IN THIS ISSUE

Patents

Federal Circuit Rules It’s Own Standards Apply When Considering Preliminary Injunctions

Preliminary Testing of Medical Devices in Animals Enables Their Use in Humans

Rare Finding of Non-Obviousness Based Solely on Secondary Considerations

Section 256 Inventorship Claim Does Not Accrue Until the Patent Issues

Infringement of Method Claims Requires Proof of Actual Performance Rather than Mere Capability

Section 102(g) Is Still Available as a Defense for Pre-AIA Patents

Six-Year-Long ITC Investigation Concludes with Finding of Obviousness

Patent Infringement Claims Not Precluded by Related Trademark Infringement Claims in Prior Suit

Reissue Is Not Remedy to Terminal Disclaimer

**WEB ONLY** Diagnostic Claims For Assessing the Risk of Down’s Syndrome Are Not Patent Eligible

Wrong Claim Construction Leads to Erroneous Infringement and Validity Findings

Federal Circuit Mows Down Lower Court’s “Into Engagement with” Claim Construction

Trademarks

40-Year Delay Smacks Down Monetary Damages, but Not Permanent Injunction, in Fraternity and Sorority Trademark Suit Against Paddle Manufacturer

Copyrights

Lack of Striking Similarity Ends The Big C Copyright Infringement Action in the Ninth Circuit

D.C. Circuit Holds Restitution Must Be Based on Loss of Victim, Not Defendant’s Gain

Trade Secrets

Pleading Unjust Enrichment Does Not Support a Claim for the Underlying Trade Secret Misappropriation

Antitrust

Joint DOJ-FTC Workshop Explores Competitive Impact of Patent Assertion Entities

FTC Signals Stricter Stance on Injunctions for FRAND-Encumbered Patents
Cert Alert

U.S. Supreme Court to Rule on “Pay-for-Delay” Antitrust Issue

**Patents / Preliminary Injunction**

**Federal Circuit Rules It’s Own Standards Apply When Considering Preliminary Injunctions**

by Roozbeh Gorgin

Addressing the issue of preliminary injunction standards in patent cases, the U.S. Court of Appeals for the Federal Circuit concluded that when it comes to determining whether a preliminary injunction should be issued in patent cases, the Federal Circuit’s preliminary injunction standards apply, rather than those of the regional circuit in which the district court hearing the patent case sits. *Revision Military Inc. v. Balboa Manufacturing Co.*, Case No. 11-1628 (Fed. Cir., Nov. 27, 2012) (Newman, J.).

Revision Military filed a patent infringement case in the U.S. District Court for the District of Vermont (part of the U.S. Court of Appeals for the Second Circuit), alleging that Balboa Manufacturing’s new “Bravo” design protective goggles (also called “Bobster Bravo”) copied and infringed Revision’s “Bullet Ant” goggles covered by design patents. After the suit was filed, Revision moved for a preliminary injunction, seeking to enjoin Balboa from making and selling the Bobster Bravo goggles while the litigation was pending. In denying Revision’s preliminary injunction motion the district court applied the Second Circuit’s heightened standard of proof of likelihood of success on the merits, instead of the Federal Circuit standard for consideration of whether to impose such relief. Revision appealed.

The Federal Circuit, in reversing the district court’s decision, held that the trial court should have used the standard articulated by the Federal Circuit:

“With respect to the applicable standard, the Federal Circuit has explained that a preliminary injunction enjoining patent infringement . . . ‘involves substantive matters unique to patent law and, therefore, is governed by the law of this court . . .’”

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“Substantive matters of patent infringement are unique to patent law, and thus the estimated likelihood of success in establishing infringement is governed by Federal Circuit law,” the panel said. “Revision need not meet the Second Circuit’s heightened ‘clear or substantial likelihood’ standard, but rather the Federal Circuit’s standard of whether success is more likely than not.”

**Practice Note:** By indicating that preliminary injunction issues related to patent cases are “a patent specific issue,” an interesting question is whether the Federal Circuit’s ruling here is conflict with the Supreme Court’s guidance in *eBay v. MercExchange*, a case in which the Supreme Court considered whether the test for injunctive relief for patent infringement should be treated differently than it is treated in other areas of law, and ultimately ruled that it should not.

**Patents / Enablement**

**Preliminary Testing of Medical Devices in Animals Enables Their Use in Humans**

by Atabak Royaee, Ph.D.

The U.S. Court of Appeals for the Federal Circuit concluded the claims of a patent directed to a medical device for implementation into humans were enabled by animal tests or in vitro data where human testing is inappropriate. *Edwards Lifesciences AG v. CoreValve, Inc.*, Case No. 11-1215; -1257 (Fed. Cir., Nov. 13, 2012) (Newman, J.).

Edwards sued CoreValve in district court for infringement of a patent directed to a prosthetic device called a “transcatheter heart valve.” The valve is mounted on a collapsible stent and implanted in the heart by a balloon catheter, thereby avoiding open heart surgery and its associated risks.
CoreValve challenged the validity of the patent for lack of enablement based on the undisputed fact that at the time the patent application was filed, the stent/valve prosthesis had been implanted only in pigs and that testing in pigs did not enable use in humans. CoreValve pointed out that the various experimental implants in pigs were not always successful and that design changes were made after the patent application was filed.

