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Last Month at the Federal Circuit

January 2013

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(Fed. Cir. Dec. 4, 2012)

[Appealed from S.D. Iowa, Senior Judge Wolle]

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[Appealed from Board]

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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Claim Vitiating Is Not an Exception to DOE

Benjamin A. Saidman

Judges: Rader (author), Newman, Plager

[Appealed from S.D. Iowa, Senior Judge Wolle]

In *Deere & Co. v. Bush Hog, LLC*, Nos. 11-1629, -1630, -1631 (Fed. Cir. Dec. 4, 2012), the Federal Circuit vacated the district court's construction of the term "into engagement with" and reversed the associated grant of SJ for noninfringement. The Court also affirmed the construction of "rotary cutter deck" and the determination that the terms "substantially planar" and "easily . . . washed off" do not render the asserted claims invalid under 35 U.S.C. § 112.

Deere & Co.'s ("Deere") U.S. Patent No. 6,052,980 ("the '980 patent") discloses an "easy clean dual wall deck" for a rotary cutter. Claim 1 of the '980 patent requires an upper deck wall to be "sloped . . . into engagement with, and being secured to, said lower deck wall." Deere filed suit against Bush Hog, LLC and Great Plains Manufacturing, Inc. (collectively, "Defendants"), alleging infringement.

The district court construed the term "into engagement with" to mean "brought into contact with," and construed "being secured to" as "fastened or attached." Slip op. at 4. The district court granted SJ of noninfringement, holding Deere did not raise a genuine issue of material fact as to literal infringement because the upper deck walls do not come into contact with the lower deck walls in any of the Defendants' accused products. Moreover, the district court held that Deere could not assert infringement under the DOE because doing so would vitiate the "into engagement with" limitation. Deere appealed.

On appeal, the Federal Circuit held that the district court erroneously construed the term "into engagement with" to require direct contact between the upper and lower deck walls. Clarifying that "into engagement with" and "being secured to" convey distinct meanings, the Court construed "into engagement with" to include indirect contact.

"[T]he vitiating test cannot be satisfied by simply noting that an element is missing from the claimed structure or process If mere observation of a missing element could satisfy the vitiating requirement, this 'exception' would swallow the rule." Slip op. at 11.

With regard to the DOE, the Court reiterated that "vitiating" is not an exception to the DOE. The district court had construed "contact" to require "direct contact," and thus found that allowing "no direct contact" for purposes of the DOE would vitiate the district court's construction of the term "into engagement with." In the Federal Circuit's view, the district court erred by invoking the vitiating exclusion in this context

because “a reasonable jury could find that a small spacer connecting the upper and lower deck walls represents an *insubstantial difference* from direct contact.” *Id.* at 11. According to the Court, “the vitiation test cannot be satisfied by simply noting that an element is missing from the claimed structure or process because the doctrine of equivalents, by definition, recognizes that an element is missing that must be supplied by the equivalent substitute. If mere observation of a missing element could satisfy the vitiation requirement, this ‘exception’ would swallow the rule.” *Id.*

Addressing the additional claim construction arguments, the Court affirmed the construction of the remaining terms. The Court first affirmed the district court’s construction of “rotary cutter deck” as “the blade housing on a power mower,” but the Court refused to limit the term to a device mounted to a tractor. *Id.* at 14. Next, the Court affirmed the district court’s determination that the limitations “substantially planar” and “easily . . . washed off” failed to render the respective claims indefinite, and, thus, the terms are not invalid under 35 U.S.C. § 112, ¶ 2.

Accordingly, the Federal Circuit remanded the case to the district court for further proceedings consistent with its opinion.

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Under Illinois Law, Failure to Assert Patent-Based Defenses in Contract Cases May Have Preclusive Effect in Later Related Actions

Michael E. Kudravetz

Judges: Newman, Bryson, Reyna (author)

[Appealed from C.D. Ill., Judge McDade]

In *Cummins, Inc. v. TAS Distributing Co.*, No. 10-1134 (Fed. Cir. Dec. 5, 2012), the Federal Circuit, applying Illinois law, held that res judicata bars invalidity and unenforceability defenses under 35 U.S.C. §§ 102 and 103 when those defenses could have been raised in prior litigation featuring the same parties, arising from the same group of operative facts, and resulting in a final resolution on the merits.

The appeal resulted from the third of three litigations between TAS Distributing Company, Inc. (“TAS”) and Cummins, Inc. (“Cummins”) over a 1997 Master License Agreement (“the Agreement”). The Agreement granted Cummins the coexclusive right to use technology owned or licensed by TAS relating to “Temp-A-Start” and “Temp-A-Stop” systems for automatically turning a diesel engine on or off, including U.S. Patent Nos. 5,072,703 (“the ‘703 patent”) and 5,222,469 (“the ‘469 patent”) (collectively “the TAS patents”).

First, TAS filed a DJ action against Cummins (then known as Cummins Engine Company, Inc.) in the Central District of Illinois in 2003 (“*TAS I*”), alleging that Cummins breached the Agreement by failing to make all reasonable efforts to market and sell the TAS technology and requesting specific performance.

Cummins counterclaimed that its obligation to pay royalties under the Agreement was set to expire the following month. The district court ruled on SJ that TAS failed to present any proof of damages and declined to order specific performance of Cummins’s obligations. The district court also ruled that Cummins had a continuing contractual obligation to make royalty payments for sales beyond the expiration date of the Agreement. On appeal, the Seventh Circuit affirmed the district court’s *TAS I* decision.

TAS filed a second suit against Cummins in Illinois in 2007 (“*TAS II*”), claiming that Cummins breached the Agreement by failing to pay royalties on all of Cummins’s products that incorporated the TAS technology. During discovery, the inventor of the TAS patents admitted that a version of TAS’s Temp-A-Start system was sold to another manufacturer in the mid-1980s, prior to the critical dates of the TAS patents, and that the prior sales and marketing efforts had not been disclosed to the PTO during prosecution of the TAS patents. Cummins sought leave to amend its Answer to include patent-based affirmative defenses and counterclaims related to the prior sales of the TAS technology, but the district court denied Cummins’s motion. The district court ruled that such claims were barred by res judicata, because Cummins should have and could have brought them in *TAS I*.

In 2009, Cummins initiated *TAS III*, seeking to have the trial court (1) dismiss TAS’s suit in *TAS II*;

(2) declare the TAS patents invalid under §§ 102 and 103; (3) declare the Agreement void for patent misuse; (4) declare that TAS engaged in patent misuse for improperly enforcing the TAS patents; (5) declare the TAS patents unenforceable due to inequitable conduct; and (6) rescind the Agreement in its entirety. The district court granted SJ for TAS, effectively barring all of Cummins's claims for declaratory relief on the basis of res judicata. The district court rejected Cummins's claim of an equitable exception to res judicata, finding that TAS had not made misrepresentations that prevented Cummins from asserting its patent invalidity claim in *TAS I*.

On appeal, the Federal Circuit applied Illinois state law in addressing each of Cummins's three arguments: (1) whether the trial court's basis for jurisdiction in *TAS I* was such that its judgment could have preclusive effect over subsequent patent-based defenses; (2) whether *TAS I* and *TAS III* were based on the same set of transactional facts; and (3) whether exceptions to the application of res judicata were available to Cummins.

“Illinois courts have determined not to engage in ‘piecemeal presentation of defenses,’ and we give deference to this sound policy.” Slip op. at 14 (quoting *Henry v. Farmer City State Bank*, 808 F.2d 1228, 1234 (7th Cir. 1986)).

First, the Federal Circuit rejected Cummins's argument that res judicata could not apply because the district court in *TAS I* lacked subject matter jurisdiction under the DJ Act, 28 U.S.C. § 2201(a), to hear issues of patent invalidity and unenforceability. The Federal Circuit reasoned that there was no jurisdictional bar preventing Cummins from asserting its patent-based defenses in *TAS I*, notwithstanding that Cummins continued making royalty payments. “In addition, regardless of whether Cummins could have sought affirmative relief in *TAS I* in the form of a declaratory judgment counterclaim, it plainly could have raised its patent-based defense in response to TAS's contract claims, but it did not do so.” Slip op. at 12.

Second, the Federal Circuit rejected Cummins's argument that res judicata did not apply because the causes of action in *TAS I* and *TAS III* were not the same. The Court applied the “transactional test” adopted by the Illinois Supreme Court where “separate claims [are] considered the same cause of action for purposes of *res judicata* if they arise from a single group of operative facts, regardless of whether they assert different theories of relief.” *Id.* at 12-13 (alteration in original) (quoting *River Park, Inc. v. City of Highland Park*, 703 N.E.2d 883, 893 (Ill. 1998)).

The Court rejected Cummins's argument that res judicata could not apply because *TAS III* related to patent invalidity, misuse, and unenforceability, while *TAS I* related to enforcing a specific provision of the Agreement. The Court explained that under Illinois law, “‘operative facts’ are not just those supporting the first judgment, but all ‘facts that give rise to plaintiffs’ right to relief.’” *Id.* at 13 (quoting *River Park*, 703 N.E.2d at 892). “The onus was on Cummins under Illinois state law to raise the defenses at [the time of *TAS I*] or forfeit their use at a later time.” *Id.* at 14. “Illinois courts have determined not to engage in ‘piecemeal presentation of defenses,’ and we give deference to this sound policy.” *Id.* (quoting *Henry v. Farmer City State Bank*, 808 F.2d 1228, 1234 (7th Cir. 1986)).

The Federal Circuit also rejected Cummins's argument that the district court erred in concluding that allowing Cummins to assert invalidity defenses would risk nullification of the *TAS I* judgment. The Court reasoned that the risk of inconsistent decisions is a long-standing concern of the judiciary and that Cummins's invalidity and unenforceability claims would impair the judgment from *TAS I* that established TAS's continuing right to receive royalties.

Third, the Federal Circuit rejected Cummins's argument that DJ and misrepresentation exceptions to res judicata applied. The Court reasoned that the DJ exception did not apply under Illinois law. Regarding the misrepresentation exception, the Court found no error in the district court's conclusion that

Cummins was aware of the basis for the invalidity and unenforceability claims during the course of the *TAS I* discovery. The Federal Circuit thus affirmed the district court's grant of SJ in favor of TAS that Cummins's claims in *TAS III* were barred by the doctrine of res judicata.

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Patent Act Precludes Review of Issued Patents Under the APA

Scott A. Allen

Judges: Prost, Clevenger, Reyna (author)

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

In *Pregis Corp. v. Kappos*, Nos. 10-1492, -1532 (Fed. Cir. Dec. 6, 2012), the Federal Circuit affirmed the denial of DJ defendant Free-Flow Packaging International, Inc.'s ("Free-Flow") motion for JMOL, holding the asserted claims of Free-Flow's U.S. Patent Nos. 7,325,377 ("the '377 patent"), 7,526,904 ("the '904 patent"); and 7,536,837 ("the '837 patent") invalid for obviousness. The Court also affirmed the dismissal of Pregis Corporation's ("Pregis") claims against the PTO under the APA for lack of subject matter jurisdiction.

Free-Flow and Pregis are competitors in the air-filled packaging cushion industry, providing cushions to fill excess space in shipping boxes. Pregis sued Free-Flow for DJ of noninfringement and Free-Flow counterclaimed for infringement of its patents relating to manufacturing air-filled packaging cushions. After a jury trial resulted in a verdict for Pregis, Free-Flow moved for JMOL, which the district court denied. On appeal, Free-Flow argued that the district court erroneously denied JMOL as to the validity and infringement of three of its patents.

