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## Last Month at the Federal Circuit

November 2014



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### Claims Indefinite for Lacking Sufficient Structure When Specification Provides Only Functional Descriptions of Claim Terms

*Robert Bosch, LLC v. Snap-On Inc.*

No. 14-1040 (Fed. Cir. Oct. 14, 2014)

[Appealed from E.D. Mich., Judge Cleland]

### JMOL of Noninfringement Appropriate Where Patent Owner Failed to Argue Infringement Based on Narrower Construction

*CardSoft, LLC v. VeriFone, Inc.*

No. 14-1135 (Fed. Cir. Oct. 17, 2014)

[Appealed from E.D. Tex.,

Magistrate Judge Payne]

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[Appealed from E.D.N.Y., Chief Judge Amon]

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Nos. 13-1472, -1656 (Fed. Cir. Oct. 22, 2014)




[Appealed from D. Nev., Judge Pro]

## Abbreviations

AIA	America Invents Act
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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### **Claims Indefinite for Lacking Sufficient Structure When Specification Provides Only Functional Descriptions of Claim Terms**

*Cara R. Lasswell*

**Judges: Prost (author), Taranto, Hughes**  
**[Appealed from E.D. Mich., Judge Cleland]**

In *Robert Bosch, LLC v. Snap-On Inc.*, No. 14-1040 (Fed. Cir. Oct. 14, 2014), the Federal Circuit affirmed the district court's finding that the claim terms "program recognition device" and "program loading device" invoked 35 U.S.C. § 112, ¶ 6, and were indefinite because the specification did not describe a corresponding structure.

Robert Bosch, LLC ("Bosch") owns U.S. Patent No. 6,782,313 ("the '313 patent"), which claims a diagnostic tester that determines whether a motor vehicle's computerized control unit needs to be reprogrammed. The claimed diagnostic tester includes a "program recognition device" and a "program loading device." Slip op. at 2. The specification contains no figures, but states that the "program recognition device" connects to the motor vehicle via a diagnostic plug and that the "program loading device" connects to a control unit through the diagnostic plug.

Bosch sued Snap-On Inc. ("Snap-On") in the Central District of California, alleging infringement of the '313 patent. Bosch later added infringement claims against Drew Technologies, Inc. ("Drew"), and the case was transferred to the Eastern District of Michigan. After initial claim construction briefing, Snap-On and Drew asserted that "program recognition device" and "program loading device" were means-plus-function terms under § 112, ¶ 6, and were indefinite. The district court agreed, finding that both terms were indefinite means-plus-function terms. The parties then stipulated to a final judgment of invalidity. Bosch appealed.

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**"Because the '313 patent's disclosures of 'program recognition device' and 'program loading device' are solely functional, one of ordinary skill in the art could not find in the specification a definition of the terms as referring to a particular structure." Slip op. at 10.**

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On appeal, the Federal Circuit applied a two-step evaluation to determine whether the claim terms invoke § 112, ¶ 6. The Court first found that neither claim term triggered a presumption of § 112, ¶ 6, because the terms did not recite the word "means." The Court determined that the district court erred by finding that the language "by means of" invoked this presumption, stating that it was "unaware of any precedent stating that the presumption is triggered by a claim's use of the expression 'by means of.'" *Id.* at 7. This phrase, the Court explained, was not equivalent to using "means" as a noun and therefore did not invoke the presumption of means-plus-function language under § 112, ¶ 6, but instead created a rebuttable

presumption against invoking § 112, ¶ 6.

The Court found, however, that the district court's error was harmless because the presumption against § 112, ¶ 6, was overcome. The Court observed that both the claim language and the specification describe the "program recognition device" and the "program loading device" using only functional language and did not describe a structure for either term. The Court agreed with Snap-On that "the '313 patent's specification does not contain a single reference to the structure of the 'program recognition device' itself; all of the proffered citations from the specification merely explain its function." *Id.* at 9. The Court concluded that the specification is "silent about any interaction between the 'program recognition device' and other components of the system," and does not teach how the program recognition device receives and processes signals, noting that "the words 'signal' and 'process' are not even in the specification." *Id.* The Court also rejected Bosch's arguments relating to the "program loading device," finding that "the '313 patent is silent on what such a 'program loading device' consists of; the loading could be achieved by using any type of device that comprises hardware, software, or both." *Id.* at 10. Thus, the Court concluded that "[b]ecause the '313 patent's disclosures [of the terms] are solely functional, one of ordinary skill in the art could not find in the specification a definition of the terms as referring to a particular structure." *Id.*

