence.

The Court then examined Microsoft's infringement arguments. First, Microsoft argued that it is entitled to a new trial because of two alleged errors in the jury instructions regarding contributory infringement. Microsoft argued that it was error to use the term "component" rather than "material or apparatus" when referring to an instrumentality for use in practicing a patented method. *Id.* at 20-21. But despite the literal language of 35 U.S.C. § 271(c), the Court found that this was not a case where the difference mattered. Microsoft also argued that it was error to instruct the jury to focus on the custom XML editor rather than all of Word when deciding whether any noninfringing use was "substantial." *Id.* at 21. The Court held that there was sufficient evidence for the jury to conclude that the relevant "material or apparatus" was the custom XML editor functionality, not all of Word. *Id.* at 21-22. Accordingly, the Court found the jury instructions proper.

Second, Microsoft challenged the sufficiency of evidence supporting the jury's general verdict of infringement. Microsoft argued that the general verdict must be set aside unless both of i4i's alternative legal theories, contributory infringement and induced infringement, were supported by substantial evidence. The Court disagreed and explained that the legal theories were each legally valid and that affirmance required factual support of only one of the theories.

To succeed on a theory of contributory or induced infringement, the Court noted that i4i was required to show direct infringement of the '449 patent. The Court found that based on the evidence presented at trial, including testimony given by i4i's expert, a joint stipulation, and Microsoft's response to interrogatories, a reasonable jury could have found that at least one person performed the methods claimed in the '449 patent.

Regarding contributory infringement, the Court examined the evidence presented at trial and concluded that the jury could have reasonably concluded that the custom XML editor had no substantial, noninfringing use and that Microsoft knew that the use of the custom XML editor would infringe i4i's patent. At trial, i4i's expert had opined that the custom XML editor could be used in three noninfringing

ways, but none was “substantial.” *Id.* at 25. The jury also heard ample testimony that the noninfringing, binary file format was not a practical or worthwhile use for the XML community. Further, the Court noted that the jury could have reasonably concluded from the evidence presented at trial that Microsoft knew about the ’449 patent and knew that the use of its custom XML editor would infringe the patent.

Regarding induced infringement, the Court found that a reasonable jury could have concluded that Microsoft had the affirmative intent to cause direct infringement because the jury heard i4i’s expert testimony that using Word’s custom XML editor as directed by Microsoft’s instructional materials would infringe the ’449 patent. The Court noted that there was substantial evidence that Microsoft knew its instructions would result in infringing use, in light of Microsoft’s history with i4i and i4i’s patented product.

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**“By carving out users who purchased or licensed infringing Word products before the injunction’s effective date, the injunction’s tailoring minimizes disruptions to the market and the public.” Slip op. at 46.**

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Next, the Court assessed the propriety of various evidentiary rulings and found that the district court did not abuse its discretion by denying Microsoft a new trial on damages. On appeal, Microsoft challenged the admission of i4i’s expert testimony on damages as well as a survey relied on by the expert. The Court explained that the i4i expert’s use of a hypothetical negotiation and factors set out in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), for estimating a reasonable royalty satisfied the standards of relevance and reliability under Fed. R. Evid. 702 and *Daubert v. Merrill Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589-90 (1993). The Court noted that Microsoft’s disagreements with facts used by i4i’s expert addressed the weight, not admissibility, of his opinion.

Microsoft also disputed whether the benchmark, the baseline royalty rate, and i4i’s survey for estimating infringing use were relevant for determining a reasonable royalty rate and should have been admitted at trial. The Court explained that the existence of other facts, which may be more favorable to Microsoft, does not mean that the facts used at trial failed to meet the minimum standards of relevance or reliability under Rule 702. The question was whether the i4i expert relied on facts sufficiently related to the disputed issue, which was a reasonable royalty for the ’449 patent. The Court concluded that i4i’s damages expert based his calculation on facts that had a sufficient nexus to the relevant market, the parties, and the alleged infringement. The Federal Circuit therefore held that the district court did not abuse its discretion in admitting i4i’s expert testimony on damages.

Microsoft also challenged the district court’s admission of the survey used to estimate the amount of infringing use. The Court examined the danger of unfair prejudice and the survey’s probative value under Rule 403. The Court noted that i4i’s experts testified that the survey was based on conservative assumptions, and the survey was important to i4i’s damages calculation because it was used to estimate the amount of infringing use. The Court concluded that, given the importance and the acceptable design of the survey, the district court did not abuse its discretion in admitting the survey.

