Last Month at the Federal Circuit

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

Cost of Creating Produced Duplicates Are Included Under 28 U.S.C. § 1920(4), but Preparatory or Ancillary Costs Associated with Duplication Are Not

CBT Flint Partners, LLC v. Return Path, Inc.
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[Appealed from N.D. Ga., Judge Thrash]

ITC Lacks Authority to Issue Exclusion Orders Based on Theory of Induced Infringement Where Underlying Direct Infringement Occurs Postimportation

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[Appealed from Board]

Abbreviations

ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act
APJ	Administrative Patent Judge
Board	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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Request for Declaratory Relief Dismissed Under the First-to-File Rule When Infringement and Invalidity Claims to Be Tried in the Earlier-Filed Case

Ming W. Choy

Judges: Reyna, Mayer, Taranto (author)

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

In *Futurewei Technologies, Inc. v. Acacia Research Corp.*, No. 13-1090 (Fed. Cir. Dec. 3, 2013), the Federal Circuit affirmed the district court's dismissal of Huawei Device USA Inc. and Futurewei Technologies, Inc.'s (collectively "Huawei") complaint under the first-to-file rule in favor of an earlier-filed infringement suit brought by SmartPhone Technologies, LLC ("SmartPhone") in the U.S. District Court for the Eastern District of Texas ("the Texas suit").

Access Co., Ltd. ("Access"), a vendor of software for mobile communication devices, owns the five patents-at-issue in this case ("the five patents"). Access entered into an exclusive license agreement ("the Agreement") with Acacia Patent Acquisition LLC ("APAC"), a wholly owned subsidiary of Acacia Research Corporation ("Acacia Research"). The Agreement gave APAC the exclusive right to sue, collect damages, and to seek injunctive or any other relief for infringement of specified patents, including the five patents. The Agreement also broadly disclaims the creation of any third-party-beneficiary rights, prohibits APAC from enforcing the covered patents against Access's customers and end-users in connection with Access's products and services, and specifies that APAC irrevocably consents to the exclusive jurisdiction of the U.S. District Court for the Central District of California over any suit, action, or proceeding arising out of or related to the Agreement.

APAC assigned the Agreement to a wholly owned subsidiary, SmartPhone, and SmartPhone subsequently sued Huawei for infringement of the five patents in the Texas suit. The day after SmartPhone filed suit in Texas, Huawei brought the present action against SmartPhone, Acacia Research, and Access in the Central District of California. Huawei's sixteen-count complaint alleged that Huawei had been an Access customer for more than ten years and had contracted with Access to purchase software for certain of Huawei's mobile handsets. Of relevance on appeal, counts 1-5 sought DJs of noninfringement and counts 6-10 sought DJs of invalidity of the five patents. Count 11 alleged that Huawei is a third-party beneficiary to the Agreement, although without expressly asking for a DJ that Huawei has that status, and count 16 sought a DJ that Acacia Research and SmartPhone are acting as corporate alter egos.

The district court granted a motion to dismiss Huawei's complaint. The district court dismissed counts 1-10 under the first-to-file rule based on SmartPhone's earlier-filed Texas suit since the subject matter of both cases is the infringement or validity of the five patents. The district court dismissed count 11 for failure to state a claim, concluding that the Agreement's specific provisions disclaiming creation of any third-party beneficiaries must prevail over Huawei's conclusory allegation of

third-party-beneficiary status. Lastly, the district court dismissed count 16 under Fed. R. Civ. P. 13(a) as a compulsory counterclaim to the claims in the Texas suit. Huawei appealed the district court's dismissal of counts 11 and 16.

On appeal, the Federal Circuit affirmed, although on alternative grounds. Specifically, the Court relied on the first-to-file rule, concluding that, like counts 1-10, both counts 11 and 16 belonged in the Texas suit. The Court held that it was not precluded from relying on the first-to-file rule since Huawei would suffer no prejudice and it was an alternative ground that was supported by the record and consistent with the district court's reasoning.

"When two actions that sufficiently overlap are filed in different federal district courts, one for infringement and the other for declaratory relief, the declaratory judgment action, if filed later, generally is to be stayed, dismissed, or transferred to the forum of the infringement action." Slip op. at 6.

Applying the first-to-file rule to count 11, the Federal Circuit held that it would be both just and efficient to have Huawei litigate its status as third-party beneficiary, if necessary, in the Texas suit. The Court first assumed that count 11 requested a DJ that Huawei is a third-party beneficiary of the Agreement, as third-party-beneficiary status would give Huawei the right to enforce certain contract provisions, e.g., provisions protecting Access's customers and end-users against patent enforcement and dictating forum selection. Those provisions, however, the Court explained, were either already at issue in the first-filed Texas suit, or readily could be, via Huawei's affirmative defense that, as an Access consumer, it is licensed to practice the patents, and Huawei's motion to transfer. The Court thus concluded that keeping the issue in the Texas suit would serve the key objectives of the first-to-file rule, including avoiding the duplication of effort, waste of judicial resources, and the risk of inconsistent rulings.

The Court also held that no substantial countervailing considerations supported an exception to the first-to-file rule for count 11. The Court first concluded that Huawei had not shown any countervailing judicial or litigant interest in economy. Rather, Huawei, a Texas corporation with its principal place of business in Texas, did not dispute the dismissals of counts 1-10, and, thus, the noninfringement and invalidity issues would be litigated in the Texas suit, unless transferred. The Court also concluded that the interest in the just and effective disposition of disputes likewise did not warrant an exception to the first-to-file rule since the Texas court could decide the issues presented by count 11, including those that may raise questions of California law.

Finally, the Court held that the same conclusion follows for count 16 seeking a DJ that SmartPhone is acting as Acacia Research's alter ego. Count 16, according to the Court, is directly related to Huawei's affirmative defense in the Texas suit that it is licensed to practice the five patents, since SmartPhone's status as an alter ego to Acacia Research matters only to SmartPhone's substantive rights to enforce the five patents in the Texas suit. The Court noted that its conclusion was indirectly supported by the district court's conclusion that count 16 is a compulsory counterclaim to the Texas suit, as the Rule 13(a) analysis confirmed the strong logical relationship between Huawei's alter-ego claim and the other claims in the Texas suit, e.g., SmartPhone's affirmative right to enforce the five patents, all of which arise from the Agreement.

