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Spotlight Info

In Ultramercial, LLC v. Hulu, LLC, No. 10-1544 (Fed. Cir. Sept. 15, 2011), the Federal Circuit held that patent claims directed to a method for distributing copyrighted material over the Internet where the consumer receives the material for free in exchange for viewing an advertisement were patent-eligible subject matter under 35 U.S.C. § 101.

While “any new, non-obvious, and fully disclosed technical advance” is eligible for patent protection, the Court noted only three categories that fall outside eligibility: (1) nature, (2) physical phenomenon, and (3) abstract ideas. Carefully considering the claims-at-issue with respect to the restriction of abstract ideas, the Court held that even though the idea of advertising used as a form of currency is abstract, the patent-in-suit “discloses a practical application” of the idea, and many of the claimed steps require complex programming and an extensive computer interface. The Court found that these factors, considered in total, are enough to place the claims-at-issue within the realm of § 101 subject matter.

See this month’s edition of Last Month at the Federal Circuit for a full summary of this decision.
In October, the Federal Circuit in *Bettcher Industries, Inc. v. Bunzl USA, Inc.*, Nos. 11-1038, -1046 (Fed. Cir. Oct. 3, 2011), interpreted the estoppel provision for *inter partes* reexamination under 35 U.S.C. § 315. Calling the question one of first impression, the panel ruled that estoppel under 35 U.S.C. § 315(c) comes into play only upon the exhaustion of appellate rights. Look for the full summary in next month’s edition of *Last Month at the Federal Circuit*.
Use of “A” in Claim Language Does Not Always Mean “One or More Than One” in Open-Ended Claims

Kevin D. Rodkey

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

[Appealed from Board]

In Harari v. Lee, Nos. 10-1075, -1076 (Fed. Cir. Sept. 1, 2011), the Federal Circuit affirmed the Board’s decision that Eliyahou Harari et al.’s (collectively ‘Harari’) U.S. Patent Application No. 09/056,398 (“the ‘398 application”) had no written description support for the claims-at-issue in a first interference (“the Lee interference”). The Court also vacated and remanded the Board’s decision that the ‘398 application had no written description support for the claims-at-issue in a second interference (“the Mihnea interference”).

Harari’s ‘398 application descend through a chain of continuation and divisional applications from U.S. Patent Application No. 07/337,566 (“the ‘566 application”). Harari filed the ‘398 application as a photocopy of the ‘566 application along with claims that were substantial copies of those found in Roger Lee’s U.S. Patent No. 5,619,454 (“the Lee patent”) and Andrei Mihnea’s U.S. Patent Nos. 6,426,898 and 6,493,280 (collectively “the Mihnea patents”). The PTO declared interferences against Lee and Mihnea.

In both interferences, Micron Technology, Inc. (“Micron”)—a real party in interest representing Lee and Mihnea—filed threshold motions to dismiss, alleging that Harari’s claims were unpatentable for lack of written description support and that Harari’s ‘398 application failed to incorporate U.S. Patent Application No. 07/337,579 (“the ‘579 application”) by reference.

The Board agreed, determining that the allegedly incorporated material was instead new matter.

Because Harari relied on this material to support the claims-at-issue, the Board held that Harari’s claims lacked written description support. The Board therefore granted Micron’s threshold motions to dismiss and entered judgment of priority against Harari, which Harari appealed.

After the Board entered judgment for Micron, the Federal Circuit decided Harari v. Hollmer, 602 F.3d 1348 (Fed. Cir. 2010), which involved another Harari patent application. In Hollmer, the Court held that the same incorporation language at issue in Lee (appeal No. 10-1075) and Mihnea (appeal No. 10-1076) was sufficient to identify the ‘579 application. Based on this decision, Micron conceded that the ‘579 application had been incorporated, but the parties still dispute how much was incorporated.

On appeal, the Federal Circuit explained that “[w]hether and to what extent a patent application incorporates material by reference is a question of law” that the Court reviews de novo. Slip op. at 6. In making that determination, the standard is “whether one reasonably skilled in the art would understand the application as describing with sufficient particularity the material to be incorporated.” Id.
“When the claim language and specification indicate that ‘a’ means one and only one, it is appropriate to construe it as such even in the context of an open-ended ‘comprising’ claim.” Slip op. at 19-20.

Harari argued that, in Hollmer, the Court held that the entire ’579 application was incorporated by reference. The Court disagreed, explaining that the parties in Hollmer disputed only whether the incorporation language adequately identified the ’579 application and did not address the extent of the incorporation. The Federal Circuit therefore proceeded to address the extent of the incorporation in Lee and Minhea.

The parties’ dispute centered on two passages in the ’398 application. In one passage, the “disclosures” of the ’579 application and another application not at issue were “hereby incorporated[d] by reference.” Id. at 7 (alteration in original) (citation omitted). In a subsequent passage, the “[r]elevant portions of the disclosures” were “hereby incorporated by reference.” Id. (alteration in original) (citation omitted). The Court determined that the first passage incorporated the entire disclosure of the ’579 application. Comparing the two incorporations, the Court pointed out that when the drafter intended only to incorporate specific portions of the disclosures, it did so expressly and that nothing prevents later incorporating the relevant portions of an application for a second time. The Court therefore determined that the ’579 application and the other copending application were incorporated in their entirety into the ’398 application.

Next, the Federal Circuit determined that, even if there was a limited incorporation, all of the sections at issue—a reprogramming feature and an indirect read implementation—are part of the incorporated portions related to optimized erase and optimized write implementations. The Court explained that, although the specification refers to reprogramming as “a different aspect” and “different feature” of the disclosed invention, such language is not dispositive of the inquiry. The Court agreed with Harari that the optimized read and write implementations necessarily include the reprogramming feature, and the feature was therefore incorporated by reference. The Court also agreed with Harari that the indirect read implementation was incorporated as part of the described optimized erase and write implementations.

The Federal Circuit then considered whether the incorporated material provides sufficient written description support for the claims. The Court divided the claims into two categories: those with “offset erase verify bias” and those without. The Board during the Mihnea proceedings had concluded that, even assuming the indirect read implementation was incorporated, Harari could not rely on it to support the erase verify bias claims. The Federal Circuit disagreed, reframing the dispute in Mihnea as whether the ’579 application’s description of margining and biasing a master reference cell relative to a local reference cell provides written description support for the offset erase verify bias claims. The Court remanded this “technical, fact-intensive question” to the Board for further proceedings. Id. at 17.

Turning to Lee, the Federal Circuit reviewed the Board’s decision that the claim-at-issue encompassed accessing more than one bit line to activate multiple memory cells. Micron challenged the Board’s claim construction, arguing that the plain language of the disputed claim requires that multiple memory cells are activated by accessing their control gates and a single bit line. Harari responded that, because “a bit line” means one or more bit lines, the Board’s claim construction was correct.

The Court recognized that Harari’s arguments relied on the Court’s previous holdings that the indefinite article “a” means “one or more” in open-ended claims containing the transitional phrase “comprising”. Id. at 19 (citation omitted). The Court, however, explained that Baldwin does not set a hard and fast rule that “a” always means more than one. Rather, the Court reads the limitation in light of the claim and specification to discern its meaning. Here, the Court observed that the claim recited a method comprising accessing a number of control gates and a bit line to activate a number of cells, and concluded that the plain language indicates that only a single bit line is used when accessing a number of cells. The Court noted that nothing in Harari’s claims suggested that more than one bit line was being accessed and pointed out that the first step expressly distinguishes the singular and plural by reciting “a
number of control gates” and “a bit line.” The Court argued that the second step reinforced this interpretation by reciting “said bit line.” The Court then compared these claims to the claims of the Lee patent and observed that Lee also does not consider accessing more than one bit line at a time. Accordingly, the Court concluded that the only correct construction of the term “a bit line” and “said bit line” is that a single bit line activates multiple memory cells.

Finally, the Court turned to whether this construction was supported by written description in the ’579 application. The Court rejected Harari’s argument that the ’579 application discloses electronically connecting multiple bit lines to form one bit line. Specifically, the Court observed that Harari pointed to no part of his disclosure to explain that one can electronically connect multiple bit lines. The Court further pointed out that even if there were disclosure for accessing multiple bit lines with a multiplexer, this is not the same as accessing a single bit line. The Court therefore affirmed the Board’s decision that the claims-at-issue in the Lee interference were unpatentable for lack of written description.
Federal Circuit Reversed Improperly Narrowing Claim Construction

Susan Y. Tull

Judges: Newman (dissenting), Clevenger, Linn (per curium)

Appealed from D.N.H., Judge Barbadoro

In Markem-Imaje Corp. v. Zipher Ltd., No. 10-1305 (Fed. Cir. Sept. 9, 2011), the Federal Circuit held that the district court erred in construing a critical claim term, vacating the court’s SJ of noninfringement and remanding for further proceedings under the corrected construction.

Markem-Imaje Corp. ("Markem") sued Zipher Ltd. and Videojet Technologies, Inc. (collectively “Zipher”) for a DJ that Markem did not infringe Zipher’s U.S. Patent No. 7,150,572 (“the ‘572 patent”). The ‘572 patent describes a device for transfer printing, where ink is transferred to a material substrate by moving a ribbon with ink into contact with the substrate, and then impressing upon the ribbon with a print head, causing the ink to transfer to the substrate. In transfer printers, the ink ribbon is generally wound on two spools: one spool supplies and positions the ribbon; the other spool takes up the ribbon after printing. The ribbon must be kept at a certain tension to prevent breakage from too much tension or slackening from too little tension.

The ‘572 patent “is directed to an improvement in controlling the movement and tension of the ribbon.” Slip op. at 3-4. Prior art printing devices typically drive only the take-up spool, applying a constant resistant torque to the supply spool. The printing device of the ‘572 patent, however, drives both the take-up spool and the supply spool using stepper motors, which, when still, apply a holding torque to keep the ribbon in place.

