



# PATENT HAPPENINGS®

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on judicial, legislative, and administrative developments in patent law.

## HIGHLIGHTS

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## JUDICIAL HAPPENINGS

### Pleading Intent for Inequitable conduct

Most courts accept that an accused infringer must meet the heightened pleading requirements of Rule 9(b) when pleading allegations of inequitable conduct.<sup>1</sup> This requires that the accused infringer “must state with particularity the circumstances constituting” the inequitable conduct.<sup>2</sup> Courts have therefore concluded

<sup>1</sup> See generally, Robert A. Matthews, Jr., Annotated Patent Digest § 39:13 Pleading Inequitable Conduct Under Rule 9(b) [hereinafter APD]

<sup>2</sup> Fed. R. Civ. P. 9(b).

that in “pleading inequitable conduct, a party cannot merely rely on vague allegations of fraud and deception but instead, must specify the time, place, and content of any alleged misrepresentation made to the PTO.”<sup>3</sup> Inequitable conduct also requires the element of “intent to deceive.” Rule 9(b) provides that “intent, knowledge, and other conditions of a person’s mind may be alleged generally.” Some have viewed this clause in Rule 9(b) as supporting the contention that a bare bones allegation that material information was withheld with an intent to deceive the Patent Office suffices. That practice has been cast into doubt in view of the Supreme Court’s recent opinion in *Ashcroft v. Iqbal*, No. 07-1015, 2009 WL 1361536 (May 18, 2009).

In *Ashcroft*, a non-patent case, the Supreme Court rejected a plaintiff’s argument that a conclusory allegation of intent sufficed to withstand a motion to dismiss in view of Rule 9(b). Instructing that the “alleged generally” instruction in Rule 9(b) has to be viewed in context with the particularity requirement that rule imposes, the Court held that Rule 9(b) does not dispense with the level of factual plausibility required under Rule 8(a). The Court explained:

Respondent finally maintains that the Federal Rules expressly allow him to allege petitioners’ discriminatory intent “generally,” which he equates with a conclusory allegation. . . . But the Federal Rules do not require courts to credit a complaint’s conclusory statements without reference to its factual context.

It is true that Rule 9(b) requires particularity when pleading “fraud or mistake,” while allowing “[m]alice, intent, knowledge, and other conditions of a person’s mind [to] be alleged generally.” But “generally” is a relative term. In the context of Rule 9, it is to be compared to the particularity

<sup>3</sup> APD § 39:13 (quoting *Sun Microsystems, Inc. v. Dataram Corp.*, 1997 WL 50272, \*4 (N.D. Cal. 1997)).

requirement applicable to fraud or mistake. Rule 9 merely excuses a party from pleading discriminatory intent under an elevated pleading standard. It does not give him license to evade the less rigid-though still operative-strictures of Rule 8. And Rule 8 does not empower respondent to plead the bare elements of his cause of action, affix the label “general allegation,” and expect his complaint to survive a motion to dismiss.

*Id.* at \*17. Accordingly, it appears that in view of *Ashcroft*, accused infringers pleading inequitable conduct allegations must now do more than merely recite a conclusory allegation that material information was withheld with deceptive intent.

The Supreme Court also provided further clarification on Rule 8’s pleading standards articulated by the Court in *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955 (2007). The Court held that *Twombly*’s standards apply to all causes of actions, and are not limited to antitrust claims as some have suggested. *Id.* at \*16. The Court also explained that when assessing whether a complaint pleads sufficient facts to make a claim plausible, district courts are not to assume the truth of any legal conclusions. *Id.* at \*13. According to the Court, “the tenet that a court must accept as true all of the allegations contained in a complaint is inapplicable to legal conclusions. Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” *Id.*

Addressing the plausibility standard required by Rule 8, the Court explained that “

[T]he pleading standard Rule 8 announces does not require “detailed factual allegations,” but it demands more than an unadorned, the-defendant-unlawfully-harmed-me accusation. A pleading that offers “labels and conclusions” or “a formulaic recitation of the elements of a cause of action will not do.” Nor does a complaint suffice if it tenders “naked assertion[s]” devoid of “further factual enhancement.”

To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. The plausibility standard is not akin to a “probability requirement,” but it asks for more than a sheer possibility that a defendant has acted unlawfully. Where a complaint

pleads facts that are “merely consistent with” a defendant’s liability, it “stops short of the line between possibility and plausibility of ‘entitlement to relief.’”

*Id.* at \*12.

Applying this standard to the complaint for discrimination before it, the Court held that purported factual allegations that did nothing more than invoke legal conclusions were not to be taken as true, and therefore these “facts” did not count in the analysis of whether the complaint made a sufficient showing of a plausible entitlement to relief.

