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Last Month at the Federal Circuit

September 2013



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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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September 2013

In Claim Construction, Grammar-Based Argument Did Not Overcome Clear Written Description

Jeffrey D. Smyth

Judges: O'Malley (concurring-in-part and dissenting-in-part), Plager (concurring), Reyna (author)

[Appealed from D. Minn., Judge Frank]

In *3M Innovative Properties Co. v. Tredegar Corp.*, No. 12-1241 (Fed. Cir. Aug. 6, 2013), the Federal Circuit affirmed the district court's construction of the claim terms "continuous contact" and "continuous microtextured skin layer over substantially the entire laminate," but clarified the scope of those terms. The Court reversed the district court's construction of the claim terms "preferential activation zone" and "ribbon," providing new constructions, vacated the district court's constructions, and remanded the case for further proceedings.

3M Innovative Properties Company ("3M") and Tredegar Corporation ("Tredegar") compete in the elastomeric industry, which includes diapers. 3M sued Tredegar for infringing four patents relating to stretchable films or laminates that allow products to expand to fit around the person wearing them. Two of the asserted patents are directed to laminates with "continuous" microtexturing over the laminate's skin layer, and the other two are directed to laminates in which the elastic or stretching portions of the skin layer are limited to selected areas identified as "preferential activation zones." The laminates in all four patents have an inelastic skin layer adhered to both sides of an elastic core. When the laminate is stretched, folds form where the skin meets the core, giving rise to a microtextured surface. The district court construed thirty terms in the four patents, and the parties stipulated to noninfringement.

3M appealed the district court's construction of four of the thirty terms.

On appeal, the Federal Circuit first addressed the construction of the terms "continuous contact" and "substantially continuous contact," which the parties agreed should be construed identically. The district court construed the terms to mean "full surface contact" in reference to the contact between the core and the folds of the microtextured skin. The parties, however, disputed the meaning of the definition "full surface contact" based on three figures in the patent. The figures depicted "full contact," where the core material fills the skin folds; "cohesive failure," where the core material fills the skin folds, but cracked internally under the folds; and "adhesive failure," where the extensive folding of the skin layer allows for only sporadic contact with the core material. 3M argued that cohesive failure mode is "continuous" or "substantially continuous contact" because the skin and core layers remain joined without interruption, despite cracks pervading in the core. Tredegar argued that cohesive failure mode is not "continuous contact," because the applicant amended its claims to distinguish between full contact and cohesive failure. The district court adopted Tredegar's interpretation of "full surface contact" as limited to the full contact mode.

“While it may be beneficial, for purposes of litigation, for 3M to argue that if the inventors had wished to require the microtexturing to be ‘continuous,’ then they would have used the adverb ‘continuous/ly’ instead of ‘continuous,’ our cases do not indulge hindsight.” Slip op. at 21.

Starting with the claim language, the Federal Circuit noted that the term “continuous contact” as used in the claims does not suggest whether the patentee intended to include cohesive failure mode, providing no basis to suppose that the claim term applies only to the full contact mode. The Court thus agreed with 3M that the plain and ordinary meaning of the claim term supported a broad claim scope, including cohesive failure situations. The Court also found that the written description, which described cohesive failure as “a variation” of full contact, supported a broader scope and that neither the written description nor the prosecution history provided a clear disavowal of the cohesive failure mode. Ultimately, the Federal Circuit affirmed the district court’s construction of “continuous contact” and “substantially continuous contact” as “full surface contact,” but clarified the definition of “full surface contact” as including cohesive failure.

The Court next addressed the term “continuous microtexturized skin layer over substantially the entire laminate.” The district court concluded that the term required the microtexturizing and skin layer to be “continuous” across “substantially the entire surface of the laminate,” but qualified its construction by acknowledging that the microtexturing is “substantially uniform over the elastomeric laminate surface.” Slip op. at 18-19 (citations omitted). The parties disputed the extent of the microtexturing on the skin of the laminate, with 3M asserting that at least one microtexturized region was required and Tredegar asserting that the laminate as a whole was required to develop microtexturing. The Court found that the intrinsic and extrinsic references supported the middle path identified by the district court.

The Court rejected 3M’s reliance on *The Chicago Manual of Style* as demonstrating that the adjective “continuous” only modified the term “skin layer,” not the term “microtexturing.” The Court stated that while 3M’s grammatical arguments “may be beneficial, for purposes of litigation, . . . [its] cases do not indulge hindsight.” *Id.* at 21. The Court stated, “We are satisfied—based on the clear indications in the written description—that a person of ordinary skill would understand that when the laminate is stretched to the point of deformation, it is substantially the entire skin layer that develops substantially uniform microtexturing.” *Id.*

The Court next addressed the term “preferential activation zone.” The district court construed the term as “identifiable predetermined areas of the laminate that are inelastic and, when the laminate is stretched as a whole, will elongate before or to a greater extent than adjacent areas.” *Id.* at 23 (citation omitted). The parties disputed whether the intrinsic evidence supported construing the zones as “predetermined” and “identifiable,” and how a “preferential activation zone” is formed. The Court agreed with 3M that the district court’s construction improperly read “predetermined” and “identifiable” into the claims. It noted that because one of skill in the art would be informed by the claim disclosures, it was unnecessary to limit the plain language of the claims based on unclear statements in the specification and prosecution history. The Court also found that the “preferential activation zone” could be created in a single step, relying on the statements of the patentee rather than those of the examiner. Because the Court found that the district court had inappropriately limited the meaning of the term, it reversed the district court’s construction and clarified the proper interpretation as “selected area[s] of the multi-layer laminate which, when stretched will elongate to form an elastic zone before or to a greater extent than other areas of the laminate.” *Id.* at 30 (alteration in original).

Finally, the Court considered the term “ribbon.” It noted that while the claims describe the “ribbon” in terms of color and texture, the words of the claim are silent as to the size or dimensions of the claimed ribbon. The district court construed “ribbon” to mean “a strip of film having a width of no more than one inch.” *Id.* at 31 (citation omitted). The Federal Circuit found that it was against established principles of

claim construction to impose an artificial one-inch width requirement not found in the intrinsic record. The Court thus reversed the district court's construction and construed the term to simply mean a "strip of film." *Id.* at 32.

In a concurring opinion, Judge Plager stated that "there is considerable evidence of a failure by the claim drafters to be clear and precise, and, beyond that, of a shortcoming in the patent examination process that permits claims to be so drafted." Plager Concurrence at 2. Judge Plager opined that ambiguity is sometimes the result of sloppy drafting and sometimes it seeks to leave room to later argue for a broad interpretation to capture later-developed competition. Judge Plager suggested that patents with ambiguous terms may deserve to have the ambiguity construed against the draftsman. According to Judge Plager, that approach would require applicants to draft clear claims, using simple, direct sentences, proper grammar, and definitions in the written description where appropriate. While it would require a greater investment of resources up front, it would reduce wasteful and unnecessary litigation.

Judge O'Malley also filed a separate opinion, concurring-in-part and dissenting-in-part. Judge O'Malley agreed with the majority as to three of the four terms, but dissented with regard to the term "continuous microtexturized skin layer." According to Judge O'Malley, the claim language does not exclude a skin layer where the extent of the microtexturing is anything other than "continuous" over the entire surface. In her opinion, the term is best interpreted as a skin layer that is continuous, microtextured, and extends over substantially the entire laminate. Finding the claim language imposed no clear exclusion of skin layers with intermittent areas of microtexturing and no clear disavowal in the written description or prosecution history, Judge O'Malley disagreed with the majority and the district court to the extent they found the construction required "continuous microtexturing" over the entire skin layer.

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September 2013

Prior Art's Brief Teaching of Counter-Rotation Is Not Sufficient to Prove Anticipation or Obviousness

Bill Yu

Judges: Rader (author), Reyna, Davis (sitting by designation)

[Appealed from W.D. Wis., Senior Judge Crabb]

In *Cheese Systems, Inc. v. Tetra Pak Cheese & Powder Systems, Inc.*, Nos. 12-1463, -1501 (Fed. Cir. Aug. 6, 2013), the Federal Circuit affirmed the district court's grant of SJ of infringement and validity.

U.S. Patent No. 5,985,347 ("the '347 patent") discloses a horizontal cheese-making vat. Cheese-making vats are considered horizontal in the art when rotating agitator shafts are generally parallel to the ground. Rotating shafts are typically mounted with two-sided agitator panels: one side has relatively sharp cutting edges for cutting a semisolid mass called "coagulum," and the other side has relatively blunt edges for stirring the coagulum. The prior art teaches that the shafts should corotate such that only cutting or only stirring takes place in an overlapping common volume located between the shafts. While contra- or counter-rotation would normally produce both cutting and stirring actions in the common volume, the invention of the '347 patent rearranges the panels such that during contra-rotation, both panels perform only cutting or only stirring in the common volume. Tetra Pak Cheese and Powder Systems, Inc. ("Tetra Pak") is the exclusive licensee of the '347 patent. Cheese Systems, Inc. ("CSI") owns a vat that includes counter-rotational shafts running generally horizontal to the ground, producing only cutting or only stirring actions.

CSI sued Tetra Pak for DJ in the U.S. District Court for the Western District of Wisconsin, and pleaded that it did not infringe and that the asserted claims were invalid. Tetra Pak filed a counterclaim, alleging that CSI's vat infringed the '347 patent. The district court found that CSI's vat infringed the '347 patent, and that CSI had not proven the '347 patent invalid. Accordingly, the district court granted SJ of infringement and validity for Tetra Pak, and entered a permanent injunction against CSI.

"Anticipation requires clear and convincing proof that a single prior art reference 'not only disclose[s] all of the elements of the claim within the four corners of the document, but . . . also disclose[s] those elements arranged as in the claim.'" Slip op. at 15 (alterations in original) (quoting *Net MoneyIn, Inc. v. Verisign, Inc.*, 545 F.3d 1359, 1369 (Fed. Cir. 2008)).

On appeal, the Federal Circuit reversed the district court's denial of Tetra Pak's motion for SJ of literal infringement with respect to the claimed term "generally common plane," holding that the district court's construction requiring the panel surfaces to be "on the whole flat" is too restrictive. Rather, the Court held

that this term should only “require the panel to have . . . more than two cutting and stirring edges [that] lie in respective generally common planes.” Slip op. at 11. Accordingly, the Court affirmed SJ on the ground of literal infringement, without reaching the alternative ground of the DOE, which was the basis of the district court’s decision, noting that this Court had discretion to affirm SJ on any ground shown by the record.

The Court also affirmed the district court’s grant of SJ on literal infringement with respect to the claim terms “agitator panel” and “horizontally disposed axes.” The Court rejected CSI’s argument that “horizontal” requires the axes to be exactly parallel to the ground, holding that this term permits some degree of incline, as a person of ordinary skill in the art would understand. The Court noted that even CSI’s own expert and patents described vats with slight inclines as horizontal.

The Court also held that CSI failed to prove the ’347 patent invalid on the ground of anticipation or obviousness. CSI relied on its own patents as prior art, which briefly mention that the agitators can be arranged for counter-rotation when demanded by specific production criteria. The Court found that CSI’s patents make no further mention of counter-rotation, let alone suggest switching the orientation of the panels on one shaft so that only cutting or only stirring takes place in the common volume during counter-rotation. Accordingly, the Court held that CSI had not shown clear and unambiguous teaching for a compelling case of anticipation.

