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February 2013

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[Appealed from S.D.N.Y., Judge Hellerstein]

Abbreviations

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

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Domestic Industry Requirement of Section 337 Does Not Require Domestic Production

Jeff Watson

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

[Appealed from ITC]

In *InterDigital Communications, LLC v. International Trade Commission*, No. 10-1093 (Fed. Cir. Jan. 10, 2013), the Federal Circuit denied a combined petition for panel rehearing and rehearing en banc concerning the domestic industry requirement of section 337, explaining that a party's patent licensing activities may satisfy this requirement, even if no domestic party manufactures any article protected by the patent.

InterDigital Communications, LLC and InterDigital Technology Corporation (collectively "InterDigital") asked the ITC to investigate whether two of its patents, U.S. Patent Nos. 7,190,966 and 7,286,847, were infringed by Nokia Inc. and Nokia Corporation (collectively "Nokia"). The ALJ found that Nokia did not infringe the InterDigital patents and the ITC affirmed. On appeal, the Federal Circuit held that the ITC erred in construing certain critical claim terms and reversed the ITC's finding of no infringement. The Court also dismissed Nokia's argument that InterDigital's patent licensing activities did not satisfy the domestic industry requirement of section 337, holding that patent licensing alone may satisfy this requirement, regardless of whether the objects of the licensing activities are made in the United States. In a combined petition for panel rehearing and rehearing en banc, Nokia presented one issue: whether InterDigital's patent licensing activities satisfied the domestic industry requirement of section 337.

In denying Nokia's petition, the Federal Circuit first analyzed the text of paragraphs 337(a)(2) and 337(a)(3). The Court focused its analysis on the phrases "relating to the articles protected by the patent" and "with respect to the articles protected by the patent," which Nokia cited in support of its position that InterDigital's patent licensing activities failed to meet the domestic industry requirement. In particular, the Court explored the application of the phrase "with respect to the articles protected by the patent" to subparagraphs 337(a)(3)(A)-(C). With respect to subparagraph 337(a)(3)(C), the Court stated that "[t]he 'substantial investment in [the patent's] exploitation, including engineering, research and development, or licensing' must be 'with respect to the articles protected by the patent,' which means that the engineering, research and development, or licensing activities must pertain to products that are covered by the patent that is being asserted." Slip op. at 3 (alteration in original). The Court found InterDigital's licensing activities to present "a classic case for the application of subparagraph (C)," noting that InterDigital "licenses its wireless technology and patents to significant handset and device manufacturers throughout the world," resulting in significant revenue, as well as substantial salaries and benefits for InterDigital employees engaged in licensing activities. *Id.* at 5-6. Moreover, the Court held that InterDigital's "substantial investment in exploitation of its intellectual property" is "with respect to the articles protected by the patent," as required by section 337, "because the patents in suit protect the technology that is . . .

found in the products that it has licensed and that it is attempting to exclude.” *Id.* at 6.

“It is not necessary that the party manufacture the product that is protected by the patent, and it is not necessary that any other domestic party manufacture the protected article.” Slip op. at 16.

The Federal Circuit next considered the legislative history of the 1988 amendment to section 337, which introduced the statutory language at issue. The Court noted that, prior to the 1988 amendment, section 337 required proof that the challenged importation had the effect or tendency “to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry.” *Id.* at 8 (quoting 19 U.S.C. § 1337(a) (1982)). The ITC had interpreted that language to require proof of the existence (or prospect) of a domestic industry that was manufacturing the articles protected by intellectual property before excluding infringing products. In response to objections regarding the restrictive nature of this requirement, proposals were introduced in Congress to expand the coverage of section 337 to American industries that did not manufacture products but were engaged in engineering, research and development, or licensing of technology that others used to make products.

In discussing the legislative history of section 337, the Court highlighted the arguments set forth in favor of and in objection to eliminating the industry requirement from section 337. Those in favor of eliminating that requirement pointed out that the pre-1988 law “prevents intellectual property owners such as universities and research institutions from using the ITC for enforcing their patents.” *Id.* at 11 (citations omitted). Those against eliminating the industry requirement argued that doing so would convert the ITC’s mission from a trade forum into an intellectual property court and allow foreign owners of U.S. patents to bring exclusion actions before the ITC even though they had no substantial U.S. connections. The Federal Circuit characterized the resulting legislation as a “compromise bill,” stating that it “retained the industry requirement but made clear that it would not be necessary for a complainant to prove that patent-protected goods were being produced in this country.” *Id.* at 12. The Court observed that the House and Senate Reports made clear that section 337 was intended to protect domestic industries that were exploiting patents through means such as engineering, research and development, or licensing. The Court further considered it important to the disposition of this case that those reports explained that the new statutory provision “does not require actual production of the article in the United States if it can be demonstrated that significant investment and activities of the type enumerated are taking place in the United States.” *Id.* at 13 (citing H.R. Rep. No. 100-40, Pt. 1, at 157 (1987); S. Rep. No. 100-71, at 129 (1987)).

