Last Month at the Federal Circuit

September 2012

Presumption Created by Doctrine of Claim Differentiation Not Overcome in Light of Patent Specification and Expert Testimony

InterDigital Communications, LLC v. International Trade Commission
No. 10-1093 (Fed. Cir. Aug. 1, 2012)
[Appealed from ITC]

In Assessing Statute of Limitations, Earlier Suspicions of Trade Secret Misappropriation Do Not Give Rise to a Constant Future Duty to Investigate

Raytheon Co. v. Indigo Systems Corp.
Nos. 11-1245, -1246 (Fed. Cir. Aug. 1, 2012)
[Appealed from E.D. Tex., Judge Schell]

Trademark Cancelled Because Software Used as a Conduit for Providing Services over the Internet Is Not a Good in Trade

Lens.com, Inc. v. 1-800 Contacts, Inc.
No. 11-1258 (Fed. Cir. Aug. 3, 2012)
[Appealed from TTAB]

The § 271(e)(1) Safe Harbor Covers Generic Quality Control Batch Testing Even After FDA Approval

Momenta Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals, Inc.
Nos. 12-1062, -1103, -1104
(Fed. Cir. Aug. 3, 2012)
[Appealed from D. Mass., Judge Gorton]

Mature Oak Trees Found in Yard Not Entitled to Patent Protection Under 35 U.S.C. § 161

In re Beineke
Nos. 11-1459, -1460 (Fed. Cir. Aug. 6, 2012)
[Appealed from Board]

Withdrawal of Rule 11 Sanctions Against an Attorney Does Not Preclude an Exceptional Case Finding Under 35 U.S.C. § 285

Highmark, Inc. v. Allcare Health Management Systems, Inc.
No. 11-1219 (Fed. Cir. Aug. 7, 2012)
[Appealed from N.D. Tex., Judge Means]

Spotlight Info

Looking Ahead

Claims to Isolated DNA and Screening Method Are Patent Eligible, but Claims to Analyzing and Comparing Methods Are Not

Association for Molecular Pathology v. U.S. Patent & Trademark Office
No. 10-1406 (Fed. Cir. Aug. 16, 2012)
[Appealed from S.D.N.Y., Senior Judge Sweet]

Clear and Convincing Evidence of "Made in This Country" Must Be Presented to Invalidate a Patent Under § 102(g)(2)

Amkor Technology, Inc. v. International Trade Commission
No. 10-1550 (Fed. Cir. Aug. 22, 2012)
[Appealed from ITC]

Representing to PTO That a Product-by-Process Claim Limitation Is Structurally Distinct from the Prior Art Prevents Recapture in Reissue

Greenliant Systems, Inc. v. Xicor LLC
No. 11-1514 (Fed. Cir. Aug. 22, 2012)
[Appealed from N.D. Cal., Judge Chen]

Monetary Damages Adequately Compensate Patentee When There Have Been Extensive Licensing Efforts, Solicitation of Infringer over a Long Period of Time, and No Direct Competition with Infringer

ActiveVideo Networks, Inc. v. Verizon Communications, Inc.
Nos. 11-1538, -1567, 12-1129, -1201
(Fed. Cir. Aug. 24, 2012)
[Appealed from E.D. Va., Judge Jackson]

In the Absence of Supreme Court Consensus, Personal Jurisdiction Premised on a Stream-of-Commerce Theory Is Assessed on a Case-by-Case Basis

Expert Witnesses Should Analyze the *Georgia-Pacific* Factors, Not Merely Recite Them

WhitServe, LLC v. Computer Packages, Inc.
Nos. 11-1206, -1261 (Fed. Cir. Aug. 7, 2012)
[Appealed from D. Conn., Judge Covello]

The Concentration Range in an Independent Claim Must Include the Concentrations in the Dependent Claims

Alcon Research, Ltd. v. Apotex Inc.
No. 11-1455 (Fed. Cir. Aug. 8, 2012)
[Appealed from S.D. Ind., Judge Young]

JMOL Overturned Because Substantial Evidence Supported Jury's Findings of Nonobviousness

Kinetic Concepts, Inc. v. Smith & Nephew, Inc.
No. 11-1105 (Fed. Cir. Aug. 13, 2012)
[Appealed from W.D. Tex., Judge Furgeson]

A Mark Is Merely Descriptive If It Conveys Information Regarding a Function, Purpose, or Use of the Goods

DuoProSS Meditech Corp. v. Inviro Medical Devices, Ltd.
No. 12-1050 (Fed. Cir. Aug. 14, 2012)
[Appealed from TTAB]

Broad Claim Language Must Be Enabled Across Its Full Scope of Coverage

MagSil Corp. v. Hitachi Global Storage Technologies, Inc.
No. 11-1221 (Fed. Cir. Aug. 14, 2012)
[Appealed from D. Del., Judge Bartle III]

SJ of Infringement of a Patented Method Is Inappropriate Where Plaintiff Offers No Evidence of Actual Use of the Method

Meyer Intellectual Properties Ltd. v. Bodum, Inc.
No. 11-1329 (Fed. Cir. Aug. 15, 2012)
[Appealed from N.D. Ill., Judge Shadur]

AFTG-TG, LLC v. Nuvoton Technology Corp.
No. 11-1306 (Fed. Cir. Aug. 24, 2012)
AFTG-TG, LLC v. Winbond Electronics Corp.
No. 11-1307 (Fed. Cir. Aug. 24, 2012)
[Appealed from D. Wyo., Judge Freudenthal]

A Claimed Intermediate Used in the Synthesis of a Compound Does Not Render a Later Claim Directed to the Compound Invalid for Obviousness-Type Double Patenting

Eli Lilly & Co. v. Teva Parenteral Medicines, Inc.
Nos. 11-1561, -1562 (Fed. Cir. Aug. 24, 2012)
Eli Lilly & Co. v. APP Pharmaceuticals, LLC
[Appealed from D. Del., Chief Judge Sleet]

Exclusion of Prior Art Is Appropriate If an Explanation of Why the Prior Art Is Invalidating Is Not Provided in Response to an Interrogatory Requesting the Same

Woods v. DeAngelo Marine Exhaust, Inc.
No. 10-1478 (Fed. Cir. Aug. 28, 2012)
[Appealed from S.D. Fla., Judge Hurley]

Prior Art Need Not Provide the Exact Method of Optimization for Variable to Be "Result-Effective"

In re Applied Materials, Inc.
Nos. 11-1461, -1462, -1463, -1464
(Fed. Cir. Aug. 29, 2012)
[Appealed from Board]

Hypothetical Negotiation in Inducement of Infringement Takes Place on Date of First Direct Infringement Traceable to Defendant's First Instance of Inducement Conduct

LaserDynamics, Inc. v. Quanta Computer, Inc.
Nos. 11-1440, -1470 (Fed. Cir. Aug. 30, 2012)
[Appealed from E.D. Tex., Judge Ward]

En Banc Court Holds That a Party Can Show Induced Infringement of Method Claim Where Inducer and Induced Party Each Perform Some of the Steps

Akamai Technologies, Inc. v. Limelight Networks, Inc.
Nos. 09-1372, -1380, -1416, -1417
(Fed. Cir. Aug. 31, 2012)
[Appealed from D. Mass., Judge Zobel]
McKesson Technologies, Inc. v. Epic Systems Corp.
No. 10-1291 (Fed. Cir. Aug. 31, 2012)
[Appealed from N.D. Ga., Judge Camp]

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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Last Month at the Federal Circuit

Back to Main

September 2012

Presumption Created by Doctrine of Claim Differentiation Not Overcome in Light of Patent Specification and Expert Testimony

Kai Rajan

Judges: Newman (dissenting), Mayer, Bryson (author)

[Appealed from ITC]

In *InterDigital Communications, LLC v. International Trade Commission*, No. 10-1093 (Fed. Cir. Aug. 1, 2012), the Federal Circuit held that the ITC erred in construing certain critical claim terms in two patents, reversed the ITC's finding of no infringement, and remanded the case to the ITC for further proceedings.

InterDigital Communications, LLC and InterDigital Technology Corporation (collectively "InterDigital") own U.S. Patent Nos. 7,190,966 ("the '966 patent") and 7,286,847 ("the '847 patent"). Both patents are directed to wireless cellular telephone technology and share a common specification. The patents focus on apparatus and methods for controlling transmission power during the "handshake" portion of wireless cellular communication, during which a cell phone establishes contact with a cellular base station in order to initiate a call. The claimed invention operates within a system that uses Code Division Multiple Access ("CDMA") to allow multiple cell phones (referred to as "subscriber units") within a certain geographical area to use the same portion of the radio frequency spectrum simultaneously. The CDMA system is able to use a single portion of the frequency spectrum for multiple simultaneous communications by employing a process known as "spreading." A "spreading code" modifies the data signal so that the modified signal is transmitted at a faster rate and contains more information.

InterDigital asked the ITC to investigate whether the '966 and '847 patents were infringed by Nokia Inc. and Nokia Corporation (collectively "Nokia"). The ALJ construed the term "code" as limited to "spreading code." The ALJ found that the codes used in Nokia's wireless communication initiation system are not spreading codes because they are not "used or intended to be used to increase the bandwidth of another signal," and because those codes do not spread data or perform channelization and are not generated from a spreading code. The ALJ also construed the term "increased power level" to mean that "the power level of a transmission is higher than that of a previous transmission." In light of the stated purpose of the invention, the ALJ added the requirement that "the power level of a code signal increases during transmission." Thus, the ALJ interpreted the claims to require that the power level of the signal be increased continuously throughout the ramp-up period in which transmissions are being sent from the subscriber unit, both during the intervals between transmissions and during the course of the individual transmissions themselves. The ALJ found that Nokia's products do not continuously increase the power level of the code signal during the ramp-up process. For these reasons, the ALJ found no infringement, and the ITC affirmed.

On appeal, the Federal Circuit explained that claim terms are usually given their ordinary meanings as understood by persons skilled in the art at the time of invention, and that two exceptions to the "plain

meaning" rule arise where the patentee provides special definitions for claim terms, or when the patentee disavows the ordinary scope of a term during prosecution or explicitly in the specification. The Court found neither exception present here.

"The administrative law judge's construction of the term 'code' in claim 1 as meaning 'spreading code' renders claim 5 superfluous, a result that counsels strongly against that construction." Slip op. at 12.

The Court first addressed the claim term "code," which it noted has an ordinary meaning of "a sequence of bits." The Court concluded that the '966 and '847 patent specifications do not provide any special limiting definition of "code," and the prosecution history does not show any disavowal of the plain meaning of "code."

The Court agreed with the ALJ that the doctrine of claim differentiation applies because, if "code" means "spreading code," as the ALJ ruled, claims 1 and 5 of the '966 patent cover exactly the same subject matter. The Federal Circuit disagreed with the ALJ, however, that the strong presumption created by the doctrine of claim differentiation against such a narrow construction had been overcome. First, the Court explained that the fact that spreading codes are used in CDMA systems does not mean that every code used in a CDMA system must be a spreading code. Second, the Court concluded that the ALJ used a different definition of "spreading code" than the patent specification or InterDigital's expert witness and, under the ALJ's construction, neither of the preferred embodiments in the common patent specification would fall within the scope of the claims. The Court noted that experts for both InterDigital and Nokia confirmed that some of the codes described in the specification are examples of spreading codes, even though they do not spread or modulate data.

The Court found that this "disconnect" between the specification and the ALJ's definition of "spreading code" led the ALJ to conclude both (1) that the patents were limited to spreading codes, based on the repeated references to spreading codes in the specification; and (2) that Nokia's system did not use spreading codes, based on the fact that Nokia's preamble codes do not spread data and are not generated from a spreading code. Slip op. at 15-16. Thus, the Court explained that the ALJ was in effect using different definitions of the term "spreading code" for purposes of claim construction and infringement, and, in order for the question of infringement to be appropriately determined, it is critical that the terms "code" and "spreading code" are assigned the same meaning both in the patents and in the analysis of the accused system. The Court instructed the ITC to revisit this issue on remand.

Turning to the second claim construction issue, the meaning of the '966 patent claim limitation "increased power level with respect to the prior transmission," the Court noted that nothing in the specification or the claims clearly restricted the scope of the invention to the narrow interpretation adopted by the ALJ. The ALJ restricted this claim term to require that the power level used to transmit the ramp-up signals be increased continuously, including during individual signal transmissions, rather than solely during the interim periods between individual transmissions. Thus, the ALJ limited this term to continuous, not stepped or intermittent, power increases. The Court, however, found no disclosure sufficient to indicate that the patentee intended to limit the invention in such a manner. Indeed, the Court concluded that the plain language of the claims controls and held that InterDigital's claims should be construed more broadly, covering continuous power increase *and* stepped increases between transmissions.

The Court also addressed Nokia's argument that InterDigital's patent licensing activities alone did not satisfy the "domestic industry" requirement of section 337, 19 U.S.C. § 1337(a)(2) and (3). The Federal Circuit agreed with the ALJ that § 337(a)(3) makes clear that the required U.S. industry can be based on patent licensing alone; it does not require that the articles that are the objects of the licensing activities (i.e., the "articles protected by the patent") be made in this country. Thus, the Court rejected Nokia's arguments, reversed the ALJ's determination of noninfringement, and remanded for further proceedings.

Judge Newman dissented. In Judge Newman's view, the dispositive issue is the scope of the claim term "code," specifically whether it includes a scrambling code or is limited to the definition and usage of "code" in the specification. Judge Newman found the meaning created for "code" by the panel majority "unsupported by and outside of the specification, where the majority's definition is neither described nor enabled." Newman Dissent at 1. Moreover, Judge Newman noted that "the doctrine of claim differentiation does not permit enlarging a claim term beyond its presentation in the specification." *Id*. at 2. In other words, because "code" was described in the specification as only "spreading code," the term could not be construed more broadly in the claim regardless of claim differentiation. Thus, Judge Newman agreed with the ITC that the presumption of claim differentiation had been rebutted and that the codes referenced in the specification and claims are all spreading codes.

Nokia has filed a petition for panel and en banc rehearing.

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Last Month at the Federal Circuit

Back to Main

September 2012

In Assessing Statute of Limitations, Earlier Suspicions of Trade Secret Misappropriation Do Not Give Rise to a Constant Future Duty to Investigate

Pier D. DeRoo

Judges: Linn (author), Dyk, O'Malley

[Appealed from E.D. Tex., Judge Schell]

In *Raytheon Co. v. Indigo Systems Corp.*, Nos. 11-1245, -1246 (Fed. Cir. Aug. 1, 2012), the Federal Circuit reversed the district court's dismissal of Raytheon Company's ("Raytheon") misappropriation of trade secret claims as untimely under a three-year statute of limitations.

Ex-Raytheon employees formed Indigo Systems Corporation ("Indigo") in 1996 and began providing consulting services to Raytheon and other companies. Concerned that Indigo was actively recruiting Raytheon employees and gaining access to its trade secrets, Raytheon obtained assurances from Indigo and entered into an agreement prohibiting such activities. This agreement terminated in 2000.

In 2004, after Indigo won a contract over Raytheon to supply military cameras, Raytheon acquired and dissected an Indigo camera as part of its "routine competitive analysis," when it discovered evidence of trade secret misappropriation. Raytheon sued Indigo and FLIR Systems, Inc., the parent corporation of Indigo, in 2007, and the district court dismissed Raytheon's claims as time-barred on SJ because Raytheon knew or should have known of the misappropriation before it purchased the Indigo camera, rejecting Raytheon's discovery rule and equitable tolling defenses to the statute of limitations.

"The district court presumed that because Raytheon *once* suspected Indigo, therefore, as a matter of law, it *should* have continued to suspect Indigo after 2000. But this presumption ignores Indigo's assurances and was impermissible . . . [because] whether or not the discovery rule applies is ordinarily a question of fact . . . ." Slip op. at 13.

On appeal, the Federal Circuit held that the district court impermissibly drew factual inferences against Raytheon, the nonmoving party, on SJ. The Court found that certain facts, including that Raytheon waited almost six months to dissect the camera after obtaining it, supported a reasonable inference in Raytheon's favor that it did not suspect anything and had no actual knowledge of misappropriation before dissecting the camera.

The Court also determined that the district court erred in concluding that Raytheon, regardless of its actual knowledge, should have suspected Indigo more than three years before filing suit. The district court's analysis presumed that Raytheon should have begun suspecting Indigo's misappropriations once

their agreement terminated in 2000, based on Raytheon's pre-2000 suspicions, which gave rise to that agreement. But the Court rejected the notion that Raytheon "was on permanent inquiry notice" after the agreement expired, as this inference ignored Indigo's past assurances. Because the district court had drawn factual inferences *against* Raytheon, the Court explained that "[i]t was for the jury and not for the district court to decide when Raytheon should have first discovered the facts supporting its cause of action." Slip op. at 13.

Accordingly, the Court reversed the district court's grant of SJ and remanded for further proceedings.

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Last Month at the Federal Circuit

Back to Main

September 2012

Trademark Cancelled Because Software Used as a Conduit for Providing Services over the Internet Is Not a Good in Trade

Hillary C. Matheson

Judges: Newman, Linn (author), Moore

[Appealed from TTAB]

In *Lens.com, Inc. v. 1-800 Contacts, Inc.*, No. 11-1258 (Fed. Cir. Aug. 3, 2012), the Federal Circuit affirmed the cancellation of Lens.com, Inc.'s ("Lens.com") LENS mark because Lens.com had not used it in commerce in connection with software.

Lens.com sells contact lenses and related products online. Lens.com held the registration for the mark LENS in connection with "*computer software* featuring programs used for electronic ordering of contact lenses in the field of ophthalmology, optometry and opticianry." Slip op. at 2 (citation omitted). It obtained the mark during settlement of a proceeding against Wesley-Jessen Corporation, the mark's original registrant.

