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Last Month at the Federal Circuit

August 2014



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Abbreviations

ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act
APJ	Administrative Patent Judge
Board	Patent Trial and Appeal Board (formerly the 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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Speculative Injury Insufficient for Standing to Challenge AIA's First-Inventor-to-File Provision

Abigail Lubow

Judges: Newman, O'Malley (author), Wallach

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

In *MadStad Engineering, Inc. v. U.S. Patent & Trademark Office*, Nos. 13-1511, -1512 (Fed. Cir. July 1, 2014), the Federal Circuit affirmed the district court's dismissal for lack of standing.

Mark Stadnyk and MadStad Engineering (collectively "MadStad") filed a constitutional challenge to the America Invents Act ("AIA") against the PTO seeking DJ that the "first-inventor-to-file" provision of the AIA was unconstitutional and seeking a permanent injunction barring enforcement of the AIA. The district court granted the government's motion to dismiss for lack of standing, relying on the Supreme Court's decision in *Clapper v. Amnesty International USA*, 568 U.S. ___, 133 S. Ct. 1138 (2013). MadStad appealed.

On appeal, the Federal Circuit first considered whether it had jurisdiction over the appeal. Looking to the principles of federal jurisdiction, the Court explained that a case can "aris[e] under" an act of Congress even if the claim "finds its origin' in other legal predicates." Slip op. at 6. Determining a resolution of MadStad's claim, the Court explained, would require interpreting the terms "inventor" and "first-inventor-to-file" in the AIA and the term "Inventor" in the U.S. Constitution. The Court also explained that patent-related matters lie at the heart of the parties' dispute, because a judgment in MadStad's favor would not only result in a declaration that the first-inventor-to-file provision is unconstitutional, but could compel that the entirety of the AIA falls within that provision. Next, the Court explained that placing jurisdiction in the regional circuit courts would upset the "balance" of jurisdiction between the Court and the other circuits because the matters raised in MadStad's complaint were important to the uniform application of patent laws. *Id.* at 8. The Court thus held that it had jurisdiction over the appeal because MadStad's claims arose under an act of Congress relating to patents.

"[B]ecause this alleged injury is dependent upon the hypothetical, illegal decisions of independent actors, it is not 'concrete, particularized, and actual or imminent.'" Slip op. at 15 (quoting *Monsanto Co. v. Geertson Seed Farms*, 561 U.S. 139, 149 (2010)).

The Court next examined whether MadStad had standing to assert its claim. The Court reviewed and rejected MadStad's arguments that the AIA forced MadStad to enhance its computer security to prevent theft of its intellectual property, increased the time and effort to file patent applications, disadvantaged MadStad with respect to larger companies, and resulted in lost business and investment opportunities to

MadStad as a result of intellectual property theft.

The Court considered and rejected MadStad's argument that the AIA forced it to enhance its computer security systems, explaining that the "mere fact that MadStad, like all other people and companies, faces cyber threats does not create standing." *Id.* at 14. The Court found that MadStad had not shown that its alleged injury—cost to increase security measures and threat of cyber-attacks—was "fairly traceable" to the AIA. *Id.* The Court stated that nothing in the record indicated that, in response to the AIA, hackers began launching cyber-attacks that MadStad's old security system could not handle, but an upgraded system could. The Court also found there was no evidence that the AIA had caused an increase in cyber-attacks to steal intellectual property. The Court, therefore, held that MadStad's claim of cyber-attacks did not confer standing because it depended "upon the hypothetical, illegal decisions of independent actors" and was "not 'concrete, particularized, and actual or imminent.'" *Id.* at 15 (quoting *Monsanto Co. v. Geertson Seed Farms*, 561 U.S. 139, 149 (2010)).

The Court next considered MadStad's contention that the AIA forced it "to divert business resources to prepare more patent applications and file them sooner, in order to compete in the race to the PTO." *Id.* at 16 (citation omitted). The Court found this argument unconvincing, pointing to the fact that MadStad had not asserted that it had filed any patent application under the AIA, had no patent applications currently ready to file, and had only an intention of filing patent applications in the future. The Court explained that "merely testifying that [Mr. Stadnyk] intends to file for another patent at some unknown point in the future" is insufficient to meet the "concrete, particularized, and actual or imminent" injury requirement for standing. *Id.* at 19 (quoting *Monsanto*, 561 U.S. at 149). Although the Court did not define the actions needed to confer standing, it held that, in this case, MadStad failed to establish standing "based on its fear of the increased effort and costs involved," and because MadStad did "not assert that Mr. Stadnyk has an invention for which an application could be filed." *Id.* at 20.

The Court then considered and rejected MadStad's contention that the AIA's first-inventor-to-file provision placed it at a competitive disadvantage relative to larger companies because MadStad would be forced to expend its limited resources to develop and test its products in-house to avoid intellectual property theft. The Court observed that MadStad had not asserted that it had actually set up any of these in-house facilities or that it was engaged in any product development that would require such facilities; therefore, MadStad's concerns were again "too speculative and generalized to meet the 'concrete, particularized, and actual or imminent' injury requirement." *Id.* at 21 (quoting *Monsanto*, 561 U.S. at 149). The Court also explained that, like MadStad's arguments regarding an increased risk of hacking, MadStad failed to show that its alleged injury was fairly traceable to the AIA because the injury would require that MadStad's outside vendors do not have adequate security measures in place, that hackers could bypass those measures, and that hackers would steal MadStad's designs and file patents on MadStad's designs. This level of attenuation, the Court explained, was too remote to establish standing based on alleged competitive disadvantage.

The Court then rejected MadStad's contention that the AIA inhibited it from sharing ideas with potential investors and partners, causing lost business and investment opportunities. The Court found that although MadStad had not disclosed secret information to a potential investor who would not sign a nondisclosure agreement, MadStad's "subjective belief that it needs a non-disclosure agreement to dissuade any incentive to 'scoop' its IP" was too attenuated to create standing. *Id.* at 22-23.

The Court last considered whether the district court's reliance on the Supreme Court's *Clapper* decision was proper. The Court stated that, although the series of events in *Clapper* was more attenuated than in MadStad's case, MadStad's injuries were still too speculative to create standing. In addition, the Court rejected MadStad's argument that it should be accorded standing under an alternative test requiring showing of a "substantial risk" of injury. *Id.* at 25. The Court also distinguished MadStad's situation from the Supreme Court's decision in *Susan B. Anthony List v. Driehaus*, No. 13-193, 2014 WL 2675871 (S. Ct. June 16, 2014), in which the petitioner had expressed the intention of engaging in actions that would subject it to the threat of criminal prosecution under a statute that had a history of past enforcement. The Court held that the district court did not err by relying on *Clapper* or concluding that MadStad lacked standing to assert its constitutional claims.

Accordingly, the Court affirmed the district court's determination that MadStad lacked standing to challenge the first-inventor-to-file provision of the AIA.

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Where an Infringement Judgment Is Partially Reversed, There Is No “Normal Rule” Permitting District Courts to Reconsider Damages Falling Within the Court’s Mandate

*Emily R. Gabranski**

Judges: Lourie, Linn (author)

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

In *Retractable Technologies, Inc. v. Becton Dickinson & Co.*, No. 13-1567 (Fed. Cir. July 7, 2014), the Federal Circuit affirmed the district court’s denial of defendant’s motion to modify the district court’s previous damages award following a partially successful appeal.

In 2007, Retractable Technologies, Inc. (“Retractable”) sued Becton Dickinson and Company (“Becton”), alleging that Becton’s 1 mL and 3 mL syringes infringed certain claims of Retractable’s patents. At trial, Retractable—basing its theory on infringement beginning in 2000 and a hypothetical negotiation at that time—argued for a lump-sum payment of \$72 million for a ten-year license, while Becton presented a lost profits theory that limited damages to approximately \$5 million and, in the alternative, that a reasonable royalty would have been not more than \$30 million. The jury found that both accused products infringed. The jury’s verdict form included interrogatories, one of which included asking the jury to “determine the amount of reasonable royalty damages that would fairly and adequately compensate RTI [Retractable] for infringement,” to which the jury responded, “\$5,000,000.” Slip op. at 3 (alteration in original) (citation omitted). The district court entered judgment and a permanent injunction against Becton. Becton appealed the infringement and validity decisions but did not appeal the damages determination. In a prior appeal, the Federal Circuit reversed the finding of infringement on the 3 mL syringe and affirmed the judgment that the 1 mL syringe infringed. The Court did not remand the case to the district court because there was no basis for a new trial on infringement or invalidity.

Following the Federal Circuit’s infringement decision, Becton filed a motion for relief under Fed. R. Civ. P. 60(b), asking the district court to modify the damages award to reflect that the 1 mL syringe was the only infringing product. The district court denied Becton’s motion. Because the damages issue was within the scope of the original judgment and was not raised in the prior appeal or remanded for reconsideration, the district court concluded that the mandate rule precluded it from modifying the damages award. Becton appealed for a second time.

“While this court regularly issues remands when requested and appropriate, or on our own initiative if some but not all products are found on appeal not to infringe, there is no ‘normal rule’ giving district courts the authority to regularly revisit or recalculate damages that fall within our mandate.”
Slip op. at 6.