Edwards did not deny that more developmental work was required at the time of filing. One of the co-inventors had stated, in a contemporaneous report, that “questions such as size reduction, material and design optimization, and stent valve sterilization, remain unsolved,” and that “much more work had to be done before anybody ever even contemplated using this for a human.” Edwards’ expert witness testified that at the time the patent application was filed, it was a device to perform testing on and not a device to move in and treat patients.

Nonetheless, the jury found for Edwards, and the lower court found the patent was enabled. CoreValue appealed.

The Federal Circuit affirmed. Citing the Manual of Patent Examining Procedure, the Court explained that it has long been recognized that when experimentation on human subjects is inappropriate, as in the testing and development of drugs and medical devices, the enablement requirement may be met by animal tests or in vitro data. The Court confirmed this general rule, which has been elaborated in various situations.

To determine whether the subject matter claimed required undue experimentation, the Court considered the In re Wands factors. The Court reasoned that there was evidence that the stent/valve prothetic device was successfully implanted in pigs, that pigs were a standard experimental animal for heart valve research, and that witnesses for both sides discussed the vascular anatomies of pigs and the established use of porcine valves in humans.

As such, the Court concluded that substantial evidence supported the jury verdict that invalidity on the ground of non-enablement had not been proved by clear and convincing evidence.

**Patents / Obviousness**

**Rare Finding of Non-Obviousness Based Solely on Secondary Considerations**

by Donna M. Haynes

Addressing the validity and infringement of two patents, the U.S. Court of Appeals for the Federal Circuit reversed a lower court judgment as a matter of law (JMOL) that the patented invention was invalid and not infringed, reinstating a jury’s $15 million damages award. Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc., Case No. 11-1555 (Fed. Cir., Nov. 15, 2012) (Moore, J.).

The two Transocean patents related to a deepwater drilling vessel having “dual-activity” technology. The dual-activity technology permits simultaneous drilling and finishing operations by the concurrent use of two cooperating advancing stations, thereby improving operational efficiency. The defendant, Maersk, entered into a contract with Statoil, offering for sale a deepwater drilling vessel having Transocean’s dual-activity technology. The contract contained an option-to-modify clause pending the outcome of unrelated district court litigation involving the patents-in-suit. Maersk modified the vessel to avoid infringement of the claims before delivering it to Statoil.

On remand from a prior Federal Circuit decision finding that Maersk had presented a prima facie case of obviousness, a jury found that Transocean’s evidence of secondary considerations of non-obviousness was sufficient to overcome the prima facie case. The jury found that Transocean’s patents were valid and infringed by Maersk’s offer for sale, awarding $15 million in damages. The district court then granted Maersk’s JMOL. The district court held that Transocean’s patents were invalid, that Maersk did not infringe and that Transocean was not entitled to damages.

On appeal, the Federal Circuit began by reasserting its prior holding that Maersk presented a prima facie case of obviousness. It then went on to explain that “[t]he establishment of a prima facie case … is not a conclusion on the ultimate issue of obviousness … [and] evidence rising out of the so-called ‘secondary considerations’ must always when present be considered en route to a determination of obviousness.” The Court held that when evaluating such secondary considerations, the strength of the prima facie showing of non-obviousness may be examined.
The Federal Circuit recognized that it has not often found objective evidence sufficient to overcome a *prima facie* case of obviousness. Here, however, Transocean presented, and the jury found credible, seven distinct factors supporting non-obviousness—commercial success, industry praise, unexpected results, copying, industry skepticism, licensing and long-felt but unsolved need. The Federal Circuit agreed, concluding that Transocean had presented substantial evidence to support the jury finding. As such, the Court stated that Transocean established precisely the sort of case where the objective evidence establishes that an invention appearing to have been obvious in light of the prior art was not.

Analyzing the jury finding of infringement, the Federal Circuit held that Maersk’s offer for sale of an infringing drilling rig to Statoil was an act of direct infringement and reinstated the jury’s $15 million damages award. According to the Court, although Maersk did not, in the end, deliver an infringing rig to Statoil, it nonetheless infringed by offering a dual-activity rig for sale.

The Federal Circuit also reversed the district court’s grant of JMOL that the asserted patent claims were not enabled and the district court’s grant of Maersk’s motion for a new trial.

**Patents / Inventorship**

**Section 256 Inventorship Claim Does Not Accrue Until the Patent Issues**

by D. Jeremy Harrison

Addressing challenges to inventorship under 35 U.S.C. § 256, the U.S. Court of Appeals for the Federal Circuit reversed a district court’s grant of summary judgment that a claim for inventorship was barred by laches, finding that a claim for correction of inventorship does not accrue until the patent issues. *Hor v. Chu*, Case No. 211-1540 (Fed. Cir., Nov. 14, 2012) (Prost, J.) (Reyna, J., concurring).