Accordingly, the Federal Circuit affirmed the district court's dismissal of counts 11 and 16 of Huawei's complaint.

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Cost of Creating Produced Duplicates Are Included Under 28 U.S.C. § 1920(4), but Preparatory or Ancillary Costs Associated with Duplication Are Not

Kara A. Specht

Judges: Dyk, O'Malley (concurring-in-part and dissenting-in-part), Taranto (author)
[Appealed from N.D. Ga., Judge Thrash]

In *CBT Flint Partners, LLC v. Return Path, Inc.*, No. 13-1036 (Fed. Cir. Dec. 13, 2013), the Federal Circuit held that the district court erred in its interpretation of the statutory provision governing the taxation of costs, 28 U.S.C. § 1920(4). The Court thus reversed-in-part, vacated-in-part, and remanded the case.

CBT Flint Partners, LLC ("CBT") sued Return Path, Inc. ("Return Path") and Cisco IronPort Systems, LLC ("Cisco") for infringement of U.S. Patent Nos. 6,192,114 ("the '114 patent") and 6,587,550 ("the '550 patent"). After claim construction, CBT stipulated to noninfringement of the '114 patent and the district court granted SJ of indefiniteness of the asserted claim of the '550 patent. Cisco then moved to recover its costs under 28 U.S.C. § 1920, including $243,453.02 that it paid to an electronic-discovery vendor, and the district court granted the motion.

The Federal Circuit reversed the district court's SJ of indefiniteness, construed the claim in question, and remanded for further proceedings. The Court vacated the district court's order on costs because Cisco was no longer a prevailing party. On remand, the district court granted SJ of noninfringement of the '550 patent and then entered an amended final judgment deciding that Return Path and Cisco were entitled to recover their costs, which included costs for copies and electronic-discovery vendors. The district court denied CBT's motion to review the taxation of costs, and CBT appealed.

"[W]e conclude that recoverable costs under section 1920(4) are those costs necessary to duplicate an electronic document in as faithful and complete a manner as required by rule, by court order, by agreement of the parties, or otherwise. . . . But only the costs of creating the produced duplicates are included, not a number of preparatory or ancillary costs commonly incurred leading up to, in conjunction with, or after duplication." Slip op. at 9-10.

On appeal, the Federal Circuit applied Eleventh Circuit law and held that only some of the costs taxed against CBT clearly fell within § 1920(4), which covers "[f]ees for exemplification and *the costs of making copies of any materials where the copies are* necessarily obtained for use in the case." Slip op. at 5 (alteration in original) (quoting 28 U.S.C. § 1920(4)). The Court concluded that "recoverable costs under section 1920(4) are those costs necessary to duplicate an electronic document in as faithful and complete a manner as required by rule, by court order, by agreement of the parties, or otherwise," but

that "only the costs of creating the produced duplicates are included, not a number of preparatory or ancillary costs commonly incurred leading up to, in conjunction with, or after duplication." *Id.* at 9-10.

The Court stated that the document production at hand could be separated into three distinct stages: (1) copying by an electronic-discovery vendor of computer hard drives or other "source media" containing the requested documents; (2) organization of the documents into a database where they were indexed, decrypted, de-duplicated, filtered, analyzed, searched, and reviewed; and (3) copying of the documents selected for production onto memory media without conversion to an "image file" format.

With respect to stage one, the Court stated that steps of creating an image of the original source and then applying special techniques to extract documents while preserving metadata are fairly considered costs of making copies of the requested documents. The Court held that such steps were included in § 1920(4) where they were necessary to make copies of information required to be produced and not just to make copies for the convenience of the producing party. The Court noted that it did not matter that an electronic-discovery vendor performed the steps. The Court concluded that application of the analysis to the specific bills of cost in this case required an inquiry that the district court should perform in the first instance.

Regarding the second stage, the Court held that they were largely not the costs of making copies but rather were part of the large body of discovery obligations that Congress had not included in § 1920(4). The Court determined, however, that the creation of "load files" was covered to the extent they contain information required by the requested production. The Court concluded that other stage-two activities called for similar analysis and that "[j]udgment calls in the nature of line-drawing are required." *Id.* at 18.

Turning to the third stage, the Court stated that there was no dispute among the parties that the costs of copying responsive documents to production media are recoverable under § 1920(4), and held that it agreed. The Court noted with regard to source code that "[w]here legitimate trade-secret concerns entitle a producing party to use a special form of production media . . . , the costs of such production media are recoverable under section 1920(4)." *Id.* at 19.

The Court noted that its general approach was "consistent with the analysis of other circuits that have interpreted section 1920(4) to allow for only limited recovery of the costs of electronic-document production," but that its application "apparently differs from two circuits in one way—regarding the stage-one costs of imaging source media and extracting documents in a way that preserves metadata." *Id.* The Court reasoned, "It seems to us that there is no good reason, as a default matter, to distinguish copying one part of an electronic document *(i.e.*, the part that is visible when printed) from copying other parts (*i.e.*, parts not immediately visible) when both parts are requested." *Id.* at 20.

The Court held that the district court erred in interpreting § 1920, and thus reversed-in-part and vacated-in-part the district court's fee award and remanded for further proceedings. The Court also reversed the district court's award of fees to Return Path for prior art searches.