We begin our analysis by identifying the allegations in the complaint that are not entitled to the assumption of truth. Respondent pleads that petitioners “knew of, condoned, and willfully and maliciously agreed to subject [him]” to harsh conditions of confinement “as a matter of policy, solely on account of [his] religion, race, and/or national origin and for no legitimate penological interest.” The complaint alleges that Ashcroft was the “principal architect” of this invidious policy, and that Mueller was “instrumental” in adopting and executing it. These bare assertions, much like the pleading of conspiracy in *Twombly*, amount to nothing more than a “formulaic recitation of the elements” of a constitutional discrimination claim, namely, that petitioners adopted a policy “ ‘because of,’ not merely ‘in spite of,’ its adverse effects upon an identifiable group.” As such, the allegations are conclusory and not entitled to be assumed true. To be clear, we do not reject these bald allegations on the ground that they are unrealistic or nonsensical. We do not so characterize them any more than the Court in *Twombly* rejected the plaintiffs’ express allegation of a “ ‘contract, combination or conspiracy to prevent competitive entry,’ “because it thought that claim too chimerical to be maintained. It is the conclusory nature of respondent’s allegations, rather than their extravagantly fanciful nature, that disentitles them to the presumption of truth.

*Id.* at \*14.

Given the Court’s analysis, one must wonder whether patent infringement pleadings now must contain more detail to meet Rule 8’s plausibility standard. In the past, many courts have held that infringement pleadings that comply with Form 18 of the Appendix to the Federal Rules of Civil Procedure

adequately state a claim.<sup>4</sup> Form 18, as its sample of an infringement allegation, states “The defendant has infringed and is still infringing the Letters Patent by making, selling, and using *electric motors* that embody the patented invention, and the defendant will continue to do so unless enjoined by this court.” Does the bare recitation that a defendant is making or selling unidentified electric motors cross the line from showing only a possibility of infringement to showing a plausibility that the patentee is entitled to relief for patent infringement? Some may rationally say no.

Undoubtedly, *Ashcroft* will instill new energy into patentees and accused infringers challenging the sufficiency of each others pleadings.

### Transfer of Venue

Rightly or wrongly, the Eastern District of Texas’ track record of denying motions to transfer venue in patent infringement cases has been controversial over the last few years. Indeed, it has even prompted proposed legislative amendments to the patent venue statute, 28 U.S.C. § 1400, which Congress is considering as part of its reform of the patent laws. In what could be deemed an attempt to judicially fix the alleged problem, the Federal Circuit, at the end of December, in *TS Tech.*, granted an accused infringer’s petition for mandamus and reversed an E.D. of Texas’s denial of a motion to transfer an infringement action. The Federal Circuit found that the district court clearly abused its discretion in denying the transfer motion where neither the patentee, nor the accused infringer, had any offices in the forum, no sources of proof were in the forum as the documents and physical evidence were in Ohio, Michigan, and Canada, and the forum had no meaningful connection with the dispute.<sup>5</sup> As a result of *TS Tech.*, it appears that the ED Texas has begun to transfer more infringement cases.<sup>6</sup> But it still

frequently denies transfer motions.<sup>7</sup>

In March, the E.D. of Texas denied an accused infringer’s transfer motion in *Sanofi-Aventis Deutschland GmbH v. Genentech, Inc.*<sup>8</sup> The accused infringer had sought a transfer to its home forum, the N.D. of Cal., where it, and its codefendant, had filed a mirror image declaratory judgment against the patentee a few hours after the patentee had filed its suit. The E.D. of Texas court ruled that since the accused infringer had previously litigated a patent infringement suit in the E.D. Texas forum as a plaintiff, it could not complain that the forum was not convenient. The district court further found that judicial economy would be better served by denying transfer. Noting that the patentee had contested personal jurisdiction in the California declaratory judgment action, the district court concluded that if it retained the suit, the accused infringers could raise their declaratory judgment claims as counterclaims, which would moot the need for the California court to have to address whether it had personal jurisdiction over the patentee. The district court also noted that while many of the accused infringer’s documents and witnesses were in California, documents of the other accused infringer were on the East Coast. After analyzing additional convenience factors the court concluded that the accused infringer had failed to show that the proposed transferee forum “clearly” was more convenient, and therefore concluded that transfer was not warranted.

On the accused infringer’s petition for mandamus, the Federal Circuit granted the petition and ordered the district court to transfer the case. *In re Genentech, Inc.*, Misc. Dkt. No. 901, 2009 WL 1425474 (Fed. Cir. 2009). Applying Fifth Circuit law, the Federal Circuit instructed that “mandamus relief in § 1404(a) cases is permitted when the petitioner is able to demonstrate that the denial of transfer was a ‘clear’ abuse of discretion such that refusing transfer produced a ‘patently erroneous result.’” *Id.* at \*8. To determine whether the district court clearly abused its discretion

<sup>4</sup> See generally, APD § 39:3 Form 18 – Sample of an Adequate Infringement Complaint.