Defendant Ching-Wu Chu, a professor of physics at the University of Houston, and plaintiffs Pei-Herng Hor and Ruling Meng worked together at the University of Houston physics research lab. During the mid-1980s, Chu filed two patent applications relating to superconducting compositions. The two patent applications eventually issued in 2006 and 2010, respectively, with Chu named as the sole inventor. In December 2008, Hor filed a complaint against Chu, asserting a claim for correction of inventorship under § 256 of the earlier-issued patent. In March 2010, Meng joined the suit also on a claim for correction of inventorship, and the suit was later amended in June 2010, after the second patent issued, to add claims for correction of inventorship under § 256 of the second patent.

For inventorship claims under § 256, a delay of six years after a claim accrues creates a rebuttable presumption of laches. The district court granted summary judgment against Hor’s and Meng’s claims and held that laches barred their inventorship claims since they knew or should have known by as early as 1987 that they were not named inventors on the patent applications that ultimately issued as the patents at issue. Hor and Meng appealed.

The issue on appeal was whether the laches period for a § 256 claim begins to run before a patent issues when the omitted inventors knew or should have known prior to patent issuance that their names were omitted from the patent applications. Simply as a matter of statutory language, the Court concluded that the answer is “no.”

Section 256 creates a private cause of action to correct inventorship “[w]henever through error a person is named in an issued patent as the inventor, or through error an inventor is not named in an issued patent...” Accordingly, the Federal Circuit held that a § 256 claim for correction of inventorship cannot accrue until the patent actually issues. In support of this conclusion, the Court reasoned that correct inventorship is often not definitively determined until the patent issues, due to the back-and-forth negotiation between the patentee and the U.S. Patent and Trademark Office (PTO) examiner. In many cases, the Court stated, an omitted inventor may not know whether she has an inventorship claim until the examination concludes and the patent finally issues.

**Patents / Infringement**

**Infringement of Method Claims Requires Proof of Actual Performance Rather than Mere Capability**

by Alexander P. Ott
Addressing infringement of method claims and various other issues, the U.S. Court of Appeals for the Federal Circuit reversed a district court’s ruling that a means-plus-function claim limitation was sufficiently disclosed, reversed-in-part an infringement verdict for method claims and affirmed the district court’s exclusion of the plaintiff’s damages case and the scope of the injunction imposed. *ePlus, Inc. v. Lawson Software, Inc.*, Case Nos. 11-1396; -1456; -1554 (Fed. Cir., Nov. 21, 2012) (Prost, J.).

The district court denied Lawson’s motion for summary judgment of indefiniteness of the “means for processing” term. While Lawson orally noted its indefiniteness arguments at the pre-verdict judgment as a matter of law (JMOL) hearing and incorporated its summary judgment motion into its post-verdict JMOL motion, it did not specifically argue the indefiniteness issue at trial or in either JMOL motion. The Federal Circuit, addressing the issue of whether the defendant, Lawson, waived its indefiniteness argument noted that, since indefiniteness is an issue of law and the district court regarded its summary judgment decision to be the last word on the issue, Lawson’s actions were sufficient to avoid waiver.

The Federal Circuit then found the means-plus-function term to be indefinite due to an “absence of any disclosure at all” of corresponding structure. The disclosure identified by ePlus was, in the Court’s opinion, merely a “black box” that identified the function but not how it was carried out. The Court also rejected ePlus’ argument that the prior art would inform one of ordinary skill to implement the “means for processing,” reiterating the rule that the disclosure must encompass the required structure, not merely allow one of ordinary skill in the art to find a way to implement the invention.

Turning to infringement, the Federal Circuit first noted that there was no dispute that Lawson’s system is capable of infringing each of the method claims. While the Court upheld infringement of one of the method claims, the Court reversed the infringement verdict for the remaining method claims for lack of evidence showing performance of the “converting data” step. While Lawson’s system had the capability to carry out that step, the capability was an optional feature that had to be loaded by the customer. ePlus did not show that any customers had actually done so, and, thus, the Federal Circuit held that there could be no showing of infringement.

Finally, the Federal Circuit affirmed the district court’s decision to exclude ePlus’ expert testimony on damages, finding ample justification because the experts ignored three small settlement agreements in favor of two larger agreements considered unreliable. However, the Federal Circuit denied Lawson’s argument that the injunction should not bar servicing current customers for whom the sales did not lead to any monetary damages. While the Federal Circuit had allowed parties to continue servicing customers when the original sale was free of liability, for instance by failure to mark under § 287 or by laches, the Court held that the discovery rules barring testimony on damages did not similarly make those sales free from liability.

**Patents / Prior Invention**

**Section 102(g) Is Still Available as a Defense for Pre-AIA Patents**

by Roozbeh Gorgin


The Fox Group filed suit against Cree, alleging infringement of a patent directed to silicon carbide crystals. Cree asserted a counterclaim seeking a declaration that the patent was invalid due to Cree having invented the claimed subject matter prior to Fox Group. The district court granted summary judgment in Cree’s favor, ruling that the entire patent was invalid in light of a finding that Cree had invented the subject of the claims first. Fox Group appealed.