The Court also affirmed the district court’s grant of SJ of nonobviousness. The Court noted that although the district court did not expressly consider objective evidence, which would ordinarily require a remand, no remand was required in this case because CSI failed to prove obviousness. The Court first rejected CSI’s argument that because contra-rotation was disclosed in the art, it would have been obvious to flip the orientation of the panels on one shaft. The Court noted that although CSI’s own patents mention that the shafts can be arranged to contra-rotate, these patents fail to suggest switching the orientation of the panels, a means to mount the panels in the opposite direction, production criteria that might require counter-rotation, or the benefit of counter-rotation. The Court then rejected CSI’s expert testimony aimed to fill the voids of its patents, explaining that the expert testimony stating that a person of ordinary skill in the art knew that cutting and stirring at the same time would damage the coagulum ignored the state of the prior art. The Court further held that CSI’s initial expert report asserting that the drawings of a German language Austrian patent teach counter-rotation failed to present a clear and convincing case of obviousness, emphasizing the facts that CSI’s expert did not speak German and did not obtain a translation of the Austrian patent, but solely relied on the drawings, which are not self-explanatory, and that the patent actually describes corotation, not the counter-rotation alleged by the expert. Moreover, the Court held that the district court correctly excluded CSI’s untimely filed supplemental expert declaration that was based on a partial translation of the Austrian patent, because permitting this supplemental report, which was offered two months after the discovery deadline and after Tetra Pak had filed its motion for SJ, would result in apparent prejudice.

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Objective Evidence of Secondary Considerations Cannot Be Ignored When Determining Obviousness Under the *Graham* Factors

Forrest A. Jones

Judges: Moore (author), Linn, Reyna (concurring-in-part and dissenting-in-part)

[Appealed from ITC]

In *Apple Inc. v. International Trade Commission*, No. 12-1338 (Fed. Cir. Aug. 7, 2013), the Federal Circuit affirmed the ITC's determination that claims 1-7 of Apple Inc.'s ("Apple") U.S. Patent No. 7,663,607 ("the '607 patent") were anticipated by the prior art, while reversing the determination that claim 10 was anticipated. The Court also vacated the ITC's decision that claim 10 of the '607 patent would have been obvious in light of the prior art and that Motorola did not infringe Apple's U.S. Patent No. 7,812,828 ("the '828 patent"). The Court remanded for further proceedings in accordance with its opinion.

Apple alleged in the ITC that Intervenor Motorola Mobility, Inc.'s ("Motorola") smartphones and tablets infringed various claims of two of its smartphone touchscreen patents. The '607 patent discloses a touch panel with a transparent capacitive sensing medium that can detect multiple touches at once. The touch panel contains two layers of indium tin oxide ("ITO") electrodes, one of all rows and another of all columns. When the screen is touched, the contact position is determined by detecting the displaced charge between the electrodes of the intersecting row and column. Each layer also contains "dummy" ITO pads to fill in the gaps in the matrix, making the screen appear uniformly transparent. The '828 patent discloses a method to determine if the displaced charge corresponds to a finger touching the screen by "mathematically fitting an ellipse" around the touched nodes.

The ITC concluded that U.S. Patent No. 7,372,455 ("Perski '455") anticipated the asserted claims of the '607 patent despite Apple's allegation of conception prior to the filing date. The Federal Circuit first affirmed that Perski '455 could claim priority from earlier U.S. Provisional Patent Application No. 60/446,808 ("Perski '808") for claims 1-7 of the '607 patent, as the references disclosed the same sensor matrix and multitouch algorithms. The Court further agreed that claims 1-7 of the '607 patent were anticipated by Perski '455, noting that the scanning algorithms disclosed were very similar despite Apple's claims to the contrary. But the Court held the ITC incorrectly concluded Perski '808 incorporated by reference a particular application relevant to claim 10. Consequently, the Court stated the ITC lacked substantial evidence to determine that claim 10 of the '607 patent was anticipated by Perski '455.

If claim 10 was found not to be anticipated by Perski '455, Motorola argued the Court should reverse the ITC's decision that a technology called SmartSkin did not anticipate claim 10, stating SmartSkin's disclosure would have enabled a touchscreen using transparent ITO electrodes. SmartSkin used a projector to display an image on an opaque surface covered with a grid of copper electrodes, enabling the surface to operate as a touchscreen. The Court agreed with the ITC, stating that the only discussion of transparent electrodes appears under the "Conclusions and Directions for Future Work" section. The

Court stated that “[t]here is no disclosure that the authors had achieved a transparent touch screen and the record does not indicate that it would have been routine to do so.” Slip op. at 12.

The Federal Circuit went on to vacate the ITC’s decision that the ’607 patent claims would have been obvious in light of SmartSkin in combination with a related patent application, Unexamined Japanese Patent Application No. 2002-342033A (“Rekimoto”). Apple asserted that the ITC improperly ignored its objective evidence of secondary considerations, including industry praise for the iPhone, the copying of the iPhone by nearly every major cellphone manufacturer, and the commercial success of the iPhone. The ITC issued findings regarding the first three *Graham* factors and concluded that claim 10 was obvious, but the Court noted it “never even mentioned, much less weighed as part of the obviousness analysis, the secondary consideration evidence Apple presented.” *Id.* at 15.

“We have repeatedly held that evidence relating to all four *Graham* factors—including objective evidence of secondary considerations—must be considered before determining whether the claimed invention would have been obvious to one of skill in the art at the time of invention.” Slip op. at 14.

The Court explained that it was “troubled by the ITC’s obviousness analysis.” *Id.* at 14. While the Court held the ITC’s fact-findings regarding what the references disclosed were supported by substantial evidence, the failure by the ITC to analyze the “secondary considerations” evidence was not harmless error. The Court explained that “evidence relating to all four *Graham* factors—including objective evidence of secondary considerations—must be considered before determining whether the claimed invention would have been obvious to one of skill in the art at the time of invention.” *Id.* The Court reasoned that “secondary considerations” evidence can establish that an invention appearing to have been obvious in light of the prior art was not, and so could not be categorically ignored.

Finally, the Court vacated the ITC’s conclusion that Motorola did not infringe the ’828 patent. The Court overturned the ITC’s construction of the term “mathematically fitting an ellipse,” which required that “an ellipse is actually fitted to the data.” *Id.* at 18 (citation omitted). The Court agreed with Apple that the method fits an ellipse by calculating the parameters of that ellipse. Having adopted this claim construction, the Court vacated the decision of noninfringement and remanded.

Judge Reyna concurred-in-part and dissented-in-part. In his view, Perski ’455 should not be able to claim the priority date of Perski ’808 due to critical differences, and thus stated the decision should have been remanded on anticipation. Judge Reyna further dissented to the majority’s remand of the ultimate legal question of obviousness. He would have determined claim 10 was not obvious, as “[o]bviousness is not shown when prior art gives only ‘general guidance as to the particular form of the claimed invention or how to achieve it.’” Reyna Concurrence-in-Part and Dissent-in-Part at 12 (quoting *In re Rosuvastatin Calcium Patent Litig.*, 703 F.3d 511, 518 (Fed. Cir. 2012)). Judge Reyna, however, agreed that the ITC erred in not analyzing the objective evidence of industry praise, copying, and commercial success. Judge Reyna wrote separately to emphasize the view that “an invention’s recognition in the related industry and its success in the marketplace, along with the other *Graham* factors, could constitute strong evidence of innovation which could negate an obviousness finding.” *Id.* at 13. According to Judge Reyna, the objective evidence of secondary considerations should not just be considered, but it is “the most probative evidence of nonobviousness.” *Id.* at 16 (quoting *Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc.*, 807 F.2d 955, 960 (Fed. Cir. 1986)).

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Expert May Not Testify Beyond the Scope of the Expert Report Unless Substantially Justified or Harmless

Benjamin A. Saidman

Judges: Dyk, Clevenger, Moore (author)

[Appealed from M.D. Fla., Judge Corrigan]

In *Rembrandt Vision Technologies, Inc. v. Johnson & Johnson Vision Care, Inc.*, No. 12-1510 (Fed. Cir. Aug. 7, 2013), the Federal Circuit affirmed the district court's decision to strike expert testimony that went beyond the scope of the expert report and to grant JMOL of noninfringement.

Rembrandt Vision Technologies, Inc. ("Rembrandt") sued Johnson & Johnson Vision Care, Inc. ("JJVC"), alleging that JJVC's Advance® and Oasis® contact lenses infringed Rembrandt's U.S. Patent No. 5,712,327 ("the '327 patent"). Claim 1 of the '327 patent is directed to a soft gas permeable contact lens. During claim construction, the district court adopted the parties' agreed construction of "soft gas permeable contact lens" as "a contact lens having a Hardness (Shore D) less than five." Slip op. at 3 (citation omitted).

At trial, Rembrandt relied on expert testimony from Dr. Thomas Beebe, Jr. to prove that the accused lens had a Shore D Hardness of less than five. Dr. Beebe testified in his expert report that he performed the Shore D Hardness test by stacking the accused lenses around a stainless steel ball and then probing them. During cross-examination, however, Dr. Beebe testified that he performed the Shore D Hardness testing by cutting the lenses into quarters, stacking the lens quarters on a flat surface, and then probing them. This procedure was not disclosed in Dr. Beebe's expert report. As a result, the district court struck Dr. Beebe's testimony under Fed. R. Civ. P. 26 and 37, and excluded the testimony under Fed. R. Evid. 702. With no additional evidence to prove that the accused lenses were "soft," the district court granted JMOL that JJVC did not infringe. Rembrandt appealed.

"While Dr. Beebe characterized the errors in his report as 'typo[s],' it is undisputed that the shift in his testimony was both substantive and substantial. Such a late change in course significantly hampered JJVC's ability to adequately cross-examine Dr. Beebe and denied it the opportunity to develop or introduce competing evidence." Slip op. at 9 (alteration in original).

On appeal, the Federal Circuit affirmed the district court's grant of JMOL and exclusion of Dr. Beebe's testimony under the Federal Rules of Civil Procedure. The Court found it was undisputed that Dr. Beebe failed to produce a report containing "a complete statement of all opinions the witness will express and

the basis and reasons for them” as required by Rule 26. Slip op. at 7 (quoting Fed. R. Civ. P. 26(a)(2)(B)(i)). The only issue was whether, under Rule 37, it was “substantially justified or harmless” that Dr. Beebe waited until trial to disclose the testing methodology that he claims he actually employed. *Id.* at 8 (quoting Fed. R. Civ. P. 37(c)(1)).

The Court first held that nothing in the record indicated the failure to disclose the testing method was substantially justified. Dr. Beebe submitted his expert report six months prior to trial, and leading up to the trial, the contents of the expert report were the subject of his deposition and were at issue in pretrial briefing. Still, the Court noted, Dr. Beebe never attempted to supplement his expert report. Thus, the Court held the failure to disclose was not substantially justified.

The Court then held that Dr. Beebe’s disclosure was also not harmless. According to the Court, “[w]hile Dr. Beebe characterized the errors in his report as ‘typo[s],’ it is undisputed that the shift in his testimony was both substantive and substantial. Such a late change in course significantly hampered JJVC’s ability to adequately cross-examine Dr. Beebe and denied it the opportunity to develop or introduce competing evidence.” *Id.* at 9 (second alteration in original). Accordingly, the Court held that the district court did not abuse its discretion in excluding Dr. Beebe’s trial testimony under Rule 37.