<sup>5</sup> *In re TS Tech USA Corp.*, 551 F.3d 1315, 1318-23 (Fed. Cir. 2008).

<sup>6</sup> E.g., *Jackson v. Intel Corp.*, 2009 WL 749305, \*4 (E.D. Tex. Mar. 19, 2009); *Fifth Generation Computer Corp. v. International Business Machines Corp.*, 2009 WL 398783, \*5-\*6 (E.D. Tex. Feb. 17, 2009); *Invitrogen Corp. v. General Elec. Co.*, 2009 WL 331891, \*6 (E.D. Tex. Feb. 9, 2009); *PartsRiver, Inc. v. Shopzilla, Inc.*, 2009 WL 279110, \*2 (E.D. Tex. Jan. 30, 2009); *Odom v. Microsoft Corp.*, 596 F. Supp. 2d 995, 1003-04 (E.D. Tex. Jan. 30, 2009); see also *Sanofi-Aventis Deutschland GmbH v. Novo Nordisk, Inc.*, 2009 WL 903380 (E.D. Tex. Apr. 3, 2009).

<sup>7</sup> E.g. *Konami Digital Entertainment Co., Ltd. v. Harmonix Music Sys., Inc.*, 2009 WL 781134, \*9 (E.D. Tex. Mar. 23, 2009); *Sanofi-Aventis Deutschland GmbH v. Genentech, Inc.*, 2009 WL 764304, \*9 (E.D. Tex. Mar. 19, 2009); *MHL Tek, LLC v. Nissan Motor Co.*, 2009 WL 440627, \*4-\*7 (E.D. Tex. Feb. 23, 2009), denying mandamus petition sub nom. *In re Volkswagen of Am., Inc.*, 2009 WL 1425475 (Fed. Cir. 2009); *Invitrogen Corp. v. General Elec. Co.*, 2009 WL 331889, \*2-\*5 (E.D. Tex. Feb. 9, 2009); *Novartis Vaccines and Diagnostics, Inc. v. Hoffman-La Roche Inc.*, 597 F. Supp. 2d 706, 711-14 (E.D. Tex. Feb. 3, 2009).

<sup>8</sup> 2009 WL 764304, (E.D. Tex. Mar. 19, 2009).

the Federal Circuit analyzed each of the factors the district court considered.

First, the Federal Circuit held that the district court erred in determining that witness location did not favor transfer. It held that the identification of ten witnesses being located in the proposed transferee forum, and no witnesses being located in the forum, favored transfer. The Federal Circuit rejected the district court's conclusion that since the ten witnesses were not "key" witnesses little weight should be given to their location. *Id.* at \*4.

The Federal Circuit also rejected what it labeled a "rigid" application of the Fifth Circuit's "100-mile" rule whereby the district court, as a reason for denying transfer, relied on the additional travel time witnesses who had to travel from Europe would incur to get from Texas to California. Noting that the European witnesses had to travel a "significant distance no matter where they testify," the Federal Circuit held that the district court's approach was in "direct conflict with the more appropriate approach of several other district court decisions." *Id.*

The Federal Circuit also rejected the district court's contention that the geographically centralized location of the forum made it more convenient where some of the potential witnesses resided in Iowa and the East Coast. Since no potential witness resided in the forum, the Federal Circuit held that the district court "improperly used its central location as a consideration in the absence of witnesses within the plaintiff's choice of venue." *Id.* at \*5.

The Federal Circuit also faulted the district court for ruling that convenience of witnesses only favored transfer if the transfer "would be more convenient for all of the witnesses." *Id.* It stated that it could not agree with the district court's "rigid assessment. Because a substantial number of material witnesses reside within the transferee venue and the state of California, and no witnesses reside within the Eastern District of Texas, the district court clearly erred in not determining this factor to weigh substantially in favor of transfer." *Id.*

The Federal Circuit also rejected the district court's reliance on the fact that the accused infringer had itself previously brought an infringement suit in the forum.<sup>9</sup> Noting that "§ 1404(a) requires

<sup>9</sup> At least two other courts have also relied on this factor. See APD § 36:177.25 Party Seeking Transfer Had Previously Been a Plaintiff in the Forum.

'individualized, case-by-case consideration of convenience and fairness,'" and that accused infringer's previous lawsuit did not involve the "same parties, witnesses, evidence, and facts," the Federal Circuit determined that the district court's "consideration of the previous case was clear error in this case." *Id.* at \*7.

