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June 2010

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[Appealed D.D.C., Judge Robertson]

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No. 09-1421 (Fed. Cir. May 28, 2010)

[Appealed from D. Md., Judge Davis]

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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Court Finds No Inequitable Conduct Where Challenger Presented Evidence of Only Materiality

Stephen L. Keefe

Judges: Newman (author), Mayer, Prost (concurring)

[Appealed from W.D. Pa., Chief Judge Ambrose]

In *Optium Corp. v. Emcore Corp.*, No. 09-1265 (Fed. Cir. May 5, 2010), the Federal Circuit affirmed the district court's grant of SJ of no inequitable conduct, holding that Emcore Corporation ("Emcore") did not commit inequitable conduct in obtaining U.S. Patent Nos. 6,282,003 ("the '003 patent") and 6,490,071 ("the '071 patent").

The '003 and '071 patents both concern improvements for an optical communication system, wherein a laser transmits a signal in the form of a light wave along an optical fiber. The '003 and '071 patents use "two-tone phase modulation" to minimize interference from stimulated Brillouin scattering.

Optium Corporation ("Optium") alleged inequitable conduct based on Emcore's failure to cite to the patent examiner an article authored by an individual named Willems. The Willems article described single-tone phase modulation but not two-tone phase modulation. Emcore did not dispute that the inventors knew of the Willems article, and referred to it in their invention disclosure form to their employer. But, Emcore's patent attorneys did not cite the Willems article in an IDS during prosecution. Although the examiner cited a patent discussing the Willems article in its background, the examiner did not otherwise cite the Willems article during prosecution.

Emcore filed suit against Optium in the district court, charging infringement of the '003 and '071 patents. After discovery, Optium filed a separate DJ action in the same court against Emcore, alleging inequitable conduct. In the district court proceedings, neither the inventors nor the prosecuting attorneys could recall why the Willems article had not been submitted to the PTO.

On appeal, the Federal Circuit reviewed inequitable conduct on the standard of abuse of discretion, requiring proof by clear and convincing evidence of the threshold facts of both materiality and intent. The Court explained that clear and convincing evidence must support at least a threshold level of each element, and once both materiality and intent have been established, the equities must be balanced to determine whether conduct in prosecuting a patent application was egregious enough to warrant holding the entire patent unenforceable.

“[C]onsistent precedent has rejected the notion that the materiality of a reference alone can suffice to prove deceptive intent.” Slip op. at 11.

The Court noted that despite some divergence, the great weight of its authority has applied the rule that the “intent” element of inequitable conduct is not simply intent to take the action or omission complained of, but intent to deceive or mislead the examiner into granting the patent. The Court added that one must have intended to act inequitably, and in situations of nondisclosure of information, clear and convincing evidence must show that the applicant made a deliberate decision to withhold a known material reference. The Court further explained that an intent to deceive cannot be inferred solely from the fact that information was not disclosed, and there must be a factual basis supporting a finding of deceptive intent. The Court added that nondisclosure, by itself, cannot satisfy the deceptive intent element.

The Court rejected Optium’s argument that deceptive intent can be inferred if a reference is “highly material,” even with no evidence, direct or circumstantial, of intent to deceive. The Court noted that consistent precedent has rejected the notion that the materiality of a reference alone can suffice to prove deceptive intent. The Court also noted that intent is a separate and essential component of inequitable conduct, and that materiality does not presume intent. The Court further explained that only when the challenger has met its threshold burden of showing intent does the burden of coming forward with evidence shift to the applicant.

The Court observed that Optium offered no evidence of intent but simply argued that the “high materiality” of the Willems reference relieved it of the burden to produce any affirmative evidence of intent, and instead required Emcore to provide a credible explanation for the nondisclosure. The Court concluded that this proposed shift in the burdens is contrary to precedent.

Though concurring in the result, Judge Prost wrote separately to express concern regarding what, in her view, is the majority’s limitation of evidence for determining deceptive intent. Judge Prost noted that the majority opinion seemed to imply that a high level of materiality is entirely irrelevant to an inference of intent, which, in Judge Prost’s opinion, is contrary to Federal Circuit precedent and basic principles of evidence law.

Regarding concepts of relevancy for evidence, Judge Prost noted that if a reference is of very high materiality, and it is shown that the patentee knew of the reference, then it is more probable that the reference was withheld from the examiner with deceptive intent, as compared to a reference of low materiality. Judge Prost added that as the materiality of a reference increases, it becomes more likely that an inference of deceptive intent is the single most reasonable inference that can be drawn from the evidence. Judge Prost also noted that if it is shown that a patentee knew of a reference’s high level of materiality, and the patentee could offer no good-faith explanation as to why the reference was withheld, then a district court could find such circumstantial evidence to be enough to support a finding of intent to deceive.

Judge Prost observed that the district court found that the evidence of materiality and knowledge did not support an inference of intent in this case, and, thus, deceptive intent was not among the inferences that could be reasonably drawn in favor of Optium. Judge Prost added that even accepting Optium’s contention that the withheld Willems reference was highly material, given the lack of other evidence of deceptive intent, the district court properly found that there was insufficient evidence of intent to survive SJ. Judge Prost noted that even gross negligence does not of itself justify an inference of intent to

deceive.

Judge Prost criticized the breadth of the legal rule articulated by the majority opinion, to the extent that the majority opinion characterized the level of materiality as per se irrelevant to the intent inquiry. In Judge Prost's opinion, an accurate description of this case would be that "Optium relies on a high level of materiality and no *other* evidence of intent." Prost Concurrence at 5-6. Judge Prost added that a high level of materiality does not lower the threshold evidentiary burden for an inference of intent, but rather provides circumstantial evidence of intent that brings the challenger closer to satisfying the evidentiary burden.

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Claims Are Construed in Light of the Originating Disclosure When a Party Challenges Written Description Support During an Interference Proceeding

Jeremy P. Bond

Judges: Linn, Plager (author), Dyk
[Appealed from Board]

In *Robertson v. Timmermans*, No. 09-1222 (Fed. Cir. May 5, 2010), the Federal Circuit vacated the Board's decision in an interference proceeding and remanded because the Board had incorrectly relied on the host disclosure rather than the originating disclosure when reviewing a written description challenge.

Jones J. Robertson and Robert M. Currie (collectively "Robertson") own U.S. Patent No. 6,860,628 ("the '628 patent" or "the Robertson patent"). The '628 patent is directed to light-emitting diode ("LED") replacement tubes for conventional fluorescent light tubes. Jos Timmermans and Jean C. Raymond (collectively "Timmermans") own U.S. Patent Application No. 11/085,744 ("the '744 application" or "the Timmermans application"). To provoke an interference, Timmermans copied claims 1 and 4 of the '628 patent into the '744 application as claims 8 and 9.

During the interference, Robertson alleged that claims 8 and 9 were unpatentable for lack of written description support as required by 35 U.S.C. § 112, ¶ 1. Robertson contended that the Timmermans application did not provide an adequate written description of the claimed "solid, rigid, translucent rod." At issue was the meaning of the term "solid" when used to modify "rod." While Timmermans argued that "solid" means the rod is in its solid physical state and not its liquid or gaseous state, Robertson argued that "solid" means the rod is "an object that is continuous, full of matter, and not hollow within the general outlines of its shape."

"[T]he Board must interpret the copied claim [during an interference proceeding] in view of the originating disclosure for a written description challenge, and the Board must interpret the copied claim in view of the host disclosure for a validity challenge based on prior art." Slip op. at 6.

The Board construed claims 8 and 9 by applying 37 C.F.R. § 41.200(b), which states that a "claim shall

be given its broadest reasonable construction *in light of the specification of the application or patent in which it appears.*" (Emphasis added.) Thus, the Board looked to Timmerman's written description, which does not use the term "solid" to describe or refer to anything. Slip op. at 4. The Board concluded that the broadest reasonable construction of "solid" in light of the Timmermans application is that "the rod is in its solid physical state rather than its liquid or gaseous state." *Id.* (citation omitted). Based on this claim construction, the Board found that Robertson failed to show that claims 8 and 9 were unpatentable for lack of written description support. Robertson appealed.

Since the Board's decision here, the Federal Circuit noted that it has twice held that "when a party challenges written description support for an interference count or the copied claim in an interference, *the originating disclosure provides the meaning of the pertinent claim language.*" *Id.* at 5 (quoting *Agilent Techs., Inc. v. Affymetrix, Inc.*, 567 F.3d 1366, 1375 (Fed. Cir. 2009)); *see also Koninklijke Philips Elecs. N.V. v. Cardiac Sci. Operating Co.*, 590 F.3d 1326, 1335 (Fed. Cir. 2010).

In *Agilent*, the Court examined two of its prior decisions involving claim construction during interference proceedings, *In re Spina*, 975 F.2d 854 (Fed. Cir. 1992), and *Rowe v. Dror*, 112 F.3d 473 (Fed. Cir. 1997). *Spina* held that a claim copied from an issued patent is "viewed in the context of the patent from which it was copied." Slip op. at 5 (quoting *Spina*, 975 F.2d at 856). In *Rowe*, claims copied from one party's patent into the other party's application were the subject of a motion for invalidity based on prior art. *Rowe* held that the *Spina* rule did not apply, but instead the claims should be interpreted in light of their host disclosure, just as they would during *ex parte* prosecution.

According to the Court, *Agilent* clarified that in interference proceedings, "the Board must interpret the copied claim in view of the originating disclosure for a written description challenge, and the Board must interpret the copied claim in view of the host disclosure for a validity challenge based on prior art." *Id.* at 6. The Court also stated that *Agilent* made clear that 37 C.F.R. § 41.200(b) "does not apply in an interference proceeding when one party makes a written description challenge to a claim that another party has copied in order to provoke the interference." *Id.* By way of acknowledgement, the PTO recently "cancelled 37 C.F.R. § 41.200(b) and expressly stated that the Board will construe claims in an interference proceeding in a manner consistent with *Agilent.*" *Id.*

The Court found that the Board, without the benefit of the *Agilent* and *Philips* decisions, had erroneously construed the term "solid, rigid, translucent rod" of claims 8 and 9 in light of the Timmermans application. Because Timmermans copied the claims from the Robertson patent, the Board should have construed the claims in view of the Robertson disclosure for purposes of Robertson's motion alleging that the claims were unpatentable for lack of written description under § 112, ¶ 1. *Id.* at 7.

Timmermans argued that the Board's failure to apply the *Spina* rule was immaterial because both parties relied on common dictionary definitions of "solid" without reference to either written description. The Court reasoned that when faced with two alternative common meanings, the Board found it necessary to consult the specification to determine the proper claim construction. The Board just chose the wrong specification.

In addition, Timmermans argued that the Board's claim construction was consistent with both the Robertson patent and the Timmermans application. Robertson urged the Court to construe the claims in its favor, find that the Timmermans application lacked sufficient written description support for claims 8 and 9, and conclude that there was no interference-in-fact between the Robertson patent and the Timmermans application.

Because the Board issued its decision prior to *Agilent*, the Court decided to give the Board the opportunity to apply the correct law rather than decide these issues in the first instance. On remand, the Court instructed the Board to construe Timmermans's claims 8 and 9 in light of the Robertson patent and then determine whether the claims, properly construed, have sufficient written description support in the Timmermans application.

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No Interference-in-Fact Exists Because, Applying the Proper Construction, Junior Patent Is Not Obvious over Senior Reissue Application

Kia L. Freeman

Judges: Michel, Rader (author), Schall
[Appealed from E.D. Va., Judge Brinkema]

In *Rolls-Royce, PLC v. United Technologies Corp.*, No. 09-1307 (Fed. Cir. May 5, 2010), the Federal Circuit held that Rolls-Royce, PLC's ("Rolls-Royce") junior patent would not have been obvious over United Technologies Corp.'s ("UTC") senior reissue application, thereby determining that there was no interference-in-fact.

In 2003, the Board declared an interference between Rolls-Royce's U.S. Patent No. 6,071,077 ("the '077 patent") and UTC's Reissue Application No. 09/874,931 ("the '931 reissue application"). Based on the earliest available priority dates, the Board named UTC the senior party. Rolls-Royce did not contest its designated priority. The Board defined a single interference count corresponding to claim 23 of UTC's '931 reissue application and claim 8 of Rolls-Royce's '077 patent. Both claims are directed to a stage of a gas turbine engine, which can be used to power aircraft. The claims require a fan blade with a swept-forward inner region, a swept-rearward intermediate region, and an outer region with recited properties. At issue was the limitation, recited in UTC's claim 23, that "the outer region be[] translated forward relative to a leading edge with the same sweep angle as an outward boundary of the intermediate region to provide a sweep angle that causes the blade to intercept the shock." The Board construed that limitation as including fan blades with either forward or rearward sweep angles in their outer region. On that basis, the Board entered final judgment in the interference proceedings in favor of UTC.

On appeal from the Board, the district court rejected the Board's construction as overly broad. After receiving testimonial and documentary evidence in a three-day bench trial, the district court concluded that the disputed limitation, recited in UTC's claim 23, did not include fan blades with a forward sweep angle in their outer region. Applying its own construction, the district court held that Rolls-Royce's '077 patent was patentably distinct from UTC's '931 reissue application, and so there was no interference-in-fact.

On appeal from the district court, the Federal Circuit focused its analysis on claim construction and obviousness. Since the disputed limitation in UTC's claim 23 did not clearly designate a "forward" direction for the recited translation of the outer region of the fan blade, the Court consulted UTC's

specification for clarification. According to the Court, UTC's specification discusses translation forward only with reference to the axial direction, which is parallel to the rotational axis of the fan and engine. The Court thus construed "translated forward" to mean "moved forward toward the axial direction," which it defined as parallel to the rotational axis of the fan and engine. The Court rejected UTC's proposed construction, "toward the relative velocity vector," as overly broad because it could encompass the axial and circumferential directions, which are at right angles to each other.

"To preclude hindsight in this analysis, this court flexibly seeks evidence from before the time of the invention in the form of some teaching, suggestion, or even mere motivation (conceivably found within the knowledge of an ordinarily skilled artisan) to make the variation or combination." Slip op. at 21.

"The important question [in an obvious to try analysis] is whether the invention is an 'identified, predictable solution' and an 'anticipated success.'" *Id.* at 22 (citation omitted).

The Court also consulted the specification to ascertain the meaning of the "sweep angle that causes the blade to intercept the shock," recited in UTC's claim 23. UTC's specification states that the sweep angle is nonincreasing (i.e., decreases, or at least does not increase) with increasing radius. According to the Court, the invention emphasizes the critical character of the nonincreasing sweep angle in the tip region. Thus, the Court construed the recited sweep angle as "a rearward sweep angle in the outer region that is constant or decreasing." Slip op. at 16. The Court deemed any translation from the rearward sweep to a zero degree sweep to be decreasing. The Court further deemed any translation from a zero degree sweep to a forward sweep, even if designated as a negative angle, as an increasing sweep and a direct contradiction to the requirements of the specification. The Court notes for support that the specification teaches that the sweep angle must be nonincreasing with increasing radius. Agreeing with the district court, the Court concluded that the outer region of a fan blade in accordance with UTC's claim 23 could not include a forward sweep angle.