Claim 1 of the ‘572 patent describes a tape drive comprising two motors, at least one of which is a stepper motor, on which tape spools are mounted. The spools are each “drivable” by one of the motors. The tape drive of claim 1 also includes a controller that “energizes both said motors to drive the spools in a tape transport direction, and said controller calculates a length of tape to be added to or subtracted from tape extending between said spools in order to maintain tension in said tape between predetermined limit values and controls said motors to drive the spools to add or subtract the calculated length of tape . . . .” Id. at 8 (emphases added).

The district court construed the term “drive” and “drivable” in the ‘572 patent to mean “rotate” and “rotatable.” It was undisputed that Markem’s accused devices rotated both spools during the tape tension adjustment process, but only rotated a single spool to each adjustment. If tape tension was too high, the supply spool was rotated, and if tape tension was too low, only the take-up spool was rotated. Given its construction of “drive,” which required that both spools rotate together to adjust the tape, the district court granted SJ of noninfringement.
“Nothing in the specification or the overall invention as presented in the claim and as argued to the patent examiner [during prosecution] requires the narrow construction.” Slip op. at 12.

On appeal, Zipher argued that the district court erred in limiting the meaning of “drive” to “rotate,” and urged the construction “hold steady in a commanded position” instead. The district court had acknowledged that the ordinary meaning of “drive” was broad enough to encompass rotation of the spools as well as the application of a holding torque that prevented rotation, but found that other usages in the specification supported the narrower construction. The Federal Circuit disagreed, finding that “[n]othing in the specification or the overall invention as presented in the claim and as argued to the patent examiner [during prosecution] requires the narrow construction.” Id. at 12. But rather, as the Court noted, motor functions in the specification included “rotating, holding steady, stopping, accelerating, decelerating, and all the other drive functions the motors perform.” Id. at 12-13 (citation omitted). Accordingly, the Court found that the specification did not support the district court’s construction.

Turning next to the prosecution history, the Federal Circuit considered the examiner amendment in which “controls said motors to add or subtract the calculated length of tape” was changed to “controls said motors to drive the spools to add or subtract the calculated length of tape” in order to “more clearly define the scope of claim [1].” Id. at 14. The Court could “discern no indication that the added phrase ‘to drive the spools’ in the examiner’s amendment was intended or understood to limit ‘drive’ to ‘rotate,’ for that was not an issue of examination.” Id. Indeed, “[t]he examiner’s amendment accord[ed] with the ’572 patent’s requirement that the motors apply torque to the spools, whether the torque cause[d] the rotation or resist[ed] it.” Id. The Court thus held that the term “drive” was properly construed to mean “the application of torque to the spools, whether the torque causes rotation or resists it” (id. at 16), vacating the judgment of noninfringement and remanding for determination under the correct construction.

In addition, Zipher challenged the district court’s construction that the claims require “some method of deriving a tension measurement.” Id. at 15. Zipher argued that the district court’s construction improperly imported a limitation into the specification, where the claim did not explicitly recite measuring tension. The Federal Circuit agreed. “That a device will only operate if certain elements are included is not grounds to incorporate those elements into the construction of the claims.” Id. Accordingly, the Court reversed the district court’s determination that the claims require “some method of deriving a tension measurement.” Id. at 16.

In her dissent, Judge Newman concurred with the Court’s holding with respect to the term “drive” but disagreed with respect to the phrase “some method of deriving a tension measurement.” Judge Newman concluded that some method of tension measurement was indeed necessary to carry out the invention, and that the majority’s opinion “ignore[d] the paramount importance of the specification in claim construction.” Newman Dissent at 1. “Where the specification clearly and consistently sets the scope of a disputed claim, that scope governs the construction of the claim.” Id. at 2. Agreeing with the district court’s construction, Judge Newman concluded that some method of measurement was contemplated and required by the specification.
Advertising as Currency Falls Under the Scope of § 101

Huzefa N. Kapadia

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

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


Ultramercial filed suit against Hulu, LLC ("Hulu"), YouTube, LLC ("YouTube"), and WildTangent, Inc. ("WildTangent") for the infringement of U.S. Patent No. 7,346,545 ("the '545 patent"). The '545 patent claims a method for distributing copyrighted materials over the Internet where the consumer receives the material for free in exchange for viewing an advertisement. The advertiser then pays for the copyrighted material. Hulu, YouTube, and WildTangent are all providers of copyrighted content. After Hulu and YouTube were dismissed from the case, the district court granted WildTangent's motion to dismiss for failure to state a claim, arguing that the '545 patent did not claim patent-eligible subject matter.

On appeal, the Federal Circuit reversed and remanded the district court's decision. The Court first determined that the claims-at-issue did not need to be construed in order to determine patent eligibility under 35 U.S.C. § 101. Subject matter eligibility is a “coarse” matter and, therefore, claim construction is not always necessary for § 101 analysis. Next, the Court noted that "any new, non-obvious, and fully disclosed technical advance" is eligible for § 101 protection. Slip op. at 6. There are only three categories that have been determined to be outside of eligibility: (1) nature, (2) physical phenomena, and (3) abstract ideas.

"[T]he language of § 101 makes clear that the categories of patent-eligible subject matter are no more than a ‘coarse eligibility filter.’” Slip op. at 6.

The Court stated that the '545 patent needed careful consideration with respect to the latter restriction of abstract ideas. This limitation deserves significant thought because “technology is ever-changing and evolves in unforeseeable ways . . . .” Slip op. at 8. Furthermore, the application of an abstract idea to a new and useful end is deserving of patent protection.

After the Court determined that the '545 patent falls under the definition of a “process” and is therefore patent-eligible subject matter, it need only consider abstractness. Even though the idea of advertising being used as a form of currency is abstract, the '545 patent "discloses a practical application" of the idea. Many of the steps described in the first claim will require complex programming and an extensive computer interface. The Court found that these factors, considered in total, are enough to place the claims-at-issue within the realm of § 101 subject matter.
Moreover, although the '545 patent does not specify a “particular mechanism” for sharing copyrighted material with end consumers (i.e., FTP downloads, streaming), the claimed invention is not “impermissibly abstract.” Id. at 12. The Court found that the '545 patent provided sufficient disclosure to enable a person of ordinary skill in the art to practice the invention.

Finally, the Court differentiated the '545 patent from abstract concepts such as mathematical algorithms. Instead, the '545 patent claims a specific method for sharing media with consumers over the Internet by collecting revenue from advertisers. Because the claims require “controlled interaction with a consumer via an Internet website,” the Court found the claimed invention to not be so abstract as to override § 101. Id. at 13-14.

Accordingly, the Court reversed and remanded this case for further proceedings consistent with its opinion.
An Applicant Is Entitled to Reopen Prosecution or Request Rehearing When the Board Relies on New Facts Changing the Thrust of an Examiner’s Rejection

Hala S. Mourad*

Judges: Newman, Bryson, Linn (author)

[Appealed from Board]

In In re Leithem, No. 11-1030 (Fed. Cir. Sept. 19, 2011), the Federal Circuit vacated and remanded the Board’s decision to sustain the unpatentability of the sole pending claim of U.S. patent application No. 09/863,585 (“the ‘585 application”) for obviousness because the Board, in affirming the examiner’s rejection, relied on a new ground of rejection.

The ‘585 application discloses an improved personal hygiene device (“diaper”). Traditional diapers are constructed using an absorbent core of dry shredded wood fiber pulp, known as fluff pulp, that is often pretreated with a chemical cross-linking agent to enhance absorbency. The fluff pulp for the improved device is manufactured by extracting wood pulp with a caustic substance at low temperature followed by drying and fluffing, thus maintaining the superior absorbency properties of traditional diapers without requiring chemical cross-linking.

The examiner rejected the pending claim as obvious over U.S. Patent No. 3,658,064 (“Pociluyko”) in view of U.S. Patent No. 2,083,575 (“Novak”), finding that Pociluyko disclosed a diaper satisfying every claim element except manufacturing the fluff pulp by cold caustic extraction, and that Novak disclosed cold caustic extraction of wood pulp and a method of making fluff pulp. The examiner concluded that it would have been obvious to modify Pociluyko with a fluff pulp made by Novak’s method.

On appeal to the Board, Leithem argued that Novak teaches a pulp that is wet-laid paper, not a fluffed pulp material, and, thus, Novak’s wet-laid paper could not be simply substituted for the dried fluff pulp of Pociluyko to produce the claimed invention. In its initial decision, the Board agreed with Leithem regarding Novak’s disclosure, but sustained the rejection because the Board also found that “the Novak pulp is a pulp which may be fluffed for use in an absorbent core.” Slip op. at 4 (citation omitted).

“The Board cannot play it so fast and loose in affirming an examiner’s rejection that it disregards procedural safeguards afforded to the applicant.” Slip op. at 11.

Leithem petitioned the Board for rehearing, contending that the Board relied on a new ground of rejection in finding that Novak’s pulp was not fluffed, but could be dried, fluffed, and then used as disclosed in Pociluyko because the examiner found that Novak’s wet-laid pulp was itself already a fluff pulp. The Board disagreed, finding that the thrust of the rejection had not changed because the examiner referred to “pulp,” Leithem referred to “pulp,” and the Board’s initial decision referred to “pulp.”
Thus, the Board denied Leithem’s request for rehearing.