The Federal Circuit also held that the district court erred in considering the issue of whether the transferee court would have personal jurisdiction over the patentee. The patentee had contested personal jurisdiction in the accused infringer's California declaratory judgment action. Noting that if it denied transfer to California the declaratory judgment claims of the California action could be asserted in the Texas action, the district court concluded there was a possibility of achieving some judicial economy if it denied transfer. Not addressing the alleged judicial economy to the declaratory judgment action, the Federal Circuit held that the district court erred in considering the personal jurisdiction issue of the California action as being a "critical problem, weighing heavily against transfer." *Id.* at \*7. The Federal Circuit explained that

[t]here is no requirement under § 1404(a) that a transferee court have jurisdiction over the plaintiff or that there be sufficient minimum contacts with the plaintiff; there is only a requirement that the transferee court have jurisdiction over the defendants in the transferred complaint. "The minimum-contacts concerns inhere when a party is haled into court without its consent upon pain of a default judgment. These concerns are not present when a plaintiff is forced to litigate his case in another forum."

*Id.* at \*7.

The Federal Circuit's ruling in this regard could lead to a facially strange result. The accused infringers could have their noninfringement, invalidity and unenforceability declaratory judgment claims filed in the California forum dismissed for lack of personal jurisdiction over the patentee. But the patentee's infringement claim, to which the accused infringer would raise the same noninfringement, invalidity and unenforceability defenses, if transferred to the California forum, could proceed. Unfortunately, the Federal Circuit did not comment on this potential result and why it does not impact the analysis. The answer appears to lie in the fact that a plaintiff who brings a suit in a federal court bears the risk of ultimately

having to litigate in a forum that would not otherwise have personal jurisdiction over the plaintiff. As to the E.D. of Texas' concern about helping the California court avoid the jurisdictional issue for the declaratory judgment claim, the Federal Circuit's ordering of the transfer appears to achieve this result too. The California court can dismiss the declaratory judgment action, and order the accused infringers to amend their answer in the infringement action to raise the same declaratory judgment claims, and thereby moot the personal jurisdiction issue of the declaratory judgment action.

Finally, the Federal Circuit faulted the district court for placing too much weight on statistics suggesting that the case could be tried faster if it stayed in the forum. The Federal Circuit stated that "this factor appears to be the most speculative, and case-disposition statistics may not always tell the whole story. Without attempting to predict how this case would be resolved and which court might resolve it more quickly, we merely note that when, as here, several relevant factors weigh in favor of transfer and others are neutral, then the speed of the transferee district court should not alone outweigh all of those other factors." *Id.* at \*8.

In a second venue-related mandamus petition decided the same day as *Genentech*, the Federal Circuit denied an accused infringer's petition seeking to overturn an E.D. of Tex. court's denial of a motion to transfer venue. *In re Volkswagen of Am., Inc.*, Misc. DCT. No. 897, 2009 WL 1425475, \*2-\*3 (Fed. Cir. May 22, 2009). The Federal Circuit ruled that where the patentee had two other infringement suits on the same patents pending in the forum against different defendants, the district court could reasonably conclude that judicial efficiency favored not transferring any of the suits so that only one court had to address the patents. The court stating that

the existence of multiple lawsuits involving the same issues is a paramount consideration when determining whether a transfer is in the interest of justice. . . . Although these cases may not involve precisely the same issues, there will be significant overlap and a familiarity with the patents could preserve time and resources. Because the district court's decision is based on the rational argument that judicial economy is served by having the same district court try the cases involving the same patents, mandamus is inappropriate under our precedents.

*Id.* at \*2-\*3.<sup>10</sup>

In April, the Federal Circuit denied another venue-related mandamus petition seeking to overturn an E.D. of Texas's denial of a motion to transfer venue in *In re Telular Corp.*, Misc. Dkt. No. 899, 2009 WL 905472, \*2-\*3 (Fed. Cir. Apr. 3, 2009) (*nonprecedential*). The Federal Circuit noted that the accused infringer's delay in seeking mandamus weighed against granting the petition. Additionally, the Federal Circuit concluded that the facts did not show that the district court clearly abused its discretion in denying the transfer motion where the patentee resided in Dallas, and therefore litigating in the E.D. of Texas was rationally more convenient for the patentee than litigating in the proposed transferee forum of Chicago.

### Product-By-Process Claims

Product-by-process claims describe and claim a product by the process used to make the product, rather than the structural characteristics of the product.<sup>11</sup> Historically, these claims served a useful purpose in the chemical arts where limits on technology prevented an inventor from describing the structural characteristics of some chemical compositions. Since product-by-process claims are directed to the *product* but explicitly recite process steps for making the product, these claims present the legal issue of whether the process steps serve as claim limitations for purposes of proving infringement and validity.

