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## Last Month at the Federal Circuit

January 2011

### Case Transferred from the Eastern District of Texas to the Northern District of California

*In re Acer America Corp.*

No. 10-M942 (Fed. Cir. Dec. 3, 2010)

[Appealed from E.D. Tex., Magistrate Judge Everingham]

### Federal Circuit Invalidates as Obvious Patent That Updates a Prior Art System with Modern Electronic Devices

*Western Union Co. v. MoneyGram Payment Systems, Inc.*

Nos. 10-1080, -1210 (Fed. Cir. Dec. 7, 2010)

[Appealed from W.D. Tex., Judge Sparks]

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No. 10-1266 (Fed. Cir. Dec. 22, 2010)  
[Appealed from E.D. Va., Senior Judge Payne]

## Abbreviations

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

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### **Spotlight Info**

In *Prometheus Laboratories, Inc. v. Mayo Collaborative Services*, No. 08-1403 (Fed. Cir. Dec. 17, 2010), on remand from the Supreme Court in light of *Bilski v. Kappos*, 561 U.S. -- (2010), the Federal Circuit reaffirmed its holding that the asserted method claims are drawn to statutory subject matter under 35 U.S.C. § 101. In *Bilski*, the Supreme Court held that the machine-or-transformation test was not the sole test for determining the patent eligibility of process claims. On remand, the Federal Circuit noted that patent eligibility turned on whether the asserted claims are drawn to a natural phenomenon or whether the claims are drawn only to a particular application of that phenomenon. The Court explained that the inventive nature of the claimed methods stems not from preemption of all use of these natural processes but from the application of a natural phenomenon in a series of steps comprising particular methods of treatment. In reversing the district court's finding of invalidity under § 101, the Court noted that certain steps of the asserted method claims involved a form of manipulation, as required by the machine-or-transformation test. See the full summary in this issue.

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### **Looking Ahead**

On January 10, 2011, in *St. Clair Intellectual Property Consultants, Inc. v. Canon Inc.*, Nos. 09-1052, 10-1137, -1140 (Fed. Cir. Jan. 10, 2011), the Federal Circuit reversed an infringement ruling after disagreeing with the district court's claim construction. In so doing, the majority relied on the patent reexamination history and touched on areas of interest related to reexamination. The Court, for example, stated that it "can take judicial notice of the reexamination record," slip op. at 11 n.1, and noted that "[b]ecause an examiner in reexamination can be considered one of ordinary skill in the art, his construction of the asserted claims carries significant weight," *id.* at 13. Read the full summary in next month's edition of *Last Month at the Federal Circuit*.

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### **Case Transferred from the Eastern District of Texas to the Northern District of California**

*Charles D. Cathey*

**Judges: Gajarsa, Schall (author), Moore**

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

In *In re Acer America Corp.*, No. 10-M942 (Fed. Cir. Dec. 3, 2010), the Federal Circuit granted a petition for writ of mandamus directing the United States District Court for the Eastern District of Texas to vacate its orders denying the petitioners' motion to transfer venue, and to direct transfer to the United States District Court for the Northern District of California.

MedioStream, Inc. ("MedioStream"), a company headquartered in the Northern District of California, brought suit in the Eastern District of Texas against twelve companies ("the petitioners"), five of which are also headquartered in the Northern District of California. The petitioners moved to transfer venue to the Northern District of California pursuant to 28 U.S.C. § 1404(a). The district court denied the motion, largely because one of the petitioners, Dell, Inc. ("Dell"), was headquartered in Texas, albeit outside the Eastern District.

Applying Fifth Circuit law for the *forum non conveniens* analysis, the Court found that the witness convenience factor clearly favored the transfer. The Court observed that a substantial number of party witnesses, in addition to the inventor and prosecuting attorneys, reside in or close to the Northern District of California. The Court stated that if all of these witnesses were required to travel to the Eastern District of Texas, the parties would likely incur significant expenses for airfare, meals, and lodging, as well as losses in productivity from time spent away from work. MedioStream maintained that the trial court correctly determined that this factor weighed in neither venue's favor because of the potential for more than one Dell employee testifying. The Court responded by observing that the number of Dell witnesses, even if greater than one, would be insignificant, given that the allegation of infringement against Dell is largely based on integrated software of other defendants with headquarters outside of Texas.

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**"Our prior orders in venue transfer cases make clear that the combination of multiple parties being headquartered in or near the transferee venue and no party or witness in the plaintiff's chosen forum is an important**

## consideration.” Slip op. at 4.

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The Court then found that the Northern District of California’s ability to compel testimony through subpoena power also favored transfer. The Court stated that to the extent, if any, that the subpoena powers of the Eastern District of Texas pursuant to Fed. R. Civ. P. 45(b)(2) may be invoked with respect to Dell employees, those powers will be of little other use in the case. The Court noted, however, that the subpoena powers of the Northern District of California may be invaluable in the event process is required to hale relevant witnesses into court.

The Court also found that the likely location of significant sources of evidence would be located within the Northern District of California, thus favoring transfer. In comparison, no party identified any likely source of proof in the Eastern District of Texas. The Court noted that, while Dell may be a significant source of evidence, Dell’s headquarters lie outside the Eastern District of Texas. The Court concluded that it was unreasonable to suggest that Dell’s evidence alone could outweigh the convenience of having the evidence from multiple defendants located within the transferee venue.

Lastly, the Court found that the local interest factor favors transfer. The Court first noted that, while the sale of an accused product offered nationwide does not give rise to a substantial interest in any single venue, if there are significant connections between a particular venue and the events that gave rise to a suit, this factor should be weighed in that venue’s favor. The Court stated that, unlike the Eastern District of Texas, the Northern District of California has a localized interest in this matter. In this case, the company asserting harm and many of the companies alleged to cause that harm are all residents of that district, as are the inventor and patent prosecuting attorneys whose work may be questioned at trial.

The Court concluded that, in sum, the convenience of the parties and witnesses, the sources of proof, the local interest, and the compulsory process factors all significantly favor transfer. The Court stated that no factor remotely favored keeping the case in the Eastern District of Texas, and that the district court’s denial of transfer was a clear abuse of discretion.

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**January 2011**

### **Federal Circuit Invalidates as Obvious Patent That Updates a Prior Art System with Modern Electronic Devices**

*Kevin D. Rodkey*

**Judges: Rader, Lourie (author), Prost**

**[Appealed from W.D. Tex., Judge Sparks]**

In *Western Union Co. v. MoneyGram Payment Systems, Inc.*, Nos. 10-1080, -1210 (Fed. Cir. Dec. 7, 2010), the Federal Circuit reversed the jury's determination that the patents-in-suit were not invalid for obviousness. The Court also reversed the district court's denial of MoneyGram Payment Systems, Inc.'s ("MoneyGram") renewed motion for JMOL on obviousness, infringement, and invalidity.

The Western Union Company ("Western Union") owns four patents ("money transfer patents") directed to systems for performing formless money transfers using an electronic transaction fulfillment device ("ETFD"). The patents claim a system where a customer has telephone access to the customer service representative ("CSR") at a financial institution, who obtains the details of the money transfer from the customer and "stages" the transfer for the customer, storing the transaction details in a host computer. The customer can later complete the transaction at a retail location where an agent is able to retrieve the transaction from a computer through an ETFD and accept the required amount of money from the customer.

Prior to filing the applications for its money transfer patents, Western Union acquired its competitor, Orlandi Valuta, which employed a similar formless money transfer system that Western Union concluded could not be used on the large scale needed for Western Union's business. The Orlandi Valuta system required customers to initiate a transaction with a CSR using a telephone. The CSR enters the transaction information from the customer into a computer system and faxes an invoice to the customer's retail location. The customer would not receive confirmation of the transaction, but instead would wait at the retail location where a retail agent calls the customer's name upon receipt of the fax. At this point, the customer would tender the required amount of money to the agent to complete the transaction.

MoneyGram, a direct competitor of Western Union, uses its "FormFree" money transfer system. The FormFree system provides the customer with a confirmation number, which, when provided by a customer to a retail agent, allows for completion of a previously staged transaction. This confirmation number is stored in a database with other transaction information. After learning of the Western Union

patents, MoneyGram attempted to design around them.

Western Union sued MoneyGram for infringement of the money transfer patents. At trial, a jury determined that MoneyGram's original and redesigned systems infringed Western Union's money transfer patents. The jury also determined that the money transfer patents were not invalid for obviousness based on the Orlandi Valuta prior art system and awarded reasonable royalty damages to Western Union. Following trial, MoneyGram renewed its motion for JMOL on obviousness based on the Orlandi Valuta system. The district court denied the motion to renew, holding that MoneyGram had waived its argument specifically as it related to Orlandi Valuta. The district court nevertheless decided that the jury had a legally sufficient evidentiary basis upon which it could conclude that the asserted claims were not obvious. MoneyGram appealed the district court's rulings on claim construction, infringement, and invalidity.

On appeal, the Federal Circuit first considered the district court's denial of MoneyGram's renewed motion for JMOL. The Court reminded that even a cursory motion suffices to preserve an issue on JMOL so long as it serves the purpose of Fed. R. Civ. P. 50(a), which is to alert the court to the party's legal position as to the insufficiency of the evidence. Noting that the Fifth Circuit applies a similarly liberal standard, the Court held that MoneyGram's statements specifically listing Orlandi Valuta's system as prior art that rendered the Western Union patents obvious preserved the issue for JMOL.

The Federal Circuit turned next to the merits of MoneyGram's obviousness argument. The Court considered whether the claimed invention simply takes a known prior art system and adds obvious elements, such as the use of an off-the-shelf keypad to access transaction data. MoneyGram argued that Western Union's patented invention simply replaced the fax machine in the Orlandi Valuta system with an off-the-shelf keypad—a well-known device in the art. MoneyGram further argued that even if the Orlandi Valuta system did not use a code, adding a numerical code to a system that processes financial transactions would have been common sense to a person of skill in the art. MoneyGram also argued that adding the use of Internet-based communications would have been obvious under the Court's precedent. According to Western Union, the keypads known in the prior art were not the same as an ETFD, and the jury's verdict of nonobviousness was supported by the lack of evidence of any motivation to combine the missing elements with the Orlandi Valuta system.