UTC presented computational fluid dynamics ("CFD") simulations by its expert, Dr. Yuan Dong, in support of its proposed constructions. UTC argued that a person conducting such simulations at the time of the invention would have seen that, under at least some conditions, forward sweep in the outer regions of the fan blade was required to intercept shock. With regard to the simulations, the Court noted that Dr. Dong equated endwall shock and passage shock, even though UTC's specification states that they are unrelated. According to the Court, endwall shock is not visible in the simulations. Moreover, Dr. Dong translated the outer region of the fan blade in the direction of the relative velocity vector, not toward the axial direction. The Court thus concluded that Dr. Dong's simulations in no way overcome the intrinsic evidence in the specification that excludes forward sweep in the outer region.

The primary issue with regard to a possible interference was the "outer region [of the fan blade] between the intermediate region and the fan casing, the outer region defining a forward sweep angle," as recited in Rolls-Royce's claim 8. The Court began its interference analysis by noting that UTC's specification does not disclose a fan blade with a forward swept outer region. Indeed, UTC and Rolls-Royce stipulated that obviousness, not anticipation, is responsible for any interference. Thus, the Court considered UTC's argument that the forward swept outer region of Rolls-Royce's claim 8 would be obvious from UTC's specification. "To preclude hindsight in this analysis, [the Court] flexibly [sought] evidence from before

the time of the invention in the form of some teaching, suggestion, or even mere motivation (conceivably found within the knowledge of an ordinarily skilled artisan) to make the variation or combination.”
Id. at 21.

Relying in part on Dr. Dong’s simulations, UTC argued that forward sweep in the outer region would have been an easily predictable and achievable variation in view of the disclosure of rearward sweep in its specification. The Court disagreed: “Without some way of detecting benefits in reducing endwall shock or even a reason to seek that reduction in a new way, a researcher or artisan of ordinary skill would not reverse the direction of the sweep angle.” *Id.* The record before the invention, however, showed that translation forward in the axial direction may create an unusable fan blade and cause the endwall shock to move behind the passage shock. According to the Court, such movement of the endwall shock might defeat the coincidence of shocks—the benefit heralded by UTC’s specification. According to the Court, the record contained no evidence that would have suggested to or motivated an ordinarily skilled artisan to sweep the fan blade forward in the outer region. Thus, the Court found that the record supports the district court’s conclusion that the variation recited in Rolls-Royce’s claim 8 would not have been obvious.

UTC further argued that it would have been obvious to try to reverse the sweep angle from rearward to forward sweep in the outer region in order to intercept the endwall shock. In the “obvious to try” analysis, “[t]he important question is whether the invention is an ‘identified, predictable solution’ and an ‘anticipated success.’” *Id.* at 22 (citation omitted). According to the Court, a person of ordinary skill would have a broad selection of choices for further investigation including any degree of sweep. The Court concluded that because one of ordinary skill could not use CFD simulations to detect the endwall shock and no other evidence in the record gives a reason to reverse the sweep angle to intercept that shock, Rolls-Royce’s invention would not have presented itself as an option at all, let alone an option that would have been obvious to try.

Finally, the Court noted that the secondary considerations in the case reinforce and substantiate the conclusion of nonobviousness. In particular, the district court found that Rolls-Royce’s invention fulfilled a long-felt but unresolved need, achieved commercial success, and also received industry acclaim from the inventor’s peers. The district court found the testimony of Rolls-Royce’s Vice President of Marketing about the need for quieter, more fuel-efficient engines compelling. At the time of the invention, swept fan blades were known to become unstable during operation. Nonetheless, Rolls-Royce built a fan blade that physically embodied claim 8. Computer analysis predicted that that blade had a dramatic efficiency improvement and, more importantly, that it would be stable due to the forward sweep at the tip. Rolls-Royce’s first commercially available engine including the claim 8 fan blade was characterized by high efficiency, low noise, and stability, and also received substantial industry acclaim. The nexus between the commercial success and the patentably distinct feature was established by the district court’s finding that the fan blade benefits were a major driving force behind the sales of Rolls-Royce engines that incorporate them.

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Distinct Enantiomers Are Different “Drug Products” and Properly Subject to Statutory Term Extensions

Marya K. Jones

Judges: Newman (author), Rader, Linn
[Appealed from D.N.J., Chief Judge Brown]

In *Ortho-McNeil Pharmaceutical, Inc. v. Lupin Pharmaceuticals, Inc.*, No. 09-1362 (Fed. Cir. May 10, 2010), the Federal Circuit affirmed the district court’s grant of SJ sustaining the term extension of U.S. Patent No. 5,053,407 (“the ‘407 patent”) because the enantiomer levofloxacin is a different drug product from its racemate ofloxacin. In addition, the Federal Circuit affirmed the district court’s injunction enjoining Lupin Pharmaceuticals, Inc. and Lupin Ltd. (collectively “Lupin”) from infringement during the extended term of the ‘407 patent.

The ‘407 patent, assigned to Daiichi Sankyo Co. (“Daiichi”) and exclusively licensed to Ortho-McNeil Pharmaceutical, Inc. and Ortho-McNeil, Inc. (collectively “Ortho”), claims levofloxacin. Levofloxacin is the levorotatory enantiomer of the racemate ofloxacin, an antimicrobial drug previously approved by the FDA. Enantiomers are compounds that are nonsuperimposable mirror images of each other and are distinguished by the direction in which they rotate plane-polarized light. Enantiomers that rotate plane-polarized light clockwise are called dextrorotatory, while those that rotate plane-polarized light counterclockwise are called levorotatory. A racemate contains equal amounts of the dextrorotatory and levorotatory enantiomers. Although enantiomers and their racemates have the same chemical composition, they may differ in their physical, chemical, or biological properties. Slip op. at 2.

The inventors at Daiichi worked for several years to separate the dextrorotatory and levorotatory enantiomers of ofloxacin, but were never successful. Ultimately, they were able to obtain the pure enantiomers by stereospecific synthesis rather than separation. Upon studying the pure enantiomers, the inventors found that levofloxacin has properties significantly superior to those of ofloxacin. *Id.* at 3. In particular, as described in the ‘407 patent, levofloxacin is more effective as an antimicrobial agent, more rapidly available for biological effectiveness, and has lower acute toxicity and thus may be administered in higher doses than ofloxacin. See *id.* (citing *Ortho-McNeil Pharm. Inc. v. Mylan Labs., Inc.*, 348 F. Supp. 2d 713, 754 (N.D.W. Va. 2004)).

The ‘407 patent issued on October 1, 1991. In 1996, the FDA approved levofloxacin for commercial marketing and use. In accordance with 35 U.S.C. § 156, Daiichi then applied for patent term extension.

After consulting with the FDA, the PTO concluded that extension of the term of the '407 patent was warranted and, in collaboration with the FDA, calculated an extension of 810 days.

Lupin then invoked the litigation procedures of 21 U.S.C. § 355(j)(2)(A)(vii)(IV). In the district court, Lupin stipulated to the validity, enforceability, and infringement of the '407 patent, contesting only whether the '407 patent was entitled to the term extension.

The relevant statutory provision regarding patent term extension provides that the term of a patent which claims a drug product shall be extended if the drug product has been subject to a regulatory review period before its commercial marketing or use. See *id.* at 4 (citing 35 U.S.C. § 156(a)). The statute also requires that “the permission for the commercial marketing or use of the [drug] product after such regulatory review period is the *first permitted commercial marketing or use of the [drug] product* under the provision of law under which such regulatory review period occurred.” See *id.* (emphasis added) (quoting 35 U.S.C. § 156(a)(5)(A)). The term “drug product” means the active ingredient of a new drug, antibiotic drug, or human biological product as a single entity or in combination with another active ingredient. See *id.* at 5.

The '407 patent claims levofloxacin, a drug product, and levofloxacin underwent regulatory review by the FDA prior to its commercial marketing and use. However, the issue that arose here was whether this was the *first permitted commercial marketing or use* of levofloxacin, since levofloxacin is a component enantiomer of the previously approved ofloxacin.

Lupin argued in the district court, and on appeal, that because enantiomers compose half of racemates, levofloxacin was an active ingredient of ofloxacin and thus the same “drug product” as ofloxacin. Since ofloxacin had been previously approved, the commercial marketing and use of levofloxacin was not its first, rendering the '407 patent ineligible for term extension.

“The FDA and PTO practices are in accordance with *Glaxo*, where the court held that ‘product’ as used in § 156(a) is the active ingredient present in the drug.” Slip op. at 6.

Ortho responded, and the Federal Circuit agreed, that the FDA and PTO have consistently recognized pure enantiomers as different drug products than their racemates, noting in support that levofloxacin required full regulatory approval by the FDA and was viewed as separately patentable by the PTO. Ortho also supported their argument with a declaration by Dr. David Lin, a former acting Division Director in the FDA’s Division of New Drug Chemistry, who stated that “in each and every instance in which it has considered the question, the FDA has described a racemate as a single active ingredient, distinct from its enantiomers, and each enantiomer as a single active ingredient distinct from the other and from the racemate.” *Id.* at 6. The Federal Circuit concluded that it could “discern no basis for challenging these established FDA and PTO practices,” and that “[t]he FDA and PTO practices are in accordance with *Glaxo*, where the court held that ‘product’ as used in § 156(a) is the active ingredient present in the drug.” *Id.*

Lupin also argued that the eligibility of patents directed to enantiomers for patent term extension was legislatively changed in 2007 by an amendment to the new product exclusivity provisions. The amendment allowed “an applicant ‘for a non-racemic drug containing as an active ingredient . . . a single enantiomer that is contained in a racemic drug approved in another application’ to, under certain

conditions, 'elect to have the single enantiomer not be considered the same active ingredient as that contained in the approved racemic drug.'" *Id.* at 6-7 (quoting 21 U.S.C. § 355(u)(1) (Supp. II 2008)). Lupin asserted that by allowing applicants to elect a separate treatment for enantiomers with regard to new product exclusivities, Congress intended to treat enantiomers as the same active ingredient as the racemate for all purposes, including patent term extension.

The Federal Circuit found no support for Lupin's theory in the legislative record, or elsewhere, and stated that "Lupin's interpretation would change the long-standing term-extension policy of the FDA and the PTO." *Id.* at 7. The Federal Circuit concluded that "such a far-reaching change is not achieved by legislative silence." *Id.*

Thus, the Federal Circuit affirmed the district court's ruling that the '407 patent was properly granted statutory term extension because the enantiomer levofloxacin is a different drug product from its racemate ofloxacin.

Lastly, Lupin argued that the injunction imposed by the district court enjoining them from making, using, offering to sell, selling, or importing levofloxacin in bulk or tablet form during the extended term of the '407 patent was improperly broad, because patent term extension only applies to the sale and use of the patented product, not to any other exclusionary patent rights, such as making or importing the patented product.

The Federal Circuit "recognized that an extended patent term does not apply to unrelated uses of an FDA-approved product." *Id.* at 8 (citing *Pfizer Inc. v. Dr. Reddy's Labs., Ltd.*, 359 F.3d 1361, 1366 (Fed. Cir. 2004)). However, because Lupin did not assert any nonpharmaceutical uses for levofloxacin, the Federal Circuit concluded that "[t]he district court did not abuse its discretion in issuing an injunction commensurate with the patent rights of exclusion." *Id.*

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June 2010

Based on Defendants' Trade Show Visits to Nevada, Court Finds Exercise of Personal Jurisdiction Appropriate

Justin R. Lowery

Judges: Linn (author), Rader, Archer

[Appealed from D. Nev., Judge Mahan]

In *Patent Rights Protection Group, LLC v. Video Gaming Technologies, Inc.*, No. 09-1391 (Fed. Cir. May 10, 2010), the Federal Circuit reversed the district court's dismissal for lack of personal jurisdiction and denial of Patent Rights Protection Group, LLC's ("Patent Rights") request for jurisdictional discovery.

Patent Rights owns U.S. Patent Nos. 6,475,087 and 6,860,814 (collectively "the Gaming Patents"), which relate to various types of casino-style gaming machines. Patent Rights initiated separate lawsuits against several out-of-state gaming companies, including Video Gaming Technologies, Inc. ("VGT") and SPEC International, Inc. ("SPEC"). Patent Rights asserted in each suit that the gaming companies had infringed the Gaming Patents by displaying, using, and offering for sale gaming machines at trade shows in Nevada. SPEC and VGT individually moved to dismiss the lawsuit, each arguing that its contacts with Nevada were insufficient for the court to exercise personal jurisdiction.

SPEC and VGT each argued that it was not registered to practice business in Nevada; did not have sales agents, employees, facilities, bank accounts, or telephone listings in Nevada; and that its websites were not targeted to the residents of Nevada. VGT stated that it did not direct marketing efforts to Nevada nor generate revenues from Nevada, and SPEC stated that it had mailed brochures to eight potential customers in Nevada, generating little sales. SPEC did admit that it had attended trade shows in the 1990s, and both SPEC and VGT admitted to attending trade shows in the 2000s, including as recently as 2007 or 2008.

In addition to their motions to dismiss for lack of personal jurisdiction, both SPEC and VGT also argued that the venue was improper for this case, or alternatively, that the district court should transfer the case to Michigan, or stay the case in light of a DJ action filed against Patent Rights by SPEC in Michigan. Patent Rights opposed these motions and requested jurisdictional discovery. In light of a dismissal of a separate case between Patent Rights and another gaming company for lack of personal jurisdiction, the district court judge requested supplemental briefing on any preclusive effect of that decision.

After oral argument and consideration of the briefs, the district court dismissed the action without

prejudice. The district court applied Ninth Circuit precedent and found that the factors in the case either weighed in favor of unreasonableness of exercise of personal jurisdiction or were neutral. The district court also denied Patent Rights' request for jurisdictional discovery on the ground that such discovery would not affect the reasonableness analysis. The district court further determined that the venue and preclusion issues, as well as the motions to stay or transfer the case, were mooted in light of the dismissal. Patent Rights appealed the district court's decisions.

On appeal, both sides agreed that the district court erred in applying Ninth Circuit law, as Federal Circuit law is controlling in the case. However, SPEC and VGT argued that Federal Circuit precedent led to the same conclusion, and thus the error was harmless. The Court declined to address any of the issues not addressed by the district court, and thus proceeded to analyze the personal jurisdiction issue and the request for jurisdictional discovery.

“[T]heir admitted presence at numerous trade shows in Nevada indicates that, despite their arguments to the contrary, neither company faces a particularly onerous burden in defending itself in Nevada.” Slip op. at 9.

The Court first agreed that Federal Circuit precedent was controlling, and reviewed the reasonableness of the exercise of personal jurisdiction *de novo*. In order for a district court to exercise personal jurisdiction over a nonconsenting out-of-state defendant, the defendant first must be amenable to service of process, and second, the exercise of jurisdiction must comport with the constitutional requirements of due process. In order to determine if service of process was possible, the court must examine the particular state's long-arm statute. Since Nevada's long-arm statute permits courts to exercise personal jurisdiction to the extent permitted by the U.S. Constitution, the personal jurisdiction inquiry before the Court reduced to the second issue—whether the exercise of personal jurisdiction in this case satisfies due process.