In its 1985 opinion of *In re Thorpe*,<sup>12</sup> the Federal Circuit held that since product-by-process claims are directed to the product, the process steps do not count in determining the patentability of the claim. Hence, if prior art showed another process that produced the same product, that prior art would anticipate a product-by-process claim reciting a different process.<sup>13</sup> Applying the logic that claims should be construed the same way in determining infringement and validity, a panel of the Federal Circuit in *Scripps Clinic &*

<sup>10</sup> See generally, APD § 36:172 Judicial Economy and Avoiding Piecemeal Litigation in Different Forums; § 36:172.20 – Cases Granting Transfer to Forum Having a Pending Action On the Same or Allegedly Related Patent or Accused Technology; § 36:172.30 – Cases Finding Judicial Economy Favored Denying Transfer.

<sup>11</sup> See generally, APD § 10:185 General Aspects of Product-by-Process Claims.

<sup>12</sup> 777 F.2d 695, 697 (Fed. Cir. 1985).

<sup>13</sup> *Accord SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1317-19 (Fed. Cir. 2006); see also APD § 10:186 Infringement Determinations (collecting cases on patentability issue)

*Research Foundation*, an opinion written by Judge Newman, held that “product-by-process claims ... are not limited to [the] product prepared by the process set forth in the claims.”<sup>14</sup> Hence, under *Scripps* process steps of product-by-process claim need not be met to show infringement.

A year later, the court revisited the issue and reached a contrary holding in *Atlantic Thermoplastics Co.*<sup>15</sup> There, in an opinion written by Judge Rader, the panel held that “process terms in product-by-process claims serve as limitations in determining infringement.”<sup>16</sup> The *Atlantic Thermoplastics* court determined that the *Scripps Clinic* court had failed to analyze relevant Supreme Court precedent, and hence the panel was not bound by the *Scripps* decision.

As a result of these two opinions, for over sixteen years Federal Circuit law has been split on the issue of whether process steps of a product-by-process claim serve as claim limitations for proving infringement. *Sua sponte* the Federal Circuit, in an *en banc* portion of a panel opinion in *Abbott Labs. v. Sandoz, Inc.*, No. 2007-1400, 2009 WL 1371410, \*9-\*11 (Fed. Cir. May 18, 2009) (*en banc*), resolved the issue. In an 8 to 3 decision, with Judge Rader writing the majority opinion, and Judge Newman writing a dissenting opinion, the *en banc* panel held that “based on Supreme Court precedent and the treatment of product-by-process claims throughout the years by the PTO and other binding court decisions, this court now restates that ‘process terms in product-by-process claims serve as limitations in determining infringement.’” *Id.* at \*9.

While the court made clear that the process steps of product-by-process claim must be met to show infringement, and expressly overruled *Scripps*, the court’s opinion can be read as confusing the issue of whether the process steps now count for purposes of patentability. Noting that inventors may still use product-by-process claims to protect products that can’t be described in terms of its structure, the court stated that product-by-process claims “will issue subject to the ordinary requirements of patentability.” *Id.* at \*10 (emphasis added). While there are several cases holding that process steps don’t count in assessing patentability, its not clear from the majority’s

<sup>14</sup> *Scripps Clinic & Research Foundation v. Genentech, Inc.*, 927 F.2d 1565, 1583 (Fed. Cir. 1991).

<sup>15</sup> *Atlantic Thermoplastics Co. v. Faytex Corp.*, 970 F.2d 834, 846-47 (Fed. Cir. 1992), *denying en banc reh’g*, 974 F.2d 1279 (Fed. Cir. 1992).

<sup>16</sup> *Id.*

statement if they intended this to remain the law, or if, applying the well-settled principle that claims are construed the same for both validity and infringement,<sup>17</sup> that *Abbott* also overrules *sub silentio* prior cases holding that patentability of product-by-process claims is independent of the process steps.

Judge Newman, joined by Judges Lourie and Mayer, dissented in a 39-page opinion. She faulted the court’s procedure of addressing the issue *en banc* without giving the parties and the public notice of the *en banc* hearing and for announcing a principle which, in her view, requires that claims be “construed differently for validity and for infringement.”

### “Real-Time” did not require Instantaneous Act

The Federal Circuit construed a limitation reciting “displaying real-time data” in *Paragon Solutions, LLC v. Timex Corp.*, No.2008-1516, 2009 WL 1424443, \*10-\*15 (Fed. Cir. May 22, 2009). The claims were directed to an exercise monitoring system that uses a GPS system and a heart monitoring device to report to the user data regarding location, altitude, velocity, pace, distance traveled, and heart rate during the exercising period. The accused infringer argued that “real-time” meant a literal instantaneous display of the data. The district court rejected this proposed construction and construed the limitation to require “displaying data substantially immediately without contextually meaningful delay ...” The Federal Circuit rejected both constructions.