Judge O'Malley concurred-in-part and dissented-in-part. Judge O'Malley disagreed with the "portion of the majority opinion that authorizes, as 'costs,' an award of the pre-duplication expenses the majority describes as stage one costs." O'Malley Concurrence-in-Part and Dissent-in-Part at 2. Judge O'Malley stated, "While I appreciate the policy goals driving the majority's desire to shift the costs incurred under stage one to the party requesting discovery, I believe the majority improperly expands § 1920(4) to achieve those goals." *Id.*

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ITC Lacks Authority to Issue Exclusion Orders Based on Theory of Induced Infringement Where Underlying Direct Infringement Occurs Postimportation

*Aaron V. Gleaton**

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

[Appealed from ITC]

In *Suprema, Inc. v. International Trade Commission*, Nos. 12-1170, -1026, -1124 (Fed. Cir. Dec. 13, 2013), the Federal Circuit vacated a cease and desist order, vacated a limited exclusion order barring importation of optical scanning devices in part, and remanded so that the ITC's order could be revised to bar only a subset of the scanners-at-issue that infringed at the time of importation. The Court affirmed a separate ITC order refusing to find a violation of § 337 with respect to some of the same optical scanners.

Cross Match Technologies, Inc. ("Cross Match") filed a complaint in the ITC asserting that Suprema, Inc. ("Suprema") and Mentalix, Inc. ("Mentalix") violated 19 U.S.C. § 1337(a)(1)(B)(i) by importing articles infringing U.S. Patent Nos. 7,203,344 ("the '344 patent"); 7,277,562 ("the '562 patent"); and 5,900,993 ("the '993 patent"), which are directed to an optical scanning system for fingerprint image capturing and processing. Specifically, Cross Match alleged that Suprema, a Korean company, marketed and imported scanners and software development kits, which Mentalix, a domestic company, imported into the United States and then integrated with its own software. The ITC concluded that Suprema's scanners, when combined with Mentalix's software, directly infringed one of the method claims of the '344 patent and that Suprema induced that infringement. The ITC further found that some of Suprema's scanners directly infringed certain claims of the '993 patent. The ITC, however, found no infringement of the '562 patent. Further, the ITC determined that the '993 patent was not invalid as obvious over the prior art. Based upon these findings, the ITC issued an exclusion order identifying Suprema's induced infringement as a basis for the § 337 violation, which was directed to both Suprema and Mentalix, and also issued a cease and desist order directed only to Mentalix.

Suprema appealed the ITC's findings that it violated § 337 by infringement of the '344 patent and that certain products imported by Suprema infringed the '993 patent. Cross Match cross-appealed the ITC's determination that certain claims of the '562 patent were not infringed by either Suprema's scanners or the use of those scanners with Mentalix's software.

"[A]n exclusion order based on a violation of 19 U.S.C. § 1337(a)(1)(B)(i) may not be predicated on a theory of induced infringement under 35 U.S.C. § 271(b) where direct infringement does not occur until *after* importation of the articles the exclusion order would bar." Slip op. at 4.

On appeal, the Federal Circuit agreed with Suprema's argument that it did not import "articles that infringe" within the meaning of § 337(a)(1)(B)(i) because the scanners were not infringing at the time of importation. To reach its conclusion, the Court rested on principles of statutory construction. Specifically, the Court looked to 19 U.S.C. § 1337(a) to highlight that the ITC's statutory authority is premised on the "importation," "sale for importation," or "sale within the United States after importation" "of *articles that . . . infringe*." Slip op. at 16 (quoting 19 U.S.C. § 1337(a)(1)(B)(i)). The Court noted that the focus, therefore, of the ITC's authority is on the infringing nature of the product at the time of importation, divorced from any intent on behalf of the importer to infringe after importation.

The Court also parsed through the language of § 271 for guidance, which the Court noted provides the basis for § 1337 regulation of unfair trade practices. Specifically, the Court explained that, unlike direct and contributory infringement under § 271(a) and (c), which are tied to infringing "articles," induced infringement under § 271(b) is not, but rather is tethered to the intent of the person actively encouraging infringement. The Court reasoned that, based on the nature of the conduct prohibited in § 271(b) and the authority of § 337, § 337 does not apply to conduct prohibited in § 271(b) where the acts of underlying direct infringement occur after importation. Based on the facts of the case, the Court explained that the ITC lacked authority to exclude Suprema's scanners based on a theory of induced infringement of the method claims of the '344 patent. In a footnote, the majority responded that its ruling is not as broad as Judge Reyna's opinion dissenting-in-part implies. The majority clarified, "[V]irtually all of the mischief the dissent fears can be addressed by the ITC via resort to § 271(a) or § 271(c), or even to § 271(b) where the direct infringement occurs pre-importation." *Id*. at 21 n.4.

In addressing Cross Match's argument that the Federal Circuit has recognized induced infringement as a viable theory on which to base exclusion, the Court distinguished *Kyocera Wireless Corp. v. International Trade Commission*, 545 F.3d 1340 (Fed. Cir. 2008), and *Alloc, Inc. v. International Trade Commission*, 342 F.3d 1361 (Fed. Cir. 2003). Noting that the issue presently before it had never been previously presented or decided, the Court relied on the fact that the ITC's authority was not challenged in *Kyocera* or *Alloc* and, therefore, the cases were "uninformative" on the issue of whether the ITC has the statutory authority to predicate an exclusion order on induced infringement. Slip op. at 23.

The Court dismissed the parties' reliance on *In re Certain Electronic Devices*, Inv. No. 337-TA-724, 2012 WL 3246515 (ITC Dec. 21, 2011), in which the issue was raised finding that the language referencing the ITC's authority was dicta. In any event, the Court reasoned, *Certain Electronic Devices* was not necessarily inconsistent with its present ruling because that case also focused on the infringing nature of the product at the time of importation, which the Court adopted in its ruling in this case. Therefore, the Court vacated the portion of the ITC's order addressing Suprema's scanners and declined to address the ITC's findings that Mentalix directly infringed the '344 patent and whether Suprema induced that infringement.