The Federal Circuit, in affirming part of the district court’s decision, found that Cree had indeed conceived and reduced to practice the subject matter prior to Fox Group. Fox Group argued that Cree had abandoned, suppressed or concealed its invention by not filing a patent application, not presenting proof of commercialization that would allow for reverse engineering and not otherwise providing adequate disclosure because Cree failed to reveal the details of the conditions under which it invented the subject matter. The Federal Circuit explained that Cree promptly and publicly disclosed its findings concerning its prior invention of the claimed subject matter in a presentation at the 1995 International Conference and a published paper on the subject. Accordingly, the Court concluded that Cree had made its invention known to the public.
The Federal Circuit, however, reversed the district court’s ruling that all of the claims of the patent were invalid and instead held that because there was no case or controversy at the time of the judgment over the unasserted claims, the district court erred in holding the unasserted claims were invalid.

**Practice Note:** Although soon to be eliminated as prior art for new patents under the America Invents Act, 35 U.S.C. § 102(g) will continue to be a potentially important category of prior art for the near future as pre-AIA patents will remain the prevailing type of patent in infringement suits for at least the next decade.

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**Patents / ITC**

### Six-Year-Long ITC Investigation Concludes with Finding of Obviousness

by Christopher G. Paulraj

After a protracted investigation that involved two separate appellate opinions, the U.S. Court of Appeals for the Federal Circuit affirmed a final determination by the International Trade Commission (ITC) that the asserted claims were invalid due to obviousness. The underlying ITC investigation was initiated when complainant Norgren filed a complaint in October 2006 alleging a violation of Section 337 by respondent SMC based on the infringement of a single patent. *Norgren Inc. v. Int'l Trade Comm’n*, Case No. 11-1349 (Fed. Cir., Nov. 14, 2012) (*Norgren II*) (Linn, J.) (Moore, J., dissenting).

The patent at issue relates to structures that connect fluid-conditioning units in a compressed air pipeline. The administrative law judge (ALJ) assigned to the investigation concluded that the accused connectors made by SMC did not infringe the asserted patent, and the ITC declined to review that initial determination. In a prior non-precedential opinion, the Federal Circuit reversed the ALJ’s construction of the term “generally rectangular ported flange,” applied the correct construction and reversed the ITC’s non-infringement determination. *Norgren Inc. v. Int'l Trade Comm’n*, Case No. 08-11415 (Fed. Cir., May 26, 2009) (*Norgren I*). The panel thereafter remanded the investigation so that the ALJ could evaluate the question of obviousness of the asserted claims in the first instance under the proper claim construction—*i.e.*, one that does not require a flange having projections on all four sides.

On remand, the ALJ, focusing on the separate claim limitation “a four-sided, generally rectangular clamp,” found that the asserted claims were not invalid under 35 U.S.C. § 103. The ITC, however, reversed the decision of the ALJ, finding that the asserted claims were indeed obvious and thus once again finding no Section 337 violation. The ITC found that a prior art SMC clamp (“old-style SMC connector”) was both four-sided and generally rectangular, that the addition of a hinge to this old-style SMC connector would have been obvious to a person of ordinary skill in the art and that the evidence failed to show secondary considerations to support a finding of non-obviousness. The ITC also found that the additional limitations of the asserted dependent claims did not render them nonobvious. Norgren again appealed to the Federal Circuit.

In the second appeal, the Federal Circuit affirmed the ITC’s determination of obviousness. Although *Norgren I* addressed similar claim language related to the “flange” limitation, the panel in *Norgren II* recognized—consistent with the Federal Circuit’s prior claim construction—that the “clamp as a whole, and not merely portions of it, must be four-sided and generally rectangular.” The dispute in *Norgren II* therefore centered on the factual question of whether the old-style SMC connector is four-sided and generally rectangular. The panel in *Norgren II* found that there was substantial evidence supporting the ITC’s underlying factual determination that the only difference between the claimed invention and the prior art connector was the existence of the hinge. In particular, because the old-style SMC connector was characterized by the same type of deviation from a “precise rectangle,” *i.e.*, missing corners, as were the accused flanges in *Norgren I*, the Court once again found that the absence of corners in the prior art clamp did not detract from its pertinence to a claim limitation requiring a “generally rectangular” configuration. The Court therefore concluded that the claimed invention was obvious because the prior art recognized that adding a hinge to pipe couplings eliminated loose parts and made the connector easier to use.

In dissent, Judge Moore, who authored the panel opinion in *Norgren I*, argued that the ITC’s obviousness determination was not supported by substantial evidence because the prior art did not teach a “four-sided” clamp. She asserted that, if the claim limitation was only a “generally rectangular clamp,” she would not dissent on this point. She could not, however, agree with the majority’s conclusion that the prior art SMC connector, which had sixteen different sides, met the claim limitation of a “four-sided generally rectangular clamp.”

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**Patents / Claim Preclusion**
Patent Infringement Claims Not Precluded by Related Trademark Infringement Claims in Prior Suit
by Christopher M. Koepke

Addressing, in the context of a patent infringement claim, what constitutes the same nucleus of operative facts as were previously considered in the context of a trademark infringement claim, the U.S. Court of Appeals for the Federal Circuit concluded that claim preclusion did not bar a plaintiff–appellant’s allegations of patent infringement, even though the complaint referred to the same advertisements that were at the center of a previous trademark infringement lawsuit between the same parties. Superior Indus., LLC v. Thor Global Enterbs. Ltd., Case No. 11-1549 (Fed. Cir., Nov. 27, 2012) (Rader, C.J.) (Mayer, J., dissenting).