The Federal Circuit first addressed the question of validity. As to Free-Flow's first argument that no evidence at trial provided a reason to combine the prior art references, the Court found sufficient factual underpinnings in the testimony of Pregis's expert witness. While Free-Flow asserted that Pregis's expert's testimony was inadequate for failing to opine on the legal conclusion of obviousness, the Court explained that the "ultimate legal conclusion of obviousness . . . was appropriately left to the district court and to this court on review of the verdict." Slip op. at 10.

In response to Free-Flow's argument that the prior art reference taught away from using the prior art machine in a manner suggested by Pregis's expert, the Court identified substantial evidence to support the jury's finding. The Court held that the mere fact that the prior art reference taught the "creation of bubble-wrap as a preferred embodiment [did] not constitute 'teaching away' from other reasonable uses," such as the air-pillow packaging discussed by Pregis's expert. *Id.* at 11.

"Allowing competitors to collaterally attack issued patents through suits under the APA would destroy the Patent Act's careful framework." Slip op. at 19.

Finally, the Federal Circuit held that Free-Flow's evidence of copying and commercial success—objective

indicia of nonobviousness—failed to establish the validity of the disputed claims. The Court explained that the “lack of nexus between the claimed subject matter and the commercial success or purportedly copied features . . . render[ed] Free-Flow’s proffered objective evidence uninformative to the obviousness determination.” *Id.* at 12. For these reasons, the Court affirmed the denial of Free-Flow’s motion for JMOL. Because the Court held the asserted claims of the patents invalid for obviousness, it declined to address the remainder of Free-Flow’s contentions or Pregis’s remaining invalidity defenses.

Next, the Court turned to the district court’s dismissal of Pregis’s claims against the PTO under the APA. In what the Court termed as an “unusual step,” Pregis sued not only Free-Flow for DJ in district court, but also the PTO to prevent the issuance of Free-Flow’s patent applications. *Id.* at 5. During the early stages of litigation, Free-Flow’s applications issued as patents and Pregis amended its complaint to add all of the patents-in-suit to its APA claims. Then, in a bench ruling, the district court dismissed Pregis’s APA claims for lack of subject matter jurisdiction. On appeal, the Federal Circuit affirmed the dismissal, holding “that a third party cannot sue the PTO under the APA to challenge a PTO decision to issue a patent.” *Id.* at 15.

The Court identified three reasons why the statutory scheme of the Patent Act precluded judicial review of issued patents under the APA. First, the statute provides specific procedures by which a patent applicant may appeal PTO rejections of patent claims. Second, “the statute permits third parties to challenge issued patents through carefully-circumscribed reexamination proceedings,” noting the passage of the new post-grant review procedures. *Id.* at 16. And third, potential infringers with a case or controversy may sue for DJ or raise invalidity as a defense to infringement in district court.

The Court explained that Congress enacted those specific procedures in order for “third parties to attack the *validity* of issued claims,” but decided “not to provide for third parties to obtain review of the *reasons* for allowance of claims.” *Id.* at 17. It stated that “[o]nly a patent applicant may challenge an examiner’s decision to reject claims in original examination under 35 U.S.C. § 131.” *Id.* Ultimately, the Court explained that “[a]llowing competitors to collaterally attack issued patents through suits under the APA would destroy the Patent Act’s careful framework.” *Id.* at 19.

Additionally, since the APA authorizes judicial review where no other adequate remedies exist in court, the Federal Circuit identified three remedies available to competitors allegedly harmed by the PTO’s erroneous issuance of a patent. First, third parties may request inter partes reexamination or post-grant review of issued patents. Second, third parties may seek Board and judicial review of reexamination proceedings. And third, DJ and invalidity defenses are available to putative infringers.

In response to Pregis’s arguments that DJ and defenses in infringement suits are not adequate “because not all PTO mistakes are recognized as defenses under § 282,” the Court held that the scheme under § 282 simply reflected congressional intent. *Id.* at 20. It explained that “the specific list of defenses available under § 282 reflects the deliberate judgment of Congress that not every error during prosecution should provide a defense to a claim of patent infringement.” *Id.* Furthermore, the Court reasoned that an issued patent’s presumption of validity, with an associated higher “clear and convincing” standard of proof, also reflected Congress’s intent as to what constituted an “adequate remedy.” The Court held that, in any event, to preclude judicial review under the APA, a judicial remedy need not be identical to relief under the APA, “so long as it offers relief of the same genre.” *Id.* at 21 (quoting *Garcia v. Vilsack*, 563 F.3d 519, 523 (D.C. Cir. 2009)) (internal quotation marks omitted). Accordingly, the Court affirmed the district court’s dismissal of Pregis’s claims against the PTO under the APA.

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Reissue Application Cannot Be Used to Withdraw a Terminal Disclaimer from an Issued Patent

Jameson Q. Ma

Judges: Lourie (author), Reyna, Krieger (sitting by designation)
[Appealed from Board]

In *In re Yamazaki*, No. 12-1086 (Fed. Cir. Dec. 6, 2012), the Federal Circuit affirmed the Board's rejection of reissue application No. 10/045,902 ("the Reissue Application") for lack of error correctable under 35 U.S.C. § 251 because reissue proceedings cannot be used to withdraw a terminal disclaimer from an issued patent.

In 1995, Shunpei Yamazaki filed U.S. Patent Application No. 08/426,235 ("the Original Application"). To overcome an obviousness-type double-patenting rejection based on Yamazaki's earlier-issued U.S. Patent No. 4,581,476 ("the '476 patent"), Yamazaki filed a terminal disclaimer, affirmatively disclaiming the statutory term of any patent granted on the Original Application that would extend beyond the expiration date of the '476 patent.

Yamazaki later amended each independent claim of the Original Application, such that, in Yamazaki's view, the pending claims became patentably distinct over the claims of the '476 patent and the terminal disclaimer became unnecessary. With the Original Application still pending, Yamazaki submitted a petition to withdraw the recorded terminal disclaimer, but the PTO never acted on the petition. With the petition still pending, a notice of allowance issued, and Yamazaki subsequently paid the issue fee. The Original Application issued as U.S. Patent No. 6,180,991 ("the '991 patent") while the terminal disclaimer remained in full force, and as a result, substantially curtailed the enforceable term of the '991 patent.

Approximately three months after the '991 patent issued, the PTO dismissed the petition to withdraw the terminal disclaimer, concluding that a recorded terminal disclaimer may not be nullified after the subject patent had issued. Yamazaki then sought to rescind the terminal disclaimer by filing the Reissue Application. The PTO rejected Yamazaki's oath and declaration as defective for failing to recite an error upon which a reissue application could be based, and the Board affirmed the PTO's rejection.

On appeal, Yamazaki took the position that the PTO, by failing to act on the petition, caused Yamazaki to claim less than he was entitled to by unnecessarily disclaiming part of the '991 patent's term. Yamazaki argued further that "the term of the original patent," as used by § 251, refers to the maximum statutory grant of exclusivity under 35 U.S.C. § 154(a), which provides that "such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed." Slip op. at 7. According to Yamazaki, a terminal disclaimer does not alter that statutorily defined patent term, but merely adjusts the patent's expiration date without altering the statutory term. The PTO countered that a recorded terminal disclaimer becomes part of the original

patent and defines the patent's term, so that the patent must be treated as if the disclaimed term never existed. The PTO also noted that Yamazaki's reissue is precluded because the '991 patent had expired years earlier, and, thus, no unexpired part of the term of the original patent remains.

“Once the [original patent] issued with [a] terminal disclaimer in place, and the terminal disclaimer consequently became part of the original patent, the PTO was foreclosed from later reissuing the patent for a term greater than that of the original '991 patent.” Slip op. at 11-12.

On appeal, the Federal Circuit affirmed the Board's decision, rejecting Yamazaki's position, and agreeing with the PTO that the recorded terminal disclaimer became part of the original '991 patent and served to define its term, “regardless of any further term that might have been otherwise available in the absence of the disclaimer.” *Id.* at 8. The Court relied on 35 U.S.C. § 253, which governs both terminal disclaimers and subject matter disclaimers. First, the Court noted that § 253 dictates that a terminal disclaimer is treated as part of the original patent—the same benchmark used to fix the maximum term for reissued patents in § 251—and that § 253 describes terminal disclaimers and disclaimers of patent claims in parallel, stating that they operate “[i]n like manner.” *Id.* at 9-10 (alteration in original). As such, the Court noted that the provision in § 253 dictating that such disclaimers of patent claims “shall thereafter be considered as part of the original patent” applied in equal force to disclaimers of patent term. *Id.* at 10. Thus, the Court concluded that a terminal disclaimer's effect on patent term must apply to the term of the original patent, as recited in § 251.

The Court also held that because § 253 has been interpreted as meaning that disclaimed claims never existed in the original patent, the same holds true for Yamazaki's disclaimer of patent term. “If a patentee's post-hoc disclaimer of an issued patent claim applies as part of the ‘original patent’ such that the disclaimed subject matter is treated as if it never existed, we see little reason why a terminal disclaimer filed *before* the issue date should not be afforded the same effect.” *Id.*

The Court found added support for its conclusion in other provisions of the Patent Act relating to patent term. For example, 35 U.S.C. §§ 155, 155A, and 156 codify additional mechanisms for varying the “term” of an “original patent” relative to that provided under § 154(a). The Court refused to hold that § 251 used “term” in a manner consistent with § 154(a), but distinct from §§ 155, 155A, 156, and 253, as to do so would “endorse an untenable reading of the statutory scheme.” *Id.* at 11.

The Court therefore held that Yamazaki's terminal disclaimer eliminated any term from the '991 patent beyond the original term of the '476 patent, and that reissue never existed as a remedy to withdraw the terminal disclaimer. The Court noted that “[o]nce the '991 patent issued with the terminal disclaimer in place, and the terminal disclaimer consequently became part of the original patent, the PTO was foreclosed from later reissuing the patent for a term greater than that of the original '991 patent.” *Id.* at 11-12. Thus, the PTO had no choice but to reject the Reissue Application, “as the alternative would have contravened the express conditions of § 251.” *Id.* at 12.

The Court noted that its holding was made in recognition that the reissue statute is remedial in nature and should be construed liberally, but also that the remedial function of the statute is not without limits. While the Court noted that the various delays Yamazaki experienced in prosecuting the Reissue Application were unfortunate, they had no effect on the eventual outcome because § 251 precluded the PTO from allowing the Reissue Application at any point during its pendency. The Court also noted that the reissue was not made appropriate due to the PTO's failure to act on the petition, as Yamazaki was similarly inattentive and bypassed numerous opportunities to prevent the '991 patent from issuing with the petition unresolved. The Court therefore noted that Yamazaki shares primary responsibility for allowing the '991 patent to issue with the terminal disclaimer, and that § 251 is not designed to cure every mistake that might be committed by an applicant or his attorney.

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Unreasonable Claim Constructions That Are Contrary to Intrinsic Evidence Warrant Rule 11 Sanctions

Patrick J. Stafford

Judges: Prost (author), Moore, Reyna (concurring)

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

In *Raylon, LLC v. Complus Data Innovations, Inc.*, Nos. 11-1355, -1356, -1357, -1358, -1359 (Fed. Cir. Dec. 7, 2012), the Federal Circuit affirmed the district court's denial of attorneys' fees and costs under 28 U.S.C. § 1927 and vacated the district court's denial of the defendants' motion for Rule 11 sanctions under the Federal Rules of Civil Procedure and attorneys' fees and costs under 35 U.S.C. § 285. The Court remanded for further proceedings in accordance with its opinion.