The Federal Circuit then turned to Suprema's challenge to the ITC's determination that certain products Suprema imports infringe the '993 patent. As to the ITC's finding that the '993 patent claims excluded "non-lens elements," the Court upheld the ITC's construction and rejected Suprema's argument that the written description disavowed nonlens elements. Considering Suprema's obviousness defense, the Court agreed with the ITC that Suprema failed to sufficiently prove obviousness because U.S. Patent No. 3,619,060 ("the '060 patent") provided insufficient motivation for one skilled in the art to seek the data disclosed in U.S. Patent No. 5,615,051 ("the '051 patent") or conversely to substitute the lens disclosed in the '051 patent with the lens disclosed in the '060 patent. As a result, the Court affirmed the ITC's infringement and obviousness findings as to the '993 patent and left intact the exclusion order regarding Suprema's scanners.

With respect to Cross Match's cross-appeal, the Court affirmed the ITC's construction and noninfringement finding of the '562 patent. The issue on appeal concerned the meaning of the claim term "capture," which the ITC construed according to Cross Match's proposed construction. Based on Cross

Match's construction, the ALJ and ITC found that Suprema's products did not infringe because they did not perform all the steps of the claimed process. On appeal, Cross Match challenged the construction, however, arguing that Suprema's scanner did not have to perform all the steps of the claimed process but rather needed only be "involved in that process." In noting Cross Match's "difficult position" in arguing against its own claim construction, the Court affirmed the ITC's construction based on the claim language. Slip op. at 38. The Court ultimately concluded that the ALJ's noninfringement finding with respect to the '562 patent was supported by substantial evidence because Suprema's scanners could not have performed the claimed process based on the scanner's function.

Accordingly, the Court affirmed-in-part, vacated-in-part, and remanded-in-part the related appeals of the ITC's rulings.

Acknowledging agreement with the majority's disposition in all other respects, Judge Reyna dissented-in-part and disagreed with the majority's ruling with respect to the ITC's authority to predicate orders on induced infringement. Judge Reyna argued that the majority's holding creates a "fissure in the dam of the U.S. border" by overlooking congressional intent to remedy specific acts of unfair trade, including acts based on induced infringement. Reyna Dissent at 4-5. Resting his argument on the characterization of § 337 as a trade statute, Judge Reyna argued that temporally limiting the ITC's authority to exclude products that only infringe preimportation precludes the ITC from fully carrying out its mandate to remedy § 337 violations of infringing activity that occur within the United States. In other words, Judge Reyna argued that the ITC's authority extends to exclude products that will eventually violate § 337 after importation. Judge Reyna also disagreed with the majority's application of § 271 in this context.

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Invalidity Not Proven by Feature in Prior Art Device and Domestic Industry Requirement Satisfied by Investment in Software Specifically Tailored for Use in Patented Mobile Device

*Adam S. Boger**

Judges: Rader (author), Prost, Taranto

[Appealed from ITC]

In *Motorola Mobility, LLC v. International Trade Commission*, No. 12-1535 (Fed. Cir. Dec. 16, 2013), the Federal Circuit affirmed the ITC's determination that Motorola Mobility, LLC ("Motorola") violated section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, holding that substantial evidence supported the ITC's decision that the asserted claims of Microsoft Corporation's ("Microsoft") U.S. Patent No. 6,370,566 ("the '566 patent") were not invalid and that Microsoft satisfied the domestic industry requirement.

Microsoft filed a complaint in the ITC against Motorola, alleging that the importation and sale of certain Motorola mobile devices infringed nine Microsoft patents, including the '566 patent. The '566 patent claims a mobile device containing a personal information manager ("PIM") to manage scheduling, communications, and similar tasks. The ALJ found that Motorola failed to prove anticipation or obviousness by clear and convincing evidence, and that Microsoft satisfied the domestic industry requirement. Upon review, the ITC affirmed the ALJ's determinations in relevant part. Motorola appealed to the Federal Circuit.

The Federal Circuit held that Motorola failed to prove that a prior art mobile device, the Apple Newton MessagePad, anticipated the asserted claims. The claims recite a "synchronization component configured to synchronize," a phrase not construed by the ALJ, the ITC, or the parties. The Court held that this phrase was, therefore, left with its ordinary meaning and, contrary to Motorola's assertions, required "something more [i.e., more active management] than whatever software may be needed simply for the mobile device to operate at all and to act entirely under the control of another device" (i.e., a desktop device) to facilitate communication and synchronization. Slip op. at 7. The Court then held that Motorola failed to prove that the claimed synchronization component was inherently present in the Apple device. The Court stated that the '566 patent did not teach that synchronization necessarily required the synchronization component be on the mobile device. The Court also concluded that the ITC did not act unreasonably in rejecting as clear and convincing evidence conclusory expert testimony that the synchronization function disclosed in the Apple MessagePad's manual required execution on the mobile device. In sum, the Court explained, the disclosed synchronization of the prior art device did not necessarily require any additional capacity that would qualify as a component "to synchronize" as required by the claims.

"Motorola did not specifically explain in its briefing to the administrative law

judge how the desktop-based PIMs render any particular claim obvious. Neither the administrative law judge, nor the Commission, nor this court has the task of divining an invalidity defense from the record." Slip op. at 10.

Turning to obviousness, the Federal Circuit held that Motorola had not clearly identified the scope and content of the asserted prior art, or even addressed how specific claims would have been obvious in view of the prior art. In the Court's view, Motorola proffered only alleged admissions from Microsoft's expert concerning the general state of the prior art and the general desire to implement the alleged prior art features on a mobile device.

Finally, the Federal Circuit held that Microsoft satisfied the domestic industry requirement. The Court rejected Motorola's argument that by relying on the mobile device's software operating system to show a domestic industry, Microsoft was relying on a different product than the patented mobile device. The Court stated that "nothing in § 337 precludes a complainant from relying on investments or employment directed to significant components, specifically tailored for use in an article protected by the patent." *Id.* at 11.

Accordingly, the Federal Circuit affirmed the ITC's determination that Motorola violated section 337 of the Tariff Act of 1930.