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**“We fail to see how it would have been difficult for a person of ordinary skill in the art to integrate an electronic transaction device that was available from Western Union itself into a well-known money transfer system that was also owned by Western Union at the time of the invention.” Slip op. at 18.**

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The Federal Circuit agreed with MoneyGram that the money transfer patents are obvious. With regard to the keypad, the Court found that the patent specification itself describes the addition of an electronic fulfillment device, such as an electronic terminal having a keyboard. The Court found that the specification identified the Western Union FDX-400, which has a numeric keypad, as an example, and that the Orlandi Valuta system used an FDX-400. The Federal Circuit concluded that, based on this evidence, no reasonable jury should have found that MoneyGram failed to present sufficient evidence to demonstrate that electronic transaction devices were commonplace in the art at the time of the invention.

Next, the Court addressed whether there was motivation to combine the prior art ETFD with the Orlandi

Valuta system and concluded there was. The Court reminded that “[a]n obviousness determination is not the result of a rigid formula disassociated from the consideration of the facts of a case.” Slip op. at 17. The Court also reiterated its previous holding that it is obvious to apply the use of the Internet to existing electronic processes at a time when doing so was commonplace. The Court then held that the specific limitations of the patents, such as using an ETFD to retrieve information from a database, are simply routine modifications that are part of adapting new technology to an existing system. The Court specifically concluded that it would not have been difficult at the time of the invention for a person of ordinary skill in the art “to integrate an electronic transaction device that was available from Western Union itself into a well-known money transfer system that was also owned by Western Union.” *Id.* at 18. Accordingly, the Court held that the combination of the ETFD with the Orlandi Valuta system would have been obvious to a person of ordinary skill in the art at the time of the invention. For the same reasons, the Court held that claims that primarily add the use of Internet-based communications, specifically TCP/IP protocols, to an existing invention would also have been obvious to a person of ordinary skill in the art.

Next, the Federal Circuit addressed whether the use of a code as part of a formless money transfer was obvious. Finding it was, the Court held that it would have been common sense for a person of ordinary skill in the art to use a code generated and provided to a customer at the staging phase of the transaction at the retail location to look up the transaction information in the manner claimed in Western Union’s money transfer patents. The Court noted that the Orlandi Valuta system, when a CSR entered a transaction into the system, generated a corresponding code that was printed on the invoice received by the customer at the retail location. After considering all of the disputed elements of the asserted claims, the Federal Circuit held that the claimed combination represented no more than the predictable use of prior art elements according to their established functions, and as such, the claims were obvious as a matter of law.

Finally, the Court concluded that the district court erred in its heavy reliance on secondary considerations in denying MoneyGram’s JMOL of obviousness. The Federal Circuit reminded that the patentee must establish a nexus between evidence of commercial success and the patented invention. The Court found that Western Union pointed only to testimony that the patented invention allowed customers to simply pick up the phone and have a CSR stage a transaction, and therefore enabled the growth of Western Union’s business. However, the Court observed that Western Union did not claim that it invented the formless money transfer system or that the Orlandi Valuta system was not prior art; therefore, Western Union could not claim any commercial success that arose from the features of the system found in the prior art as a secondary consideration for nonobviousness. The Federal Circuit then reiterated that weak secondary considerations generally do not overcome a strong prima facie case of obviousness. Here, the Court held that the inventions represented no more than the predictable use of prior art elements according to their established functions. The Court concluded that secondary considerations were inadequate to establish nonobviousness as a matter of law and reversed the judgment of the district court.

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**January 2011**

### **Inventions with Specific Improvements to Existing Technologies Are Not Invalid Under 35 U.S.C. § 101**

*Susan Y. Tull*

**Judges: Rader (author), Newman, Plager**

**[Appealed from D. Ariz., Judge Jones]**

In *Research Corp. Technologies v. Microsoft Corp.*, No. 10-1037 (Fed. Cir. Dec. 8, 2010), the Federal Circuit reversed-in-part and affirmed-in-part the district court's judgment, ruling in favor of plaintiff Research Corporation Technologies, Inc. ("RCT"). Specifically, the Court reversed the district court's entry of SJ invalidating claims in U.S. Patent Nos. 5,111,310 ("the '310 patent") and 5,341,228 ("the '228 patent") under 35 U.S.C. § 101 and denying an earlier filing date to U.S. Patent No. 5,477,305 ("the '305 patent"). The Court affirmed the district court's decision that claims 4 and 63 of U.S. Patent No. 5,726,772 ("the '772 patent") are not entitled to the earlier filing date.

The technology at issue involved printing digital images. Image half-toning simulates continuous image color by the use of dots or pixels. Half-toning allows computers to present many shades and color tones with a limited number of pixel colors. In the case of black-and-white images, printers use only black dots to give the illusion of shades of gray. One technique for producing a digital half-toned image, "thresholding," uses a two-dimensional array called a "mask" populated with predetermined threshold numbers, typically between 1 and 256. This technique compares the gray level at each pixel of the image against the threshold that corresponds to the pixel's position. If the gray level exceeds the threshold, the pixel is turned on and the computer places a "1" in the appropriate memory space. The resulting half-tone image is a two-dimensional array of zeros and ones.

"Dot profiles" can be used to measure the quality of a half-toning process. A dot profile is a half-tone image that would be produced if all pixels were the same shade of gray. A "power spectrum" is a graph that shows the relative frequency of dots in the dot profile at a particular gray level. The shape of the power spectrum characterizes the type of "noise" that a dot profile exhibits. A "blue noise" spectrum, at issue here, exhibits a power spectrum with primarily high frequency components and little low frequency components. The patentees invented an improved blue noise mask that contains unique properties and produces higher quality half-tone images with improved efficiency and economy.

RCT asserted six patents against Microsoft Corporation ("Microsoft"): the '310 patent, the '228 patent, the

'305 patent, U.S. Patent No. 5,543,941 ("the '941 patent"), U.S. Patent No. 5,708,518, and the '772 patent. On Microsoft's motion for SJ, the district court held that the asserted claims of the '310 and '228 patents were invalid under § 101. The district court further held that the asserted claims of the '772 patent were not entitled to claim priority to applications filed in 1990 and 1991. Based on the district court's ruling, the parties stipulated to noninfringement for all but a single remaining claim, claim 29 of the '305 patent. The district court then ruled from the bench that claim 29 was not entitled to claim the benefit of the earlier filing date. The parties subsequently stipulated to dismissal of the suit and RCT appealed.

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**“[I]nventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act.” Slip op. at 15.**

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Relying on the Supreme Court's decision in *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010), the Federal Circuit found that the asserted claims were directed to patentable subject matter. The Court found that the claims, on their face, were directed to a "process," falling within the categories proposed by 35 U.S.C. § 101 and the definition of "process" in § 100. Considering whether the claimed invention was directed to abstract subject matter, the Court noted "that inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act." Slip op. at 15. In the Court's view, the patents-at-issue presented "functional and palpable applications in the field of computer technology," and thus were not abstract. *Id.* Indeed, some claims even included devices and specific computer technology to achieve the process. The Court concluded that the inclusion of algorithms and formulas did not override the statutory categories and context present in the claims.

The Court next considered whether the asserted patents were entitled to an earlier filing date. Although couched in terms of priority, the issue turned on whether earlier applications provided adequate support for the later claims, i.e., whether the written description requirement was satisfied. The claims of the '772 patent are directed to half-tone masks that produce a number of dot profiles, including, but not limited to, the blue noise power spectrum. The district court held that the earlier 1990 and 1991 applications on which RCT sought to rely were limited to blue noise masks. RCT argued on appeal that the 1990 and 1991 applications were not so limited. The Court reviewed the title, specification, and figures of the 1990 and 1991 applications, as well as inventor testimony, and found that the applications disclosed only a blue noise mask. Accordingly, the Court held that the claims-at-issue in the '772 patent were broader than the invention disclosed in the earlier application, affirming the district court's denial of benefit.

Claim 29 of the '305 patent expressly claimed a blue noise mask. Despite this express correlation with the 1990 and 1991 applications, the district court held that claim 29 was not entitled to the benefit of an earlier filing date. The district court further limited the earlier applications to a blue noise mask created according to a specific algorithm recited in a figure. The Federal Circuit found that claim 29 did not require any particular algorithm, or indeed, any process at all, but was rather a "pure apparatus claim." *Id.* at 24. "Courts must generally take care to avoid reading process limitations into an apparatus claim . . . because the process by which a product is made is irrelevant to the question of whether that product infringes a pure apparatus claim." *Id.* at 23 (alteration in original) (quoting *Baldwin Graphic Sys., Inc. v. Siebert, Inc.*, 512 F.3d 1338, 1344 (Fed. Cir. 2008)). Microsoft sought to rely on *LizardTech, Inc. v. Earth Resource Mapping, Inc.*, 424 F.3d 1336 (Fed. Cir. 2005), to argue that the 1990 and 1991

applications could support only the creation of a blue noise mask when a particular process was used. The Court found this reliance misplaced because *LizardTech* involved a method claim. The Court stated that apparatus claims do not need to recite every method of making the claimed apparatus. Thus, in the Court's view, Microsoft improperly tried to mix method and apparatus claims. Finding that the 1990 and 1991 applications provided adequate support for claim 29, the Court accorded claim 29 the benefit of the earlier filings.

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### **Prosecution History Estoppel from Distinguishing Argument Overcomes Claim Differentiation Based on Facially Narrower Dependent Claim**

*Adam M. Breier*

**Judges: Rader, Newman (concurring-in-part, dissenting-in-part), Prost (author)**

**[Appealed from W.D. Pa., Chief Judge Ambrose]**

In *ERBE Elektromedizin GmbH v. Canady Technology LLC*, Nos. 08-1425, -1426 (Fed. Cir. Dec. 9, 2010), the Federal Circuit affirmed the district court's grant of SJ of noninfringement and of the trademark and trade dress claims. The Court also affirmed SJ against one defendant as to that defendant's antitrust counterclaim.

