



FINNEGAN

Last Month at the Federal Circuit

November 2011

Reexamination Estoppel Takes Effect Only After All Appeal Rights Are Exhausted

Bettcher Industries, Inc. v. Bunzl USA, Inc.
Nos. 11-1038, -1046 (Fed. Cir. Oct. 3, 2011)
[Appealed from N.D. Ohio, Judge Zouhary]

Expenditures on Patent Litigation Do Not Automatically Constitute Evidence of a Substantial Investment in the Exploitation of a Patent

John Mezzalingua Associates, Inc. v. International Trade Commission
No. 10-1536 (Fed. Cir. Oct. 4, 2011)
[Appealed from ITC]

Board Erred by Relying on New Factual Findings Without Designating a New Ground of Rejection

In re Stepan Co.
No. 10-1261 (Fed. Cir. Oct. 5, 2011)
[Appealed from Board]

Patentee Cannot Assert That an Allegedly Infringed Claim Element Is a Trade Secret

Atlantic Research Marketing Systems, Inc. v. Troy
Nos. 11-1002, -1003 (Fed. Cir. Oct. 6, 2011)
[Appealed from D. Mass., Judge Saris]

Federal Circuit Affirms SJ Decision Based on Multiple Claim Construction Determinations

IGT v. Bally Gaming International, Inc.
Nos. 10-1364, -1365 (Fed. Cir. Oct. 6, 2011)
[Appealed from D. Del., Judge Robinson]

Spotlight Info

Looking Ahead

Failure to Object to Special Master's Claim Construction Within Period Specified by Court Order or Federal Rules Results in Waiver

Absolute Software, Inc. v. Stealth Signal, Inc.
Nos. 10-1503, -1504 (Fed. Cir. Oct. 11, 2011)
[Appealed from S.D. Tex., Senior Judge Werlein]

eBay Ended Presumption of Irreparable Harm in Determining the Appropriateness of Injunctive Relief, but the Fundamental Nature of Patents as Property Rights May Not Be Ignored

Robert Bosch LLC v. Pylon Manufacturing Corp.
No. 11-1096 (Fed. Cir. Oct. 13, 2011)
[Appealed from D. Del., Judge Robinson]

Agreement with a Formula Calculating "Actual Damages" Precludes Prejudgment Interest

Sanofi-Aventis v. Apotex Inc.
No. 11-1048 (Fed. Cir. Oct. 18, 2011)
[Appealed from S.D.N.Y., Judge Stein]

Section 146 Establishes De Novo Review

Streck, Inc. v. Research & Diagnostic Systems, Inc.
No. 11-1045 (Fed. Cir. Oct. 20, 2011)
[Appealed from D. Neb., Chief Judge Bataillon]

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

DISCLAIMER: The case summaries are intended to convey general information only and should not be construed as a legal opinion or as legal advice. The firm disclaims liability for any errors or omissions and readers should not take any action that relies upon the information contained in this newsletter. You should consult your own lawyer concerning your own situation and any specific legal questions. This promotional newsletter does not establish any form of attorney-client relationship with our firm or with any of our attorneys.

FINNEGAN

Contacts

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Spotlight Info

In *Sanofi-Aventis v. Apotex Inc.*, No. 11-1048 (Fed. Cir. Oct. 18, 2011), a divided panel of the Federal Circuit reversed the district court's decision awarding Sanofi-Aventis ("Sanofi") prejudgment interest in addition to "actual damages" specified by its settlement agreement with Apotex Inc. and Apotex Corp. (collectively "Apotex"). The Court found that use of the phrase "actual damages" included "all damages necessary to compensate Sanofi for Apotex's infringement." Slip op. at 11. Further, because prejudgment interest is a form of compensatory damages, an additional award of prejudgment interest was not warranted. Thus, the Court held that "[b]y agreeing to a formula to calculate Sanofi's 'actual damages' in the May 2006 agreement, Sanofi gave up any right to supplement its recovery with additional prejudgment interest." *Id.* at 15. See this month's edition of *Last Month at the Federal Circuit* for a full summary of this decision.

FINNEGAN

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Looking Ahead

On November 4, 2011, in *Typhoon Touch Technologies, Inc. v. Dell, Inc.*, No. 09-1589 (Fed. Cir. Nov. 4, 2011), the Federal Circuit reversed the district court's invalidity ruling that means-plus-function claims referencing an algorithm are invalid because no algorithm is disclosed. The Court agreed with Typhoon Touch Technologies, Inc. that "the specification contains adequate algorithmic criteria, in conformity with precedent, to perform the computer-implemented function." Slip op. at 15. In so doing, the Court reminded that a description of the function in words may disclose enough of an algorithm to provide the necessary structure under 35 U.S.C. § 112, ¶ 6.

Read the full summary of the Court's decision in next month's edition of *Last Month at the Federal Circuit*.

FINNEGAN

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Reexamination Estoppel Takes Effect Only After All Appeal Rights Are Exhausted

Amanda J. Dittmar

Judges: Bryson, Linn (author), Reyna (dissenting)

[Appealed from N.D. Ohio, Judge Zouhary]

In *Bettcher Industries, Inc. v. Bunzl USA, Inc.*, Nos. 11-1038, -1046 (Fed. Cir. Oct. 3, 2011), the Federal Circuit affirmed the denial of JMOL or a new trial on the issue of anticipation, vacated the denial of a new trial on invalidity based on 35 U.S.C. § 315(c), and affirmed the denial of a new trial on the issue of infringement. The Court remanded for further proceedings.

Bettcher Industries, Inc. (“Bettcher”) is the owner of U.S. Patent No. 7,000,325 (“the ‘325 patent”), directed to a power-operated knife used in the meat packing and other commercial food processing industries. Bettcher sued Bunzl Processor Distribution, LLC (“Bunzl”) for infringement based on Bunzl’s manufacture and sale of blades marketed as replacement blades for rotary knives manufactured and sold by Bettcher.

Bunzl argued during trial that the ‘325 patent was invalid as anticipated, and moved for JMOL of invalidity after the close of evidence. The district court denied the motion. Bunzl renewed its motion for JMOL and brought an alternative motion for a new trial on invalidity. The district court denied the motions, and Bunzl appealed.

After Bettcher had filed suit, Bunzl requested inter partes reexamination of the ‘325 patent before the PTO. The examiner declined to adopt the grounds of rejection proposed by Bunzl and issued a Right of Appeal Notice (“RAN”). Bettcher argued in the infringement litigation that Bunzl was estopped from asserting certain invalidity references under 35 U.S.C. § 315(c), because § 315 estoppel took effect as soon as the examiner issued the RAN. The district court agreed and granted Bettcher’s request to exclude the references. In Bunzl’s motion for a new trial, it included the exclusion of these references as a separate basis, and the district court denied the motion.

Bettcher also moved for a new trial on the issue of infringement after the jury returned a verdict of noninfringement. The district court denied the motion, and Bettcher appealed.

On appeal, the Federal Circuit affirmed the district court’s denial of JMOL of invalidity or a new trial on anticipation. The Federal Circuit found that the prior art blades did not inherently anticipate the claims, and that the jury was entitled to reject Bunzl’s argument. “The speculative notion that by happenstance the [prior art parts] might, under hypothetical circumstances, be capable of operating [according to the claims] is an insufficient basis to mandate overturning the jury’s verdict.” Slip op. at 17. The Court thus affirmed the district court’s denial of JMOL of invalidity.

“[T]he estoppel provision of § 315 is triggered not when examination is

completed but only after all appeal rights have been exhausted.” Slip op. at 23.

The Court also affirmed the district court’s denial of a new trial on the basis of improper claim construction or jury instructions. The Federal Circuit found that Bunzl’s claim construction argument lacked merit, because the district court issued the *Markman* order premised on the express belief that claim construction was not disputed. The Court found that the district court did not abuse its discretion in holding that Bunzl could not add new claim construction theories on the eve of trial. With respect to the jury instructions, the Federal Circuit found that Bunzl’s only argument regarding the language, “viewed by one of ordinary skill in the art,” rested entirely on the incorrect premise that the claims were inherently anticipated. The Court found that Bunzl’s argument that the “no difference” language excluded extraneous features did not demonstrate prejudice, because no such extraneous features were at issue in the case.

The Federal Circuit next considered Bunzl’s request for a new trial on the basis that the district court wrongly interpreted 35 U.S.C. § 315(c) in finding that its estoppel provision applied when the examiner issued the RAN. The Federal Circuit noted that the issue of when § 315 estoppel applies was a question of first impression. The Court stated that the party’s arguments required it to decide the meaning of “finally determined” in § 315(c) in view of the language of the statute, the legislative framework, the related regulations, and the legislative history. The Federal Circuit found that while § 315 did not expressly define “finally determined,” its content and context did. The Court concluded that “the estoppel provision of § 315 is triggered not when examination is completed but only after all appeal rights have been exhausted.” *Id.* at 23.

