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Patents / Written Description Support

Invalidating Means Plus Function Claim Requires Expert Testimony

Ecommerce.com, Inc. v. SAP AG, et. al
Revisiting the issue of written description support for a means plus function claim, the U.S. Court of Appeals for the Federal Circuit reversed a finding of invalidity of claims directed to supply chain monitoring, concluding that the written description did provide sufficient support as to structure for performing the claimed function. *Elcommerce.com, Inc. v. SAP AG, et. al*, Case No. 11-1369 (Fed. Cir., Feb. 24, 2014) (Newman, J.) (Wallach, J., dissenting-in-part).

The patent asserted by Elcommerce.com is directed to a system and method of monitoring a supply chain of components in order to coordinate and stabilize the supply of components from various producers. The district court found the system claims of the patent invalid for failure to comply with § 112, ¶2 and 6. After reviewing the evidence presented, the district court concluded that a person of ordinary skill in the art would not be able to recognize the structure in the specification that corresponds to the recited function in certain means plus function claim elements. Elcommerce.com appealed.

In connection with its presentation of evidence regarding the lack of corresponding structure in the specification for performing the function recited in certain means plus function claim elements, SAP maintained that, because an “absence of structure” was asserted, no expert testimony was required. Elcommerce.com countered that evidence is required to establish that a person of ordinary skill in the art is unable to recognize corresponding structure in the written description, i.e., that attorney argument is insufficient. Elcommerce.com further highlighted that in two reexamination proceedings, the U.S. Patent and Trademark Office (USPTO) never raised a § 112, ¶2, 6 issue.

The majority disagreed with the district court that the proof offered by the validity challenger was sufficient to conclude the claims were invalid under the clear and convincing evidence standard. Beginning with the requirement that the structure must be evaluated from the position of persons having skill in the art and that invalidity must be established by clear and convincing evidence, the majority of the panel explained that: “[t]he burden was on SAP to prove its case, and in the absence of evidence provided by technical experts who meet the Daubert criteria there is a failure of proof. Attorney argument is not evidence,” although the Court went on to note that expert opinion will not be needed for every situation.

In dissent, Judge Wallach noted what he characterized as a direct contradiction between the panel majority and the decision of the Federal Circuit in *Noah Systems, Inc. v. Intuit Inc. (IP Update, Vol. 15, No. 4)*: “In holding that SAP was required to provide expert testimony to prove indefiniteness, the majority contradicts *Noah* . . . where this court affirmed the exclusion of expert testimony from the indefiniteness inquiry when there was a total absence of corresponding structure.” The dissent notes that the apparent contradiction was not acknowledged by the majority. The dissent also noted that while the majority made multiple references to the amount of description in the specification, it did “not, however, identify one relevant algorithm in any of these pages of description, let alone one algorithm corresponding to each claimed function.”

The dissent expressed concern for situations where judges identify corresponding structure for means plus functions claims, sometimes even in contradiction with patentee’s expert testimony: “The pernicious result of the majority’s holding will be to deter district courts from performing that routine analysis, and to encourage boundless functional claiming.”

**Patents / Claim Construction**

**Claim Construction Looks at More than Prosecution History**

*Frans Nooren Afdichtingssystemen BV v. Stopaq Amcorr Inc.*

by D. Jeremy Harrison

Addressing a lower court’s ruling of non-infringement after claim construction, the U.S. Court of Appeals for the Federal Circuit vacated and remanded the non-infringement decision, finding that the lower court construed relevant terms too narrowly. *Frans Nooren Afdichtingssystemen BV v. Stopaq Amcorr Inc.*, Case No. 13-1200 (Fed. Cir., Feb. 21, 2014) (Taranto, J.).

Nooren owns a patent directed to a composition used for insulating and protecting substrates, such as manhole covers, from corrosion, water ingress and mechanical stresses. The sole independent claim requires a shaped article including a substrate having applied thereon a coating composition and “a filler comprising a plurality of fractions each comprising different size particles, and wherein said different fractions have different particle size distributions.” A Dutch company manufactures products that prevent corrosion and water leaks. The products, which are distributed within the United States by Amcorr, contain mixtures of polybutylene, polypropylene and aluminum trihydrate or calcium carbonate.

Nooren sued Amcorr alleging infringement of its patent. As agreed to by the parties, the suit focused on the “filler” and “fractions” limitations of the independent claim. The court found non-infringement of the patent based on its claim construction of “filler,” which the court determined could contain only one material. The court further found that the accused products did not infringe because there was no discussion that polypropylene contains more than one “fraction,” as the filler/fractions limitation requires. Nooren appealed.

The Federal Circuit disagreed with the lower court’s claim construction of “filler” and determined that there was no basis in the claim or specification to limit that term to only one material. Instead of relying on the claim language or the specification, the lower court based its one-material construction entirely on prosecution history, where the examiner rejected the claims indicating that polymer-based coatings with two fillers have already been patented. The applicants never stated or implied the exclusion of dual-material fillers, nor did the examiner’s language clearly focus on the number of materials in what constitutes a filler. Accordingly, the Federal Circuit concluded that there was no clear language in the prosecution history that limited
“filler” to a single material.

The Court also disagreed with the lower court’s determination that polypropylene should not be considered a filler. The sole explanation from the lower court for such a determination was that the polypropylene in the accused products mixes with polybutene to form a homogenous polymer mixture. The Federal Circuit stated that the lower court failed to explain the connection between its homogenous polymer mixture finding and any construction of a filler.

The Court declined to construe the terms and answer the question of infringement, reasoning that there was insufficient exploration in the record, both in the present suit and in the lower court, of many questions of apparent relevance to identify a proper claim construction of the filler/fractions limitation. The Court concluded by reviewing various flaws in the lower court’s analysis that would help during remand in arriving at a proper claim construction for the terms at issue.

Patents / Claim Construction and Written Description

The Explicit Definition of a Claim Term Is Not Limiting Where It Excludes a Preferred Embodiment

ButamaxTM Advanced Biofuels, LLC v. Gevo, Inc.

Relying in part on evidence that a district court’s claim construction excluded a preferred embodiment, which was the subject of a dependent claim, the U.S. Court of Appeals for the Federal Circuit explained that the “explicit definition” of a claim term provided in the patents did not limit the term’s meaning. On that basis, the Federal Circuit vacated the claim construction and subsequent summary judgment of infringement. The Court also overturned summary judgments of invalidity for lack of written description and lack of enablement. ButamaxTM Advanced Biofuels, LLC v. Gevo, Inc., Case No. 13-1342 (Fed. Cir., Feb. 18, 2014) (Linn, J.).

Butamax owns patents covering recombinant microbes that use a particular biosynthetic pathway to produce isobutanol, a fuel additive. The parties’ dispute concerned the meaning of the claim term keto-acid reductoisomerase (KARI), an enzyme used in that pathway. Butamax argued for the plain meaning, which both parties agreed to be an enzyme that uses either nicotineamide adenine dinucleotide + hydrogen (NADH) or nicotineamide adenine dinucleotide phosphate + hydrogen (NADPH) as cofactors. Gevo, meanwhile, argued that the patentees expressly limited this term by defining the enzyme as “using” NADPH and by describing it by reference to a particular enzyme classification (EC) number in the term’s definition and in an asserted claim. Evidence showed that enzymes bearing that EC number were known to use NADPH as a cofactor. The district court agreed with Gevo and adopted the narrower construction. Butamax appealed.