Raylon, LLC ("Raylon") brought three suits against Complus Data Innovations, Inc. ("Complus"), Casio America, Inc. and Casio Computer Co., Ltd., and Symbol Technologies, Inc. (collectively "Defendants"), alleging that Defendants infringed claims 1-17 of U.S. Patent No. 6,655,589 ("the '589 patent"). The claimed device is a handheld identification-investigating and ticket-issuing system with a display pivotally mounted on the system's housing. In response to the suits, Defendants sent several letters to Raylon, expressing their concern that Raylon's complaints violated Rule 11 because, inter alia, Raylon's claim construction positions were unsupportable and unreasonable.

Raylon disagreed, maintaining that the patent supported broad claim constructions and that the accused products infringed the claims of the '589 patent. Raylon specifically alleged that the accused devices all literally met the requirement of a pivotally mounted display because the systems all had a display that was mounted in a housing and could be pivoted relative to the user, i.e., a device with a fixed-mounted screen met the pivotally mounted limitation when the user pivoted the device by moving his elbow, wrist, or other joint. Defendants' handheld systems had fixed displays, and their proposed constructions excluded from "pivotally mounted" any displays that are fixed or incapable of pivoting.

The district court rejected Raylon's proposed construction of "display pivotally mounted on said housing" to include displays that are fixed or incapable of moving and accepted Defendants' construction. Additionally, the district court granted SJ in Defendants' favor. The district court further denied Defendants' motion for Rule 11 sanctions, concluding that while Raylon's proposed constructions stretched the bounds of reasonableness, they did not cross the line justifying sanctions, and Raylon's settlements and damages model tended to show that Raylon did not believe its case was weak or frivolous. The district court also denied attorneys' fees and costs pursuant to 35 U.S.C. § 285 and 28 U.S.C. § 1927 based on the conclusion that Raylon's suits were not objectively baseless.

On appeal, the Federal Circuit relied on the language of Rule 11 and held that reasonableness under Rule 11 is an objective standard. The Court disagreed with the district court's reliance on Raylon's

damage model and early settlements to determine the reasonableness of Raylon's claim. The Court held that the district court abused its discretion by applying a subjective, rather than objective, standard in determining reasonableness under Rule 11.

“[A]n evaluation of [the plaintiff’s] litigation motives—whether it brought suit in good faith or to obtain nuisance value settlements—contradicts Fifth Circuit law and has no place in the Rule 11 analysis.” Slip op. at 12.

The Court explained that “[t]he Fifth Circuit ‘has been emphatic’ that the Rule 11 analysis is a strictly objective inquiry and ‘expressly rejected any inquiries into the motivation behind a filing.’” Slip op. at 12 (quoting *FDIC v. Maxxam, Inc.*, 523 F.3d 566, 580 (5th Cir. 2008)). The Court further explained that an evaluation of a plaintiff’s “litigation motives—whether it brought suit in good faith or to obtain nuisance value settlements—contradicts Fifth Circuit law and has no place in the Rule 11 analysis.” *Id.* The Court noted that while reasonable minds can differ as to claim construction positions, “there is a threshold below which a claim construction is ‘so unreasonable that no reasonable litigant could believe it would succeed,’” and would therefore warrant Rule 11 sanctions. *Id.* at 13 (quoting *iLor, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011)).

The Court held that Raylon’s claim construction was below the threshold of reasonableness, because it is “contrary to all the intrinsic evidence and does not conform to the standard canons of claim construction.” *Id.* at 14. Further, the Court held that no reasonable litigant would believe this claim construction would succeed. Therefore, the Court held that Raylon’s claim construction was frivolous and Rule 11 sanctions should be applied. The Court thus remanded the case for the district court to determine an appropriate sanction under Rule 11.

The Defendants also alleged that the district court improperly denied attorneys’ fees and costs, because these cases qualify as exceptional under 35 U.S.C. § 285. The Court explained that a case is exceptional under § 285 when there is some inappropriate conduct relating to the matter in litigation. Additionally, the Court explained that absent litigation misconduct, a case is exceptional if “(1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Id.* at 17 (quoting *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)). The Court further explained this analysis is similar to the analysis for Rule 11 sanctions, and remanded the case to the district court to determine litigation misconduct in light of the Court’s decision on Rule 11 sanctions.

In a concurring opinion, Judge Reyna agreed with the majority that Rule 11 sanctions are warranted. Judge Reyna then stated that when a court finds a Rule 11 sanction based on patent infringement claims found to be unreasonable, the Court is compelled to undertake a detailed and thorough 35 U.S.C. § 285 inquiry and analysis. Judge Reyna recognized that § 285 was enacted to address a patent-specific policy rationale, and that the purpose of the statute “is distinguishable from Rule 11, which addresses conduct in general, because § 285 recognizes the particular strain that meritless patent litigation bears on judicial and party resources.” Reyna Concurrence at 5. As such, Judge Reyna stated that “a § 285 inquiry is compelling where the case progresses beyond the pleading stages and a party’s unwillingness to abide by precedent controlling claim construction lends to escalation of avoidable costs.” *Id.* at 6. Judge Reyna thus noted that the proper course of action would be to “reverse and declare this an exceptional case and limit the remand to determination of appropriate sanctions.” *Id.* at 15.

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Retroactive Elimination of the *Qui Tam* Provision of the Federal False Marking Statute Does Not Violate the Due Process Clause of the Constitution

*Robert C. MacKichan**

Judges: Newman, Prost (author), Moore
[Appealed from N.D. Cal., Judge Breyer]

In *Brooks v. Dunlop Manufacturing Inc.*, No. 12-1164 (Fed. Cir. Dec. 13, 2012), the Federal Circuit affirmed the constitutionality of the retroactive elimination of the *qui tam* provisions of the federal false marking statute effectuated by the Leahy-Smith America Invents Act (“AIA”).

35 U.S.C. § 292 makes it unlawful for any person to engage in specified acts of false patent marking, including falsely marking products as patented, with the intent to deceive the public. Historically, § 292 has included a *qui tam* provision allowing any person to sue for the false marking penalty, with the proceeds to be split evenly with the United States. The prevalence of false marking suits by private *qui tam* plaintiffs increased rapidly in 2009 after the Federal Circuit held that § 292 requires a penalty for false marking on a per article basis.

On September 16, 2011, the AIA eliminated the *qui tam* provisions of § 292. Section 292 now only allows false marking suits by either (1) the United States or (2) any person “who has suffered a competitive injury as a result of a violation” of § 292. 35 U.S.C. § 292(b). This provision is expressly made applicable to cases commenced prior to the passage of the AIA.

Before passage of the AIA, *qui tam* plaintiff Kenneth Brooks filed suit against Dunlop Manufacturing Inc. (“Dunlop”), alleging that Dunlop marked a guitar string winder with the number of a patent that expired and had been invalidated. Dunlop initially moved to dismiss the case, arguing, among other things, that the *qui tam* provision of § 292 violated the Take Care Clause, U.S. Const. art. II, § 3. While the Federal Circuit considered this constitutional question in a different case, Brooks’s case against Dunlop was stayed. During the pendency of the stay, Congress enacted the AIA, eliminating the *qui tam* provision of § 292. Dunlop then moved to dismiss the case, arguing that Brooks could not show a right to damages based on competitive injury.

Brooks opposed Dunlop’s motion to dismiss, arguing that Congress’s retroactive elimination of the *qui tam* provision of § 292 was unconstitutional because (1) it constituted a taking of his property without just compensation, and (2) was a violation of the Due Process Clause of the Constitution. The district court found that there was no unconstitutional taking or violation of the Due Process Clause and granted Dunlop’s motion to dismiss.

On appeal, the Federal Circuit affirmed the constitutionality of the retroactive provisions of § 292 as amended by the AIA. Brooks abandoned his unconstitutional takings argument on appeal. As to

Brooks's due process argument, the Federal Circuit rejected that the retroactive provisions of the AIA violated the Due Process Clause. The Court explained that Congress is free to give retroactive effect to economic legislation so long as doing so is a rational means of pursuing a legitimate legislative purpose. The Court found two independently sufficient rational legislative purposes for retroactive elimination of the *qui tam* provisions of § 292. First, the Court found ample support for Congress's determination that the cost of *qui tam* actions under § 292 exceeded their benefits. Additionally, the Court found that because of unresolved questions about the constitutionality of the *qui tam* provision of former § 292, "it was rational for Congress to pass legislation eliminating a potential constitutional issue and sparing the courts, private parties, and the United States the litigation burdens and risks associated with such issues." Slip op. at 10.

A "*qui tam* plaintiff has no 'vested right' and his 'privilege of conducting the suit on behalf of the United States and sharing in the proceeds of any judgment recovered, [i]s an award of statutory creation, which, prior to final judgment, [i]s wholly within the control of Congress.'" Slip op. at 14 (alterations in original) (quoting *United States ex rel. Rodriguez v. Weekly Publ'n, Inc.*, 144 F.2d 186, 188 (2d Cir. 1944)).

The Court went on to consider Brooks's "primary argument" that Congress violated the Due Process Clause by repudiating a contract alleged to have arisen between Brooks and the United States when he filed suit against Dunlop. The Court made clear that Brooks did not bring an actual "breach of contract" claim against the United States. The Federal Circuit applied the "well-established presumption" that "a law is not intended to create private contractual or vested rights, but merely declares a policy to be pursued until the legislature shall ordain otherwise." *Id.* at 12 (quoting *Nat'l R.R. Passenger Corp. v. Atchinson*, 470 U.S. 451, 465-66 (1985)). The Court found nothing in the language of former § 292 to overcome this presumption. Further, the Court found no evidence of congressional intent surrounding the passage of § 292 to enter into a contract with *qui tam* plaintiffs under § 292.

Brooks relied on a Ninth Circuit case involving the False Claims Act for the general proposition that *qui tam* provisions create enforceable unilateral contracts. The Court rejected this proposition as unsupported by case law and inapplicable to false marking suits. The Court also noted that "federal courts have consistently recognized that amendments to *qui tam* statutes that interfere with a [*qui tam* plaintiff's] pending action do not 'deprive him of rights guaranteed by the Constitution.'" *Id.* at 14 (quoting *United States ex rel. Rodriguez v. Weekly Publ'n, Inc.*, 144 F.2d 186, 188 (2d Cir. 1944)). Instead, "a *qui tam* plaintiff has 'no vested right' and his 'privilege of conducting the suit on behalf of the United States and sharing in the proceeds of any judgment recovered, [i]s an award of statutory creation, which, prior to final judgment, [i]s wholly within the control of Congress.'" *Id.* (alterations in original) (quoting *Rodriguez*, 144 F.2d at 188). The Court held that Brooks could not overcome the presumption that former § 292 did not create private contractual or vested rights. Accordingly, the Court held that Brooks had no contract and his due process claim failed.

The Court considered an additional argument by Brooks that Congress's powers under Intellectual Property Clause of the Constitution are subject to "a more searching analysis" than Congress's other enumerated powers. *Id.* at 15 (citation omitted). The Court rejected this argument, reasoning that "the AIA's retroactive amendments to § 292 do not implicate the scope of the patent power, but rather, Congress's judgment in effectuating and maintaining a patent system." *Id.* at 16.