This case involved three competitors that create argon gas-enhanced electrosurgical products for electrosurgery. ConMed Corporation ("ConMed") owns U.S. Patent No. 4,781,175 ("the '175 patent"). The '175 patent is directed at argon gas-assisted electrosurgical products used in argon beam coagulation ("ABC"). Dr. Jerome Canady, the founder, CEO, and partial owner of Canady Technology LLC (collectively "Canady"), owns U.S. Patent No. 5,207,675 ("the '675 patent"), which discloses a "surgical tissue coagulator" that includes a "flexible tube" with a handle that is used to maneuver the tube within an endoscope for argon gas-assisted electrosurgery. And finally, ERBE Elektromedizin GmbH and ERBE USA, Inc. (collectively "ERBE") own U.S. Patent No. 5,720,745 ("the '745 patent"), which is directed to electrosurgical systems and methods for coagulating biological tissue with a high frequency current using argon plasma, i.e., argon plasma coagulation ("APC").

ERBE unsuccessfully tried to register the color blue as applied to these "flexible endoscopic probes for use in argon plasma coagulation" on the PTO's Principal Register. Thereafter, ERBE did register the color blue as applied to the tube portion of the APC probes on the PTO Supplemental Register.

ERBE and ConMed brought the instant action against Canady. ERBE and ConMed alleged, inter alia, contributory and induced infringement of the '745 and '175 patents based on Canady's flexible endoscopic argon gas-assisted electrosurgical probes. ERBE also alleged trademark infringement because of the blue color on the Canady probes. Based on its purported trade dress, consisting of the blue tube with black markings at the end, ERBE further asserted a claim for unfair competition. Canady denied all claims. Canady asserted, inter alia, antitrust counterclaims against ERBE and ConMed, including contentions that the '745 patent infringement claims against Canady constituted anticompetitive

sham litigation.

After construing the claims, the district court granted SJ of noninfringement of the '745 patent in favor of Canady. The district court also granted SJ on ERBE's trademark and trade dress claims in Canady's favor, and on Canady's antitrust counterclaims in favor of ERBE and ConMed. The district court denied SJ of noninfringement of the '175 patent claims, leading to a settlement.

On appeal, the Court found that the district court properly construed the term "low flow rate" in the '745 patent claims. The Court observed that during prosecution, the applicants had distinguished the claimed low flow rate from the flow rates disclosed in the Canady '675 patent to obtain its invention. The Court held that the prosecution history "clearly and unambiguously demonstrate[d] that the applicants unequivocally disclaimed flow rates from 1 to 12 liters per minute." Slip op. at 14. Accordingly, the claimed flow rates were limited to less than 1 liter per minute.

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**"Claim differentiation may be helpful in some cases, but it is just one of many tools used by courts in the analysis of claim terms." Slip op. at 14-15.**

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The Court rejected ERBE's claim differentiation argument. The Court explained that, while all limitations of a claim must generally be considered meaningful, no canon of claim construction is absolute in its application. "Claim differentiation may be helpful in some cases, but it is just one of many tools used by courts in the analysis of claim terms." *Id.* at 14-15. Because the inventors clearly and unambiguously disclaimed such flow rates that produced laminar jets, the Court affirmed the district court's claim construction. And because ERBE did not contest that it failed to present evidence that the accused Canady probes exhibit sufficiently low velocities under the district court's construction of "low flow rate," the Court also affirmed SJ of noninfringement.

The Court next addressed ERBE's trademark and trade dress claims. ERBE contended that SJ was inappropriate because the blue color of its probes was not functional and had acquired the requisite secondary meaning. The Court concluded that ERBE failed to present a genuine issue of material fact that the color blue does not make the probe more visible through an endoscopic camera or that such a color mark would not lead to anticompetitive effects. The Court also found that ERBE did not offer any evidence that created a genuine issue of whether the color blue on its flexible endoscopic probes had secondary meaning.

The Court also affirmed the district court's grant of SJ as to ERBE's trade dress claims. The district court granted SJ on these claims because ERBE failed to present any argument that the black rings at the end of the probe were nonfunctional. ERBE similarly failed to present any evidence relating to its trade dress claims on appeal.

Lastly, the Court turned to Canady Technology's cross-appeal and whether the district court properly granted SJ on Canady Technology's antitrust counterclaims in favor of ERBE and ConMed. A party is generally immune to antitrust liability based on its filing of a lawsuit unless the narrow "sham litigation" exception applies. The Court found that ERBE had probable cause to bring patent enforcement litigation, as evident from the claim construction analysis. Although ERBE's arguments were not winning ones, ERBE presented nonfrivolous arguments for its proposed construction of the disputed claim term, and so there was no sham litigation.

Canady also argued that the district court improperly failed to consider whether ERBE's alleged predatory acts other than sham litigation violated antitrust law. The Court further held that Canady Technology failed to show that ERBE engaged in predatory acts in violation of antitrust law. Accordingly, the Court affirmed the district court's grant of SJ on the antitrust counterclaims.

Judge Newman dissented-in-part with respect to SJ on the trademark and trade dress claims, stating that there were genuine issues regarding the nonfunctionality and the secondary meaning of the color blue. Judge Newman noted that registration of the blue color on the Supplemental Register required a showing that the color was not functional and that, under the APA, the PTO's holding should receive deference. Judge Newman also argued that the factual issue of whether blue, or the particular shade of blue at issue, is the only color of the spectrum that contrasts with bodily fluids was fairly placed into dispute. Regarding secondary meaning, Judge Newman stated that the panel majority discounted ERBE's un rebutted evidence regarding secondary meaning and observed only the absence of other possible types of evidence relating to secondary meaning. But, according to Judge Newman, the Third Circuit's standard is not rigid and a party attempting to establish secondary meaning must not always show that marketing materials succeeded in creating buyer association. The dissent concluded that the factual issue of likelihood of confusion should have been considered and a reasonable inference should have been drawn in ERBE's favor on SJ.

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**January 2011**

### **Entry of Stipulated Final Judgment Does Not Waive Right to Appeal**

*Rebecca L. Harker\**

**Judges: Linn, Dyk (author), Prost**

**[Appealed from E.D. Tenn., Magistrate Judge Inman]**

In *Taylor Brands, LLC v. GB II Corp.*, Nos. 10-1151, -1294 (Fed. Cir. Dec. 9, 2010), the Federal Circuit denied GB II Corporation's ("GB II") motion to dismiss an appeal challenging the grant of SJ of noninfringement following the entry of a Stipulated Final Judgment. The Court granted GB II's motion to dismiss an appeal by Taylor Brands, LLC ("Taylor") stemming from a denial of attorneys' fees due to lack of standing.

Taylor owns U.S. Patent No. 6,651,334 ("the '344 patent"), which relates to assisted opening knives. Taylor sued GB II (d/b/a Columbia River Knife and Tool Company ("CRKT")), alleging infringement of the '344 patent. CRKT counterclaimed, seeking DJs of noninfringement and invalidity. Before discovery, the district court granted CRKT's motion for partial SJ of noninfringement by a portion of the accused products.

Following the grant of partial SJ, CRKT dismissed without prejudice its counterclaim for a DJ of invalidity. The district court also later entered a Stipulated Final Judgment, jointly proposed by the parties. This Stipulated Final Judgment granted CRKT's motion for partial SJ and stipulated that CRKT had not infringed the '344 patent; Taylor's first amended complaint for infringement of the '344 patent was dismissed with prejudice; Taylor's motion for leave to amend its complaint to add certain additional counts was withdrawn; CRKT's counterclaim seeking a DJ of invalidity was dismissed without prejudice; and CRKT's motion for leave to amend its counterclaims to add certain additional counts was withdrawn.

Later, Taylor filed a notice of appeal from the Stipulated Final Judgment ("first notice of appeal") in the Court challenging the district court's grant of SJ of noninfringement of the '344 patent. CRKT moved to dismiss this notice of appeal on the ground that Taylor waived any right to appeal by consenting to the entry of a judgment against it without expressly reserving the right to appeal. Taylor filed a second notice of appeal challenging the district court's order denying CRKT's motion for attorneys' fees. CRKT moved to dismiss Taylor's second notice of appeal for lack of standing.

Under the Federal Rules of Civil Procedure, most judgments, including Rule 56 SJ orders, are not

effective until “set out in a separate document” and entered by the clerk of the court. Fed. R. Civ. P. 58. When this procedure is required, courts commonly ask parties to stipulate to the form of the final judgment. In *Thomsen v. Cayser*, 243 U.S. 66 (1917), the Supreme Court recognized that such stipulated judgments do not bar an appeal of the underlying judgment. In *Thomsen*, the defendant-appellee moved to dismiss the appeal on grounds that “the judgment of the circuit court was entered in the form finally adopted at the request of the plaintiffs and by their consent, and the errors assigned by plaintiffs were waived by such request and consent.” Slip op. at 5-6 (quoting *Thomsen*, 243 U.S. at 82). The Supreme Court denied the motion, holding that “[t]he plaintiffs did not consent to a judgment against them, but only that, if there was to be such a judgment, it should be final in form instead of interlocutory, so that they may come to this court without further delay.” *Id.* at 6 (alteration in original) (quoting *Thomsen*, 243 U.S. at 83).

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**“We are aware of no case in which a party was found to have waived its right to appeal due to the mere ministerial act of stipulating to the form of a final judgment.” Slip op. at 7.**

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After *Thomsen*, both the Supreme Court and the courts of appeal have repeatedly held that the entry of a stipulated final judgment after a dispositive ruling does not bar an appeal. For example, in *United States v. Safeco Insurance Co.*, 65 F. App’x 637, 638-39 (9th Cir. 2003) (unpublished), the Ninth Circuit found that the defendant “consent[ed] merely to the form of judgment,” because the “evidence, including the lack of a rational reason for abandoning its right to appeal, indicate[d] that [the defendant’s] signature was not intended to represent [its] consent to the court’s summary judgment rulings.” Slip op. at 6-7 (alterations in original).