The Court found that the placement of the estoppel provision within the inter partes reexamination statute strongly suggested that “finally determined” refers to the stage of the proceedings when the events contemplated by the statute’s other subsections have run their course. The other subsections state that the parties may appeal decisions to the Board and the Federal Circuit, and the Court found that this implied that estoppel requires exhaustion of all appeal rights, including appeals to the Federal Circuit. The Court noted that its interpretation was further supported because the other subsections refer to “final decisions” while subsection (c) refers to “final determinations,” and that the appealable “decisions” of the other subsections thus do not themselves amount to “final determinations.”

Looking to other sections, the Federal Circuit found that under § 316, a determination of patentability occurs only after all appeals have terminated, and that § 317(b) applies only when reexamination and all appeals have terminated. Looking to the reexamination framework, the Federal Circuit found that because new grounds of rejection on appeal entitle applicants to continue prosecution before the examiner, reexamination is not final until all appeal rights are exhausted.

The Court found unconvincing Bettcher’s argument that the regulations discussing the RAN established it as a final determination, noting that the regulations do not address estoppel. The Court also found unpersuasive Bettcher’s argument based on the purpose of “minimizing harassment,” because the argument did not overcome the weight of evidence against Bettcher’s proposed interpretation. The Federal Circuit vacated the denial of Bunzl’s motion for new trial on invalidity based on references excluded under the district court’s interpretation of § 315(c), and remanded it for the district court to determine whether a new trial was warranted.

Finally, the Federal Circuit affirmed the district court’s denial of Bettcher’s motion for a new trial on infringement. The Court found that testimony by a patent lawyer who allegedly gave Bunzl an unwritten opinion on infringement did not warrant a new trial, because the testimony was relevant and admissible, at least with respect to Bunzl’s state of mind and its bearing on indirect infringement. The Federal Circuit also gave no weight to Bettcher’s argument that it was precluded from arguing its infringement theory, because it was undisputed that the accused blades did not infringe as sold. The Court thus concluded that Bettcher could not establish either intent or the absence of a substantial noninfringing use for the accused blades, and affirmed the district court’s denial of a new trial on the issue of infringement.

Judge Reyna dissented from the majority opinion with respect to anticipation of the '325 patent, stating that he would reverse the district court, enter JMOL of anticipation, and not reach the other issues presented on appeal. Judge Reyna stated that the plain meaning of the claim language reads on Bettcher's own prior art products, which include all of the structural features required by the claims, and which possess the capability of satisfying the functional or intended use limitations.

FINNEGAN

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Expenditures on Patent Litigation Do Not Automatically Constitute Evidence of a Substantial Investment in the Exploitation of a Patent

Tina E. Hulse

Judges: Bryson (author), Linn, Reyna (dissenting-in-part)

[Appealed from ITC]

In *John Mezzalingua Associates, Inc. v. International Trade Commission*, No. 10-1536 (Fed. Cir. Oct. 4, 2011), the Federal Circuit affirmed the ITC's determination that John Mezzalingua Associates, Inc. (d/b/a PPC, Inc.) ("PPC") failed to satisfy the domestic industry requirement of section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337.

PPC manufactures cable connectors used to connect coaxial cables to electronic devices. PPC filed suit in the ITC, alleging violations of section 337 and asserting infringement of four PPC patents. The instant case involved one of PPC's design patents, U.S. Patent No. D440,539 ("the '539 design patent"), which describes an ornamental design for a coaxial cable connector.

Under section 337, PPC was required to establish a domestic industry relating to the '539 design patent. PPC has granted only one license for the '539 design patent to Arris International, Inc. ("Arris") as a result of years of litigation involving PPC, Arris, and Arris's distributor, International Communications Manufacturing, Inc. ("ICM") in three different actions, two of which involved the '539 design patent. PPC argued that the money it spent litigating the patent up to execution of the license should be treated as a substantial investment in exploitation of the '539 design patent through licensing. The ALJ ruled that PPC had satisfied the domestic industry requirement.

The ITC reviewed the ALJ's initial determination and reversed the ALJ's ruling. Although the ITC stated that in some circumstances enforcement-related litigation expenses may support a finding of domestic industry, in this case, the ITC found that PPC had not met its burden to show that its litigation expenses were related to licensing. The ITC remanded the case to the ALJ to allow PPC an opportunity to show what portions of its enforcement-related expenses were related to licensing and to demonstrate that its investment in licensing was substantial. On remand, the ALJ ruled that PPC had not sufficiently tied its litigation costs to licensing and that any investment was not substantial. The ITC adopted the ALJ's remand opinion without modification and the order became final. PPC appealed.

First, the Federal Circuit addressed the ITC's argument that PPC did not have standing to appeal. The ITC argued that PPC suffered no injury from the ITC's decision because the only imported product that was found to infringe the '539 design patent was also found to infringe one of PPC's utility patents. Thus, the ITC asserted that PPC lacked standing to appeal. The Court held that just because the infringing product will be excluded regardless of the outcome of the appeal does not moot PPC's interest in obtaining a broader general exclusion order to exclude all products deemed to infringe the '539 design patent.

“We agree with the Commission that expenditures on patent litigation do not automatically constitute evidence of the existence of an industry in the United States established by substantial investment in the exploitation of a patent.” Slip op. at 10.

The Court then addressed whether PPC satisfied the domestic industry requirement. The Court agreed with the ITC that expenditures on patent litigation do not automatically constitute evidence of a substantial investment in the exploitation of a patent. Here, the ALJ found that there was no evidence that PPC had engaged in prelitigation licensing efforts. And the Court found that the vague testimony of PPC’s executives did not undermine the ALJ’s finding that PPC failed to show that it sought to license the ’539 design patent to Arris before commencing litigation. Moreover, PPC received a permanent injunction in one case, and the injunction remained in place for two years until PPC licensed the ’539 design patent to Arris. The ITC found that the delay suggested that PPC’s purpose in litigating was not to obtain a license, but rather to stop Arris from manufacturing its infringing products. In light of the record, the Court found that the ALJ reasonably concluded that PPC failed to show that the litigation expenses of the two litigations involving the ’539 design patent were related to licensing.

As for the third litigation, which involved a different utility patent, PPC argued that the enforcement of that patent forced Arris to sign the license to the ’539 design patent and therefore should have been credited toward its investment in licensing the ’539 design patent. The Court disagreed, finding that it did not follow that PPC’s actions in the litigation were directed toward licensing the ’539 design patent.

Although the ALJ found that PPC had incurred some legal expenses related to the negotiation and drafting of the licensing agreement, the ALJ found that that investment was not substantial. Moreover, the ALJ noted that PPC had no formal licensing program and there was no evidence that it had offered to license the patent to any party other than its litigation opponents. Although there is no rule that a single license cannot satisfy the domestic industry requirement based on a substantial investment in licensing, the Court found that the ALJ was entitled to view the absence of other licenses as a factor supporting his decision. Thus, the Federal Circuit determined that the ITC’s conclusion, based on the ALJ’s review of the evidence, was supported by substantial evidence.

Finally, the Court rejected PPC’s argument that the ITC should have credited at least a portion of the salary that PPC paid to the named inventor on the ’539 design patent as an investment in engineering, research, and development, along with PPC’s investment in equipment and facilities to develop the patented design. The ITC found that PPC presented no evidence of any investment in research and development that related specifically to the ’539 design patent. Because PPC had the burden of proof on that issue, the Court held that there was no error in the ITC’s conclusion that PPC failed to carry its burden, and there was no reason to remand for further findings, as suggested by the dissent.

Writing separately, Judge Reyna joined the majority’s opinion, finding that PPC had standing to seek a general exclusion order with respect to the ’539 design patent. But Judge Reyna dissented from the rest of the majority opinion because he believed additional fact-finding was needed to determine whether PPC’s research and development expenditures were a substantial investment in exploitation. Judge Reyna believed that PPC had introduced substantial evidence showing its considerable investment in the research project that necessarily included the work that yielded the patented design. He then stated that there were no facts in the record to support the ITC’s conclusion that time and resources spent by PPC in researching or developing the design of the ’539 patent were minimal and could not constitute a substantial investment. Accordingly, Judge Reyna stated that remand was necessary to conduct further fact-finding as to the extent to which PPC’s research and development efforts may be allocated between the functional and ornamental features of the invention.

