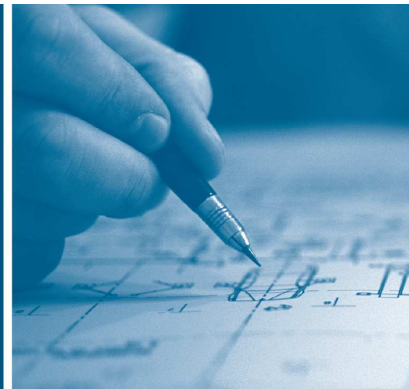


# IP Update

A look at current cases shaping intellectual property.



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## PATENTS

### *Bilski v. Kappos*—Back Where We Started?

On the last day of its October 2009 term and more than seven months after hearing oral arguments in *In re Bilski*, the Supreme Court of the United States issued its decision in the case. Justice Kennedy delivered the majority opinion affirming the decision by the U.S. Court of Appeals for the Federal Circuit that *Bilski*'s claims, directed to a method of managing risk in connection with commodity hedging, were not eligible for patenting under §101. However, the majority declined to hold as a general rule that business method patents were, as a class, unpatentable subject matter and reversed the Federal Circuit's ruling that "machine or transformation" was the "sole test" for patent eligibility. Rather, the Supreme Court reiterated a broad view of patent-eligible subject matter tempered by long-established judicial exclusions for "laws of nature, physical phenomena and abstract ideas," although it declined to further define what constitutes a "process." The Supreme Court also explained that "machine or transformation" was never intended to be an exhaustive or exclusive test, but only a "clue" as to what might be patentable subject matter. *Bilski v. Kappos*, Case No. 08-964 (Supr. Ct., June 28, 2010) (Kennedy, Justice) (Stevens, Justice; Breyer, Justice concurring)

#### **Majority Reaffirms Expansive Subject Matter Eligibility with Three Historical Limitations**

Justice Kennedy, joined by Chief Justice Roberts and Justices Thomas, Alito and Scalia (with Justice Scalia only joining in part), wrote the opinion of the Supreme Court. Citing *Chakrabarty*, the Supreme Court concluded, "Congress plainly contemplated that the patent laws would be given wide scope," including patent eligibility under §101. However, while the Supreme Court reiterated its three specific exemptions to eligibility, namely "laws of nature, physical phenomena and abstract ideas," it rejected any categorical limitations to patent eligibility, in part because "adopting categorical rules ... might have wide-ranging and unforeseen impacts."

#### **"Machine or Transformation" Is Not the Exclusive Test**

Rebuking the Federal Circuit, the majority rejected use of "machine or transformation" as the sole or exclusive test for the eligibility of method claims. The Supreme Court found that Congress had not limited a "process" (for purposes of §101) to require that it be tied to a machine or transformation of an article. The Supreme Court noted that §100(b) explicitly defines the term "process" and that limiting a §101 "process" under the machine-or-transformation test did not conform to any "ordinary, contemporary, common meaning" of the statutory definition.

The Supreme Court characterized the machine-or-transformation test as "a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101," but emphasized it "is not the sole test."

#### **No Categorical Ineligibility for Business Methods**

The Supreme Court also held that “§101 similarly precludes the broad contention that the term ‘process’ categorically excludes business methods.” First, the justices found no support for such a limitation as a matter of textual interpretation, indicating that the “term ‘method,’ which is within §100(b)’s definition of ‘process’ ... may include at least some methods of doing business.”

Second, the Supreme Court found that under the 1999 addition of a statutory defense to infringement in §273, “federal law explicitly contemplates the existence of at least some business method patents.” Specifically, congressional acknowledgement of “a method of doing or conducting business” in §273(a)(3) clarifies “that a business method is ... at least in some circumstances, eligible for patenting under §101.” However, “while §273 appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions.”

#### **Claims at Issue Directed to an Unpatentable “Abstract Idea”**

Retreating to its comfort zones (*Benson*, *Flook* and *Diehr*), the Supreme Court simply found the claims at issue to be an unpatentable “abstract idea,” one of the three specific judicial exemptions to patent eligibility. According to the written decision, “[h]edging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class” and “is an unpatentable abstract idea, just like the algorithms at issue in *Benson* and *Flook*. Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.”

As to *Bilski*’s dependent claims, the Supreme Court indicated they merely sought to limit use of the abstract idea of hedging to a field of use, such as energy markets, or added “token postsolution components,” such as “use of well-known random analysis techniques to help establish some of the inputs.” In view of *Flook*, the dependent claim limitations failed to impart eligibility.

#### **Portions of Kennedy’s Opinion Lack a Majority of Justices**

Although most of Justice Kennedy’s opinion was joined by five justices, Justice Scalia did not join parts relating to how patent eligibility might be treated differently based on the technology involved, such as software or business methods. Attracting only a minority (*i.e.*, four justices), those parts of Kennedy’s opinion are not part of the decision of the Supreme Court. Justice Scalia did not explain his reasons for not joining those parts of Justice Kennedy’s opinion.

More specifically, in the parts of the opinion where Justice Scalia declined to join, Justice Kennedy addressed “Information Age” technologies, noting that although the machine-or-transformation test may be effective for evaluating “Industrial Age” technologies, it would create uncertainty as to the patentability of software and diagnostic medicine techniques. Thus, argued Kennedy, “new technologies may call for new inquiries.”

Justice Kennedy also suggested that a categorical approach to ineligibility might succeed by “defining a narrower category or class of patent applications that claim to instruct how business should be conducted” and everything within that category would be unpatentable abstract ideas. However, Justice Kennedy warned, such a category would have to be carefully defined, as “there are at least some processes that can be fairly described as business methods that are within patentable subject matter under §101.”

#### **Stevens’ Concurrence: Business Methods Should Be Categorically Ineligible**

In a lengthy concurring opinion, retiring Justice Stevens—joined by Justices Ginsburg, Breyer and Sotomayor—rejected the textual approach to statutory interpretation that characterized the majority opinion, instead finding that the text of the Patent Act is unclear as to the scope of a §101 “process.” In view of this ambiguity, Stevens’ opinion engages in a lengthy historical review of the patentability of business methods, similar to Judge Dyk’s concurrence in the Federal Circuit decision. In view of this history, as well as concern “that patents on business methods may prohibit a wide swath of legitimate competition and innovation,” Stevens concluded that “a business method is not a ‘process’” under §101.

#### **Breyer’s Concurrence: Seeking Common Positions Between the Majority and Minority**

Justice Breyer, who joined in the Stevens opinion, further wrote separately “in order to highlight the substantial agreement ... on many of the fundamental issues of patent law raised by the case.”

Only Justice Scalia joined in this concurrence (and he only in part), suggesting the remaining justices were not convinced that agreement was actually reached on the points raised.

However, Breyer’s concurrence appears to add a fifth justice on at least one important point made in Stevens’ concurrence: that the “useful, concrete and tangible result” test of *State Street Bank* is overly inclusive. Breyer, continuing similar criticisms he has raised in previous patent cases over the past several years, again denigrated the *State Street Bank* case as having heralded “the granting of patents that ‘ranged from the somewhat ridiculous to the truly absurd.’”