1-800 Contacts, Inc. ("1-800 Contacts") filed for cancellation of Lens.com's LENS mark, and the TTAB granted SJ on the issue of abandonment on the ground that Lens.com's software is incidental to its sale of contact lenses and is not itself a good in the market place. The TTAB denied Lens.com's motion for reconsideration, and the PTO cancelled the registration.

On appeal, the Federal Circuit first acknowledged that "use in Commerce" under 15 U.S.C. § 1127 does not require actual sale of the goods, provided that the goods are transported in commerce. The Court held that an element of public awareness of the use is necessary to establish ownership rights in a mark through transportation, explaining that an article is not a good in trade when it is simply the conduit through which the applicant renders services.

Although "the distribution of Software over the internet *can* satisfy the jurisdictional predicate for 'use of commerce' . . . [,] whether consumers actually associate a mark with *software*, as opposed to other *services*, is a factual determination that must be conducted on a case-by-case basis." Slip op. at 9.

Addressing whether software used to provide services over the Internet "is an independent good in commerce, or is merely incidental to the . . . services," the Court held that although "the distribution of Software over the internet *can* satisfy the jurisdictional predicate for 'use of commerce' . . . [,] whether consumers actually associate a mark with *software*, as opposed to other *services*, is a factual

determination that must be conducted on a case-by-case basis." *Id*. at 9. The Court identified as relevant factors "whether the software: (1) is simply the conduit or necessary tool useful only to obtain applicant's services; (2) is so inextricably tied to and associated with the service as to have no viable existence apart therefrom; and (3) is neither sold separately from nor has any independent value apart from the services." *Id*.

The Federal Circuit reasoned that Lens.com's software is merely the conduit for its online retail services because customers use the website and its software only to avail themselves of those retail services. The Court noted the lack of evidence that the software had any independent value apart from rendering the retail service. Determining there was also a lack of evidence of any customer awareness that the LENS mark was used in connection with software, the Court rejected Lens.com's argument that there was a genuine issue of material fact on that issue.

Finally, the Court rejected Lens.com's argument that the TTAB erroneously relied solely on Lens.com's specimens of use as grounds for cancellation. The Court determined that the TTAB had properly relied on the entire application file as directed by the TTAB's regulations. The Court therefore affirmed the TTAB's holding of abandonment and SJ cancellation of the LENS mark.

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Last Month at the Federal Circuit

Back to Main

September 2012

The § 271(e)(1) Safe Harbor Covers Generic Quality Control Batch Testing Even After FDA Approval

Victoria S. Lee

Judges: Rader (dissenting), Dyk, Moore (author)

[Appealed from D. Mass., Judge Gorton]

In *Momenta Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals, Inc.*, Nos. 12-1062, -1103, -1104 (Fed. Cir. Aug. 3, 2012), the Federal Circuit vacated the district court's grant of a preliminary injunction and remanded for further proceedings, holding that the district court applied an unduly narrow interpretation of the Hatch-Waxman safe harbor, 35 U.S.C. § 271(e)(1).

Lovenox (enoxaparin), a drug that prevents blood clots, is marketed by Aventis Pharmaceuticals, Inc. Enoxaparin is made up of a range of different molecules, because it is produced from heparin starting material that includes molecules that vary in the length of the component polysaccharide chains, and in the types and distribution of disaccharide units in the polysaccharide chains. In light of this molecular diversity, the FDA, which has "broad discretion" regarding the information it considers for bioequivalence, "identified five . . . 'standards for identity,' that 'together provide sufficient information to conclude that generic enoxaparin has the 'same' active ingredient as Lovenox' . . . includ[ing], *inter alia*, '[e]quivalence in dissaccharide building blocks, fragment mapping, and sequence of oligosaccharide species.'" Slip op. at 4 (second alteration in original) (citations omitted).

Amphastar Pharmaceuticals, Inc., International Medication Systems, Ltd., Watson Pharmaceuticals, Inc., and Watson Pharma, Inc. (collectively "Amphastar") filed the first ANDA for a generic version of enoxaparin. Momenta Pharmaceuticals, Inc. and Sandoz, Inc. (collectively "Momenta"), however, were the first to receive FDA approval and to market generic enoxaparin, earning quarterly revenues of $260 million.

Momenta is the assignee of U.S. Patent No. 7,575,886 ("the '886 patent"), which relates to methods for analyzing heterogeneous populations of sulfated polysaccharides, such as heparin and enoxaparin. Two days after Amphastar received FDA approval for its generic enoxaparin, Momenta filed suit against Amphastar, alleging that Amphastar infringed the '886 patent by using the claimed method for quality control batch testing during its manufacture of generic enoxaparin. The district court granted a preliminary injunction to prevent the generic entry of Amphastar's enoxaparin. Amphastar then filed emergency motions for relief from the preliminary injunction, which the district court denied. Amphastar appealed the preliminary injunction and denials for relief.

On appeal, Amphastar argued that its testing fell within the plain language of the Hatch-Waxman safe harbor, 35 U.S.C. § 271(e), and that the district court took an unduly restrictive view of the safe harbor. Momenta argued that the safe harbor did not apply to Amphastar's testing because (1) the

testing is a postapproval activity; and (2) the availability of other testing methods means the alleged use is not required by the FDA.

"Under a proper construction of 35 U.S.C. § 271(e)(1), the fact that Amphastar's testing is carried out to 'satisfy the FDA's requirements' means it falls within the scope of the safe harbor, even though the activity is carried out after approval." Slip op. at 20.

The Court first found that § 271(e)(1) does not reference the portion of the Federal Food, Drug, and Cosmetic Act describing the ANDA requirements, and instead uses "broad language [that] unambiguously applies to submissions under any federal law, providing that the law 'regulates the manufacture, use, or sale of drugs.'" *Id.* at 12. The Court indicated that this interpretation is consistent with the rest of the statutory scheme and with the Supreme Court's decisions in *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 666 (1990), and *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 202 (2005). The Court held that the information in question was "submitted to the FDA" for purposes of the statute, reasoning that FDA regulations require the batch testing records be available for authorized inspection.

The Court found that the submissions were "anything but 'routine'" as "they implicate Amphastar's very ability to continue its FDA approval for its ANDA and to continue manufacturing and marketing enoxaparin under its ANDA." Slip op. at 19. The Court declined adopting the pre-/postapproval distinction set forth by Momenta, "hold[ing] that post-approval studies that are 'reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs' fall within the scope of the § 271(e)(1) safe harbor." *Id.* at 20. "Under a proper construction of 35 U.S.C. § 271(e)(1), the fact that Amphastar's testing is carried out to 'satisfy the FDA's requirements' means it falls within the scope of the safe harbor, even though the activity is carried out after approval." *Id.*

The Court also rejected Momenta's second argument that Amphastar's testing is not protected because there are FDA-endorsed noninfringing alternatives available. The Court held that "[t]he safe harbor's protection is not limited to the dire situation where the patented invention is the only way to develop and submit the information." *Id.* at 21. "Instead, the safe harbor expressly allows the submitter the freedom to use an otherwise patented means to develop the necessary information demanded by the 'Federal law.'" *Id.*

The Court rejected Momenta's reliance on the term "solely," stating that the word "modifies 'uses reasonably related to the development and submission of information,' but does not place any other restriction on when the patented invention may be used without infringing." *Id.* at 21-22. "As long as the use of the patented invention is done to generate information that will be submitted pursuant to a relevant federal law, that use falls within the safe harbor." *Id.* at 22.

The Court held that, under the correct interpretation of § 271(e)(1), Momenta would be unlikely to succeed on the merits of its infringement claim. The Court thus vacated the preliminary injunction and remanded with instructions that "the district court may want to consider whether Momenta's admission that Amphastar's use of the patented invention is to 'satisfy the FDA's requirements' makes this case amenable to [SJ] of non-infringement." *Id.* at 25.

Chief Judge Rader dissented, stating that the majority's "expansion of the law circumvents the purpose of the law and ignores the binding precedent of *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057 (Fed. Cir. 2011)," and that "this result will render worthless manufacturing test method patents." Rader Dissent at 2-3. In Judge Rader's view, the "extensive" legislative history showed that "§ 271(e)(1) applied only to limited situations, namely pre-approval experiments to obtain FDA approval . . . ."

Id. at 3. Judge Rader stated that "§ 271(e)(1) won approval because it was limited in time, quantity, and type." *Id.* at 8. Judge Rader noted that he was present through the legislative process, and that "[t]he authors of this section . . . did not imagine that § 271(e)(1) would allow *continuous*, *commercial* infringing sales during any portion of the life of the patent." *Id.* at 10. Judge Rader noted that the majority's decision "rewrites the law to allow Amphastar to infringe Momenta's patent throughout *the entire life of Momenta's patent* and for the purpose of obtaining profits on *commercial sales* of a product that *competes with the patentee*." *Id.* at 10-11.

Judge Rader stated that the Court had already decided the meaning of § 271(e)(1) in *Classen*, and disagreed with the majority's distinction that the activities in *Classen* were not FDA-mandated. Judge Rader added that the Supreme Court's decisions in *Eli Lilly* and *Merck* "support the holding in *Classen* and do not support [the majority's] decision." *Id.* at 18 (citing *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 1047 (1990); *Merck*, 545 U.S. 193).

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Last Month at the Federal Circuit

Back to Main

September 2012

Mature Oak Trees Found in Yard Not Entitled to Patent Protection Under 35 U.S.C. § 161

*Jonathan R. Stroud**

Judges: Dyk (author), Schall, Reyna

[Appealed from Board]

In *In re Beineke*, Nos. 11-1459, -1460 (Fed. Cir. Aug. 6, 2012), the Federal Circuit affirmed the rejection of two plant patent applications under 35 U.S.C. § 161.

After noticing in someone's front yard two white oak trees that "appeared to display superior genetic traits as compared to other white oak trees, such as excellent timber quality and strong central stem tendency," Walter F. Beineke planted acorns from the trees and observed the progeny. Slip op. at 2. Beineke then asexually reproduced the trees and found that the reproductions ran true to the originally discovered trees and to each other in all respects. Beineke concluded that he had discovered two new and distinct varieties of white oak, and applied for plant patents on both trees under § 161.

The examiner at the PTO rejected Beineke's claims on the basis that the trees were not found in an uncultivated state, and a divided Board affirmed. Beneike appealed.

"The Board correctly determined that the mature oak trees found by Beineke in the front yard of a home were not entitled to plant patent protection under section 161." Slip op. at 19.

On appeal, the Federal Circuit stated that "[i]t is settled that an applicant for a patent under section 161 must establish that the inventor has 'recognized [the plant's] uniqueness and difference,' and has 'take[n] the step of asexual reproduction.'" *Id.* at 6 (alterations in original) (citations omitted). The Court noted that the parties did not dispute these requirements, but offered differing interpretations of the statute in other respects. The Court then considered whether the trees were patentable (1) under the language of the original 1930 Plant Patent Act ("1930 Act"), which is incorporated into the present statute; and (2) under the 1954 additions to the plant patent statutes, which have been carried forward in the present statute.

Regarding the 1930 Act, the Court held that Beineke had not demonstrated that the trees were created in their inception by human activity, or that they were created by the inventor, and that both of these factors were required for patent protection. "[The legislative] history demonstrates that the 1930 Act was not meant to include plants discovered by chance by plant explorers and the like," and that protection is provided "to only those plants (e.g., sports, mutants, and hybrids) that were created as a result of plant

breeding or other agricultural and horticultural efforts *and* that were created by the . . . one applying for the patent." *Id.* at 15.

The Court also held that the trees were not patent eligible under the 1954 additions to the statute. The Court found that the 1954 amendments applied only to "newly found seedlings" and that Beineke conceded that the oak trees were not newly found seedlings. *Id.* at 16. The Court noted that "[b]ecause Beineke does not meet the other requirements of section 161 either as originally enacted or as amended in 1954, . . . [it] need not determine what level of human cultivation of the area in which a seedling was found at its inception is necessary to satisfy the statute." *Id.* at 19. The Court concluded that "[t]he Board correctly determined that the mature oak trees found by Beineke in the front yard of a home were not entitled to plant patent protection under section 161." *Id.*

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Last Month at the Federal Circuit

Back to Main

September 2012

Withdrawal of Rule 11 Sanctions Against an Attorney Does Not Preclude an Exceptional Case Finding Under 35 U.S.C. § 285

Kimberly D. Braslow

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

[Appealed from N.D. Tex., Judge Means]

In *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, No. 11-1219 (Fed. Cir. Aug. 7, 2012), the Federal Circuit affirmed-in-part, reversed-in-part, and remanded the district court's exceptional case finding under 35 U.S.C. § 285 and award of attorneys' fees and costs to Highmark, Inc. ("Highmark").

Allcare Health Management Systems, Inc. ("Allcare") owns U.S. Patent No. 5,301,105 ("the '105 patent"), directed to methods of managing health care systems that interconnect and integrate physicians, medical care facilities, patients, insurance companies, and financial institutions under a utilization review process. Highmark sued Allcare, seeking a DJ of noninfringement, invalidity, and unenforceability of all claims of the '105 patent, and Allcare counterclaimed for infringement. Highmark moved for SJ of noninfringement, and the district court found that Highmark did not infringe. Allcare appealed, and the Federal Circuit affirmed the judgment without written opinion.

During the pendency of the appeal, Highmark moved for an exceptional case finding, an award of attorneys' fees and expenses under 35 U.S.C. § 285 against Allcare, and for sanctions against Allcare's attorneys under Fed. R. Civ. P. 11. The district court found that the case was exceptional and that Allcare's attorneys had violated Rule 11. Specifically, the district court found that Allcare's claims for infringement of claims 52 and 102 of the '105 patent were frivolous, and that Allcare had engaged in litigation misconduct by asserting a frivolous position based on res judicata and collateral estoppel. The district court later vacated the Rule 11 sanctions against Allcare's attorneys but maintained the exceptional case finding and the award of attorneys' fees against Allcare.

"Unlike the objective prong, which is a single retrospective look at the entire litigation, the subjective prong may suggest that a case initially brought in good faith may be continued in bad faith depending on developments during discovery and otherwise." Slip op. at 12 (citing *Computer Docking Station Corp. v. Dell, Inc.*, 519 F.3d 1366, 1380 (Fed. Cir. 2008)).

"Rule 11 sanctions against an attorney may form a basis for an exceptional case finding . . . [b]ut the absence of [such] sanctions does not mandate the opposite conclusion." Slip op. at 17 (citation omitted).

As an initial matter on appeal, the Court rejected Highmark's argument that the objective reasonableness standard applies only with respect to the initial filing of the counterclaim and not to the continued litigation of that claim. "The objective prong is a single backwards-looking inquiry into the reasonableness of the claims in light of the full record." Slip op. at 12 (citing *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377-78 (Fed. Cir. 2011)). The Court noted that the subjective prong similarly takes into account the totality of the circumstances. "Unlike the objective prong, which is a single retrospective look at the entire litigation, the subjective prong may suggest that a case initially brought in good faith may be continued in bad faith depending on developments during discovery and otherwise." *Id.* (citing *Computer Docking Station Corp. v. Dell, Inc.*, 519 F.3d 1366, 1380 (Fed. Cir. 2008)).

The Court addressed the two asserted claims separately, finding that Allcare's assertion of claim 102 warranted an exceptional case finding but that its assertion of claim 52 did not. Regarding claim 102, the Court found that Allcare's infringement claims were objectively unreasonable. The Court noted that Allcare had taken a contradictory position earlier in the case by agreeing that the preamble was limiting, that Allcare's own expert conceded during a deposition that "[t]here was also no plausible argument that Highmark's method involved the interconnection and interaction of patients and employers as was required by claim 102," and that "Allcare ha[d] not even argued that Highmark's method included such interaction." *Id.* at 15-16. The Court rejected Allcare's argument with regard to subjective bad faith, finding that "Allcare knew or should have known that its allegation of infringement of claim 102 was unreasonable . . . ." *Id.* at 16. The Court also rejected Allcare's argument that the district court's vacating sanctions against Allcare's attorneys was inconsistent with the exceptional case finding. The Court held that while "Rule 11 sanctions against an attorney may form a basis for an exceptional case finding," "the absence of [such] sanctions does not mandate the opposite conclusion." *Id.* at 17.

Regarding claim 52, however, the Court held that Allcare's position was not objectively unreasonable, specifically finding that Allcare's claim construction position was supported by the patent specification. "[S]imply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless." *Id.* at 20 (quoting *iLOR*, 631 F.3d at 1380). The Court noted that because it concluded that Allcare's allegations with regard to claim 52 were not objectively baseless, it need not reach the question of whether Allcare acted in subjective bad faith.

The Court also disagreed with the district court's exceptional case finding on the basis of three instances of alleged litigation misconduct: (1) asserting a frivolous position based on res judicata and collateral estoppel; (2) shifting the claim construction position throughout the course of the proceedings before the district court; and (3) making misrepresentations to the Western District of Pennsylvania in connection with a motion to transfer venue. First, the Court found that Allcare's brief assertion based on claim preclusion did not warrant an exceptional case finding, because it promptly withdrew that position after concluding it would be unsuccessful. Second, the Court found that Allcare's different claim construction positions changed only the wording used and did not differ in substance. Finally, the Court found that the district court erred in its exceptional case finding based on representations Allcare made about personal jurisdiction before the Western District of Pennsylvania, stating that neither Highmark nor the district court provided authority or justification for sanctioning conduct before another tribunal.

Judge Mayer dissented-in-part, contending that the Court erred in not granting deference to the district court's finding that the infringement claims asserted by a litigant at trial were objectively unreasonable. In Judge Mayer's view, there is no basis for overturning the trial court's determination of frivolousness when applying the highly deferential standard of review. Thus, Judge Mayer would affirm the district court's award of attorneys' fees and expenses in its entirety.