Next, the Court considered whether Bosch's expert declaration created a disputed issue of material fact about whether the specification included sufficient structure. The Court noted that the expert asserted that the claim terms were generally understood to have structural meanings in the art, but determined that those "statements are both conclusory and unhelpful to Bosch." *Id.* at 11. The Court rejected the expert's declaration, explaining that "[l]abeling the devices as 'electronic' and repeating their function does not identify structure." *Id.* The Court determined that the expert's examples of possible structures were also insufficient to avoid invoking § 112, ¶ 6, because "means-plus-function language that defines a category in functional terms will typically cover examples of structures that fall within it." *Id.* at 11-12.

The Court concluded that this was "not a basis for distinguishing structural language from § 112, ¶ 6 language." *Id.* at 12. The Court therefore held that the two claim terms invoked § 112, ¶ 6.

The Court then turned to the second step of the inquiry and determined that the claims were indefinite because there was no accompanying structural specification. Because the terms-at-issue were found in the independent claims, the Court held that all the claims of the '313 patent were indefinite and therefore invalid.

Accordingly, the Court affirmed the district court's holding that all the claims of the '313 patent are invalid as indefinite.

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### JMOL of Noninfringement Appropriate Where Patent Owner Failed to Argue Infringement Based on Narrower Construction

*Christopher M. Kurpinski*

**Judges: Prost, Taranto, Hughes (author)**

**[Appealed from E.D. Tex., Magistrate Judge Payne]**

In *CardSoft, LLC v. VeriFone, Inc.*, No. 14-1135 (Fed. Cir. Oct. 17, 2014), the Federal Circuit reversed the jury's verdict for CardSoft (Assignment for the Benefit of Creditors), LLC ("CardSoft"), finding that it was based on an erroneous claim construction, and granted judgment of no infringement as a matter of law for VeriFone, Inc., Hypercom Corp., and Verifone Systems Inc. (collectively "VeriFone").

CardSoft owns U.S. Patent Nos. 6,934,945 ("the '945 patent") and 7,302,683 ("the '683 patent"). The '683 patent is a continuation of the '945 patent and shares the same specification, which describes the use of a virtual machine for controlling a payment terminal. According to the '683 and '945 patents, the virtual machine acts as an interpreter between the applications running on the terminal and the underlying hardware or operating system ("OS") of each terminal. Unlike prior systems in which the applications would need to be rewritten for each specific configuration of the hardware and OS, the applications running on a virtual machine can be used on any device that runs the virtual machine. Although virtual machines were known at the time, the '683 and '945 patents describe an improved virtual machine, optimized for use on specialized portable computers such as payment terminals.

In March 2008, CardSoft filed suit against VeriFone for allegedly infringing the '945 and '683 patents. During claim construction, the district court construed the term "virtual machine" to mean "a computer programmed to emulate a hypothetical computer for applications relating to transport of data" and did not require the claimed "virtual machine" to include the limitation that the applications it runs are not dependent on any specific underlying OS or hardware. Slip op. at 6 (quoting *CardSoft, Inc. v. VeriFone Holdings, Inc.*, No. 2:08-cv-98, 2011 WL 4454940, at \*8 (E.D. Tex. Sept. 29, 2011)). Based on this claim construction, the jury determined that certain VeriFone devices infringed claim 11 of the '945 patent and claim 1 of the '683 patent, and returned a verdict for CardSoft. After the district court denied VeriFone's motions for a new trial and for JMOL, VeriFone appealed.

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**"Because the ordinary meaning of 'virtual machine' is clear in light of the specification and prosecution history, claim differentiation does not change its meaning." Slip op. at 9.**

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On appeal, the Federal Circuit found that the district court's construction of the term "virtual machine" was "correct, but incomplete" because it did not require that the virtual machine "process[] instructions expressed in a hardware/operating system-independent language." *Id.* (alteration in original) (quoting

*CardSoft*, 2011 WL 4454940, at \*7). The Court found that the virtual machine itself is OS or hardware dependent because it must communicate directly with the underlying OS or hardware. But the Court pointed out that the applications running on the virtual machine are not dependent on the OS or hardware because they are written to communicate with the virtual machine, not the underlying OS or hardware.