Next, the Court turned to the reasonableness of the damages award. The Court explained that this case differed from its recent decision in *Lucent Technologies, Inc. v Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), because Microsoft did not file a preverdict JMOL on damages. Had Microsoft properly objected before the jury’s verdict, the Court opined, the appellate panel could have considered whether the \$200 million damages award was “grossly excessive or monstrous” in light of Word’s retail price and

the licensing fees Microsoft paid for other patents. Slip op. at 37. In the present case, however, the Court was constrained to review the verdict under the much narrower standard applied to denials of new trial motions. It then concluded that the damages award, while high, was supported by the evidence presented at trial and that the Court was not in a position to second-guess or substitute its judgment for the jury's.

Microsoft also appealed the district court's decision to award \$40 million in enhanced damages under 35 U.S.C. § 284. The Court reviewed the district court's analysis based on the factors set out in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992), in determining whether to enhance damages. The Court found that the district court, applying the *Read* factors, properly considered Microsoft's size and financial condition, as well as whether Microsoft investigated the scope of the patent. Considering all the *Read* factors and the district court's statutory authority to treble damages under § 284, the Court concluded that the actual award of \$40 million was not an abuse of discretion.

Finally, the Court turned to whether the district court abused its discretion in granting a permanent injunction against Microsoft or in tailoring that injunction under *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). The Federal Circuit affirmed the district court's holding that i4i was irreparably injured by Microsoft's infringement, based on the factual findings that Microsoft and i4i were direct competitors in the custom XML market, that i4i lost market share as a result of the infringing Word products, and that the infringing Word products rendered i4i's software obsolete, as a result of which i4i changed its business model to make software that complemented Microsoft's infringing products. Furthermore, the Court noted that it was proper for the district court to consider evidence of past harm to i4i.

The Court also found that it was not an abuse of discretion for the district court to conclude that monetary damages would be inadequate. The Court explained that Microsoft captured 80% of the custom XML market with its infringing Word products, forcing i4i to change its business strategy, which loss was particularly difficult to quantify and therefore evidence that remedies at law were inadequate.

Regarding the balance of hardships, the Court concluded that the district court properly considered the relevant *eBay* factors in its analysis. These factors include the parties' sizes, products, and revenue sources. The Court found these factors clearly show that the patented technology was central to i4i's business, and that i4i's market share, revenue, and business strategies were tied to the patented method. The Court further found these factors revealed that the infringing custom XML editor related to only a small fraction of Microsoft's sizeable business. The Federal Circuit agreed with the district court that the far greater importance of the patented method to i4i, combined with the demonstrated past effects of infringement on i4i, favored issuance of a permanent injunction.

As for the public interest factor, the Court held that the district court did not abuse its discretion in finding that the narrow scope of the injunction and the public's general interest in upholding patent rights favor injunctive relief. The Court noted that the injunction excluded users who purchased or licensed infringing Word products before the injunction's effective date, which substantially minimizes adverse effects on the public.

Lastly, Microsoft challenged the date on which the injunction goes into effect. The Court noted that the only evidence about how long it would take Microsoft to comply with the injunction was the declaration of a Microsoft employee, which gave an estimate of "at least" five months. Slip op. at 47. The Federal Circuit found that the district court erred by ordering Microsoft to comply with the injunction within sixty

days, and modified the injunction's effective date from "60 days from the date of this order" to "5 months from the date of this order," maintaining the triggering date as the district court's order. *Id.*

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## Federal Circuit Rejects PTO's Bright-Line Rule That a Picture Is Required for a Website-Based Specimen of Use

Tina E. Hulse

**Judges: Newman (dissenting), Rader, Linn (author)**

**[Appealed from TTAB]**

In *In re Sones*, No. 09-1140 (Fed. Cir. Dec. 23, 2009), the Federal Circuit vacated and remanded the TTAB's final decision denying Michael Sones's registration application for the mark "ONE NATION UNDER GOD" for charity bracelets.