In the instant appeal, the Federal Circuit affirmed. The Court first noted that Becton “puts the cart before the horse” since the argument that the damages award is inconsistent with the mandate “requires reconsideration of the damages award itself, which is possible only if the mandate rule allows revisiting the question.” *Id.* at 5. The Court disagreed with Becton’s interpretation of Federal Circuit precedent as requiring the district court to conduct further proceedings on damages to determine the effect of the reversal. Revisiting its prior decisions, the Court explained that “[t]he cases do not stand for the proposition that the district court is required, let alone permitted, to revisit damages in the absence of a reversal or remand of a damages determination within a judgment of invalidity or infringement appealed to this court.” *Id.* at 6. In fact, the Court concluded, “there is no ‘normal rule’ giving district courts the authority to regularly revisit or recalculate damages that fall within our mandate.” *Id.*

The Federal Circuit also rejected Becton’s argument that it did not waive the damages issue by failing to raise it in the previous appeal. According to the Court, Becton “could have and should have” raised the damages issue in the previous appeal. *Id.* The Court concluded that “[t]he damages award was within the scope of the appealed judgment and thus was incorporated into the mandate when Becton failed to raise the issue of a remand to consider parsing damages by product.” *Id.* at 8.

Finally, the Court rejected Becton’s argument that an exception to the mandate rule existed in this circumstance. Addressing this argument, the Federal Circuit explained that “courts have considered revisiting issues otherwise foreclosed in circumstances where there has been a substantial change in the evidence.” *Id.* at 9 (quoting *Tronzo v. Biomet, Inc.*, 236 F.3d 1342, 1349 (Fed. Cir. 2001)). However, the Court distinguished between the circumstances in *Tronzo* and the case at hand: “Becton could have and should have raised the issue at the previous appeal. Further, no subsequent trial has occurred and there has been no actual change in the evidence or the facts.” *Id.* Finally, the Court noted, Becton had not presented a compelling reason to extend *Tronzo*. Since Becton had the opportunity to raise the damages issue during the prior appeal but did not, the Court stated, “To permit this issue to be revisited anew would be to endorse an end-run around the mandate rule, which we are not about to do. *Id.* at 11.

Accordingly, the Federal Circuit affirmed the district court because the mandate rule foreclosed the relief sought by Becton.

**Emily R. Gabranski is a Law Clerk at Finnegan.*

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Claim Scope Limited When Specification Describes Feature as “Essential” and “Universal” to All Embodiments

Kevin D. Rodkey

Judges: Moore (author), Reyna (concurring), Wallach
[Appealed from ITC]

In *X2Y Attenuators, LLC v. International Trade Commission*, No. 13-1340 (Fed. Cir. July 7, 2014), the Federal Circuit affirmed the ITC’s claim construction and determination of no violation under 19 U.S.C. § 1337.

X2Y Attenuators, LLC (“X2Y”) is the owner of three related patents: U.S. Patent Nos. 7,609,500 (“the ’500 patent”); 7,916,444 (“the ’444 patent”); and 8,023,241 (“the ’241 patent”) (collectively “the patents-in-suit”). The patents-in-suit relate to structures for reducing electromagnetic interference in electrical circuits. The patents-in-suit describe shielding electrodes to reduce “parasitic capacitance” between the electrodes by alternating arrangements of shielded and unshielded electrodes. Slip op. at 3 (citation omitted). X2Y filed a complaint in the ITC accusing Intel Corporation and other intervenors (collectively “Intel”) of unlawful importation of microprocessors that infringed the patents-in-suit. At the ITC, the parties disputed whether the “electrode” terms in the claims were limited to a “sandwich” configuration, where a center conductor is flanked by a pair of differential or oppositely charged conductors. *Id.* at 5. The ALJ construed the electrode terms to require a sandwich configuration based on specification disavowal, and the ITC adopted the ALJ’s construction. X2Y conceded noninfringement based on the construction and the ITC found no violation. X2Y appealed.

“The patents’ statements that the presence of a common conductive pathway electrode positioned between paired electromagnetically opposite conductors is ‘universal to all the embodiments’ and is ‘an essential element among all embodiments or connotations of the invention’ constitute clear and unmistakable disavowal of claim scope.” Slip op. at 7.

On appeal, the Federal Circuit considered the construction of the electrode terms, concluding that the ITC’s construction was correct. The Court observed that, in the specification, a common conductive pathway electrode positioned between paired electromagnetically opposite conductors was described as “universal to all the embodiments” and “an essential element among all embodiments or connotations of the invention,” constituting clear and unmistakable disavowal of claim scope. *Id.* at 7. The Court first explained that labeling an element as “essential” may give rise to disavowal, and the patents-in-suit explained that the sandwich configuration was not only “essential,” but was an “essential element among all embodiments or connotations of the invention.” *Id.* at 7-8 (citations omitted). The Court also noted that the ’444 patent incorporated by reference statements of its parent patent, U.S. Patent No. 5,909,350,

that the sandwich configuration was a “feature[] universal to all the embodiments.” *Id.* (alteration in original) (citation omitted). The Court explained that, like language stating that a feature is essential, this language demonstrates a clear intention to limit the claim scope by “using words or expressions of manifest exclusion or restriction.” *Id.* (quoting *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1324 (Fed. Cir. 2002)). Although the Court recognized that the passage included permissive language about the selection of materials in the configuration, the specification also explained that no matter which material is used, the general sandwich configuration remains the same. The Court thus concluded that the patents-in-suit’s statements constituted clear and unmistakable disavowal of claim scope.

The Court then considered X2Y’s argument that some disclaimers were inapplicable because they appeared only in priority patents. The Court rejected this argument, noting that the “essential element” disavowal appeared explicitly in the ’500 patent, and that the ’500 and ’444 patents incorporated by reference priority patents that included disavowal language. The Court explained that incorporating by reference effectively makes the incorporated disclosure part of the host patent, as if it was explicitly contained therein. Although the Court recognized that the possibility that a clear and unmistakable disavowal of an incorporated patent may no longer be applicable when placed in the context of the host patent, it rejected that argument in this case, finding that the patents-in-suit’s statements that all conceivable configurations use the sandwich configuration limited the scope of the patents-in-suit.

Accordingly, the Court affirmed the ITC’s construction of the “element” claim terms and affirmed the finding of no violation.

Judge Reyna concurred, writing separately to address an issue at the ITC that did not affect the Court’s decision. Judge Reyna noted that the ALJ and the ITC limited the asserted claims to “the invention” disclosed in the priority patents. Reyna Concurrence at 2. According to Judge Reyna, this was error because the ALJ and ITC failed to objectively construe the claims before deciding the priority dates for the claims.

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AIA Amendments to False-Marking Statute Eliminating Qui Tam Provision Do Not Constitute an Unconstitutional Pardon

*David C. Seastrunk**

Judges: Lourie, Schall (author), Moore
[Appealed from S.D.N.Y., Judge Stein]

In *Stauffer v. Brooks Bros. Group*, No. 13-1180 (Fed. Cir. July 10, 2014), the Federal Circuit affirmed the district court's dismissal of Raymond E. Stauffer's false-marking suit against Brooks Brothers, Inc. ("Brooks Brothers"), holding that Stauffer lacked standing due to the elimination of the qui tam provision of the statute by the America Invents Act ("AIA").

Stauffer, a pro se plaintiff, brought a qui tam action against Brooks Brothers under the then-extant version of the false-marking statute, 35 U.S.C. § 292 (2006), claiming that Brooks Brothers marked its bow ties with long-expired patent numbers. While the case was pending, the President signed into law the AIA, which eliminated the false-marking statute's qui tam provision, changing the law so that only a "person who has suffered a competitive injury" may bring a claim. Slip op. at 3 (quoting AIA § 16(b)(2)). Additionally, the AIA expressly stated that marking a product with an expired patent is not a false-marking violation and that the amendments applied to all pending cases.

Acknowledging that he no longer had standing to pursue his lawsuit, Stauffer presented two constitutional challenges to the retroactive application of the AIA amendments. First, Stauffer argued that, because marking a product with an unexpired patent was a criminal violation before enactment of the AIA, the amendments amounted to an unconstitutional pardon by Congress that usurped the President's pardon power and violated the doctrine of separation of powers. Second, Stauffer argued that the AIA amendments violated the common-law principle that prohibits the use of a pardon to vitiate a qui tam action once the action has commenced. The district court rejected both arguments and dismissed the case for lack of standing. Stauffer appealed.

On appeal, the Federal Circuit affirmed. Before addressing the merits of Stauffer's appeal, the Court first resolved a jurisdictional question raised by the government as intervenor regarding whether Stauffer had standing to make his pardon-power argument. Disagreeing with the government that a favorable decision could not redress Stauffer's injury, the Court held that Stauffer had standing to raise his constitutional arguments. According to the Court, Stauffer sought to establish that Congress (1) carried out an unconstitutional pardon when it amended the false-marking statute to permit marking with expired patent numbers, and (2) could not have constitutionally eliminated the ability of a qui tam plaintiff to enforce false-marking violations. The Court concluded that were Stauffer to win on both issues, "it is likely rather than speculative that a favorable decision would redress his alleged injury." *Id.* at 10-11.