The Court found that both the intrinsic and extrinsic evidence supports this construction. The '945 and '683 patent specifications identify as a problem the fact that prior applications were hardware or OS dependent. As a solution, the '945 and '683 patents teach using a virtual machine, so that an application can run on different hardware arrangements. The Court noted that the emphasis on this functionality was not surprising in light of the fact that Sun Microsystems, Inc. ("Sun"), which released the Java virtual machine the year before the earliest patent priority date, had emphasized the "write once, run anywhere" nature of Java. *Id.* at 7 (quoting *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1348 (Fed. Cir. 2014)). And during prosecution of the '945 patent, the applicant used the term "virtual machine" consistently in the same way as Sun used the term.

The Court rejected CardSoft's arguments in support of the district court's construction, including a claim differentiation argument. The Court noted that claim differentiation is merely a presumption, and did not change the clear meaning of "virtual machine" in light of the specification and prosecution history.

Under the correct construction of "virtual machine," the Court held that VeriFone was entitled to JMOL of no infringement. During briefing, VeriFone had argued that the applications running on the accused devices depended on a specific underlying OS or hardware. CardSoft acknowledged VeriFone's argument in its responsive brief, but failed to respond to it. By failing to respond, the Court found that CardSoft had waived any argument that the accused products still infringed the '945 and '683 patents under the Court's construction.

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### **Finding District Court Abused Its Discretion by Attaching Fee-Shifting Condition to Authorization to Supplement Preliminary Infringement Contentions**

*Megan R. Leinen*

**Judges: Newman (author), Reyna, Taranto**  
**[Appealed from S.D. Cal., Judge Sammartino]**

In *AntiCancer, Inc. v. Pfizer, Inc.*, No. 13-1056 (Fed. Cir. Oct. 20, 2014), the Federal Circuit vacated the district court’s fee-shifting condition for supplementing Preliminary Infringement Contentions (“PICs”), the SJ of noninfringement based on it, and remanded for further proceedings.

AntiCancer, Inc. (“AntiCancer”) filed a complaint against Pfizer, Inc. (“Pfizer”) for breach of license agreement, breach of the duty of good faith and fair dealing, and unjust enrichment. AntiCancer sought to amend the complaint to add counts of patent infringement and to add Crown Bioscience, Inc. (“Crown Bioscience”) as a defendant, based upon several publications it contended showed the use of AntiCancer’s technology and infringement of its patents, which the district court granted.

Complying with Patent Local Rule 3.1 (“PLR 3.1”), AntiCancer filed PICs. Pfizer moved for SJ of noninfringement, stating that AntiCancer’s PICs were defective, which Crown Bioscience joined. AntiCancer opposed the motion and filed a supporting declaration. Finding claim charts in AntiCancer’s PICs deficient as to three claim elements—“promoter monitoring,” “delivering cells,” and “metastasis to a second site”—the district court authorized AntiCancer to supplement its PICs. As a condition for amending, the district court required AntiCancer to concurrently pay the defendants’ attorneys’ fees and costs related to the SJ motion, and stated that if AntiCancer objected to the conditions, it would grant SJ in defendants’ favor. AntiCancer objected to the fee-shifting condition, and the district court entered SJ of noninfringement. After the parties settled the contract claims and filed a voluntary dismissal, the district court dismissed the amended complaint. AntiCancer then appealed the district court’s entry of SJ of noninfringement.

The question on appeal was whether the district court appropriately attached the fee-shifting sanction to its authorization to supplement the PICs. The Federal Circuit noted that AntiCancer filed its PICs five days after it amended the complaint, which was nearly ten months prior to the close of fact discovery. Because the Southern District of California adopted patent local rules similar to those of the Northern District of California and referred to the Northern District’s decisions to interpret them, the Court cited Northern District and Federal Circuit decisions regarding PLR 3.1. Applying this guidance, the Court observed that PICs precede discovery and are intended to facilitate it, and though they must outline theories, they need not provide evidence of or prove infringement. The Court also remarked on the importance of discovery in complex patent cases and felt that the limiting language of PLR 3.1 (i.e., to identify “as specific as possible,” and “of which the party is aware,” and “if known”), harmonizing the local rule with the discovery provided by the Federal Rules, warranted consideration. Slip op. at 18.