**Robert C. MacKichan is a Law Clerk at Finnegan.*

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Whether Earlier Disclosed Genus Anticipates Later Claimed Species Necessarily Includes Factual Component That Can Preclude SJ

Goutham Kondapalli

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

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

In *Osram Sylvania, Inc. v. American Induction Technologies, Inc.*, Nos. 12-1091, -1135 (Fed. Cir. Dec. 13, 2012), the Federal Circuit reversed and remanded the district court's grant of SJ invalidating claims 1, 17, 25, 27, and 32 of U.S. Patent No. 5,834,905 ("the '905 patent"). The Court also held that the district court erred in failing to consider objective evidence of nonobviousness during an obviousness inquiry.

The '905 patent was assigned to Osram Sylvania, Inc. ("Osram") and is directed to a closed-loop tubular electrodeless lamp having certain and specific discharge current and pressure parameters. Representative claim 1 is directed to, inter alia, an electrodeless lamp that comprises a buffer gas at a pressure less than 0.5 torr and a radio frequency power source that supplies sufficient energy to the buffer gas to produce a discharge current equal to or greater than about 2 amperes. As described in the '905 patent's "Background of the Invention," U.S. Patent No. 3,987,334 ("the '334 patent") is directed to a lamp that "operate[s] with a buffer gas pressure of 'approximately 1 torr or less.'" Slip op. at 3. The specification of the '905 patent makes it clear that a novel relationship that combines a high discharge current with low buffer gas pressure results in an increased efficiency and reduced power loss over conventional electroded lamps.

Osram sued American Induction Technologies, Inc. ("AITI"), who denied infringement of the '905 patent and sought DJ of invalidity on various grounds, including anticipation and obviousness. In response to SJ motions by both parties, the district court found that claim 32 of the '905 patent was invalid as anticipated by the '334 patent and that genuine issues of material fact precluded SJ in favor of either party with respect to the remaining claims. Next, AITI renewed its SJ motion for invalidity of claims 1, 25, and 27 of the '905 patent based on a combination of the '334 patent and an article ("the Wharmby article"). On the renewed SJ motion, the district court concluded that claims 1, 17, 25, and 27 were invalid as obvious over the prior art. Regarding claim 17, the district court sua sponte found it obvious after AITI expressly dropped the claim from its renewed SJ motion.

On appeal, Osram argued that the district court resolved a disputed issue of material fact in its anticipation finding, namely, that the '334 patent disclosed the operating condition of less than 0.5 torr through its reference to a lamp with "a pressure of approximately 1 torr or less," and resolved numerous disputed issues of fact in its obviousness finding relating the interchangeability of lamp shapes. Additionally, OSRAM contended that the district court's failure to address evidence of secondary considerations of nonobviousness alone warranted reversal. AITI countered that the earlier disclosed genus—1 torr or less—necessarily anticipates the later species—less than 0.5 torr—and that the claims

are otherwise obvious in light of various combinations of prior art. AITI also contends that OSRAM failed to present evidence of a nexus between the claimed invention and the alleged secondary considerations, and, therefore, it was not an error for the district court not to consider them.

“While it is true that an earlier disclosed genus may, in certain circumstances, anticipate a later species, this inquiry necessarily includes a factual component.” Slip op. at 11.

The Federal Circuit first addressed the district court’s finding that the ’334 patent anticipated claim 32 of the ’905 patent. The Court noted that the dispute centered on whether the ’334 patent discloses a buffer gas pressure of less than 0.5 torr. AITI argued that the range in the ’334 patent is sufficient to disclose the claimed range of the ’905 patent because the range of the ’334 patent completely encompasses the claimed range of the ’905 patent. The Court rejected AITI’s argument, stating that “[w]hile it is true that an earlier disclosed genus may, in certain circumstances, anticipate a later species, this inquiry necessarily includes a factual component.” *Id.* at 11.

The Court reminded that “the prior art’s teaching of a broad genus does not necessarily disclose every species within that genus.” *Id.* The Court noted that the holding in *Atofina* was premised on the “considerable difference between the claimed [temperature] range and the range in the prior art,” and further that under the circumstances presented, “no reasonable fact finder could conclude that the prior art describes the claimed range with sufficient specificity to anticipate this limitation of the claim.” *Id.* (alteration in original). The Court found a clear disputed material issue of fact because Osram presented expert testimony showing that “the limitation of less than 0.5 torr is central to the invention claimed in the ’905 patent and that a lamp would operate differently at various points within the range disclosed in the . . . ’334 patent.” *Id.* at 12. The Court also noted that this dispute cannot be resolved as a matter of law based on the record because a trial may reveal that a minimal difference exists between the disclosed range of the ’334 patent and the claimed range of the ’905 patent. Accordingly, the Court reversed the district court’s SJ finding of anticipation of claim 32 (quoting *Atofina v. Great Lakes Chem. Corp.*, 441 F.3d 991, 999 (Fed. Cir. 2006)).

The Federal Circuit also reversed the district court’s SJ finding that claims 1, 17, 25, and 27 are obvious over the ’334 patent and the Wharmby article. The Court noted that the district court “did not make any specific findings of fact and gave no basis—other than an admission that it previously failed to consider submissions by the parties—for reversing its prior statement that disputed issues of fact existed.” *Id.* at 14. The Court also noted that “both this Circuit and the Ninth Circuit repeatedly have made clear that a trial court must at least provide its analysis and grounds for entering judgment somewhere in the record.” *Id.* The Court further noted that the Federal Circuit “must be furnished ‘sufficient findings and reasoning to permit meaningful appellate scrutiny.’” *Id.* at 15 (quoting *Nazomi Commc’ns, Inc. v. Arm Holdings, PLC*, 403 F.3d 1364, 1371 (Fed. Cir. 2005)). Because the district court failed to explain its conclusion for granting the renewed SJ motion, especially when there was evidence in the record supporting the nonmovant’s position, the Court remanded the issue to the district court to perform the requisite analysis.

The Court also reversed the district court’s SJ determination of obviousness because substantial factual disputes existed. The district court concluded that the lamp’s “shape is irrelevant.” *Id.* at 16 (citation omitted). The Federal Circuit noted that substantial factual disputes existed whether one of ordinary skill would consider the lamp’s shape irrelevant and whether one of ordinary skill would be motivated to combine the ’334 patent with the Wharmby article. The Court found that Osram presented evidence through expert testimony that the Wharmby article teaches away from the closed-loop tubular design of the ’905 patent and further that discharge plasmas are inherently unpredictable. The Court also noted that there was evidence that showed a disputed issue of fact regarding the teachings of the Wharmby article because the district court concluded, at an inequitable conduct trial, that the inventors of the ’905

patent credibly believed that the Wharmby article was not material to the '905 patent. For at least these reasons, the Federal Circuit reversed the grant of SJ and remanded for further proceedings.

The Court also concluded that a reversal of the district court's SJ finding of obviousness was warranted because the district court failed to consider the patentee's unrebutted evidence of secondary considerations of nonobviousness, including long-felt need, failure of others, and industry praise. On remand, the Court required the district court to consider secondary considerations in its obviousness analysis.

The Federal Circuit finally held that the district court erred in sua sponte finding claim 17 obvious after AITI expressly dropped the claim from its renewed SJ motion because the district court may not invalidate a claim sua sponte without giving notice and an opportunity for the nonmovant to address such an unanticipated action.

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No Inference of Deceptive Intent Where It Is “Equally Plausible” That Patent Owner Believed Prosecution Requirements Had Been Met

James D. Stein

Judges: Newman (author), Mayer (dissenting), Plager (concurring)

[Appealed from D. Del., Judge Farnan, Jr.]

In *AstraZeneca v. Aurobindo*, Nos. 10-1460 to -1473 (Fed. Cir. Dec. 14, 2012), the Federal Circuit affirmed the district court’s decision that U.S. Reissue Patent No. 37,314 (“the ’314 patent”), which is a reissue of U.S. Patent No. 5,260,440 (“the ’440 patent”), is not invalid for obviousness or unenforceable for inequitable conduct. The Court also affirmed the district court’s decisions that the PTO properly reissued the ’440 patent and that defendant Apotex U.S. infringed the ’314 patent by submitting an ANDA for a generic version of Crestor® on behalf of Apotex Inc. (“Apotex Canada”).

The ’314 patent, which is directed to the statin compound known as rosuvastatin, is owned by Shionogi Seiyaku Kabushiki Kaisha (“Shionogi”). AstraZeneca UK, IPR Pharmaceuticals Inc., and Shionogi (collectively “Plaintiffs”) market Crestor®, whose active ingredient is the calcium salt of rosuvastatin. Crestor® is approved by the FDA for use in control of cholesterol and for treatment of atherosclerosis. Several generic producers filed ANDAs to market generic versions of Crestor® before the expiration of the ’314 patent, and Plaintiffs filed suit. The district court ruled that the ’314 patent is valid, enforceable, and infringed. Eight generic producers appealed the rulings of validity and enforceability, and only Apotex U.S. appealed the ruling of infringement.

On appeal, the generic producers challenged patent validity on the ground of obviousness. The generic producers argued that Sandoz, Inc.’s (“Sandoz”) European Patent Office (“EPO”) Publication No. 0 367 895 disclosed “a good ‘lead compound,’” and that the change from the -CH₃ substituent at the C₂ position in that compound to the -SO₂CH₃ substituent in rosuvastatin would have been obvious in order to increase hydrophilicity. Slip op. at 7. In response, Plaintiffs pointed out that the Sandoz compound demonstrated unexpected increased toxicity; that publications stated that statin potency could be increased by substituents at the C₂ position that are lipophilic, the converse of hydrophilic; and that statin development was unpredictable.

“Recognizing the complexity of patent prosecution, negligence—even gross negligence—is insufficient to establish deceptive intent.” Slip op. at 18.

The Federal Circuit held that the district court correctly determined that the ’314 patent was not invalid for obviousness. The Court noted the district court’s conclusion that the generic producers did not demonstrate the required motivation for selecting the Sandoz compound as a lead compound, or for

making the specific change to that compound. “We agree that ‘obvious to try’ was negated by the general skepticism concerning pyrimidine-based statins, the fact that other pharmaceutical companies had abandoned this general structure, and the evidence that the prior art taught a preference not for hydrophilic substituents but for lipophilic substituents at the C₂ position.” *Id.* at 10.

The Court also affirmed the district court’s decision that the ’314 patent was not unenforceable for inequitable conduct. The generic producers argued that the ’314 patent was unenforceable because two employees in Shionogi’s in-house patent staff, Ms. Tomoko Kitamura and Mr. Takashi Shibata, did not disclose the Sandoz reference, a Bayer Japanese patent application, or an EPO search report that included the Sandoz reference to the PTO during prosecution of the original ’440 patent. The generic producers argued that the Sandoz and Bayer references were material, and that they were deliberately withheld with deceptive intent. Plaintiffs responded that there was no intent to deceive or mislead the PTO, and that any error in prosecution of the ’440 patent was unintentional and was rectified by prompt filing of the reissue application and disclosure of the references as soon as Shionogi discovered the error.

The Court noted that there was extensive evidence and argument before the district court, including the live testimony of the Shionogi personnel who were accused of acting inequitably. It was explained that when Shionogi scientists obtained favorable results with certain compounds, including rosuvastatin, Shionogi’s patent department was asked to file a patent application on their results. Ms. Kitamura in the patent department obtained search reports related to the products, and the reports identified the Sandoz reference and the Bayer application, which described a large class of statin compounds that generically included the rosuvastatin class of substituents, but did not show the specific compounds submitted for patenting. Ms. Kitamura testified that because there were no instances of the same compounds as Shionogi, she did not believe that the references created a patentability problem. She then left her employment at Shionogi shortly after filing the ’440 patent application, and Mr. Shibata assumed responsibility for the applications. Mr. Shibata received an EPO search report in a counterpart application that identified the Sandoz reference as particularly relevant. No IDS was filed for the ’440 patent application, and neither the Sandoz reference nor the Bayer application was provided to the PTO or cited by the examiner. The ’440 patent later issued on November 9, 1993.