"Rather than granting a pardon, the amendments to the false-marking statute are better characterized as repealing a law, an action undoubtedly within

Turning to the merits of Stauffer's appeal, the Federal Circuit first held that the AIA amendments eliminating liability for marking products with expired patents did not constitute an impermissible pardon. According to the Court, "[r]ather than granting a pardon, the amendments to the false-marking statute are better characterized as repealing a law, an action undoubtedly within Congress's power." *Id.* at 11. The Court also noted as significant that this was not a case where Congress attempted to set aside an already adjudicated punishment. Instead, the Court explained, "Congress repealed the provisions of the false-marking statute that it did not wish to remain in force," which did "not constitute a pardon." *Id.* at 12.

The Court next held that the AIA amendments did not violate the common-law principle prohibiting the use of a pardon to vitiate a qui tam action once commenced. First, according to the Court, Stauffer had "no vested rights in his lawsuit" because Stauffer's case had not reached final judgment, and, second, the AIA amendments "do not constitute a pardon." *Id.* Further, the Court noted, it had already rejected the argument that a litigant like Stauffer enters into a contract with the government upon filing a qui tam false-marking claim. The Court explained that even if the law had not changed, Stauffer might still have lost the lawsuit, and therefore "could not have acquired a private-property interest in his share of the statutory penalty simply by filing suit." *Id.* at 13. Accordingly, the Federal Circuit concluded that the common-law principle did not apply here and did not save Stauffer's suit from dismissal.

Finally, the Court held that Stauffer could not raise a host of additional arguments on appeal because he did not properly raise them before the district court. Because the record showed that Stauffer did not raise these arguments in his initial response, but rather waited until his reply brief before the district court, the Court held these issues were waived on appeal. The Court thus affirmed the district court's dismissal of Stauffer's suit for lack of standing based on the AIA's elimination of the qui tam provision in the false-marking statute.

**David C. Seastrunk is a Summer Associate at Finnegan.*

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District Court Erred in Denying Stay by Reviewing Board's Decision to Institute a Covered Business Method Proceeding

Kara A. Specht

Judges: Newman (dissenting), Moore (author), Chen
[Appealed from E.D. Tex., Judge Gilstrap]

In *VirtualAgility Inc. v. Salesforce.com, Inc.*, No. 14-1232 (Fed. Cir. July 10, 2014), the Federal Circuit held that the district court clearly erred in denying a stay pending a covered business method (“CBM”) review when it undertook its own review of the Board’s decision to institute the CBM review.

VirtualAgility Inc. (“VA”) sued Salesforce.com, Inc. (“Salesforce”) and other defendants (collectively “Defendants”), alleging infringement of U.S. Patent No. 8,095,413 (“the ‘413 patent”). In May 2013, Salesforce filed a petition with the Board for CBM review, alleging that all claims of the ‘413 patent were not patent eligible under 35 U.S.C. § 101 and were invalid under 35 U.S.C. §§ 102 and 103 based on prior art. Also in May 2013, Defendants filed a motion to stay all district court proceedings pending the CBM review. In August 2013, while the motion to stay was pending, the district court issued a discovery order and held a scheduling conference, setting the claim construction hearing and trial dates for April 2014 and November 2014, respectively. In November 2013, the Board instituted CBM review of all claims of the ‘413 patent under §§ 101 and 102, setting a trial date at the Board for July 2014. The district court then denied Defendants’ motion to stay in January 2014. Defendants appealed.

On appeal, the Federal Circuit first considered the proper standard of review. The parties disputed whether the appellate review standard should be de novo or abuse of discretion. The Court observed that prior to the America Invents Act (“AIA”), a district court’s denial of a motion to stay pending PTO proceedings was generally not appealable, but when it was, the Court reviewed the denial under the “abuse of discretion” standard. The Court noted that the AIA created an express right to appeal stay decisions pending CBM review. The Court declined, however, to resolve the parties’ dispute over the standard of review, holding that the district court’s denial would be reversed even under the “abuse of discretion” standard.

“Under the statutory scheme, district courts have no role in reviewing the [Board’s] determinations regarding the patentability of claims that are subject to CBM proceedings.” Slip op. at 11.

The Court then considered each of the factors set forth in the AIA for deciding whether to grant a stay pending CBM review. First, in considering whether a stay would simplify the issues in question and streamline the trial, the Court rejected the district court’s finding that “it was ‘not convinced’ by the [Board’s] assessment that cancellation of some or all of the claims during the CBM review was

'probable.'" Slip op. at 6 (quoting *VirtualAgility Inc. v. Salesforce.com, Inc.*, No. 13-cv-00111, 2014 WL 94371, at *2, *5 (E.D. Tex. Jan. 9, 2014)). The Court agreed with Defendants that the issues would be simplified and determined that this factor heavily favored a stay. Although agreeing that this factor and another stay factor overlap in their analyses, the Court stated that "they continue to be separate, individual factors which must be weighed in the stay determination" and could not be collapsed into a single factor. *Id.* at 11. The Court held that the district court erred in collapsing two of the factors and to the extent that the district court "decided to 'review'" the Board's determination because "district courts have no role in reviewing the [Board's] determinations" regarding the patentability of claims that are subject to CBM proceedings." *Id.* The Court then determined that once the district court's improper review of the Board's analysis was removed, the remaining evidence of this factor weighed in favor of a stay. For example, the Court observed that because CBM review was granted on all claims of the only patent-at-issue, if Salesforce is successful at the Board, then any burden on the district court would be eliminated. The Court also took judicial notice of the fact that VA filed a motion to amend its claims at the PTO. Although the Court did not consider the motion to amend, it stated that the motion to amend would "only weigh further in favor of granting the stay." *Id.* at 14.

The Court next examined the factor of whether discovery was complete and whether a trial date had been set. The Court determined that this timing factor heavily favored a stay. The Court noted that "it was not error for the district court to wait until the [Board] made its decision to institute CBM review before it ruled on the motion"; however, the Court also stated that "a motion to stay could be granted even before the [Board] rules on a post-grant review petition." *Id.* at 16. The Court observed that Defendants filed the stay motion in May 2013 and the Board instituted CBM review in November 2013, but the district court denied the stay motion in January 2014. Although the Court reiterated that it was not error to decide the motion to stay until after institution by the Board, it stated that a court "should make every effort to expeditiously resolve the stay motion after the [Board] has made its CBM review determination." *Id.* at 17. The Court also explained that the time at which the motion was filed is generally the relevant time to measure the stage of litigation. The Court then held that, in this case, this factor weighed in favor of a stay because the motion was filed before discovery had begun and before a trial date had been set. The Court also noted that when the PTO instituted CBM review, eight months remained in fact discovery, claim construction statements had not yet been filed, and jury selection was more than a year away. Thus, the Court concluded that, even at the time of institution, this factor favored granting a stay.

The Court then turned to whether a stay would unduly prejudice the plaintiff or give the Defendants a tactical advantage. The Court determined that the district court clearly erred in finding that undue prejudice weighed heavily against a stay, stating that although "competition between parties can weigh in favor of finding undue prejudice," there was "no evidence in [the] record that the two companies ever competed for the same customer or contract." *Id.* at 21. Further, the Court noted that VA's delay in seeking relief and its decision not to seek a preliminary injunction contradicted VA's assertions that it needed injunctive relief as soon as possible. The Court also rejected VA's argument that there was a risk of witness loss, explaining that there was "no evidence that any of these individuals are in ill health, and at least one of the older witnesses has already been deposed." *Id.* at 23. Although noting that no single factor in its analysis was dispositive, the Court concluded that "the evidence of competition is weak and the patentee's delays in pursuing suit and seeking preliminary injunctive relief belie its claims that it will be unduly prejudiced by a stay." *Id.* at 25.

The Court concluded that, because three of the four factors weighed heavily in favor of a stay and the fourth factor, "at best, weighs slightly in favor of denying a stay," the district court had abused its discretion in denying the stay. *Id.* at 25-26.

Judge Newman dissented. Judge Newman would have found that the district court's denial was within its discretion, concluding that "[a]lthough the Covered Business Method (CBM) statute provides that appellate review of a district court's decision to grant or deny a stay 'may be de novo,' when the district court's decision is within its range of discretion, it warrants appellate respect." Newman Dissent at 3.

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August 2014

Digital Image Processing Claims Held Patent Ineligible Under § 101

Mandy J. Song

Judges: Moore, Reyna (author), Hughes

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

In *Digitech Image Technologies, LLC v. Electronics for Imaging, Inc.*, Nos. 13-1600 to -1618 (Fed. Cir. July 11, 2014), the Federal Circuit held that the asserted claims of U.S. Patent No. 6,128,415 (“the ‘415 patent”) were invalid under 35 U.S.C. § 101.

Digitech Image Technologies (“Digitech”) is the assignee of the ‘415 patent, which is directed to “an ‘improved device profile’ that describes spatial and color properties of a device within a digital image processing system.” Slip op. at 5. Digitech filed infringement suits against thirty-two defendants, asserting claims of the ‘415 patent directed to a device profile and methods for generating a device profile. Several defendants filed SJ motions seeking to invalidate the asserted claims under § 101. The district court granted the motions and found that all of the asserted claims were subject matter ineligible.

“The Supreme Court recently reaffirmed that fundamental concepts, by themselves, are ineligible abstract ideas. . . . [However, a] claim may be eligible if it includes additional inventive features such that the claim scope does not solely capture the abstract idea.” Slip op. at 10-11 (citing *Alice Corp. v. CLS Bank Int’l*, 573 U.S. ___, No. 13-298, slip op. at 6, 10 (June 19, 2014)).