In the present case, the Court noted, “We are aware of no case in which a party was found to have waived its right to appeal due to the mere ministerial act of stipulating to the form of a final judgment.” *Id.* at 7. The Court stressed the importance of distinguishing between consenting to the substance of the judgment (i.e., agreeing to what the substantive outcome of the judgment will be) and merely consenting to the form of judgment (including agreeing that the judgment will be final instead of interlocutory). A party who consents to the substance of a judgment should be presumed to have waived its right to appeal—absent an express reservation of that right on the record—because voluntarily agreeing to an adverse substantive outcome indicates that the party has abandoned its underlying claims or defenses. In contrast, no waiver exists—even without a reservation of appellate rights—when a party consents solely to the form of a judgment. Merely agreeing to the form of a judgment does not in itself imply that the party agrees with the judgment’s substantive outcome or intends to abandon its position on the issues.

The Court found the litany of cases cited by CRKT distinguishable because they involved situations in which a party consented to the substance of an adverse judgment as opposed to merely the form. Unlike the present case, the cases cited by CRKT all involved either settlement agreements or voluntary dismissals—both necessarily implying a party’s consent to the substantive outcome.

According to the Court, Taylor’s consent to the entry of a final judgment, following a grant of SJ of noninfringement, applied only to the ministerial act of entering a judgment pursuant to Rule 58 implementing the SJ decision and could not be construed as consent to the substance of the SJ order. The Court held that Taylor clearly consented only to the form of the judgment insofar as it effectuates the

SJ order. Thus, the Court denied CRKT's motion to dismiss Taylor's first notice of appeal.

The Court granted CRKT's motion to dismiss Taylor's second notice of appeal, appealing the part of the order denying CRKT's motion for an award of attorneys' fees. The Court found Taylor was not aggrieved by that decision and thus lacked standing to challenge it on appeal.

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**January 2011**

### **Transfer out of Eastern District of Texas Denied as Trial Courts Receive Considerable Discretion in Venue Determinations**

*Rebecca L. Harker\**

**Judges: Gajarsa, Schall (author), Moore**

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

In *In re Vistaprint Ltd.*, No. 10-M954 (Fed. Cir. Dec. 15, 2010), the Federal Circuit denied Vistaprint Limited (“Vistaprint”) and OfficeMax Incorporated’s (“OfficeMax”) petition for a writ of mandamus to transfer the case, upholding the trial court’s determination of venue.

ColorQuick, L.L.C. (“ColorQuick”), a New Jersey limited liability company, brought suit in the Eastern District of Texas, charging Vistaprint and OfficeMax with infringement of its patent relating to preparing production data for printing. Vistaprint is a foreign corporation with a wholly owned subsidiary, Vistaprint USA, Inc., which is not a party to these proceedings. OfficeMax is a Delaware corporation with its principal place of business in Illinois. Vistaprint operates the accused OfficeMax services for OfficeMax.

Vistaprint and OfficeMax moved to transfer the case to the federal district court in Massachusetts, where Vistaprint USA, Inc. has a large presence. ColorQuick opposed the motion. The district court denied the motion to transfer the case.

Considering Vistaprint and OfficeMax’s petition for a writ of mandamus, the Federal Circuit concluded that it was not plainly incorrect for the district court to conclude that having the same magistrate judge handle this and a copending case involving the same patent would be more efficient than requiring another magistrate or trial judge to start from scratch. The Court noted that mandamus is an extraordinary remedy, available only upon demonstration by the petitioner of a “clear and indisputable” right to the relief sought. Slip op. at 3 (citing *Allied Chem. Corp. v. Daiflon, Inc.*, 449 U.S. 33, 35 (1980)). The Court reminded that petitioners must show that the court’s denial of transfer was so patently erroneous as to amount to a clear abuse of discretion.

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**“Our reluctance to interfere is not merely a formality, but rather a long-standing recognition that a trial judge has a superior opportunity to familiarize himself or herself with the nature of the case and the probable testimony at**

**trial, and ultimately is better able to dispose of these motions.” Slip op. at 7.**

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Because the petition did not raise issues unique to the Federal Circuit’s jurisdiction, the Court applied the law of the regional circuit in which the district court sits—in this case, the law of the Fifth Circuit. The Fifth Circuit applies the public and private factors used in *forum non conveniens* analysis to determine the most convenient venue. According to 28 U.S.C. § 1404(a), a trial court has broad discretion in transfer decisions. Nevertheless, the Federal Circuit warned that this does not mean a trial court may accord weight simply as it pleases. Rather, the Court’s recent decision in *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010), makes clear that where the convenience factors strongly weigh in favor of the transferee venue, a decision to deny transfer based solely on “negligible” judicial efficiencies may be such a clear abuse of discretion as to warrant extraordinary relief.

In the present case, the Federal Circuit concluded that the weight the district court afforded judicial economy did not amount to a “patently erroneous result.” Slip op. at 4 (citing *In re Volkswagen of Am., Inc.*, 545 F.3d 304, 310 (5th Cir. 2008) (en banc) (“*Volkswagen I*”). The Court rejected the petitioners’ argument that it is always improper for a district court to deny transfer based on judicial economy when all of the convenience factors clearly favor transfer, as well as petitioners’ argument that, under § 1404(a), the convenience factors are deserving of “most importance.” None of the cases cited by Vistaprint and OfficeMax presented the Court with a showing of judicial economy comparable to that in this case. The Court noted that in the cited cases, considerations of judicial administration were neutral or were otherwise inapplicable to the outcome of the petition.

According to the Federal Circuit, § 1404(a) balances a number of case-specific factors, not just convenience. Further, § 1404(a) commits the balancing determination to the sound discretion of the trial court based not on per se rules, but rather on “individualized, case-by-case consideration of convenience and fairness.” *Id.* at 6-7 (citing *Van Dusen v. Barrack*, 376 U.S. 612, 622 (1964); *Volkswagen I*, 545 F.3d at 312 n.7). The Court noted, “Our reluctance to interfere is not merely a formality, but rather a long-standing recognition that a trial judge has a superior opportunity to familiarize himself or herself with the nature of the case and the probable testimony at trial, and ultimately is better able to dispose of these motions.” *Id.* at 7 (citing *A. Olinick & Sons v. Dempster Bros.*, 365 F.2d 439, 444 (2d Cir. 1966)). Invalidating another of Vistaprint and OfficeMax’s arguments, the Court emphasized that it has repeatedly rejected the use of per se rules in *forum non conveniens* analyses, despite the resultant lack of uniformity and predictability.

In deciding whether the trial court improperly balanced judicial economy against convenience in this specific case, the Federal Circuit found that the gain in judicial economy from keeping this case in the Eastern District of Texas was more than negligible. The trial court became very familiar with the only asserted patent and the related technology during a prior litigation. That, coupled with the copending litigation before the trial court involving the same patent and underlying technology, provided a substantial justification for maintaining suit in the Eastern District of Texas. In addition, the Court concluded that, although some potential witnesses and sources of proof located in the transferee venue warrant weighing convenience factors in favor of transfer, no defendant party was actually located in the transferee venue and the presence of the witnesses in that location was not overwhelming.

The Federal Circuit noted that a meaningful application of the factors often creates a reasonable range of choice. The Court reminded that, as long as there is plausible support of record for the district court’s conclusion, the Federal Circuit will not second guess that determination, even if the convenience factors

call for a different result. Accordingly, the Federal Circuit affirmed the district court's ruling because the Court did not find that the district court's balancing was so unreasonable as to warrant the extraordinary relief of mandamus.

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**January 2011**

### **Eligibility of Claims Previously Held Valid Under Machine-or-Transformation Test Reaffirmed**

*Sulay D. Jhaveri*

**Judges: Rader, Lourie (author), Bryson**

**[On remand from S. Ct.]**

In *Prometheus Laboratories, Inc. v. Mayo Collaborative Services*, No. 08-1403 (Fed. Cir. Dec. 17, 2010), on remand from the Supreme Court in light of *Bilski v. Kappos*, 561 U.S. -- (2010), the Federal Circuit reaffirmed its holding that Prometheus Laboratories, Inc.'s ("Prometheus") asserted method claims are drawn to statutory subject matter, and again reversed the district court's grant of SJ of invalidity under 35 U.S.C. § 101.

Prometheus is the sole and exclusive licensee of U.S. Patent Nos. 6,355,623 ("the '623 patent") and 6,680,302 ("the '302 patent"), which claim methods to optimize therapeutic efficacy and minimize toxic side effects of drugs used to treat autoimmune diseases. These drugs include 6-mercaptopurine ("6-MP") and azathiopurine ("AZA"), a pro-drug that upon administration converts to 6-MP. 6-MP is broken down by the body into various metabolites, including 6-methylmercaptopurine ("6-MMP") and 6-thioguanine ("6-TG") and their nucleotides.

The claimed methods typically include two separately lettered steps: (a) "administering" a drug that provides 6-TG to a subject, and (b) "determining" the levels of the drug's metabolites, 6-TG and/or 6-MMP, in the subject. The measured metabolite levels are then compared to predetermined metabolite levels, "wherein" the measured metabolite levels "indicate a need" to increase or decrease the level of drug to be administered so as to minimize toxicity and maximize treatment efficacy.

Mayo Collaborative Services and Mayo Clinic Rochester's (collectively "Mayo") test measured the same metabolites as Prometheus's test, but used different levels to determine toxicity of 6-TG and 6-MMP. Prometheus sued Mayo for infringement of the '623 and '302 patents. On cross-motions for SJ, the district court held that Mayo's test literally infringed claim 7 of the '623 patent, but also granted Mayo's motion for SJ of invalidity under § 101. On appeal, the Court reversed and upheld the asserted claims' validity under the machine-or-transformation test. The Court held that both the "administering" and "determining" steps were transformative and not merely data-gathering steps under the second prong of the test, and as such, the claims did not wholly preempt the use of the recited correlations between

metabolite levels and drug efficacy or toxicity. Subsequently, the Supreme Court held in *Bilski* that the machine-or-transformation test was not the sole test for determining the patent eligibility of process claims. Based on that decision, the Supreme Court vacated and remanded the Court's prior decision in this case.