During subsequent licensing negotiations between AstraZeneca and Shionogi, it was discovered that no IDS had been filed during prosecution of the ’440 patent application. U.S. patent counsel was consulted and Shionogi filed an application to reissue the ’440 patent to submit an IDS citing the references. Shionogi certified that it had erroneously not brought these references to the examiner’s attention, and that it was through error and not due to deceptive intent. The reissue examiner rejected the original, generic statin claim of the ’440 patent based on one of the IDS references, and Shionogi responded by limiting the ’440 patent to rosuvastatin and its salts. The application was subsequently allowed and reissued as the ’314 patent.

Regarding materiality, the Federal Circuit agreed with the district court that the reference compounds were sufficiently similar in structure to warrant citation, even though they did not negate the patentability of rosuvastatin. The Federal Circuit held, however, that there was no deceptive intent. The generic producers argued that deceptive intent should be inferred because (1) Ms. Kitamura possessed the Bayer reference at the time she filed the ’440 patent application and knew she had a duty to disclose it to the PTO; (2) an internal Shionogi memorandum stated that “[d]evelopment information on S-4522 [rosuvastatin] must not be leaked to the outside because it is included in the text of the published unexamined Bayer patent application”; and (3) Mr. Shibata did not disclose the Bayer and Sandoz references to the PTO, even though, according to the generic producers, he knew about them. *Id.* at 15 (alterations in original).

The Federal Circuit noted that the district court disagreed with the generic producers after receiving testimony from Mr. Shibata, Ms. Kitamura, and a third Shionogi employee, and that the district court found that “actions suggestive of malfeasance become no more than a string of mishaps, mistakes,

misapprehensions and misjudgments on the part of inexperienced and overworked individuals.” *Id.* (citation omitted). The Court held that “[c]lear error has not been shown in the district court’s finding that deceptive intent was not shown, and was not the single most reasonable inference based on all of the evidence.” *Id.* at 17. “The district court observed the witnesses under examination and cross-examination, examined the documents, and reasonably found that it was ‘equally plausible’ that Mr. Shibata believed the requirements of the United States patent prosecution had been met.” *Id.* “Recognizing the complexity of patent prosecution, negligence—even gross negligence—is insufficient to establish deceptive intent.” *Id.* at 18.

Turning to the question of reissue, the Federal Circuit agreed with the district court that the PTO properly reissued the ’440 patent. The generic producers argued that the statutory reissue requirement of error without deceptive intent had not been met. The Court disagreed, noting that the district court found no evidence of deceptive intent or a deliberate choice to omit or abandon the rosuvastatin species, which was described in the specification as the most effective product. “The district court considered the . . . arguments directed to both error and deceptive intent, and concluded that Shionogi did not act intentionally to make the error for which it seeks reissue.” *Id.* at 23.

Finally, the Federal Circuit addressed Apotex U.S.’s appeal on the issue of infringement. Apotex U.S. argued that while it signed and filed an ANDA on behalf of Apotex Canada, it did not “submit” the ANDA within the meaning of 35 U.S.C. § 271(e)(2) and thus did not infringe the ’314 patent. The Court disagreed. The Court noted that Apotex U.S. participated in preparing the ANDA and represented that it would sell the product in the United States. The Court concluded that the district court did not err in holding that Apotex U.S. was properly named as a defendant in the action, and affirmed the judgment of infringement against all of the generic producers.

Judge Plager concurred, writing separately “to clarify [his] understanding of why Apotex U.S. should be treated as having ‘submit[ted]’ an application for an ANDA, and therefore be held liable as an infringer under 35 U.S.C. § 271(e)(2).” Plager Concurrence at 2 (second alteration in original). Judge Plager opined that the district court’s decision was supported by the statutory analysis and the evidentiary record, noting that Apotex U.S. and Apotex Canada were closely related through a complex corporate structure. Judge Plager also stated that Apotex U.S. clearly intended to engage in, and presumably submitted the ANDA for the purpose of, selling the approved drug in the United States, and that the statute speaks in terms of engaging in the drug’s use or sale. “Under either analysis, the district court did not err in concluding that Apotex U.S. is liable for an act of infringement.” *Id.* at 6.

Judge Mayer dissented, stating that there can be no infringement of the ’314 patent because he believed that patent is invalid for improper reissue. According to Judge Mayer, “reissue is warranted only where a patentee ‘supplies . . . facts indicating how . . . ignorance,’ accident, or mistake caused an error in his claims.” Mayer Dissent at 7. Judge Mayer stated that “the majority conflate[d] the issue of whether Shionogi was guilty of inequitable conduct with the question of whether it met the requirements for reissue under section 251.” *Id.* at 9. Judge Mayer additionally stated that Shionogi forfeited its right to obtain reissue by not exercising due diligence in seeking to rectify the alleged defect.

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Wheel Games Are Not Shown to Be an Economically Distinct Relevant Market

Robert A. Hall

Judges: Bryson (dissenting), Linn, Reyna (author)

[Appealed from D. Nev., Judge Jones]

In *IGT v. Alliance Gaming Corp.*, No. 11-1166 (Fed. Cir. Dec. 17, 2012), the Federal Circuit affirmed the district court's entry of SJ denying antitrust counterclaims because the undisputed facts were insufficient to establish the existence of a relevant antitrust market in wheel games.

IGT owns several patents directed to wheel-based casino games. IGT sued Alliance Gaming Corp., Bally Gaming International, Inc., and Bally Gaming, Inc. (collectively "Bally") for infringement of those patents. Bally responded that the patents were invalid and not infringed. Bally also counterclaimed, alleging that the infringement lawsuit was an attempt to monopolize the wheel game market by asserting patents that IGT knew to be invalid, unenforceable, and not infringed. The district court denied IGT's motion for SJ on the antitrust issues, noting that the definition of the relevant market was a question of fact and concluding that there were genuine issues of material fact about whether wheel games were a relevant market and/or submarket. The district court granted Bally's motions that the patents were invalid and not infringed, and certified the patent issues for interlocutory appeal. The Federal Circuit affirmed.

On remand, IGT moved for reconsideration of the district court's denial of SJ on the antitrust counterclaims. Changing course from its previous ruling, the district court ruled that wheel games were not an economically distinct relevant market and granted SJ against Bally. Bally appealed.

On appeal, the Federal Circuit applied Ninth Circuit law in reviewing the district court's conclusions as to the relevant market under antitrust law. The Court noted that, as a threshold issue in any monopolization claim, the court must identify the relevant market.

The district court determined that, because wheel games compete with all gaming machines, wheel games are not a relevant market because a market limited to wheel games would not encompass all economic substitutes. Bally argued that the district court (1) improperly resolved disputed facts when it determined that wheel games were not a relevant market; (2) erred in concluding that the existence of some substitution between wheel and nonwheel games foreclosed the existence of a wheel game market; and (3) improperly focused on functional, rather than economic, substitution.

To decide whether the district court improperly resolved disputed facts, the Federal Circuit examined the district court's conclusion that wheel games compete with all gaming machines. The Court found that both Bally and IGT provided extensive evidence that wheel games compete in the broader gaming machine market and that Bally did not rebut this evidence. Thus, the Court held that Bally failed to produce evidence to show that there is a genuine issue of material fact that wheel games compete with

all gaming machines, and the district court did not resolve a disputed factual issue.

“As Bally has failed to produce evidence to show there is a genuine issue of material fact that wheel games compete with all gaming machines, the district court did not resolve a disputed factual issue.” Slip op. at 9.

The Federal Circuit next considered whether it was error for the district court to conclude that, because wheel games compete with all gaming machines, wheel games are not a relevant market. The Court noted that the relevant market inquiry focuses on economic substitution. Bally argued that it has shown a lack of economic substitution under a test set forth in the Department of Justice’s Horizontal Merger Guidelines, known as the “small but significant and non-transitory increase in price” (“SSNIP”) test, which asks “whether the degree of substitutability between the two products is sufficiently great that it would restrain a hypothetical monopolist from profitably imposing a substantial price increase.” Slip op. at 11 (citation omitted). Bally argued that, because the introduction of wheel games forced IGT to lower its prices, this meant that IGT’s prior prices were supracompetitive and those supracompetitive prices represented an SSNIP. The Court disagreed. In the Court’s view, even assuming SSNIP is a proper test and that IGT did have to lower its prices, Bally did not explain what the baseline price for wheel games was from which IGT allegedly imposed an SSNIP. Moreover, even considering IGT’s supracompetitive prices as the baseline, the Court concluded that Bally showed that the prices had decreased, not increased.

The Federal Circuit also rejected Bally’s argument that the district court improperly focused on technological substitutions. The Court held that the district court based its ultimate conclusion on competition, not on functionality, and that its recognition of meaningful competition was not in error.

The Court next considered Bally’s argument that the factors from *Brown Shoe Co. v. United States*, 370 U.S. 294 (1962), establish wheel games as a submarket. The Court concluded, however, that the undisputed facts are insufficient to establish the existence of a submarket under the *Brown Shoe* factors. The Court found that there are no unique production facilities or specialized vendors for wheel games, and there are no distinct customers; all games are purchased by casinos. Further, although the Court noted that some players prefer wheel games to other games, “player preference for wheel games says nothing about whether there is a public or industry perception that wheel games constitute a separate market; to the contrary, it is in harmony with the rest of the evidence that gaming machines are a differentiated market and that wheel games compete with all gaming machines to accommodate the spectrum of player preferences.” Slip op. at 14-15.

Finally, Bally argued that statements IGT and its experts made in support of its lost profits patent damages theory supported a conclusion that nonwheel games are not substitutes for wheel games. Specifically, IGT argued that there were no noninfringing substitutes for wheel games, and that every infringing game sold represented a loss of profits. Bally argued that this was a concession by IGT that there are no substitutes for wheel games and that nonwheel games are not in the same market as wheel games. But the Court found that IGT’s expert’s opinion regarding technological substitutes cannot be read to mean that there were no economic substitutes and did not support a reasonable inference that no economic substitution existed. Therefore, the Court held that the district court’s order did not resolve disputed issues of material fact.

For these reasons, the Court found that the undisputed facts show that meaningful competition exists between wheel games and all gaming machines, and that wheel games are not a separate submarket. Accordingly, the Court affirmed the district court’s grant of SJ that a wheel game market did not exist.

Judge Bryson dissented. In Judge Bryson’s view, Bally presented sufficient evidence for a reasonable finder of fact to find that the relevant product market is limited to wheel games. Judge Bryson explained

that the relevant market inquiry seeks to determine the scope of the market in which a monopolist can exert market power over buyers, and Bally alleged, and had introduced evidence, that IGT had market power over buyers in supplying wheel games. Specifically, Judge Bryson found that Bally showed that IGT was forced to lower its prices because of Bally's introduction of wheel games into the market, that margin and profit per unit for wheel games is higher than for nonwheel games, and that demand for wheel games is higher than for any nonwheel games. Further, Judge Bryson stated that evidence put forth by IGT showed that there were no alternatives to which consumers could shift their demand other than Bally's products, which in turn established that the relevant market was limited to wheel games.