To support its position, the accused infringer relied on statements in the specification criticizing prior art devices that did not “instantaneously” report data to the user.<sup>18</sup> Examining the statements in more detail, the Federal Circuit noted that the applicant had distinguished over prior art devices that reported data *after* that exercise was completed. Thus, it concluded that the applicant’s statements did not speak to whether real-time required a literal instantaneous display or a display with some short delay, therefore, the statements did not support limiting the claim term to a literal instantaneous display. *Id.* at \*11.<sup>19</sup>

Considering the practical realities and limits on the technology, the Federal Circuit noted that it was physically impossible for any device to instantaneously

<sup>17</sup> See generally, APD § 3:47 Construe the Same for Validity and Infringement.

<sup>18</sup> See generally, APD § 5:62 Statements in the Specification Disparaging Prior Art.

<sup>19</sup> See also, APD § 5:64 Cases Finding No Disavowal.

report data since the components after measuring the parameter had to electronically process the data before sending it to the display until. Thus, the court noted that “what the claims describe as ‘displaying real-time data’ cannot possibly mean displaying data literally instantaneously, because the claims themselves require a transmission that necessarily takes some time, however minute that might be.” *Id.* at \*10. A disclosure in the specification that the invention used “commercially available” technology further supported the rejection of an “instantaneous” requirement since the commercially available GPS Technology available at the application’s filing date was not able to display data literally instantaneously. *Id.* at \*12.

Addressing the district court’s construction, the Federal Circuit found it erroneous. It determined that permitting the definition of “real time” to depend on whether there was a “contextually meaningful delay,” resulted in a construction that depended on the specific *use* of the product since a meaningful delay for one activity could be different from a delay in another activity. *Id.* at \*13. This is improper since an apparatus claim covers “what a device is, not what a device does.” *Id.* The court explained that “[c]onstruing a non-functional term in an apparatus claim in a way that makes direct infringement turn on the use to which an accused apparatus is later put confuses rather than clarifies, frustrates the ability of both the patentee and potential infringers to ascertain the propriety of particular activities, and is inconsistent with the notice function central to the patent system.” *Id.*

Arriving at a construction that it viewed as staying true to the evidence, the Federal Circuit construed “displaying real-time” to require “displaying data without intentional delay, given the processing limitations of the system and the time required to accurately measure the data.” *Id.* at \*15. Since the record evidence, although showing that the accused products had some delay in the display of data, did not show whether the delay was intentional or beyond the time required to measure and process the data, the Federal Circuit vacated the stipulated judgment of noninfringement and remanded. *Id.* at \*15-16.

### **Reconfirming One-Way Test for ODP**

The judicially created doctrine of “obviousness-type double patenting” (ODP) seeks to prevent a patent owner and/or applicant from extending the patent rights in its invention by obtaining a second patent with claims that are just an obvious variation of the claims

of an earlier issued patent.<sup>20,21</sup> Typically, this arises where a first patent claims a basic invention and the second patent claims a patentably indistinct improvement on the basic invention. Generally, the courts and PTO apply a one-way test to determine whether challenged claims should be invalidated or rejected for obviousness-type double patenting. Under this test, the decision maker looks to see if the challenged claims of the later-filed application (i.e., the improvement patent) are obvious in view of the claims of the earlier-filed patent (i.e., the patent on the basic invention).<sup>22</sup> In rare circumstances, specifically when the PTO caused a later-filed application to issue before the earlier-filed application, the courts will apply a two-way test. Under the two-way test the claims of the later-filed application must render obvious the claims of the earlier-filed application *and* the claims of the earlier-filed application must render obvious the claims of the later-filed application.<sup>23</sup>

The Federal Circuit reconfirmed in *In re Fallaux*, 564 F.3d 1313 (Fed. Cir. May 6, 2009), that the two-way test “is only appropriate in the unusual circumstance where, *inter alia*, the United States Patent and Trademark Office (PTO) is *solely* responsible for the delay in causing the second-filed application to issue prior to the first.” *Id.* at 1316. Applying the one-way test, the PTO rejected the applicant’s claim in *Fallaux*. The applicant conceded that its claims were obvious variants of the prior issued patent, but argued that the two-way test should apply. The Federal Circuit affirmed the PTO’s rejection since it found that there was no evidence that the PTO caused any delay. Indeed, the court found that no impediment prevented the applicant from including the rejected claims in the earlier issued patent as the specification of the earlier issued patent would have supported the rejected claims. *Id.* at 1316-17.