In order for a court to have personal jurisdiction over a defendant, the defendant must have minimum contacts with the state in question. Slip op. at 6. If such contacts exist, the court must then look to various factors to determine if exercise of jurisdiction is reasonable. *Id.* Under Supreme Court precedent, if a defendant has purposefully directed its activities to the forum state, then the defendant must present a compelling case of unreasonableness. The Federal Circuit has stated that these compelling cases are limited to the rare situation in which the plaintiff and state's interests in adjudicating the dispute in the forum are clearly outweighed by the burden of subjecting the defendant to litigation in the forum.

The district court in this case cited three factors in arguing that jurisdiction would be unreasonable: (1) limited purposeful contacts by the defendants; (2) the companies and their witnesses are located outside of Nevada, making defending a lawsuit burdensome; and (3) both companies would be subject to jurisdiction in another forum, namely, Michigan or Tennessee. The district court also determined that Nevada had no particular interest in hearing the case, that Michigan or Tennessee have an equal interest in hearing the case, and that Nevada would not be particularly convenient or efficient compared to any other court.

The Federal Circuit disagreed with this analysis. As a preliminary matter, the Court stated that modern transportation and communications make it far less burdensome for a party to defend itself outside its home state, and that defendants' presence at trade shows contradict their claims of a serious burden.

Id. at 9. The Court also stated that Nevada, much like any other state, has an interest in providing its residents with a convenient forum, and this interest extends to patent infringement actions. Finally, the Court noted that Nevada hearing the case reduced the burden on the defendants' respective home states, and would result in a more efficient resolution of controversies, given that the same forum would hear these largely similar actions. Thus, this generally promoted the interstate interest of efficiency, as well as promoting Patent Rights' interest in obtaining convenient and effective relief.

Weighing these factors, the Court determined that this case did not represent the rare case where Patent Rights' and Nevada's interests were so attenuated that they were clearly outweighed by the burden on defendants. *Id.* at 10. The Court therefore concluded that the district court erred in declining to exercise jurisdiction solely on the ground that to do so would be unreasonable.

Turning to the issue of jurisdictional discovery, the Court reviewed the decision for abuse of discretion and applied the law of the regional circuit—here, the Ninth Circuit. Under Ninth Circuit precedent, jurisdictional discovery should be granted where pertinent facts related to jurisdiction are controverted or a more satisfactory showing of the facts is necessary. However, the Court noted it is not an abuse of discretion where it is clear that further discovery would not demonstrate facts sufficient to constitute a basis for jurisdiction, or where the request is based on little more than a hunch that discovery may yield relevant facts. Additionally, the Court noted that decisions to deny discovery will not be disturbed except under the clearest showing of actual and substantial prejudice. *Id.* at 11.

The Court then determined that Patent Rights' request was not based on a hunch, but instead was supported by a declaration of the inventor of the Gaming Patents that SPEC and VGT had used and marketed what appeared to be infringing game machines at Nevada trade shows. The Court stated that any argument that there was no commercial purpose in defendants attending the trade shows or displaying game machines strained credulity. *Id.* at 12. According to the Court, given that SPEC and VGT were in the business of selling gaming machines, and that Nevada was one of the largest markets for such machines, the defendants' actions at these trade shows most likely had a commercial basis. Based on this, the Court determined that jurisdictional discovery may unearth facts that support the exercise of personal jurisdiction, and that denial of such discovery resulted in actual and substantial prejudice to Patent Rights in the form of dismissal of the case. Therefore, the Court stated that denial of discovery was an abuse of discretion. The Court thus vacated the district court's judgment and remanded the case for further proceedings consistent with the above decisions.

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New and Improved Drug Product Eligible for Patent Term Extension Pursuant to 35 U.S.C. § 156

Anthony D. Del Monaco

Judges: Newman (author), Rader, Linn
[Appealed from E.D. Va., Judge O’Grady]

In *Photocure ASA v. Kappos*, No. 09-1393 (Fed. Cir. May 10, 2010), the Federal Circuit affirmed the district court’s reversal of the PTO’s denial of Photocure ASA’s (“Photocure”) request for a patent term extension pursuant to 35 U.S.C. § 156. In so doing, the Court considered the applicability of § 156 to a drug product having as its active ingredient the chemical compound methyl aminolevulinate hydrochloride (“MAL hydrochloride”), brand name Metvixia®.

Metvixia® is used in photochemotherapy or photodynamic therapy to treat actinic keratoses, which are precancerous growths on the skin. MAL hydrochloride was a new chemical compound that was patented in U.S. Patent No. 6,034,267 (“the ’267 patent”) on the basis of improved therapeutic properties as compared with the known compound aminolevulinic acid hydrochloride (“ALA” hydrochloride). MAL is the methyl ester of ALA. ALA hydrochloride had previously received FDA approval for the same therapeutic use as MAL hydrochloride, but the ’267 patent specification discusses and exemplifies the biological and physiological advantages of the MAL hydrochloride product over the ALA hydrochloride product. Patentability of the MAL hydrochloride product was not disputed.

Because MAL hydrochloride was considered a “new drug” pursuant to 21 U.S.C. § 321(p), it required full FDA approval. The clinical and other tests to demonstrate MAL hydrochloride’s safety and efficacy took four and a half years. Upon completion of the tests, Photocure applied to the PTO for an extension of the term of the ’267 patent.

The PTO consulted with the FDA regarding Photocure’s request for patent extension. Despite MAL hydrochloride having received regulatory approval for the designated use, the FDA stated that the proposed requirements of 35 U.S.C. § 156(a)(5)(A) were not met because MAL hydrochloride is an ester of the previously FDA-approved ALA hydrochloride. The PTO then denied the patent term extension, interpreting the term “active ingredient” in 35 U.S.C. § 156(f)(2) to mean the “active moiety” of the product, not the product that was approved by the FDA. Indeed, the PTO determined that MAL hydrochloride is the same product as ALA hydrochloride because the underlying molecule of MAL is ALA. As such, the PTO held that since a drug product containing ALA hydrochloride was previously

approved by the FDA, the FDA's marketing approval of the MAL hydrochloride product was not the first commercial marketing or use of that product, as required by 35 U.S.C. § 156(a)(5)(A). Photocure appealed the PTO's decision.

On appeal, the district court held that the PTO's ruling was "not in accordance with law," and that the patent on MAL hydrochloride is subject to term extension. Slip op. at 2 (citing *PhotoCure ASA v. Dudas*, 622 F. Supp. 2d 338 (E.D. Va. 2009)). In reversing the PTO, the district court considered the separate chemical composition of MAL hydrochloride and held that (1) it is the active ingredient of a new drug product that required FDA approval under 35 U.S.C. § 156(f)(2)(A); (2) the MAL hydrochloride product was subject to a full regulatory review period before commercial marketing and use was permitted, pursuant to 35 U.S.C. § 156(a)(4); (3) this review permitted the first commercial marketing and use of the MAL hydrochloride product (see U.S.C. § 156(a)(5)(A)); and (4) the statutory requirements for term extension were therefore met.

"The PTO's statutory interpretation, which would exclude MAL hydrochloride from term extension, is contrary to the statutory purpose, for MAL is the active ingredient of a new and improved drug product." Slip op. at 7.

The PTO appealed, arguing that the term "active ingredient" in 35 U.S.C. § 156(f)(2) means only the "active moiety" of the product, i.e., the part responsible for the pharmacological properties. The Federal Circuit agreed, stating that the '267 patent illustrates that the pharmacological properties of MAL hydrochloride differ from those of ALA hydrochloride, supporting the separate patentability of the MAL hydrochloride product. The Federal Circuit further concluded that MAL hydrochloride is a different chemical compound from ALA hydrochloride and that the differences in their biological properties warrant separate patenting and separate regulatory approval. Relying on *Glaxo Operations UK Ltd. v. Quigg*, 894 F.2d 392, 393 (Fed. Cir. 1990), the Federal Circuit affirmed that MAL hydrochloride and ALA hydrochloride are "different products" with different "active ingredients," as the terms are used in 35 U.S.C. § 156, agreeing with the district court that "a compound can only qualify as the 'active ingredient' of a drug if that compound itself is present in the drug." Slip op. at 5.

The PTO attempted to distinguish *Glaxo*, arguing that *Glaxo* did not address the term "active ingredient." The PTO instead relied on *Pfizer Inc. v. Dr. Reddy's Laboratories, Ltd.*, 359 F.3d 1361 (Fed. Cir. 2004), in which the underlying issue was whether infringement of an extended patent was avoided by changing the salt. The Federal Circuit in *Pfizer* held that the changed salt had no effect on the activity of the product, for the "active moiety" of the product was unchanged. In the instant matter, the Federal Circuit concluded that *Pfizer* did not apply, as the *Pfizer* court did not hold that extension is not available when an existing product is substantively changed in a way that produces a new and separately patentable product having improved properties and requiring full FDA approval.

Finally, the PTO argued that even if the Court did not accept the PTO's reading of *Pfizer*, the agency's interpretation is entitled to deference in accordance with the persuasiveness of the agency's reasoning, citing *Skidmore v. Swift & Co.*, 323 U.S. 134 (1944). In the district court, the PTO also cited *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), for the contention that, when a statute is ambiguous, courts should defer to the interpretation of the agency charged with administering the statute. The Federal Circuit disagreed with both contentions, holding that *Skidmore* deference is not warranted because the PTO's interpretation is neither persuasive nor consistent and *Chevron* does not apply because the statute is unambiguous.

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Cancellation Fee Not Required at the “Motion for Leave to Amend” Stage

Constance B. Jones

Judges: Michel, Clevenger, Prost (author)

[Appealed from TTAB]

In *Fred Beverages, Inc. v. Fred’s Capital Management Co.*, No. 10-1007 (Fed. Cir. May 12, 2010), the Federal Circuit reversed the TTAB’s decision denying Fred Beverages, Inc. (“Fred Beverages”) Motion for Leave to Amend the Petition for Cancellation for failure to submit the cancellation fee.

Fred’s Capital Management Company (“Fred’s Capital”) obtained registration for its trademarked name covering a variety of goods. In an effort to support its own trademarked name, Fred Beverages sought cancellation of Fred’s Capital’s registration in one class on the ground of abandonment and filed a Petition for Partial Cancellation. All petitions for cancellation of registered trademarks must be accompanied by a fee of \$300.00 per class for which cancellation is sought. Fred Beverages’ Petition was accompanied by the requisite \$300.00 payment.

During the course of the proceedings, Fred Beverages filed a Motion for Leave to Amend Its Petition to add further product classes. It attached to its Motion, as an exhibit, a copy of the Amended Petition for Partial Cancellation showing the desired changes. Fred Beverages did not submit any fee in connection with the Motion or the Reply. The TTAB denied this Motion for Leave to Amend on the ground that the Motion was not accompanied by the fee required under the Trademark Rules. Fred Beverages argued that it was not required to submit the cancellation fee until the Motion for Leave to Amend had been granted and appealed to the Federal Circuit.

On appeal, the Federal Circuit reversed the TTAB’s denial of Fred Beverages’ Motion for Leave to Amend, finding its denial arbitrary and capricious. According to the Court, the TTAB had no authority for denying Fred Beverages’ Motion for Leave to Amend based on its failure to submit a cancellation fee at that stage in the proceeding. The TTAB should liberally grant leave to amend petitions and pleadings where the other party will not be prejudiced thereby. In this case, the TTAB did not cite any equitable reason to deny the Motion, but relied solely on Fred Beverages’ failure to file the fee associated with the underlying Petition.

“Thus, *Ayush Herbs*, *Tribal Sportswear*, *Dollar Tree*, and other cases suggest that a motion for leave to amend is considered separately from the underlying filing, and that a jurisdictional prerequisite for the underlying filing, such as the statutorily required filing fee, is not grounds for denying the motion.”
Slip op. at 6.

In reviewing the relevant law, the Court found that it is common judicial procedure to require that motions for discretionary consideration from a tribunal be accompanied by the filing sought to be considered and any requisite fee. Such requirements, however, are set forth in stated rules of practice pertaining to the tribunal. There is no stated rule of the TTAB that a motion for leave to amend a petition for cancellation must be accompanied by the statutory fee corresponding to the classes for which cancellation is sought by amendment. There is also no rule that such a fee, if tendered, would be refunded in the event that the motion for leave were denied. Slip op. at 4-5. The rules relied on by the TTAB in deciding this case, Trademark Rules 2.111(c)(1) and 2.112(b), relate to only the requirements for filing an initial petition for cancellation and do not speak to subsequent motion practice.

In the absence of a stated rule, the Court noted that the TTAB might still justify requiring a cancellation fee to accompany a motion for leave to amend if such requirement were consistent with established practice. The Court found there is, however, no such established practice at the TTAB. It appeared to the Court that, in fact, the TTAB has previously, under similar circumstances, granted or deferred ruling on motions for leave to amend filings without concurrent payment of the statutory cancellation fee. Moreover, in a case that closely resembled the facts in this case, the TTAB granted a motion for leave to amend a petition for cancellation to add product classes, provided that the moving party paid the cancellation fee within thirty days of the order granting the motion for leave. It therefore appeared to the Court that the TTAB had no stated rule and no established practice of requiring that a supplemental cancellation fee be included with a motion for leave to amend a petition for cancellation.

The Court explained that the lack of authority for the TTAB's decision is further confirmed by the fact that the TTAB opinion cited no rule or precedent on point in support of its decision to deny the Motion for Leave in this case. *Id.* at 6. The Court found no basis on which to distinguish the circumstances of the present case from those in which the TTAB granted or deferred ruling on motions for leave and set a subsequent deadline for the payment of the underlying fee. The Court held where an agency departs from established precedent without a reasoned explanation, its decision will be vacated as arbitrary and capricious.

Therefore, the Court reversed the decision of the TTAB denying the Motion for Leave to Amend on the ground that the filing fee did not accompany the Motion, and remanded the case to the TTAB for further proceedings consistent with its opinion.

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Court Affirms Attorney Fees and Costs Based on Inequitable Conduct and Litigation Misconduct, and Reverses Postjudgment Interest Rate

Kay H. Hill

Judges: Mayer (author), Friedman, Gajarsa (dissenting)

[Appealed from W.D. Wash., Senior Judge Zilly]

In *Taltech Ltd. v. Esquel Enterprises Ltd.*, No. 09-1344 (Fed. Cir. May 12, 2010), the Federal Circuit affirmed the district court's award of attorney fees and costs, reversed the district court's grant of postjudgment interest, and remanded the case for further proceedings.

U.S. Patent No. 5,568,779 ("the '779 patent") is directed to seams including thermal adhesive to reduce pucker. The '779 patent is owned by Taltech Limited and is licensed by garment manufacturer and seller TAL Apparel Limited (collectively "TAL"). In 2004, Esquel Enterprises, Ltd. ("Esquel"), an apparel manufacturer, filed a complaint seeking a DJ of noninfringement. TAL counterclaimed, alleging infringement.