On appeal to the Federal Circuit, Leithem argued that the Board relied on a new ground of rejection in affirming the examiner’s rejection. While Leithem agreed that the wet-laid paper of Novak could be dried and then shredded in a hammermill to make fluff pulp, but that was not the basis for the examiner’s rejection. The PTO responded by asserting that Novak discloses “fluffed cold caustic-extracted wood pulp” because Novak teaches (1) that cold caustic-extracted wood pulp may be used as a fluff; and (2) fluffing because it discloses the use of a Holland beater. Further, the PTO contended that the process of beating in a Holland mill equates to the process of fluffing in a hammermill. Thus, the PTO asserted that the Board and examiner based their rejections on these shared findings and the Board did not impose a new ground of rejection.

The Federal Circuit first noted that it is important for the Board to treat an applicant’s petition fully and fairly at the administrative level. Thus, an applicant is entitled to notice of the factual and legal bases upon which an examiner’s rejection is based. When the Board relies upon a new ground of rejection, the applicant is entitled to reopen prosecution or to request a rehearing. While “[t]he Board need not recite and agree with the examiner’s rejection in haec verba to avoid issuing a new ground of rejection,” the ultimate criterion is whether an applicant “had fair opportunity to react to the thrust of the rejection.” Id. at 7 (citation omitted).

The Court explained that mere reliance on the same statutory basis and the same prior art references, alone, is insufficient to avoid a new ground of rejection when the Board relies on new facts and rationales not previously raised by the examiner. While the Board can make additional factual findings based upon the Board’s own knowledge and experience to “fill in the gaps” that might exist in the examiner’s evidentiary showing, “when reliance upon such facts changes the thrust of the rejection, the Board’s action ‘does everything but cry out for an opportunity to respond.’” Id. (citation omitted). The Court noted that this constraint also serves the interests of judicial efficiency because the Federal Circuit will review only “arguments concerning those rejections properly made by the examiner and, in due time, reviewed by the Board.” Id. at 8.

In the instant case, the examiner cited Novak as teaching a fluff pulp and Leithem argued on appeal that Novak did not teach a fluff pulp. The Board agreed with Leithem but affirmed the examiner’s rejection by finding that Novak teaches a pulp “which may be fluffed.” Id. (citation omitted). “The Board thus found new facts concerning the scope and content of the prior art” that “were the principal evidence upon which the Board’s rejection was based.” Id. The Court concluded that Leithem would have responded differently if the examiner’s original rejection was premised upon Novak teaching pulp that may be fluffed rather than fluff pulp that could be directly substituted into the diaper of Pociluyko. Because the examiner never articulated, nor relied upon, the Board’s rationale for combining Novak with Pociluyko, Leithem was never given an opportunity to respond to this rejection. Thus, the Court found that “fairness dictates that [Leithem] . . . should be afforded an opportunity to respond to the Board’s new rejection.” Id. at 9.

Finally, the Federal Circuit noted that the proceedings before the Board on rehearing and in the briefs and oral argument during the appeal to the Court further solidify conclusion that the thrust of the Board’s rejection differed from that of the examiner. First, the Board’s rationale in denying rehearing was “hardly persuasive” because nothing in the Board’s initial decision described the wet-laid paper of Novak as “fluffed,” the precise issue appealed by Leithem. Second, on appeal to the Federal Circuit, the PTO relied upon additional facts not articulated by the examiner, e.g., that beating Novak’s pulp with a Holland beater was equivalent to the shredding of dry paper in a hammermill, as required by the claim. Third, at oral argument, the PTO relied on the teachings of a third reference that was not relied upon in the instant rejection. And the PTO argued that Leithem was shifting his argument and not presenting the argument he presented to the Board. The Court noted that the PTO’s position begs the question and highlights the problem when the Board relies on a new ground of rejection. Specifically, Leithem’s argument to the Board was in response to the grounds relied on by the examiner, but when the Board relied upon a new ground, Leithem’s argument had to shift because the thrust of the Board’s rejection
shifted. “The Board cannot play it so fast and loose in affirming an examiner’s rejection that it disregards procedural safeguards afforded to the applicant.” *Id.* at 11.

Accordingly, while the Federal Circuit did not express an opinion on the propriety of the Board’s new rejection, the Court vacated the Board’s decision and remanded to provide Leithem a full opportunity to respond to the new rejection.

*Hala S. Mourad is an Associate at Finnegan.*
A License to “Use” a Patented Technology That Can Replicate Itself Does Not Necessarily Give a Purchaser the Right to Use Replicated Copies of the Technology

Bart A. Gerstenblith

Judges: Bryson, Linn (author), Dyk
Appealed from S.D. Ind., Judge Young

In *Monsanto Co. v. Bowman*, No. 10-1068 (Fed. Cir. Sept. 21, 2011), the Federal Circuit affirmed the district court’s SJ that by planting the progeny of Monsanto Company and Monsanto Technology LLC’s (collectively “Monsanto”) genetically altered seeds, Vernon Bowman infringed several claims of Monsanto’s patents. Additionally, the Court found that the doctrine of patent exhaustion did not bar Monsanto’s claims and that Bowman had actual notice of Monsanto’s allegations of infringement.

Monsanto invented and developed technology for genetically modified “Roundup Ready®” soybeans that exhibit resistance to N-phosphonomethylglycine (a compound commonly known as glyphosate). U.S. Patent No. 5,352,605 (“the ’605 patent”) and RE39,247E (“the ’247E patent”) cover different aspects of Monsanto’s Roundup Ready® technology. The technology allows for the transformation of a plant cell with a gene encoding for a glyphosate-tolerant enzyme. The plants then express the enzyme and exhibit glyphosate resistance, which allows farmers to treat their fields with glyphosate-based herbicides, such as Monsanto’s Roundup® product, to control weed growth without damaging the crops. This technology can be incorporated into a variety of crops.

Monsanto markets and sells its Roundup Ready® soybean seeds under its own brand and licenses its technology to seed producers who insert the Roundup Ready® genetic trait into their own seed varieties and sell the seeds to growers for planting. All sales to growers, whether from Monsanto or its licensed producers, are subject to a standard form limited use license (“Technology Agreement”). The ’605 patent and U.S. Patent No. 5,633,435 (“the ’435 patent”), which reissued as the ’247E patent, are listed as applicable patents licensed under Monsanto’s Technology Agreement. The Technology Agreement permits licensed growers to use the seeds containing Monsanto’s gene technologies for planting a commercial crop only in a single season because the patented genetic trait carries forward into successive seed generations.

Although the express terms of the Technology Agreement also forbid growers from selling the progeny of the licensed seeds (“second-generation seeds”) for planting, Monsanto authorizes growers to sell second-generation seeds to local grain elevators as a commodity, without requiring growers to place restrictions on the grain elevators’ subsequent sales of those seeds. Commodity seeds are a mixture of undifferentiated seeds harvested from various sources, including from farms that grow Roundup Ready® soybeans.

Bowman, a grower, purchased seeds containing Monsanto’s Roundup Ready® technology and...
executed the Technology Agreement. Bowman planted Roundup Ready® seeds as his first-crop in each growing season from 1999 through 2007, and did not save seeds from his first-crop during any of those years. In 1999, Bowman also purchased commodity seeds from a local grain elevator for a late-season planting, or “second-crop.” Bowman determined that many of the plants in his second-crop also exhibited glyphosate resistance. Bowman saved the seeds harvested from his second-crop for replanting additional second-crops in later years. Bowman did not attempt to hide his activities and candidly explained his practices with respect to his second-crop soybeans in correspondence with Monsanto.

In 2007, Monsanto sued Bowman for infringement of the ‘605 and ‘247E patents. Monsanto thereafter investigated Bowman’s fields and confirmed that Bowman’s second-crop soybean seeds contained the patented Roundup Ready® technology. Before the district court, Monsanto argued that Bowman’s second-crop infringed because the Technology Agreement only extended to seeds purchased from Monsanto or a licensed dealer; thus, Bowman’s use of the commodity seeds was not within the scope of the agreement. Monsanto did not allege infringement or breach of the Technology Agreement with respect to Bowman’s first-generation seeds. The district court granted SJ of infringement and Bowman appealed.

On appeal, the Federal Circuit first considered and rejected Bowman’s argument—that Monsanto’s patent rights were exhausted with respect to all of the Roundup Ready® soybean seeds sold by the grain elevators as undifferentiated commodity because sales of second-generation seeds by growers to grain elevators and then from grain elevators to purchasers are authorized according to Monsanto’s Technology Agreement and are thus exhausting sales under Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617 (2008). The Court reviewed two of its earlier decisions pertaining to Monsanto’s patented technology, one of which held that the conditions in Monsanto’s Technology Agreement were valid and legal, and did not implicate the doctrine of patent exhaustion. The Court’s conclusion was based on the finding that the “price paid by the purchaser reflects only the value of the ‘use’ rights conferred by the patentee.” Slip op. at 11 (quotation marks and citation omitted). Ultimately, “the [C]ourt disagree[d] . . . that a seed ‘substantially embodies’ all later generation seeds, at least with respect to the commodity seeds, because nothing in the record indicates that the ‘only reasonable and intended use’ of commodity seeds is for replanting them to create new seeds.” Slip op. at 12 (citing Quanta, 553 U.S. at 631).

As applied here, the Federal Circuit concluded that the doctrine of patent exhaustion did not bar an infringement action because, “[e]ven if Monsanto’s patent rights in the commodity seeds are exhausted, such a conclusion would be of no consequence because once a grower, like Bowman, plants the commodity seeds containing Monsanto’s Roundup Ready® technology and the next generation of seed develops, the grower has created a newly infringing article.” Id. at 12. Thus, the fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology. “Applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder.” Id. (citation omitted). Ultimately, “the [C]ourt disagree[d] . . . that a seed ‘substantially embodies’ all later generation seeds, at least with respect to the commodity seeds, because nothing in the record indicates that the ‘only reasonable and intended use’ of commodity seeds is for replanting them to create new seeds.” Id. (citing Quanta, 553 U.S. at 631). Thus, while farmers may have the right to use commodity seeds as feed or for any other conceivable use, “they cannot ‘replicate’ Monsanto’s patented technology by planting it in the ground to create newly infringing genetic material, seeds, and plants.” Id. at 12-13.