Judge Reyna also believed that the ITC erred in its interpretation and application of § 337(a)(3)(C), resulting in its wholesale rejection of litigation expenses for meeting the domestic industry requirement, except in limited circumstances. He stated that Congress did not limit the term “exploitation” to activity

only related to one of the named examples listed in the statute. Rather, Judge Reyna believes that Congress left the list open-ended to provide flexibility for what may constitute exploitation. Because the ITC failed to articulate any reasonable basis in the legislative history to justify departing from the plain meaning of the statute, Judge Reyna believed that the ITC's construction artificially and arbitrarily narrowed the domestic industry requirement. Judge Reyna also disagreed with the ITC and the majority in that, with regard to section 337 investigations, he views the ITC as an intellectual property enforcement forum. Accordingly, Judge Reyna believes that under the broad language of section 337(a)(3)(C), patent infringement litigation is an investment in the exploitation of a patent.

FINNEGAN

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Board Erred by Relying on New Factual Findings Without Designating a New Ground of Rejection

Yi Sun

Judges: Dyk, Friedman, Prost (author)

[Appealed from Board]

In *In re Stepan Co.*, No. 10-1261 (Fed. Cir. Oct. 5, 2011), the Federal Circuit vacated and remanded the Board's decision affirming an examiner's obviousness rejection during reexamination of U.S. Patent No. 6,359,022 ("the '022 patent") because the Board relied on a new ground of rejection.

The '022 patent pertains to polyol-based resin blends and methods of using them to create foam that is used to make thermal insulation boards for the walls of buildings. On reexamination, the examiner ruled that all of the claims were invalid as anticipated under 35 U.S.C. § 102(b) or, in the alternative, obvious under 35 U.S.C. § 103(a). On appeal, the Board affirmed the examiner's obviousness rejection, relying on the same references the examiner cited. The examiner and the Board found most of the '022 patent claims obvious in light of WO 97/21764 ("Singh"), and found the remaining claims obvious under Singh in combination with other references. The examiner, however, relied on Singh as § 102(b) prior art, which includes publications or inventions patented "more than one year prior to the date of the application" of the patent in question, while the Board treated Singh as prior art under § 102(a), which includes publications or inventions patented "before the invention thereof by the applicant." Slip op. at 3. Although the examiner did not treat Singh as § 102(a) prior art, the Board further held that a Rule 1.131 Declaration submitted by Stepan Company ("Stepan") was "ineffective to remove Singh as a reference under § 102(a)." *Id.* Stepan appealed.

On appeal, the Federal Circuit first explained that under 37 C.F.R. § 41.50(b), the Board has the authority to issue a new ground of rejection if the Board knows of any grounds not involved in the appeal for rejecting any pending claim. *Id.* at 4 (citing 37 C.F.R. § 41.50(b)). Because the Board is limited to review of the examiner's decisions, however, the authority to issue a new ground of rejection, and the rights of the applicant that flow therefrom, "ensure that the Board can fulfill its notice obligation to the applicant during prosecution." *Id.*

"Notice does not focus on the applicant's arguments divorced from the examiner's rejections of record that are actually appealed to the Board. Instead, it focuses on the 'adverse decisions of examiners' during prosecution which form the basis of the Board's scope of review." Slip op. at 9 (quoting 35 U.S.C. § 6(b)).

The Federal Circuit found that by making and relying on new fact-findings regarding "the sufficiency of Stepan's Declaration to swear behind the Singh reference as § 102(a) prior art, the Board relied on a

new ground of rejection.” *Id.* at 6. The Court rejected the PTO’s argument that Stepan had a fair opportunity to be heard simply because Stepan presented, and the Board considered, argument and evidence to antedate Singh as a § 102(a) reference. The Court found that “the mere fortuity that Stepan addressed the validity of the Declaration on its own, without the issue being raised by the examiner, does not permit the Board to reject the Declaration as ineffective without designating its decision as a new ground of rejection.” *Id.*

Further, the Court rejected the PTO’s alternative argument that Stepan waived its administrative due process rights by not requesting a rehearing of the Board’s decision. The Court interpreted the PTO’s argument as asserting that the Board had discretion to determine whether to designate a new ground of rejection as “new.”

In response, the Federal Circuit first noted that no deference was due the PTO’s regulatory interpretation because the APA requires prior notice to the applicant of all “matters of fact and law asserted” prior to an appeal hearing before the Board. *Id.* at 7 (quoting 5 U.S.C. § 554(b)(3)). Thus, allowing the Board “unfettered discretion to designate a new ground of rejection” would frustrate the notice requirements of the APA.

Second, the Court found that the PTO’s argument contradicts the plain text of the regulation, which states that, “[w]hen the Board makes a new ground of rejection, the appellant, within two months from the date of the decision, must” reopen prosecution or request rehearing. *Id.* at 8 (alteration in original) (quoting 37 C.F.R. § 41.50(b)). The applicant’s obligation to pursue one of these two options, however, is only triggered after the Board makes a new ground of rejection. Thus, since the Board did not designate its new §§ 102(a)/103(a) rejection as a new ground of rejection, Stepan had no affirmative obligation to request rehearing.

Finally, because the Board did not designate its rejection as a new ground, the Federal Circuit concluded that the Board’s decision was final for the purposes of judicial review and Stepan complied with its administrative process obligations pursuant to the PTO’s regulations.

In sum, the Court stated: “Notice does not focus on the applicant’s arguments divorced from the examiner’s rejections of record that are actually appealed to the Board. Instead, it focuses on the ‘adverse decisions of examiners’ during prosecution which form the basis of the Board’s scope of review.” *Id.* at 9 (quoting 35 U.S.C. § 6(b)). Thus, because Stepan did not have prior notice of the Board’s intent to craft and rely on new findings of fact to support a §§ 102(a)/103(a) rejection, and because it failed to identify this rejection as a new ground, the Federal Circuit found that Stepan’s notice rights were violated.

Accordingly, while the Court did not express an opinion on the merits of the obviousness rejection or the use of Singh as § 102(a) prior art, the Federal Circuit vacated and remanded for Stepan to pursue its patent application in accordance with 37 C.F.R. § 41.50(b).

The logo for Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, featuring the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Patentee Cannot Assert That an Allegedly Infringed Claim Element Is a Trade Secret

Abhay A. Watwe

Judges: Prost (author), Mayer, O'Malley
[Appealed from D. Mass., Judge Saris]

In *Atlantic Research Marketing Systems, Inc. v. Troy*, Nos. 11-1002, -1003 (Fed. Cir. Oct. 6, 2011), the Federal Circuit affirmed the district court's grant of SJ of invalidity of certain patent claims on written description grounds, and the district court's denial of defendants Stephen P. Troy, Jr. and Troy Industries, Inc.'s (collectively "Troy") motion for JMOL. The Court also vacated the jury's verdict in favor of Atlantic Research Marketing Systems, Inc. ("Atlantic Research") and reversed the district court's denial of Troy's motion for a mistrial on the ground that the district court did not properly address a jury taint issue.

Atlantic Research is an arms manufacturing company that focuses on accessories for small arms weaponry, including handguards that attach to military rifles. Richard Swan founded Atlantic Research and is the named inventor of U.S. Patent No. 6,499,245 ("the '245 patent") and its reissue, U.S. Reissue Patent No. 39,465 ("the '465 patent"), both of which are directed to a handguard device. Mr. Troy, initially a distributor for Atlantic Research, eventually became an employee of Atlantic Research. As part of his employment, Mr. Troy signed a nondisclosure agreement. Mr. Troy also became familiar with Atlantic Research's products, product designs, and prototypes. While employed at Atlantic Research, Mr. Troy also developed a weapons product for his own company, Troy Industries, Inc. Mr. Swan was aware of this and permitted Mr. Troy to promote his product from Atlantic Research's booth at a weapons industry trade show. Soon after the trade show, however, Mr. Swan terminated Mr. Troy's employment with Atlantic Research. Thereafter, Troy Industries, Inc. began offering handguards that attached to rifles solely by clamping to the barrel nut, which is used to attach the barrel to the firearm. Mr. Troy also sought a patent for this invention, and U.S. Patent No. 7,216,451 issued in May 2007 with Mr. Troy as the named inventor.

Atlantic Research filed a complaint against Troy alleging infringement of the '465 patent and alleging misappropriation of trade secrets. Troy, in turn, alleged that the '465 patent was invalid. The district court found claims 31-36 of the '465 patent invalid for failing to meet the written description and best mode requirements at the SJ stage. Atlantic Research's trade secret claim survived SJ and proceeded to trial, where a jury awarded Atlantic Research more than \$1.8M in damages.