After a bench trial, the district court found the inventor of the '779 patent, John Wong, had engaged in inequitable conduct by not disclosing to the PTO a raincoat seam that included heat-fusible adhesive tape ("undisclosed raincoat seam" or "URS") and by misrepresenting a double top-stitch seam previously made and sold by TAL. Based on these findings and a finding of litigation misconduct, the district court declared the case exceptional under 35 U.S.C. § 285 and awarded Esquel attorney fees and costs in a July 13, 2007, final judgment.

TAL appealed, and the Federal Circuit vacated the inequitable conduct determination, vacated the award of attorney fees and costs, and remanded the case for the district court to determine if the URS was cumulative to a German patent to Robers ("Robers"). On remand, the district court found that the URS was not cumulative to Robers, stating that its three reasons for declaring the case exceptional (failure to disclose the URS, misrepresentation of the double top-stitch seam, and abusive litigation tactics) were separate and independent bases for the finding. The district court entered a supplemental final judgment that imposed interest from the July 13, 2007, judgment. TAL appealed both the exceptional case finding and the district court's denial of TAL's motion that the judgment specify an interest rate from the date of the new judgment.

On appeal, the Federal Circuit began by examining the district court's reasons for finding the URS not

cumulative to Robers. First, the Court considered the district court's reasoning that, by using two words having different meanings than those used in the translation that Esquel presented at trial, TAL's translation of Robers that was before the examiner was so inadequate that the examiner would not have understood Robers to teach anything material to the claims of the '779 patent. TAL argued that the district court erred in striking a comparison of the URS and Robers to the '779 patent claims that illustrated Robers's disclosure of more claim elements than the URS. The Federal Circuit concluded that the district court's analysis of the differences between the two translations obviated the need for the URS-Robers comparison.

“This case exemplifies the ongoing pandemic of baseless inequitable conduct charges that pervade our patent system.” Gajarsa Dissent at 1.

Next, the Court considered the district court's reliance on the URS's disclosure of an armhole seam, which was relevant to dependent claims of TAL's application, while Robers disclosed only a closure seam. TAL argued on appeal that the district court inappropriately narrowed the disclosure of Robers by not also applying Robers to armholes. The Federal Circuit rejected TAL's arguments and found that TAL's own findings of fact advocated against Robers's applicability to armholes. The Federal Circuit further found the district court's conclusion that the URS disclosed an armhole was supported by the evidence, and the Federal Circuit found the URS noncumulative because Robers is limited to closure seams.

Third, according to the district court, the URS incorporated Vilene SL33, the adjudicated best mode for the '779 patent, while Robers only disclosed a generic thermoplastic component. The Federal Circuit found that an examiner would have found Robers's teaching of a Vilene SL33/armhole combination important and noncumulative because certain dependent claims of the '779 patent included polyamide, of which Vilene SL33 is an example, and the specification pointed out difficulties with seam pucker specifically occurring in armhole seams. Further, the Federal Circuit reasoned that TAL's arguments that the URS's Vilene SL33 was cumulative to the teachings of Robers were negated by TAL's previous arguments that Robers was distinguishable from the claims of the '779 patent.

The Federal Circuit also found that the district court did not err in concluding that TAL acted with the requisite deceptive intent in failing to disclose the URS, since intent does not require direct evidence but can be inferred from indirect and circumstantial evidence. The Court noted that TAL failed to disclose the URS during prosecution, even though the URS more closely approximated a dress shirt seam than seams TAL did disclose during prosecution. The Court also noted that TAL's failure to disclose the URS during prosecution was consistent with TAL's nondisclosure of the Vilene SL33 best mode. Thus, according to the Federal Circuit, the district court could infer that TAL acted with deceptive intent. The Court also found that there was no evidence of good faith to counter the evidence of intent, and found TAL's argument that Wong voluntarily disclosed the existence of the URS unconvincing, as Wong's disclosure took place at his deposition after the '779 patent issued. The Federal Circuit concluded that the district court did not abuse its discretion in finding inequitable conduct based on the nondisclosure of the URS.

Next, the Federal Circuit turned to TAL's misrepresentation of the double top-stitch seam as an independent ground for the district court's finding of an exceptional case. Specifically, TAL withheld that five percent of dress shirts sold in the United States by TAL Apparel feature two top stitches in the armhole seam and withheld that five to six percent of the dress shirts sold by TAL Apparel in the early

1990s had overlock stitches. The Federal Circuit found that the district court did not err in finding the withheld information material because the information refuted statements TAL made to the PTO about the unacceptability of using two top stitches and overlock stitches. According to the Federal Circuit, TAL's assertion of "unequivocal untruths" about a reference, coupled with presentation of the reference, in order to minimize the reference's impact on the examiner, showed TAL's intent to deceive. Slip op. at 14. The Court also found that the prosecuting attorney had made intentionally ambiguous statements to the PTO about when Wong became aware of the double top-stitch seam. In sum, the Federal Circuit found that there was no clear error in the district court's finding of intent.

The Federal Circuit next addressed the district court's finding of an exceptional case based on abusive litigation tactics. In particular, TAL had dismissed its damages claim after Esquel conducted discovery and prepared a defense; waived its jury request only weeks before trial and after Esquel had extensively prepared; voluntarily dismissed with prejudice, in the middle of trial, five of its claims of infringement in order to avoid responding to Esquel's motion for entry of judgment pursuant to Fed. R. Civ. P. 52(c); withdrew an ITC complaint shortly before the hearing began; and engaged in similar tactics on remand. The Federal Circuit found sufficient evidence in the record for the district court to have concluded that trial misconduct occurred, noting that "it ill behooves an appellate court to overrule a trial judge concerning litigation misconduct when the litigation occurred in front of the trial judge, not the appellate court." Slip op. at 15-16 (quoting *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1359 (Fed. Cir. 2008)).

The Federal Circuit turned to the law of the Ninth Circuit for its review of the interest award. According to the Ninth Circuit, under *Kaiser Aluminum & Chemical Corp. v. Bonjorno*, 494 U.S. 827 (1990), "post-judgment interest may run only from the date of a judgment later determined to be supported by the evidence. It may not run from a legally insufficient judgment." *Planned Parenthood v. Am. Coalition of Life Activists*, 518 F.3d 1013, 1021 (9th Cir. 2008). TAL argued that the new judgment (.58% interest rate) is the only legally sufficient judgment, while Esquel argued for the July 13, 2007, judgment (4.99% interest rate). The Federal Circuit agreed with TAL, finding the earlier judgment legally insufficient since the Federal Circuit had previously vacated the inequitable conduct determination in that judgment.

Judge Gajarsa dissented from the majority opinion. According to Judge Gajarsa, "This case exemplifies the ongoing pandemic of baseless inequitable conduct charges that pervade our patent system." Gajarsa Dissent at 1. Judge Gajarsa believed the district court's inequitable conduct ruling contained no supportable finding of intent, limited materiality findings, and wholly ignored evidence of good faith.

Judge Gajarsa believed the district court's cumulativeness inquiry for the URS was flawed. According to Judge Gajarsa, Robers is more relevant to the claims of the '779 patent than the URS and discloses more claim elements than the URS. Judge Gajarsa also believed the translations presented by TAL and Esquel differed by only merely minor variations and the district court erroneously limited the teachings of the URS. In Judge Gajarsa's view, no reasonable examiner would have found the URS's disclosure of Vilene SL33 material since the pending claims did not require Vilene SL33 but instead required polyamides. Further, Judge Gajarsa believed that the representations made during prosecution about the acceptability of the double top-stitch seam and overlock stitches were immaterial to patentability since the claims did not require these particular stitches.

Although Judge Gajarsa did not believe it necessary to reach intent since he did not find the representations or the URS material, Judge Gajarsa also believed the district court's finding of inferred intent was not supported by clear and convincing evidence. According to Judge Gajarsa, the alleged inadequacy of the translation of Robers was insignificant, the statements by the prosecuting attorney

about when Wong became aware of the double top-stitch seam were not misleading, and the district court failed to take into account Wong's good faith in introducing the URS into the record. Thus, Judge Gajarsa believed the inequitable conduct finding should be reversed, along with the finding of exceptionality and the award of attorney fees.

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June 2010

Licensors Retains Standing to Sue Because Exclusive License Not a Virtual Assignment of Patents

Brenda J. Huneycutt

Judges: Michel (author), Newman, Dyk

[Appealed from C.D. Cal., Judge King]

In *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, No. 09-1447 (Fed. Cir. May 14, 2010), the Federal Circuit reversed and remanded the district court's holding that the Alfred E. Mann Foundation for Scientific Research ("AMF") lacked standing to sue.

AMF conducts research aimed at developing implantable medical devices, including cochlear implants, devices that are placed in the inner ear to allow profoundly deaf or severely hard-of-hearing patients to regain their ability to hear. The patents-at-issue disclose and claim cochlear implants and related technologies. In 2004, AMF licensed the patents to Advanced Bionics ("AB"). Afterwards, AMF notified AB of alleged infringing activity by Cochlear Corporation and Cochlear Ltd. (collectively "Cochlear"), and, having received assurance that AB did not plan to sue over this alleged infringement, AMF filed suit against Cochlear in December 2007.

After learning of the 2004 license agreement between AMF and AB during discovery in the district court, Cochlear filed a motion to dismiss AMF's infringement claims for lack of standing to sue. The district court granted the motion, finding that because AMF had transferred to AB all substantial rights under the patents, AB should be considered the owner of the patents-at-issue. AMF appealed the dismissal.

The Federal Circuit first noted that this case presents the converse of the typical situation in which an exclusive licensee sues an accused infringer and the Court must decide whether the licensee has been granted rights sufficient to confer standing. Here, the patent owner sought to bring suit, requiring the Court to determine whether the patent owner transferred away sufficient rights to divest it of any right to sue. The Court explained that if a patent owner grants an exclusive license to his patents that transfers "all substantial rights" in the patents to the licensee, then the licensee has sole standing to sue for infringement of the patents. Where an exclusive license transfers less than "all substantial rights" in the patents to the licensee, the licensor remains the owner of the patent and retains the right to sue for infringement. Therefore, to determine whether AMF had standing to sue Cochlear, the Court had to determine whether AMF had transferred "all substantial rights" in the patent to AB. If it did, then AMF did not have standing to sue.

**“Such a broad right to decide whether to bring suit and to control litigation is thoroughly inconsistent with an assignment of the patents-in-suit”
Slip op. at 12.**

The Court first looked to the language of the 2004 agreement between AMF and AB to determine, based on the explicit language of the agreement, that it granted an exclusive (rather than nonexclusive) license to AB for the patents-at-issue. Having found that AMF granted AB an exclusive license, the Court next analyzed the scope of the license grant.

Acknowledging that the Court’s prior decisions have never purported to establish a complete list of the rights whose holders must be examined to determine whether a licensor has transferred away sufficient rights to render an exclusive licensee the owner of a patent, the Court explained that at least some of the rights that should be examined include (1) the exclusive right to make, use, and sell products or services under the patent; (2) the scope of the licensee’s right to sublicense; (3) the nature of the license provisions regarding the reversion of rights to the licensor following breaches of the license agreement; (4) the right of the licensor to receive a portion of the recovery in infringement suits brought by the licensee; (5) the duration of the license rights granted to the licensee; (6) the ability of the licensor to supervise and control the licensee’s activities; (7) the obligation of the licensor to continue paying patent maintenance fees; (8) the nature of any limits on the licensee’s right to assign its interests in the patent; and, most importantly (9) the nature and scope of the exclusive licensee’s purported right to bring suit, together with the nature and scope of any right to sue purportedly retained by the licensor.

Further, the Court noted that where the licensor retains a right to sue accused infringers, that right often precludes a finding that all substantial rights were transferred to the licensee unless the licensor’s right to sue is rendered illusory by the licensee’s ability to settle licensor-initiated litigation by granting royalty-free sublicenses to the accused infringers. Noting that the nature and scope of the licensor’s retained right to sue accused infringers is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee the owner of the patent, the Court focused on analyzing the license agreement’s provisions regarding infringement litigation.

First, the Court outlined the provisions of the license that relate to AMF’s and AB’s infringement litigation rights, including that (1) both AMF and AB are required to notify the other party upon learning of a possible infringement of the patents; (2) after this notification, AB has the absolute right to decide whether or not to initiate litigation against the accused infringer and, if AB chooses to exercise this right by filing suit, it maintains complete control over the litigation; and (3) if AB chooses not to file suit against an accused infringer, AMF has the right (but not the obligation) to initiate litigation and, if AMF chooses to exercise this right, it controls the litigation in much the same way that AB controls the litigation it initiates.

Next, the Court found that AB’s right to sublicense does not render illusory AMF’s right to sue accused infringers because any sublicense AB grants must include specified pass-through royalties.

Finally, the Court found that AMF’s right to sue suspected infringers is substantial enough such that AMF remains the owner of the patents-in-suit. The Court explained that while AMF’s right to choose to sue an infringer does not vest until AB chooses not to sue that infringer, it is otherwise unfettered. The Court specifically noted that once AMF’s right to sue an infringer activates, it can decide whether or not to bring suit, when to bring suit, where to bring suit, what claims to assert, what damages to seek, whether to seek injunctive relief, whether to settle the litigation, and the terms on which the litigation will be settled.

Furthermore, AMF is required to inform AB of the status of the litigation while it is ongoing, but AMF has complete discretion to decide what trial strategy and tactics to employ. The Court held that “[s]uch a broad right to decide whether to bring suit and to control litigation is thoroughly inconsistent with an assignment of the patents-in-suit to AB.” Slip op. at 12.

The Court agreed with AMF that it makes no difference that the license agreement fails to specify a time within which AB must make its decision as to whether to sue. The Court explained that under California law, a reasonable time is allowed when no time period is specified; thus, AB has only a reasonable amount of time before it must decide whether or not to sue an infringer, depriving AB of the right to indulge infringements indefinitely. Because AB cannot indulge infringements for an unlimited time, under *Abbott Laboratories v. Diamedix Corp.*, 47 F.3d 1128 (Fed. Cir. 1995), AB holds substantially less than the complete right to sue. Thus, AMF’s retained right to sue is significant, and the Court held that the license agreement was not a virtual assignment of the patents-in-suit to AB.

Accordingly, AMF retained standing to sue accused infringers, and the Court therefore reversed the district court’s dismissal of AMF’s claims and remanded to the district court with instructions to (1) consider whether AB is an indispensable party to this litigation and, if the district court finds that AB is indispensable, then (2) consider whether, under Rule 19 of the Federal Rules of Civil Procedure, AB or its successor must be joined as a party, or whether dismissal of the case is warranted. The Court expressed no opinion as to the proper disposal of this issue and further instructed the district court that if all standing issues are resolved favorably to AMF, it should address the merits of AMF’s claims.

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After Jury Verdict of No Anticipation, Claims Invalidated as a Matter of Law by Prior Art System Described in Reference Modified After Critical Date

John S. Sieman

Judges: Gajarsa (author), Plager, Linn
[Appealed from E.D. Tex., Judge Davis]

In *Orion IP, LLC v. Hyundai Motor America*, No. 09-1130 (Fed. Cir. May 17, 2010), the Federal Circuit reversed the district court's denial of JMOL on validity, invalidating the asserted claims. The Court also affirmed the district court's ruling that the patent in question was not unenforceable due to alleged inequitable conduct by its inventor.