Sones filed an intent-to-use application for his mark with the PTO, which issued a notice of allowance. Six months later, Sones submitted his Statement of Use with a specimen of use consisting of two pages from a website containing a listing for his product. The PTO rejected Sones's Statement of Use because the specimen did not show a picture of the goods in close proximity to the mark. In response, Sones made rebuttal arguments but did not submit a picture of his charity bracelets. The PTO then issued a final office action affirming the rejection over Sones's arguments. Sones appealed to the TTAB, which affirmed the examiner's objections.

Sones appealed the TTAB's decision to the Federal Circuit, arguing that the TTAB imposed a bright-line rule that a trademark specimen of use taken from a website must contain a picture. The Court agreed with Sones, finding that the PTO's position was consistent from prosecution up to oral argument in the appeal that a website specimen of use must have a picture of the goods.

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**“[A] picture is not the only way to show an association between a mark and the goods, and we cannot approve of the rigid, bright-line rule that the PTO applied here.” Slip op. at 12.**

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As support, the PTO relied on the case, *Lands' End, Inc. v. Manbeck*, 797 F. Supp. 511 (E.D. Va. 1992). In *Lands' End*, the district court addressed a specimen of use from a mail order catalog, observing that the catalog pages included a picture and a description of each item. Afterwards, the PTO adopted *Lands' End* in the Trademark Manual of Examining Procedure (“TMEP”), creating a new section specifically for catalogs as specimens. The new section defined a new three-part test for catalogs, including the

requirement that the catalog (1) include a picture of the relevant goods, (2) include the mark sufficiently near the picture of the goods to associate the mark with the goods, and (3) include information necessary to order the goods. The Federal Circuit noted that the PTO has since applied the three-part test in several decisions. Collectively, the Court stated that the decisions show that the TTAB has adopted its interpretation of the *Lands' End* test for catalog specimens to website specimens, including the rigid requirement for a picture.

The Court, however, did not interpret *Lands' End* or trademark law to require that specimens of use from the Internet must always have pictures. The Court stated that *Lands' End* did not impose the three parts of the TMEP test as absolute requirements, as it cited other factors in approving the specimen.

Moreover, the Court found that the bright-line rule had no basis in trademark statute or policy. The statute does not specify particular requirements to demonstrate source or origin. The Court also noted that tangible specimens can show use in commerce by describing the goods in sufficient detail in relation to the marks.

Given these criteria for physical specimens of use, the Federal Circuit saw no reason why websites must necessarily have pictures to associate a trademark with the goods being sold. The Court noted that if, as the TMEP suggests, ordering from a website is equivalent to picking up a box in a store, and boxes do not need photographs per se to link a trademark to the goods inside, then neither should websites.

Accordingly, the Court held that a picture is not a mandatory requirement for a website-based specimen of use, and that the test for an acceptable website-based specimen is simply that it must in some way evince that the mark is “associated” with the goods and serves as an indicator of source. Slip op. at 11-12. On remand, the Court ordered the PTO to consider the evidence as a whole to determine if Sones’s specimen sufficiently associated his mark with his charity bracelets so as to “identify and distinguish the goods.” *Id.* at 12. The Court identified relevant factors to consider, including whether Sones’s webpages have a point of sale nature, and whether the actual features or inherent characteristics of the goods are recognizable from the textual description.

In her dissent, Judge Newman stated that the Court issued an advisory opinion on a nonissue as between the parties. Judge Newman noted that the appeal should be dismissed as moot because Sones voluntarily filed another application based on actual use of the same mark in which he submitted a website specimen that showed a picture of the bracelets. Thus, Judge Newman stated that Sones removed the case from controversy because there remained no basis for appealing the intent-to-use application when Sones chose to file an application based on actual use.

## 35 U.S.C. § 292 Requires Courts to Impose Penalties for False Marking on a Per Article Basis and Not Per Each Decision to Mark

*Sheetal S. Patel\**

**Judges: Rader, Plager, Moore (author)**

**[Appealed from S.D. Tex., Judge Atlas]**

In *Forest Group, Inc. v. Bon Tool Co.*, No. 09-1044 (Fed. Cir. Dec. 28, 2009), the Federal Circuit affirmed the district court's finding that the Forest Group, Inc. ("Forest") did not have the requisite intent for false marking until it received another SJ determination on its U.S. Patent No. 5,645,515 ("the '515 patent"); reversed the district court and held that the plain language of 35 U.S.C. § 292 required imposition of the false marking penalty on a per article basis; and affirmed the district court's denial of attorney fees.