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Patent License Extends to Reissue Patents Unless Contrary to Intent of Parties

*John A. Hevey**

Judges: Prost, Linn (author), Wallach

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

In *Intel Corp. v. Negotiated Data Solutions, Inc.*, No. 11-1448 (Fed. Cir. Dec. 17, 2012), the Federal Circuit affirmed the district court's SJ determinations of license and noninfringement in favor of Intel Corp. ("Intel"), holding that Intel was licensed to practice the patents-in-suit pursuant to a license agreement with Negotiated Data Solutions, Inc.'s ("N-Data") predecessor-in-interest, National Semiconductor Corp. ("National").

Intel entered into a patent cross-licensing agreement with National ("the Agreement") granting Intel nonexclusive royalty-free licenses to all of National's patents and patent applications having an effective filing date prior to the expiration of the Agreement. During the term of the Agreement, National assigned U.S. Patent Nos. 5,361,261; 5,533,018; 5,566,169; and 5,594,734 (collectively "the Original Patents"), licensed under the Agreement, to Vertical Networks, Inc. ("Vertical"). Vertical filed broadening reissue applications, then assigned the Original Patents and the related reissue applications to N-Data. After expiration of the Agreement, the reissue applications were granted to N-Data with additional claims ("the Reissue Patents").

N-Data then sued Dell, Inc. ("Dell"), an Intel customer, alleging patent infringement of several patents, including the Reissue Patents. Intel intervened, seeking a DJ that Intel and its customers were licensed to practice the asserted Reissue Patents owned by N-Data, because they derive from the Original Patents, which were part of the licensing agreement with National. On SJ, the district court held that the Agreement applied to the patents-in-suit, protecting Intel from claims of direct infringement and indirect infringement based upon sales by third parties incorporating Intel products.

On appeal, the Federal Circuit first examined the facts under the reissue provisions set forth in 35 U.S.C. § 252. N-Data argued that under its interpretation of § 252, only substantially identical claims reach back to the date of the original patent and that the Agreement only covered patents owned or controlled by National during the term of the license. Thus, N-Data believed that while the Agreement covered the Original Patents, it did not cover the Reissue Patents, which were each issued directly to N-Data after the Agreement had expired. That is, N-Data argued that a reissue patent is a distinct property right that does not simply replace the original patent. In contrast, Intel focused on § 252's language that "every reissued patent shall have the same effect and operation in law . . . as if the same had been originally granted in such amended form," arguing that a reissue patent takes the place of the original *nunc pro tunc*, as the Court has held with regard to 35 U.S.C. §§ 254 and 255. Slip op. at 7-8. The Federal Circuit held that a reissue patent does not replace an original patent *nunc pro tunc*, noting that reissue applications have different standards in implementation and are not intended to remedy the same kinds of defects as the

“[I]n the absence of contrary language in the licensing agreement—a license under the patent that is not directed to any specific claims, field of use, or other limited right will extend to the full extent of protection provided by law to the invention which is the subject of that patent.” Slip op. at 11.

Instead, the Court explained that whether the Agreement extended to the Reissue Patents was a question of contract interpretation. Agreeing with the district court, the Federal Circuit held that the key question was whether the intent of the parties demonstrated that the Reissue Patents should be treated as National patents under the Agreement. The Court distinguished related case *Intergraph Corp. v. Intel Corp.*, 241 F.3d 1353 (Fed. Cir. 2001), as dealing only with whether or not the Agreement covered patent applications held momentarily by National, such that the applications never issued as National patents. In addition, the Court distinguished *Altwater v. Freeman*, 319 U.S. 359 (1943), rejecting N-Data’s argument that surrender and reissue may operate to terminate a license agreement. Rather, the Court held that 35 U.S.C. § 251 suggests that “in the absence of contrary language in the licensing agreement—a license under the patent that is not directed to any specific claims, field of use, or other limited right will extend to the full extent of protection provided by law to the invention which is the subject of that patent.” Slip op. at 11. Therefore, because the patent laws provide for the grant of reissue patents and the Agreement extended broadly to National patents, the Court held that it was reasonable to conclude that the parties’ mutual intent at the time of contracting was that the license extended to any reissues of licensed patents.

Finally, citing recent cases involving a licensee’s rights when the patent holder received a continuation patent, the Court recognized that “allowing the patent holder to sue on subsequent patents, when those later patents contain the same inventive subject matter that was licensed, risks derogating rights for which the licensee had paid consideration.” *Id.* at 12. Accordingly, whether the case involves reissue patents or continuation patents, where the full extent of an invention disclosed in a patent is licensed, the license should extend to those reissue or continuation patents derived therefrom. As the Agreement “evinces the parties’ intent that the license so granted extend not only to the claims then in existence but also to the full scope of any coverage available by way of reissue for the invention disclosed,” the Court affirmed the SJ ruling that Intel was licensed to practice the Reissue Patents. *Id.* at 13.

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Applicant's COCK SUCKER Mark for Chocolate Rooster-Shaped Suckers Is Vulgar and Unregistrable

Stephanie H. Bald

Judges: Dyk (author), Prost, O'Malley
[Appealed from TTAB]

In *In re Fox*, No. 12-1212 (Fed. Cir. Dec. 19, 2012), the Federal Circuit affirmed the TTAB's decision refusing registration of Marsha Fox's COCK SUCKER and design mark for chocolate suckers molded in the shape of a rooster on the ground that it comprised immoral, deceptive, or scandalous matter, and thus was unregistrable under 15 U.S.C. § 1052.

Fox filed an application to register her mark, which consisted of the wording COCK SUCKER and a design element featuring a drawing of a crowing rooster. The Examining Attorney refused registration of the mark, determining that it consisted of or comprised immoral or scandalous matter based on the dictionary definition of "cocksucker," which is "someone who performs an act of fellatio." Slip op. at 4 (citation omitted). Fox responded to the refusal by arguing, among other things, that the dictionary defines a cock as a "rooster" and a sucker as a "lollipop," and that these nonvulgar definitions were "more relevant" than the vulgar definitions offered by the Examining Attorney. *Id.* The Examining Attorney maintained the refusal and Fox appealed to the TTAB.

The TTAB affirmed the Examining Attorney's refusal, concluding that "[t]he word portion of applicant's mark . . . , when used in connection with applicant's products, creates a double entendre[, where] one meaning is one who performs fellatio[] and the other meaning is a rooster lollipop." *Id.* at 6 (alterations in original) (citation omitted). The TTAB also noted that "[t]he term 'Cocksucker' is uniformly identified as a vulgar term in dictionaries," and the TTAB "g[a]ve very little weight to [Fox's] argument [that] COCK SUCKER [with a space between the words] has a different meaning than COCKSUCKER [all one word]." *Id.* (citation omitted) Thus, the TTAB held that the evidence supported the Examining Attorney's finding that the term COCK SUCKER is vulgar and that Fox's mark was unregistrable.

On appeal, Fox argued that the TTAB lacked substantial evidence to support its finding that her mark had a vulgar meaning because the literal element of the mark means only "rooster lollipop." The Court disagreed, finding that the TTAB properly concluded that the distinction between COCKSUCKER (one word) and COCK SUCKER (two words) was a distinction without a difference and that the association of COCK SUCKER with a poultry-themed product did not diminish its vulgar meaning (it merely established an additional, nonvulgar meaning and a double entendre). In reaching this conclusion, the Court noted that Fox had conceded that "cocksucker" (one word) was a vulgar term in its common usage, that the dictionary evidence was devoid of any alternative, nonvulgar definition for that word, that the mark's "sound" was central to its commercial impression, that her mark had at least in part a vulgar meaning, and that the humor of the mark was derived from the possibility of a double entendre, consisting of a

vulgar and a nonvulgar meaning.

“[T]here is no requirement in the statute that a mark’s vulgar meaning must be the only relevant meaning—or even the most relevant meaning. Rather, as long as a ‘substantial composite of the general public’ perceives the mark, in context, to have a vulgar meaning, the mark as a whole ‘consists of or comprises . . . scandalous matter.’” Slip op. at 8-9 (quoting 15 U.S.C. § 1052 (a)).

Fox also argued that even if found to have a vulgar meaning, the mark was still entitled to registration because it was a double entendre with one vulgar and one nonvulgar meaning, and the PTO had not demonstrated that the public would “choose” the nonvulgar meaning. The Court rejected this argument, holding that there was no requirement in the Lanham Act that a mark’s vulgar meaning must be the only relevant meaning, or even the most relevant meaning. Rather, as long as a “substantial composite of the general public” perceives the mark, in context, to have a vulgar meaning, the mark as a whole “consists of *or comprises* . . . scandalous matter,” and thus is unregistrable. *Id.* at 8-9 (quoting 15 U.S.C. § 1052(a)). The Court further found that the fact that there were “whimsical” and humorous aspects to Fox’s mark did not mean that it was not scandalous.

Finally, Fox argued that because there was arguably doubt as to how the general public would view her mark, the Court should permit the mark to be published for registration and rely on opposition proceedings to bring to light any public objections to the mark. The Court explained that this approach was only appropriate where the registrability of the mark was uncertain, and it was not uncertain in this case.

In sum, the Court found that substantial evidence supported the Board’s determination that Fox’s COCK SUCKER and rooster design mark, taken as a whole and in context, would be perceived by a substantial composite of the general public as having a vulgar meaning. Thus, the Court held that the TTAB did not err in finding the mark comprised of scandalous matter and, accordingly, was unregistrable.

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Infringing Direct Competitor Strongly Supports Irreparable Harm Finding, Even Where Plaintiff's Product Does Not Practice the Patent

Aidan C. Skoyles

Judges: Rader (author), Plager, Wallach

[Appealed from S.D. Cal., Chief Judge Gonzalez]

In *Presidio Components, Inc. v. American Technical Ceramics Corp.*, Nos. 10-1355, 11-1089 (Fed. Cir. Dec. 19, 2012), the Federal Circuit affirmed the district court's decision on infringement and lost profits, but vacated its finding of no irreparable harm, no permanent injunction, and an ongoing royalty. Finally, the Court vacated the trial court's false marking judgment due to the recently enacted Leahy-Smith America Invents Act ("AIA").

Plaintiff Presidio Components, Inc. ("Presidio") is a manufacturer of monolithic capacitors sold under the tradename Buried Broadband capacitor ("BB capacitor"). Presidio asserted that American Technical Ceramics Corporation's ("ATC") competing 545L capacitors infringed certain claims of U.S. Patent No. 6,816,356 ("the '356 patent"). The '356 patent is directed to a capacitor having a one-piece design that improves upon previous-generation two-piece designs that have to be joined together.

In February 2008, Presidio filed suit in the Southern District of California, and ATC later filed counterclaims based on alleged false marking of the BB capacitor with the '356 patent. In July 2009, ATC requested an ex parte reexamination of the '356 patent, but in September 2011, the PTO confirmed the patentability of the asserted claims of the '356 patent without amendment.

After a trial in December 2009, a jury found the asserted claims willfully infringed and not invalid. The jury awarded Presidio over \$1 million in lost profits and denied ATC's claim for false marking. Following trial, both parties filed numerous JMOL motions, which were the subject of the present appeal.

"Even without practicing the claimed invention, the patentee can suffer irreparable injury. Direct competition in the same market is certainly one factor suggesting strongly the potential for irreparable harm without enforcement of the right to exclude." Slip op. at 19.