**Unanimous Agreement: Bilski's Claims Are an Unpatentable Abstract Idea**

Although there was a 5-4 split over the categorical ineligibility of business method claims, each of the three opinions noted that all nine justices were in agreement that the specific claims at issue are unpatentable abstract ideas. However, Stevens' opinion indicates disagreement between the two groups of justices as to the basis on which one might conclude Bilski's claims to be abstract. Specifically, Justice Stevens complains that the majority opinion "never provides a satisfying account of what constitutes an unpatentable idea" and "essentially asserts its conclusion that petitioners' application claims an abstract idea."

**Practice Note**

On the same day the Supreme Court's decision was handed down, the U.S. Patent and Trademark Office (USPTO) issued guidelines to its examiners for examination under §101 in response to the *Bilski* decision. Relying on the statement in the majority opinion that "precedents establish that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101," the USPTO plans to continue use of the machine-or-transformation test for assessing patent eligibility of method claims. Specifically, the USPTO instructed examiners that "[i]f a claimed method does not meet the machine-or-transformation test, the examiner should reject the claim under §101 unless there is a clear indication that the method is not directed to an abstract idea. If a claim is rejected under §101 ... the applicant then has the opportunity to explain why the claimed method is not drawn to an abstract idea."

While no definitive test for patentable subject matter in terms of process claims emerges from *Bilski*, one point is clear: It is no longer provident to rely on prior Federal Circuit case law on this issue. As the decision states, citing *State Street* and *AT&T Corp.*, "Nothing in today's opinion should be read as endorsing interpretations of §101 that the Federal Circuit has used in the past."

The tests for what constitutes an "abstract idea," law of nature a physical phenomenon are likely to evolve, on a case-by-case basis at first at the USPTO, in the district courts, at the International Trade Commission (in § 337 investigations) and, of course, at the Federal Circuit. The Federal Circuit will have an early opportunity to speak to the issue. On June 29, in two cases pending *certiorari*, *Mayo Collaborative Services v. Prometheus Labs., Inc.* and *Classen Immunotherapies v. Biogen IDEC*, the Supreme Court granted *certiorari*, vacated the judgment and remanded the cases to the Federal Circuit "for further consideration in light of *Bilski v. Kappos*." In its *Prometheus* decision, the Federal Circuit, addressing the "transformation" prong of the machine or

transformation test, explained "[t]he transformation is of the human body following administration of a drug and the various chemical and physical changes of the drug's metabolites that enable their concentrations to be determined." The claims in *Classen* are directed to immunization schedules.

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PATENTS / INEQUITABLE CONDUCT

## Inequitable Conduct: Shifting Back to the Exception?

Holding that inequitable conduct properly renders a patent unenforceable when a person falsely swears before the U.S. Patent and Trademark Office (USPTO) that he invented a device, the U.S. Court of Appeals for the Federal Circuit affirmed a district court's judgment of unenforceability for inequitable conduct, affirming the award of attorneys' fees and costs to the defendant while reversing the lower court's 28 U.S.C. §1927 sanctions against one of Advanced Magnetic Closures' attorneys. *Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*, Case Nos. 09-1102, -1118 (Fed. Cir., June 11, 2010) (Gajarsa, J.) (Rader, C.J., concurring)

Advanced Magnetic Closures (AMC) sued Rome Fastener and several other parties for infringement of a patent relating to magnetic snap fasteners commonly used in handbags. At trial, AMC submitted reconstructed evidence, presented contradictory testimony and engaged in evasive litigation tactics. The defendants initially filed a counterclaim that the patent-in-suit was invalid due to improper inventorship under 35 U.S.C. §102(f). The defendants advanced the defense on the basis that AMC's president, Irving Bauer, had misrepresented to the USPTO that he was the only inventor of the patent-in-suit. As discovered at trial, one of Bauer's previous employees had also claimed to be the inventor of the patent's magnetic snap fastener. In a previous lawsuit against Bauer, the employee—Robert

Riceman—settled his claims to inventorship, agreeing not to voluntarily assist anyone in litigating against Bauer. Because of that settlement, the district court directed the defendants to depose Riceman, ultimately finding his testimony to be more credible than Bauer’s, citing among other things Bauer’s inability or unwillingness to articulate the claimed invention during a deposition. The defendants later withdrew the counterclaim after the district court granted its judgment as a matter of law (JMOL) that AMC failed to provide sufficient evidence to support the claim of infringement.

On appeal, AMC argued, among other things, that the district court should not have addressed inequitable conduct because it lacked jurisdiction to do so once the counterclaim of invalidity had been withdrawn. The Federal Circuit affirmed the lower court, citing *Monsanto Co.* for the holding that a district court retains jurisdiction to consider a motion for attorneys’ fees under 35 U.S.C. §285 and to make findings of inequitable conduct even after a party has dismissed its counterclaims to the patent. The Court also reviewed the lower court’s determination of inequitable conduct on the merits, finding the analysis sound. AMC further argued that the district court erred by failing to determine inventorship when finding that AMC committed inequitable conduct. The Court explained that the district court had no obligation to resolve inventorship since the actions of Mr. Bauer, when he deliberately misrepresented that he invented the patented fastener, effectively ruined the patent as to any and all inventors. Citing *Frank’s Casing*, the Court noted. “[o]ne bad apple spoils the entire barrel.”

Judge Rader in his concurrence as the new chief judge, cautioned that the Federal Circuit should refrain from deciding inequitable conduct cases, absent extreme facts, until the issues have been addressed *en banc* in *Therasense*. In doing so, the chief judge explained that future holdings of inequitable conduct, should “put the doctrine back into the exception category.”

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PATENTS / PATENTABILITY

## Patents and Patent Publications Are Prior Art as of Their Provisional Filing Date

The U.S. Court of Appeals for the Federal Circuit affirmed a Board of Patent Appeals and Interferences’ (the Board) decision that a

patent or a patent publication has a patent-defeating effect as of the filing date of its provisional application. *In re Giacomini*, Case No. 09-1400 (Fed. Cir., July 7, 2010) (Rader, C.J.).

Giacomini appealed to the Board the final rejection of certain claims of Giacomini’s patent application under 35 U.S.C. §102(e) as being anticipated by U.S. Patent No. 6,463,509 (the ’509 Patent). The central issue at the Board was the eligibility of the ’509 patent to serve as prior art under 35 U.S.C. §102(e). The ’509 patent’s filing date is December 29, 2000, exactly a month after Giacomini filed his application. However, the ’509 patent claims priority to a provisional application filed on September 25, 2000, which antedates Giacomini’s filing date. Giacomini did not dispute that the provisional application discloses the claimed invention. Instead, Giacomini argued that § 119(e) only shifts the priority of the ’509 patent and does not shift its effective date as prior art reference. The Board held that the ’509 patent has a patent-defeating effect as of the filing date of the priority provisional application; the Federal Circuit affirmed.

The Federal Circuit noted that §102(e)(2) in relevant part states that “[a] person shall be entitled to a patent ... unless the invention was described in ... a patent granted on *an application for patent* by another filed in the United States before the invention by the applicant for patent.” The Federal Circuit further noted that Title 35 clarifies that its provision relating to *an application for patent* shall apply to provisional applications. Therefore, the Federal Circuit concluded that §102(e)(2) includes both provisional and non-provisional applications.