After considering the language and purpose of PLR 3.1, the record of what AntiCancer disclosed in its PICs, and the specific criticisms of the PICs’ sufficiency, the Federal Circuit concluded that there was no



reasonable basis for a finding of bad faith. The Court explained that under Ninth Circuit precedent, the district court must make an explicit finding of bad faith before imposing a fees sanction. Further, the Court explained that it did “not see how revised [PICs] could be insufficient if AntiCancer added to them the brief explanations it provided in its opposition to [SJ].” *Id.*

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**“When a complaint meets the standards of the Federal Rules, and there has been no reasonable opportunity for discovery and evidentiary development of the issues, it is rarely appropriate to summarily decide the merits against the complainant.” Slip op. at 27.**

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For the “promoter monitoring” element, the Federal Circuit explained that the district court apparently gave weight to additional information in AntiCancer’s SJ opposition papers, even remarking that AntiCancer was “capable” of making the “connection” between the cited paper and the claim elements. *Id.* at 20 (citation omitted). The Court found this observation weighed against any inference of bad faith. Particularly, although the district court described the PICs as “woefully insufficient” and “vague,” and AntiCancer’s actions as “unreasonabl[e]” and “disingenuous,” the Court found no explicit finding of bad faith. *Id.* at 22 (citation omitted).

For the “delivering cells” element, the district court observed that AntiCancer elaborated on the element in its SJ opposition papers, but wanted the “connections between the claim language and the evidence of the accused instrumentality” in the PICs, even if they were basic scientific concepts. *Id.* at 24 (citation and internal quotation marks omitted). In view of the district court faulting the PICs for failing to provide sufficient “evidence” and AntiCancer’s presentation “at this stage” of the litigation, the Court concluded that imposing the sanction as a condition for the litigation to proceed exceeded the district court’s discretionary authority. *Id.*

For the “metastasis to a second site” element, the Court noted AntiCancer’s argument that the district court’s question of “*how*” the cited passage provided “direct evidence” relating to the claimed element “transcends the requirement of [PLR] 3.1.” *Id.* at 26. The Court explained, based on various decisions analyzing the Patent Local Rules, that PICs need not include proof or direct evidence of infringement. Thus, the Court concluded that the fee-shifting condition was unwarranted since there was an absence of bad faith.

Because the Court found that the district court exceeded its discretion in conditioning supplementation of AntiCancer’s PICs on payment of the defendants’ attorneys’ fees and costs, the Court vacated the condition and the SJ judgment based on it, and remanded for further proceedings.

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### **Specification Provides Proper Construction to Resolve Ambiguities in Claim Language**

*Adam Boger*

**Judges: Prost, Taranto (author), Hughes**  
**[Appealed from D. Or., Magistrate Judge Acosta]**

In *World Class Technology Corp. v. Ormco Corp.*, Nos. 13-1679, 14-1692 (Fed. Cir. Oct. 20, 2014), the Federal Circuit affirmed the district court's construction of the claim term "support surface" and the stipulation of noninfringement.

Ormco Corporation ("Ormco") owns U.S. Patent No. 8,393,896 ("the '896 patent"), which describes a bracket that attaches to a tooth for orthodontic braces. The '896 patent states that the bracket includes a slot to hold an archwire that connects the teeth, with a slide that moves across a slot opening to hold the wire in place. The specification also explains that the slide moves at an angle away from the gums, avoiding gum contact, when moving from a slot-closed to a slot-open position.

World Class Technology Corporation filed for DJ for noninfringement of five patents owned by Ormco. Ormco counterclaimed, alleging infringement of the '896 patent and seeking a preliminary injunction. During claim construction, the parties disputed the meanings of the terms "support surface" and "ledge" in independent claim 1 of the '896 patent. The district court denied the preliminary injunction and found that the "support surface" "at least partially supports and guides the movable member [slide] during movement between the open position and the closed position." Slip op. at 5 (quoting *World Class Tech. Corp. v. Ormco Corp.*, 964 F. Supp. 2d 1273, 1280, 1285 (D. Or. 2013)). The district court also adopted a complementary construction of the term "ledge" as contacting the slide only when the slide is in the closed position. The parties stipulated to noninfringement under the district court's "support surface" construction. The parties also stipulated to noninfringement of the other five patents. The district court entered a final judgment. Ormco appealed.