After analyzing the text and legislative history of section 337, the Federal Circuit briefly addressed Nokia’s argument that the panel’s decision departed from the Court’s prior precedent, stating that none of the cases cited by Nokia in support of that proposition addressed the issue presented in this case. Thus, the Court concluded that “section 337 makes relief available to a party that has a substantial investment in exploitation of a patent through either engineering, research and development, or licensing.” *Id.* at 16. The Court further held: “It is not necessary that the party manufacture the product that is protected by the patent, and it is not necessary that any other domestic party manufacture the protected article. As long as the patent covers the article that is the subject of the exclusion proceeding, and as long as the party seeking relief can show that it has a sufficiently substantial investment in the exploitation of the intellectual property to satisfy the domestic industry requirement of the statute, that party is entitled to seek relief under section 337.” *Id.*

Judge Newman dissented. According to Judge Newman, the panel majority erred in holding that the domestic industry requirement is met by licensing the importation of foreign-made products.

Judge Newman stated that the purpose of the licensing amendment to section 337 was to enlarge the benefit and incentive to domestic industry by giving licensors access to ITC exclusionary procedures; the

purpose was not to eliminate the requirement of domestic manufacture of the licensed articles. Judge Newman also analyzed various ITC rulings on whether licensing alone satisfies the domestic industry requirement, noting that such rulings are conflicting. Judge Newman further stated that the majority's interpretation of section 337 conflicts with the weight of Federal Circuit precedents, "which require domestic production, or preparation to produce, articles protected by the patent." Newman Dissent at 27. Thus, based both on an analysis of the legislative history of section 337 and Federal Circuit precedent, Judge Newman concluded that the domestic industry requirement is not met by foreign manufactures.

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Inventive Features Repeatedly Emphasized in a Patent Cannot Be Overlooked in Claim Construction

Angela Y. Dai

Judges: Prost, Bryson (author), Wallach

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

In *Parallel Networks, LLC v. Abercrombie & Fitch Co.*, No. 12-1227 (Fed. Cir. Jan. 16, 2013), the Federal Circuit affirmed the district court's claim constructions and SJ of noninfringement, and also affirmed the district court's denial of a Fed. R. Civ. P. 59(e) motion seeking leave to amend infringement contentions.

Parallel Networks, LLC ("Parallel") owns U.S. Patent No. 6,446,111 ("the '111 patent"), which is directed to the use of individualized applets in handheld devices to speed up data transfer. Parallel filed suit against numerous defendants, alleging that the defendants' websites provided applets in response to user requests in a manner that infringed the '111 patent. The district court construed certain claim terms that the defendants contended were case dispositive, including the terms "executable applet" and "dynamically generated by the server in response to the request." Regarding the "dynamically generated" term, the district court adopted the defendants' construction that an applet that is "dynamically generated by the server in response to the request" is an applet constructed at the server by combining the requisite functional code with the necessary data at the time of and in response to the client request. In each of the accused instrumentalities, at least one of the functional code or necessary data was required for accessing a link, which necessitated a subsequent transmission between the client and the server to combine the data and functionality required for the applet to operate.

Based on this finding and in view of the adopted constructions, the district court granted SJ of noninfringement for various defendants and later severed them from the case. Parallel also filed a Rule 59(e) motion seeking leave to amend its infringement contentions in order to allege infringement against certain defendants based on the district court's claim construction, which Parallel argued was an unexpected and intervening change in the law. The district court denied the motion. Parallel appealed the district court's claim constructions, noninfringement rulings, and denial of the Rule 59(e) motion to the Federal Circuit with respect to the severed defendants.

On appeal, the Federal Circuit first addressed the district court's claim constructions. Agreeing with the district court that the data manipulation service (or functionality) and the particularized data are both necessary components of the applet as it is initially generated and before it is transferred to the client, the Court noted that asserted claim 1 teaches that the applet is "generated" in response to a user request, is "executable" and "operable," is "associated with" the two "constituent" systems of particularized data and functionality, and is thereafter "to be transferred." The Court found that, taken together, these terms described a natural progression in the asserted claims: upon receipt of a user request, the server generated an applet with two constituent parts (the functionality and the particularized data).

Furthermore, that applet is executable (i.e., capable of being executed and carried out fully and completely) and is then transferred to the client device for execution.

“What purportedly made the [asserted] patent unique and inventive was combining and transmitting the particularized data and functionality ‘as a group’ in order to transfer an ‘executable applet’ and reduce the number of transmissions over the communications link. [The plaintiff] cannot now claim that a limitation that featured so critically in the patent was not, in fact, a part of the invention.” Slip op. at 23.