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Last Month at the Federal Circuit

Back to Main

September 2012

Expert Witnesses Should Analyze the *Georgia-Pacific* Factors, Not Merely Recite Them

Karthik Kumar

Judges: Prost, Mayer (dissenting), O'Malley (author)

[Appealed from D. Conn., Judge Covello]

In *WhitServe, LLC v. Computer Packages, Inc.*, Nos. 11-1206, -1261 (Fed. Cir. Aug. 7, 2012), the Federal Circuit adjudicated several issues related to the assertion of four patents by WhitServe, LLC ("WhitServe") against Computer Packages, Inc. ("CPi"). Specifically, the Court upheld the jury's finding that CPi infringed the four WhitServe patents and, with one exception, affirmed the jury's finding that most of those patents' claims were not anticipated. The Court, however, vacated the jury's damages award and remanded for a new trial on damages. Finally, with regard to the cross-appeal of WhitServe's sole principal and employee, Wesley Whitmyer, Jr., the Court affirmed the district court's denial of sanctions against CPi and fees in Mr. Whitmyer's favor.

WhitServe owns U.S. Patent No. 6,981,007 ("the '007 patent") and "the '468 family" of patents: U.S. Patent Nos. 5,895,468 ("the '468 patent"); 6,182,078 ("the '078 patent"); and 6,049,801 ("the '801 patent"). The '468 family is directed to automating the delivery of professional services over the Internet, while the '007 patent is directed to technology for backing up client data. WhitServe alleged that CPi's software programs, operated by a CPi customer such as a law firm to generate and send reminders to its clients of upcoming patent or trademark annuity or maintenance fee deadlines, infringed the WhitServe patents. CPi answered with affirmative defenses and a counterclaim against WhitServe and Mr. Whitmyer seeking a DJ of noninfringement, invalidity, and unenforceability.

The primary factual disputes at trial were whether CPi's products operated in a manner such that they fell within the '468 family claims' definition of "automatic," and whether the '007 patent was anticipated by prior art. The jury found that CPi failed to prove that any claims of the four WhitServe patents were invalid; CPi's systems infringed the patents; the infringement was willful; and WhitServe was entitled to $8,378,145 in damages. The district court denied CPi's post-trial motions seeking JMOL and/or a new trial. The district court also denied, dismissed, or failed to address WhitServe's post-trial motions for a permanent injunction, a compulsory license, enhanced damages, attorneys' fees, prejudgment interest, prejudgment remedy, and post-trial accounting. The district court further denied Mr. Whitmyer's motion seeking fees and sanctions against CPi for asserting the counterclaim against him. CPi appealed, and WhitServe and Mr. Whitmyer cross-appealed.

Applying Second Circuit law, the Court affirmed the denial of JMOL on noninfringement because substantial evidence supported the jury's verdict of infringement. The Court rejected CPi's argument that its products did not operate "automatically" in the context of the '468 family's claims. Claim 1, for example, recited "software executing on [a] computer for *automatically querying* [a] database

by . . . values attributed to each client reminder date field to retrieve a client reminder." Slip op. at 7. CPi did not dispute the district court's interpretation of "automatic"—a process that, once initiated, is performed by a machine without the need for human intervention. Instead, CPi argued that its products require the manual entry of a due date range *during* the execution of the querying process. Thus, because human intervention is needed for its products to perform the querying process, CPi argued that they do not meet the definition of "automatic" as used in the '468 family's claims. The Court disagreed, finding substantial evidence that the "querying process [in CPi's products] does not start until the user enter[s] a date range and starts the process." *Id.* at 10 (second alteration in original) (citation omitted).

Specifically, the Court pointed to WhitServe's expert's testimony that a query requires "a date range, so that you know what you're searching for," as evidence the jury could rely on to reach its verdict of infringement. *Id.* at 11. Thus, the Court affirmed the district court's denial of CPi's motion for JMOL of noninfringement.

"We do not require that witnesses use any or all of the *Georgia-Pacific* factors when testifying about damages in patent cases. If they choose to use them, however, reciting each factor and making a conclusory remark about its impact on the damages calculation before moving on does no more than tell the jury what factors a damages analysis could take into consideration." Slip op. at 33.

The Court next affirmed the district court's denial of JMOL on anticipation on most of the claims of the '007 patent, but reversed-in-part, holding that no reasonable juror could have found claim 10 not anticipated in light of the only prior art upon which CPi relied, U.S. Patent No. 5,903,881 ("the Schrader patent"). WhitServe asserted that the Schrader patent was missing three elements of the '007 patent claims: "(1) a central computer for transmitting client data to a client computer (required by all claims 1-15); (2) Internet-based data (required by claims 1-9); and (3) data conversion (required by claims 7-9 and 12-15)." *Id.* at 16. The Court eliminated asserted differences (2) and (3) because claim 10 did not recite them, and rejected the asserted difference (1) because "Schrader clearly disclose[d] a central computer in the form of the financial institution's computer." *Id*. Because no other contrary evidence in the record existed upon which WhitServe could rely, the Court held that "no reasonable juror could have found that claim 10 was not anticipated by the Schrader Patent." *Id*. at 17.

The Court, however, found that CPi failed to develop a detailed evidentiary record of how the other claims of the '007 patent were anticipated. The Court found an opinion by CPi's expert, "which failed to articulate how the Schrader Patent anticipated the other claims' specific elements, to be a far cry from the 'overwhelming amount of evidence' needed to . . . overturn the jury's verdict." *Id.* at 19. Similarly, the Court found that CPi failed to develop a record sufficient to answer the factual inquiries underlying an obviousness determination. Thus, the Court held that substantial evidence supported the jury's verdict of no invalidity as to the remaining claims of the '007 patent.

As to the damages award, the Court found the jury's verdict unsupportable under either the reasonable royalty or the lost profit theory of infringement compensation. The Court first reviewed whether the $8,378,145 damages award could represent a reasonable royalty stemming from a hypothetical negotiation. CPi's expert stated that there were 1,036,877 accused infringing transactions. In a factual dispute over the average service fee CPi charged for each infringing transaction, the Court sided with WhitServe's calculation of $41 over CPi's $15.69. The $41 figure represented company-wide average gross revenue per transaction across both infringing and noninfringing transactions. The Court arrived at a royalty base of $42-43 million, which would be multiplied with a royalty rate to arrive at a reasonable royalty amount.

The Court, however, did not find support in the record for the 16-19% royalty rate that WhitServe's expert

advanced. The Court discounted the value of WhitServe's expert's testimony advancing a 31.8% royalty rate based on a proposed, but unaccepted, license. That would incentivize patentees to artificially inflate the royalty rate by making outrageous offers that would never be accepted. Further, WhitServe's expert arrived at the 31.8% royalty rate by using CPi's $15.69 average gross revenue per transaction as a baseline, when WhitServe itself had argued against it for calculating the royalty base in favor of the $41 figure, which would yield a much lower royalty rate.

WhitServe also cited two lump-sum royalties, both in the $2-3 million range, that it successfully negotiated with CPi's competitors as evidence that a 19% royalty rate was reasonable. But WhitServe did not explain how the lump-sum payments could be converted to a royalty rate. Thus, the Court reasoned, "the lump-sum agreements [were] not substantial evidence in support of the jury's verdict." *Id.* at 31. Further, the jury's verdict of $8.3 million was over three times the average of the lump-sum royalties; the Court explained that there is "little evidentiary basis under *Georgia-Pacific* Factor 2 for awarding roughly three to four times the average amount in the lump-sum agreements in evidence." *Id*. (quoting *Lucent Techs., Inc. v. Gateway, Inc*., 580 F.3d 1301, 1332 (Fed. Cir. 2009)).

Next, WhitServe argued that the *Georgia-Pacific* factors supported the 19% rate. But the Court found that WhitServe's expert, Dr. Shapiro, made several errors in his analysis. First, he used the 25% rule of thumb that the Court discarded in *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011), as a starting point. Second, he did not explain how that rate should be adjusted up or down in light of the *Georgia-Pacific* factors. "He did not explain how much each factor affected the rate, however, and he testified that almost all factors justified an increase in the applicable rate, a few were neutral in terms of their impact, and none justified a decreased rate." Slip op. at 32 (footnote omitted). Thus, the Court concluded, "the royalty rate suggested by Dr. Shapiro does not support the verdict because his testimony is conclusory, speculative and, frankly, out of line with economic reality." *Id.* at 35.

The Court also found the jury's verdict unsupportable under a lost profit theory because there was no evidence in the record to quantify the competitive harm that WhitServe allegedly suffered. The Court observed that the jury's damages award must be the result of sheer surmise and conjecture, "divorced from proof of economic harm linked to the claimed invention and . . . inconsistent with sound damages jurisprudence." *Id.* at 37 (quoting *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010)). Thus, the Court vacated the damages award and remanded for a new jury trial on damages.

The Court then considered WhitServe's cross-appeal of the district court's denial of its post-trial motions for a permanent injunction, a compulsory license, enhanced damages, attorneys' fees, prejudgment interest, prejudgment remedy, and post-trial accounting. In each instance, the Court found the district court's analyses of WhitServe's motions cursory and thus inadequate. Accordingly, the Court vacated and remanded these district court rulings. Finally, the Court addressed Mr. Whitmyer's cross-appeal of the district court's denial of his motion seeking fees and sanctions against CPi for asserting the counterclaim against him. Although the Court considered CPi's claims against Mr. Whitmyer "questionable," the Court did not consider them sufficient to make the case exceptional. *Id*. at 48. Thus, the Court affirmed the district court's denial of Mr. Whitmyer's motion.

Judge Mayer dissented. In his view, the '468 family of patents could not be infringed because they are all invalid under 35 U.S.C. § 101, as "directed to the abstract idea that it is useful to provide people with reminders of approaching due dates and deadlines." Mayer Dissent at 1. Judge Mayer considered it appropriate to take up the eligibility issue not specifically raised by the parties because there had been significant changes in the law governing patent eligibility of claimed subject matter since the district court's decision.

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Back to Main

September 2012

The Concentration Range in an Independent Claim Must Include the Concentrations in the Dependent Claims

Danielle A. Duszczyszyn

Judges: Prost, Moore (author), O'Malley

[Appealed from S.D. Ind., Judge Young]

In *Alcon Research, Ltd. v. Apotex Inc.*, No. 11-1455 (Fed. Cir. Aug. 8, 2012), the Federal Circuit reversed the district court's holding that claims 1-3 and 5-7 of U.S. Patent No. 5,641,805 ("the '805 patent") would not have been obvious over the prior art, and affirmed the district court's holding that claims 4 and 8 are not invalid.

The '805 patent is directed to a method for treating allergic eye disease in humans comprising stabilizing conjunctival mast cells, the primary cells involved in allergic reactions, by topically administering an olopatadine composition. Both the olopatadine compound itself and a method of treating allergies using the class of chemicals that encompasses olopatadine were already patented at the time of invention. Distinguishing itself from the prior art, the specification states that a compound's activity in a rodent's conjunctival mast cells or in mast cells located elsewhere in the body cannot predict its ability to stabilize mast cells in the human eye. The '805 patent is listed in the Orange Book for Patanol®, which is marketed by Alcon Research, Ltd. et al. (collectively "Alcon").

Apotex Inc. and Apotex Corp. (collectively "Apotex") submitted an ANDA to the FDA seeking approval to market a generic version of Patanol®. Alcon sued Apotex for patent infringement under 35 U.S.C. § 271(e)(2)(A), asserting claims 1-8 of the '805 patent. In a bench trial, the district court found that the '805 patent was enforceable and not invalid, and that Apotex's generic product infringed the asserted claims. The district court granted a permanent injunction against Apotex, and Apotex appealed.

On appeal, the Federal Circuit stated that it "must determine what olopatadine concentrations constitute a 'therapeutically effective amount,'" and that "[t]he dependent claims are a starting point for ascertaining the concentration of olopatadine covered by claim 1." Slip op. at 10. "Because [the dependent claims] set forth a concentration range, that range at a minimum must be included in claim 1, whatever its limitations." *Id.* at 12.

"This is not how patent law works. . . . [Y]ou can't simply disavow the invalid portion and keep the valid portion of the claim." Slip op. at 11.

The Federal Circuit rejected Alcon's argument that the inoperative portion of the range would not be covered by the claim by virtue of the limitation requiring mast cell stabilization to a clinically relevant

extent. "This is not how patent law works. . . . [Y]ou can't simply disavow the invalid portion and keep the valid portion of the claim." *Id.* at 11. The prior art expressly disclosed eye drops with olopatadine concentrations covered by claims 1-3 and 5-7, and thus overlapped with the ranges disclosed in the '805 patent. The Court held that "if prior art discloses a portion of the claimed range, the entire claim is invalid." *Id.* at 11-12.

The Federal Circuit then found there was motivation to adapt the formulation disclosed in the prior art, which was tested in guinea pigs, for use in treating allergic eye disease in humans. Explaining that "[t]he district court's error stemmed from its refusal to look at any motivation beyond that articulated by the patent," the Federal Circuit stated that it had "repeatedly held that the motivation to modify a prior art reference to arrive at the claimed invention need not be the same motivation that the patentee had." *Id.* at 12-13 (citing *KSR Int'l Co. v. Teleflex, Inc.*, 55 U.S. 398, 420 (2007); *In re Kahn*, 441 F.3d 977, 990 (Fed. Cir. 2006); *DyStar Textilfarben GmbH v. C.H. Patrick Co.*, 464 F.3d 1356, 1361 (Fed. Cir. 2006)). The Federal Circuit found motivation to adapt the prior art's antihistamine formulation for human use because it proved effective in guinea pigs and these animal models are predictive of antihistaminic efficacy in humans.

After weighing the district court's fact-findings on objective secondary considerations against the strong evidence of obviousness, the Federal Circuit concluded that claims 1-3 and 5-7 were obvious over the prior art, which disclosed every limitation of those claims except that the formulation can be used to treat eye allergies in humans.

The Federal Circuit affirmed the district court's finding of nonobviousness for claims 4 and 8. The Court reasoned that these claims were limited to formulations with a concentration outside the range disclosed in the prior art. The Court noted that the concentrations tested in the prior art were substantially lower than that of claims 4 and 8, and that a person of ordinary skill in the art would have been concerned that olopatadine might be biphasic at the increased concentration, and thus would not have tried such formulations.

The Court also held that the district court did not clearly err by finding that a skilled artisan would not arrive at the claimed concentration by substituting olopatadine for the active compound used in the ophthalmic formulation disclosed in a prior art patent. The Court agreed with the district court that a person of ordinary skill in the art would have known that one could not simply substitute one active ingredient for another without adjusting the concentration.

Finally, the Federal Circuit found that objective evidence of outstanding commercial success and widespread praise within the industry further supported the district court's decision, noting that the olopatadine concentration recited in claims 4 and 8 is the one used in Patanol®. The Court thus affirmed the district court's decision that claims 4 and 8 would not have been obvious.

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Last Month at the Federal Circuit

Back to Main

September 2012

JMOL Overturned Because Substantial Evidence Supported Jury's Findings of Nonobviousness

Richard M. Hanna

Judges: Bryson, Dyk (concurring), O'Malley (author)

[Appealed from W.D. Tex., Judge Furgeson]

In *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, No. 11-1105 (Fed. Cir. Aug. 13, 2012), the Federal Circuit reversed and remanded the district court's grant of JMOL to defendant Smith & Nephew, Inc. ("S&N") of invalidity for obviousness, because S&N failed to establish by clear and convincing evidence that the claims were obvious.

Kinetic Concepts, Inc., KCI Licensing, Inc., KCI USA, Inc., KCI Medical Resources, KCI Manufacturing, and Medical Holdings Limited (collectively "KCI"), and Wake Forest University Health Sciences ("Wake Forest") brought suit against S&N, alleging infringement of U.S. Patent Nos. 7,216,651 ("the '651 patent") and 5,645,081 ("the '081 patent"), which are owned by Wake Forest and exclusively licensed by KCI. The claims of the asserted patents are directed towards methods and apparatuses for the treatment of wounds through the application of negative pressure.

In the district court, the parties disagreed about the form and content of the jury instructions with regard to obviousness. Ultimately, the jury verdict form presented yes or no questions about differences between the prior art and the asserted claims, a yes or no chart about certain objective indicia of nonobviousness, and a yes or no question on whether S&N had proven obviousness. The jury determined that the prior art exhibited differences from the claims, that objective considerations of nonobviousness were present, and that obviousness was not established.

S&N moved for JMOL, arguing that the jury's explicit findings were not supported by substantial evidence. The district court agreed, finding that, contrary to the jury's explicit findings, the differences between the claimed invention and the prior art, if any, were minimal, and that the objective indicia of nonobviousness did not overcome the strong case of obviousness. The district court granted JMOL in favor of S&N, and Wake Forest appealed.

As an initial matter, the Federal Circuit rejected S&N's argument that the jury verdict was "advisory" and therefore not binding. The Court held that because the district court did not use the term "advisory jury" to denote a jury under Fed. R. Civ. P. 39(c)(1), the cases cited by S&N were irrelevant. The Court concluded that the district court instead used the term "advisory jury" to indicate that the jury was permissibly given a legal issue whose ultimate determination was reserved for the court. Accordingly, the Court held that all of the jury's explicit and implicit factual findings were to be reviewed for substantial evidence, and that the legal conclusion of obviousness was to be examined de novo.

"While the Supreme Court made clear that a mechanical application of the teaching-suggestion-motivation test, requiring an explicit teaching in the prior art, is inappropriate, '[w]e must still be careful not to allow hindsight reconstruction of references to reach the claimed invention without any explanation as to how or why the references would be combined to produce the claimed invention.'" Slip op. at 45 (alteration in original) (quoting *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1374 n.3 (Fed. Cir. 2008)).

"The objective indicia of nonobviousness serve a particularly important role in a case, like this one, where there is a battle of scientific experts regarding the obviousness of the invention. In such a case, the objective indicia provide an unbiased indication regarding the credibility of that evidence." *Id.* at 49.