On appeal, the Federal Circuit affirmed. The Court first held that the device profile described and claimed in the ‘415 patent “is not a tangible or physical thing and thus does not fall within any of the categories of eligible subject matter.” *Id.* at 7. According to the Court, the claims described a device profile as a collection of information—two data sets, one for color and one for spatial information—and were not directed to any tangible embodiment of the information or tangible part of the digital processing system. The Court rejected Digitech’s argument that a device profile was hardware or software within a digital image processing system, explaining that the claim language did not describe the device profile as any such embodiment, but solely as data in an ethereal, nonphysical, and, thus, patent-ineligible form.

The Court next held that, although the asserted method claims undisputedly described a process, they nevertheless were directed to a patent-ineligible abstract idea. According to the Court, the claims described a process of organizing information through mathematical correlations not tied to a specific structure or machine. The Court rejected Digitech’s argument that the claim language tied the method to an image processor. Rather, the Court concluded that the mention of a digital image reproduction system in the claim’s preamble did not limit the claim scope, and, thus, the Court did not need to decide

whether tying the method to an image processor would render the claims patent eligible.

The Court thus affirmed the district court's SJ decision that the asserted claims of the '415 patent were not patent eligible under § 101.

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Claim Missing Material Limitation That Is Not Apparent on Its Face Cannot Be Asserted Until It Has Been Corrected by the PTO

Christopher Kurpinski

Judges: Prost (author), O'Malley

[Appealed from N.D. Tex., Senior Judge Fish]

In *H-W Technology, L.C. v. Overstock.com, Inc.*, Nos. 14-1054, -1055 (Fed. Cir. July 11, 2014), the Federal Circuit affirmed the district court's determination that claim 17 of U.S. Patent No. 7,525,955 ("the '955 patent") was invalid and vacated the district court's determination that claim 9 of the '955 patent was invalid.

H-W Technology, L.C. ("H-W") owns the '955 patent, which relates to an apparatus and method for performing "contextual searches on an Internet Protocol (IP) Phone." Slip op. at 2 (citation omitted). The '955 patent specification describes an "IP Phone" as "a telephone which can operate and execute voice communication in the same way as conventional telephones either via a Plain Old Telephone System (POTS) or an IP network." *Id.* (citation omitted).

H-W sued Overstock.com, Inc. ("Overstock"), alleging infringement of the '955 patent. A few months after H-W submitted its infringement contentions, Overstock notified H-W that the issued version of claim 9 was missing a limitation. H-W eventually obtained a certificate of correction from the PTO and submitted it to the district court after the parties completed SJ and claim construction briefing. The district court then construed the claims and granted SJ that claims 9 and 17 were indefinite. H-W appealed.

"When, as here, a claim issues that omits a material limitation, and such omission is not evident on the face of the patent, the patentee cannot assert that claim until it has been corrected by the PTO. To hold otherwise would potentially permit patentees to assert claims that they never asked for nor rightly attained." Slip op. at 9.

On appeal, the Federal Circuit affirmed the district court's construction of the terms "user of said phone" and "said user" to mean "a consumer operating the IP Phone." *Id.* at 3 (quoting *H-W Tech., LC v. Overstock.com, Inc.*, No. 12-cv-0636, 2013 WL 5314355, at *1 (N.D. Tex. Sept. 23, 2013)). The Court rejected H-W's argument that the "user of said phone" could be a "thing" and agreed with the district court that the "user" is limited to a human consumer based on the claim language, the specification, and the extrinsic evidence. *Id.* at 4. The Court noted that the claims refer to "said user's contact and payment information," which a "thing" would not be expected to possess. *Id.* (citation omitted). The Court also considered portions of the specification that referred to a user's finger, indicating that the user is a person, and that equated "user" with "consumer." *Id.* (citation omitted). The Court also considered

extrinsic evidence from the inventors' testimony that referred to the user as a person and a dictionary definition of "user." The Court then rejected H-W's proposed construction as being supported by only "a single, arguably marginally applicable, dictionary definition," and affirmed the district court's construction as supported by the claims, the specification, and the weight of extrinsic evidence. *Id.* at 5.

The Court next considered whether it was proper for the district court to refuse to correct claim 9 to add the missing limitation without waiting for a certificate of correction. The Court explained that a district court can correct a patent only if the error was evident from the face of the patent. Although the parties agreed that the error was clear from the prosecution history, the Court determined that the error was not evident from the face of the patent because uncorrected claim 9 read coherently without the missing limitation and nothing in the surrounding claim language indicated the limitation was missing. The Court also explained that language in the specification similar to the missing limitation was optional, negating H-W's argument that the language was impliedly necessary to the invention. Thus, the Court held that the district court did not have authority to correct claim 9 and properly declined to do so.

The Court then considered whether the district court properly declined to consider the certificate of correction in deciding whether H-W could assert either the corrected or uncorrected versions of claim 9. Relying on the plain language of the statute, the Court determined that a certificate of correction is only effective for causes of action arising after the certificate is issued. The Court observed that H-W had not alleged any causes of action occurring after the certificate of correction was issued and had not amended its complaint to reflect the corrected version of claim 9. Thus, the Court held that the district court was correct not to consider the certificate of correction when determining if H-W could assert claim 9.

Next, the Court examined whether H-W could assert either the corrected version or uncorrected version of claim 9 in this action. The Court held that when a claim issues that omits a material limitation and the omission was not evident from the face of the patent, the patentee cannot assert the claim until it has been corrected by the PTO. Allowing H-W to assert the uncorrected version of the claim would, in the Court's opinion, "potentially permit patentees to assert claims that they never asked for nor rightly attained." *Id.* at 9. The Court held that the district court correctly concluded that H-W could not assert either the original or the corrected claim 9 in this lawsuit. The Court, however, also struck the portion of the district court's judgment finding that corrected claim 9 was invalid because the corrected version of claim 9 had not yet been litigated, and therefore had not been held invalid.

Lastly, the Court considered and affirmed the district court's finding that claim 17 was invalid for indefiniteness. The Court determined that claim 17 combined two statutory classes of invention because it is an apparatus claim that includes the method limitations "*wherein said user completes a transaction*" and "*wherein said user selects one of said variety of offers.*" *Id.* at 11 (citation omitted). The Court explained that it had held apparatus claims with method steps indefinite because it is unclear when infringement occurs. The Court observed that the language in claim 17 was "nearly identical" to limitations in *IPXL Holdings, L.L.C. v. Amazon.com, Inc.*, 430 F.3d 1377 (Fed. Cir. 2005), and *In re Katz Interactive Call Processing Patent Litigation*, 639 F.3d 1303 (Fed. Cir. 2011), in which the Court determined that the claims were indefinite. Slip op. at 13. Thus, the Court affirmed the district court's finding that claim 17 was invalid.

Accordingly, the Court affirmed the district court's construction of the term "user," vacated the district court's finding that claim 9 was invalid, and affirmed the district court's finding that claim 17 was invalid for indefiniteness.

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Hyatt Applies to § 146 Proceedings and Permits New Evidence of Issues Not Before the Board

*Kaetochi C. Okemgbo**

Judges: Prost, Bryson, Moore (author)

[Appealed from D. Mass., Judge Young]

In *Troy v. Samson Manufacturing Corp.*, No. 13-1565 (Fed. Cir. July 11, 2014), the Federal Circuit held that a party in a 35 U.S.C. § 146 proceeding may raise issues that were not previously raised before the Board. Because the district court erred in refusing to consider new evidence pertinent to the determination of priority, the Court vacated the district court's decision and remanded.

In an interference proceeding between junior party Stephen P. Troy, Jr. and senior party Samson Manufacturing Corp. ("Samson"), Troy attempted to prove actual reduction to practice in early February 2004, conception at several dates prior to February 2004, inurement, and derivation. The Board concluded that Troy failed to prove prior conception or actual reduction to practice and cancelled the claims of Troy's involved patent. Troy challenged the Board's decision in district court under § 146. In the § 146 action, Troy proffered new evidence of an actual reduction to practice in July 2004 and asserted that Samson engaged in inequitable conduct by including in its provisional application confidential drawings misappropriated from Troy. In affirming the Board, the district court refused to consider the new evidence, reasoning that "[a] party is generally precluded from raising issues or theories of law in a Section 146 proceeding that were not previously raised before the board." Slip op. at 3-4 (alteration in original) (quoting *Troy v. Samson Mfg. Corp.*, 942 F. Supp. 2d 189, 198 (D. Mass. 2013)). Troy appealed.

"Based on the Supreme Court's holding in *Hyatt* that there are no limits on the admissibility of evidence in such civil actions except those in the Federal Rules of Evidence and Federal Rules of Civil Procedure, we conclude that new evidence on new issues is admissible in such proceedings." Slip op. at 6.

On appeal, the Federal Circuit held that "the Supreme Court's decision in [*Kappos v. Hyatt*, 132 S. Ct. 1690 (2012),] permits new evidence to be admitted without regard to whether the issue was raised before the Board," since *Hyatt* "held, without qualification, that 'there are no evidentiary restrictions beyond those already imposed by the Federal Rules of Evidence and the Federal Rules of Civil Procedure.'" Slip op. at 5 (quoting *Hyatt*, 132 S. Ct. at 1694). Because Samson and the PTO relied on the same administrative exhaustion and APA arguments that the Supreme Court rejected in *Hyatt*, the Court concluded that it was "impossible to reconcile" the limitation on evidence sought "with the Supreme Court's unequivocal language, analysis, and holding in *Hyatt*." *Id.* at 6. Addressing the Court's prior cases holding that new evidence on an issue not presented to the Board was generally to be excluded in

district court proceedings, the Court concluded that this precedent had been implicitly overruled as inconsistent with *Hyatt*.