The Court found that Figure 3 of the ’111 patent depicts this chronology and that the specification substantiates this construction. In particular, the specification noted that “combining the data and functionality at the outset and transmitting them ‘as a group’ facilitates the invention’s key goal of ‘greatly reduc[ing]’ the number of communications over low-speed networks.” Slip op. at 17-18 (alteration in original) (citation omitted). Based on this construction, the Court held that a finding of noninfringement directly followed since each of the accused instrumentalities was missing at least one portion of the functional code or data when the applet, which included only a link for the missing portion, was transferred to the client.

Next, the Court addressed Parallel’s challenge to the district court’s construction of the “dynamically generated” term. Parallel contended that the district court erred in construing “generated by the server” to mean “constructed at the server, by combining,” because “generate” is broader than “combine,” and that the asserted claims require only that the data and the functionality be “associated with” the applet, not combined into a single file with the applet. *Id.* at 18-19. Rejecting Parallel’s position, the Court explained that the meaning that Parallel urged for the term “associated with” was overly expansive and would effectively rewrite the ’111 patent, as the ’111 patent clearly teaches an applet containing both the data and the functionality when the applet is generated.

The Court then addressed Parallel’s remaining arguments concerning the district court’s constructions. Parallel argued that the term “generated by the server” was incorrectly construed as “generated at the server.” *Id.* at 20. Recognizing that “by” does not necessarily mean “at,” the Court nonetheless found that Parallel provided no indication as to why the difference between “by” and “at” mattered in this context, as the critical point for the case was that the applet cannot be finalized at the client. The Court also rejected Parallel’s arguments regarding the district court’s construction of “dynamically . . . in response to the request” to mean “at the time of and in response to the request.” *Id.* at 21. The Court reasoned that although an applet could be generated “in response to” a request even if it were generated at some later point rather than at the exact time of the request, that did not affect the critical requirement that the applet be generated and executable before it is transferred to the client.

The Court also rejected Parallel’s argument against the district court’s construction of “dynamically generated” to require that the data and functionality be transferred to the client in a single transmission. In support of these arguments, Parallel cited to numerous examples in the specification that describe more than one transmission over a communications link. In rejecting these arguments, the Court noted that Parallel conflated two different concepts: (1) the generation of the applet at the server and its transmission to the client; and (2) the operation of the applet after it has been fully transferred to the client. While the ’111 patent claims deal with the former concept, the portions of the specification that Parallel cited to deal only with the latter concept, and the Court therefore found these arguments unpersuasive.

Based on its critique of the district court’s claim construction, Parallel argued that the district court’s infringement analysis was necessarily erroneous. Parallel argued that it does not matter whether the client device needs to make a separate request to receive the associated data or functionality because, in

both instances, the constituent system is sufficiently “associated with” the applet. Rejecting Parallel’s position, the Court noted that Parallel admitted that the executable applet must consist of both data and functionality, and that the ’111 patent repeatedly emphasizes that feature. The Court further stated that “[w]hat purportedly made the ’111 patent unique and inventive was combining and transmitting the particularized data and functionality ‘as a group,’” and “Parallel cannot now claim that a limitation that featured so critically in the patent was not, in fact, a part of the invention.” *Id.* at 23.

Finally, the Court addressed Parallel’s challenge to the district court’s denial of the Rule 59(e) motion. Parallel contended that the district court did not address one of three factors that the Fifth Circuit considers under Rule 59(e)—the need to prevent a “manifest injustice”—and failed to consider four “good cause” factors for allowing amendments to infringement contentions under Local Patent Rule 3-6(b) for the district court. In rejecting Parallel’s arguments, the Court agreed with the district court that Parallel was seeking to amend its infringement contentions to make arguments that could have been made before the entry of SJ, and that the district court’s claim construction was not an intervening change in the law. The Court noted that Parallel chose to pursue a theory that allowed it to accuse a larger number of defendants, and, having lost, “may not now initiate what would amount to a completely new infringement proceeding.” *Id.* at 24. The Court also found that the need to prevent a “manifest injustice” is a catch-all factor that was already implicit in the district court’s consideration and rejection of Parallel’s motion as a whole. Furthermore, the Court agreed with the district court that Local Patent Rule 3-6(b) was inapplicable, because the adopted claim construction could have been anticipated, and because Parallel had provided no good explanation for its failure to bring its new infringement contentions earlier and thus brought any perceived prejudice on itself.

Accordingly, the Court affirmed the district court’s claim constructions, SJ of noninfringement, and denial of Parallel’s Rule 59(e) motion.

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Appeal Moot Because of Settlement Agreement, Despite Contingency Payment for Successful Appeal of Certain Findings

Hillary C. Matheson

Judges: Lourie, Clevenger, Bryson (author)

[Appealed from C.D. Cal., Senior Judge Pfaelzer]

In *Allflex U.S.A., Inc. v. Avid Identification Systems, Inc.*, No. 11-1621 (Fed. Cir. Jan. 17, 2013), the Federal Circuit dismissed as moot the appeal by Avid Identification Systems, Inc. (“Avid”), holding that there was no real controversy following Avid’s settlement with Allflex U.S.A., Inc. (“Allflex”).