Troy filed a motion for mistrial, alleging that the district court had twice charged the jury with coercive instructions contrary to the law and had failed to properly address potential jury taint arising from the presence of extraneous evidence in the jury room during deliberations. Troy also renewed its request for JMOL because Atlantic Research had failed to identify a trade secret. Finally, Troy filed a motion for

remitter, contending that the jury improperly calculated damages. The district court denied all three motions.

Atlantic Research appealed the district court's SJ decision invalidating claims 31-36 of the '465 patent. Troy cross-appealed the district court's denial of its three motions regarding the trade secret trial.

The Federal Circuit first affirmed the district court's grant of SJ invalidating claims 31-36 of the '465 patent under 35 U.S.C. § 112 for failing to meet the written description requirement. The Court noted that the invention disclosed in the '465 patent involved a "sleeve" accessory consisting of three primary components: a receiver sleeve, an upper handguard piece, and a bottom handguard piece. The Court also noted that the '465 patent specification disclosed a receiver sleeve attached through its rear portion to the top of the firearm, the front portion of the receiver being connected to the upper handguard piece, and the bottom handguard piece being attached to the upper handguard piece. In addition, the Court understood the '465 patent specification as indicating that additional support could be provided by a special yoke (also referred to as a "clamp") that engaged the firearm's barrel nut. The Court concluded that the '465 patent disclosed an invention with two support points, one at the receiver sleeve and one at the yoke/barrel nut, which permitted the upper and bottom handguard pieces to surround the barrel of the gun without touching it. The Court also noted that, during oral argument, Atlantic Research admitted that the '465 patent did not disclose an invention where the yoke/barrel nut attachment point provided complete support for the handguard accessory.

"A trade secret is secret. A patent is not. That which is disclosed in a patent cannot be a trade secret." Slip op. at 19.

The Federal Circuit further concluded that, although the specification did not disclose a handguard accessory completely supported by the barrel nut, the district court had properly construed claims 31-36 as covering such a design. The Court found that, whereas claims 1-29 of the '465 patent explicitly required two attachment points and claim 30 explicitly required a receiver sleeve attachment point, claims 31-36, added on reissue, mentioned nothing about a receiver sleeve attachment point. Instead, the Court found that claims 31-36 disclosed only a yoke/barrel nut attachment point that supported the upper handguard piece. Based on the differences in scope between claims 1-30 and 31-36, the Court concluded that importing a receiver sleeve limitation into claims 31-36 was inappropriate because to do so would eviscerate the plain meaning of the claim language.

The Court also acknowledged that Atlantic Research made conflicting claim construction arguments at trial and during appeal. Atlantic Research had sought from the district court a claim construction that covered a barrel nut-only design, but, on appeal, Atlantic Research argued for a construction that precluded the barrel nut-only design. The Court stated that it "view[ed] such tactics with 'extreme disfavor.'" Slip op. at 15.

The Court incorporated the barrel nut-only claim construction into its written description analysis and concluded that the written description for the '465 patent did not disclose, to a person of ordinary skill in the art, an invention where the yoke/barrel nut attachment point provided complete support for the handguard accessory. Noting that its conclusion was supported by the fact that Atlantic Research viewed the barrel nut-only attachment design as a trade secret, the Court stated, "Mr. Swan cannot now 'have it both ways' by reaching back and relying on the disclosures in the '245 patent to claim an invention he was purposely shielding from the public." *Id.* at 16-17. Because claims 31-36 claimed a handguard accessory attached only at the barrel nut, the Court held that these claims exceeded in scope the subject matter that the inventor had chosen to disclose to the public in the written description. The Court therefore affirmed the district court's grant of SJ invalidating claims 31-36 for failing to satisfy the written description requirement. The Court did not address the district court's best mode ruling.

The Federal Circuit next addressed the district court's denial of Troy's motion for JMOL on Atlantic Research's trade secret claims, applying Massachusetts state law. The Court observed that, under Massachusetts law, the range of what may be considered a trade secret is broad. The Court explained

that “[t]he focus is whether what is claimed as the trade secret is in fact secret.” *Id.* at 18. Troy argued that Atlantic Research failed to identify any trade secrets at trial, but the Court found otherwise. Mr. Swan testified that nobody had ever attached directly to the barrel nut for a handguard system and that doing so was a trade secret. Troy also argued that clamping a handguard to a gun at the barrel nut cannot be a trade secret because the ’245 patent discloses this type of device. Acknowledging the inherent tension Atlantic Research created by contending that Troy misappropriated trade secrets while simultaneously asserting that the products Troy developed with the trade secrets infringes Atlantic Research’s patent, the Court reminded that “[t]hat which is disclosed in a patent cannot be a trade secret.” *Id.* at 19. Thus, the Court agreed with the district court that Atlantic Research must have demonstrated that something beyond what was disclosed in the ’245 patent was a trade secret. Viewing the evidence at trial in a light most favorable to Atlantic Research, the Court was not able to say that no reasonable jury could have been persuaded that Atlantic Research was in possession of its alleged trade secret. Accordingly, the Court affirmed the denial of Troy’s motion for JMOL.

Finally, the Federal Circuit considered Troy’s motion for a mistrial on two grounds: (1) that the district court erred as a matter of law by giving two improper *Allen* charges, named for *Allen v. United States*, 164 U.S. 492 (1896); and (2) that the district court failed to properly investigate the possibility of jury taint due to the presence of an extraneous clamp in the jury room during deliberations. The Court rejected Troy’s argument that the district court erred by giving the jury two coercive *Allen* charges, which are intended to prevent a hung jury by encouraging jurors in the minority to reexamine their positions and give careful consideration to the evidence. The Court stated that it did not believe that there was an absolute prohibition in the First Circuit against giving more than one *Allen* charge.

With regard to the clamp in the jury room, the Court determined that the district court had failed to conduct an adequate investigation after becoming aware that the clamp was in the jury room during deliberations. Specifically, the Court found that the district court failed to take any steps to determine the possible prejudicial effect of the clamp prior to the issuance of the verdict and never even asked if the jurors could remain impartial after viewing the clamp. The Court therefore concluded that the district court did not investigate the issue in a satisfactory manner. Finding abuse of the district court’s discretion, the Federal Circuit reversed the district court and granted Troy’s motion for a mistrial. The Court did not address the district court’s judgments on the best mode and damages issues in light of its other decisions.

The logo for the law firm Finnegan, consisting of the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Federal Circuit Affirms SJ Decision Based on Multiple Claim Construction Determinations

Michael D. Stone

Judges: Newman, Lourie, Moore (author)

[Appealed from D. Del., Judge Robinson]

In *IGT v. Bally Gaming International, Inc.*, Nos. 10-1364, -1365 (Fed. Cir. Oct. 6, 2011), the Federal Circuit affirmed the district court's grant of SJ of infringement for certain claims of U.S. Reissue Patent Nos. RE37,885 ("the '885 patent") and RE38,812 ("the '812 patent"), as well as a grant of SJ for noninfringement of other claims.

IGT accused Bally Gaming International, Inc., Bally Technologies, Inc., and Bally Gaming, Inc. (collectively "Bally") of infringing two reissue patents that shared a common specification. These patents describe a system for controlling networked gaming devices, namely, slot machines, and methods for rewarding players over and above normal payout levels. The '885 patent claims generally contain three steps: (1) tracking activity of a group of gaming devices, (2) issuing a command when a predetermined event occurs, and (3) paying as determined by that command. The '812 patent claims generally contain four steps: (1) issuing an initial command establishing the criteria for a bonus when a predetermined event occurs, (2) storing the command, (3) transmitting a pay command upon occurrence of the predetermined event, and (4) paying at the gaming device. The primary difference is that the '812 patent claims initially send the command to the gaming device to establish the payout criteria.

IGT accused Bally of infringing the patents when it offered two promotions known as Power Rewards and Power Winners. Power Rewards is a "Play X, Get Y" promotion, where players are rewarded based upon their game play at a particular machine. For example, if a player places \$100 in bets, he or she receives a \$10 promotion. Once the predetermined level is reached, the gaming device displays a "Promo" key, which the player activates to receive the promotion. This is completed through a particular message ("transaction #151"), which is sent by the host computer to the gaming device when a player begins use, and includes the "Play X, Get Y" amounts. Power Rewards can be won by multiple players during the promotion. In contrast, Power Winners instead randomly selects a single player for a bonus. The payout method for Power Winners uses two pay methods. In the first method, ACSC, the system uses a similar method to Power Rewards where the message is set to Play \$0, Get Y and uses the "Promo" key. The second, SDS/CMP, simply notifies the user that he or she won the promotion and pays out through the casino's accounting system.