The Federal Circuit rejected Samson’s argument that *Hyatt* applies only to § 145 actions. Examining the statutory history of §§ 145 and 146, the Court concluded that the language of the two current statutes did not support the application of different evidentiary rules. Rather, the Court noted, “the language of § 146 is stronger in its indication that new evidence be admissible.” *Id.* at 10. The Court explained that, although both sections provide for a remedy by civil action, § 146 by its express terms does not require the PTO record to be part of the district court civil action. The Court “interpret[ed] this language as contemplating a fresh start in the district court.” *Id.* The Court also observed that, unlike § 145, “§ 146 expressly states that the parties have ‘the right . . . to take further testimony.’” *Id.* (quoting 35 U.S.C. § 146). The Court thus concluded that the language of the statute provided it with “no basis for concluding that new evidence is permitted in § 145, but not in § 146.” *Id.*

Finally, the Federal Circuit addressed two cases the Supreme Court distinguished in *Hyatt*—*Butterworth v. United States ex rel. Hoe*, 112 U.S. 50 (1884), and *Morgan v. Daniels*, 153 U.S. 120 (1894). The Court first concluded that there was no logical or textual reason to limit the *Butterworth* new evidence principles to § 145 actions, although *Butterworth* did not involve a technical appeal from the PTO. The *Morgan* Court, on the other hand, dealt with “the standard of review that ought to apply in interferences when no new evidence has been introduced,” and thus “was not making any determinations about [the] admissibility of evidence.” Slip op. at 11. Accordingly, the Court concluded that the Supreme Court’s *Hyatt* decision “ought not to be read to create an evidentiary chasm between § 145 and § 146.” *Id.*

Turning to the case before it, the Court vacated the district court’s decision and remanded with instructions for the district court to consider the new evidence and arguments raised by Troy, including all evidence to establish a July 2004 reduction to practice and arguments and evidence regarding inequitable conduct based on misappropriation.

**Kaetochi C. Okemgbo is a Summer Associate at Finnegan.*

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Submitting Stipulated Construction in IDS Constitutes Clear and Unmistakable Disclaimer of Claim Scope

Justin N. Mullen

Judges: Moore (author), Mayer, Chen

[Appealed from D. Del., Judge Robinson]

In *Golden Bridge Technology, Inc. v. Apple Inc.*, No. 13-1496 (Fed. Cir. July 14, 2014), the Federal Circuit affirmed the district court's grant of SJ that Apple Inc. ("Apple") did not infringe U.S. Patent Nos. 6,574,267 ("the '267 patent") and 7,359,427 ("the '427 patent").

The '267 and '427 patents are directed to improvements to Code Division Multiple Access ("CDMA") cellular systems and reducing the risk of interference between signals sent from various mobile cellular stations. The '267 and '427 patents disclose that mobile stations seeking to communicate with a base station can transmit preambles at increasing power levels until the mobile station receives an acknowledgement signal from the base station. According to the '267 and '427 patents, this ensures that each data signal from the mobile station is transmitted at the lowest power level necessary, thereby reducing the risk of interference. Golden Bridge Technology, Inc. ("GBT") had previously asserted the '267 patent in the Eastern District of Texas ("the Texas litigation"), in which the district court granted SJ of anticipation and, in accordance with the parties' stipulation, construed the claim terms "preamble" and "access preamble" (collectively "preamble") to mean "a signal used for communicating with the base station that is spread before transmission." Slip op. at 3 (citation omitted). The Federal Circuit affirmed this decision.

While the appeal of the Texas litigation was pending, GBT sought new claims in reexamination of the '267 patent and pursued a pending continuation application at the PTO, which issued as the '427 patent. During reexamination of the '267 patent and prosecution of the '427 patent, GBT submitted the claim construction order from the Texas litigation as part of an IDS to the PTO, including GBT's stipulated construction of "preamble." New claims issued for the '267 patent, and the '427 patent also issued.

GBT then asserted these new claims against Apple in Delaware. The district court issued a claim construction order and Apple moved for SJ of noninfringement and invalidity. The district court granted Apple's motion for SJ of noninfringement and denied Apple's motion for SJ of invalidity. GBT filed an emergency motion for reconsideration, which the district court denied. GBT filed the instant appeal.

"On the facts of this case, we see no meaningful difference between limiting claim scope based on an applicant's stipulations contained in IDS documents and an applicant's remarks contained in the IDS itself. GBT's stipulation tells the PTO how preamble should be construed, and we conclude that GBT is bound by this representation." Slip op. at 7.

On appeal, the Federal Circuit first reviewed the district court's claim construction, which concluded that the Texas litigation's construction "was 'still applicable insofar as [it] include[s] spreading prior to transmission.'" *Id.* at 5 (alterations in original) (citation omitted). The Court rejected GBT's argument that it was not bound by the stipulated construction in the Texas litigation and that submission of the stipulated construction to the PTO in an IDS did not constitute disclaimer of broader claim scope. The Court concluded that GBT's submissions "clearly and unmistakably limited the term preamble to 'a signal used for communicating with the base that is spread before transmission.'" *Id.* at 6 (citation omitted). The Court noted that when GBT submitted the IDS, it requested that the PTO "expressly consider[]" the stipulated construction of "preamble." *Id.* (alteration in original) (citation omitted). The Court thus concluded that it would have been natural for the PTO and the public to rely upon the stipulated construction in determining the claim scope.

The Court also observed that GBT's IDS was "not a typical IDS" because it did more than disclose potentially material prior art. *Id.* at 7. GBT had submitted its own stipulated construction of a claim term in the context of the patents being reexamined and prosecuted, which the Court determined was "a clear and unmistakable assertion by the patentee to the PTO of the meaning and scope of the term preamble." *Id.* The Court determined that GBT's stipulation told the PTO how the term "preamble" should be construed and concluded that GBT was bound by that representation. The Court also observed that GBT did not seek to rescind its disclaimer during prosecution and did not notify the PTO that it sought a construction different from the stipulated construction. The Court then held that GBT's submission constituted a clear and unmistakable disclaimer of broader claim scope.

The Court next considered the district court's grant of SJ of noninfringement. The Court observed that, throughout the case, GBT relied exclusively on a Physical Random Access Channel ("PRACH") to meet the preamble limitation of the asserted claims. The Court stated that a PRACH preamble consists of scrambling code and a signature sequence, and that the signature sequence was created first and then spread using the scrambling code to create the PRACH preamble. The Court agreed with the district court that the PRACH preamble was not spread because the signature sequence was spread to create the PRACH preamble and "a preamble cannot be spread before it exists." *Id.* at 12.

The Court then considered whether GBT waived the argument that the signature sequence alone satisfied the preamble limitation. After reviewing the history of the case, the Court determined that GBT had not argued that the signature sequence alone was itself a preamble until GBT filed a request for reconsideration. The Court explained that it would be "fundamentally unfair" to allow GBT to change its infringement theory "after losing the claim construction arguments at issue and the summary judgment on its infringement contentions." *Id.* at 14. The Court examined GBT's infringement contentions and found that they identified only the PRACH preamble, which was always identified as the combination of the preamble spreading code and the preamble signature sequence. For these reasons, the Court held that GBT had waived its signature sequence argument.

Accordingly, the Court affirmed the district court's grant of SJ of noninfringement.

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Failure to Move for JMOL Under Rule 50(a) Leads to a Forfeiture of JMOL Under Rule 50(b)

Kimberly D. Braslow

Judges: Prost (author), Taranto, Chen
[Appealed from S.D.N.Y., Judge Scheindlin]

In *Medisim Ltd. v. BestMed, LLC*, No. 13-1451 (Fed. Cir. July 14, 2014), the Federal Circuit vacated the district court's grant of JMOL on anticipation, affirmed the district court's grant of JMOL on unjust enrichment, and affirmed the district court's conditional grant of a new trial on anticipation.

Medisim Ltd. ("Medisim") owns U.S. Patent No. 7,597,668 ("the '668 patent"), directed to a fast noninvasive thermometric device that displays a core body temperature. More than a year before the filing date for the '668 patent, Medisim marketed and sold the FHT-1 thermometer, which uses a heat-flux algorithm to quickly estimate a local body temperature. For several years, BestMed, LLC ("BestMed") marketed and sold several of Medisim's thermometers. But the parties parted ways, after which BestMed began selling competing thermometer products.

Medisim sued BestMed for, inter alia, infringement of the '668 patent and unjust enrichment. Both parties made several motions requesting JMOL under Fed. R. Civ. P. 50(a), but the district court denied all motions. The jury found the '668 patent to be not invalid and infringed, and awarded Medisim damages for both its patent infringement and unjust enrichment claims. Postverdict, BestMed moved for JMOL of anticipation and no unjust enrichment under Rule 50(b). The district court granted both motions, overturning the verdict and finding the '668 patent anticipated by the FHT-1 thermometer. The district court also granted BestMed's motion for a new trial on anticipation, though conditioned it on an appellate court determining that BestMed failed to preserve its right to bring a post-trial JMOL motion. Medisim appealed.