Forest owns the '515 patent, which claims an improved spring-loaded parallelogram stilt of the type commonly used in construction. Bon Tool Company ("Bon Tool"), a former purchaser of Forest's stilts, started purchasing stilts from a foreign supplier, which manufactured identical replicas of Forest's stilts without a license. Thereafter, Forest sued Bon Tool for infringement of the '515 patent and Bon Tool counterclaimed, alleging false marking and seeking a DJ that the patent was invalid. After construing the claims, the district court granted SJ of noninfringement in favor of Bon Tool. Additionally, the district court found that Forest falsely marked its stilts with its '515 patent, knowing that the stilts were not covered by the patent after a district court granted SJ of noninfringement in a related case. Consequently, the district court fined Forest \$500 for a single offense of false marking. Further, the district court denied claims for attorney fees by both parties because it found that the case was not exceptional.

On appeal, the Federal Circuit first addressed Bon Tool's argument that the district court erred when it concluded that Forest did not have the requisite knowledge to falsely mark prior to the SJ determination in the related case on November 15, 2007. The Federal Circuit held that the district court did not clearly err in finding that Forest lacked intent to deceive before that date. Specifically, the Court noted that while the quantum of proof regarding Forest's knowledge was high, under the clearly erroneous standard of review, the district court's fact-finding was not clearly erroneous.

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**“The plain language of [35 U.S.C. § 292] does not support the district court’s penalty of \$500 for a decision to [falsely] mark multiple articles. Instead, the statute’s plain language requires the penalty to be imposed on a per article**

The Federal Circuit next addressed Bon Tool's argument that the district court misinterpreted 35 U.S.C. § 292 when it assessed only \$500 in penalties for a single decision to mark its stilts rather than on a per article basis. The Federal Circuit reversed the district court and held that the plain language of § 292 requires courts to impose penalties for false marking on a per article basis. The Court noted that the statute's language prohibits false marking of “any unpatented *article*” and imposes a fine for “every such offense.” Slip op. at 8. Accordingly, the Court concluded that falsely marking each article with an intent to deceive constituted an offense under the statute, thus necessitating a fine for each falsely marked article.

The Court rejected Forest's argument that the false marking statute should be interpreted to impose a single fine for continuous false marking as in *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910). The Federal Circuit explained that the statute in *London* was significantly different from the current statute. The false marking statute in *London* imposed a fine of “not less than one hundred dollars” for every false marking offense, not for every article. Slip op. at 8 (emphasis omitted). The Court then noted that the current statute no longer required a minimum fine but rather a maximum fine of \$500. Additionally, the Court noted that the current statute allowed the district court to use discretion in assessing the per article fine at any amount up to \$500 per article. Further, the Court acknowledged the time-based approach to 35 U.S.C. § 292 that a number of courts had adopted, but the Court held that the time-based approach did not find support in the plain language of the statute, which requires a per article fine.

Additionally, the Federal Circuit reasoned that several policy considerations support the per article interpretation of § 292. According to the Court, false marking deters innovation and stifles competition in the marketplace, causing unnecessary investments in alternate designs and validity analysis. The Court noted that the more articles that are falsely marked, the greater the chance that competitors will see a falsely marked article and be deterred from competing. The Court explained that its per article interpretation of § 292 deters false marking and would prevent such injuries.

Moreover, the Court rejected Forest's statutory construction of a single fine of \$500 for each decision because such an interpretation would render the statute ineffective. Similarly, the Court rejected Forest's argument that a per article basis of penalty would encourage false marking litigation by plaintiffs who did not suffer any direct harm. The Court reasoned that the false marking statute permits the public to sue on behalf of the government, thereby allowing individuals to assist in curbing false marking. Moreover, the Court noted that the statute allows for a range of penalties, which provides district courts the discretion to balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities. Thus, the Court held that the plain language of the statute requires courts to impose penalties for false marking on a per article basis, and remanded to the district court for determinations consistent with the opinion.

Finally, the Federal Circuit reviewed the district court's denial of attorney fees. The Federal Circuit noted that the district court, while sanctioning Forest for discovery abuses, did not find that Bon Tool proved that the case was exceptional by clear and convincing evidence. After considering the parties' arguments, the Federal Circuit held that the district court did not clearly err when it found that the case was not exceptional.

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