The Court addressed each of the *Graham* factors and concluded that the jury's findings with respect to each were supported by substantial evidence. First, the Court held that the district court erroneously found no support for the proposition that the primary references did not disclose the treatment of wounds utilizing negative pressure. Second, the Court reasoned that the jury adopted the level of skill in the art proposed by S&N, which was lower than that proposed by Wake Forest. Third, the Court held that there were differences between the prior art and the claims, and that "[e]ven if the references disclosed all of the limitations of the asserted claims, which they do not, S&N still needed to proffer evidence indicating why a person having ordinary skill in the art would combine the references to arrive at the claimed invention." Slip op. at 41 (citing *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1374 (Fed. Cir. 2008)). "Here, not only did S&N offer no evidence establishing a reason to combine, but Wake Forest offered substantial evidence that a person having ordinary skill in the art had no reason to combine the prior art references to arrive at the claimed invention." *Id.* at 42. The Court held that it must defer to the jury's presumed finding of no reason to combine, because it was supported by substantial evidence. Fourth, the Court found that "there is more than substantial evidence [in the record] supporting the jury's findings of commercial success, long-felt need, copying, unexpected and superior results, wide spread acceptance in the field, and initial skepticism." *Id.* at 44.

On the ultimate question of obviousness, the Court held that on the basis of the jury's factual findings, the district court erred by granting S&N's JMOL motion. The Court reasoned that, "[w]hile the Supreme Court made clear that a mechanical application of the teaching-suggestion-motivation test . . . is inappropriate, '[the Court] must still be careful not to allow hindsight reconstruction of references to reach the claimed invention without any explanation as to how or why the references would be combined to produce the claimed invention.'" *Id.* at 45 (quoting *Innogenetics*, 512 F.3d at 1374 n.3). Here, the Court held that "hindsight provides the only discernable reason to combine the prior art references." *Id.* at 47.

With respect to the objective indicia of nonobviousness, the Court found the evidence strongly in favor of a finding of nonobviousness. "[T]he evidence strongly establishes the existence of nearly every objective indicia of nonobviousness, namely commercial success, long-felt need, copying, unexpected and superior results, wide spread acceptance in the field, and initial skepticism." *Id.* at 48. The Court pointed to its recent "warning" about the dangers of ignoring objective indicia of nonobviousness in *Mintz v. Dietz & Watson, Inc.*, 679 F.3d 1372, 1379 (Fed. Cir. 2012), and noted that "[t]he objective indicia of nonobviousness serve a particularly important role in a case, like this one, where there is a battle of scientific experts regarding the obviousness of the invention." Slip op. at 49. "In such a case, the objective indicia provide an unbiased indication regarding the credibility of that evidence." *Id.* The Court concluded that on the record, S&N did not prove by clear and convincing evidence that the asserted claims were obvious and that the district court committed error by failing to defer to the jury's factual findings and by granting JMOL.

Judge Dyk wrote a concurring opinion. While Judge Dyk agreed with the majority that deference is owed

to the jury's implied findings in support of its nonobviousness verdict, he believed that the majority erred in its construction of the "healing" limitations of the claims. In Judge Dyk's view, it is impossible to determine what findings the jury made because they were not properly instructed on claim construction. "At the same time, because the accused infringer did not seek a construction of the 'healing' limitations, [the Court] should assume the jury used the correct construction." Dyk Concurrence at 2. Judge Dyk stated that, under the construction, he agreed with the majority that the accused infringer did not establish invalidity for obviousness as a matter of law.

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Last Month at the Federal Circuit

Back to Main

September 2012

A Mark Is Merely Descriptive If It Conveys Information Regarding a Function, Purpose, or Use of the Goods

Abhay A. Watwe

Judges: Prost, Moore, O'Malley (author)

[Appealed from TTAB]

In *DuoProSS Meditech Corp. v. Inviro Medical Devices, Ltd.*, No. 12-1050 (Fed. Cir. Aug. 14, 2012), the Federal Circuit reversed the TTAB's decision dismissing DuoProSS Meditech Corporation's ("DuoProSS") counterclaims for cancellation of two trademark registrations owned by Inviro Medical Devices, Ltd. ("Inviro").

DuoProSS and Inviro sell medical syringes and needles designed to prevent accidental needle sticks. Inviro's products accomplish that objective by capturing a syringe's needle in the syringe barrel after use and sealing off the barrel with the needle inside. To do so, a person using an Inviro syringe must pull the syringe plunger back, drawing the needle into the syringe barrel, and snap (or break) off the plunger, sealing the needle inside the barrel and making the syringe safe for handling and disposal.

Inviro owns the two trademark registrations-at-issue in this appeal. The first covers the "SNAP! design mark" shown below, consisting of the literal element SNAP and a broken exclamation point.

Snap!

The SNAP! design mark is registered for use with medical, hypodermic, aspiration, and injection syringes. The second consists of the phrase SNAP SIMPLY SAFER in standard characters. The SNAP SIMPLY SAFER mark is registered for use with cannulae; medical, hypodermic, aspiration, and injection needles; and medical, hypodermic, aspiration, and injection syringes.

This case commenced when Inviro petitioned to cancel a trademark registration owned by DuoProSS for the design mark BAKSNAP, registered for use with a safety syringe for medical use. In response, DuoProSS asserted counterclaims for cancellation of a number of Inviro's registrations, including the SNAP! design mark and the SNAP SIMPLY SAFER mark. The TTAB declined to cancel both marks. Moreover, while acknowledging that both marks contained the literal element SNAP, which was merely descriptive, the TTAB found that the broken exclamation point in the SNAP! design mark and the words SIMPLY SAFER in the SNAP SIMPLY SAFER mark rendered those marks more than descriptive. DuoProSS appealed.

On appeal, the Federal Circuit reversed the TTAB, holding that both the SNAP! design mark and the

SNAP SIMPLY SAFER mark were merely descriptive. The Court explained that a mark was merely descriptive if it conveyed information regarding a function, purpose, or use of the goods. The Court noted that a suggestive mark required imagination, thought, and perception to reach a conclusion as to the nature of the goods, while a merely descriptive mark conveyed an immediate idea of the ingredients, qualities, or characteristics of the goods. The Court also explained that a determination of whether a mark was merely descriptive was a question of fact, and that the Court reviewed the TTAB's factual findings for substantial evidence, a standard which demanded deference to the TTAB's findings.

"The question is not whether someone presented with only the mark could guess what the goods or services are. Rather, the question is whether someone who knows what the goods and services are will understand the mark to convey information about them." Slip op. at 11 (quoting *In re Tower Tech. Inc.*, 64 U.S.P.Q.2d 1314, 1316-17 (T.T.A.B. 2002)).

With respect to the SNAP! design mark, the Court concluded that even under the deferential standard of review, the TTAB erred in finding that the SNAP! design mark was not merely descriptive for two reasons. First, the Court held that the TTAB improperly focused on only one portion of the mark instead of considering the mark as a whole. Second, the Court held that the TTAB failed to make any findings to support its conclusion that the SNAP! design mark was not merely descriptive.

The Court found that the TTAB erred by focusing on only a portion of the mark instead of focusing on the mark as a whole when it improperly separated the SNAP! design mark into the literal element SNAP and the broken exclamation point. Specifically, the Court held that the TTAB erred when it analyzed the exclamation point in isolation and found that the exclamation point was "fanciful" and not merely descriptive. Additionally, the Court noted that the TTAB failed to explain why a mark composed of the admittedly descriptive word SNAP, which referred to a prominent function of the recited goods, and an exclamation point that depicted at least the breaking or snapping of "something" was not, when taken as a whole, merely descriptive of the snapping of syringes.

The Court also found that the TTAB did not cite any evidence showing that the SNAP! design mark required a consumer to employ imagination, thought, and perception to determine the nature of the goods with which the mark was used. To the contrary, the Court found that the factual findings made by the TTAB supported the conclusion that a consumer would perceive the SNAP! design mark as depicting the snapping of a syringe plunger, as opposed to merely the snapping of "something." In reaching this conclusion, the Court relied on the instructions packaged with Inviro's products, Inviro's website, and testimony from Inviro's founder, Dr. F. Ross Sharp. Specifically, the Court noted that the instructions packaged with Inviro's products required a user to "Snap off plunger!" and were accompanied by the SNAP! design mark, placing the mark and the concept of snapping the syringe plunger in the same context. The Court also noted that Inviro's website prominently showed a broken plunger and the word SNAP. In addition, the Court noted Dr. Sharp's testimony stating that disabling of the syringe involved a number of steps, one of which was breaking the plunger. The Court therefore concluded that the TTAB's factual findings supported the conclusion that the SNAP! design mark was merely descriptive.

With respect to the SNAP SIMPLY SAFER mark, the Court concluded that the TTAB made a combination of legal and factual errors in finding that this mark was not merely descriptive. The Court explained that to determine whether a composite mark such as the SNAP SIMPLY SAFER mark was merely descriptive, the TTAB was required to examine the meaning of each component individually and then determine whether the mark as a whole was merely descriptive. The Court found that despite noting that the word SNAP was descriptive, the TTAB failed to cite any evidence to support its conclusion that the combination of the terms SIMPLY and SAFER were not merely descriptive. Specifically, the Court noted that the record contained no evidence indicating that a consumer would focus on the alliteration formed by SNAP, SIMPLY, and SAFER, or that such an alliteration would convey any specific commercial

impression to the consumer.

The Court held that, contrary to the TTAB's opinion, the combination of the terms SIMPLY and SAFER merely imparted information about a significant characteristic of the goods. The Court noted that the TTAB's own findings indicated that SIMPLY SAFER described the most important advantage of Inviro's products: their safety. In reaching this conclusion, the Court relied on the testimony of Dr. Sharp, stating that the purpose of capturing the needle in the syringe barrel was to prevent a needle stick—in other words, to make the device safer. The Court further relied on Dr. Sharp's testimony that he chose the word SNAP to indicate ease of use. The Court noted that Dr. Sharp did not assert that the idea of using SIMPLY SAFER was shaped by his desire to convey the products' ease of use. Based on this evidence, the Court concluded that consumers would not recognize that Inviro's devices were easy to use from the words "SIMPLY SAFER" but instead would only infer from these words that Inviro's products were safe to use. The Court therefore concluded that the words SIMPLY SAFER were merely descriptive.

The Court also held that the TTAB erred as a matter of law in concluding that the SNAP SIMPLY SAFER mark was more than descriptive based on the TTAB's opinion that SIMPLY SAFER was a laudatory phrase or puffery. The Court found that the TTAB erred when it concluded that puffery removed a mark from the realm of descriptiveness. The Court explained that, contrary to the TTAB's conclusion, marks that are merely laudatory and descriptive of the alleged merit of a product are regarded as descriptive because they are simply a condensed form of describing the character or quality of the goods. The Court therefore held that adding SIMPLY SAFER to SNAP did nothing more than laud the safety of Inviro's products, which was a descriptive use.

Thus, the Court reversed the TTAB's determination and remanded with instructions to enter judgment in favor of DuoProSS and to order cancellation of the SNAP! and the SNAP SIMPLY SAFER marks.

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Last Month at the Federal Circuit

Back to Main

September 2012

Broad Claim Language Must Be Enabled Across Its Full Scope of Coverage

Clara N. Jimenez

Judges: Rader (author), O'Malley, Reyna

[Appealed from D. Del., Judge Bartle III]

In *MagSil Corp. v. Hitachi Global Storage Technologies, Inc.*, No. 11-1221 (Fed. Cir. Aug. 14, 2012), the Federal Circuit affirmed the district court's grant of SJ of invalidity for lack of enablement of U.S. Patent No. 5,629,922 ("the '922 patent"), assigned to the Massachusetts Institute of Technology and exclusively licensed to MagSil Corporation ("MagSil").

The '922 patent relates to read-write sensors for computer hard disk drive storage systems. The sensors use a quantum mechanical effect where the electric current can tunnel from one electrode through a thin insulating barrier layer into a second electrode. With two ferromagnetic electrodes, the tri-layer tunnel resistance changes with a change in magnetization direction. The '922 patent claims a method of manufacturing a tri-layer tunnel junction and the junction itself. The asserted claims, however, only claim the tunnel junction device.

MagSil filed suit against several defendants, including Hitachi Global Storage Technologies, Inc., Hitachi America, Ltd., Hitachi Data Systems Corporation, and Shenzhen Excelstor Technology, Ltd. (collectively "Hitachi"), alleging that their disk drive products infringed claims of the '922 patent. The non-Hitachi defendants were dismissed from the case. After claim construction proceedings, the parties filed cross-motions for SJ. The district court granted Hitachi's SJ motions of invalidity and noninfringement after finding that the limitation "a change in the resistance by at least 10% at room temperature" was not enabled by the specification. Because the asserted claims were deemed invalid, the district court also granted Hitachi's SJ motion of noninfringement.

On appeal, the Federal Circuit affirmed the district court's holdings. The Court reiterated that enablement serves a dual function in the patent system by ensuring adequate disclosure of the claimed invention and preventing overbroad claiming that might otherwise attempt to cover more than was actually invented. MagSil advocated for a broad construction of the claim terms, relying on, among other things, expert testimony that the claims cover tunnel junctions with resistive changes of 100% or more, with one of the inventors testifying that a 1000% change falls within the scope of the claims. As construed, the district court found that the asserted claims cover "resistance changes beyond 120% and up to infinity." Slip op. at 7 (quoting *MagSil Corp. v. Seagate Tech.*, 764 F. Supp. 2d 647, 680 (D. Del. 2011)). Thus, the inquiry is whether the specification, at the time of filing, teaches one of ordinary skill in the art to achieve the resistance change across that entire scope.

"[A] patentee chooses broad claim language at the peril of losing any claim

that cannot be enabled across its full scope of coverage." Slip op. at 6-7.

In analyzing the disclosure at the time of filing, the Court noted that the specification indicated that past efforts had failed to produce an adequate level of changes in the tunneling resistance for practical applications, peaking at only 2.7% change in resistance. In contrast, the specification explained that the invention of the '922 patent achieves a "ten percent change in the tunneling resistance with respect to magnetic field (H) variation." While the specification discloses a 1975 publication that predicted an ideal tunnel junction could yield around a 24% change in resistance, the inventors' best efforts, twenty years later at the time of filing, achieved a maximum change in resistance of 11.8% at room temperature. During prosecution, the inventors asserted that changes of 18% had been achieved after the date of filing, and predicted still higher resistive changes because "no clear theoretical limit prevented achieving the highest possible value of 100%." *Id*. at 9. The Court found that the inventors' understanding during prosecution that a 100% resistive change was an upper limit was inconsistent with MagSil's position at litigation that the claims would cover resistive changes greater than 120%.

In addition, the Court highlighted inconsistencies in the testimony offered by MagSil's experts indicating that a person of ordinary skill in the art could work the '922 patent and make tunneling junctions with a resistive change between 100% and 120% without undue experimentation, while also testifying that the first junction with this level of resistive change was not developed until twelve years after the patent application was filed. The expert had also acknowledged that even someone of extraordinary skill in the art in 1995 could not have predicted the exact process and materials needed for the 120% resistive change achieved over ten years later. In addition, the expert admitted that resistive change of 604% has now been achieved by others, and the claim scope extends well beyond that value as well. The Court noted that even if the expert's testimony could somehow overcome the requirement that the enabling disclosure must appear in the specification at the time of filing, his testimony failed to reach the modern dimensions of the field.

In sum, the Court found that this field of art has advanced vastly after the filing of the claimed invention. The specification containing these broad claims, however, does not contain sufficient disclosure to present even a remote possibility that an ordinary skilled artisan could have achieved the modern dimensions of this art. The specification does not disclose working examples of tunnel junctions with resistive changes of 20%, 120%, 604%, or 1000%. The named inventors were not able to achieve even a 20% change a year after filing the application. And 604% junctions were not achieved until more than a decade later. The Court concluded that "the specification enabled a marginal advance over the prior art, but did not enable at the time of filing a tunnel junction of resistive changes reaching even up to 20%, let alone the more recent achievements above 600%." *Id*. at 10. The Court emphasized that the enablement doctrine ensures that the patent system preserves necessary incentives for follow-on or improvement inventions. In this case, many additional advances were necessary to take the technology from a 20% resistance change to the over 600% resistance change in present data storage. Thus, the Court reasoned, this technology area will continue to profit from inventive contributions. "Enablement operates to ensure fulsome protection and thus 'enable' these upcoming advances." *Id.* at 13.

The Court also rejected MagSil's argument that the open claim language "at least" is equivalent to the Court's construction of "comprising" in *Gillette Co. v. Energizer Holdings, Inc.*, 405 F.3d 1367, 1371 (Fed. Cir. 2005). In *Gillette*, the patentee claimed "[a] safety razor blade unit comprising . . . a group of first, second, and third blades." Slip op. at 12 (alterations in original) (quoting *Gillette*, 405 F.3d at 1369). The Court found that the claim covered a razor with four blades, because it used the open claim term "comprising" to encompass subject matter beyond a razor with only three blades, and the claim language, specification, and prosecution history supported such breadth. *Id.* (citing *Gillette*, 405 F.3d at 1371-72). Distinguishing *Gillette* from the present case, the Court noted that enablement was not an issue in *Gillette*. Moreover, the safety razor technology and the very fact-specific distinctions in that case did not apply to MagSil's technology or case. Finally, the Court explained that in *Gillette*, the invention did not claim an infinite number of blades but blades with three separate categories of characteristics.

Therefore, the Court concluded, a limitation extending to an open-ended range of values that must be present for infringement is different from a preamble recitation "comprising," which does not exclude additional features to devices otherwise within the narrower claim definition. Accordingly, the Court affirmed the district court's finding on invalidity and noninfringement.

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Back to Main

September 2012

SJ of Infringement of a Patented Method Is Inappropriate Where Plaintiff Offers No Evidence of Actual Use of the Method

Jeffrey D. Smyth

Judges: Dyk (concurring), Moore, O'Malley (author)

[Appealed from N.D. Ill., Judge Shadur]

In *Meyer Intellectual Properties Ltd. v. Bodum, Inc.*, No. 11-1329 (Fed. Cir. Aug. 15, 2012), the Federal Circuit reversed the district court's grant of SJ of infringement, vacated the jury's verdict due to abuse of discretion by the district court in granting certain evidentiary motions, vacated an award of attorneys' fees, and remanded the case to the district court for further proceedings.