Relying on several sources of intrinsic evidence that conflicted with this construction, the Federal Circuit overturned the disputed claim construction. The Court found that the district court’s construction excluded a preferred embodiment, which was also the subject of a dependent claim. The EC number provided in the definition and the claims referenced a mutant KARI known to use NADH as a cofactor. The prosecution history also provided an example of a KARI used in the claimed invention that has NADH as a cofactor. The Court relied on the principle that claims are not normally construed to exclude embodiments disclosed in the specification, concluding that the patentee did not evidence a clear intent to redefine KARI and that the disputed term retained its plain and ordinary meaning.

In light of the proper claim construction, the Federal Circuit determined held that a genuine issue of material fact on infringement may exist and remanded that question to the district court.

Regarding written description, the Federal Circuit explained that an affidavit and supporting references offered by Gevo that were not addressed by the district court raised a genuine dispute of material fact that precluded summary judgment in favor of Butamax on this issue. The Court thus overturned the district court’s ruling and vacated the order stating that two claims lacked enablement (which it concluded was a scrivener’s error because Gevo did not challenge the asserted claims on that basis).

Patents / Claim Construction

Narrower of Possible Claim Constructions Prevails

Takeda Pharmaceutical Co. Ltd. v. Zydus Pharma USA, Inc.

Relying, among other things, where the upper limit of a claimed range lies for claim construction, the U.S. Court of Appeals for the Federal Circuit overturned a district court ruling that a claimed range included a margin of error and that the accused product met the claim recitation. Takeda Pharmaceutical Co. Ltd. v. Zydus Pharma USA, Inc., Case No. 13-1406 (Fed. Cir., Feb. 20, 2014) (Prost, J.).

Takeda Pharmaceutical and several related entities own patents claiming the formulation for the brand-name drug Prevacid® SolutabTM, a proton-pump
inhibitor sold as an orally disintegrable tablet. The claimed formulation is directed to drug particles small enough to avoid a feeling of roughness in a patient’s mouth upon ingestion. Zydus Pharmaceuticals received U.S. Food and Drug Administration (FDA) approval for an Abbreviated New Drug Application (ANDA) covering a similar formulation, prompting Takeda to sue for infringement.

The claim term at issue recited “fine granules having an average particle diameter of 400 µm or less.” Adopting Takeda’s argument, the district court held that “400 µm or less” includes a deviation of ±10 percent, as would be universally understood by a person of ordinary skill in the art. Zydus appealed.

The Federal Circuit, relying in part on evidence that the claim does not qualify the term “400 µm,” and that the specification describes particles above 400 µm as being coarse, and that the construction exceeds the maximum particle size provided in the specification, disagreed. Rather, the Court determined that the evidence favored a narrower construction, citing the settled principle that the narrower of two equally acceptable claim constructions governs and held it to mean “precisely 400µm or less.”

In view of its narrower construction, the Federal Circuit vacated the district court’s ruling of literal infringement.

The Federal Circuit also addressed several issues relating to invalidity. Specifically, the Court rejected Zydus’ argument that the specification’s failure to provide a preferred method for measuring particle size rendered the asserted claim indefinite. Evidence showed that two methods work and that they provide similar results. According to the Court, the claim plainly requires a specified particle size. “That there is more than one way of determining the average particle diameter of a particular sample does not render that clear claim language indefinite.”

The Court also rejected the appellants’ arguments that the patent was invalid under the written description requirement for failing to show possession of tablets containing particles of the claimed size. The patent taught how to make particles of the correct size before tableting, but Zydus argued there was no teaching of tablets of the claimed particle size. The Court found there was no evidence that tableting affected particle size and rejected the argument.

**Patents / Claim Construction**

**Dictionary Definition Dispositive in Claim Construction Dispute**

*Starhome GmbH v. AT&T Mobility LLC*

by Stephen M. Yu

Addressing the use of technical dictionaries in claim construction, the U.S. Court of Appeals for the Federal Circuit affirmed a district court’s summary judgment of non-infringement, finding that the district court properly relied on technical dictionaries in its construction of a pivotal term. *Starhome GmbH v. AT&T Mobility LLC*, Case No. 12-1694 (Fed. Cir., Feb. 24, 2014) (Schall, J.).

Starhome sued AT&T Mobility alleging infringement of a patent directed to a way of improving the functionality of phone services for users in a roaming network by allowing such users to make calls as if they were in their home networks. The asserted claims require the use of an “intelligent gateway,” a key term in dispute during claim construction.

The district court determined that the term “gateway” had a well-understood meaning in the art at the time of the invention. As such, the Court relied on technical dictionaries to construe “gateway” to mean a device that connects two or more networks. Relying upon this construction, the district court granted summary judgment of non-infringement, as the parties agreed that the accused systems are not connected to multiple networks. Starhome stipulated to the judgment pending appeal of the construction of the disputed “intelligent gateway” term.

On appeal, Starhome argued that the specification did not require two or more networks, contending that the construction resulted in the exclusion of a disclosed embodiment from the scope of the claim. The disclosed embodiment depicted the “intelligent gateway” solely in the context of a single network. The Federal Circuit noted that Starhome’s argument, if true, would carry force because a construction that excludes a preferred embodiment is rarely, if ever, correct.

The Federal Circuit, however, concluded that the alleged embodiment relied upon by Starhome was not, in fact, a separate embodiment because it merely illustrated the flow of a call placed in accordance with another embodiment. The Court found that the alleged alternate embodiment, at best, inserted ambiguity as to whether or not the patentees intended to depart from the ordinary meaning of “gateway” and that such ambiguity does not rise to the level of clear intent to redefine a claim term, as required by Federal Circuit case law. The Federal Circuit, therefore, affirmed the lower court’s construction.

**Patents / Claim Construction**

**A “Program” Is Just a Set of Instructions**

*Ancora Technologies, Inc. v. Apple, Inc.*
In a case essentially decided on a single disputed claim construction, the U.S. Court of Appeals for the Federal Circuit rejected a narrow construction of the claim term “program” and construed the term, consistent with its ordinary meaning, to include any type of computer program.  Ancora Technologies, Inc. v. Apple, Inc., Case Nos. 13-1378, -1414 (Fed. Cir., Mar. 3, 2014) (Taranto, J.).

Ancora owes a patent directed to a method for verifying that a software program on a computer is not there without authorization, but is licensed.  Ancora sued Apple alleging that products running Apple’s iOS operating system infringed its patent.  After the district court construed the claim term in dispute to be limited to application programs, Ancora stipulated to summary judgment of non-infringement and appealed the district court’s construction, while Apple cross-appealed the district court’s holding that the terms “volatile memory” and “non-volatile memory” were not indefinite.

On appeal, Ancora challenged the district court’s conclusion that the term “program” was limited to application programs, thereby excluding operating systems from the class of programs that the claimed method checks for license authorization.  The Federal Circuit, explaining that a claim term should be given its ordinary meaning in the pertinent context, unless the patentee has made clear its adoption of a different definition or otherwise disclaimed that meaning, found “no reason” to depart from the term’s ordinary meaning.  The Court therefore construed the term to simply mean a set of instructions for a computer.  In doing so the Court looked to the specification, the doctrine of claim differentiation, as well as the prosecution history.