The Federal Circuit reached the same conclusion under § 119(e). It noted that § 119(e) in relevant part states that “[a]n application for patent filed ... for an invention disclosed ... in a provisional application ... shall have the same effect as to such invention, as though filed on the date of the provisional application.” The Federal Circuit therefore concluded that the ’509 patent shall have the same effect, including a patent-defeating effect, as that of the provisional application’s filing date. This conclusion, the Federal Circuit noted, is consistent with the Supreme Court’s decision *In Milburn* that “one really must be the first inventor in order to be entitled to a patent.”

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## Foreign Sales Do Not Exhaust Patent Rights

Addressing the issue of whether patent rights are exhausted due to foreign sales, the U.S. Court of Appeals for the Federal Circuit upheld the patent exhaustion doctrine's territoriality requirement. *FUJIFILM Corporation v. Jack C. Benun*, Case No. 09-1487, (Fed. Cir., May 27, 2010) (*per curiam*).

In this case, co-defendants Jazz Products and Benun, president of Jazz, imported used single-use cameras—also known as lens-fitted film packages (LFFPs)—into the United States and sold the items as new. Jazz bought these used LFFPs from co-defendant Polytech Enterprise which, along with its subsidiary and co-defendant Polytech Camera, bought and refurbished the used LFFPs outside of the United States. When the plaintiff FUJIFILM, which itself sells LFFPs and holds several patents directed to LFFPs, sued the defendants for patent infringement, the defendants argued, in part, that the Supreme Court decision in *Quanta* (see *IP Update*, Vol. 11, No. 6) in June 2008 had eliminated the territoriality requirement for patent exhaustion. Thus, according to the defendants, FUJIFILM's foreign sales of the LFFPs, which were subsequently refurbished and sold by the defendants, had exhausted their patent rights in these products. Following the district court's holding, the Federal Circuit found that *Quanta* did not involve foreign sales and that, contrary to the defendants' assertion, *Quanta* supported, rather than undermined, the exhaustion doctrine's territoriality requirement. As a result, the defendants were permanently enjoined from importing, making or selling products that infringe FUJIFILM's LFFP patents.

Additionally, the Federal Circuit did not find the jury's damages finding in the district court of \$2 per infringing LFFP running royalty plus a \$2.5 million lump sum as excessive, punitive or unsupported by substantial evidence. Thus, FUJIFILM was awarded about \$16.2 million against Polytech Enterprises, of which Benun and Jazz are jointly and severally liable for about \$3.7 million, plus the \$2.5 million lump sum payment.

### Practice Note

This decision clarifies that the territoriality requirement for patent exhaustion announced in *Jazz Photo* was not eliminated by *Quanta*. It is possible, however, that the defendants will seek an *en banc* rehearing of the *Quanta* issue.

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## A Chain of Priority Must Not Be Broken

Clarifying 35 U.S.C. §120 jurisprudence, the U.S. Court of Appeals for the Federal Circuit held that §120 requires each application in the chain of priority to refer to the prior applications in the chain. *Encyclopaedia Britannica v. Alpine Electronics*, Case Nos. 09-1544, -1545 (Fed. Cir., June 18, 2010) (Moore, J.).

Encyclopaedia Britannica sued Alpine Electronics of America and with various other parties, alleging infringement of two patents. The district court held that the patents-in-suit were not entitled to claim priority based on an earlier application because an intermediate application in the chain of priority failed to satisfy the requirements of 35 U.S.C. §120. The Federal Circuit affirmed.

The patents-in-suit were filed in 2005, however, through a chain of patent applications they each claimed priority back to U.S. Patent Application 07/426,917 (the '917 application) filed October 26, 1989. One of the applications in this chain was U.S. Patent Application No. 08/113,955 (the '955 application). The '955 application was filed on August 31, 1993, but the filing lacked the required filing fee, the first page of the specification and the signed inventor declaration. The U.S. Patent and Trademark Office (USPTO) informed the applicants that the filing date of the '955 patent would be the date that it received page 1 of the specification. Encyclopaedia Britannica responded by filing a Petition for Granting a Filing Date, arguing that the first page was not necessary to understand the subject matter claimed. The USPTO issued a decision stating that the application was *prima facie* incomplete without the first page of the specification, but that Encyclopaedia Britannica would be granted the August 31, 1993 filing date if Encyclopaedia Britannica filed a request for reconsideration along with an oath from the inventors stating that their invention was adequately disclosed in the application without page 1. Encyclopaedia Britannica neither filed a request for reconsideration nor paid the filing fee, and the USPTO issued a notice of abandonment on March 23, 1995.

Prior to the abandonment of the '955 application, Encyclopaedia Britannica filed another application claiming priority to the '955 application and indicating that the '955 application claimed priority to the '917 application. The two patents-in-suit claim priority back to the '917 application through this chain of applications.

The Federal Circuit held that the '955 application did not contain a specific reference to the '917 application and, as a result, it failed the requirements of §120 and could not be awarded the

benefit of the earlier filing date. The Federal Circuit also held that later applications cannot amend the '955 application and restore its entitlement to priority. Because the '955 patent was not entitled to the priority date of the '917 patent, the later-filed applications, including the patents-in-suit, were not filed before the patenting, abandonment or termination of proceedings on an application "entitled to the benefit" of the first application and similarly were not entitled to the benefit of §120.

**Practice Note**

The Court expressly left for another day a decision on whether filing a continuation on the same day the parent issues results in applications that are co-pending as required by the statute. Until the Court resolves this timing issue, continuations should be filed *before* the day the parent issues.

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PATENTS / BUSINESS METHODS

## Infringement of a Computerized Method Must Demonstrate Use of a Computer

In a decision that issued shortly before the Supreme Court decision in *In re Bilski*, the U.S. Court of Appeals for the Federal Circuit found that a patent directed to "computerized method" was not infringed where at least one step was not performed by a computer. *Lincoln Nat'l Life Ins. Co. v. Transamerica Life Ins. Co.*, Case Nos. 09-1403, -1491 (Fed. Cir., June 23, 2010) (Moore, J.)

Transamerica filed a declaratory judgment action seeking a declaration of non-infringement and invalidity (but not based on 35 U.S.C. §101), and Lincoln, the patent owner by assignment, counterclaimed for infringement. The claim-in-issue was directed to a computerized method for administering variable annuity plans. The claimed method required the offering of a guaranteed minimum payment "even if the account value is exhausted before all payments have been made." Transamerica sold and administered riders to annuities guaranteeing a minimum payment regardless of market performance. After the district court found Transamerica infringed and assessed \$13 million in damages, Transamerica appealed.

The Federal Circuit agreed that under the district court's construction of the claims, actual exhaustion of an account was not necessary to establish infringement. The "even if" clause was considered a contingent limitation that could be infringed even

without actual exhaustion. Instead, infringement could be established by showing that Transamerica's computer system was configured to make a scheduled payment once an account was exhausted, even if exhaustion never occurred in practice.

However, the Federal Circuit reversed the infringement holding, finding that the claim was not infringed as Transamerica's *computerized* system did not make a scheduled payment after an account was exhausted. Instead, the *computerized* system stopped making automated payments, and procedures were set forth for manual, rather than computerized, distribution of further payments. Although Transamerica was obliged under its policies to make payments after exhaustion, this contractual obligation did not by itself, establish infringement.

Transamerica also argued on appeal that the claimed method was ineligible under §101. However, having determined the claims not infringed, the Federal Circuit did not render a decision on this point. Going forward, the question of whether a general purpose computer provides a "particular machine" that *ipse dixit* imparts eligibility under the machine-or-transformation test will be determined under the Supreme Court's §101 *Bilski* analysis (see *IP Update*, this issue).