Finally, the Federal Circuit found that while Bowman did not waive his arguments that Monsanto failed to provide actual or constructive notice of infringement in accordance with 35 U.S.C. § 287(a), Bowman received actual notice. A letter sent by Monsanto in 1999 specifically (1) identified the allegedly infringing Roundup Ready® soybeans, (2) identified the patents covering the Roundup Ready® soybeans, (3) explained that Bowman would infringe the identified patents by planting any unlicensed
Roundup Ready® seeds, and (4) informed Bowman that he could not pay a fee to save Roundup Ready® seeds, but may license seeds only through the purchase of new seeds subject to the Technology Agreement. Thus, the Court held that Monsanto’s letter was an “‘affirmative communication to the alleged infringer of a specific charge of infringement by a specific accused product or device,’ . . . and it is ‘sufficiently specific to support an objective understanding that the recipient may be an infringer.’” Id. at 14-15 (citations omitted). Thus, Bowman had actual notice and the Court did not need to reach the issue of constructive notice.

Accordingly, the Federal Circuit affirmed the district court’s SJ of infringement.
Waiver of Conflict Provision of Joint Defense Agreement Waives Potential Conflict with Counsel for Former Codefendant

Mayssam H. Ali

Judges: Newman (dissenting), Schall, Dyk (author)

[Appealed from N.D. Cal., Judge Chesney]

In In re Shared Memory Graphics LLC, No. 11-M978 (Fed. Cir. Sept. 22, 2011), the Federal Circuit granted mandamus and directed the district court to vacate its order disqualifying the law firm of Floyd & Buss, LLP (“Floyd & Buss”) from representing plaintiff Shared Memory Graphics LLC (“SMG”) due to a conflict of interest because defendant Nintendo Co. of America (“Nintendo”) clearly and indisputably waived the conflict of interest.

During a prior patent infringement suit involving a complex memory chip composed of multiple components (“Hollywood chip”), Floyd & Buss partner Kent Cooper was then-Director of Patents and Licensing for Advanced Micro Devices (“AMD”). AMD and Nintendo, as codefendants in the earlier suit, executed a Joint Defense Agreement (“the Agreement”) under which they exchanged information concerning litigation tactics, settlement strategies, drafts of briefs, and other confidential information. While Cooper had access to confidential Nintendo information pursuant to the Agreement, it was unclear whether Cooper received any such information. Thereafter, Cooper left AMD to join Floyd & Buss. Upon his entry to the firm, however, he was not screened for potential conflicts. And when Floyd & Buss undertook to represent SMG in its infringement suit against Nintendo, the firm did not take any steps to exclude Cooper from the firm’s activities, such as erecting a “firewall.”

Nearly ten months into the litigation, Nintendo moved to disqualify Floyd & Buss from continued representation in this case. The district court granted Nintendo’s motion, concluding that the Agreement’s waiver of conflicts did not apply when former AMD or Nintendo attorneys accepted new employment. Conclusively presuming that Cooper had accessed confidential Nintendo information, the district court disqualified the entire firm from representing SMG against any of the defendants in the current action. SMG petitioned the Federal Circuit for a writ of mandamus to vacate the district court’s rulings and to reinstate Floyd & Buss as SMG’s counsel.

The Federal Circuit first explained that the remedy of mandamus is available in extraordinary situations “to correct a clear abuse of discretion or usurpation of judicial power” when the party seeking the writ establishes that it has no other means of obtaining the relief desired and the right to issuance of the writ is “clear and indisputable.” Slip op. at 5. In the context of disqualification of counsel, the Court concluded that SMG would not be able to obtain meaningful relief other than by seeking a writ of mandamus because, by the time an appeal could be taken, the trial would be over, and SMG would have gone through the litigation without the counsel of its choice. And the alternative of waiting for a direct appeal would require a showing of prejudice, which would be very difficult for SMG to
demonstrate, short of misconduct on the part of the substitute counsel.

“To limit the definition of ‘respective counsel’ in this provision to current counsel of AMD and Nintendo (namely, counsel for AMD and Nintendo in 2010 and 2011, or at the time of the SMG litigation), however, would produce an illogical result: former counsel such as Cooper would have no ongoing obligation of confidentiality.” Slip op. at 9.

Turning to the merits of the petition, the Federal Circuit noted that the waiver-of-conflict provision provides that “[t]he parties expressly acknowledge and agree that nothing in this Agreement, nor compliance with the terms of this Agreement by either party, shall be used as a basis to seek to disqualify the respective counsel of such party in any future litigation.” Id. at 7 (citation omitted). The Court identified its task as giving effect to the plain language of the parties’ Agreement while looking to the Agreement as a whole to avoid rendering any part superfluous. In particular, the Court noted that Cooper was indisputably a “respective counsel” of AMD, and that the breadth and scope of the waiver were broad enough to include “any future litigation” between Nintendo and a party employing, or represented by, Cooper. Id. at 8.

The Federal Circuit found that its interpretation was bolstered by the consistent use of the term “respective counsel” throughout the particular paragraph of the Agreement. For example, the paragraph also provided that “[n]othing contained in this Agreement has the effect of . . . creating any . . . duties between a party or its respective counsel and the other party or its respective counsel, other than the obligation to comply with the express terms of this Agreement.” Id. at 8-9 (alterations in original). The interpretation adopted by the district court would produce an illogical result—the provision would apply to current counsel of AMD and Nintendo, but not former counsel, such as Cooper—that would mean Cooper was under no ongoing obligation of confidentiality. The Court found that such a result would be contrary to the parties’ clearly expressed intent and “contradict the very reason why any joint defense agreement is in effect in the first place.” Id. at 9. Thus, the Court concluded that the district court’s determination was incorrect as a matter of law and that SMG demonstrated its clear and indisputable right to issuance of the writ.

Accordingly, because Nintendo waived this potential conflict, the Federal Circuit directed the district court to vacate its order disqualifying Cooper and the Floyd & Buss law firm.

Judge Newman dissented, finding the majority opinion problematic for an increasingly mobile legal profession. In Judge Newman’s opinion, the issue was “the integrity of the system of legal representation in today’s world of mobile lawyers and large law firms with interacting clients.” Newman Dissent at 2. Thus, Judge Newman noted that the use of firewalls has been accepted for many situations, even though one was not implemented here.

Further, Judge Newman remarked that California law recognizes that disqualification is proper when “an attorney has received information in his role as an attorney, even if the source of the information is not a ‘client’ of the attorney.” Id. And the California courts have accepted the presumption—that an attorney in Cooper’s position received confidential information—to protect the holder of the information and the attorney. Unlike the majority, Judge Newman would not find that the waiver authorized future adverse representation. Judge Newman would not disturb the district court’s ruling, which in her view had “plausible support.” Id. at 5. Thus, Judge Newman believed that the majority “inappropriately intruded into the district court’s authority and responsibility, to the detriment of the integrity of legal practice.” Id. at 6.
Where Claims Were Anticipated as a Matter of Law, Federal Circuit Reverses Postverdict Grant of JMOL to the Contrary

Corinne L. Miller

Judges: Lourie, Linn (author), Dyk

[Appealed from D. Del., Magistrate Judge Thynge]

In Cordance Corp. v. Amazon.com, Inc., Nos. 10-1502, -1545 (Fed. Cir. Sept. 23, 2011), the Federal Circuit reversed the district court's JMOL determination that claims 1, 3, 5, 7, and 8 of U.S. Patent No. 6,757,710 (“the ’710 patent”) were not invalid, vacated the district court's JMOL determination that claim 9 of the ’710 patent was not invalid, and affirmed the district court’s judgment that U.S. Patent Nos. 5,862,325 (“the ’325 patent”) and 6,088,717 (“the ’717 patent”) remain valid and not infringed.

Cordance Corporation’s (“Cordance”) ’710 patent is directed to an online purchasing system, and its ’325 and ’717 patents are directed to computerized feedback systems. The ’717 patent is a continuation of the ’325 patent and the ’710 patent is a continuation of the ’717 patent.

Cordance sued Amazon.com, Inc. (“Amazon”), alleging that Amazon’s “1-Click®” purchasing features infringed claims 1-3, 5, and 7-9 of the ’710 patent, and that Amazon’s website features allowing customers to enter reviews of products for sale and reviews of transactions with third-party sellers infringed the ’325 and ’717 patents. The jury reached a verdict that Amazon infringed claims 1, 3, 5, 7, and 8 of the ’710 patent, and that all of the asserted claims of the ’710 patent were invalid. The jury also found that Amazon did not infringe any of the asserted claims of the ’325 or ’717 patents.

Cordance filed postverdict motions for JMOL and a new trial, seeking judgment of validity of the asserted claims of the ’710 patent and challenging the district court’s construction of “feedback information” as recited in the asserted claims of the ’325 and ’717 patents. The district court granted JMOL that Amazon failed to provide sufficient evidence to support a finding that (1) claims 7-9 of the ’710 patent lacked written description; (2) claims 1-3, 5, and 7-9 of the ’710 patent were invalid as anticipated; and (3) claims 1, 3, 5, 7, and 8 of the ’710 patent were invalid under 35 U.S.C. § 102(f).

Amazon appealed the grant of JMOL, seeking to restore the jury’s verdict that the ’710 patent was invalid. Cordance cross-appealed, in an effort to reverse or vacate the jury’s finding of invalidity of claims 1-3 and 5 of the ’710 patent, and to modify the district court’s construction of “feedback information” in the ’325 patent and ’717 patent.