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**"Where, as here, the claim language itself leaves interpretive questions unanswered, '[t]he construction that stays true to the claim language and most naturally aligns with the patent's description of the invention will be, in the end, the correct construction.'" Slip op. at 7-8 (alteration in original) (quoting *Renishaw PLC v. Marposs Societa' per Azioni*, 158 F.3d 1243, 1250 (Fed. Cir. 1998)).**

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On appeal, the Federal Circuit found that the term "support surface" does not, by itself, have a clear, unambiguous meaning with respect to the support surface's role during movement of the slide. The Court reasoned that although the claim term "requires a surface that provides support, and the slide is

undisputedly what must be supported, the language itself does not resolve *when* the slide must be supported.” *Id.* at 6. The Court explained that the claim requires two surfaces—the “support surface” and the “ledge”—and gives the two surfaces different names, suggesting that they have different functions. The Court also noted that the two surfaces line up differently relative to the base surface of a slot and that the claim requires a “specific interaction” for the support surface, but no analogous requirement for the ledge surface. *Id.* at 7. Finding that this language “leaves uncertainty about whether . . . the slide must move along the support surface,” the Court turned to the specification to resolve the ambiguity. *Id.*

Reviewing the specification, the Court concluded that the district court correctly construed “support surface.” The Court explained that, “[c]ritically, the specification in this case identifies gum avoidance as the sole purpose of the acute angle the support surface must make with the slot base,” but under Ormco’s claim construction, the acute angle would not serve this stated purpose. *Id.* at 8. Thus, the Court considered Ormco’s construction to be “unmoored from, rather than aligned with, the description of the invention.” *Id.* Furthermore, the Court explained that neither the written description nor the drawings disclosed the arrangement Ormco sought to cover. The Court also identified other language in the specification that was contrary to Ormco’s construction, including the specification’s use of the phrase “translation plane” in identifying an acute angle of the support surface. *Id.* The Court reasoned that “translation” refers to the movement of the slide along a plane and that the ’896 patent ties the translation plane to the support surface.

The Court concluded that the specification “strongly implies that it is along the support surface, not the ledge surface, that the slide generally moves from open to closed position.” *Id.* at 9. Additionally, the Court explained that the specification distinguishes between the support surface and the ledge surface, noting that the support surface is linked with slide movement, but the ledge surface is not. The Court determined that these differences were inconsistent with Ormco’s construction, and concluded that the district court correctly resolved the uncertainties in the claim construction.

The Court next considered, and rejected, Ormco’s claim differentiation argument that the differences between claim 6 and claim 1 require a broad construction of claim 1. Although noting that claim 6 recites that “the support surface defines a translation plane,” the Court explained that its construction of “support surface” did not give claim 1 the same scope as claim 6 because claim 6 requires that the support surface form a corner with one side of the slot, whereas claim 1 does not. *Id.* at 9-10.

The Court then considered the prosecution history, observing that neither party gave the prosecution history substantial weight, and found that it did not support Ormco’s position or support a different construction of “support surface” from the one compelled by the specification.

Accordingly, the Court affirmed the district court’s decision.

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### **Federal Circuit Finds Airline Exempt from Infringement Liability for Electronic Passport Use on Behalf of the U.S. Government**

*Sean Bedford*

**Judges: Prost, Newman, Hughes (author)**

**[Appealed from E.D.N.Y., Chief Judge Amon]**

In *IRIS Corp. v. Japan Airlines Corp.*, No. 10-1051 (Fed. Cir. Oct. 21, 2014), the Federal Circuit affirmed the district court’s dismissal of the suit on the grounds that the allegedly infringing acts were carried out for the U.S. government and therefore exempted from infringement liability under 28 U.S.C. § 1498(a).

IRIS Corporation (“IRIS”) sued Japan Airlines Corporation (“JAL”), alleging infringement of U.S. Patent No. 6,111,506 (“the ‘506 patent”), which discloses methods for making an identification document including a contactless communication insert. IRIS alleged that JAL had infringed the ‘506 patent by using electronic passports with embedded computer chips in its boarding and check-in processes at its facilities in the United States. JAL moved to dismiss the claim for failure to state a claim upon which relief can be granted, relying on, inter alia, a conflict-of-laws rationale. The district court granted JAL’s motion to dismiss, holding that JAL was exempt from infringement liability because federal laws requiring the examination of passenger passports conflicted with U.S. patent law. IRIS appealed.