**Practice Note**

U.S. Patent and Trademark Office (USPTO) guidelines issued in August 2009 provided official acceptance of computer-implemented method claims as §101 eligible subject matter under the Federal Circuit's *Bilski* "machine-or-transformation" test, when presented appropriately. That aspect of the USPTO guidelines remains intact and is unlikely to be disturbed in light of the Supreme Court's *Bilski* decision. However, as this decision illustrates, if a claim preamble broadly recites a method as "computerized" or "computer-implemented," infringement may be avoided if even a single step is not implemented by computer.

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PATENTS / DAMAGES

## Speculative Damages Calculation Unsupported by Evidence Results in New Trial

In a patent infringement case against a defendant and two of its employees, the U.S. Court of Appeals for the Federal Circuit

reversed a district court's denial of the defendants' motion for new trial and remanded the case because the jury instructions lacked legal tests necessary to determine the employees' individual liability and because the damages verdict conflicted with the clear weight of the evidence. In doing so, the Court reminded us that in order to support a damage award, evidence of prior licensing must be technically and economically tied to the patent-in-suit. *Wordtech Sys., Inc. v. Integrated Network Solutions, Inc.*, Case No. 09-1454 (Fed. Cir., June 16, 2010) (Linn, J.).

Plaintiff Wordtech sued Integrated Network Solutions Corp. (INSC) and two of its employees for infringement of Wordtech's patents related to automated duplication of compact discs. A jury found INSC and the two employees each liable for direct infringement, contributory infringement and inducement of infringement. The jury awarded Wordtech damages in the lump sum amount of \$250,000. Wordtech appealed.

The Federal Circuit reversed, finding that the jury's damage award, which equated to a 26.3 percent royalty rate, was clearly unsupported by the evidence. Although Wordtech introduced 13 patent licenses it previously granted to third parties for rights to some or all of the patents-in-suit, the Federal Circuit found that none of these licenses supported the jury's finding. The lump sum licenses that Wordtech offered did not describe how the lump sums were calculated, and there was no basis to compare those licenses with INSC's infringing sales. Similarly, the running-royalty licenses offered by Wordtech included far lower royalty rates (from 3 percent to 6 percent), and again there was no basis to link them to the jury's award. Wordtech's efforts to introduce the defendants' invoices to support the award likewise failed and instead highlighted the fact that the jury also incorrectly apportioned damages among the three patents. Wordtech's damages arguments were a "pattern of guesswork" and were "clearly not supported by the evidence." The Federal Circuit rejected the defendants' requested remittitur as untimely, and remanded to the district court for a new trial on damages.

The Federal Circuit also addressed several arguments relating to the employee defendants' appeal of the infringement findings against them. The Federal Circuit found a lack of jury instructions regarding INSC's corporate existence or piercing the corporate veil. As a result, the verdict of direct infringement against the employee defendants was plain error. Similarly, the verdict of inducement of infringement against the employee defendants was in error because the jury was also not instructed on this issue. The verdict of contributory infringement against the employee defendants was error because of a failure of proof of particular elements, as well as errors in the verdict form. As a

result, the Federal Circuit remanded to the district court to further consider whether a new trial on these issues was warranted.

Finally, the Federal Circuit also found the district court did not abuse its discretion in denying the defendants' motion for leave to amend their answer to allege invalidity defenses where defendants "offer[ed] no explanation for their tardiness."

#### **Practice Note**

This case continues the line of recent decisions, including *Lucent Techs.* and *ResQNet.com, Inc.*, in which the Federal Circuit has stressed that past licenses must be linked up to the current case (both technologically and economically) in order to support a jury's damage award.

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#### PATENTS / INEQUITABLE CONDUCT

### Factual Issues Regarding Intent Preclude Summary Judgment

The U.S. Court of Appeals for the Federal Circuit vacated an exceptional case finding and an award of attorneys' fees based on summary judgment of inequitable conduct and remanded the case for an evidentiary hearing to determine the reasonableness of a prosecuting attorney's explanation for failing to disclose material information. *Leviton Mfg. Co. v. Universal Security Instruments, Inc.*, Case No. 09-1421 (Fed. Cir., May 28, 2010) (Michel, C.J.) (Prost, J., dissenting).

Leviton filed two patent applications in 2003 and 2004, respectively. The 2003 application claimed priority to a February 2003 provisional application. The 2004 application, which became the patent-in-suit, was a continuation of an application filed in August 1999, the claimed priority date for the patent-in-suit. The two applications contained many nearly identical claims but listed completely different inventors. The duplication of claims occurred because claims were copied by the prosecuting attorney from the first application into the second application. The prosecuting attorneys failed to disclose the first application during the prosecution of the second application.

While discovery was ongoing, Leviton moved to dismiss and the district court granted the motion. The district court then concluded that the case was exceptional and awarded attorneys' fees and costs of \$1 million. The monetary award was based in

part on a finding of inequitable conduct. The district court did not hold an evidentiary hearing on the inequitable conduct issue. Leviton appealed the award of attorneys' fees and costs.

The Federal Circuit reversed the summary judgment of inequitable conduct. The Court agreed that the existence of the duplicate claims was material and relevant to double patenting and inventorship. The Court further found materiality from Leviton's failure to disclose related litigations and material information from those cases to the U.S. Patent and Trademark Office (USPTO). Although materiality was thus established, the Federal Circuit found that the intent requirement for inequitable conduct was not met, that is, specific intent to deceive the USPTO Office had not been established. The Court remanded for bench trial.

Judge Prost dissented on the grounds that the proffered explanation to rebut intent was implausible.

#### Practice Note

This opinion is interesting in light of the pending *en banc* review of the inequitable conduct standard in *Therasense, Inc.*, which is scheduled for oral argument on November 9, 2010. Over the last few years, Federal Circuit has toughened the standard for inequitable conduct. Notably, in 2008 in *Star Scientific*, the Federal Circuit explained that the clear and convincing standard is not met, as a matter of law, unless the inference of intent to deceive is the single most reasonable inference from the record. Here, the panel majority determined that the *Star Scientific* standard was not met for summary judgment purposes because an explanation could not be deemed unreasonable as a matter of law.

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PATENTS / DJ JURISDICTION

## Covenant Not to Sue Divests DJ Jurisdiction Over Invalidity

The U.S. Court of Appeals for the Federal Circuit reversed the district court's denial of a motion to dismiss a declaratory judgment (DJ) invalidity, non-infringement claim in which the patent owner offered the DJ plaintiff a covenant not to sue for infringement. *Dow Jones v. Ablaise Ltd.*, Case No. 09-1524 (Fed Cir. May 28, 2010) (Michel, C. J.).

In 2006, Ablaise accused Dow Jones of infringing two of its patents, U.S. Patent Nos. 6,961,737 (the '737 patent) and 6,295,530 (the '530 patent), both of which claimed a method for generating computer web pages that are generated and customized for the specific individual viewing, based upon information encoded in the signal sent to the location generating the pages. Ablaise offered Dow a licensing agreement. Dow rejected the Ablaise's offer and shortly thereafter filed suit, seeking declaratory judgment that both patents were invalid and not infringed. Following a *Markman* hearing, Ablaise offered Dow a covenant not to sue on the '530 patent if Dow would dismiss its claim of invalidity. Dow refused unless Ablaise included Dow's parent company (that had acquired Dow after the commencement of the suit) and refused to drop its invalidity claim. The district court ultimately denied Ablaise's motion to dismiss the invalidity claim with respect to the '530 patent and granted Dow's summary judgment motions, holding that the asserted claims of both the '530 and '737 patents were obvious. Ablaise appealed.