Meyer Intellectual Properties Limited and Meyer Corporation, U.S. (collectively "Meyer") own two patents directed to a method of frothing liquids, U.S. Patent Nos. 5,780,087 ("the '087 patent") and 5,939,122 ("the '122 patent"), which is a continuation of the '087 patent. Both patents cover a method for frothing liquids such as milk without using electricity or steam. Generally, the steps include (1) providing a container that has a height to diameter aspect ratio of 2:1; (2) pouring liquid into the container; (3) introducing a plunger with certain features; and (4) pumping the plunger to aerate the liquid. Meyer accused three versions of Bodum, Inc.'s ("Bodum") milk frothers of infringement. Bodum counterclaimed for DJ of noninfringement and invalidity. The parties did not ask the district court to construe the phrase "providing a container," as it is used in the claims.

Before trial, Meyer filed two motions for partial SJ, arguing that all three versions of the Bodum product infringed the '087 and '122 patents both directly and indirectly. Specifically, Meyer argued that, by including instructions for use along with the products it sold, Bodum induced others to infringe Meyer's patents. Meyer supported its motion with expert testimony, although it did not present any evidence that Bodum or any of its customers actually performed the patented method. The district court granted SJ of infringement with regard to two of the three versions of Bodum's milk-frothing product.

Meyer also filed several motions in limine seeking to (1) prevent Bodum from introducing what it characterized as previously undisclosed prior art references; (2) prevent Bodum's expert from testifying regarding invalidity and obviousness; (3) prevent Bodum's other witnesses from presenting testimony related to prior art not discussed by its expert; and (4) preclude Bodum from presenting evidence of inequitable conduct. The district court granted all of Meyer's motions, effectively limiting Bodum to use of only two prior art references identified in its expert report.

The jury returned a verdict in favor of Meyer, finding that the patents were not invalid, Bodum's infringement was willful, and Meyer was entitled to $50,000 in damages. Ruling on post-trial motions, the district court awarded Meyer treble damages as well as attorneys' fees of approximately $750,000. The district court also denied Bodum's renewed JMOL and motion to alter the SJ decision.

On appeal, the Federal Circuit considered whether the district court erred when it (1) granted SJ of direct infringement and inducement of the asserted method claims, despite the lack of evidence that any one party—including Bodum—actually performed each step of the asserted claims; (2) made several evidentiary rulings that made it impossible for Bodum to present its case; (3) dismissed Bodum's affirmative defense of inequitable conduct on a motion in limine; and (4) denied Bodum's JMOL of no willful infringement.

"We find it troubling that the district court based its direct infringement analysis on what it assumed happened, rather than on actual evidence of record. This assumption contradicts our well-established law that a patentee must prove infringement by a preponderance of the evidence." Slip op. at 26.

The Federal Circuit first addressed whether the district court appropriately granted SJ on the issue of infringement. The Court disagreed with the district court that Bodum had conceded direct infringement and concluded that no waiver occurred. Rather, Bodum argued during SJ proceedings that it could not be liable for direct infringement because, based on Bodum's interpretation of the term "providing," one party could not infringe any of the method claims. Because Bodum challenged the direct infringement claim, the Federal Circuit found that Bodum did not concede the issue. There was no other evidence to support SJ of infringement as to those products, so the Court concluded that SJ was not appropriate.

Next, the Court construed the term "providing," a term not construed by the district court. In so doing, the Court noted that it is generally hesitant to construe terms that have not been construed by the lower court, but in this case where both parties had sufficiently developed their positions on the record, construing the term was appropriate. The Court concluded that the term was not limited to a specific party, as Bodum had contended, but rather that anyone who takes a Bodum device from the kitchen cabinet can satisfy the "providing" step. By not limiting the "providing" step, the Court found that it would be possible for a single party to infringe the claimed method.

Despite ruling in Meyer's favor on the claim construction issue, the Federal Circuit reversed the district court's grant of SJ because there was no record evidence of direct infringement by either Bodum or any of its customers. The district court had assumed that Bodum "must have tested" its products before releasing them, despite the fact that no evidence demonstrated such testing. The Court held that this assumption contradicted the well-established law that the burden is on the patentee to prove infringement by a preponderance of the evidence. The assumption that testing must have occurred improperly drew an inference in favor of Meyer, the party that moved for SJ. Because all factual inferences must be drawn in favor of the nonmoving party, the Federal Circuit reversed the grant of SJ and remanded the case for further consideration in light of the construction of the term "providing."

The Federal Circuit next addressed and reversed several evidentiary rulings made by the district court, applying the law of the Seventh Circuit. First was the district court's decision to limit the universe of prior art based upon (1) Bodum's insufficient disclosure in an interrogatory response; and (2) the scope of references addressed in the report of its expert. In reviewing the record, the Federal Circuit determined that the interrogatory response did disclose several references that were excluded by the district court. The Court also found that the scope of the expert report was not narrowed to two references as the district court had found and that, even if the expert report had narrowed the scope of prior art, such narrowing should have only impacted the scope of the expert's testimony. The Court ultimately found that the improperly narrowed scope of prior art prevented Bodum from presenting its invalidity defense, and thus remanded for a new trial on obviousness.

The Court turned next to the district court's exclusion of Bodum's expert testimony as a conclusory opinion. The Court acknowledged that an expert merely listing prior art references and concluding that "one skilled in the art would find the patent obvious" is deficient under Fed. R. Civ. P. 26. The Court,

however, found upon a careful review of Bodum's expert report that the expert had provided a sufficiently detailed statement of opinions and bases for his conclusions, particularly in light of the simplicity of the invention in this case. The expert invoked the common sense of one skilled in the art as evidence of motivation to combine prior art references. The Court reminded that "the common sense of one skilled in the art can play a role in the obviousness analysis," and here found that "the technology involved is simple and common sense would motivate one of skill in the art to make the combination . . . ." Slip op. at 37. Because the district court's ruling effectively prevented Bodum from presenting an obviousness defense, the Court remanded for a new trial on obviousness.

The Federal Circuit also disagreed with the district court's exclusion of testimony by a lay witness related to a prior art reference. Bodum sought to introduce testimony of its CEO regarding when a prior art device was first sold. The district court, having ruled that Bodum was limited to the two prior art references discussed in its expert's report, excluded the testimony, seeing it as an attempt to introduce prior art through the "back door." The Court found this exclusion to be an error, noting that it saw no problem with having the CEO testify to factual matters within his personal knowledge if those facts are supported by corroborating documentation, as they were in this case. The Court held that the CEO should be allowed to testify to such facts on remand.

The Federal Circuit addressed the district court's exclusion of evidence in support of Bodum's inequitable conduct defense. In ruling on Meyer's motion in limine, the district court found that Bodum failed to meet the "demanding requirements" to prove inequitable conduct, and thus would not be allowed to present evidence in support of the affirmative defense at trial. On appeal, Bodum argued that the district court erred in addressing the sufficiency of the evidence in the context of an evidentiary motion, essentially converting it to an issuance of SJ on inequitable conduct. The Federal Circuit agreed that the district court's action was procedurally improper, reversed the ruling, and remanded the issue for further proceedings.

Finally, the Federal Circuit considered the jury's finding of willfulness. In light of its decision to remand the case for further proceedings on infringement and invalidity, the Court also vacated the jury's finding of willfulness. The Federal Circuit also vacated the post-trial award of treble damages and attorneys' fees, finding that these fees were based on the willfulness finding and evidentiary rulings, both of which were reversed.

Judge Dyk concurred with and joined the majority opinion, but wrote separately to explain why "this case is an example of what is wrong with our patent system." Dyk Concurrence at 1. Judge Dyk believed that the '087 and '122 patents should have been rejected as obvious by the PTO or found obvious on SJ by the district court. In Judge Dyk's view, this "wasteful litigation does not serve the interests of the inventorship community, nor does it fulfill the purposes of the patent system." *Id*. at 2.

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Back to Main

September 2012

Claims to Isolated DNA and Screening Method Are Patent Eligible, but Claims to Analyzing and Comparing Methods Are Not

Carla Mouta

Judges: Lourie (author), Bryson (concurring-in-part and dissenting-in-part), Moore (concurring-in-part)

[Appealed from S.D.N.Y., Senior Judge Sweet]

In *Association for Molecular Pathology v. U.S. Patent & Trademark Office*, No. 10-1406 (Fed. Cir. Aug. 16, 2012), the Federal Circuit affirmed-in-part and reversed-in-part the district court's decision that certain medical organizations, researchers, genetic counselors, and patients (collectively "Plaintiffs") had standing under the DJ Act to challenge patents owned by Myriad Genetics, Inc. and the Directors of the University of Utah Research Foundation (collectively "Myriad"). The Court also affirmed-in-part and reversed-in-part the district court's grant of SJ that all of the challenged claims are drawn to nonpatentable subject matter under 35 U.S.C. § 101.

The Plaintiffs filed suit against Myriad, seeking a declaration that fifteen claims from seven patents assigned to Myriad are drawn to patent-ineligible subject matter under § 101. The challenged claims include composition claims directed to two "isolated" human *BRCA* genes and certain mutations associated with a predisposition to breast and ovarian cancers, method claims directed to "analyzing" or "comparing" a patient's *BRCA* sequence with the wild-type sequence to identify the presence of cancer-predisposing mutations, and a method claim directed to a method of screening potential cancer therapeutics.

Regarding standing, Myriad argued that they did not have adverse legal interests with the Plaintiffs and that the Plaintiffs failed to allege a controversy of sufficient immediacy and reality to warrant the issuance of a DJ. The Court noted that "to establish an injury in fact traceable to the patentee, a [DJ] plaintiff must allege both (1) an affirmative act by the patentee related to the enforcement of his patent rights," slip op. at 26 (citing *SanDisk Corp. v. STMicroelecs., Inc.*, 480 F.3d 1372, 1380-81 (Fed. Cir. 2007)); "and (2) meaningful preparation to conduct potentially infringing activity," *id.* (citing *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871, 880 (Fed. Cir. 2008)).

Simply disagreeing with the existence of a patent on isolated DNA sequences or even suffering an attenuated, non-proximate, effect from the existence of a patent does not meet the Supreme Court's requirement for an adverse legal controversy of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." Slip op. at 35-36 (citing *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007)).

"Under the statutory rubric of § 101, isolated DNA is a tangible, man-made composition of matter defined and distinguished by its objectively discernible chemical structure." *Id.* at 49.

The Court found that only three of the plaintiffs alleged an injury traceable to Myriad, and that only one of those, Dr. Harry Ostrer, clearly alleged a sufficiently real and imminent injury because he alleged an intention to actually and immediately engage in allegedly infringing activities. "Myriad's challenged . . . claims undisputedly provided 'an absolute barrier' to Dr. Ostrer's ability to undertake *BRCA* diagnostic testing activities, and a declaration of those claims' invalidity would remove that barrier." *Id.* at 35. The Court "conclude[d] that it [was] likely, not merely speculative, that Dr. Ostrer's injury [would] be redressed by a favorable decision." *Id.*

Regarding the other plaintiffs, the Court held that "[s]imply disagreeing with the existence of a patent on isolated DNA sequences or even suffering an attenuated, non-proximate, effect from the existence of a patent does not meet the Supreme Court's requirement for an adverse legal controversy of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Id.* at 35-36 (citing *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007)). The Court thus reversed the district court's holding that the plaintiffs other than Dr. Ostrer had standing to maintain the DJ suit.

Having found one plaintiff with standing to maintain the action, the Court turned to the merits of Myriad's appeal of the district court's SJ decision that all fifteen challenged claims were invalid under § 101. The Court noted that the issue before them was patent eligibility, not patentability, and held that the composition claims and the screening method claim were patent eligible, while the analyzing and comparing method claims were not.

In addressing the patent eligibility of the composition claims, the Court noted that the parties and the government appeared to agree that isolated DNAs are compositions of matter, but disagreed on whether and to what degree such molecules fall within the patent-ineligible exception for products of nature. The Court held that the challenged claims to isolated DNAs, whether limited to cDNAs or not, are directed to patent-eligible subject matter under § 101. The Court reasoned that "[o]ne distinction . . . between products of nature and human-made invention for purposes of § 101 turns on a change in the claimed composition's identity compared with what exists in nature." *Id.* at 44. The Court held that "the claims cover molecules that are markedly different—have a distinctive chemical structure and identity—from those found in nature," and therefore were patent eligible. *Id.* "Under the statutory rubric of § 101, isolated DNA is a tangible, man-made composition of matter defined and distinguished by its objectively discernible chemical structure." *Id.* at 49.

The Court rejected the government's earlier-proposed "magic microscope" test as misunderstanding the difference between science and invention, and as failing to take into account the existence of molecules as separate chemical entities. "The ability to visualize a DNA molecule through a microscope, or by any other means, when it is bonded to other genetic material, is worlds away from possessing an isolated DNA molecule that is in hand and usable." *Id.* at 50. "Visualization does not cleave and isolate the particular DNA; that is the act of human invention." *Id.*

The Court disputed the dissent's analogy to snapping a leaf from a tree, stating that "[s]napping a leaf from a tree is a physical separation, easily done by anyone," whereas "[c]reating a new chemical entity is the work of human transformation, requiring skill, knowledge, and effort." *Id.* at 52 (citing *Mayo Collaborative Servs. v. Prometheus, Inc.*, 566 U.S. ___, 132 S. Ct. 1289, 1294 (2012)). The Court also disputed the dissent's analogy to removing a kidney from the human body, stating that "[a] kidney is an organ, not a well defined composition of matter or an article of manufacture specified by § 101," whereas "[a]n isolated DNA is properly characterized as a composition of matter under § 101 . . . ." *Id.* at 53.

The Court then turned to the method claims and held that the claims directed to a method of analyzing or

comparing DNA sequences are not patent eligible, while the claim directed to a method of screening is. Regarding the analyzing and comparing claims, the Court found that they were directed to abstract mental processes. "Although the *application* of a formula or abstract idea in a process may describe patent-eligible subject matter, Myriad's claims do not apply the step of comparing two nucleotide sequences in a process." *Id.* at 57 (citation omitted). "Rather, the step of comparing two DNA sequences is the entire process that is claimed." *Id.* The Court found these claims to be indistinguishable from the claims the Supreme Court found invalid under § 101 in *Mayo*.

Regarding the screening claim, the Court held that it "includes more than the abstract mental step of looking at two numbers and 'comparing' two host cells' growth rates," because it "applies certain steps to transformed cells that . . . are a product of man, not of nature." *Id.* at 60-61. "The fact that the claim also includes the steps of determining the cells' growth rates and comparing growth rates does not change the fact that the claim is based on a man-made, non-naturally occurring transformed cell—patent-eligible subject matter." *Id.* at 61. The Court noted that "the claim does not cover all cells, all compounds, or all methods of determining the therapeutic effect of a compound," but rather "is tied to specific host cells *transformed* with specific genes and grown in the presence or absence of a specific type of therapeutic." *Id.* The Court thus held that the screening method was directed to patent-eligible subject matter under § 101.

Judge Moore concurred-in-part. Judge Moore joined the majority with respect to standing, the method claims, and the claims directed to isolated DNA sequences, but "wr[o]te separately to explain [her] reasoning." Moore Concurrence at 2. Judge Moore stated that even when an invention does not exist in nature in the claimed state, it may still be directed to subject matter that is not patentable. Judge Moore contended that "courts have long applied the principles articulated in *Funk Brothers* and *Chakrabarty* to different factual scenarios in order to determine whether an invention, as claimed, falls into the laws of nature exception," and that "[she] see[s] no reason to deviate from this longstanding flexible approach in this case." *Id.* at 7 (citing *Diamond v. Chakrabarty*, 447 U.S. 303 (1980); *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127 (1948)).

Judge Bryson concurred with the majority's decision on standing, the cDNA claims, and the method claims, and dissented with regard to claims to *BRCA* genes and gene fragments. In Judge Bryson's view, "the process of isolating genetic material from a human DNA molecule [does not make] the isolated genetic material a patentable invention." Bryson Dissent at 3. Judge Bryson stated that "a contrary ruling is likely to have substantial adverse effects on research and treatment in this important field." *Id.* at 4.

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Back to Main

September 2012

Clear and Convincing Evidence of "Made in This Country" Must Be Presented to Invalidate a Patent Under § 102(g)(2)

David R. Lefebvre

Judges: Newman, Plager, Linn (author)

[Appealed from ITC]

In *Amkor Technology, Inc. v. International Trade Commission*, No. 10-1550 (Fed. Cir. Aug. 22, 2012), the Federal Circuit reversed the ITC's determination that U.S. Patent No. 6,433,277 ("the '277 patent") is invalid based on prior invention under 35 U.S.C. § 102(g)(2).

Amkor Technology, Inc. ("Amkor") is the assignee of the '277 patent relating to smaller and "more reliable" integrated circuit packages. Amkor asserted that Carsem (M) Sdn Bhd, Carsem Semiconductor Sdn Bhd, and Carsem, Inc. (collectively "Carsem") violated section 337 of the Tariff Act of 1930, based on certain devices that allegedly infringed claims 1-4, 7, 17, 18, and 20-23 of the '277 patent.