Orion IP, LLC ("Orion") asserted U.S. Patent No. 5,367,627 ("the '627 patent") related to computer-assisted parts sales against Hyundai Motor America ("Hyundai") and twenty other automakers, alleging infringement by the automakers' online sales systems. Hyundai, the only defendant not to settle prior to trial, alleged that the '627 patent was anticipated by a prior art reference entitled "Electronic Parts Catalog," which describes an electronic parts catalog system referred to as the IDB2000 system. Orion's sole argument to distinguish its invention from the prior art was the failure of the IDB2000 system to generate a "proposal," a claim term construed by the district court to mean "information intended for conveyance to a potential customer." The jury awarded Orion \$34 million in damages after finding the '627 patent infringed and not invalid. Subsequently, the district court denied Hyundai's motion for JMOL regarding the IDB2000 system.

Hyundai also alleged that the '627 patent was unenforceable due to the inventor's failure to disclose alleged on-sale bar activity after submitting a sworn affidavit that no such activity existed. After a bench trial on the issue, the district court found that Hyundai failed to establish both materiality and intent, and therefore failed to prove inequitable conduct.

Among other identified errors, Hyundai appealed the district court's decision on inequitable conduct and denial of Hyundai's JMOL motion regarding the IDB2000 system. On appeal, the Federal Circuit only needed to address these two substantive issues.

Before reaching Hyundai's arguments regarding the IDB2000 system, the Federal Circuit rejected Orion's argument that Hyundai waived its right to appeal by failing to make a sufficiently specific presubmission motion under Fed. R. Civ. P. 50(a). At trial, counsel for Hyundai stated that Hyundai sought JMOL based

on prior art and referred generally to testimony previously heard by the district court. The Federal Circuit found that Hyundai's statement, although cursory in its content, was sufficient under Fifth Circuit law because neither Orion nor the district judge could have failed to understand Hyundai's positions, given the context of the statement and its reference to arguments already heard.

“[N]o reasonable fact-finder could reach a conclusion other than that the IDB2000 system, as described in the Electronic Parts Catalog reference, discloses the proposal element, in an enabling manner.” Slip op. at 14.

The Federal Circuit next turned to Hyundai's invalidity arguments based on the Electronic Parts Catalog reference describing the IDB2000 system. First, the Court considered whether the Electronic Parts Catalog reference qualified as prior art. The reference had a copyright date prior to the critical date and a revision date after the critical date. Hyundai presented un rebutted evidence and testimony that, prior to the critical date, the reference was distributed and demonstrated by hundreds of salespersons, and the IDB2000 system was demonstrated hundreds of times in accordance with the description in the reference. As a result, the Court determined that the Electronic Parts Catalog, as embodied by the IDB2000 system, qualified as a printed publication because it was accessible to those interested in the business of auto parts prior to the critical date.

After qualifying the art, the Court explained each party's position as to whether or not the Electronic Parts Catalog met the “proposal” element. Hyundai presented extensive evidence, including expert testimony, third-party fact witnesses, and documentary evidence, showing that the IDB2000 system was designed to be used by salespersons to convey parts-related information directly to customers. For example, Hyundai's expert and fact witnesses explained that the Electronic Parts Catalog reference described a system with a high-resolution screen designed with a tilt and swivel feature, allowing a counterperson to show parts information, such as diagrams and prices, to customers.

In contrast to Hyundai's strong evidence, the Court concluded that Orion presented minimal contradictory evidence regarding the “proposal” element. Orion argued that the IDB2000 system showed both retail and wholesale prices, and the wholesale prices would not have been intended for customers to see. Orion also offered an affidavit from a fact witness who characterized the IDB2000 system primarily as a “back-office” look-up system.

The Court found Orion's arguments to have limited value to Orion's position on anticipation, instead concluding that “there is overwhelming documentary and testimonial evidence that the Electronic Parts Catalog reference teaches parts-related information being conveyed to a customer using the IDB2000 system in order to improve communications with customers for faster and more accurate sales by counter salespersons.” Slip op. at 13. “[N]o reasonable fact-finder could reach a conclusion other than that the IDB2000 system, as described in the Electronic Parts Catalog reference, discloses the proposal element, in an enabling manner.” *Id.* at 14. The Federal Circuit therefore found that a reasonable jury would not have a legally sufficient basis to find that the claims were not anticipated by the Electric Parts Catalog reference.

Turning next to the district court's determination that Hyundai failed to establish inequitable conduct, the Federal Circuit could not find any clear error by the district court and upheld the district court's decision. Considering materiality first, the Court noted that the district court reasonably credited the inventor's testimony that the invention was not reduced to practice by the time of the on-sale activity alleged by

Hyundai. It followed that the inventor's statement to the PTO that the invention had not been in public use or on sale before the critical date was truthful and could not have served as a basis for the district court to conclusively infer an intent to deceive. Thus, because Hyundai failed to establish threshold levels of either materiality or intent to deceive, the district court did not abuse its discretion in finding that the inventor did not engage in inequitable conduct.

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Three-Year Silence After Letter Claiming Infringement Barred Suit Under Equitable Estoppel

Douglas W. Meier

Judges: Newman (author), Rader (dissenting), Bryson
[Appealed from S.D.N.Y., Judge Chin]

In *Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, Nos. 09-1147, -1162 (Fed. Cir. May 24, 2010), the Federal Circuit affirmed the district court's dismissal of infringement claims on SJ as barred by equitable estoppel, and affirmed the district court's refusal to declare the case "exceptional" under 35 U.S.C. § 285.

Aspex Eyewear Inc. ("Aspex") sued Clariti Eyewear, Inc. ("Clariti"), alleging that Clariti's AirMag® eyeglass frames willfully infringed U.S. Patent Nos. 6,109,747 ("the '747 patent") and RE37,545 ("the '545 patent"). Following Clariti's launch of its AirMag® line in early 2003, Aspex sent Clariti a letter identifying the '545 patent, among others, and stating its "understanding that some of the products sold by you may be covered by the claims of the above mentioned patents" and Aspex's "strong intention to fully and vigorously enforce our rights" in this "very urgent and serious matter." Slip op. at 3. A few days later, Aspex sent an almost identical letter regarding the '747 patent.

Responding to the letters, Clariti stated that its policy was not to infringe any valid, enforceable patent, and requested certain information to assist it in analyzing the Aspex patents. Aspex responded by sending copies of the file histories for two of the other patents it claimed were being infringed but failed to make any reference to either the '545 or the '747 patent.

After receiving those materials, Clariti responded that it believed its products did not infringe any valid claims of the two other patents for which Aspex sent the file histories, likewise neglecting to refer to the '545 or '747 patents. Aspex then went silent for just over three years, at which time Aspex sent a letter to Clariti claiming the AirMag® product infringed claims of the '747 patent. Clariti refused to cease sales, and Aspex filed suit. The district court dismissed by stipulation the infringement claim for the '545 patent, leaving only the infringement claim for the '747 patent.

Clariti moved to dismiss the infringement claims of the '747 patent, arguing that the suit was barred by equitable estoppel in light of Aspex's three-year period of silence. Clariti also moved for SJ of invalidity and of unenforceability due to inequitable conduct. Based on the asserted equitable estoppel and inequitable conduct, Clariti moved to have the case declared "exceptional" and attorney fees awarded

under 35 U.S.C. § 285. The district court granted Clariti's motion for dismissal on the ground of equitable estoppel but ruled that the case was not exceptional.

On appeal, the Court first addressed equitable estoppel in the context of patent infringement. Regarding the first element, the Court found that Aspex, through misleading conduct, led Clariti to reasonably believe that Aspex did not intend to enforce the '747 patent against Clariti. Specifically, Aspex sent Clariti a letter claiming that the AirMag® product infringed the '747 patent and then failed to follow up regarding that particular patent for over three years. The Court explained that misleading conduct may include specific statements, action, inaction, or silence when there was an obligation to speak. Aspex argued that misleading silence cannot be found unless an express charge of infringement was levied against a particular product, which Aspex had not done before the three-year period of silence. The Federal Circuit rejected this argument, finding that Aspex's letters to Clariti can fairly be understood as threats of suit for infringement. Regarding Aspex's initial letter discussing the '747 patent and then the subsequent letter failing to mention the '747 patent, the Court held that whether this sequence is viewed as a tacit withdrawal of the '747 patent or as misleading silence with respect to the '747 patent, the result is the same, for it was reasonable for Clariti to infer that Aspex was not continuing the accusation of infringement as to the '747 patent. Thus, the Federal Circuit agreed with the district court that Aspex's misleading conduct led Clariti to reasonably believe that Aspex did not intend to enforce the '747 patent against Clariti.

“Whether this sequence [of correspondence] is fairly viewed as a tacit withdrawal of the '747 patent, or as misleading silence with respect to the '747 patent, the result is the same, for it was reasonable for Clariti to infer that Aspex was not continuing the accusation of infringement as to the '747 patent.” Slip op. at 9.

Regarding the second element of equitable estoppel, the Court found that Clariti relied on Aspex's misleading conduct, pointing to the evidence that Clariti expanded its business involving the AirMag® products after Aspex did not respond to Clariti's letter asserting noninfringement. Evidence in the record suggested that had Aspex initially filed suit against the AirMag® products, Clariti very likely would have dropped the AirMag® line and pursued other business opportunities. This, according to the Court, was enough to show reliance on Aspex's silence and inaction because Clariti did not need to prove precisely what alternative paths it would have taken or that every marketing decision was based on reliance on Aspex's silence. Thus, the Federal Circuit agreed with the district court that Clariti relied on Aspex's misleading conduct.

Regarding the third element of equitable estoppel, the Court found that due to Clariti's reliance on Aspex's misleading conduct, Clariti would be materially prejudiced if Aspex were permitted to proceed with its charge of infringement. Prejudice, the Court explained, may be shown by a change of economic position flowing from actions taken or not taken by the patentee. In this case, Clariti continued to develop its AirMag® business in reliance upon Aspex's silence after its aggressive letters, which represented a significant change in economic position. Thus, the Federal Circuit held that the district court did not err in determining prejudice based on Clariti's commercial activities undertaken and expanded during the period of silence.

With the three elements of equitable estoppel established, the Court explained, the trial court must next weigh the equities, taking into consideration any other evidence and facts respecting the equities of the

parties in exercising its discretion and deciding whether to allow the defense of equitable estoppel to bar the suit. Here, Aspex argued that the trial court did not properly consider Clariti's continued selling of its AirMag® products without first obtaining advice of counsel after receiving the letter about the '747 patent, which, according to Aspex, amounted to willful infringement. The Court disagreed. Because Aspex later sent a letter that did not mention the '747 patent, the Court said that Clariti had no reason to think that Aspex still believed it infringed the '747 patent. Thus, the Court held that the district court did not abuse its discretion in weighing the equities.

The second issue the Court addressed on appeal involved whether the district court was correct in not declaring this case exceptional under 35 U.S.C. § 285 for the purpose of awarding attorney fees. In support of such a finding, Clariti first argued that Aspex's misleading conduct that led to a successful charge of equitable estoppel was in bad faith, making the case exceptional. The Court rejected this argument, explaining that defeat of a litigation position, even on SJ, does not warrant an automatic finding that the suit was objectively baseless. Thus, the Federal Circuit held that the district court did not clearly err in ruling that the act of bringing the suit, under the circumstances that existed, did not produce an exceptional case in terms of § 285.

Clariti's second argument supporting a finding that the case qualified as exceptional stems from alleged inequitable conduct by Aspex in procuring the '747 patent. Specifically, Clariti argued that the inventor of the '747 patent and his assignee knew of a material reference and intentionally withheld it from the PTO. The district court, however, did not hold a full trial on this issue because the SJ of equitable estoppel ended the litigation and Clariti had not made a prima facie case showing clear and convincing evidence of inequitable conduct. The Court agreed with the district court that the circumstances of this case do not meet the threshold levels of materiality and intent necessary to establish inequitable conduct by clear and convincing evidence. Thus, the Federal Circuit held that the district court did not abuse its discretion in ruling that inequitable conduct had not been shown and in declining to award attorney fees based on prosecution of the '747 application.

In a dissenting opinion, Judge Rader argued that silence alone will not create an estoppel unless there is a clear duty to speak or somehow the patentee's continued silence reinforces the defendant's inference from the plaintiff's known acquiescence that the defendant will be unmolested and that on SJ, such inference must be the only possible inference from the evidence. This, according to Judge Rader, is not such a case. In his view, the letter that Aspex sent to Clariti did not create this clear duty because it did not threaten "immediate and vigorous enforcement" of its patent rights and it did not accuse specific Clariti products. Judge Rader further argued that Clariti did not experience material prejudice because it simply continued marketing its products, which generally does not require the same kind of investment as developing and manufacturing products. Thus, according to Judge Rader, Aspex's infringement claim for the '747 patent should have survived SJ.

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Claim That a Patent Practitioner Breached His Fiduciary Duty Established Federal Jurisdiction, and Court Denies Sanctions for Allegedly Frivolous Appeal

Kirsten S. Johnson

Judges: Michel, Newman (concurring-in-part and dissenting-in-part), Dyk (author)
[Appealed from N.D. Ga., Chief Judge Camp]

In *Carter v. ALK Holdings, Inc.*, No. 08-1168 (Fed. Cir. May 24, 2010), the Federal Circuit held that a claim for breach of fiduciary duty by a patent practitioner was nonfrivolous and established federal jurisdiction.

Randall D. Carter was Vice President and General Manager of Acme Security, the trade name for ALK Holdings, Inc. (“ALK”), when he allegedly developed a high-security locking assembly for a safe deposit box door using his own resources. When a bank expressed interest in acquiring a license, the President of Acme Security, Michael Hassebrock, proposed a 50/50 partnership to pursue the invention. Carter and Hassebrock thus retained a patent attorney (“John Doe I”) to file a provisional patent application and subsequent nonprovisional application. When Hassebrock allegedly demanded that Carter assign his patent rights to Acme Security, Carter refused and his employment was terminated.

Carter filed suit against ALK, Hassebrock, and John Doe I, asserting six state law claims and nine federal law claims regarding the improper listing of Hassebrock as an inventor. The district court dismissed the federal claims for failure to state a claim, and declined to exercise supplemental jurisdiction over the state law claims, dismissing them without prejudice.

The district court then determined sua sponte that three of the asserted claims were frivolous: Count I - violation of Article I, Section 8, Clause 8 of the U.S. Constitution (“the Patent Clause”); Count VIII - breach of fiduciary duty by John Doe I in violation of 35 U.S.C. et seq., 37 C.F.R. et seq., and the MPEP; and Count XI - violation of 35 U.S.C. § 122 regarding the PTO’s requirement to keep patent applications in confidence. The district court imposed Rule 11 sanctions of \$30,356.89 on Carter’s counsel, Myers & Kaplan Intellectual Property Law, LLC (“Myers & Kaplan”), and Myers & Kaplan appealed.