Lastly, the Court held that Rembrandt’s circumstantial evidence, including JJVC’s prior generic characterization of its lenses as “soft,” did not preclude the grant of JMOL. Thus, the Federal Circuit affirmed the district court’s judgment that JJVC did not infringe the asserted claims of the ’327 patent.

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September 2013

In a Fetal Genetic Test Case, Court Provides Additional Guidance to Address Traditional Equitable Factors for a Preliminary Injunction

Hojung Cho

Judges: Rader (author), Dyk, Reyna

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

In *Aria Diagnostics, Inc. v. Sequenom, Inc.*, No. 12-1531 (Fed. Cir. Aug. 9, 2013), the Federal Circuit vacated and remanded the district court's decision denying a preliminary injunction against Aria Diagnostics, Inc., now known as Ariosa Diagnostics, Inc. ("Ariosa"), holding that the district court incorrectly interpreted the asserted claims and improperly balanced factors regarding issuance of a preliminary injunction.

U.S. Patent No. 6,258,540 ("the '540 patent") is owned by Isis Innovation Limited ("Isis") and exclusively licensed to Sequenom, Inc. ("Sequenom"). The '540 patent claims methods to detect fetal genetic characteristics by analyzing non-nucleated free floating fetal DNA ("cffDNA") obtained from a maternal blood sample. Ariosa filed a DJ action against Sequenom seeking a declaration that its Harmony test did not infringe the '540 patent. Sequenom counterclaimed for infringement and moved for a preliminary injunction to prevent Ariosa from making, using, or selling its Harmony test. The district court denied Sequenom's motion, and Sequenom appealed.

On appeal, the parties disputed the proper standard of review for claim construction in the context of a preliminary injunction. The Federal Circuit noted that it recognized some flexibility on that point, but that even under a more relaxed standard, the district court erred in its claim construction, and as a consequence, erred in finding a substantial question of noninfringement.

"While the facts may show that damages would be reparable, this assumption is not sufficient. In the face of that kind of universal assumption, patents would lose their character as an exclusive right as articulated by the Constitution and become at best a judicially imposed and monitored compulsory license." Slip op. at 13.

The Court reviewed the district court's construction of the terms "paternally inherited nucleic acid" and "amplifying" in the claims. The district court construed "paternally inherited nucleic acid" to mean "DNA sequence known [in advance] to be received only from the father which is not possessed by the mother." Slip op. at 5 (alteration in original) (citation omitted). The Federal Circuit held that this construction was incorrect, noting that the term did not incorporate any inherent meaning about the timing or method of detecting the paternal characteristic. Under the district court's construction, however,

infringement could only occur after a user knows the father's gene sequence. The Court stated that had the applicant wanted to limit the claim to those nucleic acids known in advance to have come from the father, it easily could have done so, but that the applicant did not limit the term in the claim. Reviewing the evidence that the district court relied on, including one sentence from the specification, the examples, and isolated events in the '540 patent's prosecution history, the Court found that the record did not support importation into the claims of a "known in advance" limitation.

The Court also disagreed with the district court's construction of "amplifying" as "increasing the concentration of a paternally inherited nucleic acid relative to the other DNA in the sample," and that this was "not the same as amplifying . . . all DNA in the sample." *Id.* at 10 (citations omitted). The Court disagreed that the term required only paternally inherited nucleic acid to increase, as the claim did not mention an effect on the quantity of other nucleic acid. The Court stated that the claim as written stands infringed without regard to whether or not other nucleic acid is amplified. The Court further found that the specification and prosecution history did not support the district court's interpretation.

Next, the Court addressed the district court's finding that there was a substantial question over whether the subject matter of the asserted claims was directed to eligible subject matter. Noting the intervening decision by the Supreme Court in *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013), the Court remanded the case for the district court to examine subject matter eligibility in the first instance. The Court clarified that it offered no opinion as to whether or not there was a substantial question regarding subject matter eligibility, noting that in light of *Myriad* and the different claim construction, the Court would benefit from the district court's initial and further consideration.

The Court stated that if the district court found no substantial question of validity or infringement on remand, it must address the traditional equitable factors for a preliminary injunction. The Court held that the district court erred in its brief analysis of these factors. The Court stated that significantly, the district court found that price and market erosion would occur even though the district court denied Sequenom's motion for four reasons. The Court provided guidance on each of the district court's four reasons. First, the district court reasoned that the erosion to Sequenom's price and its loss of market share were not irreparable because Sequenom could recover the market and receive damages to compensate for the infringement. In response, the Court held that "[w]hile the *facts* may show that damages would be reparable, this *assumption* is not sufficient." Slip op. at 13. In the face of that kind of universal assumption, the Court explained that patents would lose their character as an exclusive right as articulated by the U.S. Constitution and become at best a judicially imposed and monitored compulsory license. The district court's second reason was that in showing the degree of price erosion and market loss, Sequenom's expert had not examined the "*actual* market" because he did not consider the impact of another test that was sold by another company. The Court, however, found that the fact that other infringers may be in the marketplace does not negate irreparable harm. Regarding the third reason that a preliminary injunction would put Ariosa out of business, the Court indicated that no comparison of difficulties or losses Ariosa might experience weighed against the harms Sequenom might suffer without protection of its legal exclusive rights. Finally, regarding the district court's reasoning that the public interest favored denial of the preliminary injunction, the Court took judicial notice that an expert organization had warned that cffDNA tests should not yet be used in low-risk women, and further instructed that on remand, if necessary, the district court should consider this and any other evidence pertaining to the public interest anew.

The Court noted that it considered but found unpersuasive Ariosa's other arguments, and reversed and remanded this case to the district court for further proceedings consistent with its opinion.

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September 2013

Exceptional Case Finding Upheld Where Patent Assertion Entity Prolonged Litigation in Bad Faith Despite Adverse Claim Construction and Lack of Any Credible Alternative Argument

Holly J. Atkinson

Judges: Prost, Schall (author), Reyna

[Appealed from W.D. Wis., Chief Judge Crabb]

In *Taurus IP, LLC v. DaimlerChrysler Corp.*, Nos. 08-1462, -1463, -1464, -1465 (Fed. Cir. Aug. 9, 2013), the Federal Circuit affirmed the district court's claim construction, judgment of invalidity, judgment of noninfringement, finding of an exceptional case, denial of a motion to dismiss for lack of personal jurisdiction over impleaded defendants, finding of liability for breach of contract, award of damages consisting of certain attorneys' fees, and imposition of evidentiary sanctions based on witness tampering, and reversed an award of damages for want of evidence at trial.

As a backdrop to the present case, licensing company Orion IP, LLC ("Orion"), managed by Erich Spangenberg, asserted a set of patents against a number of car manufacturers in the Eastern District of Texas. Some of the manufacturers, including DaimlerChrysler Corporation ("Chrysler"), entered into a settlement agreement with Orion. Meanwhile, just prior to the settlement, Orion assigned U.S. Patent No. 6,141,658 ("the '658 patent") to Taurus IP, LLC ("Taurus"), another company managed by Spangenberg. Taurus then asserted the '658 patent against Chrysler and other companies in the Western District of Wisconsin, alleging that the companies' websites, which allow configuration of a hypothetical vehicle, infringed the patent.

The district court decided on SJ that the '658 patent was anticipated by a prior art patent and further that the accused websites did not infringe the '658 patent. Additionally, the district court decided that the suit against Chrysler and others was exceptional under 35 U.S.C. § 285, and awarded attorneys' fees, as well as evidentiary sanctions against Spangenberg for tampering with a witness. Finally, after trial, the jury found that third-party defendants Orion and Spangenberg had breached the settlement agreement between Orion and Chrysler by asserting the '658 patent, and awarded the cost of defending against the Wisconsin lawsuit as damages for the breach.

On appeal, the Federal Circuit affirmed eight categories of findings and decisions at the district court, and partly reversed one award of damages.

“While an adverse claim construction generally cannot, alone, form the basis for an exceptional case finding, this court’s decisions in *DePuy Spine* and *Medtronic Navigation* do not undermine the rule that a party cannot assert baseless infringement claims and must continually assess the soundness of

pending infringement claims, especially after an adverse claim construction.” Slip op. at 32.

First, the Court affirmed the district court’s construction of two claim terms. The claims were generally directed to a system in which a user could create hierarchical relationships between objects within a data model. While Taurus argued that a “user” was “a person who uses the claimed computer system,” the Court affirmed the district court’s construction that a “user” is “a person who is capable of creating and editing user-defined relationship information.” Slip op. at 16 (citations omitted). The Court reasoned that the text of the claims and the specification supported the district court’s construction, noting that the language of the claims makes clear that the user must define the relationship information, and that “the written description firmly supports this construction, only disclosing ‘users’ with sufficient internal access to the data model to allow the creation and editing of relationship information.” *Id.* at 17. The Court went on to affirm the district court’s construction of the term “user-defined relationship information.”

Second, the Court affirmed the district court’s judgment of invalidity of claims 16 and 27 of the ’658 patent. Specifically, the Court affirmed the district court’s findings that (1) the claimed invention did not predate a prior art reference (“the Trilogy patent”); and (2) claims 16 and 27 were invalid as anticipated by the Trilogy patent. Regarding predating the Trilogy patent, Taurus offered a document and related testimony as evidence that the invention predated the Trilogy patent. But while the document showed a creation date prior to the Trilogy patent, nearly every page of the document showed a modification date more than three months after the filing date of the Trilogy patent. Furthermore, the testimony was “both limited and conclusory,” consisting of a summary conclusion that the document had not been created before conception. *Id.* at 22. The Court found additional flaws in Taurus’s position, observing that “[e]ven if this testimony were sufficient . . . , it lacks corroboration, which is required by this court’s case law.” *Id.* at 23 (citing *Singh v. Brake*, 222 F.3d 1362, 1367 (Fed. Cir. 2000)).

Regarding anticipation by the Trilogy patent, the Court noted that Taurus argued that there remained disputed issues of material fact that the district court improperly resolved on SJ. Noting that Taurus failed to set forth any specific facts precluding SJ, the Court held that “Taurus’s assertion that unspecified factual disputes remain cannot preclude summary judgment.” *Id.* at 25. The Court then agreed with the district court’s conclusions on anticipation and affirmed the district court’s SJ of invalidity.

Third, largely following its agreement with the district court’s claim construction, the Court affirmed the district court’s finding of noninfringement, noting that Taurus again failed to identify any specific factual issues that would preclude SJ, and instead “merely disagrees with the district court’s legal conclusion” regarding noninfringement. *Id.* at 27.

Fourth, the Court held that there was sufficient basis in the district court’s findings that Taurus improperly asserted and maintained its positions during litigation, amounting to an exceptional case under § 285. The Court primarily took issue with Taurus’s proposed construction of the claim term “user,” observing that “[w]hen patentees have sought unreasonable claim constructions divorced from the written description, this court has found infringement claims objectively baseless.” *Id.* at 30 (citing *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 919 (Fed. Cir. 2012)). While Taurus argued that the district court’s claim construction was vague until issuance of the court’s SJ decision, the Federal Circuit noted that Taurus’s own briefing on appeal indicated that Taurus understood but merely disagreed with the construction. “While an adverse claim construction generally cannot, alone, form the basis for an exceptional case finding, this court’s decisions in *DePuy Spine* and *Medtronic Navigation* do not undermine the rule that a party cannot assert baseless infringement claims and must continually assess the soundness of pending infringement claims, especially after an adverse claim construction.” *Id.* at 32 (citing *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 954 (Fed. Cir. 2010)). The Court went on to conclude that the district court made sufficient factual findings to uphold an implicit finding of subjective bad faith, and then affirmed the ruling that the case was exceptional under § 285.