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Totality of Circumstances, Including Objective Baselessness, Should Be Considered When Determining Subjective Bad Faith Under 35 U.S.C. § 285

Ming W. Choy

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

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

In *Kilopass Technology, Inc. v. Sidense Corp.*, No. 13-1193 (Fed. Cir. Dec. 26, 2013), the Federal Circuit vacated the district court's denial of a motion seeking an award of attorneys' fees and remanded.

Plaintiff Kilopass Technology, Inc. ("Kilopass") sued Defendant Sidense Corporation ("Sidense") for both literal infringement and infringement under the DOE of U.S. Patent Nos. 6,940,751 ("the '751 patent"); 6,777,757; and 6,856,540. The '751 patent is directed to a programmable memory cell utilizing a transistor at the intersection of a column bitline and a row wordline. Claim 1 of the '751 patent claims first and second doped semiconductor regions, where the second doped region is connected to one of the row wordlines. Kilopass alleged that Sidense's memory cell—which utilizes a shallow trench isolation ("STI") region for the transistor drain, and also connects the second doped region to a column bitline, infringe the '751 patent.

Kilopass decided to sue Sidense after consulting two law firms and performing its own independent analysis. The first law firm advised Kilopass that Sidense did not infringe Kilopass's patents literally, based on the information that Sidense had replaced the first doped region of its memory cell with an STI. Kilopass then retained a second law firm to perform infringement analysis, but eight days later instructed the firm to stop all work on the project. The second law firm provided Kilopass with a preliminary infringement chart that concluded that Kilopass might have a viable claim under the DOE, but there was no evidence that the infringement chart was complete or that Kilopass considered the chart. Rather, the Court noted that it appeared that Kilopass officials had already decided that Sidense infringed its patents prior to learning of the second law firm's infringement analysis. After Kilopass hired a third party to reverse-engineer Sidense's products and received the result, Kilopass retained a third law firm to investigate potential infringement under the belief that, "'[f]rom an engineer's perspective,' Sidense infringed under the doctrine of equivalents." Slip op. at 9 (alteration in original) (citation omitted). Kilopass subsequently sued Sidense, alleging both literal infringement and infringement under the DOE.

During the district court proceedings, the district court granted SJ of noninfringement for Sidense, and Kilopass appealed the district court's decision. The Federal Circuit summarily affirmed the district court's decision under Federal Circuit Rule 36. While the appeal to the Federal Circuit was pending, Sidense filed a motion in the district court for an award of attorneys' fees pursuant to 35 U.S.C. § 285. The district court denied the motion, holding that Sidense had not met its burden of establishing with clear and convincing evidence that Kilopass brought the suit in bad faith, given that Kilopass had performed a

substantial prefiling investigation and analysis, and that Kilopass obtained opinions from two different law firms that Kilopass had a nonbaseless claim against Sidense. Sidense appealed.

"Our case law has long held that, 'in considering a party's subjective state of mind, we are to take into account the totality of the circumstances.'" Slip op. at 15 (internal quotation marks omitted) (quoting *Highmark, Inc. v. Allcare Health Mgmt.*, 687 F.3d 1300, 1311 (Fed. Cir. 2012)).

On appeal, the Court vacated the district court's denial of Sidense's motion for § 285 attorneys' fees and remanded. First, the Court noted that § 285 requires, absent misconduct in the litigation or in securing the patent, a showing both that "(1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Id*. at 11 (citing *Brooks Furniture Mfg. v. Dutailier, Inc*., 393 F.3d 1378, 1381 (Fed. Cir. 2005)). The Court noted that the subjective bad-faith prong does not require a showing that the plaintiff actually knows the case lacks objective foundation. The Court explained that subjective bad faith only requires proof that the "lack of objective foundation for the claim was '*either* known *or* so obvious that it should have been known' by the party asserting the claim." *Id*. at 14 (quoting *Highmark, Inc. v. Allcare Health Mgt.*, 687 F.3d 1300, 1309 (Fed. Cir. 2012)). The Court held that the district court erred in requiring actual knowledge of objective baselessness.

Second, the Court also noted that "in considering a party's subjective state of mind, [the district court must] '. . . take into account the totality of the circumstances.'" *Id*. at 15 (quoting *Highmark*, 687 F.3d at 1311). The Court suggested that bad faith can be inferred from a totality of the circumstances, which includes the objective merits of the claims, as well as other objective evidences, such as failure to conduct adequate presuit investigation, or vexatious or unduly burdensome litigation tactics, among other factors. Because the district court did not address the objective merits of Kilopass's case in its denial of Sidense's § 285 motion, the Court held that the district court's analysis was incomplete. The Court instructed the district court to consider whether Kilopass acted in bad faith in light of the totality of the circumstances, with particular attention paid to the objective merits of Kilopass's claims and other objective evidence indicative of bad faith.

Sidense also argued that proof of objective baselessness alone should be enough to demonstrate exceptionality under § 285 and permit the district court to shift fees in its discretion in light of the totality of circumstances. The Court agreed that the plaintiff's state of mind is not necessarily related to the central aim of 35 U.S.C. § 285, which is to prevent the alleged infringer from suffering a gross injustice. The Court also cited to Fed. R. Civ. P. 11, where subjective bad faith is not a required showing for a violation of the rule. But while the Court found that Sidense's arguments may constitute good-faith assertions that the law should be something other than what it is, because the Court was not sitting en banc, it could not change its § 285 jurisprudence, and could only apply current law, which required proof of objective baselessness and subjective bad faith as a prerequisite to a finding of exceptionality.

Sidense also contended that it should not be required to prove exceptionality by clear and convincing evidence, as currently required by the law. The Court explained that such standard of proof had been justified by the "presumption that an assertion of infringement of a duly granted patent is made in good-faith." Slip op. at 23 (quoting *Highmark*, 687 F.3d at 1310). But the Court expressed doubt about such presumption and even suggested that such presumption may not justify the "clear and convincing evidence" standard. The Court also noted that in a civil case, a "preponderance of the evidence" standard is generally applicable except for fraud, and it is not necessary to prove exceptionality by clear and convincing evidence when fraud is not at issue. And while finding that Sidense again made good-faith arguments for changing the current law, because the Court was not sitting en banc, it could not change its § 285 jurisprudence.