On appeal, the Federal Circuit first concluded that the district court did not err in granting Amazon’s JMOL that the asserted claims of the ’710 patent could not claim priority to U.S. Patent No. 6,044,205 (“the ’205 patent”), a CIP of the ’325 patent, because the ’710 patent contained new matter that was added with the filing of the application that matured into the ’325 patent. The Court noted that to establish an earlier effective date, Cordance was required to prove prior conception, which Cordance did
not do. Specifically, the Court concluded that Cordance failed to prove that the ’710 patent was entitled to claim priority to a 1993 conception document because “Cordance failed to link any disclosure contained within the 1993 conception document to any limitations in the asserted claims of the ’710 Patent as construed by the district court.” Slip op. at 8. Cordance’s attempt to claim priority to the filing date of the ’205 patent failed for a similar reason. The Court indicated that “in order for the asserted claims of the ’710 Patent to receive the benefit of the filing date of the ’205 Patent, written description support for the asserted claims must be found in the ’205 Patent.” Id. at 9. Again, the Court found that Cordance failed to link any disclosure contained within the ’205 patent to any limitation in the asserted claims of the ’710 patent and found that the district court did not err in granting Amazon’s JMOL as to the effective date of the ’710 patent.

“In the absence of any ruling on the sufficiency of the evidence on both theories presented to the jury with respect to claim 9, the district court had no basis to find the jury’s general verdict unsustainable on the written description theory alone. The JMOL ruling on written description was, thus, improper and is vacated.” Slip op. at 17.

The Federal Circuit next addressed the JMOL determination that claims 1, 3, 5, 7, and 8 of the ’710 patent were not invalid. Amazon presented an anticipation defense to these claims at trial, and the jury found each of these claims invalid but did not specify the basis for its invalidity finding. After the jury returned its verdict, Cordance filed a postverdict JMOL on the basis that Amazon presented insufficient evidence to support the jury’s finding of invalidity premised on the theory of anticipation as to claims 1, 3, 5, 7, and 8. The Federal Circuit agreed with Amazon that claims 1, 3, 5, 7, and 8 of the ’710 patent were anticipated by Amazon’s 1995 system as a matter of law and reversed the district court’s grant of Cordance’s JMOL. The Court also found that the district court correctly construed the “automatically completing the purchase of an item” limitation as “completing the purchase without human input.” While acknowledging Cordance’s argument that Amazon’s 1995 system could not “automatically complete the purchase” because a human user at Amazon had to manually verify credit cards, the Court concluded that what Amazon did after an order was complete was beyond the scope of the claims and wholly irrelevant. Similarly, the Court agreed with the district court’s finding that Amazon’s 1995 system satisfied the “metadata” limitations of claims 1, 3, 5, 7, and 8, because a sessionID number constitutes “data that describes or associates other data,” however transmitted, under a proper claim construction of that term.

The Federal Circuit also rejected Cordance’s argument that Amazon’s theory of invalidity was akin to the “practicing the prior art” theory rejected by the Federal Circuit in Tate Access Floors, Inc. v. Interface Architectural Resources, Inc., 279 F.3d 1357 (Fed. Cir. 2002). The Court reminded that a “‘practicing the prior art defense’ typically refers to the situation where an accused infringer compares the accused infringing behavior to the prior art in an attempt to prove that its conduct is either noninfringing or the patent is invalid as anticipated because the accused conduct is simply ‘practicing the prior art.’” Slip op. at 13-14. Here, the Court found that Amazon satisfied its burden to show that each limitation of claims 1, 3, 5, 7, and 8 was found in Amazon’s 1995 system, and, thus, the claims were invalid as anticipated. As such, the Court reversed the district court’s grant of Cordance’s JMOL.

Before turning to the validity of claims 2 and 9 of the ’710 patent, the Court addressed the nature of the jury’s general verdict regarding these claims. At trial, Amazon presented two theories of invalidity as to claims 2 and 9 of the ’710 patent: written description and derivation. In a general verdict, the jury found both claims to be invalid, but it was unclear upon which ground(s) the jury based its findings of invalidity because of the presentation of multiple invalidity theories. Cordance subsequently filed a JMOL motion alleging that Amazon presented insufficient evidence to support a finding that claims 1-3, 5, and 7-9 were invalid under § 102(f). Cordance also filed a JMOL motion alleging that Amazon presented insufficient evidence to support Amazon’s written description theory as to claims 7-9, which the district court granted. In doing so, the district court found that claim 9 was not invalid under 35 U.S.C. § 112, even though two theories of invalidity were presented, and Cordance failed to persuade the district court
that the evidence presented to the jury as to § 102(f) was insufficient. In light of this, the jury’s finding of invalidity as to claim 2 was not disturbed, but the impact on claim 9 by the district court’s grant of Cordance’s JMOL motion as to § 112, but not as to § 102(f), is unclear.

The Court reminded that a “general jury verdict of invalidity should be upheld if there was sufficient evidence to support any of the alternative theories of invalidity.” Id. at 17. Here, because there was no ruling on the sufficiency of the evidence on both theories presented to the jury with respect to claim 9, the Court found that the district court had no basis to find the jury’s general verdict unsustainable on the written description theory alone. Accordingly, the Court vacated the JMOL ruling as to written description.

The Federal Circuit next addressed Cordance’s cross-appeal seeking a new trial with regard to the jury’s invalidity verdict. The Court, however, found that Cordance did not argue that Amazon’s evidence on its derivation defense was insufficient as to claims 2 and 9 of the ’710 patent or that the district court erred in failing to grant its JMOL motion on derivation as to claims 2 and 9. Instead, Cordance merely reargued that the grant of Cordance’s JMOL motions was proper. Because Cordance failed to present any arguments specifically relevant to Cordance’s entitlement to a new trial as to the validity of claims 2 and 9, the Court determined that the issue was waived on appeal. Accordingly, the Court concluded that the jury’s verdict that claim 2 of the ’710 patent was invalid remained in place.

As to the remaining issues on appeal pertaining to claims 1, 3, 5, 7, and 8 of the ’710 patent, the Court found that because these claims were invalid as a matter of law, and because the jury’s verdict of invalidity as to claims 2 and 9 of the ’710 patent remain undisturbed, the Court did not need to decide the remaining issues since they were moot.

Finally, the Court concluded that the district court did not err in construing the “feedback information” limitation in the ’325 and ’717 patents. Specifically, the Court noted that the patents cover a system of collecting feedback information, aggregating feedback information, and disseminating statistical reports, which was based upon the use of fixed, predefined attributes with corresponding fixed, predefined value choices. Therefore, the Court found in light of the disclosure that feedback information “consists of” attributes and values, and the lack of support for Cordance’s construction, the district court cannot be said to have erred in its construction of “feedback information.”

Accordingly, the Federal Circuit reversed the district court’s order granting JMOL as to claims 1, 3, 5, 7, and 8 of the ’710 patent, vacated the district court’s grant of JMOL on written description as to claim 9 of the ’710 patent, and affirmed the remainder of the district court’s determinations challenged on appeal.
Intervening Rights Triggered by Patent Owner's Narrowing Arguments in Reexamination

John S. Sieman

Judges: Lourie (dissenting), Gajarsa, Dyk (author)

[Appealed from D.N.H., Judge DiClerico]

In *Marine Polymer Technologies, Inc. v. HemCon, Inc.*, No. 10-1548 (Fed. Cir. Sept. 26, 2011), the Federal Circuit held that accused infringer HemCon, Inc. (“HemCon”) was protected by absolute intervening rights with respect to products manufactured prior to the issuance of a reexamination certificate and remanded for a determination regarding equitable intervening rights as to products manufactured afterwards.

Marine Polymer Technologies, Inc. (“Marine Polymer”) sued HemCon for infringement of its U.S. Patent No. 6,864,245 (“the ‘245 patent”) related to p-GlcNAc, a polymer that helps to slow bleeding. Marine Polymer's ‘245 patent claims specifically require “biocompatible” p-GlcNAc. The concept of biocompatibility, as described in the specification, relates to the extent to which the p-GlcNAc causes a negative biological reaction. The specification discloses four tests to determine biocompatibility, including an elution test and three other tests.

The elution test yields scores from zero to four on a biological reactivity scale, with zero at the bottom of the scale representing no reactivity, and four at the top of the scale representing severe reactivity. If scores remain below three on this reactivity scale, then the p-GlcNAc meets the biocompatibility test. The other three tests measure biocompatibility using a similar scale. While the independent claims simply required biocompatibility in general, several original dependent claims required specific scores on the elution test. In particular, three originally dependent claims required a zero score on the elution test, and six others required scores of one or two on the elution test.

The parties proposed competing constructions for the term “biocompatible” to the district court. Rejecting the constructions proposed by both parties, the district court construed the biocompatibility limitation in the independent claims as requiring no detectable biological reactivity. Based on its claim construction, the district court granted SJ of infringement. Marine Polymer also defeated HemCon’s invalidity defenses, winning a judgment of nearly $30 million and a permanent injunction.

After the district court issued its claim construction order but prior to trial, HemCon requested reexamination of Marine Polymer’s ‘245 patent. During the reexamination, the examiner initially applied a broader claim construction than the district court, concluding that “biocompatible” meant “low variability, high purity, and *little or no detectable reactivity*.” Slip op. at 5 (citation omitted). In the examiner’s view, the district court’s construction requiring no reactivity was inconsistent with the numerous dependent claims that required a specific elution score of zero, one, or two. Applying the broader construction, the examiner rejected all of the claims.
In response to the rejection in the reexamination, Marine Polymer argued in favor of the district court’s narrower construction. In an attempt to resolve the inconsistency noted by the examiner, Marine Polymer cancelled the dependent claims that specifically required an elution score of one or two. In view of the claim cancellations, the examiner agreed with the district court’s construction of the term “biocompatible” and approved the claims. The PTO mailed its notice of intent to issue the reexamination certificate after the district court had already entered its final judgment, from which HemCom appealed.