The Court next addressed the issues related to the breach of the settlement agreement. It considered the fifth issue of whether the district court properly found personal jurisdiction over impleaded defendants Orion and Spangenberg, a Texas corporation and a Texas resident, respectively. Considering Wisconsin law, the Court held that the district court properly pierced the corporate veil to decide that Taurus, a Wisconsin corporation, was Spangenberg's alter ego. The Court then affirmed the application of reverse veil-piercing to reach Orion through Spangenberg under Texas law. Thus, the Court concluded that the exercise of personal jurisdiction over Orion and Spangenberg was proper.

Sixth, Orion and Spangenberg argued that the district court erroneously denied JMOL to overturn the jury verdict finding breach of a provision in the settlement agreement. The provision stated that Orion warranted that "it has not assigned or otherwise transferred . . . any rights to any causes of action . . . relating to the [Texas] Litigation." *Id.* at 35-36 (citation omitted). The district court interpreted "relating to the [Texas] Litigation" as "arising from the same set of facts," and decided that although both suits concerned the same accused technology (e.g., Chrysler's website), there were triable issues of fact as to whether Orion's transfer of the '658 patent constituted breach. *Id.* at 37 (citation omitted). Subsequently, a jury found for Chrysler as to breach of warranty. The Federal Circuit agreed with the district court's interpretation of the provision—it observed that the record did not establish that Chrysler had assessed the scope of the '658 patent and understood that the '658 patent could be asserted against the same websites at issue in the Texas litigation, and affirmed the district court's denial of SJ of no liability for breach.

Seventh, the Court considered the fees and damages owed by Orion. The district court awarded \$1.3 million in fees for defending against the claims related to the breach of warranty under a Texas statute based on prevailing on those claims. \$2.5 million was awarded based on the jury's finding that Orion had breached a warranty by transferring the '658 patent to Taurus, and the expenses expended in defense of Taurus's infringement claims resulted from that breach. The Court characterized the \$2.5 million as damages for the breach, as distinguished from the \$1.3 million, which were properly considered post-trial attorneys' fees. The Court affirmed the fees awarded under the Texas statute, because, although "a party has a Seventh Amendment right to a jury trial on *damages* in a breach of contract case, a party is not entitled to a jury trial on *attorney fees* assessed after trial," and there were no other procedural errors in awarding the fees. *Id.* at 58. With respect to the damages award, however, Chrysler failed to meet its burden by submitting evidence on its damages resulting from the breach. Chrysler did not present such evidence at trial, because the parties had agreed to request a process of assessing the reasonableness of fees by filings after trial. Noting that Chrysler, who retained the burden of proof on damages, agreed to this improper procedure, the Court held that Chrysler did not set forth sufficient evidence at trial to support the award of damages, and reversed the award of \$2.5 million corresponding to the cost of defending against the Wisconsin infringement suit.

Finally, the Court affirmed the imposition of evidentiary sanctions based on witness tampering. Following Seventh Circuit law, the Court decided that Orion and Spangenberg had received notice of the possible sanction and an opportunity to be heard. Considering the merits of the conduct, the Court chastised Spangenberg for his failure to impose an ethical wall that would have precluded access to Chrysler's confidential information via hiring of a recent Chrysler attorney, who possessed the confidential information based on his time spent as an attorney at Chrysler. Moreover, the Court was not persuaded by efforts to cloak the sanctioned conduct in the guise of compliance with applicable ethical obligations, finding that there was no obligation on the part of the newly hired attorney to make contact with the witness.

Accordingly, the Court affirmed the majority of the district court's conclusions, only reversing on the award of damages incurred by Chrysler in defending against the breach of contract.

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September 2013

The Prior Art's Failure to Appreciate a Problem Solved by the Claimed Invention Indicates an Absence of a Reason to Attempt to Improve upon the Prior Art

Marc D. Evans

Judges: Rader (author), O'Malley, Reyna
[Appealed from Board]

In *Leo Pharmaceutical Products, Ltd. v. Rea*, No. 12-1520 (Fed. Cir. Aug. 12, 2013), the Federal Circuit reversed the Board's claim construction and obviousness determination, concluding that the Board incorrectly found the invention obvious over the prior art and incorrectly weighed the objective indicia of nonobviousness.

U.S. Patent No. 6,753,013 ("the '013 patent") is a National Stage entry of PCT/DK2000/00033 filed on January 27, 2000, and is owned by Leo Pharmaceutical Products, Ltd. ("Leo"). The '013 patent is directed to pharmaceutical compositions for the treatment of psoriasis comprising a combination of at least one vitamin D analog, at least one corticosteroid, and at least one solvent selected from a particular group of solvents. The '013 patent teaches that, prior to its filing date, a storage stable combination of a vitamin D analog and a corticosteroid in a single formulation did not exist. Because of the storage stability problem, the two drugs had to be administered separately, and this generated patient compliance issues.

The '013 patent teaches that previous combination formulations were not storage stable because of the divergent pH requirements of vitamin D analogs, which require a basic environment, and corticosteroids, which require an acidic environment. After recognizing the storage stability problem, Leo discovered that use of a particular group of solvents, including polyoxypropylene 15 stearyl ester ("POP-15-SE"), solved the instability problem by allowing the vitamin D analog and corticosteroid to coexist in a single formulation.

In 2006, Galderma R&D requested reexamination of the '013 patent. On reexamination, the examiner rejected the claims as obvious in view of three prior art references: U.S. Patent No. 4,083,974 to Turi ("Turi") filed in 1977; U.S. Patent No. 4,610,978 to Dikstein ("Dikstein") filed in 1984; and International Patent Application Publication No. WO 94/13353 to Serup ("Serup") filed in 1993.

Turi discloses an anti-inflammatory pharmaceutical composition comprising a steroid and POP-15-SE, and teaches that the compositions do not contain water, gels, or alcohol. Turi does not teach the use of vitamin D, the stability issues when a corticosteroid and vitamin D are combined, or the use of POP-15-SE or a corticosteroid for the treatment of psoriasis.

Dikstein discloses dermatological compositions comprising a vitamin D analog and a corticosteroid, and teaches that vitamin D can treat psoriasis. Dikstein teaches that corticosteroids have side effects, but is

silent on whether vitamin D can treat the side effects. Each of Dikstein's examples contain almond oil or propylene glycol, and some of them also contain water. Dikstein shows no appreciation of the storage stability issues and does not teach the use of POP-15-SE or any other solvent that would overcome the stability problem.

Serup discloses formulations comprising a vitamin D analog, a steroid, and water with examples that further comprise either almond oil, propylene glycol, or alcohol. Serup teaches that vitamin D treats the side effects of the steroid, but is silent regarding instability of the combined aqueous formulation or any other solvent that would overcome the stability problem.

During reexamination, Leo (1) amended claim 1 to recite, inter alia, that "the pharmaceutical composition is storage stable and non-aqueous"; (2) presented prior art medical reports discouraging the combination of vitamin D and a corticosteroid; and (3) provided experimental data showing that the presence of water, almond oil, propylene glycol, and alcohol was detrimental to the combined formulation. The PTO, however, maintained that the claims were obvious. Leo appealed to the Board, which affirmed the PTO's determination and adopted the reasoning of the examiner.

Leo appealed the Board's decision to the Federal Circuit, which reversed based on its finding of several flaws in the Board's analysis. First, the Court held that the Board's claim construction of the term "storage stable" was impermissibly narrow. Finding that the specification does not specifically define "storage stable," the Board relied on the specific stability test disclosed in one of the '013 patent's examples. The Court held that the Board erred by defining the claim term far short of its broadest reasonable meaning because the example was just one disclosure of a stability test. The Court did not adopt a specific alternative meaning for the term, noting that such a finding was unnecessary for addressing the remainder of the appeal.

“[A]n invention can often be the recognition of a problem itself.” Slip op. at 11.

Turning to the Board's obviousness determination, the Court held that the Board erred in finding that it would have been obvious to combine vitamin D and a corticosteroid in a single formulation based on the prior art references. The Court noted that the claimed invention was not simply a combination of elements found in the prior art. Noting that "an invention can often be the recognition of a problem itself," the Court found that Leo's invention recognized and solved a problem with storage stability that was unrecognized and unsolved by the prior art. Slip op. at 11. For example, though Dikstein and Serup disclose the combination of vitamin D and a corticosteroid, neither appreciates the stability problems of a single formulation thereof. Absent such recognition, the Court reasoned there was no reason for one of skill in the art to improve upon, for example, the formulation of Dikstein or Serup using Turi. Moreover, the Court found that the medical research reports provided by Leo during reexamination taught away from the combination.

Next, the Court held that the Board erred in finding a motivation to combine the corticosteroid POP-15-SE composition of Turi with vitamin D according to Dikstein or Serup. Noting that no one in fact did make such a composition until Leo did a decade later, the Court reasoned that the combination of Turi and vitamin D is only straightforward in hindsight.

Third, the Court held that the Board erred in finding that the prior art provided a strong reason for preparing a nonaqueous vitamin D and corticosteroid formulation with POP-15-SE. Specifically, the Board found that the skilled artisan would have added a vitamin D analog of Serup or Dikstein to Turi's POP-15-SE composition of a corticosteroid. According to the Court, however, substantial evidence did not support the Board's theory that the skilled artisan would deviate from the aqueous Serup and/or Dikstein compositions. The Court also disagreed with the Board's finding that Turi excludes the solvents

of Serup and Dikstein, finding, to the contrary, that such statements either taught away from or at least provided no motivation to combine.

Fourth, the Court held that the Board erred in finding that POP-15-SE would have been the obvious choice as a solvent for formulating vitamin D and a corticosteroid. Specifically building on the Board's conclusion that Turi excludes the solvents used by Serup and Dikstein, POP-15-SE would have been the logical nonaqueous choice to use for improving Serup and Dikstein. Dikstein and Serup, however, reported that the combination of vitamin D and a corticosteroid in their respective compositions led to the surprising relief of side effects associated with steroidal application and more complete healing. Based on these surprising results, the Court found no reason to further improve upon the compositions of Serup and Dikstein as proposed by the Board.

The Court then held that the Board erred in finding that the claimed invention would have been obvious to try. Specifically, the Board found that the skilled artisan would have been capable of selecting the correct formulation from the more than eight different classes of additives in the prior art including diluents, buffers, thickeners, and lubricants, and more than ten different composition categories including liniments, lotions, applicants, creams, ointments, pastes, or gels. To the contrary, the Court found that "the breadth of these choices and the numerous combinations indicate that these disclosures would not have rendered the claimed invention obvious to try." *Id.* at 16 (citing *Rolls-Royce PLC v. United Techs. Corp.*, 603 F.3d 1325, 1339 (Fed. Cir. 2010)). Moreover, the Court again noted that more than ten years had elapsed since the critical date of the nearest-in-time prior art reference without emergence of a storage stable formulation as further evidence that the claimed invention was not obvious to try. Thus, the Court concluded that, rather than a finite number of identifiable, predictable solutions, the prior art provided no direction as to which of the many solutions were likely to be successful and, in fact, taught away from the combination of the claims.