The ALJ issued a subpoena to third parties ASAT, Inc., ASAT Holdings, and ASAT Limited (collectively "ASAT") seeking documents related to ASAT's chip carrier package invention ("ASAT invention") described in U.S. Patent No. 6,229,200 ("ASAT '200 patent"). Initially, ASAT failed to comply with the subpoena. Therefore, the ALJ issued a first Initial Determination before receiving the ASAT documents, finding (1) that some or all of Carsem's accused micro leadframe package products infringed claims 1, 7, 17, and 20 of the '277 patent; (2) that claims 1, 7, 17, and 20 of the '277 patent were invalid as anticipated; and (3) that claims 2-4 and 21-23 of the '277 patent, which require a lip that runs "fully around a circumference of the die pad" (claims 2-4) and "fully around the die pad" (claims 21-23), were indefinite because it was unclear whether the lip ran under the connectors that connect the die pad to the leadframe, or was actually interrupted by the connectors. On review, the ITC modified the ALJ's claim construction, construing "fully around a circumference of the die pad" and "fully around the die pad" to mean that "the lip must run fully around the sides of the die pad, but not underneath or through the tie bars," and remanded. Slip op. at 6 (citation omitted). Based on the ITC's claim construction, the ALJ issued a second Initial Determination finding (1) that some or all of Carsem's micro leadframe package products infringed claims 2-4 and 21-23 of the '277 patent; (2) that claims 2-4 and 21-23 of the '277 patent were not invalid as anticipated or obvious; and (3) that Carsem violated section 337.

After finally receiving the subpoenaed documents from ASAT, the ITC again remanded to the ALJ to determine whether the ASAT invention qualified as prior art to the '277 patent under 35 U.S.C. § 102(g)(2). The ALJ issued a first Supplemental Initial Determination finding that the ASAT invention was conceived in a foreign country sometime during April or May and that Amkor conceived the '277 patent technology sometime during May through August, or on December 10, of that same year. Accordingly, the ALJ found that the ASAT invention was not prior art under § 102(g)(2) because the respondent failed to prove by clear and convincing evidence that the April/May date of invention for the

ASAT invention was prior to the May through August date of invention for the '277 patent.

On review, the ITC reversed and remanded, holding that the ASAT invention was § 102(g)(2) prior art because, under *Oka v. Youssefyeh*, 849 F.2d 581, 584 (Fed. Cir. 1998), the earliest possible priority date of the '277 patent must be the last date in the range of dates, or December 10, which falls after the April/May date of invention for the ASAT invention. On remand, the ALJ held all disputed claims of the '277 patent were invalid under § 102(g)(2) in view of the ASAT invention.

"To invalidate Amkor's '277 Patent under § 102(g)(2), Carsem bore the burden of persuasion and was required to submit not just preponderant evidence but clear and convincing evidence that the ASAT invention was conceived in the United States before the invention of the '277 Patent." Slip op. at 15-16.

On appeal, the Federal Circuit reversed the ITC's finding that the '277 patent was invalid under § 102(g)(2) in view of the ASAT invention. The Federal Circuit, applying the pre-American Inventors Protection Act of 1999 ("AIPA") version of § 102(g), stated in *Scott v. Koyama*, 281 F.3d 1243 (Fed. Cir. 2001), that "the inventor of an invention of foreign origin may rely on the date that the invention was disclosed in the United States[] as a conception date for priority purposes." Slip op. at 9-10 (alteration in original) (quoting *Scott*, 281 F.3d at 1247). The Court held that the district court's interpretation of the "made in this country" language as interpreted pre-AIPA is retained in the post-AIPA language in § 102(g)(2), because nothing in the legislative history indicates that Congress attempted to abandon the Court's interpretation.

The Federal Circuit first rejected Amkor's argument that the disclosure must be in writing, holding that while writings can satisfy the full domestic disclosure requirement, the cases do not establish any per se requirement that such disclosure must be in writing. The Court explained that the content of the domestic disclosure must be specific enough to encompass the complete and operative invention, and an inventor's oral testimony to this extent is a question of proof. The Court noted that even if the ASAT inventor's domestic disclosure was sufficient, and the Court was not persuaded that it was, the ITC erred in its priority date determination with respect to Amkor.

The Court held that the ITC's application of *Oka* was legal error. In *Oka*, the junior party in an interference submitted a range of dates of possible conception in an attempt to prove prior invention under § 102(g). The presumption of validity and the clear and convincing burden associated with it did not apply in the interference in *Oka*. To invalidate the '277 patent under § 102(g)(2), Carsem bore the burden of persuasion and was required to submit not just preponderant evidence but clear and convincing evidence that the ASAT invention was conceived in the United States before the invention of the '277 patent. Carsem could only demonstrate a range of dates of possible U.S. disclosure, the first thirty days of which predated Amkor's possible conception date, and the last thirty-one days of which overlapped with Amkor's possible conception date. Evidence establishing that there might have been a prior conception is not sufficient to meet the clear and convincing burden needed to invalidate a patent. Because Carsem failed to prove prior invention in the United States by clear and convincing evidence, the Court reversed the ITC's determination that the '277 patent is invalid under § 102(g)(2).

Thus, the Court reversed the ITC's determination that the '277 patent is invalid under 35 U.S.C. § 102(g)(2) and declined to affirm the ITC's invalidity determination on alternative grounds raised by Carsem. Finally, the Court remanded for further proceedings consistent with the Court's findings.

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Back to Main

September 2012

Representing to PTO That a Product-by-Process Claim Limitation Is Structurally Distinct from the Prior Art Prevents Recapture in Reissue

Daniel C. Cooley

Judges: Linn, Plager, Dyk (author)
[Appealed from N.D. Cal., Judge Chen]

In *Greenliant Systems, Inc. v. Xicor LLC*, No. 11-1514 (Fed. Cir. Aug. 22, 2012), the Federal Circuit affirmed the district court's grant of SJ of invalidity relating to claims of reissued U.S. Patent No. RE38,370 ("the RE'370 patent") for violation of the rule against recapture.

The RE'370 patent was a broadening reissue of U.S. Patent No. 5,977,585 ("the '585 patent"). The specifications of both the '585 patent and the RE'370 patent disclose improvements to electronic memory devices, such as EEPROM circuits. In an EEPROM, charge is transferred to and from a floating gate electrode through a tunneling oxide layer that acts as an insulator when not actively tunneling. The improved tunneling oxide layer disclosed in the '585 and RE'370 patents reduces pin-hole defects and stress present in traditional tunneling oxide layers.

During examination of the '585 patent, the examiner rejected claims 13 and 14 as obvious. In response, Xicor LLC ("Xicor") amended claim 13 to include "said silicon dioxide layer being formed by low pressure chemical vapor deposition comprising the use of [tetraethylorthosilicate ('TEOS')]." Slip op. at 6. The examiner stated that the process limitations of the device claims (i.e., how the tunneling layer is formed by a low-pressure chemical vapor deposition comprising the use of TEOS) would not be given patentable weight over the prior art of record unless Xicor established that those process limits imparted "structural limitations" that distinguished the claimed device from prior art devices. Xicor responded that deposited TEOS oxide did in fact have significant structural benefits over the prior art. The examiner maintained the rejections, but the Board reversed the examiner's rejections and the '585 patent issued.

Xicor filed a reissue application based on the '585 patent adding new claims 12 and 13. Claims 12 and 13 omitted the "comprising the use of [TEOS]" limitation, but otherwise duplicated claims 1 and 4 of the '585 patent. The reissue examiner ultimately found that claims 12 and 13 were not barred by the recapture rule and the '585 patent reissued as the RE'370 patent.

Greenliant Systems, Inc. ("Greenliant") filed a DJ action against Xicor, seeking a declaration that it did not infringe any claims of the RE'370 patent and that all claims of the RE'370 patent were invalid.
The parties agreed that an SJ order in another case involving Silicon Storage Technology, Inc. ("SST"), determining that claims 12 and 13 of the RE'370 patent were invalid under the recapture rule, applied equally and should be entered in this case. The district court entered a final judgment in favor of Greenliant, holding claims 12 and 13 invalid and dismissing the request for declaratory relief as to claims 1-11, per the agreement of the parties. The district court also granted SST's motion to intervene

in the Greenliant case, allowing SST to participate in Xicor's appeal.

"It does not matter whether the examiner or the Board adopted a certain argument for allowance; the sole question is whether the argument was made." Slip op. at 18.

On appeal, the Federal Circuit addressed Xicor's arguments regarding recapture. As a preliminary matter, the Court noted that the claims in dispute were written in product-by-process form. To distinguish the product from the prior art, the Court noted that the process must impart "structural and functional differences" to the product. *Id*. at 12 (citing *Amgen Inc. v. F. Hoffman-La Roche Ltd.*, 580 F.3d 1340, 1370 (Fed. Cir. 2009)).

In favor of validity, Xicor argued that the TEOS process limitation did not actually impart any distinctive structural characteristics to the claimed device, but rather it was the deposition conditions, such as temperature and pressure, that determined the physical characteristics of the claimed device's tunneling layer. Xicor argued, therefore, that it did not surrender non-TEOS reactants because the TEOS did not have structural characteristics that distinguished the prior art. *Id*. at 12-13. The Court disagreed.

The Court noted that during the prosecution of the '585 patent, Xicor both amended claim 13 to add the TEOS limitation and relied on the TEOS limitation appearing in claims 13 and 14 to overcome prior art. The examiner made various rejections and stated that process limitations in the product-by-process claims were not given patentable weight over the prior art. The Court noted that Xicor responded by arguing that a "deposited TEOS oxide layer" was "structurally distinct from the prior art thermal oxide layers" taught by the prior art used by the examiner. *Id*. at 15 (citation omitted). The Court also referenced Xicor's statements regarding the structural benefits of deposited TEOS, including Xicor's statement that the "industry has acknowledged that the use of deposited TEOS oxide has significant *structural* benefits over prior art thermal oxide layers when used as tunneling layers." *Id*. at 16 (citation omitted). The Court referenced similar statements that Xicor made before the Board.

The Court found that Xicor's arguments "clearly and unmistakably represented to the examiner and the Board that TEOS was a necessary component of the deposition process that imparted the distinct structural characteristics upon Xicor's claimed tunneling oxide layer." *Id*. at 17. The Court further held that there was no merit to Xicor's argument that these multiple references to the use of TEOS could be dismissed as mere "nomenclature . . . used by Xicor as a label to distinguish" between different tunneling layers. *Id*. at 17-18 (citation omitted).

The Court rejected Xicor's argument that, as a technical matter, it was the deposition conditions that determine the physical characteristics of the claimed tunneling oxide layer, not the reactant that is used (e.g., TEOS), and, thus, the TEOS limitation could not have influenced the Board's decision to allow the claims. The Court stated that Xicor was bound by the arguments that it made before the examiner and before the Board, and that "[i]t does not matter whether the examiner or the Board adopted a certain argument for allowance; the sole question is whether the argument was made." *Id*. at 18. Accordingly, the Court affirmed the district court's determination of invalidity for claims 12 and 13 of the RE'370 patent.

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Last Month at the Federal Circuit

Back to Main

September 2012

Monetary Damages Adequately Compensate Patentee When There Have Been Extensive Licensing Efforts, Solicitation of Infringer over a Long Period of Time, and No Direct Competition with Infringer

Andrew G. Strickland

Judges: Bryson, Dyk, Moore (author)

[Appealed from E.D. Va., Judge Jackson]

In *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, Nos. 11-1538, -1567, 12-1129, -1201 (Fed. Cir. Aug. 24, 2012), the Federal Circuit affirmed-in-part and reversed-in-part a decision of the district court that Verizon Communications, Inc. ("Verizon") infringed four of ActiveVideo Networks, Inc.'s ("ActiveVideo") patents. The Court also affirmed the district court's $115M damages award to ActiveVideo, but reversed the district court's permanent injunction against Verizon.

The technology-at-issue relates to video on demand ("VoD") services. ActiveVideo filed suit against Verizon claiming that Verizon's FiOS-TV system infringed U.S. Patent Nos. 5,550,578 ("the '578 patent"); 6,205,582 ("the '582 patent"); 6,034,678 ("the '678 patent"); and 6,100,883 ("the '883 patent"). The ActiveVideo patents generally claim VoD systems with (1) a headend processing center for providing VoD information to subscribers; (2) home interface controllers connected to subscriber televisions that send, receive, and display information from the headend; and (3) a communication network between the headend and the home interface controllers. Verizon asserted counterclaims that ActiveVideo infringed U.S. Patent Nos. 6,169,542 ("the '542 patent"); 7,561,214 ("the '214 patent"); and 6,381,748 ("the '748 patent"). The three Verizon patents generally disclose systems and methods related to interactive television features, including Internet access, two-dimensional channel navigation, and advertising. ActiveVideo licenses its VoD patents to Cablevision but does not directly compete with Verizon as it does not offer VoD services directly to subscribers.

Prior to a jury trial, the district court determined that all of ActiveVideo's asserted patents were not invalid, Verizon's '542 and '214 patents were not invalid, and Verizon's '748 patent was invalid. After a three-week trial, a jury determined that (1) Verizon infringed all four of ActiveVideo's asserted patents; (2) ActiveVideo infringed Verizon's '542 and '214 patents; (3) ActiveVideo was to receive $115M in damages; and (4) Verizon was to receive $16K in damages. Following the jury verdict, the district court entered a permanent injunction against Verizon and established a sunset royalty for Verizon's continued infringement until the injunction was to take effect.

"If the general public interest in upholding patent rights alone was sufficient to mandate injunctive relief when none of the other three factors support injunctive relief, then we would be back to the general rule that a patentee should always receive an injunction against infringement. But the Supreme

Court rejected the idea that there is a general rule that courts should issue permanent injunctions against patent infringement." Slip op. at 52 (citing *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 393-94 (2006)).

On appeal, with respect to the "information service" limitation, the Federal Circuit held that the evidence supported a finding of infringement because Verizon's FiOS-TV set-top-boxes ("STBs") allowed users to request information from a headend processor and interact with data received from the headend processor. Also, the Federal Circuit held that the FiOS-TV STBs embodied the "television communication" limitation because Verizon's proprietary video format could be converted to a video format (MPEG) contemplated by the specification of the '578 patent. As to the "individually assignable processors" limitation of the '582 patent, the Court held that Verizon's FiOS-TV did not embody the limitation because each FiOS-TV headend processor is able to communicate with multiple STBs and, therefore, FiOS-TV has no capability to individually assign a single headend processor to a single STB.

Turning next to ActiveVideo's appeal of the district court's infringement findings, the Federal Circuit considered whether the district court failed to properly construe the "superimposing" limitation of Verizon's '214 patent and the "video still image" of Verizon's '542 patent. The Court held that the district court's constructions of the two terms were consistent with their plain meanings and that ActiveVideo's proposed, alternative constructions erroneously read limitations into the claims. Accordingly, the Court upheld the district court's infringement determination.

After reviewing the district court's infringement determinations, the Court turned its attention to invalidity. First, the Court held that there was insufficient evidence to determine that the ActiveVideo patents were invalid because the testimony of Verizon's expert was conclusory: he failed to explain how specific references could be combined, which combinations of elements in specific references would yield a predictable result, how any specific combinations would operate or read on the asserted claims, and how the prior art references taught or suggested several elements of the asserted claims.

Second, the Court affirmed the district court's determination that Verizon's '214 and '542 patents were not invalid because ActiveVideo's prior art with respect to the '214 patent failed to disclose limitations of the patent and ActiveVideo's prior art with respect to the '542 patent was not enabling. Third, the Federal Circuit reversed the district court's determination on SJ that Verizon's '748 patent was invalid because the jury should have determined whether the prior art presented by ActiveVideo disclosed the HTML-transforming elements of the '748 patent's claims.

Next, the Federal Circuit turned its attention to Verizon's appeal of the $115M damages verdict. The Federal Circuit held that it was not an abuse of discretion for the district court to prevent Verizon's damages expert from relying on a licensing agreement that postdated the hypothetical negotiation to determine damages by four years. In addition, although Verizon also argued that the testimony of ActiveVideo's damages expert should have been excluded because the agreements relied upon by the expert were not solely directed to the patents-in-suit, the Court held that the testimony was admissible because the quality of the expert's calculations spoke to the weight the district court gave to the expert's testimony, not its admissibility. Finally, although ActiveVideo did not mark its products with the patents-in-suit, the Court held ActiveVideo was entitled to presuit damages for the '678 patent because the '678 patent contained only method claims and marking is not required for patents that only contain method claims.

In addition to having to pay damages, the district court permanently enjoined Verizon from further infringement. The Federal Circuit, however, determined that it was an abuse of discretion to grant the permanent injunction. First, the Court determined that ActiveVideo did not suffer irreparable harm because ActiveVideo extensively licensed its VoD technology and attempted to license it to Verizon presuit. Thus, ActiveVideo's loses were clearly quantifiable and damages would adequately compensate ActiveVideo for Verizon's infringement. The Federal Circuit also held that the district court erred by

including litigation costs in the irreparable harm calculus.

Second, the Court determined that there was no evidence to support an inadequate remedy at law because, among other things, ActiveVideo and Verizon do not directly compete. Third, the Court determined that the balance of hardships did not weigh in ActiveVideo's favor because one month of royalty payments from Verizon was equal to 70% of the total revenue ActiveVideo had generated during its entire twenty-three-year history. Thus, ActiveVideo would not be suffering great hardship absent an injunction. Finally, the Court held that while there is public interest in enforcing patent rights, that alone is not enough to permanently enjoin Verizon.

Finally, the Court found no error in the district court's sunset royalty calculation. The Court rejected Verizon's suggestion that it should pay the same rate as other licensees of ActiveVideo because after ActiveVideo's patents were held not invalid and infringed by Verizon, ActiveVideo was in a much better bargaining position with Verizon than it had been with other licensees. Although the Court vacated the district court's injunction, it saw no error in its postverdict royalty calculation and added that on remand, the district court should determine an appropriate ongoing royalty using a similar analysis.

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Back to Main

September 2012

In the Absence of Supreme Court Consensus, Personal Jurisdiction Premised on a Stream-of-Commerce Theory Is Assessed on a Case-by-Case Basis

*Andrew E. Renison**

Judges: Rader (concurring), Newman, O'Malley (per curiam)

[Appealed from D. Wyo., Judge Freudenthal]

In *AFTG-TG, LLC v. Nuvoton Technology Corp.*, No. 11-1306 (Fed. Cir. Aug. 24, 2012), and *AFTG-TG, LLC v. Winbond Electronics Corp.*, No. 11-1307 (Fed. Cir. Aug. 24, 2012), the Federal Circuit affirmed the district court's dismissal of certain defendants for lack of personal jurisdiction, finding that the record and pleadings demonstrated insufficient contacts with the forum state.