As for its examination of the prosecution history, the Federal Circuit, after noting that the term “program” in the claims refers exclusively to the program for which a license is to be verified, examined the excerpts of prosecution history cited by Apple (in support of its narrowing argument, i.e., application program only) and concluded that the prosecution history distinguishing the prior art did not mandate that the “program” being verified must be an application program.

Turning to Apple’s cross appeal (on indefiniteness) the Court first explained that under 35 U.S.C. § 112(b), a claim must be “sufficiently definite to inform the public of the means by which the protected invention can be performed, i.e. what subject matter is covered by the exclusive rights of the patent,” noting in passing that the “Supreme Court currently is considering how to refine the formulations for applying the definiteness requirement.”  (See IP Update, Vol. 17, No. 1 regarding Nautilus v. Biosig Instruments.)  Here, the Court rejected Apple’s indefiniteness argument, noting that “there is no dispute that the terms ‘volatile memory’ and ‘non-volatile memory’ have a meaning that is clear, settled, and objective in content.”

The Court rejected Apple’s argument, premised on the fact that the specification uses language (inaccurately) referring to a hard disk as an example of volatile memory, noting that “the terms at issue have so clear an ordinary meaning that a skilled artisan would not be looking for clarification in the specification” and that “the specification nowhere purports to set out a definition” for the terms or disclaims the clear and ordinary meaning.

Finally, the Court noted that “the prosecution history eliminates any reasonable basis for thinking that the patent has adopted a meaning different from the clear and ordinary one,” citing to an office action where the examiner, in rejecting the claims, stated that he was “relying on the standard definition of non-volatile memory as memory that is maintained even when the power is removed from the storage system,” a definition which the applicants did not dispute.

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**Patents / Validity**

**Secret Practice of a Russian Invention on U.S. Soil Invalidates a Patent**

_Solvay, S.A. v Honeywell International_

by Daniel Bucca, Ph.D.

Affirming the federal district court, the U. S. Court of Appeals for the Federal Circuit concluded that a claim was invalid under § 102(g)(2), _i.e._, the invention was made in this country by another who had not abandoned, suppressed or concealed it, finding that the secret practice of the invention in the United States was prior art to the claimed invention.  _Solvay, S.A. v Honeywell International_, Case No. 2012-1660 (Fed. Cir., Feb. 12, 2014) (Dyk, J.) (Newman, J., dissenting).

The central issue in the case involved the scope of prior art under 35 U.S.C. 102(g)(2) and, in particular, whether an invention conceived by a foreign inventor and reduced to practice in the United States qualified as prior art under that section.  As the Court explained, a patent is invalid under § 102(g)(2) if the claimed invention was made in this country by another inventor before the priority date of the application for patent.  Under pre-America Invents Act (pre-AIA) law, which applies in this case, making an invention requires conception and reduction to practice.  The Court explained that under § 102(g)(2), conception must occur in another country but in such circumstances, “the work constituting the reduction to practice may be performed in the United States by or on behalf of the inventor.”

There was no dispute that the subject matter of the claim in dispute was conceived and reduced to practice in Russia by the Russian inventors.  It was further undisputed that Honeywell then replicated the Russian process in the United States pursuant to a joint research agreement between Honeywell and the Russian inventors.  The invention was made public through a Russian patent application solicited by the Russian inventors.  Solvay challenged, _inter alia_, whether Honeywell’s duplication of the Russian invention should inure to the benefit of the Russian inventors under § 102(g)(2) because the Russian inventors did not expressly ask Honeywell to duplicate the Russian process.  The Court held that the joint research agreement between
Honeywell and the Russians authorized Honeywell to practice the Russian invention and specifically contemplated that they would do so. Thus, according to the Court, the invention was made in this country on behalf of the inventors and as such qualified as prior art under § 102(g)(2).

Judge Newman dissented from the opinion, arguing that the decision creates a new class of prior art outside of the interference context of 35 U.S.C. § 102(g).

Practice Note: Although the America Invents Act (AIA) obviated 35 U.S.C. § 102(g) et seq., the relevance of this section of the code is likely to continue for several years. Practitioners are advised to maintain records to establish possible defensive prior art.

Patents / Written Description

If Written Description Matches Claim Scope, No § 112 Problem
GlaxoSmithKline LLC v. Banner Pharmacaps, Inc.
by Toby H. Kusmer

The U.S. Court of Appeals for the Federal Circuit affirmed a district court rejection of a written description challenge to patentability, concluding that under either parties' construction of a disputed claim term the written description would convey to a skilled artisan that "the inventor[s] actually invented the invention claimed." GlaxoSmithKline LLC v. Banner Pharmacaps, Inc., Case Nos. 13-1593, -1594, -1595, -1596 (Fed. Cir., Feb. 24, 2014) (Taranto, J.).

GlaxoSmithKline (GSK) sued multiple defendants alleging drug products (each containing the molecule dutasteride) listed in defendants' Abbreviated New Drug Applications (ANDA), and which defendants intended to market, fall within the scope of claims of GSK's patent (the GSK Patent) claiming a specific molecule identified as dutasteride "and its pharmaceutically acceptable solvates." Dutasteride had been approved by the U.S. Food and Drug Administration (FDA) as effective in the treatment of benign prostatic hyperplasia. The only issue before the Federal Circuit was whether the written description of the GSK Patent supported the claimed recitation to "solvates" of dutasteride.

The parties agreed on the following: dutasteride is the specific molecule identified in the claim; a solvate, by definition, is "something that originates in a 'solution,' which is a mixture of two substances: a 'solute dissolved in a solvent'; a solvate is a molecule consisting of a complex of solute molecules and solvent molecules resulting from the solution; and a solvate complex is frequently "crystalline," a structure referring to a regular, periodic arrangement of the constituent molecules or atoms. The defendants argued that the patent failed to describe the crystalline form of solvate or, more generally, a wide enough range of the solvates, which need not be crystalline and could be produced through reaction, precipitation or crystallization. After the district court rejected the defendants' arguments, this appeal followed.

The Federal Circuit concluded that the patent specification defined the claimed genus by two properties: "a solvate is a complex of dutasteride molecules and solvent molecules, with dutasteride being... the key structural component"’ and "the structure is one that is created by an identified process-specifically, by dissolving dutasteride (the solute) in a solvent." Regardless of the construction of the disputed term "solvate" and reading of the specification, the Court explained that the written description matches the claim language, and regardless of which party's construction is correct, the description remains entirely based on structure of the compound and its process of creation. Describing a complex of dutasteride and solvent molecules is an identification of "structural features commonly possessed by members of the genus that distinguish them from others." The Court saw no reason to require more than the written description matching the claim scope, stating that the concept of solvation has been known for over 100 years and steroids [such as dutasteride] have been known to be prone to solvate formation since 1983.

Of importance to the Court was the finding that under either parties' preferred claim constructions, "solvates" of dutasteride are not distinguished either by functional language or by a particular performance property. In holding the claim language to be structural, and matching the language of the specification, the Federal Circuit held that the written description was adequate to support the claim language.

Patents / Doctrine of Equivalents

No Foreseeability Bar to The Application of the Doctrine of Equivalents
Ring & Pinion Service, Inc. v. ARB Corp. LTD.
by Gregory D. Yoder

Addressing the doctrine of equivalents infringement of a means-plus-function limitation, the U.S. Court of Appeals for the Federal Circuit reversed and remanded a grant of summary judgment of non-infringement based on an improper application of the doctrine of claim vitiation and a disregard of the parties’ joint stipulation, finding that there is no foreseeability bar to the application of the doctrine of equivalents. Ring & Pinion Service, Inc. v. ARB Corp. LTD., Case No. 13-1238 (Fed. Cir., Feb. 19, 2014) (Moore, J.).