On remand, the Court noted that patent eligibility in this case turns on whether Prometheus's asserted claims are drawn to a natural phenomenon or whether the claims are drawn only to a particular application of that phenomenon. The Court stated that, prior to *Bilski*, it held not only that Prometheus's asserted claims recite transformative "administering" and "determining" steps, but also that Prometheus's claims are drawn not to a law of nature, but to a particular application of naturally occurring correlations. Accordingly, the Court noted that the claims do not preempt all uses of the recited correlations between metabolite levels and drug efficacy or toxicity. The Court further noted that the *Bilski* decision did not undermine its preemption analysis of Prometheus's claims. The Court elaborated that the machine-or-transformation test, as applied to the present claims, is a "useful and important clue, an investigative tool," and leads to a clear and compelling conclusion that the present claims pass muster under § 101.

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**"While it is true that the administering and determining steps gather useful data, it is also clear that the presence of those two steps in the claimed processes is not 'merely' for the purpose of gathering data. Instead, the administering and determining steps are part of a treatment protocol, and they are transformative." Slip op. at 19-20.**

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The Court explained that the inventive nature of the claimed methods stems not from preemption of all use of these natural processes, but from the application of a natural phenomenon in a series of steps comprising particular methods of treatment. The Court rejected the district court's view of the disputed claims as merely claiming natural correlations and data-gathering steps. The Court explained that the asserted claims are in effect claims to methods of treatment, which are always transformative when one of a defined group of drugs is administered to the body to ameliorate the effects of an undesired condition. The Court further explained that the administering step therefore is not merely data-gathering but a significant transformative element of Prometheus's claimed methods of treatment that is "sufficiently definite to confine the patent monopoly within rather definite bounds." Slip op. at 18 (quoting *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972)).

The Court noted that not all of the asserted claims contain the administering step, but maintained that the determining step, which is present in each of the asserted claims, is also transformative and central to the claimed methods. The Court described that some form of manipulation, such as a chromatography method, is necessary to extract the metabolites from a bodily sample and determine their concentration, and thus the determining step, by working a chemical and physical transformation on physical substances, sufficiently confines the patent monopoly, as required by the machine-or-transformation test. The Court further explained that the administering and determining steps were central to the claims rather than merely insignificant extrasolution activity because the administering step provides thiopurine drugs for the purpose of treating disease, and the determining step measures the drugs' metabolite levels for the purpose of assessing the drugs' dosage during the course of treatment.

The Court also discussed two earlier cases: *In re Grams*, 888 F.2d 835 (Fed. Cir. 1989), which the Court

called the “closest comparison,” and *In re Abele*, 684 F.2d 902 (C.C.P.A. 1982). In *Grams*, the claims, which were found unpatentable, recited a process that involved (1) performing a clinical test on individuals and (2) based on the data from that test, determining if an abnormality existed and determining possible causes of any abnormality by using an algorithm. The Court distinguished *Grams* by noting that the claims did not require the performing of clinical tests on individuals that were transformative, because the tests were just to “obtain data.” Slip op. at 20. In the instant case, the Court stated that the claimed methods are not merely data-gathering steps or insignificant extrasolution activity—they are part of treatment regimes for various diseases. Moreover, while the Court agreed with the district court that the final “wherein” clauses were mental steps and thus not patent-eligible per se, the Court held that a subsequent mental step does not, by itself, negate the transformative nature of prior steps.

In *Abele*, the method claim called for the use of X-ray attenuation data, which necessarily involved production, detection, and display with a CAT scan. The method also recited the use of an algorithm. In *Abele*, the Court found that the claim was patentable because the steps of a CAT scan were statutory subject matter whose patentability was not affected by the presence of an algorithm in the claimed method. The Court reasoned in the instant case that the presence of mental steps similarly does not detract from the patentability of the administering and determining steps. The Court discerned that viewing the treatment methods as a whole, Prometheus had claimed therapeutic methods that determine the optimal dosage level for a course of treatment.

Accordingly, the Court reversed the judgment of the district court and remanded with instructions to deny Mayo’s motion for SJ that the asserted claims were invalid under § 101.

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**January 2011**

### **Agency Relationship or Contractual Obligation to Perform Steps Required for a Finding of Joint Infringement**

*Constance B. Jones*

**Judges: Rader, Linn (author), Prost**

**[Appealed from D. Mass., Judge Zobel]**

In *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Nos. 09-1372, -1380, -1416, -1417 (Fed. Cir. Dec. 20, 2010), the Federal Circuit affirmed a finding of no joint infringement, holding that Akamai Technologies, Inc. (“Akamai”) did not show that Limelight Networks, Inc.’s (“Limelight”) customers were acting as agents of Limelight when performing the steps of the claim that Limelight itself did not perform.

In an effort to assist websites in efficiently handling large volumes of Internet traffic, Akamai invented a system for allowing a content provider to outsource the delivery of its website content, such as images or videos, collectively known as embedded objects. Akamai obtained three patents on this technology: U.S. Patent No. 6,108,703 (“the ‘703 patent”), U.S. Patent No. 7,103,645 (“the ‘645 patent”), and U.S. Patent No. 6,553,413 (“the ‘413 patent”). Limelight operates a competing content delivery service. But, instead of performing all of the steps for content delivery service itself, Limelight’s contracts with its content provider customers require the customers to perform several steps of the process, including choosing which embedded objects, if any, should be served from Limelight’s Content Delivery Network (“CDN”). To use Limelight’s service, customers must identify the URL of each chosen object through a process known as tagging, following the instructions provided by Limelight. Then, Limelight replicates the properly tagged objects on Limelight’s servers and delivers the objects upon request from a web user. Based on this service, Akamai sued Limelight for infringing several claims of the ‘703, ‘645, and ‘413 patents.

The only patent at issue during trial was the ‘703 patent for which the jury returned a verdict of infringement and awarded \$40.1 million in lost profits and \$1.4 million in reasonable royalty damages. After the verdict was returned, Limelight moved for JMOL of noninfringement, arguing that since Limelight itself did not perform every step of the asserted claims, Akamai failed to prove that Limelight directed or controlled the customer’s performance of those steps that Limelight did not itself perform. The district court granted JMOL of noninfringement in Limelight’s favor.

On appeal, the Court affirmed. First, the Court held that Limelight could not be held liable under a theory

of joint infringement because it did not direct or control its customers' actions. In determining whether Limelight giving instructions to its customers is sufficient to create joint liability, the Court found that what is essential is not merely the exercise of control or the providing of instructions, but whether the relationship between the parties is such that the acts of one may be attributed to the other. The Court found that implicit in the applicable joint infringement precedent is "that the performance of a method step may be attributed to an accused infringer when the relationship between the accused infringer and another party performing a method step is that of principal and agent," or "when a party is contractually obligated to the accused infringer to perform a method step." Slip op. at 13.

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**“[A]s a matter of Federal Circuit law[,] . . . there can only be joint infringement when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps.” Slip op. at 14.**

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Under this test, the Court held that Limelight did not infringe the '703 patent. In reaching this determination, the Court found that there is nothing to indicate that Limelight's customers are performing any of the claimed method steps as agents for Limelight. In analyzing Limelight's contract with its customers, the content providers, the Court at first recognized that the agreement "requires content providers to perform certain claim steps if they choose to use Limelight's service," *id.* at 17, but stated that "none of those points establishes either Limelight's control over its customers or its customers' consent to Limelight's control," *id.*

Akamai also appealed the district court's claim construction of the '645 and '413 patents. The district court construed the term "a given object of a participating content provider is associated with an alphanumeric string" to require that the alphanumeric string include the embedded object's original URL, defined as the URL including the hostname of the computer on which the actual object resided within the content provider's domain. On appeal, Akamai contended that the district court improperly imported the limitation related to the object's original URL from the preferred embodiment in the specification into the claim construction, thereby unduly limiting the scope of the claims. Limelight countered that the patents consistently describe "the invention" as associating an alphanumeric string with the object's original URL. The Court held that the district court's claim construction was correct, finding that the URL was not merely discussed as a preferred embodiment but, rather, the written description specifically referred to strings including the object's original URL as "the invention." In addition, the Court explained that the specification as a whole makes clear that including the object's original URL is the only method described to achieve the claimed association between an alphanumeric string and the embedded code.

Finally, Akamai appealed the district court's construction of the claim terms "the given name server that receives the DNS query being close to the client local name server as determined by given location information" and "selecting a given one of the name servers in the content delivery network" to require that the name server be selected by the alternative domain name system. Akamai argued that the district court improperly incorporated a structural limitation—namely, the alternative domain name system—into method claims. Again, the Court agreed with the district court's claim construction. Contrary to Akamai's argument, the Court found that method claims often include structural details. Further, all of the asserted claims in the '645 and '413 patents explicitly refer to the alternative domain name system as a detail associated with the claimed method.

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**January 2011**

### **ITC Not Required to Apply Four-Factor Test for Injunctive Relief**

*Melanie R. Grover*

**Judges: Lourie, Friedman, Lynn (author)**

**[Appealed from ITC]**

In *Spansion, Inc. v. International Trade Commission*, Nos. 09-1460, -1461, -1462, -1465 (Fed. Cir. Dec. 21, 2010), the Federal Circuit found substantial evidence to support the ITC's Final Determination that the claims of U.S. Patent Nos. 6,433,419 ("the '419 patent") and 5,852,326 ("the '326 patent") were valid and infringed. The Court further found that the ITC properly granted injunctive relief in the form of a limited exclusion order. Accordingly, the Court affirmed the ITC's Final Determination of infringement, validity, and prospective injunctive relief.

Tessera, Inc. ("Tessera"), a nonpracticing entity, owns the '326 and '419 patents, which share a common specification and are directed to a semiconductor package with the ability to accommodate relative movement between the package components caused by differential thermal expansion. A semiconductor package includes a casing that protects the chip and terminals that allow the chip to be attached to a printed circuit board. The relevant claims of both patents claim terminals movable with respect to the chip to accommodate differing rates of thermal expansion for different components. The '326 patent also claims bonding wires extending downwardly alongside the edges of the chip.