Superior Industries filed a complaint against Thor Global Enterprises, alleging infringement of patents directed to portable conveyor assemblies used to transport and stockpile rocks, sand, grain and other materials. The district court dismissed Superior’s complaint, in part based on its determination that claim preclusion applied. According to the district court, Superior’s patent infringement claims shared a common nucleus of operative facts with trademark infringement claims brought by Superior in a previous lawsuit. Superior owns the registered trademark “FB,” which refers to the fully braced undercarriages such as those claimed in Superior’s asserted patents.

In the trademark action, Superior focused on Thor’s press releases describing a “PATENT-PENDING FB Undercarriage” and point-of-sale displays also using the “FB” mark. The trademark action ended in a consent judgment permanently enjoining Thor from further using the “FB” trademark in connection with undercarriage assemblies or portable conveyors. In dismissing Superior’s patent infringement claims, the district court highlighted the commonalities among Superior’s claims in the patent and trademark infringement cases. Superior’s patent infringement complaint referred to the same advertisements at issue in the previous trademark action. In addition, the complaint in the trademark action referenced the parent to one of the patents asserted in the present (patent) case. Superior appealed.

Notwithstanding the overlap in the factual underpinnings between Superior’s new patent case and its prior trademark infringement case, the Federal Circuit reversed the judgment of the district court, explaining that Superior’s patent claims arose from separate transactions than those at issue in its prior trademark infringement cases. The Court noted that although claim preclusion is often described as barring claims that could have been raised in a prior action, claims are only precluded if they involve the same cause of action. Claims involve the same cause of action when they share the same nucleus of operative facts. According to the Court, Superior’s trademark infringement claims pertained to the use of Superior’s registered “FB” mark, not the sales of the conveyor or undercarriage systems that form the basis of Superior’s patent infringement claims. Similarly, the Court ruled that the advertisements involved in the trademark action did not constitute offers for sale that could form the predicate of a patent infringement claim. An offer for sale must set out the terms of a proposed sale in sufficient detail to allow a purchaser to accept the bargain. However, Thor’s advertisements did not include price terms and thus could not be considered offers for sale.

In dissent, Judge Mayer concluded that Superior’s patent and trademark claims shared the same nucleus of operative facts.

Reissue Is Not Remedy to Terminal Disclaimer
by Aamer S. Ahmed

Affirming a decision by the U.S. Patent and Trademark Office (PTO) Board of Patent Appeals and Interferences (Board) rejecting a reissue application as improper since it was terminally disclaimed to an expired patent, the U.S. Court of Appeals for the Federal Circuit agreed that reissue proceedings cannot be used to withdraw a terminal disclaimer from an issued patent. In re Shunpei Yamazaki, Case No. 12-1086 (Fed. Cir., Dec. 6, 2012) (Lourie, J).

During the course of prosecuting its application, Yamazaki filed a terminal disclaimer to overcome an obvioussness-type double patenting rejection based on Yamazaki’s earlier-issued U.S. patent. The terminal disclaimer disclaimed the statutory term of any patent granted on the application that would extend beyond the expiration date of the issued patent. Yamazaki later amended the independent claims of the pending application, such that, in Yamazaki’s view, the pending claims became patently distinct over the claims of the issued patent and the terminal disclaimer became unnecessary. Accordingly, while the application was still pending, Yamazaki submitted a petition requesting that the PTO withdraw the terminal disclaimer. However, the PTO did not act on the petition. After a Notice of Allowance issued in the pending application, Yamazaki paid the issue fee, and the application issued
as a new U.S. patent. The terminal disclaimer thus remained a part of the record of the new patent, and as a result, effectively limited the new patent to a term of only 35 months. Approximately three months after the new patent issued, and more than two years after the petition to withdraw the terminal disclaimer was filed, the PTO dismissed the petition filed in the application (because the application had issued into a patent). Yamazaki then filed a reissue application, citing Yamazaki’s errors in failing to ensure proper disposition of the petition during prosecution. The PTO rejected the reissue application as failing to recite an error upon which reissue can be based. By this time, both the old and the new (i.e., terminally claimed) patents had expired. After Yamazaki responded to the rejections, the PTO delayed further action for more than two years before issuing another non-final office action. Yamazaki then appealed to the Board, which found that § 251 prohibits reissuing an expired patent and precludes expanding a reissued patent’s term beyond that set by the original patent issued. Yamazaki appealed to the Federal Circuit.

In its appeal, Yamazaki contended that by allowing the new patent to issue with the Petition to Withdraw still pending, the new patent was rendered patent wholly or partially inoperative and caused Yamazaki to claim less than he was entitled to by unnecessarily disclaiming part of the new patent’s full term. The Federal Circuit disagreed, concluding that when the new patent issued with its terminal disclaimer in effect, that disclaimer became part of the new patent and served to define its term, regardless of any further term that might have been otherwise available in the absence of the disclaimer. Although acknowledging the various delays Yamazaki experienced in prosecuting the reissue application, characterizing them puzzling and undeniably unfortunate, the Court determined that these delays had no effect on the eventual outcome because § 251 precluded the PTO from allowing the Reissue Application at any point during its pendency.