Finally, the Court held that the Board erred in finding that the case of obviousness outweighed Leo's asserted objective indicia of nonobviousness. Specifically, the Board found that Leo's experimental data showing storage stability of the claimed composition was not surprising or unexpected. Noting that "[o]bjective indicia 'can be the most probative evidence of nonobviousness in the record, and enables the court to avert the trap of hindsight,'" the Court found extensive evidence of unexpected results that, together with the entire obviousness analysis, presented a compelling case of nonobviousness. *Id.* at 20 (quoting *Crocs, Inc. v. Int'l Trade Comm'n*, 598 F.3d 1294, 1310 (Fed. Cir. 2010)). In addition to the experimental data showing the storage stability of the claimed invention, Leo presented comparative data showing significant degradation of the compositions of the Serup and Dikstein compositions, as well as degradation of a composition of Serup that had been improved with the POP-15-SE solvent of Turi. The Court reasoned that the comparative data provided strong evidence that the '013 patent's combination of known elements yielded more than just predictable results.

The Court further noted evidence of long-felt but unresolved need and commercial success in the record. Specifically, more than twenty-two years had passed since Turi published and fourteen years since Dikstein published, yet Leo was the first to provide a single formulation comprising a vitamin D analog and a corticosteroid. Additionally, Leo's product Talconex®, embodying the elements of the '013 patent, was the first FDA-approved single formulation product and enjoyed commercial success. The Court reversed the Board's decision, holding that the invention of the '013 patent would not have been obvious.

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September 2013

Litigation Misconduct and a Vexatious Litigation Strategy Can Justify Awarding Attorneys' Fees for an Entire Case, Without Assertion of Bad Faith or Objectively Baseless Claims

Adam M. Breier

Judges: Prost (author), Mayer, Reyna
[Appealed from N.D. Cal., Judge Wilken]

In *Monolithic Power Systems, Inc. v. O2 Micro International Ltd.*, No. 12-1221 (Fed. Cir. Aug. 13, 2013), the Federal Circuit held that litigation misconduct and a vexatious litigation strategy, without assertion of bad faith or objectively baseless claims, sufficed for a finding that the case was exceptional and for awarding attorneys' fees.

Monolithic Power Systems, Inc. ("MPS") and O2 Micro International Ltd. ("O2 Micro") sell integrated circuit products that control LCD and LED lighting. ASUSTeK Computer, Inc. and ASUSTeK Computer International (collectively "ASUSTeK") are MPS customers. In four previous patent cases involving infringement claims by O2 Micro, MPS and/or its customers obtained judgments of noninfringement or invalidity against O2 Micro, or O2 Micro stipulated to dismissal and covenanted not to sue.

In this case, MPS filed for DJ against O2 Micro with respect to four related O2 Micro patents: U.S. Patent Nos. 6,856,519; 6,809,938; 6,900,993; and 7,120,035 (collectively "the '519 patent family"). After O2 Micro alleged infringement of three members of the '519 patent family and U.S. Patent No. 7,417,382 ("the '382 patent") in an ITC action against MPS and its customers, MPS amended its DJ complaint to include the '382 patent, and O2 Micro counterclaimed for infringement. The parties agreed that the ITC discovery would apply in the district court action.

O2 Micro subsequently covenanted not to sue for infringement of the '519 patent family, and withdrew its assertion of the '519 patent family from both the district court and ITC proceedings. MPS and ASUSTeK obtained summary adjudication regarding the '382 patent's invention date that exposed the '382 patent to the same prior art used to invalidate a related patent in an earlier case. The district court also concluded that O2 Micro had proffered false testimony about the invention date. After a court-appointed expert concluded that all claims of the '382 patent were invalid and MPS and ASUSTeK had filed their pretrial submissions, O2 Micro covenanted not to sue on the '382 patent and obtained dismissal of all claims. But the district court found the case to be exceptional due to O2 Micro's vexatious litigation strategy, litigation misconduct, and unprofessional behavior, and awarded attorneys' fees for the entire case (\$8,419,429), including fees incurred for ITC discovery for use in this case. O2 Micro appealed.

On appeal, the Federal Circuit first addressed whether the case was exceptional. The Court held that litigation misconduct alone may suffice for such a finding, and that findings of bad faith or objectively baseless litigation are not always required. The Court further held that O2 Micro's overall vexatious

litigation strategy and numerous instances of litigation misconduct were sufficient to support an exceptional case determination.

The Court noted that O2 Micro's vexatious strategy included suing MPS customers to prompt MPS to file DJ actions. In each previous case, O2 Micro withdrew its claims and granted covenants not to sue after substantial litigation had taken place. In the underlying case, O2 Micro employed the same modus operandi, this time moving to dismiss only after MPS and ASUSTeK had completed their filings for the final pretrial conference, causing a waste of substantial resources.

“More than a decade ago, the *Beckman Instruments* court foretold, ‘we can certainly imagine a case in which litigation misconduct would justify an award of attorney fees for the entire litigation.’ We are quite confident that this was the kind of case it had in mind.” Slip op. at 18 (quoting *Beckman Instruments, Inc. v. LBK Produkter AB*, 892 F.2d 1547, 1553 (Fed. Cir. 1989)).

The Court further noted that O2 Micro's litigation misconduct included repeated misrepresentations about the date of invention and having three witnesses testify to the same. Furthermore, O2 Micro failed to conduct an investigation into the veracity of its representations until after MPS had retained an expert to debunk its version of events. Then, O2 Micro obfuscated the fact that the claimed invention date had been manually entered on a key schematic. Thereafter, O2 Micro filed three baseless motions attempting to bury the controversy over the invention date. Thus, rather than straightforwardly admit the truth, O2 Micro dissembled and sought to mask its proffer of false testimony. Accordingly, the Court upheld the finding of misconduct and unprofessional behavior, and held that the case was exceptional under 35 U.S.C. § 285.

The Federal Circuit next addressed the award of attorneys' fees. At the outset, the Court held that O2 Micro had not waived its argument that an award of attorneys' fees must be limited to those fees that would not have been incurred but for its acts of misconduct. The Court explained that O2 Micro had previously urged the same argument in its papers filed in opposition to the motion for fees. The Court also held that *Fox v. Vice*, 131 S. Ct. 2205 (2011), did not apply to this case, explaining that the issue in *Fox* was the allocation of fees between frivolous and nonfrivolous claims in a single lawsuit, *see id.* at 2211. In contrast, the situation here was how fees incurred in separate, but parallel, nonfrivolous proceedings should be allocated.

The Federal Circuit acknowledged that an exceptional case finding based on litigation misconduct usually does not support a full award of attorneys' fees, but instead, the fee award must bear some relation to the extent of the misconduct and compensate a party for the extra legal effort to counteract it. But the Court held that this case was anything but usual and the extent of O2 Micro's misconduct was anything but limited. Indeed, the litigation misconduct was not of isolated instances of unprofessional behavior by O2 Micro. Rather, O2 Micro's misconduct comprised an abusive pattern or a vexatious strategy pervasive enough to infect the entire litigation. O2 Micro's antics surrounding the invention date also took on many forms throughout the litigation, affecting several rounds of written discovery, deposition testimony, and baseless motions. Finally, O2 Micro employed its usual tactic of granting covenants not to sue only after substantial work had been completed. Thus, “O2 Micro's rampant misconduct so severely affected every stage of the litigation that a full award of attorney fees was proper here.” Slip op. at 17. Under the unique circumstances, the district court's award of ITC-related expenses was also not an abuse of discretion, especially given the discovery's application in the district court and the parties' agreement to its dual use. The Federal Circuit also noted that the fee award reflected discounts such that it demonstrated a careful exercise of discretion, not an abuse of it.

In conclusion, the Federal Circuit affirmed the district court's order and recalled that “[m]ore than a decade ago, the *Beckman Instruments* court foretold, ‘we can certainly imagine a case in which litigation

misconduct would justify an award of attorney fees for the entire litigation.” *Id.* at 18 (quoting *Beckman Instruments, Inc. v. LBK Produkter AB*, 892 F.2d 1547, 1553 (Fed. Cir. 1989)). “We are quite confident that this was the kind of case it had in mind.” *Id.*

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September 2013

On-Sale Bar Covers Offers to Sell Made by Suppliers

Benjamin A. Saidman

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

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

In *Hamilton Beach Brands, Inc. v. Sunbeam Products, Inc.*, No. 12-1581 (Fed. Cir. Aug. 14, 2013), the Federal Circuit affirmed the district court's ruling that the asserted claims of Hamilton Beach Brands, Inc.'s ("Hamilton Beach") U.S. Patent No. 7,947,928 ("the '928 patent") were invalid under the on-sale bar of 35 U.S.C. § 102(b).

Hamilton Beach's '928 patent claimed priority to an application filed in March 2006. On February 8, 2005, more than one year prior to the filing date of the priority application, Hamilton Beach issued a purchase order for 2,000 slow cookers from a foreign supplier for delivery to Hamilton Beach's U.S. warehouse. The supplier replied via e-mail on February 25, 2005, noting it would begin production after receiving Hamilton Beach's release. Hamilton Beach subsequently sued Sunbeam Products, Inc. ("Sunbeam"), alleging that Sunbeam's slow cooker, Cook & Carry®, infringed the same '928 patent. Under these facts, the district court concluded the '928 patent was invalid under the on-sale bar of 35 U.S.C. § 102(b). Hamilton Beach appealed.

"In other words, the *supplier* made an *offer* to sell the slow cookers to Hamilton Beach. At that point, the commercial offer for sale was made and, under the governing corporate purchase agreement, Hamilton Beach could accept the offer when it so pleased." Slip op. at 12-13.

On appeal, the Federal Circuit affirmed the district court's invalidity ruling. The Court explained that "[t]he on-sale bar applies when two conditions are satisfied before the critical date: (1) the claimed invention must be the subject of a commercial offer for sale; and (2) the invention must be ready for patenting." Slip op. at 8 (citing *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998)). The Court found both conditions satisfied.

With respect to the first condition, a commercial offer, the Court held that Hamilton Beach's transaction with its foreign supplier in early 2005 was an offer for sale of a product that anticipated the asserted claims. The Court first explained that there is no "supplier exception" to the on-sale bar, and thus it was of no consequence that the "commercial offer for sale" was made by Hamilton Beach's own supplier and was made to Hamilton Beach itself. Focusing on the supplier's response prior to the critical date that it was ready to fulfill the order, the Court stated that "the *supplier* made an *offer* to sell the slow cookers to Hamilton Beach. At that point, the commercial offer for sale was made and, under the governing

corporate purchase agreement, Hamilton Beach could accept the offer when it so pleased.” *Id.* at 12-13. As a result, even if the parties had not entered into a binding contract when the supplier responded to the purchase order, the response nevertheless was a commercial offer for sale that Hamilton Beach could have made into a binding contract by simple acceptance. The Court found this was sufficient to satisfy *Pfaff*’s first condition.

For the second condition, that the invention was ready for patenting prior to the critical date, the Court found no error in the district court’s conclusion that the product was ready for patenting. The Court noted that Hamilton Beach showed and distributed product descriptions and Computer Aided Design (“CAD”) drawings at meetings with many of its retail customers’ buying agents depicting Hamilton Beach’s slow cooker. The Court held these descriptions and drawings were sufficiently precise to enable a person of ordinary skill to build the invention. In addition, the Court noted that Hamilton Beach created a working prototype that was subjected to testing and was successful. The fact that the prototype required “fine-tuning” after the critical date did not mean that the invention was not ready for patenting. Thus, the invention was ready for patenting, and the Court held the ’928 patent was invalid under the on-sale bar.