The district court construed a number of claim terms before turning to infringement determinations. The district court found as a matter of law that Power Rewards infringed certain claims of both patents. For the '885 patent claims, the district court determined that the transaction #151 message was a "command" or "message" under the claims. For the '812 patent claims, the district court determined that the

transaction #151 message is the “command” and the “predetermined event” was the player’s fulfillment of the “Play X” requirement. The district court also ruled that the ACSC embodiment of Power Winners infringed claims 10 and 46 of the ’885 patent, finding the “predetermined event” to be the random selection that a given time period should produce a winner and the “command” to be the transaction #151 message. However, the district court found the SDS/CMP embodiment of Power Winners to not infringe because the only possible “command” did not cause payment, but only notified the winner.

The Federal Circuit reviewed the claim construction for the disputed claim terms. The Court first reviewed the term “one” as used in claim 10 of the ’885 patent, which requires “issuing a *command* over the network to *one* of said preselected gaming devices” and “*paying* at said *one* gaming device *in accordance with the command.*” Slip op. at 8. Bally argued that “one” requires the command be sent to one and only one machine during a promotional period. Bally then argued that since Power Rewards pays at more than one gaming device, it cannot infringe. IGT countered that the claims do not limit the system to pay out at a single one of the preselected devices, only that a single command pay out at a single machine. IGT also noted that Bally ignored claim 21 of the ’812 patent where the command is sent to “only one” gaming device. Therefore, the applicants knew how to claim a “one and only one” embodiment as argued by Bally.

“Extracting a single word from a claim divorced from the surrounding limitations can lead construction astray.” Slip op. at 11.

The Federal Circuit agreed with IGT’s arguments, finding the meaning of the word “one” clear from the surrounding words. The Court believed that the use of “one” limited that a command go to one of the preselected gaming devices and “modifies devices that will receive a particular command, not the number of commands that might be issued.” *Id.* at 10. The Court felt that “[n]othing in this limitation requires issuing only one command to only one machine.” *Id.* Further support for this construction came from the preferred embodiments, where a number of promotions involved multiple commands sent to different devices. In light of this construction, the Federal Circuit found that the district court correctly granted SJ of infringement by Bally’s Power Rewards. The “fact that Power Rewards pays a bonus at more than one gaming device does not render it noninfringing.” *Id.* at 11.

The Federal Circuit also reviewed the district court’s construction of the term “predetermined event” to mean “the occurrence of one or more conditions chosen in advance.” The district court noted that the predetermined event may be random in its occurrence, as long as the condition itself is chosen in advance. Bally argued that a “predetermined event” cannot be a random event, while IGT believed the plain and ordinary meaning is that a condition must be chosen in advance. The Federal Circuit felt that the district court correctly construed the term, noting the claims and specification only required some condition be met in order for the system to issue the claimed command. The claims or specification did not require the predetermined event to be finite or nonrandom. The Court felt that even “[i]f the condition determined in advance is an entirely random occurrence, it is no less an event.” *Id.* at 13. The specification gave examples of nonrandom conditions, but the Court did not find this sufficient to redefine “predetermined event” with anything other than its plain and ordinary meaning.

The ’885 patent used the term “predefined” in place of “predetermined,” but the district court found the two terms to have essentially the same meaning. On appeal, Bally argued that the term “predefined” was ambiguous and that the applicants indicated during prosecution that “predefined” was broader than “predetermined.” Bally reasoned that since “predetermined” can be any random event, the term “predefined event” could not possibly be broader. The Federal Circuit disagreed, finding the term to have a plain and ordinary meaning and not insolubly ambiguous. The Court found the applicants’ claim that “predefined” is broader did not raise to the level of a disclaimer and that they did not act as their own lexicographer to depart from the plain and ordinary meaning. Therefore, the Federal Circuit affirmed the district court’s construction of both “predetermined” and “predefined” events.

The Federal Circuit also reviewed the district court’s construction of “command” or “message,” which led the district court to determine that Power Winners in its SDS/CMP embodiment did not infringe because

it did not cause the gaming device to pay out. The district court found the term to include a “reconfiguration” element, which IGT argued was improper. The Federal Circuit disagreed and ruled that “[t]his is not an instance of reading a limitation from the specification into the claim, but rather of interpreting the claim language.” *Id.* at 17. The claims required the machine to pay out a bonus it would not have paid in its previous configuration. The Federal Circuit noted that the specification strongly supported the district court’s construction, as the abstract, summary of the invention, detailed description, and system overview all discussed only reconfiguration commands. The Federal Circuit affirmed the district court’s grant of SJ of noninfringement, holding that the claim language “paying at said one gaming device in accordance with the command” meant the command causes an extra payment to the user at the gaming device that the gaming device would not have paid out.

The Federal Circuit also affirmed the district court’s constructions of “transmitting a pay command . . . upon the occurrence of the predetermined event” and “paying.” The Court agreed that the terms simply meant that the system must transmit a pay command when the predetermined event occurred.

Accordingly, having affirmed the district court’s claim constructions and noting that there were no factual issues on appeal, the Federal Circuit affirmed the district court’s grants of SJ of infringement of certain claims and noninfringement on other claims.

The logo for the law firm Finnegan, consisting of the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Failure to Object to Special Master's Claim Construction Within Period Specified by Court Order or Federal Rules Results in Waiver

*Timothy V. Fisher**

Judges: Rader, Prost, O'Malley (author)

[Appealed from S.D. Tex., Senior Judge Werlein]

In *Absolute Software, Inc. v. Stealth Signal, Inc.*, Nos. 10-1503, -1504 (Fed. Cir. Oct. 11, 2011), the Federal Circuit affirmed the district court's construction of three key claim terms and grant of SJ of noninfringement to one party. The Court, however, vacated a grant of SJ of noninfringement to the other party, finding issues of material fact. Accordingly, the Court affirmed-in-part, vacated-in-part, and remanded for further proceedings.

Absolute Software, Inc. ("Absolute") and Stealth Signal, Inc. ("Stealth") sell competing software products designed to track lost or stolen laptop computers. Each side asserted claims of patent infringement against the other based on their respective software products. Absolute asserted three patents: U.S. Patent Nos. 6,244,758 ("the '758 patent"); 6,300,863 ("the '863 patent"); and 6,507,914 ("the '914 patent") (collectively the "Absolute Patents"). These patents relate to a method, apparatus, and system for retrieving lost or stolen electronic devices such as laptops and mobile devices via a global network such as the Internet. Under the '758 patent, for example, the invention requires a software program (the "agent") that can be loaded onto an electronic device such as a laptop computer. Using a global network, the agent software program communicates information about the identity and location of the protected electronic device to a host system, which uses the information to track the whereabouts of the device.

Stealth counterclaimed for infringement of U.S. Patent No. 5,406,269 ("the '269 patent"), which Stealth licensed in response to Absolute's assertion of patent infringement. The '269 patent generally describes an invention that remotely monitors electronic devices by imbedding in such devices an agent that makes surreptitious calls to a central monitoring site at a semi-random rate.

For purposes of claim construction, the district court appointed a special master, who conducted hearings on the parties' claim construction arguments and issued a Report and Recommendation on Claim Construction ("R&R"). When it appointed the special master, the district court entered an order requiring the parties to file any objections to the special master's recommended claim construction within twenty days of the R&R. While Stealth objected to several aspects of the special master's report, Absolute objected to only two portions of the report. Following the parties' objections, the special master issued an Amendment to the R&R. The district court adopted the special master's R&R as modified by the Amendment and subsequently granted both parties' motions for SJ of noninfringement.

Absolute raised three issues on appeal: (1) the district court's claim construction of the term "global network communication links"; (2) genuine issues of material fact precluding SJ of noninfringement of

the '758 and '863 patents; and (3) genuine issues of material fact precluding SJ of noninfringement of the '914 patent.

The Federal Circuit first concluded that Absolute waived its right to challenge the district court's claim construction of the term "global network communication links" by failing to timely object to the special master's construction of this term within the twenty-day period set forth in the district court's order or according to the mechanism set forth in Federal Rule of Civil Procedure 53(f)(2). The Federal Circuit rejected Absolute's argument that, because it argued its position to the special master prior to the issuance of his claim construction report, the argument was somehow "presented to the district court." Slip op. at 15. Moreover, the Court did not find that any of the reasons the Court has enumerated in the past for considering an argument that was not properly presented below was present in this case.

"Accepting Absolute's argument that its challenge to the special master's claim construction was 'presented to the district court' simply because it was argued to the special master would eviscerate the very purpose of [the special master] procedure." Slip op. at 15.

Turning to SJ of noninfringement of the '758 and '863 patents, Absolute and Stealth disagreed as to whether Stealth's XTool agent satisfied the "global network communication links" limitation. As interpreted by the special master, a "global network communication link" is a connection between two IP addresses in the Internet, as opposed to a single IP address by itself. Under this claim construction, the limitation is satisfied if the XTool agent provides the IP addresses of both the agent and the host.