**Patents /Subject-Matter Eligibility**

**Diagnostic Claims For Assessing the Risk of Down’s Syndrome Are Not Patent Eligible**

by Cynthia Chen, Ph.D.

Following the *Prometheus* and *Myriad* decisions, the U.S. Court of Appeals for the Federal Circuit held that diagnostic claims that were directed to the use of biomarkers for screening the risk of Down’s syndrome were not patent-eligible. *PerkinElmer, Inc. v. Intema, Ltd.*, Case No. 11-1577 (Fed. Cir., Nov. 20, 2012) (O’Malley, J.) (non-precedential).

The claims at issue were directed to non-invasive prenatal screening to determine the risk of a fetus having Down’s syndrome, by measuring certain biomarkers during the first and the second trimester of pregnancy and then performing statistical analysis to determine the risk of Down’s syndrome.

The Federal Circuit held that the claims were not patent-eligible because they were drawn to an “abstract mental process” (analytical data manipulation to determine a disease risk) and to “a law of nature” (the relationship between screening biomarker levels and the risk of fetal Down’s syndrome). Citing *Prometheus* and *Myriad*, the Court held that the claims included only “conventional steps, specified at a high level of generality,” which are insufficient because “anyone who want to use this mental step or natural law must follow the claimed process.” Instead, for a process claim to cover a patentable application of a natural law, it must contain an “inventive concept” to ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself.

The Federal Circuit further noted that the claims failed the machine-or-transformation test, even though this test does not trump the “law of nature” exclusion. Although the assaying step required the transformation of biological samples based on current technology, the Federal Circuit reasoned that the assaying could be performed without transforming the sample, should science develop a totally different method in the future.

To be patent-eligible, diagnostic claims need to include certain post-solution activities that move the claims from a “scientific principle” to a “specific application.” For example, the Court compared this case to *Diehr* and noted that the claims in *Diehr* were patent-eligible “because of the way the additional steps of the process integrated the [ineligible] equations into the process as a whole” (i.e., the data manipulation caused the heated mold to open when the widgets were optimally cured). Similarly, in *Classen*, patent-eligible claims required the further act of immunization in accordance with a lower-risk schedule. In contrast, in this case there is no requirement that a doctor act on the calculated risk.

**Practice Note:** The Supreme Court has granted certiorari in *Myriad*. However, the Supreme Court limited to the scope of review to whether isolated DNA molecules are patent-eligible. In the meantime, drafters of diagnostic or personalized medicine claims should
consider adding specific steps that move the claims “from abstract scientific principle to specific application.” Such steps also need to be unconventional or novel because “conventional and obvious extra-solution activity […] cannot save the claims.”

**Patents / Claim Construction**

**Wrong Claim Construction Leads to Erroneous Infringement and Validity Findings**
by Raymond M. Gabriel


In January 2010, ArcelorMittal sued AK Steel in district court alleging that AK Steel’s aluminum-coated steel sheet products infringed certain claims of ArcelorMittal’s boron steel sheet patent. The district court issued a claim construction order largely favoring AK Steel’s position. In relevant part, the district court construed the term “a hot-rolled steel sheet coated with an aluminum or aluminum alloy coating” to include only steel sheets that had been reduced to a final thickness by hot-rolling. This construction excluded steel that was first hot-rolled and then cold-rolled to its final thickness.

Under this construction, the AK Steel accused products did not literally infringe, so the district court prohibited ArcelorMittal from asserting literal infringement. The matter proceeded to trial on the issue of infringement under the doctrine of equivalents. A jury returned a verdict finding that AK Steel did not infringe ArcelorMittal’s patent and that the asserted claims were both obvious and anticipated. The district court entered judgment for AK Steel after denying ArcelorMittal’s motion for judgment as a matter of law on the invalidity issues and for a new trial on infringement. ArcelorMittal appealed.

In addressing the claim construction issue, the Federal Circuit explained that the district court improperly relied on extrinsic evidence to construe “a hot-rolled steel sheet coated with an aluminum or aluminum alloy coating” where the specification unambiguously contemplated steel that was first hot-rolled and the cold-rolled to its final thickness. Because the claim used the term “comprising,” the Federal Circuit explained that additional, non-claimed steps disclosed in the specification fall within the claim scope and cannot be excluded. Under the new construction, it is at least possible that AK Steel’s products may literally infringe.

The Federal Circuit thus reversed the district court, concluding that a new trial was warranted because the error in the district court’s claim construction prevented the jury from properly considering both a disclosed embodiment of the invention as well as ArcelorMittal’s evidence of commercial success. The Federal Circuit remanded the case for a new trial limited to the issue of whether under the correct claim construction, AK Steel literally infringes the asserted claims and whether the claims are non-obvious in light of any evidence of commercial success of hot-rolled steel (that is also cold-rolled) and that has the required nexus with the asserted patent claims.

The Federal Circuit also reversed the lower court’s finding of anticipation. The prior art reference used to anticipate the claims did not expressly disclose coating with aluminum or aluminum alloy. Rather, it disclosed paint coatings, not metal, and there was insufficient evidence that one of ordinary skill would understand that the variety of paint coatings disclosed could be replaced with aluminum or aluminum alloy.