Judge Reyna dissented, arguing the majority overlooked the Supreme Court’s requirement that the offer be a “commercial” one. In Judge Reyna’s view, the majority applied the “no-supplier-exception rule” without considering whether the purchase order was placed for purely experimental purposes. In support of his view that the order was placed for purely experimental purposes, Judge Reyna cited the purchase order, which the supplier delivered in the midst of a series of design failures, and explained that it was not the result of customer demand or projections. According to Judge Reyna, “a single offer to buy for purely experimental purposes may trigger the on-sale bar, and the experimental-use exception will offer them no salvation.” Reyna Dissent at 6.

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September 2013

No Exclusive Supreme Court Jurisdiction in Inventorship Dispute Where State Officials, Not State, Were Named Defendants

Sulay D. Jhaveri

Judges: Moore (dissenting), Reyna (author), Wallach

[Appealed from D. Mass., Judge Saris]

In *University of Utah v. Max-Planck-Gesellschaft zur Forderung der Wissenschaften e.V.*, Nos. 12-1540, -1541, -1661 (Fed. Cir. Aug. 19, 2013), the Federal Circuit affirmed the district court's denial of a motion to dismiss by four named officials ("Named Officials") of the University of Massachusetts ("UMass"), holding that the Supreme Court's exclusive jurisdiction was not triggered, that the claims were not barred by sovereign immunity, and that UMass was not an indispensable party.

The University of Utah ("UUtah"), believing that its employee, Dr. Brenda Bass, should have been named as a sole or joint inventor of U.S. Patent Nos. 7,056,704 and 7,078,196 (collectively "the Tuschl patents"), requested correction of the inventorship of the Tuschl patents under 35 U.S.C. § 256. Originally, UUtah named as defendants a number of non-State defendants, including Max-Planck-Gesellschaft zur Forderung der Wissenschaften e.V. ("Max-Planck"), and also named UMass as a defendant. UMass moved to dismiss, arguing that because UUtah and UMass were both arms of the State, the dispute between them fell within the exclusive original jurisdiction of the Supreme Court. UUtah subsequently amended its complaint and replaced UMass with the four named UMass Named Officials, noting that its intent in making this amendment was to avoid the Supreme Court's exclusive jurisdiction.

The Named Officials moved to dismiss, arguing that the case fell within the exclusive original jurisdiction of the Supreme Court and that UUtah's claims were barred by sovereign immunity. In rejecting the Named Officials' arguments, the district court ruled that the case did not fall within the exclusive original jurisdiction of the Supreme Court because UUtah had chosen to sue state officials, not the State itself, and also reasoned that correction of inventorship was not a core sovereign interest sufficient to make this a dispute between States. The district court also dismissed the Named Officials' argument that UMass was an indispensable party, because neither UMass nor defendants would be prejudiced by a judgment rendered in UMass's absence because UMass's interests would be adequately represented by the existing defendants, including the Named Officials, and that the remedy—an order directing the PTO to correct inventorship—would provide adequate relief whether or not UMass was joined.

On appeal, the Federal Circuit first held that this case was not a conflict between States subject to the exclusive jurisdiction of the Supreme Court because UMass was not a real party in interest. The Court, relying on 28 U.S.C. § 1251(a), noted that when a State sues another State, the Supreme Court's jurisdiction is not only original, but exclusive. In contrast, when a State sues the citizens of another State, the Supreme Court's original jurisdiction is concurrent with the district courts, as specified by 28 U.S.C. § 1251(b)(3). The Supreme Court's exclusive and concurrent original jurisdiction is obligatory only in

appropriate cases, and in determining whether a case is “appropriate,” the Court noted that it is proper to look beyond the named parties and determine the real party in interest.

“[Conception] is a mental act’ To perform this mental act, inventors must be natural persons and cannot be corporations or sovereigns. And because States cannot be inventors, it follows that inventorship is not a core sovereign interest of the States.” Slip op. at 13 (alteration in original) (quoting *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1227-28 (Fed. Cir. 1994)).

Specifically, the Court noted that a State is a real party in interest if it is a mandatory or indispensable party such that the decree would operate directly against it and adequate relief cannot be granted without it, such as, for example, a judgment that would expend itself on the State’s treasury, or an injunction against or compelling state administration. Conversely, the Court noted that “a State with ‘some interest of hers [] more or less affected by the decision’ but not directly affected by the court’s decree is not a real party in interest.” Slip op. at 9 (alteration in original) (quoting *Cunningham v. Macon & Brunswick R.R. Co.*, 109 U.S. 446, 451, 452 (1883)).

The Court determined that UMass was not a real party in interest because there was no core sovereign interest of Massachusetts at stake, as the only issue with respect to UMass in the case was inventorship. The Court held that States cannot be inventors because they cannot perform the mental act of conception, and therefore a State has no core sovereign interest in inventorship. The Court dispensed with UMass’s concern for its ownership interest in the Tuschl patents by characterizing a State’s ownership of patent rights as “not akin to State ownership of water rights, natural resources, or other property issues that ‘implicate serious and important concerns of federalism’ and rise to the level of core sovereign interests.” *Id.* at 13-14 (quoting *Conn. ex rel. Blumenthal v. Cahill*, 217 F.3d 93, 99 (2d Cir. 2000)). The Court further reasoned that UMass was not a real party in interest because a judgment ordering the PTO to correct inventorship would not compel or restrain UMass from acting.

Next, the Court considered whether sovereign immunity barred UUtah’s suit, and held that sovereign immunity was inapplicable because it applied only to suits by citizens against a State.

Finally, the Court considered whether UMass was an indispensable party for the action to proceed. The Court first considered the factors under Fed. R. Civ. P. 19(b): (1) the extent to which a judgment rendered in the person’s absence might prejudice that person or the existing parties; (2) the extent to which any prejudice could be lessened or avoided by (A) protective provisions in the judgment, (B) shaping the relief, or (C) other measures; (3) whether a judgment rendered in the person’s absence would be adequate; and (4) whether the plaintiff would have an adequate remedy if the action were dismissed for nonjoinder. As to the first factor of potential prejudice, the Court found no error in the district court’s determination that there was little risk of prejudice because UMass’s interests were adequately represented by the other defendants, and therefore the second factor had little weight. As to the third factor regarding adequacy of the judgment in UMass’s absence, the Court found no error with the district court’s determination that an order directing the PTO to correct inventorship would not be insufficient in the absence of UMass. Finally, as to the fourth factor regarding adequate remedy, the Court agreed with the district court that the possibility that the Supreme Court would accept original jurisdiction only slightly weighs against UUtah because of the uncertainty regarding whether the Supreme Court would accept such a case. Accordingly, the Court affirmed the district court’s rulings.

Judge Moore dissented, asserting that the case “is a dispute about ownership, plain and simple.” Moore Dissent at 3. Judge Moore noted that § 1251(a) contains uncompromising language that the Supreme Court has original and exclusive jurisdiction over all controversies between two or more States, that the majority’s “core sovereign interests” test is at odds with the plain language of the statute, and that

there is no basis to limit the statute in such a way. Judge Moore further argued that the majority improperly stripped the Supreme Court of its discretion to decide which controversies it will hear. Judge Moore noted that the existence of the Supreme Court's exclusive jurisdiction and its discretion to exercise that jurisdiction are separate concepts. But Judge Moore noted that the "core sovereign interest" test has roots in opinions that address whether the Supreme Court will decide to exercise its jurisdiction over a dispute, not whether the Court's exclusive original jurisdiction over the controversy exists, and that the majority's conflation of these two concepts strips the Supreme Court of its discretion to decide if a case is sufficiently serious to exercise jurisdiction over it.

Judge Moore further asserted that the majority is incorrect in its determination that UMass is not the real party in interest because the effect of the judgment to correct inventorship will restrain UMass by, for example, preventing UMass from exploiting the Tuschl patents or the technologies they cover. Finally, Judge Moore also pointed out that the majority erred in not finding UMass an indispensable party, because it would be nonsensical to suggest that all patent owners must be joined in a suit seeking to invalidate the patent, i.e., in a DJ action, but they need not be joined in a suit over patent ownership. Since there is no other party that represents UMass's interest, Judge Moore stated that UMass is an indispensable party.

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September 2013

Public Has Minimal Interest in Parties' Confidential Information Not Central to a Decision on the Merits and Not Necessary to the Public's Understanding of the Case

Corinne L. Miller

Judges: Prost (author), Bryson, O'Malley
[Appealed from N.D. Cal., Judge Koh]

In *Apple Inc. v. Samsung Electronics Co.*, Nos. 12-1600, -1606, 13-1146 (Fed. Cir. Aug. 23, 2013), the Federal Circuit reversed and remanded because the district court abused its discretion in refusing to seal the confidential information at issue in the appeals.

Apple Inc. ("Apple") sued Samsung Electronics Company, Ltd., Samsung Electronics America, Inc., and Samsung Telecommunications America, LLC (collectively "Samsung"), asserting, among other claims, that Samsung's smartphones and tablets infringed several of Apple's patents and infringed Apple's trade dress embodied in its iPhone and iPad products. Samsung filed counterclaims, alleging that the iPhone and iPad infringed several of Samsung's patents. The case proceeded to a jury trial. The trial drew an extraordinary amount of attention from the public and the media. Consistent with the extraordinary level of interest in the case, the district court explained to the parties that the whole trial was going to be open. Consequently, the district court agreed to seal only a small number of trial exhibits. Similarly, most exhibits attached to pretrial and post-trial motions were ordered unsealed.

The parties did not challenge many of the district court's unsealing orders on appeal. Rather, the parties limited their appeals to a small subset of exhibits attached to pretrial and post-trial motions filed by Apple and Samsung. First, the parties challenged the district court's August Order, which contained its rulings with respect to pretrial motions. Second, Apple challenged the November Order, which contained the district court's rulings with respect to post-trial motions.

"We recognize the importance of protecting the public's interest in judicial proceedings and of facilitating its understanding of those proceedings. That interest, however, does not extend to mere curiosity about the parties' confidential information where that information is not central to a decision on the merits. While protecting the public's interest in access to the courts, we must remain mindful of the parties' right to access those same courts upon terms which will not unduly harm their competitive interest." Slip op. at 24.

The Federal Circuit explained that the broad issue on appeal was whether the district court abused its discretion in ordering the unsealing of the documents Apple and Samsung sought to seal. The Court

began its analysis by reviewing “the common law right of access to judicial records.” Slip op. at 9 (quoting *Kamakana v. City & Cnty. of Honolulu*, 447 F.3d 1172, 1178 (9th Cir. 2006)). The Court noted that, in the Ninth Circuit, a party seeking to seal judicial records can overcome the strong presumption of access to court records by providing “sufficiently compelling reasons” that override the public policies favoring disclosure. *Id.* at 10 (quoting *In re Midland Nat’l Life Ins. Annuity Sales Practices Litig.*, 686 F.3d 1115, 1119 (9th Cir. 2012)). Further, the Court explained that the Ninth Circuit has carved out an exception to the presumption of access to judicial records for such records filed under seal when attached to a nondispositive motion. Thus, a particularized showing of “good cause” under Fed. R. Civ. P. 26(c) is sufficient to preserve the secrecy of sealed discovery documents attached to nondispositive motions.