The applicant also urged that a delay in filing an improvement patent should not be counted against an applicant if the applicant pursues the improvement

<sup>20</sup> See generally, APD § 19:8 Overview of Obviousness-Type Double Patenting.

<sup>21</sup> *In re Longi*, 759 F.2d 887, 893-94 (Fed. Cir. 1985) (rejecting argument that ODP should not apply where there are different inventive entities for otherwise commonly owned applications); see also APD § 19:9 Commonly Owned Applications of Different Inventive Entities or Prior Art Subject to § 103(c)

<sup>22</sup> See generally, APD § 19:20 One-Way Test Generally Applies.

<sup>23</sup> See generally, APD § 19:21 Two-Way Test Applicable in Limited Circumstances.

patent in the “ordinary course of its business” and does not “proactively manipulate prosecution for an improper purpose or to gain some advantage.” Flatly rejecting this contention, the Federal Circuit instructed that the two-way test only applies “when the PTO is at fault for the delay that causes the improvement patent to issue prior to the basic patent.” *Id.* at 1317. It does not apply merely because the applicant “lacked a nefarious intent to manipulate prosecution.” *Id.*

### Inherent “Have Made” Rights

“Have made” rights refer to a licensee’s right to have a licensed patented product made for it by another party who is not separately licensed by the patent holder to practice the patent.<sup>24</sup> Many license agreements will expressly provide for “have made” rights in the license grant. But according to the Federal Circuit’s recent opinion in *CoreBrace LLC v. Star Seismic LLC*, No. 2008-1502, 2009 WL 1424439 (Fed. Cir. 2009), an express grant of “have made” rights is not necessary since “have made” rights are inherently granted to any licensee who receives a license of the right to “make.”

Following a 1964 decision by the Court of Claims,<sup>25</sup> the Federal Circuit explained in *CoreBrace* that “[t]he right to ‘make, use, and sell’ a product inherently includes the right to have it made by a third party, absent a clear indication of intent to the contrary.” *Id.* at \*3. In reaching its holding, the Federal Circuit rejected the patentee’s contention that “have made” rights should only be found inherent to a license agreement that also grants a right to sublicense. The court concluded that “a right to have made is not a sublicense, as the contractor who makes for the licensee does not receive a sublicense from the licensee,” *id.* at \*4., therefore the inherent nature of “have made” rights does not depend on right to sublicense. The court also rejected the contention that only exclusive licenses should convey inherent “have made” rights. It stated that “[t]he distinction between an exclusive license and a nonexclusive license has no relevance to how a licensee obtains the product it is entitled to make, use, and sell.” *Id.*

Illustrating that an exclusion of “have made” rights must be express, the Federal Circuit also rejected the patentee’s argument that its general reservation of “all rights not expressly granted to [the licensee]” under the nonexclusive license operated to exclude “have made”

<sup>24</sup> See generally, APD § 35:44 “Have Made” Rights.

<sup>25</sup> *Carey v. United States*, 326 F.2d 975 (Ct.Cl. 1964).

rights from the license grant. The court held that “[b]ecause the right to ‘make, use, and sell’ a product inherently includes the right to have it made, ‘have made’ rights are included in the License and not excluded by the reservation of rights clause.” *Id.* at \*5. Indeed, the court read some of the provisions of the license agreement as specifically contemplating the possibility of third parties manufacturing for the benefit of the licensee. Thus, in the absence of a “clear intent to exclude ‘have made’ rights from its grant,” the Federal Circuit held that such rights were inherently granted. *Id.* at \*6.

### Statute of Frauds Defeated Oral Exclusive License

In general, federal law governs whether a patent can be assigned or licensed and state contract law governs whether an agreement effectively assigned or licensed a patent.<sup>26</sup> The Federal Circuit has construed federal patent law to permit an exclusive license to be oral.<sup>27</sup> While federal patent law currently permits oral exclusive licenses, state law may bar an oral patent license if it violates the state’s statute of fraud. Although seldom raised, the applicability of state statute of frauds to patent licenses has long been accepted.<sup>28</sup>

<sup>26</sup> See generally, 35 U.S.C. § 261 (“Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in a like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.”); see also APD § 35:30 State Law Controls.

<sup>27</sup> *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1364 (Fed. Cir. 2003) (“Only assignments need be in writing under 35 U.S.C. § 261. Licenses may be oral.”). While the Federal Circuit has expressly held that exclusive licenses may be oral, that holding seems to overlook the “in like manner” language of § 261. See *Aspex Eyewear, Inc. v. Altair Eyewear, Inc.*, No. 2007-1380, -1407, 2008 WL 2950997, \*7 (Fed. Cir. Aug. 1, 2008) (*nonprecedential*) (recognizing possibility of argument, but ruling it was bound to follow its prior precedent). See generally, APD § 35:32 Oral Licenses.