On appeal Ablaise argued that its offer of a covenant not to sue for infringement divested the court of subject matter jurisdiction, due to the lack of any case or controversy surrounding the '530 patent.

The Federal Circuit agreed and reversed the lower court as to the '530 patent, finding that Ablaise's covenant not to sue on that patent "extinguished any current or future case or controversy between the parties, and divested the court of subject matter jurisdiction." The Court rejected Dow's argument that the covenant did not extinguish the case or controversy because it did not include Dow's "affiliates," noting that Dow is a legally distinct entity from its parent corporation (News Corp.) and the divisions and subsidiaries of News Corp.

However, the Court affirmed the district court's finding that the '737 patent was obvious in view of the prior art. The Court rejected Ablaise's assertion that "secondary indicia of skepticism" in the field existed that "rendered the invention of the asserted claims non-obvious in light of the prior art."

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## Three Years of Silence Combined with Prior Dealings Deemed Misleading Conduct

The U.S. Court of Appeals for the Federal Circuit recently affirmed a district court's grant of summary judgment for an accused infringer on equitable *estoppel* grounds based on a three-year hiatus in bringing suit. *Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.*, Case Nos. 09-1147, -1162 (Fed. Cir., May 24, 2010) (Newman, J.) (Rader, C. J., dissenting).

In 2003, the patentee's exclusive licensee (Aspex) sent to the accused infringer (Clariti) a series of letters regarding Aspex's interest in various patents, including the patent at issue, and a request for information about certain Clariti products that Aspex believed "may" be infringing. Aspex also stated its "strong intention to fully and vigorously enforce" its rights in this "very urgent and serious matter." The parties entered into some brief discussions concerning some of the patents, but *not* the patent in suit. The correspondence ended until 2006, when Aspex sent another letter specifically accusing Clariti's AirMag® products of directly infringing the patent in suit.

In the lower district court, Clariti asserted equitable *estoppel*, arguing that Aspex unreasonably delayed bringing suit more than three years after initially threatening litigation. Clariti further argued that Aspex's silence reasonably led it to believe and to rely on that belief that Aspex would not enforce the patent. The district court agreed. Aspex appealed.

Aspex attacked the court's finding that three years of silence was misleading, arguing that the 2003 letter asserting the patent in suit was merely a request for more information and not an objective threat of litigation. Judge Newman, writing for the majority, disagreed. In holding that Aspex's silence between 2003 and 2006 was misleading, the Court reasoned that the letters and license discussions should be viewed as a whole and that Aspex's failure to assert the subject patent during those discussions was tantamount to abandonment. The Court also reasoned that a prior patent infringement action between the same parties in 1999, in which Aspex vigorously enforced its rights and Clariti acquiesced to an injunction, was sufficient to allow Clariti to reasonably believe that Aspex would not reassert the subject patent. Furthermore, the three years of silence induced Clariti to increase its sales force, and sales of the accused product line increased more than tenfold. Thus, the majority reasoned that all elements of equitable *estoppel* were present.

In dissent, Chief Judge Rader argued that the majority expanded the doctrine of equitable *estoppel*. The dissent highlighted several questions of fact that made summary judgment improper, especially on the issue of misleading silence. The dissent also questioned whether Aspex's silence was the actual cause for Clariti's purported increases in sales and marketing activities.

### Practice Note

*Aspex Eyewear* is a cautionary tale for patentees considering or in the process of enforcing patent rights: once a patent is asserted, the patentee should continue to assert that patent. At the very least, a patentee should make a clear record once it raises a patent, even if it later takes that patent off of the negotiation table, that the claim is not abandoned and that the patentee's right to reassert the patent at any time is reserved.

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## Means-Plus-Function Limitation Not Indefinite if Ordinary Artisan Can Deduce Corresponding Structure from Specification

In a split panel decision, the U.S. Court of Appeals for the Federal Circuit held that a patent sufficiently discloses structure corresponding to a means-plus-function claim element if one of ordinary skill in the art can deduce the corresponding structure from the specification. The Federal Circuit also affirmed the trial court's award of additional money damages, beyond the damages awarded by the jury, finding the verdict form "unclear." *Telcordia Technologies, Inc. v. Cisco Systems, Inc.*, Case No. 2009-1175 (Fed. Cir., July 6, 2010) (Rader, C.J.) (Prost, J., dissenting).

Telcordia sued Cisco on three patents, including the '306 patent directed to a survivable or self-healing ring communications network that can withstand a failed node or cut line. The disputed means-plus-function limitation recited a "monitoring means, associated with the first ring and the second ring, for evaluating the integrity of the multiplexed substrate communications on the first ring and the second ring, respectively." The specification disclosed that each node in the network contains controllers and selectors. It further discloses that each node continuously monitors and evaluates the integrity of the signals arriving at the node. The specification also disclosed that when a node detects a line fault, the controller of that node inserts an error signal onto the substrate channels.

On the '306 patent, the district court found that the corresponding structure for the disputed means-plus-function element was “the circuitry at a controller that determines if a defect exists with the multiplexed substrate communications.” On that basis the district court granted Cisco summary judgment of non-infringement of the '306 patent.

On the remaining two patents, at trial Telcordia received a verdict of willful infringement, and the jury awarded \$6.5 million in damages. Both parties appealed.

The Federal Circuit agreed with the district court’s means-plus-function claim construction, noting that “[t]he nodes have controllers and selectors; those selectors cannot recognize any errors in the substrate signals until the signals reach the destined node. Therefore, the controller must monitor the incoming signals for error; otherwise, the controller would not be able to insert error signals onto the substrate channels.” In addition, the Court noted that Telcordia’s expert had testified that the controllers and their circuitry were the structure associated with the function of the monitoring means.

Cisco argued the patent disclosure was inadequate under §112, ¶2 to support a §112, ¶6 claim element as the figures of the patent simply showed the controller’s circuit as a black box. However, the Court noted that the absence of internal circuitry in the written description does not render a claim indefinite if the record showed that an ordinary artisan would have recognized the controller as an electronic device with a known structure. The “specification need only disclose adequate defining structure to render the bounds of the claim understandable to an ordinary artisan.”

As for damages, the Federal Circuit, finding that a district court has “broad discretion” in this area, agreed that the jury form was “unclear” as to whether the award was intended to be a “paid up, lump sum licensing fee” or an award for past damages only. The Court found it was not “clearly erroneous” for the district court to treat the award as only compensation for past damages.

In dissent (of the ruling regarding whether the §112, ¶6 claim element was indefinite), Judge Prost noted that the disclosure in issue only attributed the monitoring function to the node as a whole and did not specifically identify the structure within the node that performs the claimed function as the controller circuitry. Judge Prost observed that the specification ascribes some functions to the node as a whole and other functions specifically to the controllers, suggesting that the controller is *not* the structure that performs the function of the claimed monitoring means. Judge Prost argued that §112, ¶6 is not satisfied if some structure or other might be deduced “by a process of

elimination.” Rather, Federal Circuit precedent “requires that the specification clearly link a particular structure with a claimed function,” and it is not enough “that a skilled artisan can follow the clues in the patent and solve the mystery of what structure might perform the claimed function.”