Sidense lastly proposed that the Court should adopt an "objectively low likelihood" standard in place of

the current "objectively baseless" standard for § 285. The Court disagreed, noting that the property right conveyed by a patent has constitutional underpinnings, and that patentees have a First Amendment right to petition the government to enforce those property rights. The Court held that patentees should be allowed to bring claims that have an objectively reasonable basis, even if such basis is not firm. The Court also noted that the "objectively baseless" standard does not prejudice the alleged infringer, since there are many other circumstances under which a case can be considered exceptional, such as fraud, which give the trial court broad discretion to make findings of exceptionality under § 285.

Accordingly, the Court vacated the district court's decision denying Sidense's motion for attorneys' fees, and remanded for consideration of whether Kilopass's DOE theory was objectively baseless and whether the totality of the circumstances demonstrated that Kilopass acted with subjective bad faith.

Judge Rader concurred, stating that the Court should return to its § 285 jurisprudence before *Brooks Furniture*, represented by *Eltech Systems Corp. v. PPG Industries, Inc.*, 903 F.2d 805 (Fed. Cir. 1990), where the Court held that "district court may shift fees when, based on the totality of the circumstances, it is necessary to prevent a gross injustice." Rader Concurrence at 2 (citing *Eltech*, 903 F.2d at 810-11). Citing case law prior to *Brooks Furniture*, Judge Rader noted that the Court should have remained true to its original reading of § 285 in *Eltech*, and not to require both subjective bad faith and objective baselessness to find a case exceptional.

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Federal Food, Drug, and Cosmetic Act Does Not Preempt State's Regulation of Prescription Drugs

Ming W. Choy

Judges: Rader, Moore (author), Wallach
[Appealed from C.D. Cal., Judge Selna]

In *Allergan, Inc. v. Athena Cosmetics, Inc.*, No. 13-1286 (Fed. Cir. Dec. 30, 2013), the Federal Circuit affirmed the district court's SJ of violation of California's unfair competition law ("UCL"). But the Court vacated the district court's entry of a nationwide permanent injunction and remanded. The Court also held that it has exclusive jurisdiction in this case, since patent law is a necessary element of one of the well-pleaded claims, and the district court's decision had changed the parties' legal position with respect to the patent claims.

Plaintiff Allergan, Inc., Duke University, and Murray A. Johnstone, M.D. (collectively "Allergan") sued Defendants Athena Cosmetics, Inc., Pharma Tech International, Inc., Product Innovations, LLC, Northwest Cosmetic Laboratories, LLC, and R & G Business LLC (collectively "Athena") for infringing three patents of which Allergan is the exclusive licensee, including U.S. Patent No. 6,262,105 ("the '105 patent"), and for a violation of the UCL, California Business and Professions Code § 17200 *et seq.* Allergan alleged that Athena competed unfairly by violating, inter alia, California Health Code § 111550 by marketing, selling, and distributing its RevitaLash line of hair and/or eyelash growth products, all of which contain a prostaglandin derivative as an active ingredient, without an NDA approved by the FDA or by the California State Department of Health Services. The district court, pursuant to the parties' agreements, granted SJ of noninfringement of the '105 patent and dismissed all of the patent claims without prejudice. The district court then granted Allergan's motion for SJ that Athena's products-at-issue qualified as new drugs that lacked the requisite approval, giving rise to a UCL violation. The district court also held that the Federal Food, Drug, and Cosmetic Act ("FDCA") did not preempt Allergan's UCL claim, and entered a permanent injunction barring Athena from manufacturing, marketing, and selling any eyelash growth product anywhere within the United States. Athena appealed.

On appeal, the Court first held it has exclusive jurisdiction over the appeal, even though no patent issue was involved. The Court noted that when patent law is a necessary element of one of the well-pleaded claims in a complaint, and the district court's final decision on that complaint is now under appeal, the Court has jurisdiction over the appeal unless the district court's decision left the parties in the same legal position with respect to all the patent claims. Athena argued that the parties' legal positions had changed. The Court agreed with Athena, noting that the district court's SJ of noninfringement would bind the parties in future district court litigations against each other.

"In all pre-emption cases, and particularly in those in which Congress has

legislated in a field which the States have traditionally occupied, we start with the assumption that the historic police powers of the States were not to be superseded by the Federal Act unless that was the clear and manifest purpose of Congress." Slip op. at 8 (quoting *Wyeth v. Levine*, 555 U.S. 555, 565 (2009)).

The Court next affirmed the district court's SJ that Athena violated the UCL, which bans marketing, distributing, and selling products that qualify as drugs without regulatory approval. The Court first looked at whether Allergan's UCL claim is preempted by the FDCA. Athena argued that the FDCA impliedly preempts the UCL because Allergan's UCL claim involves the violation of a California statute that simply incorporates FDCA provisions. Such a claim, Athena argued, is not rooted in a traditional state law tort principle and exists solely by virtue of a federal statute. Athena also argued that the UCL claim interferes with the FDA's discretionary authority in regulating an article in interstate commerce as a drug, similar to a claim based on alleged misrepresentation to the FDA about a medical device. Allergan argued that the FDCA does not impliedly preempt its UCL claim because, while the FDCA contains express preemption provisions for medical devices and nonprescription drugs, it does not contain such provisions for prescription drugs. Allergan further argued that there is no implied preemption when simultaneous compliance with the UCL and the FDCA is possible, given that the California Health Code's requirements parallel the FDCA's.

The Court agreed with Allergan that the FDCA does not impliedly preempt the UCL claim. The Court noted that in all preemption cases, there is always an assumption that the historic police powers of the States, including regulation of health and safety, are not to be superseded by the FDCA unless that is the clear and manifest purpose of Congress. The Court found that Congress clearly defined the scope of preemption under the FDCA to include medical devices and nonprescription drugs, but the Court did not find a clear purpose by Congress to preempt state law in regulating prescription drugs, under which the products-at-issue are classified.