Due to the timing of the parallel reexamination and litigation proceedings, HemCom’s first opportunity to raise an intervening rights defense came during the appeal. HemCom argued that the reexamination narrowed the claims and, as a result, it was entitled to both absolute and equitable intervening rights under 35 U.S.C. §§ 252 and 307. Because the defense was not available until after the final judgment, the Federal Circuit exercised its discretion to consider the issue of intervening rights.

“Therefore, if the scope of the claims actually and substantively changed because of Marine Polymer’s arguments to the PTO, the claims have been amended by disavowal or estoppel, and intervening rights apply.” Slip op. at 11.

Focusing first on absolute intervening rights, the Court observed that absolute intervening rights—providing an accused infringer the right to use or sell specific products made, used, or purchased before the grant of the reexamined patent—do not apply if the accused product infringes a valid claim of the reexamined patent. The Court explained that absolute intervening rights are available only if the original claims have been substantively changed, and substantive changes to the claims create an irrebuttable presumption that the original claims were materially flawed. Here, the Court found that intervening rights applied in view of Marine Polymer’s arguments to the PTO, even though the claims were not amended during reexamination.

Supporting its conclusion regarding intervening rights, the Federal Circuit further found that the district court erred in construing the biocompatibility claim term to exclude any detectable biological reactivity. The Court reasoned, similar to the position originally taken by the reexamination examiner, that the specification and dependent claims cancelled during reexamination made clear that some reactivity was consistent with biocompatibility.

The Court also found HemCon did not waive its claim construction argument that the claims must allow for some biological reactivity, despite HemCon’s proposing an even broader construction at the district court. The Court explained that a party may raise claim construction arguments for the first time on appeal that are consistent with the claim construction proffered by that party at the district court. Here, HemCon was entitled to protect the original breadth of its proposed claim construction by arguing that the district court improperly added the “no reactivity” limitation.

Concluding its analysis regarding absolute intervening rights, the Federal Circuit rejected Marine Polymer’s arguments that certain dependent claims never changed in scope because they always required an elution test score of zero. Even though these dependent claims required an elution test score of zero, they focused exclusively on the elution test and not any of the other three testing methods. Thus, prior to the reexamination, these zero-elution-score claims required no reactivity only under the elution test. In contrast, after Marine Polymer imported the district court’s erroneous construction on reexamination, they also required no reactivity under the other three tests discussed in the specification.

After finding that absolute intervening rights protected HemCon’s pre-reexamination activities that the district court found to be infringing, the Federal Circuit reversed the district court’s grant of judgment of infringement, reversed the damages award, and vacated the district court’s permanent injunction.

Turning from absolute intervening rights to equitable intervening rights, which relate to an accused infringer’s rights following the grant of a reexamined patent, the Court recognized that unlike the absolute
intervening rights issue, the inquiry as to whether equitable intervening rights should apply is a fact-intensive one. The Court explained that the district court made no factual findings on the issue and therefore remanded the matter to the district court to determine in the first instance whether equitable intervening rights should apply.

Finally, the Court declined to consider HemCon’s argument that Marine Polymer’s ‘245 patent is invalid under HemCon’s preferred construction. The Court found the issue moot because Marine Polymer changed the scope of the claims during reexamination, effectively surrendering its original claims in order to preserve the ‘245 patent’s validity. The validity of the original claims was no longer a live issue because future infringement claims will either be based on the reexamined claims or will be barred by the intervening rights doctrine.

Judge Lourie dissented from the majority opinion, raising two main points of disagreement. First, he would not have considered the reexamination proceeding because the district court did not do so and because it was still possible for the reexamination to be separately appealed to the Federal Circuit. Judge Lourie believed that the Court’s consideration of the reexamination under such circumstances could potentially deprive the patentee of its right to have its infringement proceeding decided separately from a nonfinal PTO proceeding. Second, even taking the reexamination proceeding into account, Judge Lourie would not have found intervening rights because such rights under 35 U.S.C. §§ 307(b) and 316(b) apply only to “amended or new claims.” Even if Marine Polymer’s claims did change in scope during the reexamination, such a change did not occur through an amendment or new claim. Judge Lourie explained that even though 35 U.S.C. § 252 includes the “substantially identical” test relied on by the majority, that section of the statute does not override the threshold requirement in §§ 307(b) and 316(b) that intervening rights apply only to amended or new claims.
Order Granting Stay of Claims Not an Appealable Final Judgment or Effectively an Injunction

Phillip K. Decker

Judges: Rader, Lourie, O'Malley (author)
[Appealed from N.D. Ill., Judge Gettleman]

In Spread Spectrum Screening LLC v. Eastman Kodak Co., No. 11-1019 (Fed. Cir. Sept. 26, 2011), the Federal Circuit held that a district court order staying claims against customers of an accused infringer was not an appealable final judgment under 28 U.S.C. § 1295 and not “effectively an injunction” appealable under 28 U.S.C. § 1292(a)(1).

Spread Spectrum Screening LLC (“S3”) owns U.S. Patent No. 5,689,623 (“the ’623 patent”) drawn to methods and systems for commercial printing technology called “digital half-toning.” The S3 technology involves “a process used in the commercial printing industry to convert a continuous tone image, such as a photograph, into a half-tone image consisting of a pattern of minute dots that, when viewed at a suitable distance, appears to recreate the continuous tone image.” Slip op. at 3 (citation omitted). Half-toning is commonly used in the production of newspapers, magazines, and other print materials.

Eastman Kodak Company (“Kodak”) manufactures, uses, and licenses commercial printing products under the brand name Staccato. Four of Kodak’s customers, Continental Web Press, Inc., Graphic Partners, Inc., Genesis Press, Inc., and Johns-Byrne Company (collectively “the Kodak Customers”) use Kodak’s Staccato software under license to generate half-toned images, and manufacture and sell their own binary reproductions. Id. at 4.

On February 18, 2010, S3 brought suit against Kodak and the Kodak Customers in the Northern District of Illinois alleging infringement of the ’623 patent. Two months into the case, Kodak moved to sever and stay the claims against the Kodak Customers, and to transfer the Kodak claims to the Western District of New York. The district court granted Kodak’s motion in all respects. According to the district court’s order, the Kodak Customers were “merely peripheral” to S3’s claims and would not be “helpful to determine whether Kodak’s Staccato product infringes the ’623 patent.” Id. at 6-7. S3 timely appealed.

On appeal, S3 argued that the district court’s stay order was an appealable “final decision” under § 1295 because it cast S3 “out of court,” is “practically final,” or is “effectively an injunction” under § 1292(a)(1). S3 further argued the district court’s stay order was made in error and should be reversed for abuse of discretion. On the other hand, Kodak and the Kodak Customers countered that the district court’s stay was not a “final decision” under the final judgment rule or any exception thereto, and that the Federal Circuit should dismiss the case for lack of jurisdiction.

“[D]elay inherent in the federal court system is not the type of ‘protracted or
The Court agreed with Kodak that the district court’s stay order was not reviewable. As an initial matter, the Court noted that the Federal Circuit reviews matters relating to its jurisdiction “in the first instance” and “apply[ing] Federal Circuit law.” Id. at 7. Under Federal Circuit law, a “final decision” under § 1295(a)(1) is one that “ends the litigation on the merits and leaves nothing for the court to do but execute the judgment.” Id. at 8 (citation omitted). Because the district court merely stayed S3’s claims against the Kodak Customers and did not adjudicate them to the end, the district court’s order was clearly not a final decision per se. Id. at 8-9. But the Court acknowledged that under the Supreme Court precedent, a decision can be final or warrant interlocutory review under certain exceptional circumstances. The Court addressed these possible exceptions to the final judgment rule in turn.

First, the Court found that Spread Spectrum was not “effectively out of court” under Moses H. Cone Memorial Hospital v. Mercury Construction Corp., 460 U.S. 1, 10 (1983). In Moses Cone, the plaintiff’s federal proceedings were stayed pending the outcome of state court proceedings. Because the state proceedings would have had potential res judicata effect on the federal claims, the Supreme Court found that the plaintiff was “effectively out of court” and granted interlocutory review. In distinguishing Moses Cone, the Court noted that any res judicata effect in S3’s case would be predicated on the federal adjudication of S3’s claims in the United States District Court for the Western District of New York. Therefore, S3 was not put effectively out of federal court in the manner described in Moses Cone. Slip op. at 9. The Court also found that any delay in adjudication that would result from the stay would not be “protracted or indefinite” as that concept was discussed in Gould v. Control Laser Corp., 705 F.2d 1340, 1341 (Fed. Cir. 1983). Slip op. at 10. In Gould, it was suggested that a plaintiff could be (but was not) put “effectively out of court” if subjected to a protracted or indefinite delay during a reexamination of a patent. Id. at 11. Like Moses Cone, the Court distinguished S3’s appeal from the situation in Gould by explaining that “[d]elay inherent in the federal court system is not the type of ‘protracted or indefinite’ delay [warranting exceptional interlocutory review]” as may have been available in those cases. Id. at 12 (emphasis added). In other words, while delays resulting from state court or administrative adjudication might put a plaintiff “effectively out of court,” that is not the case when the delay is caused by ordinary federal judicial procedure.

Next, the Court considered S3’s argument that the stay should be considered “practically final” under Gillespie v. U.S. Steel Corp., 379 U.S. 148 (1964). In Gillespie, the Supreme Court described a balancing test for interlocutory review of a stay involving “the inconvenience and costs of piecemeal review on the one hand and the danger of denying justice by delay on the other.” Slip op. at 13 (quoting Gillespie, 379 U.S. at 152-53). In rejecting S3’s argument, the Court explained that Gillespie was “severely limited” in subsequent Supreme Court cases and should be “very rarely used beyond the unique facts of that case.” Id. at 13-14 (citation omitted). The Court echoed the sentiment that “[i]f Gillespie were extended beyond the unique facts of that case, § 1291 would be stripped of all significance.” Id. at 14 (alteration in original) (quoting Coopers & Lybrand v. Livesay, 437 U.S. 463, 477 n.30 (1978)). Accordingly, the Court declined to extend Gillespie to S3’s case. Id.