"No procedural principle is more familiar to this Court than that a . . . right may be forfeited . . . by the failure to make timely assertion of the right before a tribunal having jurisdiction to determine it." Slip op. at 9 (quoting *Yakus v. United States*, 321 U.S. 414, 444 (1944)).

On appeal, the Federal Circuit held that BestMed forfeited its right to move for JMOL on anticipation under Rule 50(b) by not moving for JMOL under Rule 50(a). The Court explained that Rules 50(a) and (b) "are linked together," and "[a] motion under Rule 50(b) is not allowed unless the movant sought relief on similar grounds under Rule 50(a) before the case was submitted to the jury." Slip op. at 6 (alteration in original) (quoting *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 486 n.5 (2008)). The Court rejected BestMed's reliance on a statement made in opposing Medisim's Rule 50(a) JMOL motion of no

anticipation “that the jury can readily find that the FHT-1 product, Medisim’s own product, is anticipatory,” but “it’s definitely something for the jury.” *Id.* at 7 (citation omitted). The Court concluded that it was insufficient that the statement put Medisim on notice of BestMed’s position since “the Supreme Court has held previously that our Federal Rules of Civil Procedure are to be strictly followed in circumstances such as this one.” *Id.* at 8. Moreover, the Court noted, the statement actually indicated the opposite of JMOL—that the decision was for the jury—and was made in opposition, with BestMed never moving on its own for JMOL on anticipation before the case went to the jury. Thus, the Court vacated the district court’s grant of JMOL on anticipation without addressing the merits.

Turning to Medisim’s appeal of the district court’s grant of JMOL of no unjust enrichment, the Court first held that BestMed did not forfeit its right to move for JMOL under Rule 50(b) because it adequately made the proper Rule 50(a) motion. The Court concluded that BestMed’s generic motion under Rule 50(a) was adequate because, although Medisim based its unjust enrichment claim on appeal on misappropriation of its allegedly proprietary water bath testing procedure, during the district court proceedings, its claim requested a disgorgement-of-profits remedy without explanation of the basis. On the merits, the Court held that “Medisim failed to present any evidence to support a finding that BestMed received an incremental benefit from Medisim’s allegedly proprietary water bath testing procedure over that compensable by the patent laws,” and, thus, the Court could not “conclude that equity and good conscience require restitution.” *Id.* at 12-13.

Finally, the Federal Circuit affirmed the district court’s conditional grant of a new trial under Rule 50(c)(1). Rejecting Medisim’s argument that the district court’s decision lacked reasoning and failed to state the grounds for conditionally granting the motion, the Court held that the district court’s reasoning was “clear enough to pass Rule 50(c)(1) muster.” *Id.* at 14. Specifically, according to the Court, the district court called BestMed’s anticipation argument overwhelmingly strong and discussed all of the evidence that supported its conclusion. While the Court acknowledged that the district court’s discussion of the evidence ended with the grant of JMOL on anticipation, the Court nevertheless concluded that the same reasoning applied to the conditional grant of a new trial. Furthermore, the Court held that the district court was not foreclosed from entertaining a motion of SJ on remand.

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August 2014

TTAB Makes Harmless Error in Its Pronunciation Analysis

Morgan E. Smith

Judges: Taranto, Hughes (author)

[Appealed from TTAB]

In *StonCor Group, Inc. v. Specialty Coatings, Inc.*, No. 13-1448 (Fed. Cir. July 16, 2014), the Federal Circuit affirmed the TTAB's dismissal of an opposition by StonCor Group, Inc. ("StonCor") to an application by Specialty Coatings, Inc. ("Specialty Coatings") for the mark ARMORSTONE because substantial evidence supported the TTAB's dismissal of the opposition.

StonCor and Specialty Coatings compete in the market for epoxy coatings used on concrete floors. StonCor registered the mark STONSHIELD with the PTO for "floors and flooring systems comprised of epoxy resins . . . for use in industrial and institutional applications." Slip op. at 2 (citation omitted). Specialty Coatings later filed an application for the mark ARMORSTONE in connection with "[e]poxy coating for use on concrete industrial floors." *Id.* at 2-3 (alteration in original) (citation omitted). StonCor opposed the registration of ARMORSTONE on multiple grounds, including likelihood of confusion with its STONSHIELD mark and that ARMORSTONE was merely descriptive. The TTAB dismissed StonCor's opposition, and StonCor appealed.

"Where a trademark is not a recognized word and the weight of the evidence suggests that potential consumers would pronounce the mark in a particular way, it is error for the Board to ignore this evidence entirely and supply its own pronunciation." Slip op. at 6-7.

On appeal, the Federal Circuit first held, regarding likelihood of confusion, that the TTAB erred in its pronunciation analysis under *DuPont* factor one—the similarity or dissimilarity of the marks—but held that the error was harmless. Specifically, the Court held that the TTAB improperly created its own pronunciation rule contrary to StonCor's evidence that the "o" in STONSHIELD was pronounced as a long vowel, as in "stone," rather than a short vowel, as in "on." The Court pointed to testimony from StonCor's Vice President of Marketing that the company pronounces and promotes its products using a long vowel, and that "he has only 'very, very rarely' heard the 'o' pronounced with a short vowel sound." *Id.* at 6 (citation omitted). The Court further noted that it was reasonable to infer from this testimony that StonCor's sales employees follow the company's pronunciation as well. Because "[t]here is no correct pronunciation of a trademark that is not a recognized word," the Court concluded that the TTAB failed to give proper weight to StonCor's evidence. *Id.* Nevertheless, the Court held that this error was harmless because substantial evidence supported the TTAB's finding that *DuPont* factor one weighed against a likelihood of confusion, including differences in (1) spelling between the two affixes, (2) placement of the two affixes within the mark, (3) number of syllables within the complete mark, and (4) commercial

impression.

The Federal Circuit also held that substantial evidence supported the TTAB's conclusion that the sixth *DuPont* factor—the number and nature of similar marks in use on similar goods—was neutral. The Court noted that while StonCor presented evidence of third-party uses of ARMORSTONE, “this factor usually addresses marks similar to an opposer’s registered mark [STONSHIELD], to demonstrate the strength or weakness of that mark.” *Id.* at 7. The Court concluded that StonCor did not present any credible explanation to support its contention that marks similar to ARMORSTONE demonstrate a likelihood of confusion with STONSHIELD.

Finally, the Federal Circuit held that substantial evidence supported the TTAB’s decision that StonCor failed to prove that ARMORSTONE was merely descriptive. The Court explained that while StonCor presented evidence of Specialty Coatings’ advertisements and of dictionary definitions of “armor” and “stone,” none of this evidence demonstrated that “the mark, as a whole, conveys ‘an immediate idea of the ingredients, qualities or characteristics of the products.’” *Id.* at 9 (quoting *DuoProSS Meditech Corp. v. Inviro Med. Devices, Ltd.*, 695 F.3d 1247, 1252 (Fed. Cir. 2012)).

Accordingly, the Court affirmed the TTAB’s dismissal of StonCor’s opposition to registration of the mark ARMORSTONE to Specialty Coatings.

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August 2014

There Is No Jurisdiction over an Appeal from a Contempt Order Without Modification or Continuation of the Injunction

Forrest A. Jones

Judges: Chen, Clevenger, Hughes (author)

[Appealed from M.D. Pa., Senior Judge Caputo]

In *Arlington Industries, Inc. v. Bridgeport Fittings, Inc.*, No. 13-1357 (Fed. Cir. July 17, 2014), the Federal Circuit held that it did not have jurisdiction to hear an appeal where the contempt order was not a final judgment or otherwise appealable.

Arlington Industries, Inc. (“Arlington”) and Bridgeport Fittings, Inc. (“Bridgeport”) compete in the electrical connectors market. In March 2001, Arlington sued Bridgeport for infringement of two of its patents. In January 2002, Arlington filed the action-at-issue on appeal, alleging infringement of a third patent, U.S. Patent No. 6,335,488 (“the ‘488 patent”), by certain Bridgeport connectors (“Old Connectors”). The parties settled in April 2004, with Bridgeport agreeing to be “permanently enjoined from directly or indirectly making, using, selling, offering for sale or importing . . . [the Old Connectors] or any colorable imitations of [the Old Connectors]” (“the 2004 Injunction”). Slip op. at 3 (citation omitted).

In 2005, Bridgeport began selling redesigned connectors (“New Connectors”). In 2012, Arlington filed a motion for contempt of the 2004 Injunction based on these sales. The district court found that the New Connectors infringed the ‘488 patent, and issued a contempt order that expressly enjoined sale of the New Connectors for the life of that patent (“the 2013 Injunction”), but did not enter sanctions at that time. Bridgeport appealed on multiple grounds.

“The focus of the clarification-or-modification analysis is whether there were changes to the original injunction that ‘actually altered the legal relationship between the parties.’” Slip op. at 7 (quoting *Aevoe Corp. v. AE Tech Co.*, 727 F.3d 1375, 1382 (Fed. Cir. 2013)).