The Federal Circuit applied regional circuit law to review the district court’s Rule 11 determination for an abuse of discretion. Under Eleventh Circuit law, Rule 11 sanctions should only be imposed in limited circumstances where the frivolous nature of the claims-at-issue is unequivocal.

“Count VIII alleged that the patent prosecuting attorney, John Doe I, breached his fiduciary duties under the patent laws and regulations, including the CFR and the MPEP, by representing two inventors with conflicting interests. The standards for practice before the PTO are governed by federal law, as both the Supreme Court and we have previously recognized.” Slip op. at 9.

Turning first to Count VIII, the Federal Circuit disagreed with the district court’s characterization that the claim was “an attempt ‘to manufacture a federal cause of action by couching a garden-variety malpractice claim in terms of patent law.’” Slip op. at 7 (citation omitted). The Federal Circuit noted that the *Code of Federal Regulations* and the MPEP establish a patent practitioner’s expected fiduciary duties to a client, such as 37 C.F.R. § 10.66(b), which generally prohibits a practitioner from “continuing ‘multiple employment if the exercise of the practitioner’s independent professional judgment in behalf of a client will be or is likely to be adversely affected by the practitioner’s representation of another client, or if it would be likely to involve the practitioner in representing differing interests.’” *Id.* at 10. Thus, the Court held that Count VIII properly fell within 28 U.S.C. § 1338(a) federal jurisdiction as involving a substantial question of federal patent law.

Regarding Count I, Myers & Kaplan argued that Count I alleging a violation of the U.S. Constitution presented a nonfrivolous argument for establishing new law, which is expressly permitted by Rule 11(b)(2). The Federal Circuit rejected that argument, agreeing with the district court that the Patent Clause does not create private rights of action on behalf of inventors. The Court thus held that Count I was frivolous and unsupported by any reasonable explanation.

Similarly with respect to Count XI, the Federal Circuit found that 35 U.S.C. § 122 does not apply to inventors but only to the actions of the PTO. Section 122(a) requires that “applications for patents shall be kept in confidence by the Patent and Trademark Office.” Myers & Kaplan argued that the defendants’ unlawful listing of Hassebrock as a co-inventor fraudulently induced the PTO to violate § 122 by intentionally disclosing the application to an unauthorized individual. The Federal Circuit declined to find a private cause of action in § 122 and noted that any parties that may have become aware of the application’s contents did so because of disclosure by the patent attorney, not the PTO.

Finally, the Federal Circuit observed that since Count VIII was nonfrivolous, the appeal was nonfrivolous. The Court therefore denied a motion filed by ALK and Hassebrock for additional sanctions against Myers & Kaplan for pursuing an allegedly frivolous appeal. The case was remanded to the district court to determine whether sanctions should be imposed with respect to Counts I and XI. The Court further noted that because Count VIII established federal jurisdiction, and because the district court’s primary concern appeared to be an impermissible claim to jurisdiction, the district court could appropriately conclude that no sanctions should be imposed.

Judge Newman filed a separate opinion concurring-in-part and dissenting-in-part. While she agreed that Count VIII was nonfrivolous and established federal jurisdiction, Judge Newman argued that sanctions should be reversed rather than remanded regarding Counts I and XI. She noted that the issue on appeal was not whether Counts I and XI were properly dismissed, but the necessity of sanctions, and cited Eleventh Circuit law, wherein Rule 11 is intended to deter claims with no factual or legal basis at all, not to chill an attorney’s enthusiasm or creativity in pursuing factual or legal theories. Because the Court had determined that Count VIII established federal jurisdiction, Judge Newman argued that the pleading of Counts I and XI did not warrant sanctions.

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Honeywell Has Standing Under Invention Secrecy Act

Daniel A. Nadel

**Judges: Mayer (dissenting-in-part), Prost, Moore (author)
[Appealed from Court of Federal Claims, Judge Braden]**

In *Honeywell International, Inc. v. United States*, No. 08-5181 (Fed. Cir. May 25, 2010), the Federal Circuit revised its prior opinion of February 18, 2010, by clarifying its remand concerning preissuance damages for the government's defense against an Invention Secrecy Act ("the Act") claim. Having inaccurately stated in its original opinion that the only disputed portion of 35 U.S.C. § 183 of the Act involved standing, the Court newly instructed the Court of Federal Claims to determine if the disclosure in a patent application subject to a secrecy order must result in government use of the invention, and whether it did so in this case.

In the Federal Circuit's earlier opinion, it reversed the Court of Federal Claims' holding of invalidity based on obviousness and failure to satisfy the written description requirement, and remanded to determine damages. The Court had also reversed the holdings that Honeywell International, Inc. and Honeywell Intellectual Properties, Inc. (collectively "Honeywell") lacked standing to sue the government under the Act, and that the first-sale doctrine precluded Honeywell from recovering postissuance damages for government use of an accused device.

The asserted U.S. Patent No. 6,467,914 ("the '914 patent") relates to night vision goggles with filters for preventing perceptible red light on a cockpit display from disrupting pilot vision. The application for the '914 patent was filed in 1985 by the predecessor company of AlliedSignal Inc. ("Allied"). Some time before issuance of the '914 patent, Honeywell merged with Allied, and as new owner of the '914 patent application, Honeywell amended the specification and drawings, and also substituted claims from an allowed application. After the government reviewed the application in 1986, the PTO imposed secrecy orders on the application, preventing the patent from issuing until about fourteen years later. Notably, after the government reviewed the application, it revised its military specification to permit the use of red lighting in cockpits.

Shortly after the '914 patent issued, Honeywell sued the United States for infringement for the use of three systems comprised of night vision goggles and color display panels in F-16 and C-130 aircraft. Honeywell sought compensation under the Act for the government's preissuance use of the invention and under 28 U.S.C. § 1498(a) for postissuance infringement. The Court of Federal Claims found that all

three accused systems infringed claim 2, but that this claim was invalid for obviousness and, in the alternative, for a lack of written description. The district court also held that Honeywell lacked standing to sue under the Act because the secrecy order under 35 U.S.C. § 181 applied to the originally filed claims, not the substituted claims that issued in the '914 patent. Finally, the district court found that the first-sale doctrine precluded Honeywell from recovering damages for infringing systems in the F-16 aircraft because Honeywell had manufactured and sold the systems at issue.

On appeal, the Federal Circuit held that the district court erred in finding claim 2 obvious by applying an improper claim construction that did not require the passing of “perceptible red light.” The Court held that the relevant prior art references did not disclose passing perceptible red light, and that it would not have been obvious to one skilled in the art to employ the prior art systems using such light.

“The only remaining issue is the government’s defense related to pre-issuance damages for ‘use by the Government of the invention resulting from his disclosure.’ On remand, the Court of Federal Claims should determine whether the statute requires that the government use must result from the disclosure, and, if so, whether it does in this case.” Slip op. at 20.

Next, the Federal Circuit found that the district court erred in invalidating claim 2 under the written description requirement. The Federal Circuit disagreed that the original application did not provide support for claimed displays other than cathode ray tube (“CRT”) displays, for the application referenced “other display transducers” and stated that the invention could be applied to a “wide variety of display and vision aid devices.” The Court also rejected the government’s argument that the invalidity determination of claim 2 could be affirmed under a failure to comply with the definiteness requirement of 35 U.S.C. § 112, ¶ 2. The Court disagreed that the construction of “local color display” using the term “perceptible” was a subjective standard amenable to two different interpretations—color and brightness. The Court found that the specification explains that the display is “viewable by [a] crewmember” and further describes the range of wavelengths usable which are “visible to the human eye,” both of which comport with the fundamental purpose of the invention—to convey information through red warning lights to crew members. The Court thus held that the claimed phrase “local color display” was not insolubly ambiguous.

Turning to the Act, the Court rejected the finding that the '914 patent did not issue “upon” the original application that was subject to the secrecy order. The Court found that the amended application that issued as the '914 patent qualifies as an “application” under the Act, as § 184 defines the term to include “any modifications, amendments, or supplements thereto, or divisions [of the application].” In its revised opinion, the Federal Circuit reiterated that the Court of Federal Claims’ test requiring a “contiguous relationship or dependence between [the original application and the issued patent]” was not supported by the text of the statute, and that claim amendments during prosecution cannot defeat entitlement to compensation under the Act. The Court then honed its remand, instructing the Court of Federal Claims to determine whether 35 U.S.C. § 183 requires that the government use must result from the disclosure, and, if so, whether it does in this case.

Finally, the Federal Circuit held that the Court of Federal Claims erred in concluding that the first-sale doctrine precluded Honeywell from recovering damages for infringing devices in F-16 aircraft. The Court held that Honeywell’s sale of infringing devices was not authorized for the first-sale doctrine to apply, because, at the time of the sale, Honeywell had no rights under the '914 patent. That Honeywell now

owns the '914 patent did not retroactively authorize the earlier sale. Notably, the Court stated that to the extent the government has recourse, it is not through the first-sale doctrine.

Judge Mayer dissented-in-part, disagreeing with the majority's obviousness and written description conclusions, and with the majority's finding that the first-sale doctrine did not preclude Honeywell from recovering damages. He stated that one skilled in the art would have known how to adjust filters and light sources to achieve the claimed displayed system. Judge Mayer rejected Honeywell's arguments against obviousness based on secondary considerations, finding that the government's shift in allowing red lighting in cockpits resulted from a desire to sacrifice some amount of night vision goggle sensitivity, coupled with advancements made to the color displays themselves.

He further noted that the written description requirement was not satisfied because the '914 patent application did not describe filtering a single light source carrying multiple color bands, which was the subject matter of claim 2. Finally, Judge Mayer indicated he would have affirmed the finding that Honeywell was precluded from recovering damages under the first-sale doctrine. He noted that because Honeywell was the ultimate recipient of the profits from the infringing product's sale as the previous seller and now patent owner, Honeywell's patent rights in those products were extinguished with their earlier sale.

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ITC Misapplied “All or Substantially All” Test

Eric C. Jeschke

Judges: Michel, Newman (concurring in the remand and dissenting-in-part), Lourie (author)

[Appealed from ITC]

In *Deere & Co. v. International Trade Commission*, No. 09-1016 (Fed. Cir. May 26, 2010), the Federal Circuit vacated the ITC’s determination that the sales of European-version John Deere forage harvesters in the United States by Intervenor Bourdeau Brothers, Inc., OK Enterprises, and Sunova Implement Co. (collectively “Bourdeau”) did not violate § 337 of the Tariff Act of 1930 as amended, 19 U.S.C. § 1337. The Court remanded to the ITC to determine whether 96.6 to 96.9%—the ratio of North American-version harvesters sold by Deere & Co. (“Deere”) in the United States divided by the sum of the North American-version harvesters and the European-version harvesters sold by Deere in the United States—is “substantially all” under the “all or substantially all” test, thereby entitling Deere to an exclusion order.

Deere manufactures self-propelled forage harvesters for sale in Europe, and it manufactures different self-propelled forage harvesters for sale in the United States. All of Deere’s harvesters are sold under certain Deere trademarks. New and used Deere harvesters are sold through various distribution channels, including official Deere dealers and independent dealers. Independent dealers sell Deere products without any oversight from Deere. Deere has official and independent dealers in both the United States and Europe. Bourdeau is an independent dealer in the United States.

The ITC instituted an investigation based on a complaint in which Deere alleged violations of 19 U.S.C. § 1337(a)(1)(C), which prohibits the importation of products that were “produced by the owner of the United States trademark or with its consent, but not authorized for sale in the United States,” often called “gray market goods.” Specifically, Deere contended that Bourdeau and other independent and official Deere dealers based in both the United States and Europe had infringed Deere’s trademarks by unlawfully importing and selling Deere’s European-version harvesters in the United States.

At the conclusion of that investigation, the ITC issued a general exclusion order prohibiting importation of European-version harvesters manufactured by or under the authority of Deere bearing Deere’s trademarks. In a previous appeal, the Federal Circuit vacated-in-part and remanded, finding that Deere was required to show that all or substantially all of the Deere harvesters being sold in the United States that were authorized by Deere were North American-version harvesters, as opposed to European-version

harvesters.

On remand from the previous appeal, the ALJ found that Deere did not authorize the sales of the European-version harvesters in the United States and that the number of sales that Bourdeau alleged were authorized was, in any event, so small that “substantially all” of Deere’s authorized U.S. sales were of North American-version harvesters. The ITC reversed the ALJ, finding substantial evidence that Deere’s U.S. and European dealers had apparent authority to sell European-version harvesters. The ITC reasoned that because trademark law focuses on the potential for third-party confusion in the marketplace, apparent authority is sufficient to constitute “authority.” The ITC also found that not “all or substantially all” of the authorized harvesters sold in the United States were North American-version harvesters.

On appeal, the Federal Circuit held that substantial evidence supported the ITC’s determination that the sales of European-version harvesters in the United States by official Deere dealers were authorized, but that the ITC had misapplied the “all or substantially all” test set forth in *SKF USA, Inc. v. International Trade Commission*, 423 F.3d 1307 (Fed. Cir. 2005).

In support of the first holding, the Court determined that the ITC correctly held that “apparent authority” constitutes authority for purposes of this case. Apparent authority arises from a buyer’s reasonable belief, based on the acts and omissions of a seller (here Deere), that sales were authorized. The Court approved of the ITC’s reasoning, which looked to one of the policies underlying trademark law—avoiding third-party confusion in the marketplace.

“[T]he ‘all or substantially all’ calculation requires dividing the number of authorized European-version harvesters sold in the United States, the numerator, by the total number of authorized harvesters sold in the United States, the denominator.” Slip op. at 15-16.

The Court then determined that substantial evidence supported the ITC’s finding that Deere’s official dealers, including its official European dealers, had apparent authority to sell Deere European-version harvesters in the United States. As evidence, the Court highlighted Deere’s promotion of a Web site that allowed dealers to advertise European-version harvesters for sale in the United States by official Deere dealers. Further, the Court noted that Deere’s credit arm financed the purchases of European-version harvesters in the United States by official dealers.

The Court also determined that the ITC did not err in including sales by Deere’s official European dealers in the United States in its calculation, reasoning that authorized sales by European dealers of European-version harvesters introduced into the United States must be included in the total “authorized sales” because, absent such authorization, they would constitute “importation into the United States . . . of articles that infringe” a U.S. trademark in violation of 19 U.S.C. § 1337(a)(1)(C).

In further support of the first holding, the Court determined that, contrary to Deere’s argument, Deere did in fact have an opportunity to introduce evidence regarding authorization of its official European dealer sales. The Court found that the ITC permissibly requested additional briefing on the authorization issue. Juxtaposed with that point, the Court noted that the ITC properly found that Deere’s claim that European trademark law precluded Deere from stopping importation had not been sufficiently developed for the ITC to draw any conclusion.