Allflex sued Avid, seeking a DJ that six of Avid’s patents were unenforceable due to inequitable conduct and that Allflex was not liable for infringement of any of the patents. Avid counterclaimed, alleging infringement. Only two of the six original patents remained at issue, each relating to Radio Frequency Identification (“RFID”) technology used in tags for locating lost animals or objects. Allflex and Avid compete in the RFID tag market for pets.

The district court ruled that Avid and its former counsel should be sanctioned under Fed. R. Civ. P. 37(c) for failing to disclose the existence of reexamination proceedings involving the patents-in-suit, but did not impose any sanctions because the amount could not be determined until the reexamination proceedings concluded. The district court subsequently granted SJ of noninfringement. The district court also granted partial SJ on inequitable conduct, finding that while Avid’s failure to disclose information about prior public use and offers to sell was material, there was a genuine issue of fact as to intent to deceive.

The parties entered into a settlement agreement resolving all claims and issues except for the SJ of noninfringement, the SJ of materiality regarding the inequitable conduct claim, and the ruling that Avid and its counsel should be sanctioned. Under the settlement, Avid agreed to pay Allflex \$6.55 million, and Allflex agreed to return \$50,000 if Avid successfully overturned “any of such findings.” Slip op. at 4. Avid also reserved the right to appeal the claim constructions and any other “underlying orders, objections, opinions, and rulings.” *Id.* Allflex retained the right to contest any appeal on the merits, except that Allflex was explicitly barred from disputing the existence of a live case or controversy.

The district court accepted the settlement agreement and dismissed the action with prejudice except for the three issues left unresolved by the settlement agreement. Avid appealed those three issues to the Federal Circuit. Avid also contested the construction of one claim, but admitted that it was not necessary to the noninfringement ruling. Allflex did not file a brief in response.

The Federal Circuit first considered whether the district court’s order was a final decision over which it could exercise jurisdiction. The Court held that the SJ of noninfringement was a final disposition. Regarding the sanctions issue, the Court concluded that it lacked jurisdiction because no monetary or

other sanction was imposed. The district court had left the matter of the amount of sanctions for later determination, and no such later determination was made. Regarding inequitable conduct, although the district court denied SJ with respect to the element of intent to deceive, the Court held that the dismissal of the claim was final because the district court's judgment and the settlement agreement made clear that further proceedings in the district court were not contemplated.

“[W]here, as here, the appellant has identified no relationship between the valuation placed on the appeal and the issues the appellant wishes to challenge, the parties have simply placed a ‘side bet’ on the outcome of the appeal, which is not enough to avoid a ruling of mootness.” Slip op. at 13-14.

Turning to the issue of mootness, the Federal Circuit concluded that it was not satisfied that the arrangement leading to the one-party appeal reflected the existence of a legitimate, continuing case or controversy. The Court stated that even if it had jurisdiction to review the sanctions issue, its appeal would have no effect on either party's legal rights because no sanctions were entered. The Court also determined that Avid did not have the right to appeal the materiality issue because the case was dismissed without a finding that Avid's patents were unenforceable on the ground of inequitable conduct, and a party may not appeal from a judgment in its favor to challenge findings that are not necessary to support the judgment.

The Federal Circuit held that the \$50,000 contingency payment was not sufficient to avoid making the issues on appeal moot. The Court explained: “The fact that Avid is unhappy with the district court's decision in this case is not enough to breathe life into the case in the absence of a continuing controversy between the parties.” *Id.* at 9. The Court continued: “[W]here ‘the alleged infringer has settled the infringement issue, and no longer professes any interest in . . . [a] declaratory judgment of invalidity, the case has become moot as a result of the voluntary act of the patentee.’” *Id.* at 10 (quoting *Aqua Marine Supply Co. v. AIM Machining, Inc.*, 247 F.3d 1216, 1220 (Fed. Cir. 2001)).

The Court determined that the \$50,000 contingency payment did not reflect an actual damages award or a liquidated damages award. With respect to the materiality issue, the Court reasoned that the payment could not be fairly characterized as a reasonable estimate of a prospective damages award because inequitable conduct is a defense or equitable remedy, not a claim for damages. Further, because the settlement agreement was structured so that success on more than one of the three issues could not increase the amount of the payment, the Court was not persuaded that the payment was a reasonable estimate of the value of a reversal of the noninfringement issue either. The Court stated that “[t]he \$50,000 is thus completely untethered to the value of any of the issues on appeal.” *Id.* at 13. The Court held that “where, as here, the appellant has identified no relationship between the valuation placed on the appeal and the issues the appellant wishes to challenge, the parties have simply placed a ‘side bet’ on the outcome of the appeal, which is not enough to avoid a ruling of mootness.” *Id.* at 13-14. The Court thus dismissed the appeal as moot.