On appeal, the Federal Circuit affirmed the jury's finding that ATC's 545L capacitors literally infringed the asserted claims of the '356 patent. The parties disputed whether the accused capacitors were "a substantially monolithic dielectric body." ATC pointed to the admission of Presidio's expert that ATC's 545L capacitors could contain one or two percent of "porosity," i.e., that they were not monolithic. Slip op. at 10. The Federal Circuit discounted this statement. It held that, "taken as a whole," Presidio's

expert supported the jury's determination. *Id.* at 9. Even though the accused capacitors may have "seams," the Court held that substantial evidence supported the jury's infringement finding. The Court considered but summarily rejected ATC's "numerous other arguments" regarding infringement, finding no reversible error. *Id.* at 11.

On the lost profits issue, Court found that substantial evidence supported the jury's decision. The Court addressed the disputed first two factors of the four-factor *Panduit* test. As to the first *Panduit* factor, "demand for the patented product," the Court held that even though Presidio's BB capacitor did not practice the '356 patent, the demand for the "patented product" could still arise from a competing product, i.e., ATC's 545L capacitors. *Id.* at 12. The Court found sufficient record evidence to support the jury's finding that the ATC and Presidio capacitors were in fact competitors. As to the second *Panduit* factor, "absence of acceptable noninfringing substitutes," the Court found that the noninfringing substitutes that ATC pointed out were not in fact competitors at all since they used a two-piece design of the previous capacitor generation. Because this two-piece design did not perform as well as the patented one-piece design, the Court held that the alleged substitutes were not "acceptable substitutes" under the second prong of the *Panduit* test.

As to Presidio's cross-appeal, the Court vacated the district court's denial of Presidio's motion for a permanent injunction. The Court found that competition between the parties could not at once be sufficient for money damages but insufficient for irreparable harm, as the district court found. The Court said that the district court appeared to place too much emphasis on the fact that Presidio conceded that its capacitors did not practice the '356 patent. "Even without practicing the claimed invention, the patentee can suffer irreparable injury. Direct competition in the same market is certainly one factor suggesting strongly the potential for irreparable harm without enforcement of the right to exclude." *Id.* at 19. Because the products did compete and irreparable harm existed, the Court held that the district court abused its discretion in denying Presidio a permanent injunction.

As to false marking, the Court held that the intervening AIA applied retroactively to this appeal. Further, the AIA's change of law led the Court to vacate the false marking issue as moot. Under the new law, only the United States can bring a false marking claim, and so ATC could not maintain its claim against Presidio.

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Stephen Slesinger Estopped from Challenging Disney's Ownership of Winnie-the-Pooh Trademarks

Stephanie H. Bald

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

[Appealed from TTAB]

In *Stephen Slesinger, Inc. v. Disney Enterprises, Inc.*, No. 11-1593 (Fed. Cir. Dec. 21, 2012), the Federal Circuit affirmed the TTAB's dismissal of Stephen Slesinger, Inc.'s ("Slesinger") challenges, in twelve opposition and cancellation proceedings filed at the TTAB, to the trademark rights related to A.A. Milne's literary work featuring Winnie-the-Pooh and other characters owned by Disney Enterprises, Inc. ("Disney"). The Court found that the TTAB correctly ruled that the proceedings were barred by collateral estoppel.

For decades, Slesinger and Disney have disputed the Winnie-the-Pooh rights in federal courts and at the TTAB. In 1930, A.A. Milne transferred to Stephen Slesinger exclusive merchandising and other rights based on those works in the United States and Canada. In 1961, Slesinger exclusively "assigned, granted, and set over to" Walt Disney Productions the rights in the 1930 agreement with A.A. Milne. Slip op. at 3 (citation omitted). In 1983, Slesinger acknowledged its transfer and assignment of "rights it had acquired from A.A. Milne to Disney by agreement dated 14 June 1961." *Id.* (citation omitted). The 1983 agreement then revoked the prior agreements and gave Slesinger "all of the rights in the work which were transferred to [Slesinger] in 1930 and amended from time to time," but also transferred back to Disney those and "further" rights. *Id.* (alteration in original) (citation omitted).

While the 1983 agreement sought to resolve the parties' previous disputes and clarify their contractual obligations, the parties disagreed about the interpretation of that agreement. Slesinger contended that it retained rights in the Winnie-the-Pooh works, while Disney maintained that Slesinger assigned all rights to Disney.

In 1991, Slesinger brought an action in Los Angeles Superior Court alleging that Disney had breached the 1983 agreement and had underpaid royalties to Slesinger. In the California state court case, Slesinger acknowledged that the 1983 agreement "regranted, licensed and assigned all rights acquired rights [sic] to Disney," and explained that "the grant of all 'further rights' in and to the Pooh Characters [in the 1983 agreement] is a catch-all designed to ensure that Slesinger was granting . . . all of the additional commercial exploitation rights Slesinger acquired that are not specifically mentioned in the 1983 Agreement." *Id.* at 4 (first alteration in original) (citation omitted). The state court ultimately dismissed Slesinger's breach-of-contract claim and the California Court of Appeals affirmed.

The parties' dispute over royalties, however, proceeded in the District Court for the Central District of California and, in 2006, Slesinger amended its district court claim to allege that Disney's exploitation of

the Winnie-the-Pooh characters infringed Slesinger's trademarks and copyrights. Based on Slesinger's admissions in the state court action that Disney's uses of the Winnie-the-Pooh characters were authorized, Disney moved to dismiss the claim. Disney also argued that Slesinger had granted all of the rights it had in the characters to Disney and that Slesinger had retained no rights that Disney could infringe.

In 2009, the district court considered the parties' cross-motions for SJ based on the 1983 agreement and addressed the agreement's scope and judicial estoppel, among other things. The district court noted that the parties' actions showed that the Winnie-the-Pooh rights were transferred to Disney in the 1983 agreement. For example, between 1983 and 2006, Disney registered at least fifteen trademarks relating to those rights and, in 2004, Disney registered copyrights in forty-five works and renewed copyright registrations for another fourteen. Slesinger, on the other hand, did not attempt to perfect or register trademarks or copyrights before asserting its district court infringement claims and did not object to Disney's registrations until 2006, when the state court dismissed Slesinger's claims for breach of contract. The district court also found that because Slesinger could not specifically identify any retained right in the Winnie-the-Pooh works, the contracts did not permit any retention of rights and Slesinger had granted its acquired rights to Disney. Thus, based on the parties' conduct and the "clear terms" of the agreements, the district court found that Slesinger "transferred all of its rights in the Pooh works to Disney, and may not now claim infringement of any retained rights." *Id.* at 5 (citation omitted).

Finally, the district court found that Slesinger was estopped from arguing that it did not relinquish all the rights it received from A.A. Milne to Disney because that argument was inconsistent with statements made and positions taken in the state court action. Specifically, in state court, Slesinger had insisted that Disney's uses of the works were derived from the Slesinger grants of "all' rights to sound, word, picture representation, television, any representational device, similar or allied devices, videocassettes, promotion and advertising in all media, exploitation and licensing in all media." *Id.* (citation omitted).

The dispute at the TTAB began in December 2006, with Slesinger attempting to cancel certain trademarks based on the Winnie-the-Pooh work. Slesinger claimed that the 1983 agreement with Disney was a license, and did not grant Disney the right to register the marks. Disney argued that the 1983 agreement assigned all of the Winnie-the-Pooh rights to Disney and moved to dismiss the TTAB proceedings. The TTAB treated the motion as one for SJ, and found that collateral estoppel barred Slesinger's claims and granted judgment for Disney based on the district court's decision.

"With such a clear explanation that Slesinger conveyed all rights completely to Disney, it is immaterial that the district court used the terms 'transfer' and 'grant' rather than 'assignment.' Moreover, it is the court's ultimate 'judgment that matters,' not the language used to discuss the court's rulings." Slip op. at 9 (citation omitted).

On appeal, the Federal Circuit applied the four-part test for collateral estoppel set forth in *Laguna Hermosa Corp. v. United Staes*, 671 F.3d 1284, 1288 (Fed. Cir. 2012): "(1) a prior action presents an identical issue; (2) the prior action actually litigated and adjudged that issue; (3) the judgment in that prior action necessarily required determination of the identical issue; and (4) the prior action featured full representation of the estopped party." Slesinger conceded that the case satisfied the first and fourth factors, and the Court agreed. On the second factor, Slesinger argued that the district court did not properly consider the issue of the scope of the 1983 agreement, and it did not specifically declare that Slesinger "has no rights *at all*," implying that some rights might have survived the 1983 agreement. Slip op. at 7. Further, Slesinger argued that the district court's use of the term "retained rights" and its failure to use the word "assignment" (as opposed to "grant" or "transfer") implied that Disney licensed, rather than assigned, the rights. The Court rejected these arguments, finding that the district court extensively analyzed the scope of the 1983 agreement based on the pleadings (Slesinger's Second Claim for Relief

presented this issue) and the parties' briefing, which addressed the scope of the agreement as an assignment or license. Thus, the Court found that the district court had litigated and decided the identical issue.

The Court also agreed with the TTAB that the clear wording of the district court's order did not support Slesinger's contention that the decision was focused *only* on whether Disney's uses of the Winnie-the-Pooh works was authorized. Rather, the Court found that the district court had determined that the 1983 agreement represented "a transfer from [Slesinger] to Disney of *all* of [its] interest in the Winnie-the-Pooh characters" and that Slesinger had transferred all of its rights in the Winnie-the-Pooh works to Disney, and could not claim infringement of any retained right. *Id.* at 8 (citation omitted). Further, the Court found that the conduct of the parties over fifty years (which the district court relied on in its decision) supported the finding that both parties treated the agreements as constituting a complete assignment and, thus, the record showed that the district court did not find that Slesinger retained any rights. Rather, it had completely granted all of its rights to Disney as an assignment. Finally, the district court ruled that it had "fully adjudicated all claims and counterclaims," and stated that "all of [Slesinger's] Counterclaims are dismissed on the merits and with prejudice." *Id.* at 9 (alteration in original) (citation omitted). Since Slesinger had specifically required an order directing that the TTAB correct Disney's Pooh-related trademark registrations to reflect Slesinger's name, the Court found that the district court had ruled on and denied that request.

Regarding the third element of the collateral estoppel test—which prevents the incidental or collateral determination of a nonessential issue from precluding reconsideration of that issue—the Court found that the district court's ruling was neither incidental nor collateral. Rather, it directly addressed Slesinger's ownership interest in the Winnie-the-Pooh rights. The Court found that the record showed that the evaluation of those rights was clearly an essential element of the judgment. Specifically, the district court had to determine that issue before deciding whether Disney's uses of the Winnie-the-Pooh rights were infringing. And it was essential to first determine whether Slesinger had any ownership rights in the marks before considering Slesinger's request to correct Disney's trademark registrations to Slesinger's name.

In sum, the Court found that the TTAB correctly applied collateral estoppel to prevent Slesinger from asserting a claim that its 1983 grant of rights to Disney was a license as opposed to an assignment.

Judge Reyna dissented, finding that the TTAB erred on two grounds: (1) the district court did not actually decide the ownership issue, and (2) resolution of the ownership issue was not essential or necessary to the district court's decision on noninfringement. Regarding point one, Judge Reyna noted that the district court did not explicitly state in clear, plain language whether the grant of rights, i.e., the transfer, was a license or an assignment. Further, Judge Reyna found that the decision appeared to suggest that Slesinger retained some rights to the Winnie-the-Pooh trademarks, but that any rights retained were insufficient to support an infringement action. This situation, according to Judge Reyna, was as suggestive of a license as an assignment and, accordingly, there was a reasonable doubt whether the district court had actually decided that the transfer was accomplished via an assignment.