In addition, the Court also recognized that jurisdictional issues involving the so-called “customer-suit exception” may independently warrant interlocutory review in certain circumstances. Id. at 14 (citing Kahn v. Gen. Motors Corp., 889 F.2d 1078 (Fed. Cir. 1989)). In Kahn, the Federal Circuit found an exception to the first-filed jurisdiction rule, wherein a litigation brought by or against a manufacturer takes priority over a suit filed against customers of the manufacturer. The Kahn Court stated that a misapplication of this principle will “uniformly receive[ ] interlocutory review.” Id. at 15 (citing Kahn, 889 F.2d at 1080). Based on this statement, S3 argued that the district court misapplied the exception and thus review is warranted. The Court disagreed, noting that in Kahn the patentee sued the customer and the manufacturer brought a subsequent DJ suit in a different jurisdiction, and, thus, the “procedural posture in Kahn differed from that presented [in S3’s appeal].” Id. at 15-17. Still, even applying the customer-suit exception arguendo, the Court found S3’s argument unpersuasive. According to the Court, Kahn was not the broad “jurisdictional holding” suggested by S3 and instead was driven by prudential considerations including injunctive relief and “irreparable harm” not at issue in S3’s case. Id.
at 18-19. For these reasons, the Court found the reviewability language from *Kahn* inapplicable to S3's case. *Id.* at 19.

Lastly, the Court addressed S3's argument, based on *Katz v. Lear Siegler, Inc.*, 909 F.2d 1459, 1464 (Fed. Cir. 1990), that the district court's stay order was "effectively an injunction" barring S3 from pursuing its case against the Kodak Customers. In *Katz*, the district court enjoined a suit in another jurisdiction, a decision which the Federal Circuit held was "appealable as of right" under § 1292. *Id.* at 19-20. But here the Court found *Katz* materially distinguishable on the basic grounds that *Katz* involved a "stay" in a jurisdiction other than that of the ruling court. In S3's case, the Northern District of Illinois stayed its own proceedings. *Id.* at 20-21. The Court summarily rejected the notion that all stays, regardless of where applied, are tantamount to an immediately appealable "injunction," as was the case under the unique circumstances of *Katz*. *Id.* at 20. As a result, the Court rejected S3's analogy to *Katz* and the suggestion that the district court's order was "effectively an injunction." Accordingly, the Court dismissed the appeal.
District Court Has Authority to Clarify Claim Construction Following Jury Verdict

Victoria S. Lee

Judges: Bryson, Mayer, Gajarsa (author)
[Appealed from D. Del., Judge Robinson]


Cordis Corporation (“Cordis”) owns the ’312 and ’370 patents, which relate to balloon-expandable coronary stents, having undulating longitudinal sections, used to treat occluded blood vessels. Robert Fischell prosecuted the application issuing as the ’312 patent pro se. He retained an attorney, Morton Rosenberg, to prosecute foreign counterparts. During prosecution of the ’312 patent, Rosenberg sent Fischell an EPO Search Report regarding a European counterpart to the ’312 patent. The EPO Search Report identified and categorized six references, where “category X” documents were “particularly relevant if taken alone,” and “category Y” documents were “particularly relevant if combined with another document of the same category.” Slip op. at 3 (citation omitted). Although U.S. Patent No. 4,856,516 (“Hillstead”), one of the four Y references, was directed to a stent “constructed from an elongated wire bent to define a series of relatively tightly spaced convolutions or bends,” Mr. Rosenberg’s accompanying letter focused on the X reference. Id. at 4.

In the course of the case, Fischell testified that it was his practice to “look at the pictures and see if the pictures [in the references] look like the invention.” Id. at 5 (alteration in original) (citation omitted). Rosenberg testified that his practice was to “carefully” review the “X” references in EPO search reports, but to “just scan” “Y” references. Rosenberg and Fischell, however, testified that they did not recall looking at Hillstead until April 1998, even though it was in the EPO Search Report and their files since at least July 1995. Hillstead was not disclosed to the PTO during prosecution of the ’312 patent, but was disclosed in an IDS while prosecuting the ’370 patent, which issued from a continuation application from the ’312 patent application. Hillstead was one of about seventy references disclosed in the IDS, and the IDS did not emphasize Hillstead as being of particular interest.

Cordis sued BSC for infringing the ’370 and ’312 patents. A jury found some of the asserted claims invalid and others not invalid. It also found no literal infringement of some claims, and no infringement of other claims by virtue of the reverse DOE. The parties moved for JMOL, and the district court granted BSC’s motion for JMOL of no literal infringement, denied Cordis’s motion for JMOL on the reverse DOE as moot, and denied BSC’s JMOL of invalidity. Finally, following a separate bench trial, the district court held both patents unenforceable due to inequitable conduct in light of Hillstead.
On appeal, the Federal Circuit affirmed the district court’s holding that the ‘370 patent was not invalid, and agreed that the Hillstead reference was material, but remanded for additional findings regarding intent to deceive. On remand, the district court found that BSC failed to prove (1) deceptive intent and (2) that the nondisclosure of Hillstead during the ‘312 patent prosecution carried over and affected the later ‘370 patent, by clear and convincing evidence, and thus reversed the inequitable conduct judgment. The district court also denied BSC’s motion for reconsideration. Cordis appealed the district court’s JMOL grant of no literal infringement and denial of JMOL on the issue of noninfringement by the reverse DOE, and BSC cross-appealed the district court’s finding that the ‘312 and ‘370 patents are not unenforceable due to inequitable conduct.

“The district court’s post-verdict elaboration on this point only clarified what was inherent in the construction. Doing so was not error; it merely made plain what . . . should have been obvious to the jury.” Slip op. at 13.

On appeal, the Federal Circuit first considered claim 25 of the ‘370 patent, the only claim-at-issue with respect to the JMOL of no infringement. Claim 25 covers a predeployment balloon-expandable stent wherein “the undulating section of each closed perimeter cell comprises a ‘U’ shaped curve.” Id. at 10 (citation omitted). The district court construed “undulating” according to BSC’s proposed construction to mean “rising and falling in waves, thus having at least a crest and a trough.” Id. at 11 (citation omitted). The district court later clarified that its “use of the plural ‘waves’ implies a change in direction” and entered JMOL of noninfringement. Id. (citation omitted). Cordis’s appeal raised two challenges: (1) that BSC improperly urged a narrower and erroneous claim construction on the district court after the court had construed the claims; and (2) even if the district court’s claim construction did imply “arcing curves” and “a change in direction,” a reasonable jury could find that BSC’s stent infringed claim 25. Id. at 11-12.

Addressing Cordis’s first challenge, the Federal Circuit found no error in the district court’s post-jury-verdict clarification regarding whether the terms “crest” and “trough” implicated changes of direction. “No rule of law restricted BSC from seeking to clarify or defend the original scope of its claim construction.” Id. at 12. The Court indicated that it was apparent that the construction requires multiple “waves,” and the terms “crest” and “trough” implicate changes of direction. “The district court’s post-verdict elaboration on this point only clarified what was inherent in the construction. Doing so was not error; it merely made plain what . . . should have been obvious to the jury.” Id. at 13.

Further, the Court indicated that Cordis could not plead surprise at the trial court’s clarification because, during claim construction, BSC specifically pointed to arguments made during the prosecution of the ‘312 patent in which Fischell distinguished the claimed “undulating” structures from those that were merely curved; thus, “Cordis’s suggestion that a single curve can satisfy the ‘undulating’ limitation of the asserted claims was thereby foreclosed.” Id. at 14.

The Federal Circuit similarly rejected Cordis’s second challenge, finding that since Cordis’s expert’s testimony was based on an incorrect claim construction, it should be disregarded. Thus, “absent the testimony of Cordis’s expert regarding troughs and crests, and the corresponding testimony concluding infringement, [the Court found] very little evidence to support the jury’s verdict that claim 25 was literally infringed.” Id. at 17-18. Accordingly, the Court affirmed the district court’s grant of JMOL of no literal infringement and declined to reach the issue of noninfringement by the reverse DOE.

Addressing BSC’s cross-appeal, the Federal Circuit first rejected BSC’s argument that Cordis waived any challenge to the district court’s initial inequitable conduct finding with respect to the ‘312 patent because the Court can address waived issues “when they are necessary to the resolution of other issues directly before it on appeal.” Id. at 18. In this instance, the “enforceability of the two patents [was] inextricably linked” because “the enforceability of the ‘312 patent [was] a predicate issue necessary to [the] determination of the enforceability of the ‘370 patent” under BSC’s taint theory of inequitable conduct. Id. at 19.
The Court similarly rejected BSC’s additional arguments, finding no error in the district court’s decision to issue supplemental findings of fact and no clear error in the findings themselves. The district court found that Rosenberg’s letter forwarding the EPO Search Report called attention to a different reference, not Hillstead, and that when Hillstead was later brought to Fischell’s attention, he promptly disclosed it to the PTO. Although Fischell did not emphasize Hillstead in the IDS he submitted, the district court found that Fischell had relied on Rosenberg’s advice. Thus, the Federal Circuit noted that “[i]t appears to be a case where BSC proved the threshold level of intent to deceive, but that proof was rebutted by . . . Fischell’s good faith explanation.” *Id.* at 23 n.6 (citing *Therasense, Inc. v. Benton, Dickinson & Co.*, ---F.3d---, 2011 WL 2028255, at *10 (Fed. Cir. May 25, 2011) (en banc)). Further, while the Court found “substantial evidence calling into question” Fischell’s veracity, the Court “gives great deference to the district court’s decisions regarding credibility of witnesses.” *Id.* (citation omitted). Accordingly, the Federal Circuit affirmed the district court’s conclusion that BSC failed to prove inequitable conduct in the ’312 and ’370 patent prosecutions.
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Sales Authorized Under a License Do Not Become Unauthorized or Infringing Sales Just Because a Licensee Subsequently Delays Royalty Payments Due Under That License

Ruby J. Natnithithadha

Judges: Dyk (author), Moore, O'Malley
[Appealed from N.D. Cal., Judge Wilken]

In Powertech Technology Inc. v. Tessera, Inc., No. 10-1489 (Fed. Cir. Sept. 30, 2011), the Federal Circuit reversed the district court’s dismissal of Powertech Technology Inc.’s (“PTI”) DJ action for lack of subject matter jurisdiction, finding that an Article III controversy did in fact exist between the parties.