In its second holding, the Court determined that the ITC misapplied the “all or substantially all” test, which prevents recovery by a trademark owner if less than “substantially all” of its goods bear the material difference from the gray goods and deters the owner from contributing to the consumer confusion that it accuses gray market importers of creating. The Court recited its instructions on remand in the previous appeal and determined that those instructions asked whether “substantially all of the authorized sales,” i.e., the sum of authorized North American-version and authorized European-version harvester sales, were of North American-version harvesters. Thus, the Court reasoned that the denominator should have been the total authorized sales, not the total European-version harvester sales, in the United States. Based on the factual findings by the ITC, the Court concluded that a total of 96.6 to 96.9% of the authorized harvesters sold in the United States were of the North American version. The Court remanded to the ITC to determine whether this percentage represents “substantially all.” The Court noted the ITC’s indication that the high prices and low volumes of Deere’s harvester sales may lead to a conclusion that even a small number of European-version harvesters could generate substantial confusion. In contrast, the Court also noted the ALJ’s finding on remand, using a reasonable numerator and denominator, that the percentage of authorized sales in the United States that were of North American-version harvesters was large enough to meet the “all or substantially all” test. Giving further guidance on this point, the Court explained that a single sale of a nonconforming item typically should not defeat a trademark owner’s protection, and then noted a previous Federal Circuit case finding 95.6% was considered “substantially all.”

In a separate opinion, Judge Newman concurred in the remand but dissented from the Court’s holding that the sales of European-version harvesters in the United States by official Deere dealers were authorized. Judge Newman stated that the majority decision improperly requires the trademark owner to prove that it tried and was unable to impose restrictions on its independent official dealers both in the United States and overseas, despite the fact that § 337 does not require the holder of a valid U.S. trademark to exhaust all other possible remedies or controls before seeking exclusion under the Tariff Act.

In arguing that “apparent authority” should not be sufficient to find sales “authorized,” Judge Newman cited *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 692 (1923), for the proposition that the holder of a U.S. trademark has the right to exclude authentic foreign goods bearing an authentic foreign mark, even when there is no consumer confusion as to the origin of the goods.

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ITC Infringement Finding Upheld as to Imported Digital Televisions, but Not “Work-Around” Digital Televisions

Mukta Jhalani

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

[Appealed from ITC]

In *Vizio, Inc. v. International Trade Commission*, No. 09-1386 (Fed. Cir. May 26, 2010), the Federal Circuit affirmed the ITC’s construction of the term “channel map information” as well as its determination that U.S. Patent No. 6,115,074 (“the ’074 patent”) is not invalid as anticipated or obvious. The Court also affirmed the ITC’s determination that the ’074 patent is infringed by digital televisions being imported at the time that Funai Electric Company, Ltd. of Japan and Funai Corporation of New Jersey (collectively “Funai”) filed its complaint, but reversed the ITC’s determination that “work-around products” infringe the patent.

Funai owns the ’074 patent, which is directed to decoding a digital television user’s selected program in a digital transmission. The Moving Picture Experts Group (“MPEG”) developed a standard, called MPEG-2, which governs the “packetization of digital data for transmission and subsequent decoding.” Slip op. at 4. The MPEG-2 standard defines a map, called Program Map Table (“PMT”), that instructs the decoder “which packets need to be extracted for a given program.” *Id.* at 5. This PMT includes several different data fields, including program number, PCR_PID, elementary_PID, and stream_type identifier. Using the MPEG-2 standard as the basis, the American Television System Committee (“ATSC”) published A/55 and A/56 standards that added “additional layers of information to facilitate decoding.” *Id.*

The inventors of the ’074 patent developed a system that identified a “channel map” that replicated from the MPEG PMT “all of the information necessary to identify and acquire a program being transmitted on a selected subchannel.” *Id.* at 6. The asserted claims of the ’074 patent are directed to the replication of this channel map information.

Funai sued Vizio, Inc. (“Vizio”), alleging violation of 19 U.S.C. § 1337 through importation or sale of certain digital televisions that infringe the ’074 patent. After claim construction, the ALJ concluded that the asserted claims require only the identification and assembly of channel map information, not actual use of the channel map once created. The ALJ also held that “work-around products” that “skip[ped] over’ parts of the [channel map] and left parts of the [channel map] in transmission (encoded) format”

nonetheless infringed the '074 patent. *Id.* at 8 (first alteration in original). The ITC in large part adopted the ALJ's findings, ruling in favor of Funai, and issued a limited exclusion order and a cease and desist order. Vizio appealed.

On appeal, the Federal Circuit first reviewed the construction of the term “channel map information.” The ITC had construed this term in reference to the MPEG-2 standard, finding that the channel map must replicate four data fields—program number, PCR_PID, elementary_PID, and stream_type data. Vizio, however, argued that the '074 patent does not expressly limit itself to the MPEG-2 standard.

The Federal Circuit found that the specification's reference to the “MPEG compatible program map information” must refer to the MPEG-2 standard and that only the MPEG-2 standard is specifically referenced throughout the specification. Expert testimony also suggested that one of ordinary skill in the art would understand the '074 patent to refer to the MPEG-2 standard. Accordingly, the Federal Circuit agreed with the ITC that the “channel map information” of the '074 patent includes all four data fields.

“There is no indication in the specification or prosecution history that the claims reach all receivers that are capable of receiving and storing channel map information but are incapable of using it.” Slip op. at 21.

The Federal Circuit next considered whether the asserted claims preclude the use of information other than channel map information—particularly the MPEG PMT, which was used for decoding in the prior art. Vizio argued that the '074 patent excluded use of the MPEG PMT because Funai disavowed any use of the PMT during prosecution. The Court again agreed with the ITC in finding no disavowal in the '074 patent or its prosecution history. During prosecution, the applicants had argued that the invention was not dependent on the MPEG PMT. That language, according to the Court, did not disclaim “any and all use of the PMT,” and the Court found “no basis for concluding that the patentees intended a sweeping disclaimer of any and all use of the MPEG PMT.” *Id.* at 16-17.

The Federal Circuit next considered whether “the claims require[d] that the device and method be capable of utilizing the channel map information.” *Id.* at 17. The ITC concluded that mere identification, assembly, and storage of the channel map information was sufficient to satisfy the requirements of the claims. Vizio argued, and the Federal Circuit agreed, that the channel map information must also be capable of being used to identify the desired program.

The Court found that the preamble of claim 1 addressed “an apparatus for decoding” and the preamble of claim 23 addressed a “method for decoding” MPEG-compatible, packetized program information. *Id.* at 19. The Court reminded that, in general, a preamble limits the invention if it recites essential structure and does not limit if it only states a purpose or intended use for the invention. Accordingly, the Court held that the “for decoding” language used in claims 1 and 23 is properly construed as a claim limitation because “‘decoding’ is the essence” of the claimed invention. *Id.* at 20. Additionally, the Court noted that interpreting the claims as requiring only receipt and storage of the channel map information, without the ability to decode using that information, would broaden the scope of the claims, and such interpretation would essentially include all receivers capable of receiving broadcasts. Thus, the Court concluded that the claimed method and apparatus “must actually be capable of using the channel map information to decode the datastream of MPEG program information.” *Id.* at 21.

Next, the Federal Circuit addressed the validity of the '074 patent. The Court found that the A/55

standard does not anticipate the '074 patent because the A/55 standard does not disclose two data fields—program number and PCR_PID—necessary for channel map information as claimed in the invention. The Court also found the '074 patent nonobvious because the cited prior art references did not teach “any replication of MPEG PMT data.” *Id.* at 24. Specifically, the Court found that “none of the prior art references cited by Vizio, alone or in combination, disclose[d] replication of the identifiers for all of the MPEG program map information required by the claims. *Id.*”

Finally, the Court addressed infringement. While upholding the infringement finding with regard to products being imported at the time Funai filed its complaint, the Court disagreed with the ITC that the work-around products infringed the '074 patent. The Court found that the work-around products “do not convert *all* of the channel map information from the VCT into useable format,” thus not satisfying the “suitable for use,” “for identifying,” or “for decoding” limitations. *Id.* at 25.

Judge Clevenger dissented on the issue of infringement by the work-around products. According to Judge Clevenger, the third claim construction issue considered by the Court—“whether the claims require that the device and method be capable of utilizing the channel map information”—was not appealed and was not properly before the Court. Clevenger Dissent at 2. Because Judge Clevenger did not find a “use requirement” in the claim to support the majority’s conclusion that the work-around products “indeed work around the patented technology,” he agreed with the ITC’s determination that the work-around products infringed the '074 patent. *Id.* at 4.

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Patent Exhaustion Doctrine Retains a Territoriality Requirement

Justin A. Hendrix

Judges: Michel, Mayer, Linn (per curiam)

[Appealed from D.N.J., Judge Hayden]

In *Fujifilm Corp. v. Benun*, No. 09-1487 (Fed. Cir. May 27, 2010), the Federal Circuit affirmed the district court's entry of a jury verdict finding willful infringement of Fujifilm Corporation's ("Fuji") patents by Jack C. Benun and companies under his control (collectively "Benun").

Fuji sells single-use cameras, or lens-fitted film packages ("LFFPs"), and owns patents directed to these products. Once an LFFP is used by a consumer, it is taken to a film processor, who opens the LFFP and processes the film. The film processor does not return the empty LFFP ("shell") to the consumer. One of Benun's companies, Jazz Products LLC ("Jazz"), bought 1.4 million used LFFPs from a predecessor company, refurbished them, and sold them as new. In 2005, the district court enjoined Benun from selling in the United States LFFPs not made from shells first sold in the United States by Fuji or its licensees and LFFPs not having a back cover that replaces the full back cover sold with the original LFFP. The 1.4 million LFFPs Jazz purchased were detained due to ITC orders prohibiting importation of LFFPs that infringe Fuji's patents. Though most of the 1.4 million LFFPs were exported from the United States under ITC orders, nearly a million were re-imported after Customs released them based on a letter from Benun's counsel. The district court subsequently found Benun in contempt of the 2005 preliminary injunction and awarded Fuji attorney fees.

Fuji then moved for partial SJ of infringement by all but Achiever-brand LFFPs, which the district court granted. Benun's motions for SJ were denied, including its motion for SJ that a bankruptcy sale of the predecessor company's inventory to Jazz was a patent-exhausting first sale. At the close of trial, the jury returned a willful infringement verdict, awarding a running royalty of \$2.00 per infringing LFFP, amounting to over \$16 million, as well as a \$2.5 million lump-sum royalty payment. Although Benun's preverdict JMOL motion raised only the issue of noninfringement of Achiever-brand LFFPs, Benun's postverdict JMOL motion also challenged the damages award and the inapplicability of a first-sale location. After denial of the postverdict JMOL motion and its motion for a new trial on damages, Benun appealed.

On appeal, Benun presented four issues: (1) whether the Supreme Court in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008), eliminated the territoriality requirement for patent exhaustion announced in *Jazz Photo Corp. v. U.S. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001)

(“*Quanta* argument”); (2) whether the district court invoked nonmutual collateral estoppels and precluded one of Benun’s companies (“Polytech”) from presenting its permissible repair and first-sale defenses on the basis of court proceedings to which Polytech was not a party (“estoppel argument”); (3) whether a new trial on damages was warranted; and (4) whether the district court properly held Benun in contempt of a preliminary order enjoining importation of infringing LFFPs (“contempt argument”).

“*Quanta Computer, Inc. v. LG Electronics, Inc.* did not eliminate the first sale rule’s territoriality requirement.” Slip op. at 7.

As an initial matter, the Federal Circuit considered whether Benun had waived the *Quanta* argument or the estoppel argument under Third Circuit law. Though Benun raised the *Quanta* argument only in a postverdict, and not preverdict, JMOL motion, the Federal Circuit concluded that the argument was properly before the Court because Fuji did not raise a timely objection. The Court, however, found that Benun had waived the estoppel argument by failing to raise it in either the preverdict or postverdict JMOL motion.

Turning to the merits of the *Quanta* argument, the Federal Circuit concluded that *Quanta* did not eliminate the first-sale rule’s territoriality requirement. The Court rejected Benun’s argument that *Quanta* created a rule of “strict exhaustion,” where a sale can trigger the doctrine regardless of whether it is made in the United States or in a foreign country. The Court noted that *Quanta* did not involve foreign sales and explained that “a practicing use may be ‘outside the country,’ while an infringing use must occur in the country where the patent is enforceable.” Slip op. at 8.

The Federal Circuit next considered and rejected Benun’s new trial argument that the \$2.00 running royalty and \$2.5 million lump-sum payment were grossly excessive in light of the evidence. Fuji’s expert testified that the parties would have agreed to a 40 cent royalty rate in a hypothetical negotiation. But because of the difficulty in separating infringing LFFPs from noninfringing ones, Fuji’s expert relied on the sixth factor from *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), to include all LFFPs, whether infringing or not, in the royalty base. In other words, Fuji advocated an all-product royalty base that would not vary and that would result in a consistent royalty amount. Although this method resulted in a \$2.00—rather than a 40 cent—royalty rate, the Court found the evidence underlying the consistent royalty amount supported a rate of up to \$2.21. The Court further concluded that the jury was entitled to rely on evidence of bundling and convoyed sales in determining the scope of the base. For these reasons, that Court concluded that the \$2.00 royalty rate was not excessive. For the same reasons, the Court rejected Benun’s challenge to the lump-sum payment.

Finally, the Court rejected Benun’s challenge to the contempt order. Benun argued that contempt was not supported by sufficient evidence of infringement, the imported cameras were redesigned, and Fuji’s patent rights were terminated during the bankruptcy sale by the predecessor company. The Court found that Benun waived the first-sale argument by failing to raise it in either JMOL motion and found Benun’s other arguments unconvincing.

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Prudential Reasons and Perceived Increases in Efficiency Cannot Empower a Federal Court to Hear a Case Where No Case or Controversy Exists

Bart A. Gerstenblith

**Judges: Michel (author), Rader, Folsom (Chief District Judge sitting by designation)
[Appealed from D.D.C., Judge Robertson]**

In *Dow Jones & Co. v. Ab्लाise Ltd.*, 09-1524 (Fed. Cir. May 28, 2010), the Federal Circuit reversed the district court's denial of Ab्लाise Ltd.'s ("Ab्लाise") motion to dismiss Dow Jones & Company, Inc.'s ("Dow Jones") DJ invalidity claim against U.S. Patent No. 6,295,530 ("the '530 patent") and affirmed the district court's grant of SJ that the asserted claims of U.S. Patent No. 6,961,737 ("the '737 patent") were invalid as obvious. The Federal Circuit did not address Dow Jones's claim that the '530 patent was invalid as anticipated by the prior art or the district court's holding to that effect because the district court lacked subject matter jurisdiction to hear that claim.

Hypertext Markup Language ("HTML") is a language embodying sets of instructions that control the format of a Web page displayed on the browser application of a user's PC. It was undisputed that by the priority date claimed in the '737 and '530 patents, (1) HTML was well known to persons of ordinary skill in the art of Web design, and (2) the ability of Web site developers to construct Web pages on the fly (i.e., upon user demand) by using programs known as Common Gateway Interfaces ("CGI programs" or "CGI scripts") was well known in the art. Using a CGI program, a person of ordinary skill in the art could create individualized, dynamically generated Web pages for each end user. The '737 and '530 patents are directed to methods for using a Web server to send individualized content and formatting instructions in the form of Web pages that are generated on the fly in response to user preference information encoded in the user's Hypertext Transfer Protocol ("HTTP") request for the specific Web page. While multiple claims of each patent were at issue, the parties agreed that the determination regarding the validity of claim 1 of each patent dictated the validity of the other claims therein.