AFTG-TG, LLC and Phillip M. Adams & Associates, LLC (collectively "AFTG") filed two complaints in the District of Wyoming against Pegatron Corporation, Pegatron Technology Service, Inc., Unihan, ASUSTeK Computer Inc., and ASUS Computer International (collectively "Defendants"), generally alleging that the Defendants' manufacture, use, testing, and importation of computer chips, motherboards, computers, and other products directly infringed AFTG's patents and that the Defendants knowingly and intentionally induced and contributed to others' infringement. The Defendants filed motions to dismiss for lack of personal jurisdiction, and the district court granted the motions, evaluating personal jurisdiction under Wyoming's long-arm statute, which explicitly reaches to the full extent of the U.S. and Wyoming constitutions. AFTG appealed.

"In the absence of [Supreme Court] consensus, this court has assessed personal jurisdiction premised on the stream-of-commerce theory on a case-by-case basis by inquiring whether the particular facts of a case support the exercise of personal jurisdiction." Slip op. at 7.

"This case is not a close call, regardless of how one articulates the stream of commerce theory." *Id.* at 13.

On appeal, the Federal Circuit noted that "[t]he Supreme Court has yet to reach a consensus on the proper articulation of the stream-of-commerce theory," and that "[i]n the absence of such a consensus, [the Federal Circuit assesses] personal jurisdiction premised on the stream-of-commerce theory on a case-by-case basis by inquiring whether the particular facts of a case support the exercise of personal jurisdiction." Slip op. at 7. The Court held that the district court employed such a fact-driven approach and correctly found insufficient contacts to support the exercise of personal jurisdiction.

The Court explained that the Supreme Court did not resolve the "long-standing split" on the

stream-of-commerce theory in its decision in *McIntyre Machinery, Ltd. v. Nicastro*, 131 S. Ct. 2780 (2011). Because *McIntyre* did not produce a majority opinion, the Court was bound to follow the narrowest holding among the plurality opinions, which was Justice Breyer's concurring opinion that the law remained the same after *McIntyre*. Accordingly, the Court applied its own precedent interpreting the Supreme Court's stream-of-commerce precedents, *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994).

Addressing the instant appeal, the Court declined to take a position on the stream-of-commerce theory, stating that the result is clear and would not change under any articulation of that theory. Specifically, the Court held that "[t]he paltry allegations in the complaint cannot support the exercise of personal jurisdiction in Wyoming." Slip op. at 12. The Court distinguished the facts here from those in *Beverly Hills Fan*, finding that, at most, one defendant made isolated shipments to Wyoming at the request of third parties, and further, that the cause of action for patent infringement did not arise out of those shipments. The Court also noted that AFTG did not submit any declarations indentifying sales in Wyoming that would refute the Defendants' assertions that their contacts with Wyoming were sporadic at best, or proffer any evidence indicating that Wyoming was part of any Defendant's continuous, established distribution channels. "As the district court aptly observed, AFTG's complaint represents nothing more than 'bare formulaic accusation' that the defendants maintain sufficient contacts with Wyoming." *Id.* at 13. The Court concluded that "[t]his case is not a close call, regardless of how one articulates the stream of commerce theory." *Id.* The Court thus affirmed the district court's dismissal of the case for lack of personal jurisdiction.

Chief Judge Rader concurred with the opinion, agreeing that the Defendants' actions did not satisfy personal jurisdiction in Wyoming. Judge Rader wrote separately to comment further on the Court's application of the Supreme Court's decision in *McIntyre*. According to Judge Rader, Justice Breyer adopted Justice O'Connor's test from *Asahi Metal Industry Co. v. Superior Court of California, Solano County*, 480 U.S. 102 (1987), requiring "something more" than foreseeability to exercise personal jurisdiction. In Judge Rader's view, "[e]mphasis on assessing the presence of 'something more' would clarify the muddled 'stream of commerce' concept." Rader Concurrence at 3. Judge Rader contended that "*Beverly Hills Fan*, with its unfettered reliance on a 'stream of commerce' theory, is now shaky precedent to the extent that it runs counter to the *McIntyre* decision." *Id.* at 4. "This court might reliably require that 'something more' be present to satisfy personal jurisdiction requirements." *Id.*

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Last Month at the Federal Circuit

Back to Main

September 2012

A Claimed Intermediate Used in the Synthesis of a Compound Does Not Render a Later Claim Directed to the Compound Invalid for Obviousness-Type Double Patenting

Daniel A. Lev

Judges: Lourie (author), Dyk, Wallach

[Appealed from D. Del., Chief Judge Sleet]

In *Eli Lilly & Co. v. Teva Parenteral Medicines, Inc.*, Nos. 11-1561, -1562 (Fed. Cir. Aug. 24, 2012), and *Eli Lilly & Co. v. APP Pharmaceuticals, LLC*, No. 12-1307 (Fed. Cir. Aug. 24, 2012), the Federal Circuit affirmed the district court's finding that claims 1, 2, 3, and 7 of U.S. Patent No. 5,344,932 ("the '932 patent") are not invalid for obviousness-type double patenting.

The Trustees of Princeton University ("Princeton") own the '932 patent, which is exclusively licensed to Eli Lilly & Co. ("Lilly"). Claims 1, 2, 3, and 7 of the '932 patent are composition claims that specifically and generically cover pemetrexed, an anticancer drug marketed by Lilly under the brand name Alimta®.

Teva Parenteral Medicines, Inc., Barr Laboratories, Inc., and APP Pharmaceuticals, LLC (collectively "Teva") filed ANDAs seeking approval to market generic versions of Alimta®. Teva's ANDAs included Paragraph IV certifications that the '932 patent was invalid, unenforceable, or would not be infringed by the proposed generic formulations. In response, Lilly and Princeton sued Teva for patent infringement. Teva conceded infringement but argued that the asserted claims of the '932 patent were invalid for obviousness-type double patenting over two prior patent claims: (1) claim 3 of U.S. Patent No. 5,028,608 ("the '608 patent"); and (2) claim 7 of U.S. Patent No. 5,248,775 ("the '775 patent"). Following a bench trial, the district court concluded that claims 1, 2, 3, and 7 of the '932 patent were not invalid for obviousness-type double patenting, and enjoined approval of Teva's proposed generic products until after expiration of Lilly's exclusive rights. Teva appealed.

On appeal, the Federal Circuit affirmed the district court's decision, holding that the asserted claims of the '932 patent are not invalid for obviousness-type double patenting over claim 3 of the '608 patent or claim 7 of the '775 patent.

"Rather than a composition and a previously disclosed use, the claims at issue recite two separate and distinct chemical compounds . . . . That alone suffices to undermine Teva's argument regarding the '775 Intermediate, for the asserted claims of the '932 patent do not recite a *use* of the *same compound*, but a *different compound* altogether." Slip op. at 19.

Claim 3 of the ’608 patent recites an antifolate compound that is structurally related to pemetrexed, but was never advanced to clinical testing. The only difference between the compound claimed in the ’608 patent and pemetrexed is that the latter has a phenyl group where the former has a thiophene group. The ’608 patent issued more than three years before the ’932 patent. The Federal Circuit framed the question as whether the asserted claims of the ’932 patent are patentably distinct from the compound claimed in the ’608 patent.

An obviousness-type double patenting analysis with respect to chemical claims “requires identifying some reason that would have led a chemist to modify the earlier compound to make the later compound with a reasonable expectation of success.” Slip op. at 15 (quoting *Otsuka Pharm. Co. v. Sandoz, Inc*., 678 F.3d 1280, 1297 (Fed. Cir. 2012)). In affirming the district court’s decision, the Federal Circuit found that the district court had considered the parties’ arguments and evidence, including their conflicting expert testimony, when it credited Lilly’s evidence of nonobviousness, a finding which the Federal Circuit accorded considerable deference. In particular, the district court had not found that substituting a phenyl group for the thiophene group of the compound claimed in the ’608 patent was the one possibility, among many possible modifications, that would have been successful if pursued. Therefore, the Federal Circuit held that the district court correctly concluded that the asserted claims of the ’932 patent were not invalid for obviousness-type double patenting over the ’608 patent, because there was no motivation to derive pemetrexed from the compound claimed in the ’608 patent or any expectation of success in doing so.

Claim 7 of the ’775 patent is directed to an intermediate in the synthesis of pemetrexed, and was issued before the ’932 patent. Teva argued that the ’775 patent discloses the use of the claimed intermediate in the synthesis of pemetrexed and that this disclosure renders the later “composition of matter” claims invalid for obviousness-type double patenting. In support of this argument, Teva relied on a line of cases that held a later “method of use” claim invalid for obviousness-type double patenting over an earlier patent claiming a compound and disclosing the later-claimed use as part of the compound’s utility.

The Federal Circuit rejected Teva’s argument. First, the Court noted that the obviousness-type double patenting inquiry generally turns on a comparison between a patentee’s earlier and later claims, with the earlier patent’s disclosure considered only as necessary to construe its claims. The Court held that the cases Teva relied on were not applicable to the present facts. The claims-at-issue recite two separate compounds, not a composition and its previously disclosed use, which negates Teva’s argument by itself. Additionally, pemetrexed and the intermediate claimed in the ’775 patent exhibit significant structural differences, and pemetrexed can be synthesized by several routes that do not involve the claimed intermediate. Therefore, the Federal Circuit affirmed the district court’s holding that the asserted claims of the ’932 patent are not invalid for obviousness-type double patenting over the ’775 patent.

Finally, the Federal Circuit considered whether objective indicia of nonobviousness are relevant to an obviousness-type double patenting analysis and held erroneous the district court’s repudiation of Lilly’s evidence of objective indicia of nonobviousness. The Court noted that such evidence should be considered in the obviousness-type double patenting context. However, because the district court sided with Lilly and upheld the validity of the asserted claims of the ’932 patent, the Court found the district court’s error to be harmless.

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Last Month at the Federal Circuit

Back to Main

September 2012

Exclusion of Prior Art Is Appropriate If an Explanation of Why the Prior Art Is Invalidating Is Not Provided in Response to an Interrogatory Requesting the Same

Daniel C. Cooley

Judges: Linn (author), Dyk, Reyna

[Appealed from S.D. Fla., Judge Hurley]

In *Woods v. DeAngelo Marine Exhaust, Inc.*, No. 10-1478 (Fed. Cir. Aug. 28, 2012), the Federal Circuit affirmed an evidentiary ruling excluding prior art, a denial of a motion for sanctions, and a denial of a motion for JMOL as to the invalidity and infringement of U.S. Patent Nos. 5,740,670 ("the '670 patent") and 6,035,633 ("the '633 patent").

The technology-at-issue involved water jacketed marine exhaust systems. The patents-in-suit disclose an apparatus where the tail end of the outer liner and the tail end of the inner liner both taper. This tapering configuration reduces turbulence and directs cooling water into the exhaust stream to more efficiently cool the exhaust.

Woodrow Woods filed U.S. Patent Application No. 08/419,097 ("the '097 application"), claiming a water jacketed exhaust system. Woods then filed U.S. Patent Application No. 08/580,548 ("the '548 application") as a CIP of the '097 application and with broader claims than the '097 application.

The examiner rejected the '097 application as anticipated by U.S. Patent Nos. 5,212,949 ("Shiozawa") and 799,013 ("Moffitt"). Woods did not respond to the rejection, allowing the '097 application to go abandoned while continuing to prosecute the '548 application, which issued as the '670 patent.

Before the '548 application issued as the '670 patent, Woods filed CIP Application No. 08/990,821 ("the '821 application"). The examiner rejected the '821 application as anticipated by U.S. Patent No. 4,977,741 ("Lulloff"). Woods amended the claims and argued that Lulloff did not anticipate the claims as amended. The examiner allowed the claims, and the '821 application issued as the '633 patent. Woods licensed both patents to Marine Exhaust Systems, Inc. ("MES").

Members of the industry informed MES that DeAngelo Marine Exhaust, Inc. ("DeAngelo") was selling exhaust systems that were believed to infringe the Woods patents. MES wrote a letter to DeAngelo and later photographed an allegedly infringing DeAngelo device. After reviewing these photographs, MES and Woods filed suit.

Woods's suit alleged that DeAngelo infringed one or more claims of the '670 patent and the '633 patent. DeAngelo responded that it did not infringe the patents and that the claims were invalid. During discovery, MES sent DeAngelo an interrogatory requesting DeAngelo's prior art and the reasons why the prior art anticipated the claims or rendered them obvious. The day before discovery closed,

DeAngelo located engineering drawings that allegedly predated the patents and forwarded the drawings to MES with a letter stating that "[t]hese documents arguably may anticipate the Woods invention(s), or may be relied upon as showing the state of the art in the early 1990's." Slip op. at 5 (citation omitted). DeAngelo inquired if MES had an objection to DeAngelo's use of the drawings. MES did not object at that time.

At the beginning of trial, MES moved to strike DeAngelo's engineering drawings because DeAngelo had failed to adequately supplement their interrogatory responses with information about the drawings. The district court found a violation of Fed. R. Civ. P. 26(e) and excluded the drawings. The jury found both patents valid and infringed. DeAngelo renewed motions for JMOL on validity and infringement, which the district court denied. The district court also denied DeAngelo's motion for sanctions against Woods and MES. DeAngelo appealed each of these issues.

"In order for MES to have an opportunity to meaningfully challenge DeAngelo's reliance on the drawings as prior art . . . , it would have needed to know what features of the drawings DeAngelo contended rendered MES's patents obvious on a claim-by-claim basis." Slip op. at 15-16.

On appeal, the Federal Circuit held that MES had not committed waiver when MES did not initially object to DeAngelo's disclosure of the drawings. The Court then held that Rule 26(e) was violated even though DeAngelo timely produced the drawings. The Court reasoned that the interrogatory in question did more than require the identification of documents—it requested that DeAngelo "*identify why such prior art anticipates such claims or renders them obvious*." *Id*. at 15 (citation omitted). The Court noted that, "[i]n order for MES to have an opportunity to meaningfully challenge DeAngelo's reliance on the drawings as prior art . . . , it would have needed to know what features of the drawings DeAngelo contended rendered MES's patents obvious on a claim-by-claim basis." *Id*. at 15-16. The Court held that the district court was "well within its discretion in excluding the drawings under Federal Rule of Civil Procedure 37(c)." *Id*. at 16.

Regarding noninfringement, the Court noted that testimony regarding the "hose bead" and the "tapered surface" ultimately resulting from the hose bead was a legally sufficient basis on which the jury could have found infringement. Significantly, DeAngelo had admitted that all of its products contained a hose bead.

Finally, DeAngelo alleged that MES and Woods filed this lawsuit without conducting an adequate presuit investigation of DeAngelo's products. The Court held that the record was "replete with evidence supporting the district court's conclusion that MES conducted a sufficient pre-filing investigation including photographing and studying photographs of DeAngelo's accused products." *Id*. at 27. MES had also directly requested from DeAngelo information about DeAngelo's allegedly infringing devices. The Court noted that this was not a case where MES sued without seeking access to examine allegedly infringing devices. The Court held that the district court did not abuse its discretion in declining to sanction MES.

Thus, the Court affirmed the district court's rulings.

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Last Month at the Federal Circuit

Back to Main

September 2012

Prior Art Need Not Provide the Exact Method of Optimization for Variable to Be "Result-Effective"

Kimberly D. Braslow

Judges: Newman (dissenting), Clevenger, Linn (author)
[Appealed from Board]

In *In re Applied Materials, Inc.*, Nos. 11-1461, -1462, -1463, -1464 (Fed. Cir. Aug. 29, 2012), the Federal Circuit affirmed the Board's rejections under 35 U.S.C. § 103 in four separate *ex parte* reexaminations.

Applied Materials, Inc. ("Applied") owns U.S. Patent Nos. 5,921,855 ("the '855 patent"); 6,520,847 ("the '847 patent"); 6,699,115 ("the '115 patent"); and 6,824,455 ("the '455 patent"), which are directed to polishing pads with grooved patterns for chemical mechanical polishing systems. Claims to the pads include dimensional measurements: grooves having a depth "between about 0.02 inches and 0.05 inches," a width "between about 0.015 inches and 0.04 inches," a pitch "between about 0.09 inches and 0.24 inches," and "sidewalls that are substantially perpendicular to the polishing surface." Slip op. at 3 (citation omitted).

Applied appealed the examiner's obviousness rejections of the four patents based on the following prior art: (1) "Improving CMP Performance Using Grooved Polishing Pads" from the CMP-MIC Conference on February 22-23, 1996, by Milind Weling et al. ("Weling"); (2) the English translation of a Japanese Patent Application, publication number H5-146969, published June 15, 1993; and (3) a European Patent Application, publication number 0 674 972 A1, published April 10, 1995. The Board affirmed, finding that Applied's patent claims were obvious because the cited art discloses values overlapping the claimed dimensional ranges and that the dimensions were result-effective variables where the optimal range could be identified by one of ordinary skill in the art. The Board further concluded that Applied failed to provide any evidence of unexpected results relating to the claimed dimensions, rejecting Applied's argument that Weling taught away from the claimed invention, and finding insufficient evidence of commercial success to outweigh the evidence of obviousness.

On appeal, the Federal Circuit rejected Applied's arguments that the Board's analysis was conclusory and lacked sufficient evidentiary support. In particular, Applied contended that the cited prior art did not address the impact of altering the dimensions on pad performance and did not specify the result of each of the claimed dimensions as result-effective variables. The Court agreed with the Board that the prior art explicitly discloses dimensional values overlapping the claimed ranges, thus providing sufficient motivation to optimize the ranges.

"While the absence of any disclosure regarding the relationship between the variable and the affected property may preclude a finding that the variable is

result-effective, the prior art need not provide the exact method of optimization for the variable to be result-effective." Slip op. at 12.