The Federal Circuit affirmed the district court’s decision, holding that JAL was exempted from infringement liability under 28 U.S.C. § 1498(a), which limits infringement remedies when the alleged infringer uses or manufactures the patented invention for the U.S. government. In so holding, the Federal Circuit analyzed JAL’s acts under a two-part test to determine whether the allegedly infringing acts were “for the United States.” Slip op. at 4. The Federal Circuit explained that “[t]he statute further clarifies that an accused activity is ‘for the United States’ if . . . (1) it is conducted ‘for the Government,’ and (2) it is conducted ‘with the authorization or consent of the Government.’” *Id.* (quoting 28 U.S.C. § 1498(a) (2012)). Further, the statute provides that if an allegedly infringing activity falls within the scope of § 1498(a), the patent holder may only seek redress for the alleged infringement in a suit against the U.S. government. Noting that the government’s authorization or consent may be express or implied, the Court explained that in the present case, “the government has clearly provided its authorization or consent because—as the parties and the United States agree—[JAL] cannot comply with its legal obligations without engaging in the allegedly infringing activities.” *Id.* (citation omitted).

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**“When the government requires private parties to perform quasi-governmental functions, such as this one, there can be no question that those actions are undertaken ‘for the benefit of the government.’” Slip op. at 6 (citation omitted).**

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Since governmental authorization or consent does not end the § 1498(a) inquiry, the Court evaluated whether JAL's activity was "for the Government" by assessing whether the activity had been performed "for the benefit of the government." *Id.* at 5 (citations omitted). In explaining its determination, the Court elaborated as to the extent to which the government must benefit: "[I]ncidental benefit to the government is insufficient,' but '[i]t is not necessary [for the Government] to be the sole beneficiary.'" *Id.* (alterations in original) (quoting *Advanced Software Design Co. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1378 (Fed. Cir. 2009)). Applying this standard, the Court held that "the government benefits here because [JAL's] examination of passports improves the detection of fraudulent passports and reduces demands on government resources," enhancing border security and assisting the government in "monitor[ing] the flow of people into and out of the country." *Id.* at 5-6. Indeed, the Court explained, "[w]hen the government requires private parties to perform quasi-governmental functions, such as this one, there can be no question that those actions are undertaken 'for the benefit of the government.'" *Id.* at 6 (citation omitted). Additionally, the United States admitted that suit under § 1498(a) is appropriate here, which the Court believed reinforced its conclusion that "IRIS's exclusive remedy is suit for recovery against the United States under § 1498(a)." *Id.*

Accordingly, the Court held that JAL's allegedly infringing actions fell within the scope of § 1498(a) and concluded that IRIS's complaint failed to state a claim upon which relief could be granted. The Federal Circuit therefore affirmed the district court's dismissal.

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**November 2014**

### **Pricing and Contracting Negotiations Do Not Constitute or Transform Substantial Extraterritorial Activities into a Sale or Offer to Sell Under § 271(a)**

*Abigail Lubow*

**Judges: Lourie (author), O'Malley (concurring), Hughes (concurring)**  
**[Appealed from D. Nev., Judge Pro]**

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, Nos. 13-1472, -1656 (Fed. Cir. Oct. 22, 2014), the Federal Circuit affirmed the district court's judgment that Pulse Electronics, Inc. ("Pulse") did not sell or offer to sell products that Pulse manufactured, shipped, and delivered outside the United States, and that Pulse's alleged infringement with respect to products that Pulse sold and delivered in the United States was not willful. As to Pulse's cross-appeal, the Federal Circuit affirmed the judgment of direct infringement of Halo Electronics, Inc.'s ("Halo") patents with respect to Pulse's products delivered in the United States, inducement with respect to products that were imported into the United States by others, and noninfringement of Pulse's U.S. Patent No. 6,116,963 ("the '963 patent"). The Federal Circuit also affirmed the judgment that the asserted claims of the Halo patents were not invalid for obviousness.