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Claims Incorporating Internet Technology into Existing Processes Obvious in View of the Prior Art

Fahd H. Patel

Judges: Newman (author), Prost, Reyna

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

In *Soverain Software LLC v. Newegg Inc.*, No. 11-1009 (Fed. Cir. Jan. 22, 2013), the Federal Circuit reversed the district court and invalidated claims from all three asserted patents as being obvious in view of the prior art.

Soverain Software LLC (“Soverain”) filed a patent infringement suit against Newegg Inc. (“Newegg”), asserting U.S. Patent Nos. 5,715,314 (“the ’314 patent”); 5,909,492 (“the ’492 patent”); and 7,272,639 (“the ’639 patent”). The patents relate to electronic commerce and arise from a software system called “Transact,” which was developed in 1996 by a company named Open Market, Inc. (“Open Market”). Soverain acquired the patents and the Transact software from Open Market. At trial, the district court removed the question of obviousness from the jury because of insufficient testimony. The district court further held that, as a matter of law, the asserted claims were not invalid on the ground of obviousness and denied Newegg’s motions for JMOL and a new trial. On appeal, because obviousness is a question of law, the Federal Circuit reviewed the district court’s determination of obviousness de novo.

The asserted claims of the ’314 patent and the ’492 patent are directed to initiating payment of products after a buyer requests to check out. Representative claim 34 of the ’314 patent requires a “buyer computer” to send “shopping cart messages” to a “shopping cart computer,” each message including “a product identifier.” After receiving the “shopping cart messages,” the “shopping cart computer” modifies a “shopping cart” in a “shopping cart database” to include the products identified by the “product identifier.” Soverain argued that the prior art CompuServe system lacked the claimed “shopping cart message [that] comprises a product identifier” because in CompuServe, the product identifier was not in the message. Slip op. at 10 (alteration in original) (citation omitted). The Federal Circuit disagreed because “[t]he term ‘product identifier’ was not given a special meaning in the specification or through claim construction, and contains no designated format requirements.” *Id.* at 11. Thus, the claimed “product identifier” does not distinguish the claims over CompuServe. Soverain also argued that the claimed system is superior to that of CompuServe because it is adapted to the Internet, whereas the CompuServe reference was a pre-Internet network. The Court dismissed this argument, citing *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1327 (Fed. Cir. 2008), and holding that it is obvious to apply previously known methods to the Internet, because such an application was commonplace.

“Open Market did not invent the Internet, or hypertext, or the URL. Newegg is correct that the use of hypertext to communicate a ‘statement document’ or

‘transaction detail document’ was a routine incorporation of Internet technology into existing processes.” Slip op. at 20 (citation omitted).

Asserted claims 41 and 61 of the '492 patent are the “hypertext statement” claims, directed to online shopping, in which a client computer receives transaction statements from a server. Claim 41 uses a “statement URL” while claim 61 uses a “hypertext statement” to deliver transaction information. The Court held that the distinction offered by Soverain between the claims and CompuServe “is not a limitation on the claims other than a commonplace Internet capability to facilitate on-line transactions.” Slip op. at 19. The Court further noted that “Open Market did not invent the Internet, or hypertext, or the URL. Newegg is correct that the use of hypertext to communicate a ‘statement document’ or ‘transaction detail document’ was a routine incorporation of Internet technology into existing processes.” *Id.* at 20.

Asserted claim 78 of the '492 patent, known as one of the “session identifier” claims, is directed to a “server system” “receiving, from the client, a service request to which a session identifier stored at the client has been appended by the client.” During claim construction, the parties stipulated that the claimed “session identifier” means a “text string that identifies a session,” and a “session” is a “series of requests and responses to perform a complete task or set of tasks between a client and a server system.” *Id.* at 21-22 (citation omitted). Although Newegg alleged this claim is obvious in view of U.S. Patent No. 5,560,008 to Johnson (“Johnson”) and U.S. Patent No. 5,724,424 to Gifford (“Gifford”), Soverain argued that neither reference discloses the claimed “session identifier,” and Soverain’s expert further stated that the Johnson reference predated the World Wide Web. The Court disagreed with Soverain and held that the “credential identifier” of Soverain rendered obvious the claimed “session identifier” and that the Gifford reference included the additional Internet functionality not taught in Johnson. Accordingly, the Court held that claim 79 was invalid.

As secondary considerations of nonobviousness, Soverain argued that the “Transact” product, which allegedly corresponds to the asserted claims, enjoyed widespread recognition in the media and also alleged that the asserted claims had been widely licensed. Newegg responded by alleging that the “Transact” product was abandoned by its developers and that all licenses taken were for the patents and not for the software. The Court held that, based on the record, there was not a nexus between the “Transact” software and the patents, and noted that the software was abandoned by its original licensees.

Accordingly, the Federal Circuit reversed the judgments of validity and vacated the judgments of infringement and damages.