Ring & Pinion sued ARB seeking a declaratory judgment of non-infringement by its automobile locking differential. The parties agreed that Ring & Pinion's product literally satisfied every limitation of the asserted claim except a "cylinder means" limitation. The parties further agreed that the accused product included an "equivalent" cylinder and that the equivalent cylinder in Ring & Pinion's product would have been foreseeable to a person having
ordinary skill in the art at the time the application for the asserted patent was filed.

The parties stipulated that infringement would be determined by resolution of a single legal issue: whether an equivalent is barred under the doctrine of equivalents because it was foreseeable at the time of the patent application. The district court found that, while foreseeability did not preclude the application of the doctrine of equivalents, a finding of equivalence in this case would vitiate the “cylinder means” limitation. After the district court granted summary judgment of non-infringement to Ring & Pinion, ARB appealed.

The Federal Circuit explained that there is not, nor has there ever been, a foreseeability limitation on the application of the doctrine of equivalents. Excluding equivalents that were foreseeable at the time of patenting would directly conflict with precedent that “known interchangeability” supports infringement under the doctrine of equivalents.

Similarly, the Federal Circuit found that there is no foreseeability bar to the application of the doctrine of equivalents in the context of means-plus-function limitations. The Court explained that there are two differences between the equivalence determination made in the context of literal infringement under § 112(f) and a doctrine of equivalents determination for the same limitation: timing and function. Regarding timing, equivalence under section 112(f) is evaluated at the time of issuance, whereas equivalence under the doctrine of equivalents is evaluated at the time of infringement. Hence, an after-arising technology can be found to be an equivalent under the doctrine of equivalents even though it cannot be an equivalent under the literal infringement analysis of.

Regarding function, a finding of non-infringement under § 112(f) based solely on the lack of identical function does not preclude a finding of equivalence under the doctrine of equivalents. However, when the accused technology was known at the time of patenting and the functions are identical, the structural equivalence inquiry under § 112 and the structural equivalence portion of the doctrine of equivalents are coextensive.

The Federal Circuit then turned to the district court’s application of the doctrine of claim vitiation, that it is improper under the doctrine of equivalents to read a claim element to encompass an accused product where such a reading would essentially “vitiate” the claim element. The Federal Circuit found that the district court erred by finding, on summary judgment, that capturing the accused cylinder design as an equivalent to the recited “cylinder means” limitation would vitiate the claim limitation as a matter of law simply because of the parties’ joint stipulation on equivalence.

**Patents / Eligible Subject Matter**

**Data Transaction Claim Not Patent Eligible**

*Cyberfone Systems, LLC v. CNN Interactive, Inc., et al.*

by Paul Devinsky

The U.S. Court of Appeals for the Federal Circuit, in a ruling designated as non-precedential, affirmed the district court finding that a claimed method involved an “abstract idea” and was therefore not patent eligible. *Cyberfone Systems, LLC v. CNN Interactive, Inc., et al.*, Case Nos. 12-1673, -1679 (Fed. Cir., Feb. 26, 2014) (Dyk, J.) (non-precedential).

After Cyberfone sued 81 defendants alleging infringement of its Patent No. 8,019,060, several moved for summary judgment that the patent was directed to patent ineligible subject matter under § 101. The representative claim reads as follows:

A method, comprising:

obtaining data transaction information entered on a telephone from a single transmission from said telephone;

forming a plurality of different exploded data transactions for the single transmission, said plurality of different exploded data transaction[s] indicative of a single data transaction, each of said exploded data transactions having different data that is intended for a different destination that is included as part of the exploded data transactions, and each of said exploded data transactions formed based on said data transaction information from said single transmission, so that different data from the single data transmission is separated and sent to different destinations; and

sending said different exploded data transactions over a channel to said different destinations, all based on said data transaction information entered in said single transmission.

After the district court found that the claimed subject matter was “nothing more than a disembodied concept of data sorting and storage” and granted summary judgment of invalidity under § 101, Cyberfone appealed.

Cyberfone argued that the claimed subject matter was not an abstract idea because a human, unaided by devices, could not perform the steps recited in the claim. The Federal Circuit, after reminding us that the “category of patent-ineligible abstract ideas is not limited to methods that can be performed in the human mind” went onto consider whether the claim includes “additional substantive limitations … [that] narrow, confine, or otherwise tie down the
On this issue Cyberfone argued that the claim was “sufficiently limited by the machinery it requires and transformations it effects.” However, the Federal Circuit explained that for “a machine to impose a meaningful limit … it must play a significant part in permitting the claimed method to be performed.” If a claim “simply [implements] an abstract concept on a computer, without meaningful limitations to that concept, does not transform a patent-ineligible claim into a patent eligible one.”

In this case, the Federal Circuit explained that the recited telephone only acts as a device to obtain data and “adds nothing of significance to the claimed abstract idea.” The Court also rejected Cyberfone’s assertion that the claim recitation of sending exploded data transactions over a channel “requires an additional specific machine,” noting the absence of any particular machine that is required to perform the function of the recited channel.

Finally, the Federal Circuit rejected the contention that the claims were sufficiently limited by the transformation that results from the claimed “exploding” of data transactions. As the Court explained, the asserted “transformation” was simply “the mere collection and organization of data” which is “insufficient to meet the transformation prong of the [machine or transformation] test.” Rather, as the Court explained, the claim stipulation “merely makes the originally gathered information accessible to different destinations without changing the content or its classification.”

**Patents / Patentable Subject Matter**

**Data-Encryption Is Patent Eligible Despite Not Being Tied to a Particular Machine**

*TQP Development, LLC v. Intuit Inc.*

by Blake Wong

Addressing an argument that a data-encryption patent was directed to non-eligible subject matter because it covered an abstract idea divorced from a particular machine, Judge William Bryson, sitting by designation in the U.S. District Court for the Eastern District of Texas, denied defendants’ summary judgment motion on § 101, finding that the plaintiff’s “device agnostic” data-encryption patent was directed toward patentable subject matter despite failing to recite a particular machine, such as a computer, and despite the fact that the patent “merely” transformed data from one form to another—which often is not considered a “transformation” under the machine-or-transformation test. *TQP Development, LLC v. Intuit Inc.*, No. 2:12-cv-180-WCB (E.D. Tex. Feb. 19, 2014) (Bryson, J).

Without specific reference to a machine, the patent-in-suit described a method for transmitting encrypted data, where the transmitter and receiver used identical pseudo-random number generators. The pseudo-random number generators used key values to encode and decode the data. Of particular importance to Judge Bryson was that the pseudo-random number generators change their key values every time a certain number of blocks of data are transmitted. The claims omitted any reference to a concrete device with which to implement the abstract encryption and transmission algorithm.

Judge Bryson addressed defendants’ argument that the patent was improperly directed toward an abstract algorithm, noting that while the Supreme Court has found that abstract ideas are not patent-eligible subject matter, a specific application of an abstract idea may be. As Judge Bryson explained, although the claimed subject matter covered an abstract algorithm, the claims also contained limitations that minimized concerns of excessive breadth. A key limitation was that the patent required the transmitter and receiver to use identical pseudo-random number generators. Also, the patent required the changing of key values after the invention transmitted a certain number of blocks. Judge Bryson deemed both of these limitations to significantly narrow the claimed invention. Thus, although the claims may cover an abstract idea, in Judge Bryson’s view, as claimed, that abstract idea is limited and therefore patent eligible.