Tessera filed a complaint in the ITC against Spansion, Inc. ("Spansion") and several other respondents ("Respondents"). The Respondents filed a motion to stay the ITC proceedings in light of an ex parte reexamination granted at the PTO before Tessera's filing at the ITC. The ALJ granted the motion, but it was denied by the ITC and the Federal Circuit because the reexamination might not reach completion before the patents' expiration, and the ITC proceedings were at an advanced stage compared with the stage of the reexamination. After a hearing, the ALJ found the patents valid but not infringed. The ITC overturned the ALJ's infringement conclusions, finding direct and contributory infringement, and issued a limited exclusion and a cease-and-desist order.

On appeal, the Federal Circuit found that evidence supported a construction of the term *movable* to require appreciable relief of mechanical stresses. The Court rejected Respondents' contention that the ITC's construction left a person of ordinary skill unable to determine how much movement constitutes infringement. The Court noted that intrinsic evidence from the specification provided guidance on the

stresses that cause the problem and the kind of movement that relieves the stresses. The Court also explained that two of Respondents' experts and Tessera's expert were able to discern the boundaries of the claims, providing supporting extrinsic evidence that the claims were definite. The Federal Circuit also indicated that interpreting the term *movable* in terms of appreciable relief of mechanical stress was as precise as need be, given the number of materials intended to be covered by the claims.

The Federal Circuit also found that the difficulty or complexity of the infringement analysis does not necessarily speak to whether a claim is indefinite or not, rejecting an argument that the patents provided no method for distinguishing claimed movement caused by external loads from unclaimed movement caused by internal loads. The Court noted that the prosecution history clearly differentiated claimed from unclaimed movement and that an expert using detailed computer simulations could determine whether the claimed movement was present.

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**“The [ITC] is not required to apply the traditional four-factor test for injunctive relief used by district courts when deciding whether to issue the equitable remedy of a permanent injunction.” Slip op. at 46.**

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The Court further found the ITC's construction of *downwardly alongside* supported by the specification. The Court explained that the specification disclosed only conventional wires connected between elements using a conventional bonding process, and, therefore, a proper claim construction includes features of conventional bonding wires. Finally, the Court rejected an argument that the inventors disclaimed bonding wires not in close proximity to the semiconductor chip during prosecution of the parent application to the '326 patent because the inventors distinguished the parent with a statement that “these wiring films extend outwardly from the various chips rather than upwardly alongside of the chips.” The Court pointed out that the claims of the parent disclosed leads and flaps rather than bonding wires, and, therefore, any disclaimers regarding the type of connection made in the parent did not apply to the '326 patent. Furthermore, the Court noted that the inventors' statement was not sufficiently clear to establish that a disclaimer occurred.

Having found the claims valid, the Federal Circuit then turned to infringement, finding that one of three tests performed by Tessera's expert provided substantial evidence of infringement. Although Respondents argued that the fifty-two chosen models tested were not representative of all the accused products, the Court disagreed, stating that Tessera's expert provided detailed evidence describing his selection process, which was based on criteria that would most directly affect relative terminal displacement, and explained why the chosen packages were fairly representative of the entire pool of products. The Court concluded that Tessera offered specific and substantial evidence as to why accused products not selected could reasonably be expected to behave like the representative accused products, and Respondents failed to rebut the substantial evidence set forth by Tessera.

The Federal Circuit also found that the ITC reasonably concluded, based on witness testimony, that the test performed by Tessera's expert properly simulated the external load being applied to the semiconductor packages and showed the claimed movement. The Court indicated that the ITC properly found that the test, based on industry-accepted modeling, was reliable evidence of infringement and found unpersuasive Respondents' remaining arguments that the test was technically flawed. Rejecting Respondents' argument that the ITC improperly went beyond the expert testimony and added its own interpretation to the raw data from the test, the Federal Circuit concluded that the ITC was entitled to

resolve the conflicting expert testimony in favor of a finding of infringement. The Court also found that the ITC properly relied on the test as independent evidence of infringement because Tessera's expert testified that he believed the results of the testing method showed that the accused packages met the claimed *movement* limitation. Finally, the Court concluded that the test had been properly validated.

Having found direct infringement, the Federal Circuit found that Tessera had made a prima facie case of contributory infringement of the '419 patent because Respondents instructed their customers to connect the accused packages to a printed circuit board in an infringing manner. The Court held the evidence that the accused packages could be mounted in a noninfringing manner insufficient to overcome the prima facie case because most of the evidence took the form of general assertions that such noninfringing mounts were commonly used in the 1990s, with only a small amount of evidence of current actual use. Quoting *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1363-64 (Fed. Cir. 2006), the Court stated that "it matters not that the assembled device can be manipulated into a non-infringing configuration, because the instructions packaged with each device teach the infringing configuration," and thus "[t]he burden of production then shifted to [the accused infringer] to introduce some evidence that end-users actually assembled the [accused devices] in a non-infringing way." Slip op. at 38 (alterations in original).

As for the knowledge required to support contributory infringement, the Federal Circuit held that the evidence supports a presumption of the requisite knowledge because Respondents were aware of the '419 patent through license negotiations and Tessera successfully showed that the accused devices did not have any substantial noninfringing uses.

Turning to anticipation, the Court concluded that the evidence supported a conclusion that the '326 and the '419 patents were conceived before the filing date of two purported § 102(e) references. The Court indicated that the ITC properly considered the testimony of the inventors and the corroborating evidence of noninventors and engineering notebook entries, concluding that the ITC did not misconstrue the evidence before it.

Although Respondents argued that the award of prospective injunctive relief should be vacated because the ITC failed to properly consider public interest consequences similar to the traditional test for injunctive relief under *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the Federal Circuit held that *eBay* does not apply to ITC remedy determinations under 19 U.S.C. § 1337 ("Section 337"). The Court concurred with the ITC that no public health and safety concerns exist because Tessera had chosen not to seek exclusion of radios imported for use by first responders and that no evidence exists that Tessera's licensees would be unable to adequately supply the U.S. market if Respondents' products were excluded. The Court considered the legislative history of Section 337 and the Section itself, concluding that such evidence requires the ITC to issue an exclusion order upon finding a violation and Congress intended this by removing the monetary remedy and the requirement of proof of injury to the domestic industry. Thus, the Federal Circuit concluded, the basis of an exclusion order at the ITC exists with the criteria set forth in Section 337 and not the traditional equitable principles reflected in the *eBay* standard, noting that the ITC provided sufficient basis for issuance of the exclusion order in this case. The Federal Circuit also concluded that the ITC could properly omit discussion of ongoing PTO reexamination proceedings in its analysis of public interest factors because such proceedings are not explicitly listed as a public interest factor in Section 337.

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**January 2011**

### **Reasonable Mistakes and Poor Judgment During Prosecution Do Not Amount to Inequitable Conduct**

*Andrew R. Chadeayne*

**Judges: Lourie, Friedman, Linn (author)**

**[Appealed from S.D.N.Y., Senior Judge Griesa]**

In *Lazare Kaplan International, Inc. v. Photocube Technologies, Inc.*, No. 09-1251 (Fed. Cir. Dec. 22, 2010), the Federal Circuit vacated the district court's grant of SJ of no literal infringement and the district court's verdict of noninfringement under the DOE of claims 1 and 7 of U.S. Patent No. 6,476,351 ("the '351 patent"). The Court affirmed the district court's judgments of invalidity and noninfringement of claim 18 of the '351 patent and also affirmed the district court's judgment of noninfringement of claims 1, 24, 62, and 70 of U.S. Patent No. 7,010,938 ("the '938 patent"). Finally, the Federal Circuit vacated the district court's findings of inequitable conduct and "exceptional case," as well as its award of attorneys' fees.

Lazare Kaplan International, Inc. ("Lazare") owns the '351 and '938 patents, which are directed to the use of a fixed laser to create a series of microscopic spots on the surface of gemstones such as diamonds. The '351 patent claims a microinscribing system that has a "rigid frame" supporting the laser, stage, and optical system "in fixed relation, to resist differential movements" and to "increase immunity to vibrational misalignments." The '351 patent also claims a method of microinscribing that includes "controlling the directing" of laser energy based on marking instructions and imaging.

Lazare's '938 patent claims microinscribed gemstones that have specified characteristics. In particular, the patent claims gemstones with laser generated spots, the "positional accuracy" of which is "within about  $\pm 1$  micron" and the "positional repeatability" of which is "within about 1.0 micron." The '938 patent also claims ranges of depths and widths of each spot on a gemstone, the depths being "less than about 10 microns" and widths being either "less than about 9 microns" or "less than about 12 microns."

Lazare also owns U.S. Patent No. 4,392,476 ("the '476 patent"), which is directed to a system for inscribing gemstones that includes a "laser beam generation system," an "optical system," and a "table system." The '476 patent is prior art to both the '351 and '938 patents.

In the 1980s Lazare had a commercial embodiment of the '476 patent made in the form of a machine for

inscribing gemstones. According to a contract for the development of that machine (“the ‘476 machine”), it was to include “a rigid base to support a laser, scanner optics, and object fixture with adequate protective covers.” To prevent vibrations from causing errors during the inscription process, the machine rested on a cushion of compressed air produced by a set of pneumatic legs positioned underneath the machine.

The ‘351 patent refers to both the ‘476 patent and the ‘476 machine. Neither the ‘351 patent nor the ‘476 patent explicitly discloses that the ‘476 machine included the “rigid base” mentioned above.

Lazare sued Photocopy Technologies, Inc. (“Photocopy”) for infringement of the ‘351 and ‘938 patents. Lazare asserted that Photocopy manufactured infringing inscription machines and sold them to parties who used the machines to produce infringing diamonds. Photocopy denied the allegations of infringement, asserted that the claims were invalid, and that both the ‘351 and ‘938 patents were unenforceable due to inequitable conduct. A jury found that Photocopy had not infringed any of the asserted claims. The jury also found that Photocopy had proven by clear and convincing evidence that claim 18 of the ‘351 patent is invalid.

In a subsequent bench trial on inequitable conduct, the district court concluded that Lazare had committed inequitable conduct while prosecuting the ‘351 patent by failing to adequately disclose the structure of the ‘476 machine to the PTO. The district court also found that Lazare had engaged in inequitable conduct with respect to the ‘938 patent because Lazare did not submit to the PTO a declaration by Lazare demonstrating that the ‘476 machine could produce inscriptions with line widths and depths falling within the ranges recited in the claims. Based on its inequitable conduct findings, the district court held that the case was exceptional under 35 U.S.C. § 285 and awarded the defendants over \$6 million in attorneys’ fees.