<sup>28</sup> E.g., *Washington, A. & G. Steam Packet Co. v. Sickles*, 72 U.S. 580, 594-96 (1866) (finding oral license to use patented apparatus on ship “during the continuance of the said patent, if the said boat should last so long,” where the patent had, at the date of the alleged contract, yet twelve years to run was void for violating the statute of frauds); *Sun Studs, Inc. v. Applied Theory Associates, Inc.*, 772 F.2d 1557, 1562-63 (Fed. Cir. 1985) (affirming a summary judgment that an alleged nonexclusive license granted as part of a settlement of an infringement dispute was invalid under Oregon’s statute of frauds, the court finding that the unsigned agreement could not be considered a written instrument, and treating the alleged agreement as an oral contract, it still failed the state statute of frauds because it could not be performed within one year).

In *Visioneer, Inc. v. Keyscan, Inc.*, 2009 WL 1189319, \*5 (N.D. Cal. May 4, 2009), the district court invoked the statute of frauds to find that a plaintiff lacked standing to bring an infringement claim. Via a written agreement, the plaintiff held a nonexclusive to the asserted patent. When its standing to maintain suit was challenged, the plaintiff argued that patentee and plaintiff had orally amended the written nonexclusive license to be an exclusive license, allegedly in return for the plaintiff's agreement to bring suit against the accused infringer. The district court, doubting whether such an oral license had been truly granted, ruled that even if so, the oral agreement would violate the statute of frauds. The court noted that "any oral amendment of exclusivity that supercedes a written license to be performed over a period of one year would implicate the California Statute of Frauds and therefore be void." *Id.* The court found that the nonexclusive license by its written terms expired in 2010, and that the alleged oral exclusive amendment would have been made in 2008. Consequently, the term of the alleged oral exclusive license exceeded one year, and ran afoul of the state's statute of frauds. *Id.* As a result, the court concluded that the plaintiff only held a nonexclusive license when it commenced the suit. Accordingly, the plaintiff lacked standing at that time. Further, it could not cure the standing defect by joining the patentee since the defect laid in constitutional standing, rather than in prudential standing.<sup>29</sup> The district court, therefore dismissed the infringement suit.

### Standing for False Marking Claim

Under the patent false marking statute, 35 U.S.C. § 292, "a party that falsely marks a product with a patent number can be liable for a civil penalty."<sup>30</sup> The statute expressly provides that "[a]ny person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States." 35 U.S.C. § 292(b). Courts have construed § 292 as being a *qui tam* action, and therefore "[a]nyone may bring an action under section 292 for falsely marking as 'patented' any unpatented 'article.'"<sup>31</sup> Indeed, earlier this year, a district court rejected a patentee's argument that § 292 should be limited to permit only competitors of the patentee to

<sup>29</sup> See generally, APD § 9:37 Standing Must Exist at All Stages of Suit.

<sup>30</sup> APD § 34:97 [False Marking] In General

<sup>31</sup> *Lang v. Pacific Marine and Supply Co., Ltd.*, 895 F.2d 761, 765 (Fed. Cir. 1990); see also APD § 34:103 Anyone can Assert Violation.

have standing to bring a false marking claims.<sup>32</sup>

Analyzing the issue of constitutional standing in greater depth for a § 292 action, the district court in *Stauffer v. Brooks Bros., Inc.*, 2009 WL 1357954, \*3-\*5 (S.D.N.Y. May 14, 2009), held that while § 292 may be brought by anyone, constitutional standing still requires an injury, even for *qui tam* actions. For § 292 actions, this requires an injury to government or the public at large resulting from the false marking. Applying this injury requirement, the court held that the plaintiff's false marking suit, in which the plaintiff had alleged that the defendant falsely marked bow ties with a patent that had expired fifty years ago had to be dismissed for lack of standing. According to the court, the plaintiff failed to allege any harm to the public from the acts of false marking. The plaintiff could not allege that competition had been harmed because the defendant's competitors used the same patent marking on their bow ties. The court also stated that it "doubt[ed] that the Government's interest in seeing its laws enforced could alone be an assignable, concrete injury in fact sufficient to establish a *qui tam* plaintiff's standing." Consequently, without an injury, the plaintiff had no standing to pursue its claim.

<sup>32</sup> *Pequignot v. Solo Cup Co.*, 2009 WL 874488, \*3 (E.D. Va. Mar. 27, 2009).

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