Halo, a supplier of electronic components, owns three patents directed to surface mount electronic packages. Pulse, another supplier of electronic components, designs and sells surface mount electronic packages and manufactures them in Asia. While Pulse delivers some of its packages to the United States, the majority are delivered outside the United States to contract manufacturers for companies such as Cisco, which incorporate the packages into their products and ship them to consumers around the world. Pulse's sales offices abroad received purchase orders for Pulse packages delivered abroad; however, Pulse engaged in pricing negotiations with contract manufacturers, approved certain foreign pricing, and engaged in other activities in the United States. When Pulse received purchase orders abroad, Pulse delivered the package products to Cisco contract manufacturers in Asia. The contract manufacturers then paid Pulse. After assembling the end products, the contract manufacturers sent invoices to Cisco, and Cisco paid the contract manufacturers for the end products.

After an initial unsuccessful attempt to license the Halo patents to Pulse in 2002, Halo sued Pulse for patent infringement in 2007. Pulse denied infringement and challenged the validity of the Halo patents. The district court granted Pulse's motion for SJ that it did not infringe the Halo patents by selling or offering to sell packages that Pulse manufactured, shipped, and delivered outside the United States. At trial, the jury found that Pulse directly infringed the Halo patents with the products that it shipped into the United States, that Pulse induced others to infringe the Halo patents with the products that were ultimately imported into the United States in the finished end products, that this infringement was probably willful, and that the asserted Halo patent claims were not invalid for obviousness. In response to Pulse's post-trial motion, the district court later found that Pulse's infringement was not willful. The district court denied Pulse's motion for JMOL of invalidity for obviousness of the asserted Halo patent claims as waived. Halo appealed and Pulse cross-appealed.

**“[W]e have not deemed a sale to have occurred within the United States for purposes of liability under § 271(a) based solely on negotiation and contracting activities in the United States when the vast majority of activities underlying the sales transaction occurred wholly outside the United States.” Slip op. at 11.**

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On appeal, the Federal Circuit affirmed all of the district court’s holdings. The Court first reviewed the grant of SJ of no direct infringement with respect to products that Pulse manufactured, shipped, and delivered abroad. Halo argued that Pulse’s activities with respect to these products directly infringed its patents because negotiations and contracting activities that occurred in the United States, which later resulted in binding contracts, constituted a sale or offer for sale under § 271(a). According to Halo’s reasoning, the location of the sale or offer for sale should not be limited to location of delivery of the products. Pulse countered that the products were sold or offered for sale outside the United States because these products were manufactured, ordered, invoiced, shipped, and delivered abroad, and the discussions that took place in the United States were mere forecasts. Pulse contended that Halo’s position improperly expanded the scope of § 271(a) beyond the United States.

The Federal Circuit agreed with Pulse. The Court first examined whether the products that Pulse manufactured, shipped, and delivered abroad were sold within the United States under § 271(a). On this point, the Court stated that “we have not deemed a sale to have occurred within the United States for purposes of liability under § 271(a) based solely on negotiation and contracting activities in the United States when the vast majority of activities underlying the sales transaction occurred wholly outside the United States.” Slip op. at 11. The Court explained that a sale did not take place within the United States because all substantial activities with respect to these products took place outside the United States. The quarterly negotiations between Pulse and Cisco in the United States “did not constitute a firm agreement to buy and sell,” and were “insufficient to constitute a ‘sale’ within the United States,” even if those negotiations later led to purchase orders and sales overseas. *Id.* at 12-13. Further, the Court emphasized the presumption against extraterritorial application of U.S. laws, stating: “The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.” *Id.* at 13 (quoting *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007)). Additionally, the Court rejected Halo’s argument that the sales occurred in the United States because Halo suffered economic harm from the sales, reasoning that such logic impermissibly enlarged the geographical scope of § 271(a).

The Federal Circuit next considered whether Pulse’s activities within the United States constituted an offer to sell, described by the Court as “an offer contemplating sale in the United States.” *Id.* at 16. Because Pulse’s negotiation activities in the United States contemplated sales outside of the United States, the Court held that Pulse did not offer to sell the products for the purposes of § 271(a). Therefore, the Court affirmed the SJ of no direct infringement by Pulse based on products manufactured, shipped, and delivered abroad.