Judge Bryson also addressed the defendants’ arguments that the plaintiff’s invention failed the machine-or-transformation test because the invention did not use a machine and merely transformed data from one form to another, instead of the typically required types of transformations. The defendants argued that the patent’s claims merely recited “mental processes” performable by the human mind and that did not require the use of a particular machine. Judge Bryson disagreed, reasoning that the patent claims at issue implicitly required a concrete device, such as a computer. To require the claims to explicitly require recitation of such a device would be “rigid line drawing” instead of the “flexible, pragmatic approach” required by precedent. As the court explained, “device agnostic” patent claims can still be patent eligible.

Further, although conceding that transforming data from one form to another typically does not qualify as a “transformation,” in the field of cryptology, where the transformation of data is the raison d’être of the invention, the claims may still directed to patent-eligible subject matter since transformation data so as to be recognizable by some and unrecognizable by others is the invention. Requiring more of a transformation in the field of cryptology would be, in the court’s view, nonsensical. Thus, the court thus found the data-encryption claims to represent patent-eligible subject matter notwithstanding inclusion of an abstract idea not tied to a particular machine.

**Patents / Patent Examination**

On March 4, 2014, the U.S. Patent and Trademark Office (USPTO) released examination guidelines titled Guidance For Determining Subject Matter Eligibility Of Claims Reciting Or Involving Laws of Nature, Natural Phenomena, & Natural Products (the Guidelines). The USPTO issued the guidelines in view of the recent U.S. Supreme Court decisions Association for Molecular Pathology v. Myriad Genetics, Inc. (IP Update, Vol. 16, No. 6) and Mayo Collaborative Services v. Prometheus Laboratories, Inc. (IP Update, Vol. 15, No. 3).

The USPTO summarized the guidelines in a three question flowchart (found at http://www.uspto.gov/patents/law/exam/myriad-mayo_guidance.pdf). The three questions include (1) whether the claim is directed to one of the four statutory categories, i.e., a process, machine, manufacture or composition; (2) does the claim recite or involve judicial exceptions (e.g., laws of nature/natural principles, natural phenomena and natural products); and (3) does the claim as a whole recite something significantly different than the judicial exceptions?

The guidelines listed 12 non-exclusive factors (six factors suggesting eligibility and six factors suggesting non-eligibility) to be considered when answering the third question. The weighing and consideration of the 12 factors should be conducted in a manner similar to the consideration of the Wands factors used to evaluate whether undue experimentation is required to make and use a claimed invention. The weight given to each factor depends upon the facts of the application.

The six factors in favor of eligibility are whether the claim:

1. is a non-naturally occurring product and is markedly different in structure than naturally occurring products;
2. recites elements or steps in addition to the judicial exception(s) that meaningfully limit claim scope;
3. recites elements or steps that are more than nominally or tangentially related to the judicial exceptions(s);
4. recites elements or steps that are more than merely applying or using the judicial exception(s);
5. recites elements or steps that include a particular machine or transformation of a particular article; and
6. recites one or more elements/steps that are not conventional in the relevant field.

The six factors that weigh against eligibility are whether the claim:

1. is naturally occurring or not markedly different from naturally occurring products;
2. recites elements or steps at a high level of generality;
3. recites elements or steps that must be used to apply the judicial exception(s);
4. recites elements or steps that are conventional in the relevant field;
5. recites elements or steps that are insignificant; and
6. recites elements or steps that are merely field of use.

Patents / Venue

Evidence in Support of Petition for Venue Transfer Must Be Sufficiently Specific

In re Apple Inc.; In re Barnes & Noble

by K. Nicole Clouse, Ph.D.


The underlying facts are similar in both cases. In Apple, a patent holding company in Texas with six employees (a wholly-owned subsidiary of a Luxembourg corporation) sued Apple in the U.S. District Court for the Eastern District of Texas. Apple is a California corporation with a principal place of business and more than 13,000 employees in Cupertino, California. The accused products were researched, developed and manufactured in California, and Apple has stated that its foreseeable witnesses and documents are located in Cupertino and sought transfer to the U.S. District Court for the Northern District of California.

Similarly, in Barnes and Noble case, a Tennessee entity whose sole employee is the inventor of the patent in issue sued Barnes & Noble in the U.S. District Court for the Western District of Tennessee. Barnes & Noble is a Delaware company with headquarters in New York, but Barnes & Noble has stated that its witnesses and documents relating to the accused product are located in Palo Alto, California, and sought transfer to the U.S. District Court for the Northern District of California.

Noting that the remedy of mandamus is available only in extraordinary situations, the Federal Circuit held in each case that the district court did not clearly abuse its discretion in denying petitioner’s transfer motion. Both district courts found that petitioners failed to identify and enumerate specific witnesses who would be required to travel for trial and which witnesses might not be willing or able to do so. The district court in Barnes & Noble further noted that
petitioner did not explain "why deposition testimony would not suffice in lieu of live testimony" for such witnesses. Moreover, in Apple, the district court found Apple's arguments regarding the location of documents and other evidence to be "vague" and of "unknown relevance." Both district courts concluded that petitioners did not provide sufficiently concrete evidence to demonstrate that petitioners would be more inconvenienced in the original venues than plaintiffs would be in the transferee venue.

Dissenting in both cases, Judge Newman argued that the convenience of the pair of venues in each case "is simply not comparable." Citing Genentech for the proposition that "the bulk of the relevant evidence usually comes from the accused infringer," she found that petitioners convincingly demonstrated that essentially all witnesses and documents were located in California and, thus, did not need to name specific witnesses and individual documents. In Apple, she further noted that local interest heavily favored the transferee venue, considering that the plaintiff is a "non-United States corporation with one employee that exists solely to license its patent portfolio" and, therefore, has a smaller impact on the local economy than does Apple.

The panel in Apple distinguished Genentech by noting that petitioner in that case had identified at least 10 specific, relevant witnesses in the transferee forum. The panel explained that the district court did not err by refusing to draw "inferences" from the number of Apple employees in Cupertino, "which only reflects the parties' relative size and not necessarily the location of potential witnesses."

Practice Note: Any party petitioning for a transfer of venue would be well-advised to name specific witnesses and identify particular documents that are located in the transferee venue and to articulate with specificity and granularity why it would be more burdensome to produce those witnesses and documents in the original venue than it would be for the other party in the transferee venue.

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Prosecution History of Original Examination as Intrinsic Evidence in Post-Grant Proceedings

**Tempo Lighting, Inc. v. Tivoli, LLC**

by Douglas B. Espenschied

In a case arising from an inter partes reexamination while pending district court litigation was stayed for more than eight years, the U.S. Court of Appeals for the Federal Circuit affirmed-in-part, vacated-in-part and remanded a decision of the U.S. Patent and Trademark Office’s (PTO) Patent Trial and Appeal Board (Board) that had reversed the examiner’s rejection of certain patent claims, finding that the Board erred by relying on factual findings resting on the examiner’s incorrect claim construction. *Tempo Lighting, Inc. v. Tivoli, LLC*, Case No. 13-1140 (Fed. Cir., Feb. 10, 2014) (Rader, C.J.).