After weighing the expert testimony of both sides, the Court found the following facts undisputed: (1) Stealth's XTool agent provides a message packet to the host system with at least the agent's IP address; and (2) the packet, when it arrives at the host system, contains the IP addresses of both the agent and the host. Given the gap in the record concerning whether the XTool agent—as opposed to any other component of a client device—also furnishes, supplies, or makes available the host's IP address, the Court held that a genuine issue of material fact remained as to whether the limitation was satisfied by Stealth's XTool agent.

Regarding SJ of noninfringement of the '914 patent, Absolute and Stealth disagreed as to whether Stealth's XTool agent meets the "contacting . . . without signaling" limitation found in the asserted claim. The parties did not dispute that Stealth's XTool agent does not emit an audible signal when it establishes a connection with the host, but it does emit a beep "at the end of contact with the host." Absolute argued that there are at least issues of fact as to whether the agent's silence at the beginning of the connection and during communication constitutes "contacting . . . without signaling," as that term was construed by the district court. The district court construed "contacting" as "getting in touch with or communicating with."

The Federal Circuit found that Stealth neither sought to clarify this construction before the district court nor challenged it on appeal. Stealth's own expert admitted that the XTool agent does not emit a sound when it establishes a connection with the host, thereby confirming that the agent meets this limitation. Moreover, the Court found issues of material fact as to the temporal relationship between the communication and the audible signal. For example, if there is a gap between the communication and the audible signal, a fact-finder might reasonably conclude that the communication is sufficiently removed from the signal that the communication is accomplished "without signaling." The Court therefore vacated SJ of noninfringement of the '914 patent.

The Federal Circuit turned next to the three issues that Stealth raised on cross-appeal: (1) the district court's construction of the term "semi-random rate"; (2) genuine issues of material fact precluding SJ of noninfringement of the '269 patent; and (3) the district court's construction of the terms "unique usage agreement information" and "said terms of said usage agreement imbedded in said software." The Court affirmed the district court's decisions on all three issues.

First, the Court found that the term “semi-random rate,” as it appears in the ’269 patent, requires “transmission means for initiating, at a *semi-random rate*, the transmission of the message packet from the formatting means to the central site means of the system surreptitiously of a user of said electrical apparatus.” Slip op. at 24. The district court construed “semi-random rate” to mean “normally taking place exactly once at a randomly chosen time during each occurrence of a repeating predetermined time interval.” *Id.* (citation omitted). The special master based this construction on the ’269 patent’s description of the randomizer’s two functions: (1) ensuring that there is one call per time period, such as day/week/month; and (2) making sure that the call is made randomly only once during that period. This configuration allows the system to detect unlicensed copies of the software (if it receives multiple calls from the same serial number during a single time period) while preventing users from detecting when the agent will make the next call to the central site.

Second, the Federal Circuit concluded that Absolute’s software did not meet this limitation, either literally or under the DOE. Absolute’s software is designed to initiate a call to the monitoring center 24.5 hours following the completion of the last call. The Court found that, although unusual circumstances, such as lack of Internet availability, make the call interval unpredictable, the ’269 patent’s randomness requirement is not satisfied by mere unpredictability. With regard to infringement under the DOE, the Court held that Absolute’s 24.5-hour call interval was not equivalent to Stealth’s semi-random rate, because the two elements serve different functions. The function of Stealth’s semi-random rate is to detect piracy and to prevent users from detecting when the agent will make the next call to the central site. In contrast, the 24.5-hour interval built into Absolute’s products was designed to reduce the load on its server. Thus, the Court affirmed the district court’s holding that Absolute did not infringe the ’269 patent, either literally or under the DOE.

Finally, Stealth challenged the district court’s construction of the terms “unique usage information agreement” and “terms of said usage agreement imbedded in said software,” as they appear in the ’269 patent. Stealth argued for a construction of these terms that would be satisfied by a mere product serial number. Absolute would infringe under such a construction because its software sends an identifying serial number to the host. The Court, however, affirmed the district court’s construction of “information describing the unique usage agreement for this copy of the software, including a statement of the terms of that usage agreement.” The Court found no error in that interpretation, especially when considering that Stealth’s proposed construction would render the word “terms” meaningless.

**Timothy V. Fisher is a Law Clerk at Finnegan.*

The logo for Finnegan, consisting of the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

eBay Ended Presumption of Irreparable Harm in Determining the Appropriateness of Injunctive Relief, but the Fundamental Nature of Patents as Property Rights May Not Be Ignored

Robert A. Hall

**Judges: Bryson (dissenting-in-part), O'Malley (author), Reyna
[Appealed from D. Del., Judge Robinson]**

In *Robert Bosch LLC v. Pylon Manufacturing Corp.*, No. 11-1096 (Fed. Cir. Oct. 13, 2011), the Federal Circuit reversed the district court's denial of a motion for entry of a permanent injunction and remanded for entry of an appropriate injunction.

This is a patent infringement case involving windshield wiper technology, specifically, beam-type wiper blades ("beam blades"). Part of the business of Robert Bosch LLC ("Bosch") involves developing wiper blades, and Bosch owns patents covering various aspects of beam blade technology. In addition to its research and development efforts, Bosch sells blades to both original equipment manufacturers and aftermarket retailers. Pylon Manufacturing Corp., LLC ("Pylon") also sells beam blades and has competed with Bosch for business from retailers such as Wal-Mart.

Bosch sued Pylon, alleging infringement of several U.S. patents relating to beam blades. The district court granted a motion by Pylon to bifurcate the issue of damages. Following a jury verdict's that Pylon infringed valid claims of two of Bosch's patents, Bosch moved for entry of a permanent injunction. The district court denied the motion on the ground that Bosch failed to show that it would suffer irreparable harm. The district court concluded that this is not a two-supplier market and that additional competitors exist, that wiper blades are not the core of Bosch's business, and that Bosch failed to define a relevant market, and thus found that Bosch failed to show it would suffer irreparable harm. Finding the absence of irreparable harm fatal to Bosch's motion, the district court denied the motion for an injunction without addressing the remaining equitable factors of the permanent injunction inquiry. Bosch appealed.

The Federal Court considered a jurisdictional dispute raised by Pylon, and analyzed the effect of *eBay* on injunctive relief, specifically, each of the four factors a patent owner must show for a permanent injunction: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

“Although *eBay* abolishes our general rule that an injunction normally will issue when a patent is found to have been valid and infringed, it does not swing the pendulum in the opposite direction. In other words, even though a

successful patent infringement plaintiff can no longer rely on presumptions or other short-cuts to support a request for a permanent injunction, it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude.” Slip op. at 10-11.

Regarding the jurisdictional dispute, Pylon admitted that § 1292(a)(1) provides a sound basis for jurisdiction, but contended that jurisdiction under that section has not been established, as Bosch was required to show that the order will have a serious, perhaps irreparable, consequence and that the order can be effectually challenged only by immediate appeal, citing *Stringfellow v. Concerned Neighbors in Action*, 480 U.S. 370, 379 (1987), and *Carson v. American Brands, Inc.*, 450 U.S. 79, 84 (1981). The Court, however, agreed with Bosch that the additional hurdles cited by Pylon apply only in cases involving orders that do not expressly deny an injunction, but have the effect of denying injunctive relief, and therefore held that Bosch need not make any additional showing for jurisdiction, as the district court order explicitly denied the grant of a permanent injunction. See *Cross Med. Prods. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1300 (Fed. Cir. 2005).

In analyzing *eBay*'s effect on injunctive relief for patent infringement, the Court opined that while the Supreme Court made clear in *eBay* that broad classifications and categorical rules have no place in this inquiry and that courts are to exercise their discretion in accordance with traditional principles of equity, the Supreme Court did not expressly address the presumption of irreparable harm. See *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 702 (Fed. Cir. 2008) (“It remains an open question whether there remains a rebuttable presumption of irreparable harm following *eBay*.”). The Court opined that *eBay* jettisoned the presumption of irreparable harm as it applies to determining the appropriateness of injunctive relief, but that it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude. The Court stated that it has adjudicated many cases involving a practicing patentee seeking to permanently enjoin a competitor upon an adjudication of infringement, and has developed legal standards that inform the four-factor inquiry and, in particular, the question of irreparable harm. While none of those standards alone may justify an effectively irrebuttable presumption that an injunction should issue, the Court held that a proper application of the standards to the facts of this case compels the conclusion that Bosch is entitled to the injunction it seeks. The Court therefore concluded that the district court abused its discretion by ignoring those standards and supplanting them with its own.