PTI is a Taiwanese subcontracting company that packages semiconductor chips for various customers in the semiconductor industry. PTI’s customers send bare chips to PTI, and PTI encapsulates them in protective materials before returning the packaged chips to the customers. PTI’s customers then incorporate the prepackaged chips into downstream electronic products for marketing, selling, and importing worldwide, including in the United States. As the packager of the chips, PTI appears to be the only party in the supply chain that allegedly practices the method claims in Tessera, Inc.’s (“Tessera”) U.S. Patent No. 5,663,106 (“the ‘106 patent”). The ‘106 patent is directed to methods for preventing the contamination of exposed chip terminals during encapsulation. The claimed process requires a protective barrier that protects the terminals of the chip from coming in contact with the encapsulant when it is injected into the encapsulation area through a fill hole.

Tessera licenses its technology to more than sixty semiconductor companies through agreements called Tessera Compliant Chip Licenses (“TCC Licenses”). Tessera and PTI entered into such an agreement in 2003, under which PTI agreed to pay running royalties in return for a license under the ‘106 patent (and other patents) to assemble, use, or sell certain “TCC Licensed Products.” PTI claims that it has complied with all its obligations under the license agreement, including the obligation to pay royalties on a post-sale quarterly basis.

The current action stems partly from Tessera’s allegations in two earlier suits, one before the ITC and one in the Eastern District of Texas (“the Texas action”). In the ITC action, Tessera sought relief under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, alleging infringement of the ‘106 patent and three other patents by eighteen defendants through the importation and sale of certain semiconductor chips. In the Texas action, filed on the same day as the ITC action, Tessera asserted infringement of the same patents, accusing the same defendants and products. The Texas action was stayed pending the final outcome of the ITC proceedings. The accused products in the ITC and Texas actions were semiconductor chips that came in two formats: a first group consisting of so-called “wBGA” chips and a second group consisting of so-called “µBGA” chips. PTI is licensed by Tessera to manufacture both wBGA and µBGA chips. Though PTI was not a named party in either the ITC or Texas action, it maintains that some of the accused companies were customers who directly or indirectly purchased
their wBGA and µBGA chips from PTI.

In the ITC proceedings, the ALJ ruled that the ’106 patent was not invalid and not infringed by the accused wBGA and µBGA products. The ALJ also determined that Tessera’s patent rights were exhausted with respect to all accused products sold by Tessera’s licensees, including PTI. In its Final Determination, the ITC affirmed the ALJ’s determination that the wBGA products did not infringe, but held that the µBGA products did infringe. The ITC did not, however, issue an exclusion order under Section 337 with respect to the µBGA products because it determined that Elpida Memory, Inc. (“Elpida”), one of the accused companies that were customers who directly or indirectly purchased the wBGA and µBGA chips from PTI, was the only importer of µBGA chips and that all of Elpida’s µBGA chips were purchased from licensed vendors, including PTI. The ITC action culminated in the Federal Circuit’s recent decision in Tessera, Inc. v. International Trade Commission, 646 F.3d 1357, 1361 (Fed. Cir. 2011), in which the Court affirmed the ITC’s finding that there was no Section 337 violation. The Court held that (1) the ’106 patent was not invalid as anticipated by three prior art references; (2) the accused wBGA products did not infringe the ’106 patent; and (3) although Elpida did not dispute that the µBGA chips infringed the ’106 patent, Elpida was nonetheless protected by a valid patent exhaustion defense, having purchased all of its products from licensed subcontractors, including PTI. The Court ultimately remanded the case to the ITC.

While the ITC action was underway, PTI made royalty payments to Tessera for the wBGA products “under protest” because PTI believed that the wBGA products did not infringe the ’106 patent and that the ’106 patent was invalid, and royalties were therefore not owed. Soon after, PTI filed its DJ action, asserting two separate claims for relief. First, PTI sought a declaration that the wBGA products did not infringe the ’106 patent and that the ’106 patent was invalid, and royalties were therefore not owed. Second, PTI sought a declaration that the ’106 patent was invalid based on prior art raised in a pending reexamination of the ’106 patent before the PTO. In response, Tessera moved to dismiss for lack of subject matter jurisdiction, which the district court granted. The district court held that PTI’s products could not have been at issue in the ITC action because PTI’s products were all manufactured pursuant to a license with Tessera, which explicitly excluded licensed products from its enforcement actions. Additionally, the district court concluded that there was no actual controversy arising from the license agreement because the license agreement itself required PTI to pay royalties whether or not its products were covered by the ’106 patent. Finally, the district court sua sponte held that, even if there was an actual controversy, the court would have declined to hear the case because judicial efficiency favored hearing the DJ action along with the pending Texas action.

On appeal, the Federal Circuit reviewed the district court’s dismissal for lack of subject matter jurisdiction de novo. PTI alleged that two controversies existed in creating DJ jurisdiction. First, PTI alleged that Tessera’s allegations against its customers in the ITC and Texas actions created a controversy as to whether its wBGA and µBGA chips infringed the ’106 patent, either because the chips were not within the scope of the claims (the wBGA chips) or because the ’106 patent was invalid (the wBGA and µBGA chips). PTI further argued that Tessera’s pending claims of infringement in the ITC and Texas proceedings created a sufficient controversy because they directly implicated PTI’s products and customers. Tessera, however, maintained that there was no controversy because all of PTI’s products were “properly licensed” and categorically excluded from the enforcement of the ’106 patent in the ITC and Texas actions.

“That some licensees subsequently renege or fall behind on their royalty payments does not convert a once authorized sale into a non-authorized sale . . . That absurd result would cause a cloud of uncertainty over every sale, and every product in the possession of a customer of the licensee, and would be wholly inconsistent with the fundamental purpose of patent exhaustion—to prohibit post-sale restrictions on the use of a patented article.” Slip op. at 12-13 (alteration in original) (citation omitted).

The Federal Circuit found Tessera’s position in the DJ action inconsistent with its arguments in the ITC
action. There, Tessera maintained that products were only licensed and noninfringed if royalty payments were current. Because some licensees, including PTI, had allegedly underpaid their royalties or had paid them late, Tessera asserted that those sales were “unlicensed” and did not trigger exhaustion of its patent rights. These allegations created a controversy as to whether certain sales of PTI’s products were unlicensed and infringing. The Court explained that, although the outcome of the ITC action will not have preclusive effect on either the district court in Texas or the district court in this case, both courts are bound by stare decisis to abide by any legal precedents established by the Court in its previous Tessera decision, where it held that sales authorized under a license do not become unauthorized or infringing sales because a licensee subsequently delays royalty payments due under that license. The Federal Circuit therefore rejected Tessera’s theory that previously licensed products would become unlicensed when a licensee’s royalty payments lapsed. Because neither party disputed that PTI’s wBGA and µBGA products were covered by the license agreement, to the extent Tessera’s claims against PTI’s customers arose from the same set of facts addressed in Tessera, the Court vacated the dismissal on jurisdictional grounds and remanded with instructions to apply the Court’s decision in Tessera.

PTI also contended that a controversy existed as to PTI’s continued obligation to pay royalties for the sales of its wBGA and µBGA chips under the license agreement with Tessera. In particular, PTI argued that the terms of the license agreement did not require it to pay royalties for the wBGA chips if those chips did not infringe or for the wBGA and µBGA chips if the ‘106 patent was invalid. In response, Tessera argued that royalty payments were due even if the products did not infringe the ‘106 patent and regardless of the ‘106 patent’s validity. Tessera maintained that there could be no Article III controversy as long as PTI complied with all the terms of the license agreement, including the payment of royalties.

The Court held that it need not decide whether PTI or Tessera is correct as to this issue because the issue of contract interpretation is a merits issue, not appropriate to a decision on a motion to dismiss under Rule 12(b)(1). The Court simply held that the dispute as to whether the license agreement requires royalty payments to be tied to valid patent coverage is sufficient to support DJ jurisdiction, leaving the merits-based arguments to the district court to consider on remand.

The Federal Circuit also addressed the propriety of the district court’s alternative ground for dismissal. The district court sua sponte held that, even if PTI had established an actual controversy, the district court would nonetheless dismiss the case because the interests of judicial efficiency could favor hearing PTI’s DJ action along with the pending Texas action. PTI argued that the district court abused its discretion by ignoring the forum selection clause in the license agreement. The Court found that since the forum selection clause in PTI’s license agreement employed language to mandate jurisdiction in California, it was clear that the district court erred in failing to enforce the forum selection clause. Nothing suggested that a Texas court would confer any additional conveniences with respect to the availability of evidence or potential witnesses, nor had Tessera provided adequate cause to override PTI’s choice of forum. The Court therefore held that it was an abuse of discretion for the district court to refuse jurisdiction over the action.