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PATENTS / CLAIM CONSTRUCTION

## Erroneous Claim Construction Sends Case Back Sans Invalidity Counterclaims

Reversing a district court’s grant of summary judgment, the U.S. Court of Appeals for the Federal Circuit in Judge Rader’s first opinion as chief judge, held that two of three contested claim limitations were erroneously construed and that invalidity counterclaims had been waived. *Silicon Graphics, Inc. v. ATI Techs., Inc.*, Case Nos. 08-1334, -1353 (Fed. Cir., June 4, 2010) (Rader, C.J.).

Silicon Graphics brought a patent infringement action against ATI tied to a computer graphics system that produces three-dimensional images and includes a rasterization process that utilizes a floating point format. The district court granted summary judgment of non-infringement for ATI, ruling that the claim construction precluded infringement. The court also held a jury trial on the patent’s validity and the jury concluded that certain claims were not proved to be invalid.

The Federal Circuit began its review with the claim construction of three contested claim limitations. The Court found that the district court had misconstrued two of the three terms and had improperly imported limitations into the claims from embodiments in the specification in contradiction of *Philips*. The Court found that the specification did not indicate the patentee’s intent to make the embodiments coextensive with the claims, but only included a specific example as an optimal format. Hence, the district court committed a reversible error with its construction of the claims.

The Federal Circuit also ruled that ATI had waived its invalidity counterclaims on any patent claims ATI did not litigate through trial. After the district court issued its summary judgment ruling, Silicon Graphics dismissed its remaining infringement case and asked the court to dismiss ATI’s counterclaims. ATI fought to keep its counterclaims in place through a trial, and the district

court held a trial on invalidity. During the trial, ATI only argued the invalidity of claims that were not subject to the summary judgment decision. Following the trial, the district court entered judgment that all claims and counterclaims had been addressed, withdrawn or abandoned. ATI requested that this reference to waiver and abandonment be struck with respect to its invalidity counterclaims not pursued at trial, but the district court denied the request. The Federal Circuit affirmed the district court's decision, as ATI did not make clear that it wished to reserve the right to pursue the invalidity case on the other claims by dismissing them without prejudice.

**Practice Note**

It is imperative to seek the dismissal without prejudice of any invalidity counterclaims to preserve the right to present an invalidity case at a later date should summary judgment of non-infringement be overturned by the Federal Circuit.

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PATENTS / CLAIM CONSTRUCTION

## Federal Circuit Refuses to Ignore a Drafting Error

Construing a claim in a manner “yield[ing] an absurdity,” the U.S. Court of Appeals for the Federal Circuit declined an invitation to “redraft” the claim, favoring instead the claim's literal meaning. *Haemonetics Corp. v. Baxter Healthcare Corp.*, No. 09-1557 (Fed. Cir., June 2, 2010) (Lourie, J.).

The patent-at-issue relates to continuous blood centrifuges, which contain a spinning vessel for separating heavier components from blood and a number of tubes for adding and removing liquid from the vessel. The case turned on the construction “centrifugal unit” in claim 16. That claim's preamble recites a “centrifugal unit comprising a centrifugal component and a plurality of tubes.” The body of claim 16 includes two more recitations of “the centrifugal unit,” including one in the context of the unit's dimensions, but omits recitation of the remainder of the preamble phrase.

The district court issued a claim construction order and construed the term “centrifugal unit” as used in claim 16. The district court held, and the parties agreed, that “centrifugal unit” as used in the claim's first line means “the combination of both the vessel and the tubing.” However, the claim's remaining two references to “centrifugal unit,” including the final one in the context of the

“height” and “radius” limitations, were construed to mean only the vessel. The district court relied on claim 16's use of identical dimensions to the patent's other independent claims, which the parties agreed used “centrifugal unit” to refer exclusively to the vessel. The district court reasoned that, because the vessel and the tubing together are always larger than the vessel alone, giving “centrifugal unit” a construction that includes the tubing in the context of the dimensional limitations “would yield an absurdity.”

On appeal, the Federal Circuit overturned the district court. The Court focused on the notice function of patent claims. Patent claims, according to the Court, “function to delineate the precise scope of a claimed invention and to give notice ... of the patentee's right to exclude.” Consequently, claims must be construed “with an eye toward giving effect to all of their terms, even if it renders the claims inoperable or invalid.” For courts to give a patent holder the benefit of the doubt in claim construction would be to extend its patent protection beyond what it had clearly claimed and beyond the scope of the notice provided to its competitors. To protect this notice function, the Court expressly declined redrafting claims to contradict their plain language in order to avoid a nonsensical result. Thus, the Court held that “centrifugal unit” should, for the purposes of Claim 16, be construed literally, without regard to any indications otherwise.

**Practice Note**

This decision demonstrates the potentially high price of claim-drafting errors, even when the patent specification is drafted correctly.

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PATENTS / RULE 11 SANCTIONS

## Claims for Patent Prosecution Malpractice Appropriate for Federal District Court

The U.S. Court of Appeals for the Federal Circuit ruled that federal law is a necessary element for a claim for breach of a patent prosecuting attorney's fiduciary duty under the Code of Federal Regulations (CFR) and Manual of Patent Examination Procedure (MPEP) in prosecuting a patent application, and, thus, that it was not frivolous to bring such a claim in a United States district court. *Carter v. ALK Holdings, Inc.*, Case No. 08-1168 (Fed. Cir., May 24, 2010) (Dyk, J.) (Newman, J., concurring-in-part, dissenting-in-part).

A purported inventor filed suit in district court against his former employer, a named co-inventor on the patent application and his patent prosecution attorney alleging a variety of federal and state law claims, including breach of the prosecuting attorney's fiduciary duties "in violation of 35 U.S.C. *et seq.*, 37 CFR *et seq.*, and the Manual of Patent Examination Procedure (MPEP)." The district court dismissed the federal claims for failure to state a claim and declined to exercise supplemental jurisdiction over the state law claims. The district court then found *sua sponte* that three of the federal claims, including the one against the patent attorney for breach of fiduciary duty were frivolous, and issued a show cause order. The district court ultimately imposed sanctions under Rule 11 against the purported inventor's counsel and counsel appealed.

The Federal Circuit considered the question of whether the district court erred in finding that the three federal claims were frivolous under Eleventh Circuit's Rule 11 jurisprudence. With regard to the breach of the prosecuting attorney's fiduciary duty, the Federal Circuit considered whether the claim arose under 28 U.S.C. § 1338(a), which provides that district courts have original jurisdiction of any civil action arising under any act of Congress relating to patents.

The Federal Circuit considered those issues under the guidance of the Supreme Court's directive in *Christianson* that Section 1338(a) "extend[s] only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on the resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims."

The Federal Circuit found that the claim in question alleged that the patent prosecuting attorney breached his fiduciary duties under the patent laws and regulations, including the CFR and the MPEP, by representing two inventors with conflicting interests. The standards for practice before the U.S. Patent and Trademark Office (USPTO) that govern such allegations—codified in both the CFR and MPEP—are governed by federal law, as both the Supreme Court and the Federal Circuit have previously recognized. The Court concluded that the determination of the prosecuting attorney's compliance with the MPEP and the CFR is a necessary element of any claim of malpractice.