Next, the Court addressed willfulness, applying the two-pronged *Seagate* analysis. The Court affirmed the district court’s holding that the objective prong of the willfulness inquiry was not satisfied, stating that the district court “properly considered the totality of the record evidence, including the obviousness defense that Pulse developed during the litigation, to determine whether there was an objectively-defined risk of infringement of a valid patent.” *Id.* at 18. The Court held that, although Pulse was ultimately unsuccessful in challenging the validity of the Halo patents, it did raise a substantial question as to their obviousness.

The Federal Circuit considered Pulse’s cross-appeal as to certain claim constructions and the judgments of infringement of the Halo patents and noninfringement of Pulse’s ’963 patent, but found no reversible error. The Court also explained that Pulse had waived its right to challenge the factual findings that the jury relied upon in its verdict of nonobviousness with respect to the Halo patents because Pulse failed to file a motion for JMOL on the issue of obviousness during trial before the issue was submitted to the jury.

Therefore, the Court held that the district court was correct in presuming that the jury resolved all factual disputes relating to the scope and content of the prior art and secondary considerations in Halo's favor. The Federal Circuit therefore affirmed the district court's judgment that the asserted claims of the Halo patents were not invalid for obviousness.

In their concurrence, Judges O'Malley and Hughes agreed with the majority's decision to affirm all aspects of the district court's decision but urged a reevaluation of the standard for enhanced damages in light of *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014), and *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and the terms of the governing statutory provision, 35 U.S.C. § 284 (2012). The concurrence observed that the Court's standard for the award of enhanced damages under § 284 has closely mirrored its standard for the award of attorneys' fees under § 285. Because the Supreme Court has determined that the Federal Circuit's standard for determining whether to award attorneys' fees was wrong, the concurrence reasoned that the Federal Circuit should also consider "whether those same interpretative errors have led us astray in our application of the authority granted to district courts under § 284." O'Malley Concurrence at 3.

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### **Looking Ahead**

On November 3, 2013, the Federal Circuit heard oral argument in *In re Cuozzo Speed Technologies LLC*, No. 14-1301, the first oral argument on a Board final written decision in an inter partes review (“IPR”). In *Cuozzo*, the following issues, among others, were presented: (1) whether the Board lacked authority to institute IPR for certain claims on grounds of unpatentability not identified in the petition; (2) whether the “broadest reasonable interpretation” standard applies to IPRs; and (3) whether the Board erred in denying Cuozzo Speed Technologies LLC’s motion to amend the claims. Stay tuned to future editions of *Last Month at the Federal Circuit* to see how the Federal Circuit addresses these issues directed to IPRs.

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### **Spotlight Info**

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, Nos. 13-1472, -1656 (Fed. Cir. Oct. 22, 2014), the Federal Circuit affirmed the district court's judgment that Pulse Electronics, Inc. ("Pulse") did not sell or offer to sell within the United States products that Pulse manufactured, shipped, and delivered to buyers outside the United States, despite evidence that Pulse engaged in negotiations and contracting activities with respect to those products in the United States. The Court explained that "when substantial activities of a sales transaction, including the final formation of a contract for sale encompassing all essential terms as well as the delivery and performance under that sales contract, occur entirely outside the United States, pricing and contracting negotiations in the United States alone do not constitute or transform those extraterritorial activities into a sale within the United States for purposes of § 271(a)." Slip op. at 12. According to the Court, any doubt as to whether such activities constitute a sale within the United States under § 271(a) is resolved by the presumption against extraterritorial application of U.S. laws. After concluding that Pulse did not sell the products in question within the United States, it further held that Pulse did not offer to sell those products within the United States for purposes of § 271(a) because the locations of the contemplated sales were outside the United States. The Court explained that, in order to be infringement, an offer to sell must be an offer contemplating sale in the United States.

The Federal Circuit also affirmed the district court's holding that Pulse did not willfully infringe Halo Electronics, Inc.'s ("Halo") patents because, although Pulse was unsuccessful in challenging the validity of the Halo patents, Pulse did raise a substantial question as to their obviousness. Thus, the objective prong of the willfulness inquiry was not satisfied. In their concurrence, Judges O'Malley and Hughes agreed with the majority's decision to affirm all aspects of the district court's decision but urged a reevaluation of the standard for enhanced damages in light of *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014), and *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and the terms of the governing statutory provision, 35 U.S.C. § 284 (2012). See this month's edition of *Last Month at the Federal Circuit* for a full summary of this decision.

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