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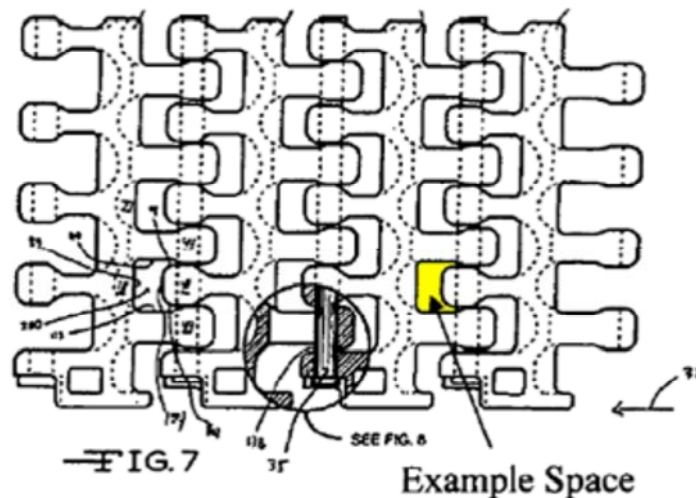
Board Erred in Refusing to Consider Alternative Grounds That Were Fully Raised Before the Examiner During Reexamination

Mukta Jhalani

Judges: Newman (author), Lourie, Prost

[Appealed from Board]

In *Rexnord Industries, LLC v. Kappos*, No. 11-1434 (Fed. Cir. Jan. 23, 2013), the Federal Circuit affirmed the Board's determination of no anticipation but reversed the Board's determination of nonobviousness in the inter partes reexamination of U.S. Patent No. 6,523,680 ("the '680 patent"). The '680 patent is directed to a mechanical conveyor belt that is formed of rows of belt modules interlinked by transverse rods. The spaces between the belt modules are blocked by plastic webs to prevent the spaces from pinching small items such as a finger, and are specifically recited as being less than 10 mm in diameter. The figure below shows the belt formed by the interlinked modules, with the "less than 10 mm" space marked as "Example Space":



The owner of the '680 patent, Habasit Belting, Inc. ("Habasit"), sued Rexnord Industries, LLC ("Rexnord") for patent infringement. Rexnord requested inter partes reexamination of the '680 patent, and the district court stayed Habasit's infringement action pending completion of the reexamination. On reexamination, the examiner found all claims of the '680 patent unpatentable for anticipation and obviousness.

According to the examiner, the claims were obvious over prior art references Thompson and Palmaer, which showed a space small enough to prevent pinching of small objects, and prior art reference Horton, which taught all of the other elements of the independent claims.

Habasit argued to the Board that the 10 mm maximum dimension of space was not stated in any reference and, in fact, some reference belts have no space. Rexnord responded that a 10 mm maximum space was inherent in the structures described in the references, and that Thompson taught extending a web portion to at least partially cover gaps between modules, preventing objects from getting pinched. The Board reversed the examiner, finding the '680 patent claims not anticipated and not obvious over the cited references because the references did not state the dimensions of space between modules. The Board noted that the examiner had not identified where the prior art disclosed that the space between modules had a diameter of less than 10 mm, as required by the claims.

Rexnord requested rehearing, arguing that the Board overlooked the examiner's analysis in the rejection of the claims over Horton in view of Thompson, and that the Board ignored that the space of less than 10 mm between the modules was inherently present in the Palmaer and Thompson references. The Board concluded that Rexnord had waived its inherency arguments for anticipation, and that Rexnord's arguments as to why constructing a space as recited in the claims would have been obvious were not the rationale of the examiner's rejection. Rexnord appealed to the Federal Circuit.

“On judicial review, the correctness of the decision appealed from can be defended by the *appellee* on any ground that is supported by the record, whether or not the appellant raised the argument.” Slip op. at 13.

On appeal, Rexnord argued that the Palmaer and Thompson references anticipated or rendered obvious the '680 patent claims because the “less than 10 mm” space was inherent in the prior art belts. The PTO defended the Board's finding and argued that a space of less than 10 mm was not necessarily present in any reference belt. The Federal Circuit agreed with the Board that the precise “less than 10 mm” size limitation was not inherent in the references, because neither reference showed the limitation and that it would necessarily be recognized. However, the Court held that the Board erred in holding that it would not have been obvious to limit the space to the 10 mm maximum, reasoning that the references all stated that the space between modules should be limited against small objects and to prevent pinching of fingers.

The Court disagreed with the PTO that the Board did not have to consider other grounds that had been presented during the reexamination but that had not been raised on appeal to the Board. The PTO defended the Board's refusal to consider Rexnord's argument that it would have been a “mere design choice” in view of prior art references to create a 10 mm space, because Rexnord presented that argument for the first time in its request for rehearing. The Court rejected this argument, concluding that Rexnord's “mere design choice” argument was not new. The Court found that the references had been presented to the examiner, that the issue was fully raised before the examiner, and that the references were not again a patentability issue until after the Board reversed the examiner. The Court noted that Rexnord was not the appellant before the Board, and that as an appellee, Rexnord could defend the correctness of the decision appealed from on any ground supported by the record, whether or not Habasit as the appellant raised the argument.