The patents differ from one another in two relevant respects. First, the '737 patent claims a more flexible method of formatting and, second, discloses a server that stores the user's preferences in a database to be matched against subsequent requests by that user. The '530 patent, in contrast, discloses a method that is capable of accommodating only a user's current request that information be displayed according to a selected template, and since that information is not stored in a database for future retrieval, the user must reselect his preferred content template each time he requests information from the server.

The present suit arose from a DJ action filed by Dow Jones for invalidity and noninfringement of the '737 and '530 patents. Ablaise counterclaimed for infringement of both patents. Following the district court's claim construction, Ablaise offered Dow Jones a covenant not to sue on the '530 patent if Dow Jones would dismiss its invalidity claim. Dow Jones demanded that Ablaise include News Corporation ("News Corp."), Dow Jones's parent company (which had acquired Dow Jones subsequent to the date of suit), in the covenant, which Ablaise refused to do. The district court denied without prejudice Ablaise's motion to dismiss the invalidity claim with respect to the '530 patent and subsequently found that patent invalid as anticipated by the prior art and the '737 patent invalid as obvious on SJ.

As a threshold matter, the Federal Circuit determined that Ablaise's offer of a covenant not to sue Dow Jones for infringement of the '530 patent was sufficient to divest the district court of subject matter jurisdiction over Dow Jones's invalidity claim against that patent. The Federal Circuit found that the district court's denial of Ablaise's motion was without support in the law and contrary to the Federal Circuit's jurisprudence established by *Super Sack Manufacturing Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1060 (Fed. Cir. 1995), and continuing, post-*MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007), through *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d 1294, 1297 (Fed. Cir. 2009). Specifically, because Ablaise's covenant not to sue avowed that it would not sue Dow Jones for any acts of infringement of its '530 patent, the covenant extinguished any current or future case or controversy between the parties. Additionally, the Federal Circuit, responding to the district court's statements regarding prudential reasons to retain jurisdiction, stated, "Subject matter jurisdiction is a threshold requirement for a court's power to exercise jurisdiction over a case, and no amount of 'prudential reasons' or perceived increases in efficiency, however sound, can empower a federal court to hear a case where there is no extant case or controversy." Slip op. at 19.

"Subject matter jurisdiction is a threshold requirement for a court's power to exercise jurisdiction over a case, and no amount of 'prudential reasons' or perceived increases in efficiency, however sound, can empower a federal court to hear a case where there is no extant case or controversy." Slip op. at 19.

Furthermore, the Federal Circuit rejected the district court's attempt to analogize retaining jurisdiction over the '530 patent to supplemental jurisdiction because each of the claims over which a district court exercises supplemental jurisdiction must have standing on its own, which was not the case with the claims against the '530 patent following Ablaise's offer of a covenant not to sue. The Federal Circuit also rejected Dow Jones's argument that the controversy was not extinguished because News Corp. was not included in the covenant offered. Because News Corp. and Dow Jones are distinct legal entities, and, because, absent a piercing of the corporate veil (which neither party alleged), a parent company is not liable for the acts of its subsidiary, News Corp. was insulated from liability should Dow Jones be found liable for infringement. Thus, the Federal Circuit found that Ablaise's infringement suit against Dow Jones could not be said to constitute a case or controversy involving News Corp. or its divisions and subsidiaries, which were legally distinct entities from Dow Jones, whether or not Ablaise at present (or in the future) seeks to assert the '530 patent against News Corp. Accordingly, the Court reversed the district court's denial of Ablaise's motion to dismiss Dow Jones's invalidity claim against the '530 patent, and did not reach the question of whether the asserted claims of that patent were invalid as anticipated by the prior art.

The Federal Circuit then addressed the district court's SJ invalidity finding that the '737 patent was

obvious. The Court noted that Ablaise conceded that an artisan of ordinary skill would have been aware that HTML tags affect content location on a Web page, and Ablaise did not dispute that by the priority date of the patent, HTML, including the functions of the tags used therein, was well known to persons of skill in the art. The Court also found that Ablaise did not dispute that (1) there was both design need and market pressure to add location-changing HTML tags to the teachings of the prior art; (2) that personalized formatting was well known on non-Web products such as database systems; or (3) that during the relevant period, there was an effort in the art to bring established features of non-Web programs to the Web. Further, Ablaise implicitly conceded that the only differences between the prior art and the '737 patent were the extension of the user-selected display options of the prior art to personalize the location of text or graphics on the page. And the Federal Circuit found that such changes in location were well known in both non-Web applications and in the HTML language extant at the time, and known to artisans of ordinary skill. Given those factors, the Federal Circuit agreed that the '737 patent would have been obvious to an artisan of ordinary skill in light of the prior art and knowledge known in the art.

Finally, the Federal Circuit characterized Ablaise's reliance on the secondary consideration of skepticism as "weak" because the references relied upon did not directly address whether there was actual skepticism concerning the invention of dynamically generated personalized Web pages. The Court thus found that Ablaise's evidence of skepticism was irrelevant and not supportive of its claim. Accordingly, the Court affirmed the district court's grant of SJ of invalidity of the '737 patent, finding it obvious in light of the prior art and general knowledge in the field.

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Award of Attorney Fees Reversed Due to Inequitable Conduct and Vexatious Litigation

John S. Sieman

Judges: Michel (author), Prost (dissenting), Moore
[Appealed from D. Md., Judge Davis]

In *Leviton Manufacturing Co. v. Universal Security Instruments, Inc.*, No. 09-1421 (Fed. Cir. May 28, 2010), the Federal Circuit vacated the district court's award of attorney fees based on inequitable conduct and vexatious litigation.

Shanghai Meihao Electric, Inc. ("Meihao") argued to the district court that U.S. Patent No. 6,864,766 ("the '766 patent"), owned by Leviton Manufacturing Company, Inc. ("Leviton"), was unenforceable due to inequitable conduct. The '766 patent was filed six months prior to another Leviton application ("the Germain application") filed by the same patent attorney. The '766 patent and the Germain application contained nearly identical independent claims and identical dependent claims. Neither claimed priority to the other, no inventors were named on both, and the inventors of each submitted sworn declarations to the PTO stating that they were the correct inventors. Leviton did not disclose the Germain application during the prosecution of the '766 patent. After issuance of the '766 patent, Leviton disclosed the '766 patent to the PTO in the Germain application's prosecution. The PTO issued a double-patenting rejection based on the similar claims in the Germain application.

In a subsequent reexamination of the '766 patent, Leviton did not disclose the Germain application or the litigation of parent patents related to the '766 patent (where inequitable conduct accusations had been lodged) to the PTO until after the examiner confirmed the claims, the requester appealed, and appeal briefing to the Board was complete. When Leviton did disclose the Germain reference to the PTO, Leviton used a nontraditional IDS "memorandum" that did not meet the requirements for an IDS.

While motions to compel testimony by the '766 patent's prosecuting attorneys remained pending, Leviton moved to dismiss the litigation against Meihao, explaining that Meihao stopped selling infringing products. Accordingly, the district court dismissed the case. Meihao then filed a motion for attorney fees and costs based on allegations of inequitable conduct and vexatious litigation by Leviton. The district court granted SJ of inequitable conduct and awarded over \$1 million in fees and costs. Leviton appealed.

The Federal Circuit found that the district court improperly granted SJ of inequitable conduct because the

materiality of both the Germain application and the related litigation was in dispute. The Federal Circuit first evaluated the four reasons provided by the district court in support of the materiality of the Germain application. The Court agreed with two of the reasons and disagreed with the other two.

First, the Federal Circuit agreed with Leviton that the provision on copying claims in 37 C.F.R. § 10.23(c)(7) applies primarily in the context of interferences and was not relevant to the materiality of the Germain application. Second, the Court agreed with Meihao that the Germain application was material to inventorship (and therefore patentability) because the examiner would need to evaluate which set of inventors actually conceived of the inventions in question. Third, the Court held that the copying of claims would be material to the issue of double patenting because a reasonable examiner would want to consider both applications and, as a result, knowledge of the Germain application during the prosecution of the '766 patent would be material. Fourth, the Court agreed with Leviton that the Germain application was not relevant to whether or not the '766 patent satisfies the written description requirement because the '766 patent's specification must support its own claims.

“We rarely affirm a grant of summary judgment of inequitable conduct, and in those cases where we have affirmed, the applicants did something other than fail to disclose a commonly owned application or related litigation.” Slip op. at 15-16.

Turning to the materiality of the roughly one dozen related litigations, the Federal Circuit found that Leviton violated the requirements of MPEP § 2001.06(c) and the Court's precedent by failing to bring the related litigations to the PTO's attention. The Court rejected Leviton's argument that it did not need to disclose the related litigations because it had prevailed in those litigations on validity issues. Regardless of the outcome of those cases, the Court found that Leviton should have disclosed the existence of and material information from those cases, including allegations of invalidity and unenforceability.

Having determined that both the Germain application and the related litigations were material, the Federal Circuit turned to the intent prong of its inequitable conduct inquiry. The Court noted that it “rarely affirm[s] a grant of summary judgment of inequitable conduct, and in those cases where [it] affirmed, the applicants did something other than fail to disclose a commonly owned application or related litigation.” Slip op. at 15-16. The Federal Circuit held that there were genuine issues of material fact precluding SJ and rejected the district court's finding of intent to deceive the PTO. In particular, the Federal Circuit noted that it had not previously affirmed a grant of SJ based on a failure to disclose a commonly owned application or related litigation, and declined to do so in this case. The Court explained that the district court could have made other reasonable inferences besides an inference of intent to deceive, highlighting the prosecuting attorney's explanation that the Germain application was not prior art to the '766 application. The Court also explained that “failure to provide an explanation is not independently dispositive of whether a patent prosecutor intended to deceive the PTO.” *Id.* at 17. The Court further stated that Leviton's memorandum disclosure of the Germain application during reexamination may be evidence of good faith. Significantly, the district court did not hear testimony from Leviton's prosecuting attorney. Although Meihao argued Leviton never sought to provide live testimony and should not be allowed to request the opportunity to do so on appeal, the Court explained that Leviton had raised this issue in its briefing to the district court on Meihao's motion for costs and fees, and further agreed with Leviton that such testimony must be allowed. Accordingly, the Court vacated the district court's SJ ruling and remanded for a bench trial on inequitable conduct.

The Federal Circuit also vacated and remanded the district court's decision and award with respect to vexatious litigation because that decision depended in part on the holding of inequitable conduct. The Court also raised a concern with the district court's characterization of one of Leviton's litigation arguments about the scope of the work-product doctrine as vexatious. Specifically, the Court explained that "Leviton cannot be required to concede that Meihao satisfied the 'substantial need' and 'undue hardship' exceptions [to the work-product doctrine] simply because a defense of inequitable conduct was raised." *Id.* at 20. Accordingly, the Court concluded that the district court clearly erred by finding that Leviton's work-product objections constituted vexatious litigation.

Judge Prost dissented, stating that "[a]lthough I am cognizant of this court's rightful hesitance to allow a finding of inequitable conduct on summary judgment and agree with our precedent establishing that such a finding is reserved for a rare case, I firmly believe that this is that rare case." Prost Dissent at 2. Judge Prost's chief point of disagreement related to the panel's refusal to infer an intent to deceive. In that regard, Judge Prost viewed the panel as taking the "burden to establish deceptive intent to an unprecedented level." *Id.* at 26. While the panel viewed deceptive intent as one of multiple possible inferences, Judge Prost viewed deceptive intent as the only reasonable inference to be drawn. She was swayed by the prosecuting attorney's experience and admissions that he knew about the duty of disclosure and about double-patenting issues. Unlike the panel, Judge Prost believed Meihao met its threshold burden to prove intent and Leviton failed to provide any good-faith explanation to rebut Meihao's evidence of deceptive intent. Judge Prost opined that the panel should have rejected as implausible the prosecuting attorney's explanation that the Germain application was not disclosed because it was not prior art. That explanation was not sufficient, Judge Prost opined, because materiality is not limited to prior art. Furthermore, Judge Prost argued that Leviton failed to rebut Meihao's threshold showing of deceptive intent with regard to the undisclosed related litigations. Finally, Judge Prost took issue with the panel's willingness to find evidence of good faith in Leviton's actions taken in the reexamination, noting that disclosure of withheld information in a reexamination should be irrelevant to inequitable conduct committed during the original prosecution.

As for Leviton's complaint that it had no opportunity to present testimony to support its argument against inequitable conduct, Judge Prost suggested that Leviton missed its opportunity to create a genuine issue of material fact by failing to submit an affidavit with its SJ briefing. Judge Prost argued that this was a strategic choice for which Leviton should have to suffer the consequences.

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Spotlight Info

On June 28, 2010, the Supreme Court issued its long-awaited decision in *Bilski v. Kappos*, 561 U.S. ____, No. 08-964, affirming the Federal Circuit's judgment that the patent application at issue was not patentable subject matter under 35 U.S.C. § 101. Significantly, the Supreme Court held that the machine-or-transformation ("MOT") test was not the sole test for determining patent eligibility, and that there was no categorical exclusion of business method patents under § 101. See the full summary in this month's *Bilski* Special Edition of the newsletter.

On June 24, 2010, the Federal Circuit granted a petition for a writ of mandamus in *In re Zimmer Holdings, Inc.*, No. 10-M938, and ordered the district court in the Eastern District of Texas to transfer the case to the Northern District of Indiana. The Federal Circuit noted that the patent owner-plaintiff transported copies of its patent prosecution files to its Texas office space, which it shared with another of its trial counsel's clients. The Court thus found that the patentee's "presence in Texas appears to be recent, ephemeral, and an artifact of litigation." Slip op. at 6.

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Looking Ahead

Qui tam actions under 35 U.S.C. § 292 (false marking) have become a growing trend in the field of intellectual property litigation. On June 10, 2010, the Federal Circuit issued an important decision in this area in the case of *Pequignot v. Solo Cup Co.*, 09-1547 (Fed. Cir. June 10, 2010). In that case, the Federal Circuit affirmed the decision of the Eastern District of Virginia that Solo Cup Company (“Solo Cup”) was not liable for false marking because it did not exhibit the requisite intent to falsely mark its products. While the Court acknowledged that articles marked with expired patent numbers are, in fact, falsely marked, it concluded that the false marking statute also requires that the marker act “for the purpose of deceiving the public.” Thus, false marking, combined with knowledge of the falsity, merely creates a rebuttable presumption of intent to deceive. In this case, the Federal Circuit held that Solo Cup had rebutted the presumption of intent to deceive by seeking advice of counsel, instituting a policy of replacing worn “marked” cup molds with new “unmarked” molds, and incorporating language that its cups “may be covered” by particular patents.

Look for a summary of the *Solo Cup* case in next month’s edition of *Last Month at the Federal Circuit*.

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