The Court then considered whether the district court applied the correct legal standard. The Court explained that while the district court recognized the Ninth Circuit’s general rule that a party seeking to seal documents attached to a nondispositive motion need only demonstrate “good cause,” the district court nevertheless applied the “compelling reasons” standard to documents attached to nondispositive motions regarding the admissibility of evidence at trial “[b]ecause the admissibility of evidence is such a closely contested issue in this trial, which has become crucial to the public’s understanding of the proceedings.” *Id.* at 12 (alteration in original) (citation omitted). Finding legal error, the Court stated that it was not aware of any Ninth Circuit precedent applying the “compelling reasons” standard to nondispositive motions regarding the admissibility of evidence at trial. The Court additionally stated that the district court’s reasoning did not justify departure from the Ninth Circuit’s general rule. Despite the district court’s error, the Federal Circuit reviewed all of the district court’s orders under the more restrictive “compelling reasons” standard and concluded that, even under that standard, the district court erred in refusing to seal the documents at issue on appeal, as discussed in more detail below.

With respect to the documents at issue in Apple’s and Samsung’s appeals of the August Order, the parties challenged the district court’s ruling with respect to a total of twenty-six documents—fourteen Apple documents and twelve Samsung documents—filed as exhibits in connection with pretrial motions. Notably, the parties did not seek to seal these documents in their entirety. Instead, as the Court explained, they sought to redact limited portions of the documents containing detailed product-specific financial information, including costs, sales, profits, and profit margins. The Court began by stating that Apple and Samsung have an interest in keeping their detailed product-specific financial information secret because they could suffer competitive harm if this information is made public, and the district court erred by concluding otherwise. In addressing the public’s interest in the parties’ detailed financial information, the Court noted that, in these appeals, Apple and Samsung had limited the documents they had challenged to a small subset of the documents they had originally sought to seal. The Court further pointed out that, even within that small subset, they sought only to redact limited portions that contained what they considered their most confidential financial information. Moreover, because the parties agreed to rely on less-detailed financial information to prove their damages at trial, none of the documents were introduced into evidence. Thus, the Court reasoned, the financial information at issue was not considered by the jury and is not essential to the public’s understanding of the jury’s damages award. The Court continued, nor is there any indication that this information was essential to the district court’s rulings on any of the parties’ pretrial motions. Accordingly, the Court concluded that the particular financial information at issue in the appeals was not necessary to the public’s understanding of the case, and that the public therefore had minimal interest in that particular information.

Finally, the Court considered the documents at issue in Apple’s appeal of the November Order. Specifically, Apple challenged the district court’s ruling with respect to nine Apple market research reports, which Samsung attached to its opposition to Apple’s post-trial motion for a permanent injunction and enhanced damages. The reports totaled approximately five hundred pages, only twelve of which were cited by Samsung in its briefing. Apple agreed to make public seven of those pages and, as for the remaining five pages cited by Samsung, Apple agreed to make that information public insofar as it

pertained to customer information from the United States, but sought to redact the customer information for other countries not relied on by Samsung in its briefing. The Court found that the nine market research documents contained information that Apple's competitors could not obtain elsewhere. The Court noted the critical distinction between Apple's competitors being able to "infer the most significant results by simply observing Apple's product releases and marketing campaigns," and being able to predict Apple's future product releases and marketing strategies. *Id.* at 23 (citation omitted). Further, the Court noted that because Apple had agreed to make public all of the information contained in these documents that was actually cited by the parties or the district court, the other information in these reports was irrelevant to the public's understanding of the judicial proceedings. Thus, the Court concluded that the district court abused its discretion in refusing to seal the nine market research documents.

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September 2013

An Implicit Disclaimer Limits Claim Scope Even When Contrary to Ordinary Meaning

Steven M. Landolfi, Jr.

Judges: Rader (dissenting), Clevenger, Prost (author)

[Appealed from S.D. Cal., Judge Sammartino]

In *SkinMedica, Inc. v. Histogen Inc.*, No. 12-1560 (Fed. Cir. Aug. 23, 2013), the Federal Circuit affirmed the district court's grant of SJ of noninfringement, upholding the claim construction at issue.

SkinMedica, Inc. ("SkinMedica") filed suit against Histogen, Inc., Histogen Aesthetics, and Gail Naughton (collectively "Histogen") alleging infringement of U.S. Patent Nos. 6,372,494 ("the '494 patent") and 7,118,746 ("the '746 patent"). The claims-at-issue in the '494 and '746 patents generally relate to methods for producing and using pharmaceutical compositions containing "novel conditioned cell culture medium compositions." Slip op. at 2. SkinMedica alleged that Histogen used infringing methods to produce dermatological products.

The district court granted SJ of noninfringement based on a construction of the phrase "culturing . . . cells in three dimensions" that excluded Histogen's production methods. Specifically, the district court construed the phrase, which was common to both the '494 and '746 patents, as "growing . . . cells in three-dimensions (excluding growing in monolayers or on microcarrier beads)." *Id.* at 8 (citation omitted). Histogen's cell growth process, which uses microcarrier beads, was therefore found to be noninfringing. SkinMedica appealed.

"[W]e find that the inventors clearly redefined the scope of 'culturing . . . cells in three-dimensions' by disclaiming the use of beads—which would otherwise be included in the ordinary meaning of that phrase." Slip op. at 15.

On appeal, the Federal Circuit upheld the district court's claim construction, which was the only issue before the Court. The Court held that the patentees had disclaimed the use of beads as a means for three-dimensional cell growth. The Court reached this conclusion even after accepting that "the ordinary meaning of 'culturing . . . cells in three-dimensions' would reach the use of beads." *Id.* at 13. The Court reasoned that the intrinsic record, which it found to associate beads with two-dimensional growth and distinguish beads from three-dimensional growth, outweighed the evidence that suggested that cell growth using beads could be three-dimensional.

The Court relied on the written description, which included such language as "[c]ell lines grown as a monolayer or *on beads*, as opposed to cells grown in three dimensions," and "beads (i.e.,

two-dimensions),” and statements made during the prosecution of the ’494 and ’746 patents to find that “the patentees plainly and repeatedly distinguished culturing with beads from culturing in three-dimensions,” “expressly defined the use of beads as culturing in two dimensions,” and “avoided anticipatory prior art during prosecution by asserting that the conditioned medium produced by two-dimensional cultures was inferior and chemically distinct from the conditioned medium produced by three-dimensional cultures.” *Id.* at 15. Therefore, “although the inventors never explicitly redefined three-dimensional cultures to exclude the use of beads, their implicit disclaimer of culturing with beads here was even ‘so clear that it equates to an explicit one.’” *Id.* at 27 (quoting *Thorner v. Sony Computer Entm’t Am. LLC*, 669 F.3d 1362, 1368 (Fed. Cir. 2012)).

The Court was not persuaded by the evidence presented by SkinMedica that there was no explicit or implicit disclaimer, even after agreeing that the ordinary meaning of “culturing . . . cells in three-dimensions” could include cell growth on beads. Therefore, “[b]ecause none of the evidence [presented] by SkinMedica would reasonably lead to a different reading of the intrinsic evidence,” the Court found that “the inventors clearly redefined the scope of ‘culturing . . . cells in three-dimensions’ by disclaiming the use of beads—which would otherwise be included in the ordinary meaning of that phrase.” *Id.* at 15.

In conclusion, the Court held that “[b]ased on the clear language of the specification and the statements made by the patentees during prosecution, . . . the inventors of the ’494 and ’796 patents disclaimed beads as a method to culture the cells . . . used in their claimed inventions.” *Id.* at 42-43. Therefore, the Court affirmed the district court’s grant of SJ of noninfringement for Histogen.

Chief Judge Rader dissented, finding that “the patentees did not disavow the ordinary meaning of ‘culturing . . . cells in three-dimensions’ to exclude the use of beads.” Rader Dissent at 1-2. Chief Judge Rader considered the statements in the written description and prosecution history regarding beads to be ambiguous and gave more weight to the extrinsic evidence. Because he did not believe that the evidence supported a claim construction that excluded the ordinary meaning, Chief Judge Rader would have reversed the district court’s grant of SJ.

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Mere Clarification of Original Injunction Without Modification That Substantially Alters the Legal Relations of the Parties Does Not Confer Appellate Jurisdiction Until Final Judgment

Corinne L. Miller

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

[Appealed from D. Nev., Judge Navarro]

In *Aevoe Corp. v. AE Tech Co.*, No. 12-1422 (Fed. Cir. Aug. 29, 2013), the Federal Circuit dismissed the appeal for lack of jurisdiction because the district court merely clarified the scope of the original injunction, and there was no modification that substantially changed the legal relationship between the parties.

Aevoe Corporation (“Aevoe”), assignee of U.S. Patent No. 8,044,942 (“the ’942 patent”), directed to a touchscreen protector for electronic devices, sued AE Tech Co., Ltd. (“AE Tech”), alleging that AE Tech was infringing the ’942 patent. Aevoe requested a temporary restraining order, which the district court granted, barring AE Tech from selling its touchscreen protector products. Despite receiving notice of the district court’s restraining and show cause orders, AE Tech neither answered the complaint, responded, nor appeared, and the district court issued a preliminary injunction.

After entry of the preliminary injunction, AE Tech filed a motion to reconsider and vacate the preliminary injunction, which the district court denied and refused to vacate. The district court, however, entered an order altering the January 24, 2012, injunction as requested by AE Tech to remove the “counterfeit” and “colorable imitation” trademark language from the injunction.

After the hearing on AE Tech’s motion for reconsideration, on March 5, 2012, AE Tech informed Aevoe that it had redesigned its product and was “intending” to sell the new product with the help of and through S&F Corporation and GreatShield, Inc. (collectively “S&F Defendants”). On March 14, 2012, Aevoe filed an amended complaint joining the S&F Defendants, alleging that the S&F Defendants sold infringing products obtained from AE Tech. Shortly thereafter, Aevoe filed a motion requesting that AE Tech and the S&F Defendants be held in contempt, and sanctioned for willfully disregarding the district court’s preliminary injunction. The district court found that the added channels were a nonfunctional and trivial attempt to design around the ’942 patent, and that the redesigned AE Tech screen protector was not more than colorably different than the enjoined products. Accordingly, the district court held all defendants in contempt, concluded that sanctions against AE Tech were appropriate, changed the language of the preliminary injunction by adding back the “colorable imitation” phrase, and explicitly named the S&F Defendants as enjoined parties.

On appeal, the Federal Circuit noted its obligation to consider whether it had jurisdiction over the appeal. The Court indicated that its focus would remain on the injunction and not on the district court’s contempt

order because a contempt order interpreting or enforcing an injunction is generally not appealable until final judgment. Notably, the district court issued its original preliminary injunction on January 24, 2012, and AE Tech did not appeal the injunction until May 2012. The Court pointed out that any appeal should have been filed within thirty days of the district court's grant of the original injunction; however, the district court twice altered the language of the injunction. Thus, the operative question on appeal was whether these changes amounted to a modification of the original injunction that in effect would reset the time for appeal of the injunction.

“A contempt order interpreting or enforcing an injunction, however, is generally not appealable until final judgment. This is particularly so where no sanction had yet been imposed for that contempt and proceedings with respect to that question remained ongoing at the time the appeal before us was filed.” Slip op. at 9 (citations omitted).