With respect to the four-factor test, the Court held that the district court committed legal error by the weight it gave to the factors cited, and further made a clear error in judgment in its analysis of the irreparable harm factor. The Court analyzed each factor in turn.

Regarding the first factor of the four-part test, the Court held that the district court erred in relying exclusively on the presence of additional competitors and on the noncore nature of Bosch's wiper blade business. In addition, the Court held that the district court committed a clear error of judgment when it concluded that Bosch failed to demonstrate irreparable harm in the face of overwhelming evidence to the contrary. The Court also found relevant Bosch's evidence of (1) the parties' direct competition; (2) loss in market share and access to potential customers resulting from Pylon's introduction of infringing beam blades; and (3) Pylon's lack of financial wherewithal to satisfy a judgment. The Court found that there is no basis on which the district court rationally could have concluded that Bosch failed to show irreparable harm.

Regarding the second factor of the four-part test, the adequacy of money damages, the Court agreed with Bosch that Bosch will continue to suffer irreparable harm due to lost market share, lost business opportunities, and price erosion unless Pylon is permanently enjoined, and money damages alone cannot fully compensate for these harms. The Court found important the questionable financial condition of both Pylon and its parent company, and thus that the district court's failure to consider the extent to which a forward-looking monetary award is a viable or meaningful alternative to an injunction was error.

Regarding the third factor of the four-part test, the balance of hardships, the Court opined that a party cannot escape an injunction simply because it is smaller than the patentee or because its primary product is an infringing one, while requiring Bosch to compete against its own patented invention with the resultant harms described above, places a substantial hardship on Bosch.

Regarding the final factor of the four-part test, the public interest, the Court found that neither party offered specific arguments as to why, in this case, the public interest would be served or disserved by an injunction, and thus found this factor to favor neither party.

The Court reversed the district court's denial of Bosch's motion for entry of a permanent injunction and remanded for entry of an appropriate injunction. The Court held that, while normally a district court should balance these equitable considerations in the first instance, the facts of this case compel a different result. The Court further stated that, to the extent that bifurcation of the damages portion of the trial inhibited development of the record as it relates to injunctive relief, it was the result of Pylon's doing, and remanding the action for additional hearings prior to entry of injunctive relief would punish the patentee for the district court's decision, at Pylon's urging, to bifurcate the trial and for the district court's erroneous application of the law to the evidence before it.

Judge Bryson, dissenting-in-part, agreed with the majority that the district court erred in its application of the *eBay* factors and that the district court's order denying an injunction should not be affirmed. Judge Bryson, however, disagreed that the record compels the issuance of an injunction, and that "there are enough open questions of fact bearing on the propriety of injunctive relief that we should not bypass the district court's consideration of those factual issues on remand." Bryson Dissent at 2.

The logo for the law firm Finnegan, consisting of the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Agreement with a Formula Calculating “Actual Damages” Precludes Prejudgment Interest

*Theresa M. Weisenberger**

Judges: Newman (dissenting-in-part), Schall, Moore (author)

[Appealed from S.D.N.Y., Judge Stein]

In *Sanofi-Aventis v. Apotex Inc.*, No. 11-1048 (Fed. Cir. Oct. 18, 2011), the Federal Circuit reversed the district court’s decision to award Sanofi-Aventis (“Sanofi”) prejudgment interest in addition to “actual damages” specified by its settlement agreement with Apotex Inc. and Apotex Corp. (collectively “Apotex”), and affirmed the district court’s holding that Apotex Inc. is jointly and severally liable for all damages, and the district court’s denial of Apotex’s motion for leave to file a supplemental answer, affirmative defenses, and counterclaims.

The dispute underlying this third appeal to the Federal Circuit began in November 2001 when Apotex filed an ANDA with the FDA seeking approval for the sale of generic clopidogrel bisulfate tablets, marketed by Sanofi under the brand name Plavix®, before the expiration of U.S. Patent No. 4,847,265 (“the ‘265 patent”). Apotex’s ANDA included a paragraph IV certification asserting invalidity. In response, Sanofi filed suit in March 2002, alleging infringement under 35 U.S.C. § 271(e)(2). Apotex counterclaimed, seeking a declaration of invalidity and unenforceability. Apotex received final FDA approval in November 2006.

Prior to FDA approval, Sanofi and Apotex reached a tentative settlement agreement (“the March 2006 agreement”). Under the March 2006 agreement, Sanofi granted Apotex a future license under the ‘265 patent to sell Apotex’s generic product before patent expiration. Sanofi also promised not to launch an authorized generic during the pendency of the license. As a result of prior litigation involving Bristol-Myers Squibb Company (“BMS”), a holding company of one of the plaintiffs, the March 2006 agreement was subject to approval by the FTC and a consortium of state attorneys general. The FTC objected to the March 2006 agreement, including the provision precluding Sanofi’s launch of an authorized generic.

In response, Sanofi withdrew the March 2006 agreement and the parties negotiated a second agreement in May 2006 (“the May 2006 agreement”). The May 2006 agreement did not expressly include the limitation regarding authorized generics, but the BMS executive negotiating on behalf of Sanofi orally promised that Sanofi would not launch an authorized generic during the pendency of Apotex’s license. BMS submitted the May 2006 agreement with certification for FTC approval, but did not disclose its oral promise. Apotex, however, disclosed the oral promise to the FTC a week later. In response, the state attorneys general informed the parties that they would not approve the May 2006 agreement, but promised to reconsider following an investigation into the oral agreement. The government pursued charges against BMS for failing to disclose the oral agreement and false

certification to the FTC, ultimately resulting in an admission of a violation by BMS and payment of a civil penalty.

In July 2006, Apotex invoked its right under the May 2006 agreement to declare a regulatory denial and launched its generic product eight days later, prior to expiration of the '265 patent. Sanofi moved for a preliminary injunction, which the district court granted. The Federal Circuit affirmed the preliminary injunction in a first appeal. Following a bench trial on liability, the district court held the '265 patent not invalid and not unenforceable. Infringement was not tried because Apotex admitted to infringement under § 271(e)(2) and Sanofi never amended its complaint to assert infringement under § 271(a)-(b) following Apotex's generic product sales. The district court's decision was affirmed in a second appeal to the Federal Circuit.

In May 2009, while litigating damages, Apotex sought leave to file (1) a supplemental answer, including allegations of patent misuse related to BMS's failure to disclose its oral agreement to the FTC as part of the May 2006 agreement; (2) affirmative defenses; and (3) counterclaims, including a breach of contract claim alleging BMS breached its duty to use reasonable efforts to secure regulatory approval of the May 2006 agreement. The district court denied Apotex's motion, finding that (1) the patent misuse claim would expand, complicate, and prolong discovery and the ultimate resolution of the case; (2) BMS's actions likely did not constitute patent misuse; and (3) Apotex could separately file the breach of contract claim.

Sanofi moved for SJ on damages and the district court granted Sanofi's motion, awarding 50% of Apotex's net sales, per the May 2006 agreement, and prejudgment interest. In awarding prejudgment interest, the district court (1) rejected Apotex's arguments that the May 2006 agreement precluded such an award and that prejudgment interest was not available as a remedy pursuant to § 271(e)(4)(c); and (2) held that Apotex Inc. and Apotex Corp. were jointly and severally liable for the damages. Apotex appealed.

The Federal Circuit first determined that the district court erred by awarding prejudgment interest in light of the May 2006 agreement. Specifically, the May 2006 agreement provided that "*Sanofi agrees that its actual damages for any past infringement by Apotex, up to the date on which Apotex is enjoined, will be 50% of Apotex's net sales of clopidogrel products Sanofi further agrees that it will not seek increased damages under 35 U.S.C. § 284.*" Slip op. at 9 (alteration in original). The Court found that the parties intended the phrase "actual damages" to include "all damages necessary to compensate Sanofi for Apotex's infringement." *Id.* at 11. Further, because prejudgment interest is a form of compensatory damages, an additional award of prejudgment interest was not warranted.

"By agreeing to a formula to calculate Sanofi's 'actual damages' in the May 2006 agreement, Sanofi gave up any right to supplement its recovery with additional prejudgment interest." Slip op. at 15.