The Court held that all of the structural elements of the claims were shown in the prior art references, including a space small enough to avoid pinching of fingers, and that the 10 mm dimension was a design choice that accounted for the size of small objects such as fingers. The Court held that the Board erred in declining to consider the references presented for reexamination and Rexnord's arguments in support of the examiner's decision. The Court reversed the Board's decision as to obviousness and affirmed the Board's decision as to anticipation.

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Claim Construction Is Not an Essential Element of a Patent Infringement Complaint

Robert A. Hall

Judges: Newman (author), Lourie (dissenting-in-part), Linn
[Appealed from S.D.N.Y., Judge Hellerstein]

In *Hall v. Bed Bath & Beyond, Inc.*, Nos. 11-1165, -1235 (Fed. Cir. Jan. 25, 2013), the Federal Circuit reversed the dismissal of Roger J. Hall and RJ Hall & Associates' (collectively "Hall") claims for patent infringement, Lanham Act unfair competition, and New York unfair competition and misappropriation against Bed Bath & Beyond, Inc., Bed Bath & Beyond Procurement Co. Inc., and Farley S. Nachemin (collectively "BB&B"), and West Point Home, Inc. ("West Point Home"). The Court affirmed the dismissal of defendants' counterclaims for sanctions under Fed. R. Civ. P. 11, false marking, and false advertising. The Court also affirmed the denial of defendants' request for attorneys' fees.

This case concerns a design patent for a "Tote Towel," U.S. Design Patent No. D596,439 ("the '439 patent"). While the '439 patent application was pending, Hall contacted BB&B to discuss BB&B selling the Tote Towel. Hall left samples of his packaged Tote Towel with BB&B. Both the package and the towel were marked "patent pending." BB&B then, through West Point Home, had copies of the Hall towel manufactured for retail sale by BB&B. The '439 patent duly issued, and Hall sued BB&B, West Point Home, and several executives of BB&B. The district court dismissed all of the claims and counterclaims on the pleadings, and all parties appealed.

"The district court erred in requiring that the complaint identify 'new, original, and ornamental' aspects of the design, for in *Egyptian Goddess* the court negated the 'point of novelty' requirement for design patents." Slip op. at 7.

First, the Federal Circuit considered the district court's sua sponte dismissal of Hall's complaint. In doing so, the district court stated that the complaint should have included answers to questions such as: "What is it about Plaintiff's towel that he claims is 'new, original and ornamental,' meriting the protection of a design patent?" Slip op. at 5 (citation omitted). The Federal Circuit rejected this requirement, stating that neither the Federal Rules, *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007), or *Ashcroft v. Iqbal*, 556 U.S. 662, 679 (2009), requires such a showing. Instead, Hall needed only to apprise defendants of the infringement claim and its grounds. The Court stated that Hall presented a lengthy complaint stating that the resemblance of the design and the accused product is such as to deceive an ordinary observer under the test for design patent infringement, and Hall's assertion that the accused towel is "virtually identical in design" to Hall's Tote Towel is plausible. Slip op. at 7. Further, the Federal Circuit rejected BB&B's argument that claim construction is an essential element to a patent infringement complaint. Thus, the Court found that the pleadings fully complied with Fed. R. Civ. P. 8, stated the correct law, and

showed plausible entitlement to relief.

In addition, Hall sued Farley S. Nachemin, Vice President of BB&B, personally and in his management role, for induced infringement and unfair practices in his actions related to Hall's Tote Towel. The district court dismissed the complaint against Nachemin because violation of 35 U.S.C. § 271(b) (inducement to infringe) does not reach actions taken before issuance of the adverse patent. On appeal, defendants supported the district court's reasoning by arguing that, under New York state law, the party seeking to pierce a corporate veil must make a two-part showing (1) that the owner exercised complete domination over the corporation regarding the transaction at issue; and (2) that such domination was used to commit a fraud or wrong that injured the party seeking to pierce the veil. The Federal Circuit affirmed the dismissal of the complaint against Nachemin under New York state law.

As to Hall's claim of unfair competition under the Lanham Act, the Federal Circuit found that, rather than making an allegation of unfair competition without elaboration, Hall pleaded various facts in support, including instances of consumer confusion and false advertising. The Court concluded that Hall pleaded a plausible claim of falsity, whether literal or by necessary implication. To meet the Lanham Act provision, Hall "need not plead actual harm; the likelihood of harm is the statutory criterion." *Id.* at 14. Further, the Court found that BB&B's advertising stated testable facts, not opinions that could be mere puffery. The Court held that dismissal of the Lanham Act § 43(a) count on the pleadings was improper.