The Federal Circuit first agreed that it can have jurisdiction over interlocutory injunction orders of district courts under 28 U.S.C. § 1292(c)(1), but only if the injunction has been modified. In order to determine if the Court has jurisdiction, it must “determine whether the [2013 Injunction] constitutes a modification, or is simply an interpretation or clarification.” *Id.* at 5-6. The Court stated, “The focus of the clarification-or-modification analysis is whether there were changes to the original injunction that ‘actually altered the legal relationship between the parties.’” *Id.* at 7 (quoting *Aevoe Corp. v. AE Tech Co.*, 727 F.3d 1375, 1382 (Fed. Cir. 2013)).

The Court held that the 2013 Injunction was a clarification, not a modification, of the 2004 Injunction. The

Court explained that both injunctions “are directed to the same parties, apply to the same activities, and are in force for the same time period.” *Id.* at 8. The Court explained that even though the exact wording identifying the products is different in both injunctions, the injunctions also apply to the same products. As the Court reasoned, the 2004 Injunction included any colorable imitations of the Old Connectors, and the district court explicitly found the New Connectors were indeed colorable imitations of the Old Connectors; thus, the identification of the new products in the 2013 Injunction was just a clarification of the existing protection of the 2004 Injunction. As such, the Court stated that the legal relationship between the parties was not altered.

The Court rejected Bridgeport’s argument that the 2013 Injunction modified the parties’ relationship by broadening the scope of the 2004 Injunction. Bridgeport argued that the 2013 Injunction enjoined it from selling the New Connectors for any use, not just uses infringing the claimed method. The Court agreed, but pointed out that this was in fact within the scope of the original injunction. The Court explained that the 2004 Injunction prevented the sale of specific products that infringe the method of claim 1 of the ’488 patent, and was not restricted only to sales where the product was used in an infringing manner. Thus, the Court concluded that the 2013 Injunction enjoined the same scope of behavior.

The Court noted that the construction of claim terms for purposes of the 2013 Injunction did not create a modification of the parties’ relationship either. The Court stated that, although the claim construction was necessary for the contempt order, the actual meaning of those claim terms did not change between the 2004 Injunction and the 2013 Injunction. The Court explained that “[i]n expressly providing the claim constructions, the district court simply interpreted or clarified the meaning of those claim terms,” regardless of whether the constructions were expressly provided in 2004. *Id.* at 9.

The Court next declined to extend the exception to the final judgment rule, provided in 28 U.S.C. § 1292(c)(2), to contempt orders. The Court acknowledged that § 1292(c)(2) allows for appeal of patent infringement actions that are “final except for an accounting” to the Federal Circuit, but noted that, “[a]s an exception to the final judgment rule, § 1292(c)(2) is to be interpreted narrowly.” *Id.* at 11. Since “contempt proceedings and patent infringement cases are not co-extensive,” the Court ruled that the exception could not apply. *Id.* at 12.

Finally, the Court noted that a civil contempt order is not final and appealable until sanctions have been imposed. The Court noted that “[h]ere, the district court has imposed sanctions, but only well after the record was fixed for appeal.” *Id.* The Court explained it “normally cannot consider documents outside of the record on appeal,” and that even if it could, Bridgeport’s notices of appeal after the entry of sanctions also suggest the earlier appeal was premature. *Id.* at 13.

Accordingly, the Federal Circuit dismissed the appeal, finding that it did not have jurisdiction to hear an appeal of a contempt order where the contempt order constituted a clarification, and not a modification, of an earlier injunction, and where the contempt order was not a final judgment since sanctions had not yet been entered at the time of the appeal.

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ITC Exceeded Authority by Reviewing ALJ's Order Denying Motion to Terminate Investigation

Jonathan R.K. Stroud

Judges: Prost, Chen (author)

[Appealed from ITC]

In *Align Technology, Inc. v. International Trade Commission*, Nos. 13-1240, -1363 (Fed. Cir. July 18, 2014), the Federal Circuit reversed as arbitrary and capricious the ITC's reversal of an ALJ's order, holding that, procedurally, the ITC may only review initial determinations, not orders.

Align Technology, Inc.'s ("Align") primary product, the Invisalign System, based on Align's patented technology, offers an alternative to orthodontic braces. Invisalign treats teeth misalignment gradually, avoiding the need for braces. By wearing a progression of individualized clear dental aligners, many patients avoid braces, which can make wearers uncomfortable or self-conscious. Because care providers must personalize each set, they obtain data from the patients' teeth to create three-dimensional models for the aligner molds.

In 2005, Align's founder and former Chief Executive Officer founded a rival company, and began manufacturing dental aligners using former Align employees in Pakistan and the United States, and importing them into the United States. In response, Align filed an ITC complaint against OrthoClear, Inc., OrthoClear Holdings, Inc., and OrthoClear Pakistan Pvt, Ltd. (collectively "OrthoClear"), alleging patent infringement and trade secret misappropriation.

The parties reached global settlement requiring OrthoClear to assign its intellectual property portfolio to Align, to agree to a Consent Order, and to file a joint motion to terminate based on that Consent Order. The ALJ granted the Consent Order, which indicated that "the patents or trade secrets described therein (the 'Articles')" were prohibited from importation until the patents expired, and that the order was "applicable and binding upon OrthoClear, its officers, directors, agents, servants, employees, successors and assigns, and all persons, firms, or corporations acting or claiming to act on its behalf or under its direction or authority." Slip op. at 4-5 (citations omitted).

Align began suspecting that OrthoClear was continuing to violate the Consent Order under the guise of a new corporate identity, ClearCorrect Pakistan (Private), Ltd., ClearCorrect Operating, LLC, and four other individuals (collectively "Intervenors"), and thus filed two ITC actions—an enforcement proceeding for violation of the original Consent Order and a new § 1337 complaint.

When instituting, the ITC recommended that the ALJ first consider (as potentially dispositive) if the digital datasets identified in the enforcement complaint were covered by the Consent Order, and requested that the decision be "issued in the form of an initial determination." *Id.* at 7 (citation omitted). Intervenors moved to terminate, arguing that their digital datasets were not articles covered by the Consent Order. The ALJ issued an order finding that the accused digital datasets fell within the scope of the Consent Order and refused to terminate the proceeding. Intervenors sought, and were granted, ITC review, and

the ITC determined that the ALJ's order was really an initial determination, found jurisdiction, and reversed the ALJ's order.

“But under these circumstances, the Commission cannot circumvent its own rules. If it desires to do so, Rule 201.4(b) gives it broad authority to waive, suspend, or even amend its rules, none of which happened here. Until it does, its rules are binding and the Commission must follow them.”
Slip op. at 16.

On appeal, taking into consideration that it must set aside any findings or conclusions of the ITC that are “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with [the] law,” the Federal Circuit found that “the Commission circumvented its own rules without waiving, suspending, or amending them,” and reversed. *Id.* at 10 (quoting 5 U.S.C. § 706(2)(A)). Turning to the ITC’s Rules of Practice and Procedure, 19 C.F.R. § 210.1 *et seq.*, the Court explained that the ITC was bound by Rule 210.42(c) and was required to rule only on initial decisions, not orders. The Court looked to the text of Rule 210.42(c), which requires that ALJs “*shall grant* the following types of motions by issuing an *initial determination* or *shall deny* them by issuing an *order*.” Slip op. at 10-11. Noting that Intervenors had procedurally moved for a motion to terminate under Rule 210.21 and that the ALJ properly denied it under Rule 210.42(c), the Court found that the ITC acted *ultra vires*. While the ITC can immediately review the grant of certain requests for relief, the Court explained that the regulations explicitly isolated the denial of requests for relief from interlocutory review. Accordingly, the Court found that the ITC exceeded its authority by reviewing the ALJ’s order, which was not subject to review under Rule 210.24.

The Federal Circuit disagreed with the ITC’s contention that it had discretion to construe the ALJ’s order as an initial determination. The rules being clear that denials of motions to terminate are to be issued as nonreviewable orders, the Court explained that the ITC’s “regulations explicitly define which ALJ decisions should be considered orders, and decisions denying motions to terminate fall in the latter category.” *Id.* at 12. The Court also did not find persuasive the ITC’s argument that “the Notice superseded its rules by redefining initial determinations for purposes of this proceeding to include a denial of a motion to terminate the proceeding.” *Id.* at 14. Indeed, the Court noted, the ITC “may supersede its rules only by waiver, suspension, or amendment of the regulation.” *Id.* (citing 19 C.F.R. § 201.4(b)). While acknowledging that the ITC needs only a “good and sufficient reason” to waive or suspend a rule under Rule § 201.4(b), there was no record evidence providing ITC’s intention to invoke its waiver rule. *Id.* (quoting 19 C.F.R. § 201.4(b)). The Court was of the opinion that the reasoning offered on appeal appeared to be “post hoc rationalization.” *Id.* The Court concluded that the ITC had two separate occasions to invoke its waiver rule or suspend the regulation—first, when issuing its Notice, and second, after Align argued that the ALJ’s order was not an initial determination—and it did not.

The ITC also argued that the ALJ “mistakenly issued” the decision as an order and was required by the Notice to issue an initial determination rather than an order, but the Federal Circuit disagreed. Rather, the Court noted, the order did not “bear any of the hallmarks of an initial determination” and was not inconsistent with the Notice’s “may” language, which gave the ALJ discretion. *Id.* at 15-16. The Court explained, “While we are cognizant that resolving potentially dispositive issues at the outset of the investigation may be advantageous, that goal cannot trump the need for the Commission to follow its own rules and regulations, absent identifying sufficient grounds for waiver or suspension of those rules.” *Id.* at 16. Thus, the Court determined, the ITC had exceeded its statutory authority by ruling on the merits of the order prematurely.