Lazare made separate motions for JMOL and for new trials, which the district court denied. Lazare challenged the district court’s denial of its post-trial motions on a number of grounds.

On appeal, the Federal Circuit found errors in the district court’s construction of claims 1 and 7 of the ‘351 patent. As a result, the Court vacated the district court’s grant of SJ of no literal infringement and its jury verdict of no infringement under the DOE because both were based on an erroneous construction of those claims.

The Federal Circuit affirmed the district court’s verdict of invalidity and noninfringement of claim 18 of the ‘351 patent because Lazare failed to show that the district court’s jury instructions amounted to fundamental error and the testimony supporting the district court’s findings was sufficiently corroborated.

The Federal Circuit also affirmed the jury’s verdict of noninfringement of claims 1, 24, 62, and 70 of the ‘938 patent because it found that the jury’s verdict was supported by substantial evidence. The Court reasoned that the jury was free to dismiss the conflicting testimony of Lazare’s experts and rely on testimony offered by Photocopy.

Further, the Federal Circuit vacated the district court’s finding that the ‘351 patent was unenforceable on account of inequitable conduct. The district court had based its finding of inequitable conduct on Lazare’s failure to disclose the structure of the ‘476 machine to the PTO while prosecuting the ‘351 patent. The Court reasoned that, even assuming that information concerning the structure of the ‘476 machine was

highly material to the prosecution of the '351 patent erroneously inferred that Lazare's counsel intended to deceive the PTO by withholding the information. The Federal Circuit noted that "[c]ounsel provided an explanation for not disclosing the machine, and there is nothing to suggest that the decision to withhold was an attempt to conceal. At best, the failure to disclose what was believed to be cumulative information was a mistake or exercise of poor judgment that does not support an inference of intent to deceive." Slip op. at 34 (citing *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1354 (Fed. Cir. 2008) ("Mistake or negligence, even gross negligence, does not support a ruling of inequitable conduct.")).

The Federal Circuit also vacated the district court's holding that the '938 patent was unenforceable on account of inequitable conduct. The district court based its finding of inequitable conduct on Lazare's decision not to submit measurements of the average width and depth of lines inscribed by the '476 machine to the PTO during prosecution of the '938 patent. Lazare's attorneys explained that they did not submit the declaration because the declaration was cumulative in light of three patents already before the PTO that disclosed the claimed ranges of widths and depths.

The Court reasoned that "[w]hen the attorneys' explanation for withholding the declaration is considered, it is clear that intent to deceive is not the single most reasonable inference that can be drawn from the evidence." *Id.* at 38 (citing *Scanner Techs. Corp. v. ICOS Vision Sys. Corp. N.V.*, 528 F.3d 1365, 1376 (Fed. Cir. 2008) ("Whenever evidence proffered to show either materiality or intent is susceptible of multiple reasonable inferences, a district court clearly errs in overlooking one inference in favor of another equally reasonable inference.")).

Because the district court's exceptional case finding and award of attorneys' fees were based on a clearly erroneous inequitable conduct ruling, the Federal Circuit vacated them.

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**January 2011**

### **District Court's Grant of Postverdict JMOL Affirmed Where Plaintiff Failed to Present Sufficient Evidence for His State Law and Inventorship Claims**

*Marc D. Evans*

**Judges: Newman (dissenting), Lourie, Prost (author)**

**[Appealed from N.D. Cal., Senior Judge Jensen]**

In *Shum v. Intel Corp.*, Nos. 09-1385, -1419 (Fed. Cir. Dec. 22, 2010), the Federal Circuit affirmed the district court's grant of SJ as to the plaintiff Frank T. Shum's breach of fiduciary duty and fraudulent concealment claims, and affirmed the district court's grant of postverdict JMOL on Shum's claims for unjust enrichment, breach of contract, intentional misrepresentation, and correction of inventorship for two patents.

Shum and Jean-Marc Verdiell formed Radiance Design, Inc. ("Radiance") and began developing technologies they invented while Verdiell was employed at another company. Shum and Verdiell filed a patent application to their invention naming Shum as sole inventor to avoid assignment issues with Verdiell's former employer, but then withdrew it because they were concerned that the application was invalid for improper inventorship. Shum and Verdiell dissolved Radiance pursuant to a Plan of Liquidation ("POL"), wherein each had the right to exploit Radiance's technology without accounting to the other or Radiance and pursue business opportunities, even if they competed with each other. Verdiell formed LightLogic, Inc. ("LightLogic") and refiled the Radiance application, removing the portions Verdiell viewed as Shum's contribution and naming himself as the sole inventor. Verdiell also filed six other applications naming himself as an inventor, but not Shum. Verdiell later sold LightLogic and the patents that matured from the applications to Intel Corporation ("Intel").

Shum brought suit against Verdiell, LightLogic, and Intel (collectively "defendants") for state law claims of breach of fiduciary duty, fraudulent concealment, unjust enrichment, breach of contract, and intentional misrepresentation in state court. Upon removal to federal court, Shum added a claim for inventorship on the seven LightLogic patents. The district court granted the defendants' motion for SJ on Shum's breach of fiduciary duty and fraudulent concealment claims. Following trial, a jury found that Shum was a coinventor on five of the patents, but deadlocked on inventorship of certain claims of two patents and Shum's remaining state law claims. The judge declared a mistrial for the claims on which the jury failed to reach a verdict, but entertained the defendants' motion for JMOL. The district court entered judgment for Shum on his inventorship claims for the five patents on which the jury reached a verdict, and entered

judgment for defendants on the remaining claims. Shum appealed.

Regarding Shum's breach of fiduciary duty claim, the Court found that even if Verdiell did breach his fiduciary duty to Radiance, Shum still could not maintain his claim. The Court found that Shum lacked standing to bring suit in his personal capacity or capacity as a shareholder for breach of duties owed to the corporation. And the Court held that Shum could not establish that Verdiell owed him a fiduciary duty based on either a legal relationship or the factual circumstances of their joint collaboration while with Radiance.

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**“Shum’s apparent ‘injuries’—diminished bargaining power due to his later-established inventorship and inability to participate in the Intel-LightLogic deal—are speculative.” Slip op. at 23.**

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Shum's fraudulent concealment claim was based on Verdiell's failure to disclose that Verdiell was forming LightLogic. The Federal Circuit agreed with the district court that Shum had not made out an actionable claim. Because Verdiell owed no fiduciary duty to Shum, he had no duty to disclose his plans to form LightLogic or compete with Radiance. Moreover, the Court found that Shum had equal access to information that Verdiell had and therefore failed to meet his burden of showing what material facts were actively suppressed or exclusively known to Verdiell.

Regarding the unjust enrichment claims, Shum asserted that Verdiell and LightLogic engaged in wrongful conduct by falsely claiming exclusive ownership of Radiance technology that induced Intel to buy LightLogic, thereby conferring a benefit on Verdiell and LightLogic at the expense of Shum and his rights in the Radiance technology. The Court affirmed the district court's entry of JMOL. Assuming, without deciding, that Verdiell and LightLogic engaged in wrongful conduct by making false statements claiming exclusive rights in the patents, the Court agreed that no reasonable jury could find that these acts caused the defendants to receive a benefit at Shum's expense. Particularly, the Court noted that the record did not support Shum's contention that the acts caused Intel to purchase LightLogic or that the purchase was contingent upon LightLogic's exclusive rights in the patents. The evidence showed that Intel knew it was purchasing LightLogic and LightLogic's intellectual property subject to any rights of Shum. Furthermore, there was no evidence that the defendants received a benefit directly from Shum or at the expense of Shum; Shum was still free to exploit his rights in the technology as per the terms of the POL. Finally, Shum failed to show that he suffered a tangible loss as a result of the alleged wrongful acts. In this respect, the Court noted that any loss of bargaining power due to Shum's later-established inventorship and inability to participate in the LightLogic sale was “speculative.”

Regarding breach of contract, Shum asserted that Verdiell and LightLogic breached the express terms of the POL and the attendant implied duty of good faith and fair dealing by applying for and obtaining the LightLogic patents without listing Shum as an inventor. The Court held that JMOL was proper because Shum offered no evidence that the alleged breach caused him any harm. The record showed that Shum abandoned efforts to exploit the Radiance technology in 1998 before the LightLogic patents issued. Moreover, the Court found there was no evidence that Shum suffered financial harm by being omitted from the patents as a coinventor.

As for his intentional misrepresentation claim, Shum argued that Verdiell intentionally misrepresented to Shum that the Radiance patent application was invalid and had to be withdrawn. The Court affirmed the

district court's postverdict JMOL in favor of the defendants because Shum failed to show that he suffered any monetary loss as a result of the alleged misrepresentation, as required by California law.

As for inventorship, the Court affirmed the district court's entry of JMOL, agreeing that Shum failed to show that he contributed in some significant manner to the conception of the claimed invention.

Finally, the Court considered Shum's claim that various district court rulings were erroneous and prejudicial. The Court found that the record did not show that the district court abused its wide discretion regarding the various evidentiary and procedural issues.

In a separate opinion, Judge Newman dissented. Judge Newman stated that SJ of breach of fiduciary duty and fraudulent concealment were improperly granted, given that the jury found Shum was a joint inventor, which was a finding material to those claims. And Judge Newman stated that a reasonable jury could have found that the defendants were unjustly enriched and that the filing of the patents by Verdiell was a breach of the POL. Thus, Judge Newman stated that it was improper for the district court and the Federal Circuit to decide the factual issues that deadlocked the jury "as a matter of law," and would have found that Shum is entitled to a retrial. Newman Dissent at 8.