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PATENTS / DAMAGES

## Contributory Infringement Missed in the Fog

The U.S. Court of Appeals for the Eleventh Circuit upheld a jury award of attorneys' fees and interest of \$4.4 million in a malicious prosecution case. *Mee Industries v. Dow Chemical Company*, Case No. 08-16747 (11th Cir., June 15, 2010) (Anderson, J.).

Appellant Mee won an infringement suit filed by Dow and then sued Dow for malicious prosecution. On appeal Mee argued the lower court erred by granting Dow's motion excluding punitive damages and excluding evidence of Mee's loss of goodwill. Dow's cross appeal argued that the court erred by denying Dow's motions on the issues of lack of probable cause and its advice of counsel defense.

Dow's patents in the underlying infringement suit claimed methods of using nebulized water particles to increase the output of gas turbines. Dow met with Mee seeking to license the patents. Mee provided Dow with information on Mee's fogging systems for use in the power generating field, including a user's manual and information on Mee's installations. Dow's in-house counsel opined that Mee's system infringed under certain conditions. The matter was subsequently referred to outside counsel who formally opined on infringement before filing suit.

At the initial trial, the district court ruled that representative claims of both patents were obvious and that the claims were not infringed either directly or via contributory infringement. This ruling was upheld in part by the Federal Circuit in finding certain claims of Dow's patents obvious, but overruling the trial court with respect to invalidity and infringement for two dependent claims. [*Dow Chem. Co. v. Mee Indus, Inc.*, 341 F.3d 1370, 1376 (Fed. Cir. 2003).] On remand, Dow failed to introduce evidence that Mee's customers infringed any claims. Central to these two cases is the concept that method claims can only be infringed by the party actually performing the method, in this case Mee's customers.

Mee's malicious prosecution case alleged that Dow knew that Mee could not directly infringe the patents and therefore lacked a reasonable basis to sue for infringement. Mee sought damages for a failed sale of the company, attorneys' fees and punitive damages. During its pretrial statement, Mee asked for the loss of goodwill resulting from the patent litigation. Dow had conceded in the infringement case the need to prove that Mee's customers were infringing and that Mee either induced or contributorily infringed. The central issue in the malicious prosecution case was whether Dow lacked a reasonable basis for pursuing claims

against Mee. While Dow, through counsel, construed the claims and evaluated whether Mee's equipment could perform the claimed method, counsel failed to assert that any of Mee's customers were infringing. The Federal Circuit affirmed on this issue finding there were material issues of fact properly left for a jury to decide. Absent an explicit statement finding infringement by Mee's customers, the jury had support to find Dow lacked reasonable suspicion that Mee's customers were infringing.

As to Dow's advice of counsel defense, the Court held that since Dow's opinion of counsel did not address any theory of indirect infringement (a required element of its case), a jury could find that Dow did not rely on the opinion. Dow argued that teaching the steps of a method is sufficient to state a claim for inducement of infringement. Because there were issues of fact, this was properly for a jury to decide and the Court affirmed the jury. With respect to punitive damages, the grant of Dow's motion excluding punitive damages was affirmed, finding the issues were close enough to put to a jury and as such could not allow a jury to find liability for punitive damages under a higher clear and convincing standard. With respect to Mee's claim for goodwill, Mee failed to timely advise of its claim as required by the statute.

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#### TRADEMARKS / GREY MARKET

### ITC Commits Error in "All Or Substantially All" Analysis

The U.S. Court of Appeals for the Federal Circuit vacated a remand determination by the U.S. International Trade Commission (ITC) that sales in the United States of an European-version of a harvester was not an act of unfair competition under §337, finding that the ITC incorrectly applied the "all or substantially all" test, which prohibits a trademark owner from seeking any remedy for trademark infringement unless "all or substantially all" of the goods sold by the trademark holder in the United States are an identifiable U.S. version. *Deere & Co. v. International Trade Commission*, Case No. 09-1016 (Fed. Cir., May 26, 2010) (Lourie, J.) (Newman, J., concurring-in-part, dissenting-in-part).

Deere authorized the sales of a European version of harvesters, the same goods it sought to exclude from the U.S. market as being grey market. The ITC determined Deere had authorized the sale of European-version harvesters by its official dealers

through an "apparent authority" theory, even though Deere never expressly authorized such sales. In its analysis, the ITC distinguished Deere authorized dealers from independent dealers for which John Deere has no control. Apparent authority was found on the basis of an "informational" website that allowed authorized dealers to advertise European-version harvesters for sale in the United States and to finance them through a Deere subsidiary. After the ITC refused to issue any importation remedy, Deere appealed.

On appeal, the Federal Circuit determined that "substantial evidence" supported the ITC's determination that Deere condoned sales of the European harvesters in the U.S. by authorized dealers. The Federal Circuit further noted that "apparent authority" was properly applied here because such authority "arises from buyer's reasonable beliefs" and trademark infringement law serves to prevent consumer confusion.

However, the Federal Circuit found that the ITC misapplied the "all or substantially all" test because the ITC limited its analysis to comparing the number of authorized European-version harvester sales to the total number of European-version harvester sales in the United States, which resulted in a finding that Deere authorized the sale of 96.6 percent to 96.9 percent of the grey-market goods. Rather, the Court explained, the ITC should have compared the number of authorized European-version harvester sales to the total number of authorized sales (of both North-American-version harvesters and European-version harvesters). If the ITC had performed the proper calculation, it would have concluded that Deere's European version harvesters represented only a little more than 3 percent of the total authorized U.S. sales. The Court (again) remanded the case to the ITC for a determination of whether this percentage was "insubstantial."

In a separate opinion, Judge Newman concurred in the remand but dissented as to the Court's "concocted" ruling that Deere authorized the sales of certain European-version harvesters. Judge Newman wrote that the "apparent authority" theory conflicted with the Supreme Court 1923 decision in *A. Bourjois & Co. v. Katzel*, holding that a U.S. trademark owner "has the right to exclude authentic foreign goods bearing an authentic foreign mark, even where there is no consumer confusion as to the origin of the goods."

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## Ninth Circuit Affirms Likelihood of Dilution, Enjoins “eVISA” Trademark

The U.S. Court of Appeals for the Ninth Circuit affirmed a ruling enjoining an internet business from using the term “eVisa” as a business and domain name on the basis that it was likely to dilute the plaintiff’s famous VISA trademark. *Visa International Service Association v. JSL Corp.*, Case No. 08-15206 (9th Cir., June 28, 2010) (Kozinski, J.).

JSL operates an internet business offering multilingual education services under the domain name eVisa.com. JSL asserts that the eVisa name derived from the name “Eikaiwa Visa,” a tutoring service JSL’s owner founded in Japan. Visa International (VISA) sued JSL claiming that the eVisa mark is likely to dilute its VISA trademark. The district court granted summary judgment in favor of VISA. JSL appealed.

As JSL did not dispute that the VISA trademark is famous and distinctive or that JSL began using eVisa in commerce after the VISA mark became famous and distinctive, the only issue before the Ninth Circuit was whether eVisa was likely to dilute the VISA mark by blurring.