The Court next looked at whether there was a genuine issue of material fact about whether Athena's eyelash products are within the definition of drugs by the California Health Code. The California Health Code incorporates the FDCA's definition of "drugs" to include any article other than food to affect the structure of the human body. The Court noted that an article's intended use is determined based on "the objective intent of the persons legally responsible for the labeling of drugs," which may be derived or inferred from labeling, promotional material, advertising, or any other relevant source. Slip op. at 9-10 (quoting 21 C.F.R. § 201.128). Athena argued that its intent should turn only on labeling and marketing materials for its present products, which only discuss "eyelash appearance," and that statements by resellers about eyelash growth do not reflect Athena's objective intent. Allergan argued that there is no genuine factual dispute that Athena objectively intends for the products to be used as drugs, as revealed in testimony by Athena's founder, and that Athena's marketing materials consistently refer to "eyelash length," which depends on growth.

The Court agreed with Allergan and held that there is no genuine dispute that Athena's products were intended to be used to affect the structure of eyelashes, and were properly classified as drugs. The Court noted that Athena's website collectively referred to its past and present products as the RevitaLash line-up of products. Therefore, Athena's drug-related claims about an early product are relevant to its objective intent, given that Athena never disavowed such claims as it reformulated its products. The Court further observed that Athena had made references to eyelash structures and linked eyelash appearance to physical changes in its advertising, as well as in its trainings and presentations provided to resellers. Because the Court found that Athena objectively intended that the products-at-issue be used as drugs, the Court affirmed the district court's grant of SJ.

The Court also vacated the district court's entry of a permanent injunction barring Athena from manufacturing, marketing, selling, and/or offering for sale any and all eyelash growth products anywhere

within the United States. The Court noted that the Commerce Clause precludes the California courts and the California legislature from regulating commerce entirely outside of California's borders, and only the FDA has the power and discretion to enforce the FDCA. Athena argued that the injunction violates the Commerce Clause by regulating commerce that occurs wholly outside of California, since the state is not part of the supply chain for its most recent products-at-issue. The Court agreed with Athena that the district court abused its discretion by entering a nationwide injunction, since the injunction prevents extraterritorial sales that are entirely performed by non-California residents outside of California, thereby violating the Commerce Clause. The Court therefore vacated the permanent injunction and remanded, instructing the district court to limit the scope of the injunction to regulate conduct occurring within California.

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Knowledge of a Goal Does Not Render Its Achievement Obvious

Amelia F. Baur

Judges: Newman, Clevenger, Taranto (author)

[Appealed from Board]

In *Institut Pasteur & Universite Pierre et Marie Curie v. Focarino*, Nos. 12-1485, -1486, -1487 (Fed. Cir. Dec. 30, 2013), the Federal Circuit reversed the Board's decision that claims 10 and 12 of U.S. Patent No. 6,610,545 ("the '545 patent") were obvious; vacated and remanded the Board's decision that the claims of U.S. Patent No. 6,833,252 ("the '252 patent") were obvious; and dismissed as moot the Board's decision regarding U.S. Patent No. 7,309,605 ("the '605 patent").

Institut Pasteur and Universite Pierre et Marie Curie (collectively "Pasteur") own the '605, '545, and '252 patents, which claim methods and tools for inserting or deleting genes at targeted locations in the chromosomes of living cells ("gene targeting") using group I intron encoded endonucleases ("GIIE endonucleases"). Precision BioSciences, Inc. ("Precision") requested inter partes reexamination of each patent, and the examiner rejected a number of Pasteur's claims as obvious during reexamination. The Board affirmed the examiner's rejections, and Pasteur appealed. While the appeal was pending, the involved patents expired.

The Court dismissed as moot the appeal relating to the '605 patent, finding that Pasteur substantively narrowed the scope of claim 14 during reexamination by amending the claim to recite that the targeted DNA was "chromosomal." The Court rejected Pasteur's argument that the scope was unchanged because the claim was already limited to chromosomal DNA. Specifically, Pasteur argued that claim 14 was limited to "chromosomal DNA" even before the amendment because it recited that the targeted DNA undergoes homologous recombination with a newly introduced plasmid whose sequence is "homologous to the sequence of [a] chromosome." Slip op. at 13 (alteration in original) (citation omitted). The Court rejected this reasoning, finding that the newly introduced plasmid may be homologous to both chromosomal and nonchromosomal DNA, and, therefore, the original claim did not exclude homologous recombination in nonchromosomal DNA. Therefore, the Court found that the amendment limiting the claims to chromosomal DNA changed the scope of the claims. Because under 37 C.F.R. § 1.530(j) and (k), the PTO cannot issue an amended claim for an expired patent if the amendment substantively changes the claim's scope, the Court dismissed Pasteur's appeal relating to the '605 patent as moot.

The Federal Circuit next considered the Board's findings of obviousness with regard to claims 10 and 12 of the '545 patent. The Court found that two of the cited references (Bell-Pedersen and Quirk) disclosed gene transfer into *nonchromosomal* DNA in *prokaryotic* cells, and agreed with the Board that the key issue was whether the relevant skilled artisan—after reading these two references—would have expected that a GIIE endonuclease would successfully promote targeted gene transfer into the *chromosomal* DNA of *eukaryotic* cells, and thus had good reason to pursue that possibility. The Court held that the Board

made prejudicial errors by making factual determinations about the prior art that were not supported by substantial evidence, and by failing to give proper consideration to at least two categories of evidence: (1) teachings in the prior art that targeting a cell's chromosomal DNA could be toxic to the cell; and (2) industry praise and licensing of Pasteur's invention.

First, the Court found that the Board erred in finding that the Frey and Dujon references showed that a GIIE endonuclease cleaved yeast chromosomal DNA when expressed in yeast cells. "Because no other references identified by the Board show a GIIE endonuclease cleaving chromosomal DNA in a eukaryotic cell, its errors were highly material to whether the '545 patent claims would have been obvious." *Id.* at 17.