The Court construed the May 2006 agreement as supporting its interpretation of "actual damages" by allowing Sanofi "actual damages" but expressly excluding increased damages under § 284, which the Court classified as punitive. Additionally, the Court noted that in another section of the May 2006 agreement, the parties expressly stated that prejudgment interest should be awarded and specified how to calculate such interest, but did not do so when discussing actual damages. The Federal Circuit rejected Sanofi's argument that it did not need to preserve the right to prejudgment interest because it has a statutory right to interest under § 284. While acknowledging the "general rule awarding interest on damages in patent infringement actions" in the absence of an agreement to the contrary, the Court concluded that the May 2006 agreement was an agreement to the contrary. *Id.* at 14. Considering the May 2006 agreement as a whole and the principle that "[t]he law strongly favors the settlement of all litigation, including patent disputes," the Federal Circuit held that "[b]y agreeing to a formula to calculate Sanofi's 'actual damages' in the May 2006 agreement, Sanofi gave up any right to supplement its recovery with additional prejudgment interest." *Id.* at 15.

On the issue of liability, the Federal Circuit rejected Apotex's argument—that Apotex Inc. was not liable for damages under § 271(e)(4) because Apotex Corp. alone imported the drug and made the commercial sales in the United States. The Court agreed with the district court that the May 2006 agreement governed liability because (1) the agreement broadly defined "Apotex" as including "Apotex Inc." and "Apotex Corp."; (2) the Chairman and CEO of Apotex Inc. signed the agreement on behalf of both Apotex Inc. and Apotex Corp.; and (3) the parties stipulated that "the acts of Apotex Corp. with respect to the subject matter of this action were done at the direction of, with the authorization of and with the cooperation, participation and assistance of Apotex Inc." *Id.* at 17 (citation omitted). Accordingly, the Court agreed that Apotex Inc. was jointly and severally liable for Sanofi's damages.

The Federal Circuit also rejected Apotex's challenge to the district court's denial of its motion to amend. The district court properly rejected Apotex's patent misuse defense as futile because BMS's failure to disclose the oral agreement and false certification to the FTC did not broaden the scope of the '265 patent grant, "the key inquiry under the patent misuse doctrine." *Id.* at 19 (citation omitted). The Court, however, acknowledged that patent scope could have been broadened if the FTC had failed to discover BMS's "nefarious conduct." *Id.*

Finally, the Court concluded that the district court did not abuse its discretion by denying Apotex's motion to add a counterclaim for breach of contract because a court "may deny a motion to amend where it would 'significantly delay the resolution of the dispute.'" *Id.* at 20 (citation omitted). Additionally, Apotex was not prejudiced because it could, and later did, assert the breach of contract claim in a separate action.

Accordingly, the Federal Circuit reversed the district court's grant of prejudgment interest, but affirmed its holding that Apotex Inc. is jointly and severally liable for all damages, and affirmed its denial of Apotex's motion for leave.

Judge Newman dissented-in-part on the issue of prejudgment interest because she agreed with the district court that the May 2006 agreement did not alter the general rule that prejudgment interest is awarded on damages for patent infringement. In her view, if the parties had intended to preclude an award of prejudgment interest, they would have said so explicitly because an award of interest is the rule, not the exception.

**Theresa M. Weisenberger is a Law Clerk at Finnegan.*

The logo for the law firm Finnegan, consisting of the word "FINNEGAN" in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved



FINNEGAN

Last Month at the Federal Circuit

November 2011

[Back to Main](#)

Section 146 Establishes De Novo Review

Shana K. Cyr

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

[Appealed from D. Neb., Chief Judge Bataillon]

In *Streck, Inc. v. Research & Diagnostic Systems, Inc.*, No. 11-1045 (Fed. Cir. Oct. 20, 2011), the Federal Circuit affirmed the district court's award of priority of invention to senior party, Streck, Inc. ("Streck"), in an action brought under 35 U.S.C. § 146 because the district court correctly applied the relevant procedural and substantive law, and error was not shown in the court's factual findings and conclusions of law.

Streck filed suit against Research and Diagnostic Systems, Inc. ("R&D"), alleging infringement of three of its patents relating to hematology control compositions. The control compositions can be used to check the accuracy of hematology instruments that are used to analyze samples of blood. The patents listed Streck employees, Dr. Wayne Ryan and John Scholl, as inventors. In response to the suit, R&D asserted that the patents were invalid on the ground that R&D employee, Dr. Alan Johnson, was the earlier inventor of the same invention patented by Streck. The jury determined that R&D failed to prove priority of invention by clear and convincing evidence.

Concurrently with the infringement litigation, priority of invention, involving at least the same three patents invented by Ryan and Scholl and one patent invented by Johnson, was contested in an interference proceeding before the PTO. The PTO awarded priority to the junior party, R&D employee Johnson. Streck filed a § 146 action in the district court, where the case was assigned to the same judge who had tried the infringement case. The district court awarded priority in favor of the Streck inventors, and R&D appealed.

On appeal, the Federal Circuit first rejected R&D's argument regarding district court procedure—that the district court in a § 146 proceeding must accept the findings of the Board if those findings were supported by substantial evidence in the PTO record, and not make de novo findings on those same issues. The Court noted that while § 146 provides that the PTO record "shall be admitted on motion of either party," slip op. at 5, "[s]ection 146 provides that the civil action is 'without prejudice to the right of the parties to take further testimony,'" *id.* at 6. Accordingly, prior Federal Circuit precedent held that § 146 "affords a litigant the option of shoring up evidentiary gaps." *Id.* (citation omitted).

"Section 146 recognizes that, while the Board is fully capable of assessing all matters presented to it, there are inherent limits to its fact finding function that arise from the sterile nature of a proceeding that is limited to documentary and declaration or deposition evidence." Slip op. at 9.

The Federal Circuit also rejected R&D's argument that the district court may make de novo factual findings only when the evidence adduced in the district court is in conflict with the evidence before the Board. The Court reasoned that neither statute nor precedent supports such a distinction, and noted that "[t]he standard for trial and decision of a § 146 action in the district court is not the same as the standard for review by the Federal Circuit in a § 141 direct appeal from the PTO on the Board record." *Id.* at 8. The Court further noted that "[s]ection 146 recognizes that, while the Board is fully capable of assessing all matters presented to it, there are inherent limits to its fact finding function that arise from the sterile nature of a proceeding that is limited to documentary and declaration or deposition evidence." *Id.* at 9. Thus, the district court appropriately considered additional evidence and conducted a de novo determination of the issue of priority under § 146.

The Federal Circuit further rejected R&D's arguments regarding the burden of proof—that Streck should have had the burden of proof in the § 146 action because Streck lost in the PTO and the appellant routinely bears the burden of proof on appeal. Although "[p]lacement of the burdens in interactive litigation is not simple," the Court found that the burden of persuasion was properly placed on R&D because a § 146 action is a new civil proceeding subject to de novo determination. *Id.* at 10. The Court also found that the lesser preponderance of the evidence standard applied by the district court was correct because the Johnson and Ryan patent applications were initially copending in the PTO.

Regarding priority of invention, the Federal Circuit rejected R&D's arguments that, although Ryan was the first to conceive of the subject matter of the count, Johnson was the first to reduce the invention to practice and Ryan had not shown diligence between his conception and actual or constructive reduction to practice. The Court found that the district court correctly determined that Johnson's experiments did not constitute an actual reduction to practice because they did not demonstrate that the invention worked for its intended purpose—determining the accuracy of the hematology instrument—rather, his experiments were directed to determining the stability of the composition over time.

The Court also noted that the district court found R&D's evidence deficient in that it consisted mainly of Johnson's uncorroborated testimony that his composition worked, but without evidence of precisely what went into the allegedly successful compositions. Although the "intended purpose need not be explicitly included in the count of the interference, . . . establishing an actual reduction to practice requires demonstration that the invention worked for its intended purpose." *Id.* at 17 (citation omitted). In addition, the compositions tested by Johnson were mentioned in a later document of Johnson's as producing negative results, and were avoided when he later designed an integrated control. Thus, the Court found that the district court's findings on the sufficiency of testing to show whether an invention worked for its intended purpose were not clearly erroneous.

The Federal Circuit reiterated that § 146 establishes de novo review, and commented that "[t]he purpose of § 146 is to bring to bear, upon the contested issues of priority of invention, the procedures and rules of federal litigation." *Id.* at 19. Accordingly, the Court affirmed the district court's finding that R&D did not establish an earlier reduction to practice and award of priority to Ryan and Streck.

The logo for the law firm Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. The word "FINNEGAN" is written in a bold, green, sans-serif font.

If you have any questions or need additional information, please contact:

[Esther H. Lim](#), Editor-in-Chief
[Joyce Craig](#), Assistant Editor
[Elizabeth D. Ferrill](#), Assistant Editor
[Bart A. Gerstenblith](#), Assistant Editor

Washington, DC • Atlanta, GA • Cambridge, MA • Palo Alto, CA • Reston, VA • Brussels • Shanghai • Taipei • Tokyo

www.finnegan.com

Copyright © 2011 Finnegan, Henderson, Farabow, Garrett & Dunner, LLP | All rights reserved