Tivoli sued Tempo Lighting for patent infringement. The district court stayed the litigation when the PTO granted Tempo’s request for inter partes reexamination of the patent at issue. During reexamination, the examiner rejected all of the patent’s claims, adopting some of Tempo’s proposed rejections and declining to adopt others. Tivoli appealed the rejections to the Board. The Board rejected the examiner’s definition of a disputed claim term and reversed the examiner’s rejection of certain claims, concluding that Tempo waived its alternative arguments that certain references anticipate those claims. Tempo (the requestor) appealed.

The Federal Circuit agreed with the Board that the examiner’s definition of “inert to light,” which relied on a dictionary definition, was erroneous. Finding the claims and specification unhelpful, the Federal Circuit turned to the original prosecution history. During original examination, the examiner objected to the recitation of “non-photoluminescent” as being a negative limitation. In response, Tivoli amended the claims to recite “inert to light” and explained the meaning of “inert to light.” The Court found this intrinsic evidence provided an explicit definition of the disputed claim term. In contrast, the examiner’s dictionary definition “adds multiple limitations that lack support in any form of intrinsic evidence.” The Federal Circuit concluded that “the examiner erred by resorting to extrinsic evidence that was inconsistent with the more reliable intrinsic evidence.”

The Federal Circuit noted that “the PTO is under no obligation to accept a claim construction proffered as a prosecution history disclaimer, which generally only binds the patent owner.” However, in this instance, since the PTO requested Tivoli rewrite the [negative] limitation in positive terms and Tivoli complied, together with clarification about the meaning of the ‘inert to light’ limitation, the prosecution history provided the proper claim term construction.

Although it agreed with the Board’s claim construction, the Federal Circuit found that “the Board erred by relying on factual findings resting on [the examiner’s] incorrect claim construction.” In reversing the rejection of certain claims, the Court found that the Board relied on “the examiner’s findings under the reversed—and substantially different—claim construction” to support its conclusion that the prior art references do not disclose the “inert to light” limitation as properly construed. Accordingly, the Federal Circuit vacated the Board’s reversal of claim rejections and remanded for new factual findings.

The Federal Circuit also vacated the Board’s conclusion that Tempo waived its alternative arguments because Tempo did not file a cross-appeal raising those arguments. The Federal Circuit clarified that the relevant regulation 37 C.F.R. § 41.61(b), which provides that “a requester who has not filed a notice of appeal may file a notice of cross appeal with respect to any final decision favorable to the patentability, including any final determination not to make a proposed rejection, of any original, proposed amended, or new claim of the patent,” should be understood to mean that each of the examiner’s determinations against Tempo’s proposed rejections is not a distinct decision favorable to patentability necessitates an appeal. Rather, as the Court explained, the regulation uses the permissive “may” and does not require filing of a cross-appeal in order to raise issues pertaining to proposed
rejections on the appeal. To the contrary, Court explained where claims have already been adjudicated invalid, a cross-appeal regarding additional invalidity arguments is generally improper.

**Practice Note:** Although this case arises from an *inter partes* reexamination, the same principles of claim construction should apply to *inter partes* review.

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**Patents / Stay Pending Inter Partes Review**

**No “Second Bite at the Apple” for Non-Petitioner Defendants Seeking Stay Based on Pending IPR**

_Evolutionary Intelligence, LLC v. Sprint Nextel Corporation et al._

by Philip Ou

Addressing whether a non-petitioner defendant seeking a stay pending *inter partes* review (IPR) should be bound by the statutory estoppel requirements for an IPR petitioner, a district court granted the defendant’s motion for a stay that was based on representations that the defendant was not involved in the IPR proceedings and agreement by the defendant to accept estoppel from raising (in the litigation) invalidity arguments that were made in the IPR. _Evolutionary Intelligence, LLC v. Sprint Nextel Corporation et al._, Case No. 5-13-cv-04513 (N.D. Cal., Feb. 28, 2014) (Whyte, J.).

The plaintiff, Evolutionary Intelligence, filed suit against nine groups of defendants in the U.S. District Court for the Eastern District of Texas asserting two patents. After the cases transferred to the U.S. District Court for the Northern District of California, several companies collectively filed eight petitions for *inter partes* review before the U.S. Patent and Trademark Office (PTO), which, in combination, sought review of all claims for both patents. The Sprint group of defendants did not file any of the IPRs, but nonetheless filed a motion to stay its case based on the IPRs. In analyzing the three factors as to whether a stay pending reexamination should be granted—whether discovery is complete and whether a trial date has been set, whether a stay will simplify the issues and whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-movant—the court found all three in support of a stay. However, prior to issuing the stay, the court considered whether Sprint, a non-petitioner, should be subject to the statutory estoppel provisions applied to IPR petitioners, that prevent petitioners from re-litigating invalidity arguments that were raised or could have been raised in the IPR. While Sprint represented that it had no involvement in the IPRs and argued that no estoppel should be applied, the court required Sprint to submit to a weaker estoppel, foreclosing it from re-litigating arguments made in the IPR proceedings (but not arguments that could have been raised, but were not).

In doing so, the court balanced Sprint’s non-involvement in the IPR proceeding with the policy considerations of preventing groups of defendants from having “multiple bites at the invalidity apple” (i.e., first in the IPR and then again in district court) through the IPR process.

**Practice Note:** Defendants seeking to stay their cases by leveraging IPRs filed by third parties should strategically consider their involvement in those IPRs, as well as the potential estoppel effects resulting from both a stay and any involvement.

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**Patents / Covered Business Methods**

**PTAB Reluctant to Exclude Evidence**

_Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co._

by Matthew McCloskey

In the final written decisions of two related covered business method (CBM) patent reviews of the same patent, the U.S. Patent and Trademark Office’s (PTO) Patent Trial and Appeal Board (Board) sided with the petitioner, canceling all claims under review. _Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co._, Case Nos. CBM2012-00003, CBM2013-00009 (PTAB, Feb. 11, 2014).

On the first day of eligibility under the America Invents Act (AIA), petitioner Liberty Mutual filed for CBM review of a patent that Progressive had previously asserted against Liberty Mutual. The claimed invention related to a vehicle monitoring system that included a data logging device and a communications device for linking the data logging device to a network of computers for determining a level of safety or cost of insurance related to the vehicle.

Liberty Mutual initially petitioned for CBM review of all 20 claims of the patent, asserting 422 grounds of unpatentability. The Board issued orders denying certain grounds and requiring the petitioner to select a subset from grounds the Board considered vertically or horizontally redundant, providing some clarification under the then-new proceedings. After Liberty Mutual responded by selecting a subset of grounds, it then filed the second petition for CBM review of the patent based on grounds that were not raised it its first petition. For its second CBM petition, Liberty Mutual alleged only obviousness grounds, based on a newly cited primary prior art reference in combination with a secondary prior art reference initially relied on as a primary reference for grounds listed in the first CBM petition but denied by the Board.

The Board instituted review on 10 grounds for the first CBM proceeding and all grounds of review for the second CBM proceeding. In both proceedings, the Board was unpersuaded by Progressive’s argument that a claim-by-claim analysis was required for institution of CBM review rather than the all-or-nothing type of review adopted by the Board. Progressive also filed a motion to exclude evidence in each proceeding, arguing that Liberty Mutual’s experts cited to evidence not originally relied on in the CBM petitions.
In the final written decision of the first CBM proceeding, the Board cancelled all but three claims that were reviewed on anticipation grounds. The Board concluded that the alleged anticipatory reference cited by the petitioner was not prior art against those claims. In doing so, the Board analyzed each limitation of those claims for compliance with the written description requirement of § 112, first paragraph, a necessary condition for the benefit of priority under § 120, concluding that the claims were entitled to a priority date earlier than the publication date of the alleged anticipatory reference.