"[T]he expectation-of-success analysis must match the highly desired goal, not switch to a different goal that may be a less challenging but also less worth-while pursuit." Slip op. at 18 (citing *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421 (2007)).

The Court then found that the Board compounded its erroneous findings by ignoring teachings that targeting a GIIE endonuclease to chromosomal DNA in a living cell could be highly toxic. The Court explained that the Board identified no reason at all that a skilled artisan would have pursued a method toxic to cells. The Federal Circuit found that instead, the Board relied on the interest stated by the Old reference that "[i]t would be a great advance if such alterations could be engineered into copies of a chosen gene *in situ* within the chromosomes *of a living animal cell*." *Id.* at 18 (alteration in original) (citation omitted). The Court cautioned that "knowledge of the goal does not render its achievement obvious." *Id.* (quoting *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1352 (Fed. Cir. 2008)). The Court stated that "without a sound explanation for doing otherwise, which is not present here, the expectation-of-success analysis must match the highly desired goal, not switch to a different goal that may be a less challenging but also less worth-while pursuit." *Id.* (citing *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421 (2007)).

Regarding objective indicia of nonobviousness, the Federal Circuit held that the Board erred by too finely parsing Pasteur's evidence of industry licensing and by dismissing Pasteur's evidence of praise based on a misreading of the prior art. With regard to licensing, the Court explained that the Board rejected the evidence of licensing because the declaration by the inventor and exclusive licensee "did not establish that the third parties specifically licensed the patent family to gain access to the subject matter *claimed* in the '545 patent, rather than other technology *described* in the patent but not claimed or claimed in related patents." *Id.* at 20 (citation omitted). The Court found that theoretical possibility does not undermine the strong probative value of the licensing of the '545 patent, stating that "[t]he central success described in the patent is the one prior art hoped for and is captured in the claims at issue." *Id.*

With regard to industry praise, the Court explained that while the Board acknowledged that Pasteur established a connection between the praise by the industry and the claimed homologous recombination step, the Board found that the step was possessed by the prior art and therefore not a proper basis to rebut the prima facie case of obviousness. The Federal Circuit, however, found that under a correct reading of the Dujon reference, the step was *not* shown. Thus, the Court held that industry praise, like others' licensing of Pasteur's invention, provided probative and cogent evidence that one of ordinary skill in the art would not have reasonably expected that a GIIE endonuclease could successfully modify chromosomal DNA in eukaryotic cells. The Federal Circuit thus reversed the Board's rejection of claims 10 and 12 of the '545 patent.

Turning to the '252 patent, the Court noted that its disposition follows from its discussion of the '545 patent. The '252 patent claims recite a recombinant mammalian chromosome comprising a GIIE endonuclease recognition site, which the Federal Circuit explained was a first step to practicing the

method recited by claims 10 and 12 of the '545 patent. In vacating the Board's conclusion and remanding to the Board for reconsideration, the Federal Circuit explained that the Board identified only a single reason that one of ordinary skill in the art would have attempted to make a recombinant chromosome containing a GIIE endonuclease recognition site: to apply the homologous recombination method disclosed by the Bell-Pedersen and Quirk references to chromosomal DNA in mammalian cells. The Court held that this reason was insufficient to support a determination of obviousness, for the reasons discussed in connection with the '545 patent.

The Federal Circuit explained that the Board never considered whether other motivations would have made the chromosome claimed by the '252 patent obvious. Specifically, the Board did not make a finding about whether a skilled artisan would have introduced a GIIE endonuclease recognition site into a mammalian chromosome even without reasonably expecting its successful use for the site-directed insertion of DNA. Although mentions were made at oral argument about other uses for such recombinant chromosomes, the Court cautioned that "obviousness is determined at the time the invention was made, so current uses for the recombinant chromosomes, without more, would not establish a sufficient motivation at the time of invention." *Id.* at 24 (citation omitted). Finally, regarding objective evidence of nonobviousness, the Court held that the use of the '252 patent claims as a necessary first step for a method that others in the industry licensed, praised, and copied, does not demonstrate that they did so because of that first step. The Court thus vacated the Board's conclusion for the '252 patent and remanded for further consideration.

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Looking Ahead

On December 6, 2013, the U.S. Supreme Court granted certiorari in *Alice Corp. v. CLS Bank International*, No. 13-298, in order to consider whether claims to computer-implemented inventions—including claims to systems and machines, processes, and items of manufacture—are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101. The petition by Alice Corp. Pty. Ltd. states that "[t]he Federal Circuit has left no doubt that it is irreconcilably fractured," and that "[t]he uncertainty that now plagues—and will, absent [the Supreme Court's] intervention, continue to plague—the patent system will cause severe harm and waste for innovators and litigants, as well as lower courts and the Patent and Trademark Office." Pet. for Writ of Cert. at 3 (filed Sept. 4, 2013). Stay tuned to future editions of *Last Month at the Federal Circuit* to see how the pending decision in *Alice Corp.* affects future Federal Circuit decisions.

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Spotlight Info

In *Suprema, Inc. v. International Trade Commission*, Nos. 12-1170, -1026, -1124 (Fed. Cir. Dec. 13, 2013), the Federal Circuit vacated a cease and desist order, vacated a limited exclusion order barring importation of optical scanning devices in part, and remanded so that the ITC's order could be revised to bar only a subset of the scanners-at-issue that infringed at the time of importation. The Court affirmed a separate ITC order refusing to find a violation of § 337 with respect to some of the same optical scanners. As its basis for vacating the limited exclusion order in part, the Court held that "an exclusion order based on a violation of 19 U.S.C. § 1337(a)(1)(B)(i) may not be predicated on a theory of induced infringement under 35 U.S.C. § 271(b) where direct infringement does not occur until *after* importation of the articles the exclusion order would bar." Slip op. at 4. See this month's edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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