The Ninth Circuit first analyzed the similarity of the marks and determined that eVisa and VISA are virtually identical. The court then considered the distinctiveness and recognition of the plaintiff’s mark and held that VISA is a strong and distinctive mark because the association between travel visas and credit cards is sufficiently remote such that consumers would not associate the word “visa” with credit cards but for the VISA brand. The court rejected JSL’s argument that the VISA mark is descriptive or suggestive of an essential attribute of the credit cards, finding that the VISA trademark only “plays weakly” off the dictionary meaning of “visa” and the significant factor for purposes of dilution is whether the way the word is used in a particular context is unique enough to warrant trademark protection. In this case, the prevalence of a non-trademark use of the word “VISA” did not undermine the distinctiveness of the VISA trademark.

JSL offered no evidence to rebut the likelihood of dilution due to the similarity and strength of the marks other than its intention not to dilute the visa mark. JSL attempted to argue that it should be allowed to continue use of the eVisa mark because it was using the word pursuant to its literal dictionary definition in order to “connote the ability to travel, both linguistically and physically, through the English-speaking world.” However, the

Ninth Circuit rejected this assertion and held that JSL intended to create a novel meaning for the word as a “multilingual educational and information business.” This creation of new meaning, according to the court, is precisely the type of use that constitutes trademark dilution by blurring because it results in the word “visa” being associated with more than one product, even if both products use the term in a manner that is weakly suggestive of the word’s literal meaning.

### Practice Note

Although in a markedly different context, the Ninth Circuit now joins the Sixth Circuit, which recently applied the dilution statute to enjoin use of the mark “Victor’s Little Secret” as a dilutive of the famous “Victoria’s Secret” mark. (See *IP Update*, Vol. 13, No. 6.)

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## Trademark Licensing Agreement Is Not Subject to Rejection in Bankruptcy

Reversing both the bankruptcy court and the district court, the U.S. Court of Appeals for the Third Circuit held that a trademark licensing agreement had been substantially performed and was therefore not subject to rejection under §365(a) of the Bankruptcy Code. *In re Exide Technologies*, Case No. 08-1872 (3d Cir., June 1, 2010) (Roth, J.) (Ambro, J., concurring).

The case stemmed initially from a June 1991 licensing agreement between Exide Technologies and EnerSys connected with Exide’s concurrent sale of its industrial battery business to EnerSys. In 2002, Exide filed a voluntary bankruptcy petition under Chapter 11 of the Bankruptcy Code and sought to reject several of the agreements it had with EnerSys under 11 U.S.C. §365(a). The agreements in question concerned a perpetual, exclusive, royalty-free license granted to EnerSys to use Exide’s trademark in its manufacturing and production of industrial batteries.

The bankruptcy court entered an order granting Exide’s motion to reject the licensing agreement as an executory contract under 11 U.S.C. §365(a). The district court affirmed. EnerSys appealed to the Third Circuit, arguing that the district court erred in holding that the agreement was an executory contract, as well as in holding that rejection terminated EnerSys’ rights under the agreement.

The Third Circuit agreed, reversing the lower courts. As explained by the Third Circuit, while “executory contract” is not defined in the Bankruptcy Code, the legislative history indicates the term is intended to mean a contract so underperformed by both parties as to constitute a breach if either party should fail to complete performance. Under New York law, where the agreement took place, a material breach is one that is so substantial as to defeat the purpose of the entire transaction.

The Third Circuit found that the bankruptcy court failed to properly measure whether either party had substantially performed and determined that EnerSys’ performance rendered thus far outweighed what remained. EnerSys paid the full \$135 million purchase price and assumed Exide’s liabilities. The court found that the remaining obligations—concerning a use restriction to industrial batteries and a vague quality-standards provision—were largely conditions subsequent and did not relate to the purpose of the agreement. Thus, the court found that the performance under the agreement was largely completed and that EnerSys therefore maintained the right to use the Exide trademark.

In a concurrence focusing on intellectual property aspects of the case, Judge Ambro noted his belief that “a trademark licensor’s rejection of a trademark agreement under §365 does not necessarily deprive the trademark licensee of its rights in the licensed mark.” He pointed to §365(n) of the statute, which makes clear that the rights of an intellectual property licensee cannot be unilaterally cut off as a result of the rejection of the license pursuant to §365. Judge Ambro noted that trademarks are not included within the relevant statutory definition of “intellectual property” and that courts in other circuits reasoned by negative inference that Congress intended rejection to deprive a licensee of the right to use a trademark. In Judge Ambro’s view, the reasoning runs against the legislative history, which demonstrates that Congress intended the bankruptcy courts to develop equitable treatment of executory trademark licenses in light of certain control issues that arise in connection with such licenses. To allow a licensor to take back trademark rights it bargained away, he noted, makes bankruptcy “more a sword than a shield.”

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## §514 of URAA Survives First Amendment Challenge

Addressing for the first time whether §514 of the Uruguay Round Agreements Act violates the freedom of expression of reliance parties, the U.S. Court of Appeals for the Tenth Circuit upheld the constitutionality of §514 under the First Amendment. *Golan v. Holder*, Case Nos. 09-1234, -1261 (10th Cir., June 21, 2010) (Briscoe, C.J.).

Section 514 of the Uruguay Round Agreements Act (URAA) restores copyrights in foreign works that were previously in the public domain in the United States for three specific reasons: failure to comply with formalities, lack of subject-matter protection or lack of national eligibility. The Act was implemented to comply with the Article 18 of the Berne Convention, which was implemented by TRIPs. Reliance owners, *i.e.*, parties who exploited the works prior to the restoration of the copyrights, were granted some protections under §514. Reliance owners have a 12-month grace period from notice of restoration against liability for copyright infringement. Reliance parties who created derivative works (works based on a restored work) are allowed to continue to exploit the derivative work for the duration of the restored copyright if they paid the owner reasonable compensation.

The plaintiffs, a group that performed, distributed and sold public domain works, brought a lawsuit challenging §514 of URAA under the First Amendment. After the district court found in favor of the plaintiffs, the United States appealed. On appeal, the Tenth Circuit determined the statute was a content-neutral regulation of speech and that therefore intermediate scrutiny should apply. Under intermediate scrutiny, a statute is only sustained under the First Amendment if it advances an important governmental interest and does not burden substantially more speech than is necessary to further those interests.

The government identified three important interests it argued were served by this statute: attaining indisputable compliance with international treaties and multilateral agreements, obtaining legal protections for American copyright holders’ interests abroad and remedying past inequities of foreign authors who lost or never obtained copyrights in the United States. The plaintiffs, on the other hand, maintained that the United States did not have an important interest in a “reallocation of speech interests” between American reliance parties and American copyright holders.

The Tenth Circuit, citing the First Amendment interests of American copyright holders abroad, found that the government had sufficiently demonstrated a substantial interest to support the limited burden on speech the statute imposed. The court also noted its deference to Congress's decisions regarding foreign affairs and the substantial evidence presented before Congress supporting the statute's enactment.

Arguing against the statute, the plaintiffs and the district court relied on the availability of alternative approaches to implementing the Berne Convention, specifically the model of the United Kingdom, which provided stronger protections to reliance parties. The court rejected this argument, noting that a statute "need not be the least restrictive or least intrusive means" to serve the government's interest and found that §514 was sufficiently narrowly tailored to further the government's interest of beneficiary American copyright holders.

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