However, the Federal Circuit did affirm the district court’s finding of a *prima facie* obviousness, based on substantial evidence that the jury could have found that the primary reference disclosed a pre-coating and the secondary reference disclosed using aluminum in an analogous art. Whether a reference discloses a particular element and whether a reference is analogous art are factual issues for a jury.

The Federal Circuit also found that the district court’s incorrect claim construction precluded the jury from properly evaluating ArcelorMittal’s evidence of commercial success of its cold-rolled products. The Federal Circuit explained that the commercial success of an embodiment with additional unclaimed features must be considered when evaluating obviousness, provided that the embodiment’s success has a sufficient nexus to the claimed features. Moreover, the Federal Circuit noted that the *prima facie* obviousness case here was not so strong that it would necessarily withstand ArcelorMittal’s commercial success evidence.
Practice Note: The Federal Circuit’s findings on commercial success demonstrate that a broader range of products may be used as evidence to demonstrate non-obviousness. Products may include additional features can form the basis for a commercial success argument as long as the product’s commercial success is based upon the claimed features.

**Patents / Claim Construction**

**Federal Circuit Mows Down Lower Court’s “Into Engagement with” Claim Construction**

by Matt Gavronski

In an opinion addressing claim construction issues, the U.S. Court of Appeals for the Federal Circuit vacated and reversed a lower court’s grant of summary judgment of non-infringement based on an erroneous construction of the term “engagement,” rejecting the argument that a construction not requiring “secured” would render other claim language superfluous. Deere & Company v. Bush Hog, LLC, Case Nos. 11-1629; -1630; -1631 (Fed. Cir., Dec. 4, 2012) (Rader, C.J.).

Deere alleged infringement of a patent directed to a rotary cutter deck for brush type, tow-behind lawn mowers. Claim 1 required an upper deck wall including front and rear portions that slope downwardly “into engagement with,” and being secured to, a lower deck wall. The lower court construed the term “into engagement with” to mean “brought into contact with” and construed “being secured to” as “fastened or attached.” The lower court granted summary judgment of non-infringement because all of the accused cutter decks provided intermediate structure between the upper and lower deck walls. Deere appealed.

Addressing the relevant claim language, the Federal Circuit rejected the defendant’s argument that construing “into engagement with” as including indirect contact would render that term redundant with the “secured to” language, which all parties agreed could include indirect coupling. The Court reasoned that the term “engagement” connotes a connection between objects in which the motion of one is constrained by the other, such as a motor engaged with a gear through a second, intermediate gear. Although not “secured” together, the objects are nonetheless engaged. Thus, construing “engagement” to include indirect contact does not render it superfluous to the term “being secured to.”

The Federal Circuit noted that the specification provided an example of indirect coupling between the upper deck wall and the lower deck wall. According to the specification, outer rear portions of the upper deck plate are coupled to the lower deck wall by ‘downwardly and rearwardly inclined filler plates.’ The Court determined that the filler plates provide an indirect connection by which the upper deck wall slopes “downwardly and rearwardly … into engagement with” the lower deck wall. The Court also drew parallels between functional language of the claim, which stated that the lower deck wall imparts “torsional stiffness” to the rotary cutter deck, and functional language in the specification, which described the upper and lower deck walls as cooperating with the filler plates to form a “box section having torsional rigidity.”

The lower court had also precluded the patent holder from asserting infringement under the doctrine of equivalents by characterizing the “into engagement with” limitation as “binary in nature,”—either the upper deck wall is “in contact with the lower deck wall or it is not.” The Federal Circuit took the opportunity to clarify what it called a “common misperception” regarding so called “binary elements” and claim element “vitiation.” The Court emphasized that the proper inquiry under the doctrine of equivalents is whether the asserted equivalent represents an “insubstantial difference” from the claimed element and noted in this case that a reasonably jury could have found that a small spacer connecting the upper and lower deck walls represents an insubstantial difference from direct contact.

**Trademarks / Laches**

**40-Year Delay Smacks Down Monetary Damages, but Not Permanent Injunction, in Fraternity and Sorority Trademark Suit Against Paddle Manufacturer**

by Rita Weeks

Assessing a delay of more than 40 years by college fraternal organizations in enforcing their trademarks against an unauthorized user, the U. S. Court of Appeals for the Fifth Circuit Court agreed with the district court that the delay of four decades barred the recovery of monetary damages based on laches, but not the grant of permanent injunctive relief. Abraham v. Alpha Chi Omega et al, Case. No. 12-10525 (5th Cir., Dec. 6, 2012) (Garza, J.).
Paddle Tramps Manufacturing is the country’s largest manufacturer of decorative fraternity and sorority paddles. In addition to offering custom paddles decorated with the name and insignia of a particular fraternity or sorority, Paddle Tramps sells “paddle kits” that buyers may design and assemble to their taste. Since its founding in 1961, Paddle Tramps has always sold products bearing the names of fraternities and sororities and has always used the name of fraternities and sororities to advertise its products. In 1997, Paddle Tramps established a website advertising its products, which displayed fraternity and sorority names and Paddle Tramps’ products that reproduced fraternity and sorority crests. In 2001, products first became available for purchase on the website.