Relying on regional circuit law to determine whether the injunction had been modified, the Court indicated that “[w]hether an order modifies an existing injunction rather than merely interprets it depends on whether it substantially alters the legal relations of the parties.” Slip op. at 11 (alteration in original) (quoting *Cunningham v. David Special Commitment Ctr.*, 158 F.3d 1035, 1037 (9th Cir. 1998)). That inquiry required the Court to consider whether the district court modified the injunction as to AE Tech by reinserting the “colorable imitation” language after finding the defendants in contempt and explicitly adding the GreatShield “redesign” to the injunction. The Court explained that whether “colorable imitations” were explicitly mentioned in the injunction language or not, such imitations fell within its scope; the district court was obligated to apply the colorable differences test in the contempt proceeding. Thus, the Court concluded, the legal relationship between the parties was in no way altered by the district court's changes to the injunction language. Further, the Court indicated that neither the excision and addition of the “colorable imitation” language nor the explicit description of the actual redesign amounted to a modification of the preliminary injunction upon which the Court could predicate jurisdiction. As such, the Court stated, the district court never modified the injunction such that it would reset AE Tech's time to appeal, and, therefore, AE Tech's appeal was untimely. Because the district court did not substantively modify the January 2012 injunction, the Federal Circuit held that AE Tech's appeal derived from a contempt order—not an appealable interlocutory order—and it did not have jurisdiction over AE Tech's appeal.

Finally, the Court considered whether the addition of the S&F Defendants amounted to a modification of the injunction. Though the S&F Defendants were not joined as defendants until March 2012, the Court determined they had notice of the injunction within a week of its original issuance in January 2012 and again in February 2012. The Court plainly stated that it was beyond debate that the S&F Defendants fell within the express language of the original injunction, whether or not they were explicitly named as enjoined parties, since the injunction was directed to AE Tech or any party that had notice of the injunction and was selling the barred products. Thus, the addition of the S&F Defendants as explicitly enjoined parties did not substantively modify the language of the preliminary injunction because they were already barred—on the face of the injunction—from selling the products. The Court noted, whether it does so expressly or not, however, a court generally may not enjoin a nonparty to the action before it. The Court, though, made the distinction that a party who acts in concert with an enjoined party may be subject to the strictures of an injunction. The Court ultimately found that the S&F Defendants fell within the purview of the original injunction because they were “acting in concert” with AE Tech in connection with the resale of the redesigned products, and failure to enjoin their conduct would thwart the purposes of that injunction. Therefore, the addition of the S&F Defendants only clarified, and did not modify, the original injunction because they always fell within the restrictions of the original injunction. Because the district court did not substantially alter the legal relationship between the parties by explicitly naming the S&F Defendants as enjoined parties, the Court concluded that it also did not have jurisdiction over the S&F Defendants' appeal.

Accordingly, because the district court merely clarified the scope of the original injunction, the Court found that there was no modification that substantially changed the legal relationship between the parties and dismissed the appeal for lack of jurisdiction.

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Previous Claim Construction Decision Does Not Control Written Description Inquiry

Joyce Craig

Judges: Lourie (author), Plager, Benson (sitting by designation)

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

In *Trading Technologies International, Inc. v. Open E Cry, LLC*, No. 12-1583 (Fed. Cir. Aug. 30, 2013), the Federal Circuit reversed entry of SJ that (1) the asserted claims of Trading Technologies International, Inc.'s ("TT") U.S. Patent Nos. 7,676,411 ("the '411 patent"), 7,693,768 ("the '768 patent"), 7,904,374 ("the '374 patent"), and 7,685,055 ("the '055 patent") are invalid for failure to comply with the written description requirement of 35 U.S.C. § 112; and (2) prosecution history estoppel bars TT from asserting the '055 patent against software products. The district court premised both holdings on deference to the Federal Circuit's prior decision in *Trading Technologies International, Inc. v. eSpeed, Inc.*, 595 F.3d 1340 (Fed. Cir. 2010) ("*eSpeed*"), which considered two related patents from TT's portfolio. Here, because the Federal Circuit concluded that *eSpeed* does not control, the Court reversed and remanded for further proceedings.

TT owns a number of related patents generally directed to software used for electronic trading on a commodities exchange, including the '411, '768, '374, and '055 patents. Those four patents are continuations of and claim priority from U.S. Patent No. 6,772,132 ("the '132 patent"). Accordingly, the '411, '768, and '374 patents share a common written description matching that of the '132 patent in all material respects. In contrast, the '055 patent traces its priority from the '132 patent as a continuation-in-part and contains new matter relative to the original written description of the '132 patent.

In *eSpeed*, the Federal Circuit considered, inter alia, the correct construction of certain claim terms used in the '132 patent and in another of its descendants, U.S. Patent No. 6,766,304 ("the '304 patent"). The '304 patent, like the '411, '768, and '374 patents, shares the written description of the parent '132 patent. In *eSpeed*, each of the asserted claims required a graphical user interface having a "static" display of market price information. The district court had construed that term to require "a display of prices comprising price levels that do not change positions unless a *manual* re-centering command is received," and the Federal Circuit adopted that construction on appeal. Slip op. at 7-8 (quoting *eSpeed*, 595 F.3d at 1352).

While the written descriptions of the '411, '768, and '374 patents match those of the earlier '132 and '304 patents, the '411, '768, and '374 patents claim trading methods and software without limitation to a "static" price column display. Moreover, during prosecution of the '055 patent, TT added new disclosures to the '132 patent's written description that were aimed at redefining the term "static" as used in the '055 patent. The claims of the '055 patent recite steps that include displaying "a static price axis" and "automatically repositioning the static price axis on the graphical user interface."

Open E Cry, LLC and other consolidated defendants submitted a SJ motion as to whether the claims of the '411 patent satisfied the written description requirement of 35 U.S.C. § 112(a) in light of *eSpeed*, and whether prosecution history estoppel barred TT from asserting infringement of the '055 patent under the DOE as to products with price columns that move automatically.

The district court concluded that *eSpeed* required holding the claims of the '411 patent invalid for lack of written description. In granting the motion for SJ, the district court expressly declined to evaluate the parties' evidence or make its own findings on the merits because the court determined "as a matter of law that the *eSpeed* Decision controls." Slip op. at 13 (quoting *Trading Techs. Int'l, Inc. v. BCG Partners, Inc.*, 852 F. Supp. 2d 1027, 1038 n.9 (N.D. Ill. 2012) ("*SJ Order*"). In addition, the district court held that *eSpeed*'s application of prosecution history estoppel to the '132 and '304 patents applied equally to the '055 patent as a matter of law. The district court noted that the '055 patent claims "include the limitation of 'common static price axis,' just like the '304 patent, and flow from . . . a similar specification." *Id.* (quoting *SJ Order*, 852 F. Supp. 2d at 1046-47). The grant of SJ rendered invalid most claims of TT's '411, '768, '374, and '055 patents for failing to satisfy the written description requirement of § 112.

“[O]ur decision in *eSpeed* did not thereby determine whether the same written description would also support different claims drawn to a non-‘static’ display. In particular, we did not make ‘findings regarding the specification . . . that are dispositive’ as to the present written description challenge.” Slip op. at 18-19 (quoting *SJ Order*, 852 F. Supp. 2d at 1044).

On appeal, the Federal Circuit concluded that the district court placed undue reliance on *eSpeed* and thus erred when it held TT's claims invalid without considering the scope of the claims in light of the underlying disclosures. The Court concluded that the claims of the '411, '768, '374, and '055 patents are different from those at issue in *eSpeed*, and *eSpeed*'s ruling on claim construction should not govern the written description inquiry.

Regarding the '411, '768, and '374 patents, the Federal Circuit asked whether the patents' common disclosure provides adequate support for claims not limited to displays with "static" price axes, i.e., claims broad enough to encompass some form of automatic recentering. The Federal Circuit distinguished the doctrines of claim construction and written description, which the Court described as "separate issues that serve distinct purposes." *Id.* at 17. In *eSpeed*, the Court had concluded that the disputed claim term should be limited to require a manual recentering command in the claims of the '132 and '304 patents. But the Federal Circuit did not thereby determine whether the same written description would also support different claims drawn to a non-"static" display.

In the present appeal, the Federal Circuit expressed no opinion as to whether or not the claims of the '411, '768, and '374 patents satisfy the written description requirement, but reversed and remanded for the district court to make that determination based on a review of the disclosures underlying those particular claims. The Court held only that *eSpeed* did not settle the issue.

The Federal Circuit found fault with the invalidity determination with regard to the '055 patent for the same reasons. In addition, because the '055 patent was filed as a continuation-in-part, which allowed TT to disclose and claim additional subject matter, the Court found that the '055 patent differed from the patents-at-issue in *eSpeed*, and its written description was never considered in that case. The Federal Circuit found unambiguous support in the '055 patent for claims requiring "automatically repositioning the static price axis," and ruled that the '055 patent's written description reasonably conveyed to those skilled in the art that the inventor had possession of the claimed subject matter as of its filing date. Accordingly, the Court concluded that TT was entitled to SJ that the claims of the '055 patent have not been proven invalid by clear and convincing evidence for lack of adequate written description. The Court reversed the district court's SJ of invalidity and its denial of TT's cross-motion regarding the '055 patent claims.

Turning to the issue of prosecution history estoppel, the Federal Circuit concluded that the intrinsic record specific to the '055 patent distinguishes *eSpeed*. The Court found that the subsequent disclosures in the '055 patent include disclosures that were not present in the '132 or '304 patents, and those directly contradict the prosecution-based surrenders of claim scope discussed in *eSpeed*. The Court noted, for example, that the '055 patent states that “static does not mean immovable,” and describes “automatically repositioning the static price axis upon detecting a predetermined condition.” *Id.* at 24-25 (citations omitted). Furthermore, the Court found that the claims of the '055 patent lack the “do not move” limitations that accompanied the term “static” in the '132 and '304 patents. Rather, the Court found that the claims of the '055 patent contain express language requiring automatic movement of the static price axis. Finally, in the Court’s view, TT made clear during prosecution of the '055 patent that the “static” price axis described and claimed in the '055 patent was not limited to manual recentering. In sum, the Court concluded that, while it retains the “static price axis” claim language of its predecessors, the '055 patent thus differs from the '132 and '304 patents in both its claims and its relevant supporting disclosures on the issue of automatic recentering, and those differences render *eSpeed*’s earlier prosecution-based restrictions inapplicable. Accordingly, the Court reversed the district court’s decisions granting SJ that prosecution history estoppel applies to the '055 patent, and denying TT’s cross-motion related to that issue.

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Looking Ahead

On September 5, 2013, Alice Corporation Pty. Ltd. petitioned the U.S. Supreme Court for a writ of certiorari for the Federal Circuit's decision in *Alice Corp. Pty. Ltd. v. CLS Bank International*, Supreme Court Docket No. 13-298 (Sept. 5, 2013). According to the petition, the question presented is whether claims to computer-implemented inventions—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter. Stay tuned to see whether the Court grants certiorari, and if so, what impact it will have on future decisions at the Federal Circuit.

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Spotlight Info

In *Aevoe Corp. v. AE Tech Co.*, No. 12-1422 (Fed. Cir. Aug. 29, 2013), the Federal Circuit dismissed the appeal for lack of jurisdiction because the district court merely clarified the scope of the original injunction, and there was no modification that substantially changed the legal relationship between the parties. The district court entered a preliminary injunction and twice amended it before the accused infringer, AE Tech Co., Ltd. (“AE Tech”), appealed. Because AE Tech’s appeal was not timely filed after the original injunction was entered, the Federal Circuit noted the operative question was whether the changes to the injunction amounted to a sufficient modification to reset the time for appeal. Because the legal relationship between the parties was in no way altered by the district court’s changes to the injunction language, the Court concluded that the district court never modified the injunction such that it would reset AE Tech’s time to appeal. Therefore, AE Tech’s appeal was untimely. See this month’s edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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