Regarding point two, Judge Reyna found that the district court was not necessarily required to decide whether the transfer of the Winnie-the-Pooh trademarks was an assignment to resolve the issue of trademark infringement because an effective defense to a claim of trademark infringement can be made upon a showing of authorized use under a license. Thus, Disney's ownership of the Winnie-the-Pooh trademarks was not the only rational basis on which a fact-finder could find noninfringement. An equally rational basis would have been that Disney was authorized to use the marks under a license. For these reasons, Judge Reyna concluded that the TTAB erred in applying the doctrine of collateral estoppel.

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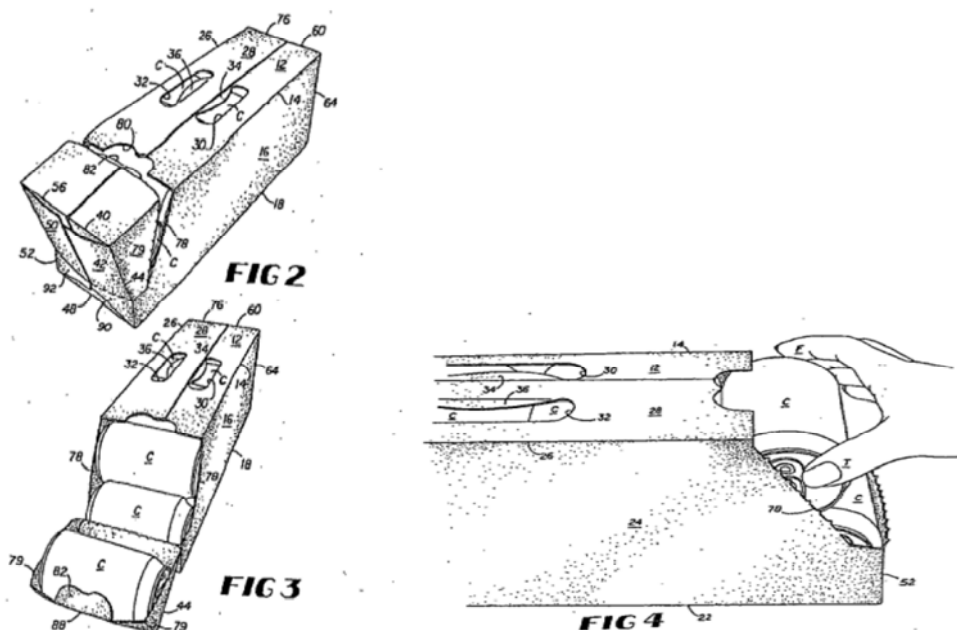
Board's Obviousness and Nonobviousness Determinations Affirmed for Claims to Cartons for Dispensing Cans

Forrest A. Jones*

Judges: Prost (dissenting-in-part), Moore, Wallach (author)

[Appealed from Board]

In *C.W. Zumbiel Co. v. Kappos*, Nos. 11-1332, -1333 (Fed. Cir. Dec. 27, 2012), the Federal Circuit affirmed the Board's obviousness and nonobviousness determinations in the inter partes reexamination of U.S. Patent No. 6,715,639 ("the '639 patent"). The '639 patent is assigned to Graphic Packaging International, Inc. ("Graphic") and is directed to a carton or box that holds containers such as cans or bottles. The claimed carton has a dispenser-piece that has a finger-flap on top for pulling the dispenser-piece into an open position or fully off the carton. In one embodiment, the finger-flap is located between the first and second containers in the top row of the carton.



Slip op. at 4.

Upon request for inter partes reexamination by C.W. Zumbiel Co., Inc. ("Zumbiel"), the Examiner rejected certain claims of the '639 patent as obvious and confirmed the patentability of others. The Board affirmed, concluding that claims 1, 3-8, 10-13, and 19-21 were obvious and unpatentable over U.S. Patent No. 3,178,242 ("Ellis") in view of German Gebrauchsmuster No. G85 14718.4 ("German '718");

that claims 1, 3-8, and 10-12 were obvious over Ellis in view of German '718 and U.S. Patent No. 2,718,301 ("Palmer"); and that claims 2, 9, 14, and 32-39 were not obvious and therefore patentable. Both sides appealed.

Regarding Graphic's cross-appeal, the Federal Circuit looked to representative independent claims 1 and 13, and held they were obvious. First, the Court addressed the "finger-flap" limitation and whether Ellis in view of German '718 taught the location for the finger-flap as the top panel of a carton. Graphic argued that it did not, because the Ellis carton is laid on its side to open while German '718 is opened from the top. The Court disagreed, holding that the Board correctly concluded that "providing the finger opening on the top wall of the carton would be a predictable variation [of the carton in Ellis] that enhances user convenience, as evidenced by German '718, and is within the skill of a person of ordinary skill in the art." *Id.* at 15 (citation omitted).

"The point here is not that the Board got the facts wrong. The point is that contrary to the Supreme Court's instructions, an 'overemphasis on the importance of [teachings of prior art]' has insulated the Board's analysis from pragmatic and common sense considerations that are so essential to the obviousness inquiry." Prost Dissent at 5 (alteration in original) (quoting *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 419 (2007)).

Second, the Court addressed the "fold-line" limitation, rejecting Graphic's argument that using the German '718 fold line to form the dispenser in Ellis would not have been obvious. Graphic contended that because the fold line in German '718 was used to keep the cover attached to the carton and thus was not a tear line, its teachings were inapplicable to Ellis. The Court disagreed, holding that substantial evidence indicated that Ellis in view of German '718 taught a perforated line for both tearing and folding.

Third, the Court addressed the "free-ends" and "single tear-line" limitations of claim 13. Graphic challenged the Board's construction of the terms and argued that the tear line in Ellis did not extend to the "free ends" and was interrupted by a cut-out handle, and thus did not teach a single tear line. The Court held that the end of a flap is the edge, and the tear line did extend in a single line to the edge of the carton. Because the end was removed in one piece, there was a single tear line. The Court thus affirmed the Board's decision that certain claims of the '639 patent were obvious.

Turning to Zumbiel's appeal, the Federal Circuit looked to representative dependent claim 2 and held it was not obvious. First, the Court addressed the "finger-flap" limitation and whether the recited location of the finger-flap between the first and second cans was obvious. "Zumbiel argue[d] that the Examiner and Board, by finding independent claims 1, 8, and 13 obvious but not dependent claims 2, 9, and 14, 'def[y] both logic and common sense.'" *Id.* at 20 (second alteration in original) (citation omitted). The Court stated that Zumbiel's contention hinged particularly on the Board's decision that Palmer "only suggests where to provide a handle on a carton, not where to initiate a container opening." *Id.* at 20-21 (citation omitted). Zumbiel argued that "both Palmer and the '639 patent provide a way for the user to insert their fingers into the carton and whether this occurs 'for the purpose of carrying the carton or for opening the carton' is 'of no moment.'" *Id.* at 21 (citation omitted). The Court disagreed, holding that substantial evidence supported the Board's finding that Palmer provides little information on where to place the finger-flaps. "Palmer concerns a carton with a finger flap, the purpose of which is to provide a grip for transporting the carton, a separate feature found in the '639 patent unrelated to the finger-flap located between the first and second containers used to initiate tearing."

The Court also held that substantial evidence supported the Board's finding that the location of Ellis's tear line would not place the finger-flap near the location of the first and second containers on the top row, as recited in claim 2. Additionally, the Court found that Ellis teaches away, as it specifies "a distance more than one-half diameter and less than one diameter of one can." *Id.* at 22 (citation omitted).

Next, the Court addressed Zumbiel's argument that the Board erred in considering the claim preamble when determining patentability. According to Zumbiel, because the term "containers" was recited in the preamble, it could not be a claimed limitation of the invention. The Court disagreed and held that because "containers" as recited in the claim body depended on the preamble's "plurality of containers" as an antecedent basis, the terms recited in the preamble were claim limitations. The Court thus upheld the Board's conclusion that certain claims of the '639 patent were nonobvious.

Judge Prost dissented-in-part, agreeing that claims 1 and 13 were obvious but disagreeing with respect to claim 2. Judge Prost believed that "a common sense application of the obviousness doctrine should filter out low quality patents such as this one," and stated that she could not join the majority in "endorsing the Board's incorrect approach." Prost Dissent at 1-2. According to Judge Prost, "[t]he claimed invention takes the opening from Ellis, takes the stacked can configuration from another box, and puts them together" to get "as one would expect—a box that has the known benefits of Ellis's opening and the known benefits of a stacked can configuration." *Id.* at 3. Regarding the "proper positioning of the tear line," Judge Prost opined that the four other options for location were either "offensive to common sense" or would make for "awkward" designs. *Id.* at 3-4. "More importantly, however, whether some of the alternatives would work just as well or not, the patentee's choice of tear-line-placement involves no more than the exercise of common sense in selecting one out of a finite—indeed very small—number of options." *Id.* at 4. "The Board's approach relegates one of ordinary skill to an automaton" by overemphasizing the teachings of the prior art while ignoring "pragmatic and common sense considerations that are so essential to the obviousness inquiry." *Id.* at 5.

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Spotlight Info

In *Brooks v. Dunlop Manufacturing Inc.*, No. 12-1164 (Fed. Cir. Dec. 13, 2012), the Federal Circuit affirmed the constitutionality of the retroactive elimination of the *qui tam* provisions of the federal false marking statute, 35 U.S.C. § 292, effectuated by the Leahy-Smith America Invents Act (“AIA”). Historically, § 292 allowed any person to sue for false marking, splitting the penalty evenly with the United States. The prevalence of false marking suits brought by private *qui tam* plaintiffs increased rapidly in 2009 after the Federal Circuit held that the penalty applied on a per article basis. On September 16, 2011, § 292 was retroactively amended by the AIA to require persons bringing suit to show competitive injury, and in *Brooks*, the Federal Circuit affirmed the constitutionality of the retroactive provisions. See this month’s edition of *Last Month at the Federal Circuit* for a full summary of the decision.

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Looking Ahead

This month, in *Allflex USA, Inc. v. Avid Identification Systems, Inc.*, No. 11-1621 (Fed. Cir. Jan. 17, 2013), the Federal Circuit dismissed the appeal on grounds of mootness and declined to disturb the judgment of the district court. In this appeal, only the defendant-appellant, Avid Identification Systems, Inc. ("Avid") filed a brief, seeking to overturn the district court's judgment in several respects. The would-be appellee, Allflex USA, Inc. ("Allflex"), declined to file a brief because the parties had settled their dispute with a payment from Avid to Allflex, with the agreement that if Avid succeeded on any of the appealed issues, Avid's settlement payment to Allflex would be reduced by \$50,000. The Court noted a number of procedural problems with the appeal, but stated that the main problem created by the posture of this case was mootness. Finding that the "contingent payment does not reflect an actual damages award . . . and it does not represent a liquidated damages award," the Court held that "the \$50,000 cannot be fairly characterized as a reasonable estimate of a prospective damages award that would take the place of an adjudicated damages award following appeal." Slip op. at 12-13. In conclusion, the Court held that Avid had "identified no relationship between the valuation placed on the appeal and the issues the appellant wishe[d] to challenge, the parties have simply placed a 'side bet' on the outcome of the appeal, which is not enough to avoid a ruling of mootness." *Id.* at 14.

Read the full summary of the Court's decision in next month's edition of *Last Month at the Federal Circuit*.

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