Lastly, although not so required, the Court chose to interpret the Consent Order’s language, noting that the ITC on remand might easily invoke waiver properly and the issue would return “substantially unchanged.” *Id.* at 17. In the interest of efficiency, the Court held there was no established practice of requiring orders to refer to electronic transfers by name, thereby rejecting the ITC’s argument.

Thus, the Federal Circuit vacated the ITC's review of the ALJ's order and remanded for further proceedings consistent with the opinion.

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After PTO's Cancellation of Claim, No Legal Basis Remains to Enjoin Conduct Based on the Rights Previously Conferred by That Claim as Those Rights Cease to Exist

Corinne Miller LaGosh

**Judges: Prost, Dyk (author), O'Malley (dissenting)
[Appealed from E.D. Va., Senior Judge Payne]**

In *ePlus, Inc. v. Lawson Software, Inc.*, Nos. 13-1506, -1587 (Fed. Cir. July 25, 2014), the Federal Circuit vacated an injunction and contempt order because both were based on a claim that had been cancelled by the PTO during reexamination.

ePlus, Inc. ("ePlus"), assignee of U.S. Patent Nos. 6,023,683 ("the '683 patent") and 6,505,172 pertaining to methods and systems for electronic sourcing, instituted an infringement action against Lawson Software, Inc. ("Lawson"). The district court found two asserted system claims and three asserted method claims were valid, and the jury determined that Lawson infringed the asserted claims. The district court entered a permanent injunction against Lawson in light of the jury's verdicts. On appeal, the Federal Circuit reversed-in-part—finding the system claims invalid and that two of the method claims were not infringed—affirmed only the infringement verdict as to method claim 26 of the '683 patent, and remanded so that the district court could modify the injunction.

On remand, the district court requested that the parties provide statements of position discussing the effect of the Federal Circuit's decision on the injunction. Particularly, Lawson challenged the bar against the sales of particular software products, which were originally supported by the jury's findings of infringement of the system claims, but those findings were later vacated by the Federal Circuit. Lawson argued that infringement of method claim 26 of the '683 patent did not support the district court's injunction against product sales and that, because the jury's findings had been narrowed, the software products subject to the injunction were capable of significant noninfringing uses. Lawson subsequently filed a Rule 60(b) motion seeking modification of the injunction. The district court disagreed with Lawson's arguments and modified the injunction in only one respect. The district court further found Lawson in civil contempt for violation of that same injunction because Lawson's redesigned products "were no more than colorably different and infringed," and required Lawson to pay a compensatory fine and coercive daily fines until it showed compliance with the injunction. Slip op. at 8. Lawson appealed the injunction and the contempt order, which was presently before the Court. While these appeals were pending, the PTO completed reexamination of the '683 patent and determined that claim 26 of the '683 patent was invalid, which the Federal Circuit affirmed in a separate appeal.

"Under these authorities, there is no longer any legal basis to enjoin Lawson's conduct based on rights that claim 26 of the '683 patent previously conferred as those rights have ceased to exist. The PTO found claim 26 invalid, we affirmed that decision, our mandate issued, and the PTO cancelled the claim.

On appeal, first addressing whether an injunction can continue after the PTO has cancelled the only claim upon which the injunction was based, the Federal Circuit found that the injunction was no longer supported. Relying on long-standing precedent, the Federal Circuit explained that—once the PTO invalidated claim 26, the Federal Circuit affirmed that decision, the mandate issued, and the PTO cancelled the claim—“there is no longer any legal basis to enjoin Lawson’s conduct based on rights that claim 26 of the ’683 patent previously conferred as those rights have ceased to exist.” *Id.* at 11. Indeed, the Court noted that ePlus admitted as much during oral argument. Thus, the Federal Circuit found that the injunction should be vacated.

The Federal Circuit then turned to the second issue on appeal: whether civil contempt remedies based on the violation of an injunction should be set aside when the injunction has been overturned on direct appeal. Distinguishing between criminal and civil contempt, the Federal Circuit explained that “[c]ivil contempt sanctions must be set aside when the resolution of the case requires overturning the injunction on which those sanctions are based.” *Id.* at 13. The Court further explained that the present case was not distinguishable based on the injunction being set aside due to a PTO proceeding rather than a court judgment. The Court found this case analogous to *Fresenius USA, Inc. v. Baxter International, Inc.*, 721 F.3d 1330 (Fed. Cir. 2013) (“*Fresenius II*”), where the Court previously held that “a non-final money judgment of damages for infringement must be set aside where the judgment rested on a patent claim that the PTO later cancelled.” Slip op. at 15 (citing 721 F.3d at 1344, 1347).

The Court further noted that the present appeal did not require it to decide whether civil sanctions would survive if the injunction had been final at the time civil contempt sanctions had been imposed by the district court. To be sure, the Court indicated, “[t]here is no question here that the district court’s modified injunction was not final when the PTO cancelled claim 26.” *Id.* at 17. Addressing ePlus’s argument that Lawson viewed the injunction as final because it filed a Rule 60(b) motion to modify or dissolve the modified injunction, the Court found the filing of the motion under those circumstances not to be unusual. Thus, the Court concluded that the compensatory damages award had to be set aside due to the cancellation of claim 26 of the ’683 patent.

Accordingly, the Court vacated both the district court’s injunction and contempt orders, and remanded the case with instructions to dismiss.

While Judge O’Malley agreed that, upon affirming the PTO’s cancellation of claim 26 of the ’683 patent, the injunction could no longer stand, she dissented to address the “more difficult question” as to whether Lawson should be relieved of all penalties for violation of the injunction for the four years that it was in place prior to the Court’s affirmance of the PTO’s cancellation of claim 26. O’Malley Dissent at 1-2. Judge O’Malley dissented from the portion of the Court’s opinion where it stated that it did not need to decide whether civil contempt sanctions would survive if the injunction had been final at the time the district court imposed civil contempt sanctions. She was of the opinion that *Fresenius II* was distinguishable from the present appeal and also wrote separately “to note that, if we are bound by *Fresenius II* on these facts, I find *Fresenius II* even more troubling than I initially believed.” *Id.* at 2. First, Judge O’Malley found “crucial differences between these facts and the facts in *Fresenius II*.” *Id.* at 7. Second, she reiterated the concerns from her dissent in *Fresenius II* that “the majority in *Fresenius II* erroneously analyzed both the finality of the issues on appeal and the scope of our appellate remand instruction in [*Fresenius USA, Inc. v. Baxter International, Inc.*, 582 F.3d 1288, 1293 (Fed. Cir. 2009)]. These arguments apply with even greater force and urgency here.” O’Malley Dissent at 12. Accordingly, Judge O’Malley would consider the merits of Lawson’s appeal from the trial court’s civil contempt findings.

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Looking Ahead

On August 6, 2014, in *Tyco Healthcare Group LP v. Mutual Pharmaceutical Co.*, No. 13-1386 (Fed. Cir. Aug. 6, 2014), the Federal Circuit, inter alia, vacated-in-part the district court's SJ that Tyco Healthcare Group LP's ("Tyco") "citizens petition" to the FDA was not a sham and remanded to the district court to determine whether the citizen petition caused any injury to Mutual Pharmaceutical Company, Inc. ("Mutual") in the form of a delay in the approval of Mutual's ANDA. The appeal arose from the district court's holding that Tyco did not violate the antitrust laws by filing suit against Mutual or by filing a citizen petition with the FDA seeking to bar Mutual from obtaining FDA approval to market its generic version of Tyco's Restoril. One of the Court's main findings on appeal was that the district court erred by granting SJ against Mutual on the citizen petition issue because, when the timing of the petition and the email—which the Court found evidenced Tyco's knowledge that the theory in its citizen petition lacked merit—were considered, a reasonable fact-finder could determine that Mutual established the subjective element that Tyco's petition was a sham.

Judge Newman dissented. In her view, "[w]ith its reversal of the district court's summary judgment dismissing Mutual's antitrust counterclaims, this court now creates several new grounds of antitrust liability." Newman Dissent at 1.

Read the full summary in the next edition of *Last Month at the Federal Circuit*.

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Spotlight Info

In *VirtualAgility Inc. v. Salesforce.com, Inc.*, No. 14-1232 (Fed. Cir. July 10, 2014), the Federal Circuit held that the district court clearly erred in denying a motion to stay pending a covered business method (“CBM”) review before the Board. In reversing the district court’s denial of the motion, the Court rejected the district court’s finding that “it was ‘not convinced’ by the [Board’s] assessment that cancellation of some or all of the claims during the CBM review was ‘probable’” because district courts do not have a role in reviewing the Board’s determinations regarding patentability of claims subject to CBM proceedings. Slip op. at 6 (quoting *VirtualAgility Inc. v. Salesforce.com, Inc.*, No. 13-cv-00111, 2014 WL 94371, at *2, *5 (E.D. Tex. Jan. 9, 2014)). The Court also explained that the time at which the motion was filed is generally the relevant time to measure the stage of litigation for purposes of deciding whether to grant the motion to stay. See this month’s edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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