In the final decision for the second CBM proceeding, the petitioner prevailed on all grounds, with the Board cancelling all claims of the patent as being obvious.

In each final decision, the Board denied Progressive’s motions to exclude evidence. In doing so, the Board explained that it is proper for a petitioner to cite to new evidence, not originally relied on, in response to arguments raised in the Patent Owner Response if that response “makes an argument that reasonably could not have been anticipated by the Petitioner.”

Practitioner Note: The reported CBM proceedings underscore the potential effectiveness of challenging the claimed priority date for claims in a patent issuing from a continuation-in-part (CIP) application, as the burden of proof is shifted to the patent owner to show entitlement to the priority date for each claim under review. For such CIP-based patents, petitioners may want to consider including in a CBM or IPR petition one or more grounds of invalidity based on prior art antedating an intermediary application of the patent’s priority chain as a way of forcing the patent owner to prove the soundness of the priority claim for each claim under review.

Patents / Inter Partes Review

Pre-AIA Litigation Triggers Time Bar for Inter Partes Review
Apple Inc. v. VirnetX, Inc. and Science Applications International Corporation
by Matthew McCloskey

In response to a petitioner’s request for rehearing of a decision denying institution of an inter partes review (IPR) proceeding, the U.S. Patent and Trademark Office’s Patent Trial and Appeal Board (Board) reiterated that any litigation asserting the patent at issue, including pre-America Invents Act (pre-AIA) litigation, operates to trigger the time bar under 35 U.S.C. § 315(b). Apple Inc. v. VirnetX, Inc. and Science Applications International Corporation, Case IPR2013-00348 (PTAB, Feb. 12, 2014).

Petitioner Apple requested an IPR on three grounds of review. In its preliminary response, VirnetX argued that Apple was served with a “complaint” under the ambit of § 315(b) by way of a litigation initiated by VirnetX in August of 2010, and thus Apple was barred from seeking IPR in June of 2013.

In its petition, Apple acknowledged the 2010 litigation involving the patent-at-issue, but concluded that the litigation did not foreclose the requested IPR because of a subsequent litigation brought by VirnetX against Apple in December of 2012. According to Apple, its conclusion was “compelled by the plain language of § 315(b)” because the statute does not specify a one-year deadline running from the date of “the first complaint” but rather the statute describes the time bar as being more than one year after the date on which the petitioner, real party in interest or the privy of the petitioner is served with a complaint alleging infringement of the patent. Thus, according to Apple, “a petition filed within 1 year of the date of any complaint alleging infringement of the patent is served on a petitioner is timely under the plain statutory language of § 315(b).”

The Board denied institution of the IPR proceeding, noting that the 2010 litigation asserting the patent-at-issue qualified as “a complaint” under the plain meaning of § 315(b). The Board explained that it is well-settled law that, in the absence of a clearly expressed legislative intent to the contrary, the plain and unambiguous meaning of the words used by Congress will prevail. The Board noted that the timeliness limitation of § 315(b) does not apply to a request for joinder under § 315(c) and, further, that Apple had filed a motion to join the IPR proceeding with a subsequent IPR filed by a third party. As that other proceeding had been terminated at the request of its petitioner, the Board dismissed Apple’s motion for joinder.

Apple subsequently filed a request for rehearing of the decision on institution. Taking up the rehearing request, the Board observed that Apple had introduced a number of new arguments in support of its position, including that § 315(b) was ambiguous, a position that was contrary to Apple’s initial argument in its petition that the Board should follow the plain meaning of statute. Additionally, the Board observed that Apple’s argument that Congress had intended IPR to apply only to concurrent litigation was supported only by selective segments of the AIA’s legislative history and was undone by the fact that Congress created an express exception to the time limit of § 315(b) via the joinder provisions of § 315(c).

Trademark / Right of Publicity

Applause Can Come with a Big Price Tag
Michael Jordan v. Jewel Food Stores, Inc.
by Keith M. Stolte
Paying tribute to celebrity can sometimes be an expensive proposition. A Chicago grocery store chain found this out the hard way when the U.S. Court of Appeals for the Seventh Circuit handed down its decision in *Michael Jordan v. Jewel Food Stores, Inc.*, Case No. 12-192 (7th Cir., Feb. 19, 2014) (Sykes, J.).

The facts are straightforward. In 2009, basketball superstar Michael Jordan was inducted into the Naismith Memorial Basketball Hall of Fame. Sports Illustrated decided to produce a commemorative issue to mark Jordan’s Hall of Fame induction. Jewel agreed to provide floor space to promote the issue. In exchange, Jewel was permitted to place a full-page congratulatory notice in the commemorative issue, which purported to pay tribute to Jordan, once a mega-celebrity in Chicago. Jordan, an unquestionably fine basketball player, but an especially astute businessman and promoter, saw in the congratulatory notice something much more—a royalty-free advertisement linking the promotion of the Jewel brand with Jordan’s celebrity.

The notice combined textual, photographic and graphic elements and prominently displayed the Jewel-Osco logo and Jewel marketing slogan “Good things are just around the corner,” both of which are trademarked. The Jewel logo and slogan were positioned in the center of the page, above a photograph of a pair of basketball shoes, each of which bore Jordan’s player number ‘23.’ The congratulatory text read:

> A Shoe In! After six NBA championships, scores of rewritten record books and numerous buzzer beaters, Michael Jordan’s elevation in the Basketball Hall of Fame was never in doubt! Jewel-Osco salutes #23 on his many accomplishments as we honor a fellow Chicagoan who was “just around the corner” for so many years.


Following discovery, Jewel filed a motion for summary judgment seeking dismissal of all claims on the basis that its congratulatory notice was non-commercial speech and thus protected under the First Amendment to the U.S. Constitution. Jordan sought partial summary judgment in Jewel’s favor and remanded. The 7th Circuit panel first expressed some doubt as to the propriety of the parties’ framing of the issue on appeal because it viewed the dispute as purely a clash over private rights and not a public-law constitutional challenge. It noted, however, that Jewel and Jordan had agreed that if Jewel’s congratulatory notice was “non-commercial speech” in the constitutional sense, then the First Amendment would provide a complete defense to all claims in the lawsuit. Consequently, the panel agreed to play in the ball court that the parties set for themselves, despite its doubts.

In determining whether Jewel’s conduct constituted commercial speech, the panel applied the Supreme Court’s test from *Bolger v. Youngs Drug Prods.* (1983). Under that test, relevant considerations include “whether (1) the speech is an advertisement; (2) the speech refers to a specific product; and (3) the speaker has an economic motivation for the speech.” It noted that no one factor of this test is dispositive and all factors are not necessary to determine the commercial or noncommercial nature of the speech.