The Court analyzed the Board's second conclusion—that the dimensional values were result-effective, rendering their optimization within the grasp of one of ordinary skill in the art—and found that, contrary to Applied's argument, the cited art provided evidence that each of the claimed groove dimensions is a result-effective variable. In so concluding, the Court reminded that, "[w]hile the absence of any disclosure regarding the relationship between the variable and the affected property may preclude a finding that the variable is result-effective, the prior art need not provide the exact method of optimization for the variable to be result-effective." Slip op. at 12. In the Court's view, the prior art recognized a relationship between each of the claimed variables and an effect on the pad's properties, even if it disclosed how the groove properties affect pad properties with less specificity than Applied's four patents. Moreover, because Applied failed to provide evidence of unexpected results of the claimed dimension on the pad's properties, independently or in combination, the Court agreed with the Board that there was no indication that obtaining the claimed dimensions was beyond the skill of one of ordinary skill in the art.

The Court also rejected Applied's argument that Weling taught away from the claimed invention by preferring shallow grooves as opposed to the claimed deeper grooves. The Court found this argument unpersuasive because Weling did not actually criticize or teach away from deeper grooves; it merely preferred shallow grooves.

Applied further argued that its pads gained market share in competition with the Weling pad, which also practiced the best known methods published by Applied. The Court, however, agreed with the Board's conclusion that there was insufficient evidence of a nexus between the features of the claimed invention and its success. In particular, the Court agreed with the Board that the best known methods of using pads are a factor unrelated to the quality of the claimed invention. Thus, the Court agreed with the Board that Applied failed to provide evidence of commercial success that could overcome the prima facie findings of obviousness.

Judge Newman dissented, finding that the prior art failed to disclose a product with the combination of claimed dimensions. Judge Newman concluded that it would not have been obvious to change the combination of claimed parameters with a reasonable expectation that the changed product would have the advantages obtained with Applied's invention. Judge Newman noted that the Examiner failed to offer any evidence that such an expectation of improved properties existed based on the prior art considered.

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Last Month at the Federal Circuit

Back to Main

September 2012

Hypothetical Negotiation in Inducement of Infringement Takes Place on Date of First Direct Infringement Traceable to Defendant's First Instance of Inducement Conduct

Karthik Kumar

Judges: Dyk, Clevenger, Reyna (author)

[Appealed from E.D. Tex., Judge Ward]

In *LaserDynamics, Inc. v. Quanta Computer, Inc.*, Nos. 11-1440, -1470 (Fed. Cir. Aug. 30, 2012), the Federal Circuit reviewed seven issues from two district court trials involving U.S. Patent No. 5,587,981 ("the '981 patent"), which LaserDynamics, Inc. ("LaserDynamics") asserted against Quanta Computer, Inc. ("QCI"). In sum, the Court remanded for a new trial on damages that QCI owed pertaining to the infringing optical disc drives ("ODDs") it did not purchase from LaserDynamics's licensees, and for which QCI did not have an implied license to the '981 patent.

Claim 3 of the '981 patent recites a method that enables an ODD to identify the type of optical disc—e.g., a CD versus a DVD—that is inserted into the ODD. LaserDynamics alleged that QCI actively induced infringement of claim 3 under 35 U.S.C. § 271(b) by assembling laptop computers that include infringing ODDs. QCI's typical practice is to buy ODDs from laptop manufacturers, which in turn purchase them from ODD manufacturers. Because QCI eventually sells the fully assembled laptop computers—including the ODDs—to its customers, this process is called a "buy/sell" arrangement.

QCI's partially owned subsidiary, Quanta Storage, Inc. ("QSI"), is a manufacturer of ODDs. QCI does not manufacture ODDs, but will sometimes purchase ODDs directly from ODD manufacturers, such as QSI. QSI also assembles ODDs for companies that are licensed by LaserDynamics to "make" and "sell" ODDs within the scope of the '981 patent. Under the license agreements, these companies also enjoy "have made" rights, which permit them to retain companies like QSI to assemble ODDs for them.

When QCI purchases ODDs directly from ODD manufacturers—i.e., not under a "buy/sell" arrangement—QCI has no knowledge of which entity assembled the ODDs. QCI pays the manufacturer directly for the ODDs, which are not sold under the QSI brand name, even if assembled by QSI.

The district court granted LaserDynamics's motion for SJ that (1) the patent exhaustion doctrine did not apply to the ODDs that QCI bought overseas from LaserDynamics's licensees; and (2) QCI did not have an implied license to use ODDs manufactured by its subsidiary, even though QCI bought those ODDs from LaserDynamics's licensees who were authorized to outsource manufacturing to QCI's subsidiary. At the first trial, the jury returned a verdict finding QCI liable for active inducement of infringement, and awarded $52 million in damages to LaserDynamics. The district court denied QCI's JMOL motion of noninfringement, but set aside the damages verdict as excessive and ordered a new trial on damages after LaserDynamics declined the option of a remittitur to $6.2 million. At the second trial, the jury returned a damages verdict of $8.5 million. The district court denied QCI's post-trial motion for a new trial

on damages. LaserDynamics appealed and QCI filed two cross-appeals.

At the outset, the Federal Circuit considered LaserDynamics's appeal of the grant of the second trial on damages and/or remittitur after the conclusion of the first trial. Only *after* the end of the first trial did QCI argue that LaserDynamics improperly invoked the entire market value rule, which the district court then accepted to order the second trial. Thus, LaserDynamics argued, QCI had waived the argument. The Federal Circuit, however, held that the district court had the discretion to order the second trial, relying on a two-part analysis. First, the Court found that LaserDynamics improperly invoked the entire market value rule—it used the revenue from sales of laptop computers as the royalty base, *without* having established that the infringing ODDs drove the demand for the laptop computers. The Court clarified that the presence of the infringing ODDs must be shown to motivate consumers to buy the laptops in the first place. The Court found that LaserDynamics proved only that consumers would hesitate to buy a computer that did not include the infringing ODDs, but not that the presence of the ODDs motivated consumers to buy the laptops. Second, applying Fifth Circuit law that gives the district court discretion to consider new theories raised for the first time in a post-trial brief, the Court concluded that the district court had discretion to consider QCI's meritorious post-trial argument.

"Thus, we hold that in the context of active inducement of infringement, a hypothetical negotiation is deemed to take place on the date of the first direct infringement traceable to QCI's first instance of inducement conduct—in this case, 2003." Slip op. at 40-41.

The Federal Circuit next affirmed-in-part and reversed-in-part QCI's cross-appeals.

First, the Court reversed the district court's SJ of QCI's lack of implied license. Under the agreement with LaserDynamics's licensees, QCI's subsidiary manufactured ODDs only for the benefit of LaserDynamics's licensees—i.e., QCI could not order its subsidiary to manufacture ODDs to fill QCI's own needs, and QCI could not immediately buy back from LaserDynamics's licensees ODDs that its subsidiary had produced. The Court found that the manufacture and sale of the ODDs were valid exercises of the "have made" and "sell" rights, respectively, under LaserDynamics's patent license agreements with its licensees and did not expand or circumvent those agreements. Accordingly, the Court held that QCI had an implied license to the '981 patent with respect to the ODDs made by QCI's subsidiary and sold to QCI via LaserDynamics's licensees. Further, because QCI's patent exhaustion defense applied only to those ODDs to which the implied license defense was also applicable, the Federal Circuit dismissed the patent exhaustion question as moot.

On the second issue on cross-appeal, the Court affirmed the district court's denial of JMOL on noninfringement against QCI following the first trial. The Court found that "[t]he record amply support[ed] that the depth of the data layer precisely correlates to the pit configuration arrangement, such that the measurement of the depth (via a counter value) *is* a measurement of the pit arrangement." Slip op. at 36. This, the Court found, satisfied the requirements of claim 3; thus, the Court held that the jury was entitled to enter the infringement verdict.

With regard to the third issue on cross-appeal, the Court reversed the district court's denial of QCI's motion for a new trial on damages following the second trial. The Court held that, although the jury instructions in the second trial that QCI challenged did not alone warrant a new trial on damages, the district court erred in three important ways. First, the Court reasoned, the district court selected an incorrect date for the hypothetical negotiation for a reasonable royalty analysis. In general, the date when infringement began is used as the date of the hypothetical negotiation. Because there can be no inducement of infringement under 35 U.S.C. § 271(b) unless there is also direct infringement, the Court held that the "hypothetical negotiation is deemed to take place on the date of the first direct infringement traceable to [the defendant's] first instance of inducement conduct." *Id.* at 40-41. Here, that date was

2003, not August 2006, as the district court ruled.

Second, the Court held that the district court admitted a settlement agreement whose probative value was substantially outweighed by its prejudicial impact. The Court found that the settlement agreement was entered into under unique circumstances, namely, the unduly coercive environment of patent litigation that ill represents the environment in which the hypothetical negotiation would have taken place. The Court observed that "[t]he notion that license fees that are tainted by the coercive environment of patent litigation are unsuitable to prove a reasonable royalty is a logical extension of *Georgia-Pacific*, the premise of which assumes a voluntary agreement will be reached between a willing licensor and a willing licensee, with validity and infringement of the patent not being disputed." *Id.* at 43. Thus, the Court concluded, "[t]he propriety of using prior settlement agreements to prove the amount of a reasonable royalty is questionable." *Id.* Accordingly, the Court held that the district court erred in entering the settlement agreement into evidence.

Finally, the Court found that the district court admitted expert testimony that was unreliable under Fed. R. Evid. 702. The Court noted that although "[a]ctual licenses to the patented technology are highly probative as to what constitutes a reasonable royalty," "[w]hen relying on licenses to prove a reasonable royalty, alleging a loose or vague comparability between different technologies or licenses does not suffice." *Id.* at 47. Here, however, LaserDynamics's expert determined a royalty rate of 6% of each ODD sold within a QCI laptop computer using two DVD-related patent licensing programs and a 1997 licensing executives survey, none of which involved either the '981 patent or another disc discrimination method. "The 1997 licensing survey was even further removed from the patented technology, since it was not even limited to any particular industry, but 'was across whatever technologies were being licensed by the people who responded.'" *Id.* at 49 (citation omitted). Further, the evidence of licenses to the '981 patent were all for lump-sum amounts, whereas the expert testified to a running royalty rate on the basis of that evidence. Thus, the Court concluded that "the 6% royalty rate was untethered from the patented technology at issue and the many licenses thereto and, as such, was arbitrary and speculative." *Id.* at 51. The Court therefore remanded for a new trial on damages.

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Last Month at the Federal Circuit

Back to Main

September 2012

En Banc Court Holds That a Party Can Show Induced Infringement of Method Claim Where Inducer and Induced Party Each Perform Some of the Steps

Judges: Newman (dissenting), Lourie, Bryson, Linn (dissenting), Dyk (joining in Linn's dissent), Prost (joining in Linn's dissent), Moore, O'Malley (joining in Linn's dissent), Reyna, Wallach (per curiam)

[Appealed from D. Mass., Judge Zobel, and N.D. Ga., Judge Camp]

In *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Nos. 09-1372, -1380, -1416, -1417 (Fed. Cir. Aug. 31, 2012), and *McKesson Technologies, Inc. v. Epic Systems Corp.*, No. 10-1291 (Fed. Cir. Aug. 31, 2012) (en banc), the Federal Circuit held that "all the steps of a claimed method must be performed in order to find induced infringement, but that it is not necessary to prove that all the steps were committed by a single entity." Slip op. at 10.

The Federal Circuit stated that it was righting a perceived error in the law that a finding of induced infringement required a showing of direct infringement by a single entity, the so called "single-entity rule." In this respect, the Court reversed *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), and its progeny of cases. The Court specifically held that "[r]equiring proof that there *has been* direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be *liable* as a direct infringer." Slip op. at 16. The Court noted the "bizarre result" of the single-entity rule, where a party inducing infringement could avoid all liability by merely performing some of the claimed method steps himself. *Id.* at 16-17. According to the Court, "[t]he party who actually participates in performing the infringing method is, if anything, more culpable than [the] one who does not perform any steps." *Id.* at 17. In terms of intent, the Court explained that "inducement does not require that the induced party be an agent of the inducer or be acting under the inducer's direction or control to such an extent that the act of the induced party can be attributed to the inducer as a direct infringer." *Id.* at 14-15. Rather, the Court noted that "[i]t is enough that the inducer 'cause[s], urge[s], encourage[s], or aid[s]' the infringing conduct and that the induced conduct is carried out." *Id.* at 15 (alterations in original) (citation omitted).

"[W]e hold that all the steps of a claimed method must be performed in order to find induced infringement, but that it is not necessary to prove that all the steps were committed by a single entity." Slip op. at 10.

The Court characterized its decision as in line with the text of § 271(b), which provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." *Id.* at 14 (alteration in original) (quoting 35 U.S.C. § 271(b)). According to the Court, "'infringement' in this context appears to refer most naturally to the acts necessary to infringe a patent, not to whether those acts are performed by one entity or several." *Id.* at 17. Likewise, the Court concluded that the legislative history supported the interpretation of induced infringement as not requiring that a single entity must perform all steps to

infringe the claimed method. The Court cited comments by Judge Rich, where he made clear that "the revised provisions on infringement were intended to reach cases of divided infringement, even when no single entity would be liable for direct infringement." *Id.* at 19. The Court also found that principles of criminal and tort laws support the holding that a party may be liable for inducing joint infringement.

The en banc Court thus reversed the previous panels' decisions and remanded the cases, instructing the district courts that liability could be found under induced infringement. For example, the Court stated that "Limelight would be liable for inducing infringement if the patentee could show that (1) Limelight knew of Akamai's patent, (2) it performed all but one of the steps of the method claimed in the patent, (3) it induced the content providers to perform the final step of the claimed method, and (4) the content providers in fact performed that final step." *Id.* at 36.

Writing separately, Judge Newman agreed with the en banc Court's decision that the panels' decisions in both cases should be reversed. Judge Newman, however, dissented from the en banc Court's "inducement-only rule," arguing that instead, the Court should "restore direct infringement to its status as occurring when all of the claimed steps are conducted, whether by a single entity or in interaction or collaboration." Newman Dissent at 38. According to Judge Newman, remedies would then be "allocated as appropriate to the particular case." *Id*. Even under the inducement standard, however, Judge Newman disagreed with the majority that the cases required remanding. Rather, Judge Newman would have found infringement liability in both cases under either her proposed standard or the inducement standard.

A separate dissent, authored by Judge Linn and joined by Judges Dyk, Prost, and O'Malley, stated that the Court's decision contravenes the statute and Supreme Court precedent that stands for the proposition that "if there is no direct infringement of a patent there can be no contributory infringement." Linn Dissent at 2 (quoting *Aro Mfg. Co. v. Convertible Top Replacement Co*., 365 U.S. 336, 341 (1961)). The dissent also cited to passages from the congressional record, including testimony of Judge Rich, in support of its position. *Id.* at 10. According to the dissent, "[t]he well established doctrine of vicarious liability is the proper test for establishing direct infringement liability in the multi-actor context." *Id.* at 26. The dissent further noted that "[a]bsent direct infringement, the patentee has not suffered a compensable harm," *id.*, and concluded with a recitation of the standards discussed in *BMC* and *Muniauction, Inc. v. Thomson Corp*., 532 F.3d 1318 (Fed. Cir. 2008).

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Last Month at the Federal Circuit

Back to Main

September 2012

Looking Ahead

On September 24, 2012, the Supreme Court will decide whether to grant certiorari in several patent cases. In *R.J. Reynolds Tobacco Co. v. Star Scientific, Inc.*, No. 11-182 (Mar. 28, 2012), R.J. Reynolds Tobacco Company's petition asks whether "the Federal Circuit's insolubly ambiguous/amenable-to-construction test for patent definiteness, which upholds patents whose construed claims fail to inform a skilled artisan of the outer limits of the claimed monopoly, faithfully implements § 112 ¶ 2 as interpreted by the decisions of [the Supreme Court]." In *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 655 F.3d 1364 (Fed. Cir. 2011), the Federal Circuit upheld Star Scientific, Inc.'s patents against an indefiniteness challenge.

The Supreme Court will also decide whether to grant certiorari in *Bowman v. Monsanto Co.*, No. 11-796 (Apr. 2, 2012), regarding the issue of "patented seed exhaustion." Vernon Bowman, a farmer, petitioned the Supreme Court after the Federal Circuit, in *Monsanto Co. v. Bowman*, 657 F.3d 1341 (Fed. Cir. 2011), declined to find patent exhaustion where Monsanto Company sold its patented seed to him, and he grew crops and harvested the seeds from the crops. Mr. Bowman's petition poses the following questions: Whether the Federal Circuit erred by (1) refusing to find patent exhaustion in patented seeds even after an authorized sale, and by (2) creating an exception to the doctrine of patent exhaustion for self-replicating technologies?

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Back to Main

September 2012

Spotlight Info

In *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Nos. 09-1372, -1380, -1416, -1417 (Fed. Cir. Aug. 31, 2012), and *McKesson Technologies, Inc. v. Epic Systems Corp.*, No. 10-1291 (Fed. Cir. Aug. 31, 2012) (en banc), the Federal Circuit in a per curiam opinion reversed and remanded both cases in light of the Court's holding that "all the steps of a claimed method must be performed in order to find induced infringement, but that it is not necessary to prove that all the steps were committed by a single entity." Slip op. at 10. In this respect, overruling *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), and its progeny of cases, the Court held that "[i]f a party has knowingly induced others to commit the acts necessary to infringe the plaintiff's patent and those others commit those acts, there is no reason to immunize the inducer from liability for indirect infringement simply because the parties have structured their conduct so that no single defendant has committed all the acts necessary to give rise to liability for direct infringement." Slip op. at 16. In separate, lengthy opinions, Judge Newman and Judges Linn, Dyk, Prost, and O'Malley dissented from the majority opinion. See this month's edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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