The district court dismissed Hall's two counts under New York state law for (1) unlawful acts under New York General Business Law ("GBL") § 349 and (2) misappropriation under New York common law on the pleadings. As to the first count, the Federal Circuit found that Hall stated that the defendants sold their inferior product to Hall's military customers, where the confusingly similar appearance could adversely affect Hall's business, and therefore that Hall sufficiently pleaded possible injury to their business under New York GBL § 349(a). As to the second count, the complaint arose from the actions of the defendants in accepting Hall's sample towel, ostensibly for consideration of a commercial relationship, and acting in bad faith by having Hall's Tote Towel copied for commercial benefit. The Court stated that bad faith is a requirement to show misappropriation under New York common law, and the Court found that Hall's complaint set forth such acts of bad faith. Although the district court found no contract existed between Hall and BB&B, "New York precedent recognizes that quantum meruit and unjust enrichment claims may together form a 'single quasi contract claim,'" and "[a]pplying the standards of equity and good conscience embodied in New York law, the count of misappropriation was not subject to dismissal on the pleadings." *Id.* at 21. The Court reversed the dismissals.

Defendants also pleaded three counterclaims: (1) Rule 11 sanctions; (2) false advertising; and (3) false marking. As to Rule 11, the district court denied the Rule 11 motion as baseless, and the Federal Circuit agreed, stating that "the pleadings state facts sufficient to support the counts of patent infringement and the various unfair competition claims." *Id.* at 23. As to the counterclaim of false advertising, defendants argued that Hall's claim to them that the Tote Towel was protected by a patent when that patent was only pending was false advertising. The Court found that, under the circumstances, Hall's statement "cannot be viewed as even plausibly misleading." *Id.* at 24. As to the counterclaim of false marking, defendants claimed that Hall's Tote Towel retained the "patent pending" label for a few months after the '439 patent had issued. The Court found, however, that a "marking of 'patent pending' after the patent has issued is not the falsity to which this *qui tam* statute was directed; the statute was directed at marking with an expired or inapplicable patent." *Id.* at 24-25. The Court also found that the America Invents Act retroactively changed the law of false marking, and that a competitive injury because of the false marking must be shown. Because defendants pleaded no such injury, the Court affirmed the dismissal of defendants' counterclaims.

The Court likewise affirmed the denial of defendants' request for attorneys' fees.

Judge Lourie dissented-in-part from the majority's decision to vacate and remand the district court's

dismissal of both the design patent claim and the Lanham Act § 43(a) claim. Judge Lourie regarded the district court's analysis as not sufficiently faulty to justify vacating its dismissal. Judge Lourie stated that plaintiff declined the district court's invitation to replead the patent count, and plaintiff's failure to do so was tantamount to a waiver of any flaws in the court's decision. Further, Judge Lourie believed that the statement appearing on the accused towel's packaging was mere puffery, a subjective claim that cannot be proven true or false and is not actionable under the Lanham Act, and the judge saw no reason to reverse the district court's dismissal of the Lanham Act § 43(a) claim.

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Spotlight Info

In *Allflex U.S.A., Inc. v. Avid Identification Systems, Inc.*, No. 11-1621 (Fed. Cir. Jan. 17, 2013), the Federal Circuit dismissed as moot the appeal by Avid Identification Systems, Inc. (“Avid”), holding that there was no real controversy following Avid’s settlement with Allflex U.S.A., Inc. (“Allflex”). Allflex had sued Avid, seeking a DJ that six of Avid’s patents were unenforceable due to inequitable conduct and that they were not infringed. Avid counterclaimed, alleging infringement. The parties entered into a settlement agreement that effectively resolved all but three issues. The Court held that “where ‘the alleged infringer has settled the infringement issue, and no longer professes any interest in defending its declaratory judgment of invalidity, the case has become moot as a result of the voluntary act of the patentee.’” Slip op. at 10 (quoting *Aqua Marine Supply Co. v. AIM Machining, Inc.*, 247 F.3d 1216, 1220 (Fed. Cir. 2001)). See this month’s edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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Looking Ahead

On March 25, 2013, the Supreme Court will hear oral argument in *Federal Trade Commission v. Actavis, Inc.*, Supreme Court No. 12-416, *opinion below*, 677 F.3d 1298 (11th Cir. 2012), an ANDA “reverse payment” settlement case. Although not on appeal from the Federal Circuit, this case is related to patent law in that it concerns agreements between (1) the manufacturer of a brand name drug on which the manufacturer assertedly holds a patent; and (2) potential generic competitors who, in response to patent infringement litigation brought against them by the manufacturer, defended on the grounds that their products would not infringe the patent and that the patent was invalid. The patent litigation culminated in a “reverse payment” settlement through which the seller of the brand name drug agreed to pay its would-be generic competitors tens of millions of dollars annually, and those competitors agreed not to sell competing generic drugs for a number of years.

The specific question presented is: “Whether reverse-payment agreements are per se lawful unless the underlying patent litigation was a sham or the patent was obtained by fraud (as the court below held), or instead are presumptively anticompetitive and unlawful (as the Third Circuit has held).” A decision is expected by the end of June 2013.

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