Analyzing the first *Bolger* factor, the 7th Circuit concluded that amid the celebratory applause on the occasion of Jordan’s elevation to the Hall of Fame, Jewel’s notice had an unmistakable commercial function—enhancing the Jewel brand in the minds of consumers. The court further determined that this commercial function, although implicit, was easily inferred and was the dominant message. Although the ad did not invite consumers to engage in any specific commercial transaction, the court explained that image or brand advertising is ubiquitous in all media today, and the ad implicitly encourages consumers to patronize their local Jewel-Osco store. “The ad is a form of image advertising aimed at promoting goodwill for the Jewel-Osco brand by exploiting public affection for Jordan at an auspicious moment in his career.”

The panel made quick work of the remaining two *Bolger* factors. Although the Jewel congratulatory notice did not promote a specific product or service, the Court found it nevertheless promoted patronizing Jewel supermarkets. The panel also determined that the ad had an unmistakable economic motivation—“to burnish the Jewel-Osco brand name and enhance consumer goodwill.” In view of the *Bolger* factors, the 7th Circuit held that Jewel’s tribute to Michael Jordan in Sports Illustrated’s commemorative issue qualified as commercial speech, which defeated Jewel’s constitutional defense. It reversed the district court’s summary judgment in Jewel’s favor and remanded.

**Practice Note:** When honoring a superstar, refrain from patting your own back and promoting your goodwill. Otherwise, be prepared to pay tribute—of the monetary kind.

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**Trade Secrets / Breach of a Non-Disclosure Agreement**

**Properly Analyzing Breach of a NDA**

*Loftness Specialized Farm Equip., Inc. v. Twiestmeyer*

by Zachary Getzelman
The U.S. Court of Appeals for the Eighth Circuit has explained that under Minnesota law it is inappropriate to apply the test for the tort of misappropriation of trade secrets and confidential information when the issue is the alleged violation of a non-compete clause in a non-disclosure agreement (NDA). The Court vacated and remanded the lower court’s grant of summary judgment. **Loftness Specialized Farm Equip., Inc. v. Twiestmeyer**, Case No. 12-4049 (8th Cir., Feb. 11, 2014) (Gruender, J.).

In June 2011, Loftness Specialized Farm Equipment (Loftness) brought a declaratory judgment action against Terry Twiestmeyer, Steven Hood and Twiestmeyer & Associates (T&A), who asserted counterclaims against Loftness for unjust enrichment and two breach of contract claims.

In 2007, Loftness and T&A entered into an NDA that included a 20-year non-compete clause. Twiestmeyer and Hood then related their idea for selling grain bagging equipment in the United States, including their improvements on Argentinian-made equipment. Loftness developed and manufactured grain bagging equipment that incorporated Twiestmeyer’s and Hood’s ideas. During this period, Loftness agreed to pay Twiestmeyer and Hood a 2 percent override on all grain bagging equipment and related products (under the terms of the May 2008 Agreement).

Shortly before the expiration of the May 2008 Agreement, Loftness informed Twiestmeyer and Hood that it would be manufacturing grain bagging equipment for Brandt. Although Loftness initially continued to pay Twiestmeyer and Hood the 2 percent override payments after the expiration of the May 2008 Agreement, Loftness eventually informed Twiestmeyer and Hood that the payments would be terminated.

The district court entered summary judgment for Loftness for breach of the NDA and breach of the May 2008 Agreement, in addition, it dismissed Twiestmeyer, Hood and T&A’s unjust enrichment counterclaim. Regarding the breach of the NDA, the district court applied a three-part test for the tort of misappropriation of trade secrets and confidential information that it derived from **Cherne Industrial v. Grounds & Associates** (Minn. 1979). However, in **Electro-Craft v. Controlled Motion** (Minn. 1983), the Minnesota Supreme Court distinguished between information protected by **Cherne's common law standard and Minnesota Uniform Trade Secrets Act, and information protected by a non-compete clause in a contract. A non-compete clause can be violated with a single act and the single act could be entering a contract. The tort of misappropriation of trade secrets and confidential information requires a continuing course of conduct by the party seeking to protect the information. The U.S. Court of Appeals for the Eighth Circuit remanded this counterclaim because the parties did not comprehensively brief or argue whether Loftness’s actions in connection with the Brandt deal constituted a breach of the non-compete provision of the NDA.

The court also affirmed the district court’s rulings on the breach of the May 2008 Agreement and unjust enrichment. The court agreed that the May 2008 Agreement was not extended by the NDA or orally since in either case it would be unenforceable under the statute of frauds. The court agreed with the dismissal of the unjust enrichment counterclaim because adequate legal remedy existed under the counterclaims for breach of the NDA and breach of the 2008 Agreement.

**Trade Secrets / Rule 11**

**Exaggerated Allegations Based on Essentially No Evidence Equals Rule 11 Sanctions**

**Heller v. Cepia L.L.C.**

by Teri H. P. Nguyen

The U.S. Court of Appeals for the Ninth Circuit affirmed the imposition of Rule 11 sanctions of $5,000 on a plaintiff’s attorney for exaggerating allegations in a complaint. As the court explained, the mere "presence of some supported allegations in a pleading does not necessarily shield from sanctions an attorney who also includes unsupported allegations." **Heller v. Cepia L.L.C.,** Case No. 12-15083 (Mar. 4, 2014) (non-precedential, memorandum opinion).

Heller is a toy designer who had a prototype for a toy robotic hamster. After entering into non-disclosure agreements with two Hong Kong toy companies, A-Tech/The Bean and Ying Leung, Heller shared information, including trade secrets, with the two toy companies in order to get a price quote for his toy hamster idea. According to the complaint, the two companies built a prototype for the toy and Heller then began pitching his idea to larger toy companies, namely Hasbro and Mattel. Later, while at a 2009 Dallas Toy Fair, plaintiff discovered Cepia selling what appeared knock-off toy hamsters that exhibited the same features as the prototype he shared with the two Hong Kong companies. Plaintiff filed suit against Cepia for developing a toy based on trade secrets he provided to the two Hong Kong toy companies.

In an effort to show that Cepia misappropriated trade secrets, the plaintiff alleged that the absence of sign-in sheets for a particular week confirmed that representatives of Cepia were, in fact, on the premises of A-Tech/The Bean in September 2008. In light of the premises relationship between the two Hong-Kong toy companies and that when plaintiff confronted A-Tech/The Bean and Ying Leung with the suggestion that they had given Cepia access to plaintiff’s trade secret confidential information, the toy companies refused to cooperate.

Cepia moved for sanctions against plaintiff on the grounds that plaintiff had no factual support for his allegations. Cepia requested sanctions, including dismissal of the complaint and attorneys’ fees and expenses. The district court agreed in part.

Because the complaint contained both allegations that were supported with evidence and allegations that were not, the district court did not dismiss the complaint as a sanction, noting that the complaint was not "completely baseless." Rather, the district court placed blame on plaintiff’s counsel since “the
nature of these unsupported allegations stem[med] from exaggerations for which [plaintiff’s] counsel is culpable. He is the one who drafted the complaint and the allegations at issue.” The district court imposed a sanction on plaintiff’s counsel of $5,000. Heller’s counsel appealed.

In a short, non-precedential opinion, the 9th Circuit affirmed holding that “[s]uch a sanction is hefty, especially given that the district court did not conclude that the complaint was baseless, but the amount is not so unreasonable that it constitutes an abuse of discretion.”

**Practice Note:** Under *Twombly/Iqbal*, a complaint must allege enough facts to state a claim to relief that are plausible on its face. However, the allegations must be supported by credible facts, and not exaggerations or extrapolations. Sanctions may be imposed where an attorney makes allegations without factual basis or supporting of evidence.