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### **Plaintiff Who Won Inventorship Claims but Lost State Law Claims Is Not the Prevailing Party and Must Pay Defendants' Costs**

*Louis L. Campbell*

**Judges: Newman (dissenting), Lourie, Prost (author)**

**[Appealed from N.D. Cal., Senior Judge Jensen]**

In *Shum v. Intel Corp.*, No. 10-1109 (Fed. Cir. Dec. 22, 2010), the Federal Circuit held that plaintiff Frank T. Shum, victorious on his inventorship causes of action, must nonetheless pay the costs of the defendants under Fed. R. Civ. P. 54(d) as the defendants were the prevailing party.

Shum and Jean-Marc Verdiell founded a company together called Radiance Design, Inc. ("Radiance") that dissolved nine months later. Radiance was formally dissolved pursuant to a Plan of Liquidation ("POL") that gave both parties equal rights to independently exploit the IP developed by Radiance. After the dissolution, Verdiell filed for and obtained the seven patents-in-suit. The patents were subsequently assigned to Verdiell's company, LightLogic, Inc. ("LightLogic"). Intel Corporation ("Intel") later purchased LightLogic, including all of its IP rights for \$409 million.

Upon learning of the sale, Shum filed the instant suit, asserting that he should be named as sole or coinventor of the seven patents-in-suit. Shum also alleged various claims for monetary damages under California state law.

This was the second time this case was before the Federal Circuit. Before the first appeal, the district court dismissed some of Shum's claims, held a bench trial on the inventorship issues, and granted SJ on the remaining state law claims. On appeal, the Court reversed, vacating the judgment, reinstating the unjust enrichment claim, and holding that, because they had common factual issues, Shum was entitled to a jury trial on his state law claims before any court determination of his inventorship claims.

On remand, Shum obtained partial relief. The jury found that Shum was the coinventor of some claims in five of the seven patents-in-suit, but was unable to reach a verdict on the remaining claims. After declaring a mistrial, the district court entered judgment for Shum on his coinventorship claims on which the jury reached a verdict and entered JMOL for defendants on the remaining claims. Following entry of judgment, both parties submitted bills of costs pursuant to Fed. R. Civ. P. 54. When the parties' competing costs were offset against each other, Shum owed costs to defendants. Shum moved to deny

defendants costs because, among other things, defendants were not the prevailing party within the meaning of Rule 54. The district court upheld the award of costs, finding that both Shum and defendants were prevailing parties, because both had prevailed with respect to some claims. The district court also held, in the alternative, that defendants were the prevailing party.

On appeal, the Court held, under de novo review, that it was error to declare both parties the prevailing party. The Court reasoned that although both parties won on certain claims and lost on others, just because a party “prevailed” on a claim does not necessarily make him a “prevailing party” as the term is used in Rule 54. The plain language of the Rule—“the prevailing party”—unambiguously limits the number of prevailing parties to one. The Court reasoned that had Congress intended for there to be multiple prevailing parties, it could have easily substituted “parties” for “party.” The Court explained that this conclusion is reinforced by the use of the definite article “the” before “prevailing party.” Moreover, the Court noted that Rule 54 has no special rule or exception for mixed judgment cases like this one. To be a prevailing party, the party must have received at least some relief on the merits that materially alters the legal relationship between the parties by modifying one party’s behavior in a way that directly benefits the opposing party, but a party need not prevail on all claims to be named a prevailing party.

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**“[J]ust because a party can be said to have ‘prevailed’ on a claim does not necessarily make him a ‘prevailing party’ as the term is used in Rule 54.”**  
**Slip op. at 10.**

**“[E]ven in mixed judgment cases, punting is not an option; Rule 54 does not allow every party that won on some claims to be deemed a ‘prevailing party.’”** *Id.* at 11.

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In this case, the Court held that the defendants are the prevailing party. Defendants won on all of Shum’s state law claims and some of the inventorship claims. As a result, defendants do not owe any of the \$409 million in damages and restitution sought by Shum. The Court noted that this judgment alters the legal relationship of the parties and, in addition to avoiding significant monetary liability, the judgment will have res judicata effect in any future action. Conversely, the Court stated that Shum, on the other hand, obtained a property interest in five of the patents and the PTO must correct the inventorship and assignments of those five patents. In sum, while Shum’s victories also alter the legal relationship of the parties, the Court held that it is not enough to make Shum the prevailing party.

The Court explained that not every alteration in the legal relationship between parties satisfies the Court’s prevailing party test. The alteration must be (1) material and (2) modify the defendant’s behavior in a way that directly benefits the plaintiff. In this case, Shum’s victories do not satisfy the second part of the test. Inventorship was not the central issue in this case—it was about the money. Thus, the victory has not modified defendants’ behavior in a way that significantly benefits Shum. By example, the Court explained that with respect to Verdiell, Shum’s coinventorship status has not given Shum a competitive advantage or required Verdiell to change his behavior. The POL granted each of them the right to pursue any and all activities without incurring any liability to the other. Therefore, the declaration of coinventorship did not grant Shum any rights that he did not already possess under the POL. Similarly, Shum’s coinventorship status does not give Shum a competitive advantage with respect to Intel or LightLogic, nor does it require either party to change its behavior because Intel, after purchasing Verdiell’s interest, is still an owner of the patents.

After determining that defendants were the prevailing party, the Court turned to the issue of the reasonableness of the cost award. Under Ninth Circuit law, the reasonableness of a cost award is reviewed for abuse of discretion and the Ninth Circuit is hesitant to find an abuse of the trial court's broad discretion over costs. Nonetheless, the deferential review is guided by a presumption in favor of awarding costs to the prevailing party. To overcome the presumption, the losing party must establish a reason to deny costs and the district court must give specific reasons for refusing to award costs. Under the Ninth Circuit's deferential standard of review, the Court affirmed the reasonableness of the cost award.

In dissent, Judge Newman did not agree that money was the main issue. Instead, she thought the inventorship of the patents was the main issue and Shum prevailed on most of his inventorship claims. Judge Newman also suggested that a defendant can only be a prevailing party when the plaintiff loses on all of its claims. Judge Newman also disagreed that Shum did not gain any rights that he did not already have pursuant to the POL. She noted that Verdiell made many assertions of exclusivity at trial and stated that "the issue of inventorship is at the heart of the case" and a "necessary element" of all of the other claims. Judge Newman also disagreed with the reasonableness of offsetting the costs of the parties as a proper method to apportion the award.

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## *Last Month at the Federal Circuit*

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**January 2011**

### **A Party Holding One or More of the Exclusionary Rights Created by the Patent Act Has Standing to Sue When an Unauthorized Party Encroaches upon Those Rights**

*David K. Mroz*

**Judges: Rader, Linn (author), Dyk**

**[Appealed from E.D. Va., Senior Judge Payne]**

In *WiAV Solutions LLC v. Motorola, Inc.*, No. 10-1266 (Fed. Cir. Dec. 22, 2010), the Federal Circuit ruled that the district court had erred in concluding that the preexisting third-party rights to sublicense at issue stripped WiAV Solutions LLC (“WiAV”) of constitutional standing to assert seven patents-in-suit owned by Mindspeed Technologies, Inc. (collectively “the Mindspeed patents”) and under which WiAV held an exclusive license in a specific field of use. Accordingly, the Federal Circuit reversed the district court’s judgment and remanded for further proceedings consistent with the opinion.

WiAV possessed a broad bundle of exclusive rights in the Mindspeed patents, including the right to practice the patents, as well as the right to sue for all infringements, the right to grant future licenses, and the right to assign. In contrast, certain third-party entities (“the non-WiAV licensees”) held limited rights in the Mindspeed patents, including nonexclusive rights to practice the invention, as well as limited future assignment rights and sublicensing rights. For example, the non-WiAV licensees could only grant sublicenses to closely related entities such as affiliates, subsidiaries, spinoffs, and joint-development partners.

The defendants moved to dismiss WiAV’s suit for lack of Article III standing. Relying on *Textile Productions, Inc. v. Mead Corp.*, 134 F.3d 1481 (Fed. Cir. 1998), defendants urged that because the non-WiAV licensees could grant future licenses under the Mindspeed patents, WiAV was not an exclusive licensee and therefore lacked constitutional standing. The district court agreed.

On appeal, the Federal Circuit reversed, explaining that a party holding one or more of the exclusionary rights created by the Patent Act has standing to sue when an unauthorized party encroaches upon those rights. The Court reasoned that “the touchstone of constitutional standing in a patent infringement suit is whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury.” Slip op. at 15.

**“Because an exclusive licensee derives its standing from the exclusionary rights it holds, it follows that its standing will ordinarily be coterminous with those rights. Depending on the scope of its exclusionary rights, an exclusive licensee may have standing to sue some parties and not others.” Slip op. at 17.**

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Clarifying the holding of the *Textile Productions* opinion cited by the district court, the Court explained that the *Textile Productions* court created no rule “that a party cannot be an exclusive licensee of a patent if others have the right to license the patent.” *Id.* at 16. Because WiAV possessed exclusionary rights in the patents it asserted, it met the constitutional standing requirement, even though other entities retained rights to grant future licenses under those same patents. That is, the Court explained, a licensee need not “be the *only* party with the ability to license the patent” to be an exclusive licensee able to sue. *Id.* at 17.

The Court further explained that because an exclusive licensee derives its standing from the exclusionary rights it holds, it follows that its standing will ordinarily be coterminous with those rights. Accordingly, an exclusive licensee may have standing to sue some parties but not others. For example, the Court noted that an exclusive licensee lacks standing to sue a party for infringement if that party already has the right to practice the invention or could obtain such a license from another party with the right to grant it. The Court held, however, that if an exclusive licensee has the right to exclude others from practicing a patent, and a party accused of infringement does not possess and is incapable of obtaining a license of those rights, the exclusive licensee’s exclusionary right is violated, satisfying “the injury predicate to constitutional standing.” *Id.* at 18.

Therefore, WiAV’s standing did not hinge on whether it had the right to exclude *all* others from practicing the patent: it needed only the ability to exclude *the defendants* from practicing the patents, and it did. In evaluating the third-party licenses, the Court found there was no evidence in the record that suggested the defendants could obtain a license to any of the Mindspeed patents. As a result, the Court held that WiAV had the right to exclude the defendants from practicing the Mindspeed patents, thereby qualifying it as an exclusive licensee with standing to sue.

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