In 1990, almost 30 years after Paddle Tramps and had begun using the names of fraternities and sororities on its products and in advertising its products, the Greek organizations first contacted Paddle Tramps about licensing. Paddle Tramps did not respond. Over the next 17 years, various Greek organizations or their marketing agents contacted Paddle Tramps with invitations to join their licensing programs, cease and desist letters, and threats to sue for trademark infringement. Paddle Tramps either ignored the letters or responded by stating that it refused to enter into a license agreement.

In December 2007, more than 45 years after Paddle Tramps started using the names of fraternities and sororities on its products and in advertising, 32 Greek organizations sued Paddle Tramps for trademark infringement and unfair competition. After the court dismissed the suit for improper venue, Paddle Tramps brought a declaratory judgment action that it was not infringing on the marks of the Greek organizations. The Greek organizations counterclaimed for federal and state trademark infringement, unfair competition and related claims, seeking monetary and injunctive relief. In the ensuing summary judgment motions practice, the district court found that Paddle Tramps had infringed the Greek organizations’ trademarks. A jury then determined that Paddle Tramps had proved its laches defense and had proved its acquiescence defense with respect to one Greek organization. The jury also found that the Greek organizations did not prove their counter-defense of unclean hands, which, if proven, would have barred Paddle Tramps’ affirmative defenses. Thereafter, the district court determined that laches barred the Greek organizations’ recovery of monetary damages but did not bar entry of a permanent injunction, thus permanently enjoining Paddle Tramps from some future uses of the Greek organizations’ marks. Paddle Tramps appealed.

Paddle Tramps argued that injunctive relief is unavailable where a trademark owner’s laches is long, unreasonable and inexcusable. The Greek organizations also argued that Paddle Tramps should have been barred from asserting the defense of laches because of unclean hands, citing Paddle Tramps efforts to capitalize on the fraternities’ and sororities’ goodwill in bad faith.

In upholding the injunction, the 5th Circuit explained that a finding of laches alone ordinarily will not bar injunctive relief, although it typically will foreclose recovery of an accounting or damages. This is because courts construe a trademark owner’s unreasonable delay to imply consent to the infringer’s conduct, “which amounts to nothing more than a revocable license,” which may be revoked once the trademark owner objects to the infringement. For laches to defeat claims for injunctive relief, the 5th Circuit explained, the trademark owner must have conducted itself in a way that induced the reliance of defendant, or if an injunction would result in “substantial prejudice” to defendant. The 5th Circuit noted that Paddle Tramps was enjoined from selling all infringing products except one—the particular product that it contended “drove” the sales of its non-infringing products. The result was that Paddle Tramps was barred from selling products that combined make up less than 3 percent of its total sales, yet was allowed to continue selling the one product that Paddle Tramps contended would cause it substantial prejudice if enjoined. Therefore, the court explained, the injunction was reasonable.

Regarding unclean hands, the 5th Circuit explained that the Greek organizations confused the elements of a trademark infringement claim with the greater showing necessary to prove unclean hands. Beyond showing that a defendant intended to capitalize on another’s marks, unclean hands requires a plaintiff to prove defendant’s bad faith intent to benefit from or capitalize on the trademark owner’s goodwill by confusing or deceiving buyers. Further, the court noted that Paddle Tramps had in fact provided evidence indicating a lack of bad faith. Notably, Paddle Tramps helped create the market for fraternity and sorority paddles decades before the Greek organizations had licensing programs. Further, Paddle Tramp’s products are virtually the same today as when the company started, and Paddle Tramps had never passed itself off as being sponsored or endorsed by the Greek organizations.

**Copyrights**
Lack of Striking Similarity Ends The Big C Copyright Infringement Action in the Ninth Circuit
by Sarah Bro and Paul Devinsky

In an unpublished opinion, the U.S. Court of Appeals for the Ninth Circuit affirmed the district court’s grant of summary judgment in favor of defendants, Darlene Hunt and Showtime Networks finding that the plaintiff could not establish any genuine issue of fact as to whether defendants had access to her screenplay prior to the creation of The Big C, a Showtime television series. Radin v. Hunt, et al., Case No. 11-57228 (9th Cir., Nov. 26, 2012) (Bright, J.; Graber, J.; Ikuta, J.) (non-precedential).

While plaintiff Nancy Radin, a breast cancer survivor, was taking screenwriting courses at the UCLA Extension School from 2006 until 2009, she developed a screenplay titled Quality of Life, which she based on her experience with cancer. After submitting portions of her screenplay to several UCLA professors, in March 2009, Radin submitted the full Quality of Life screenplay to a UCLA screenwriting contest. Other than the submission to the contest (which Radin did not win), the screenplay was never published.

Around the same time, in May 2008, screenwriter Darlene Hunt began working on a screenplay that she submitted to Showtime Networks in January 2009, which eventually became the Showtime television series The Big C. The show about a teacher who begins to live her life in a no-holds barred manner after being diagnosed with cancer aired on Showtime in August 2010. After learning of the show, Radin brought an action for copyright infringement claiming that the defendants created and broadcast derivative works based on her screenplay.

Absent evidence of direct copying, proof of copyright infringement requires the plaintiff to show that the defendant had access to the plaintiff’s work and that the two works are “substantially similar.” If evidence of access to the work is not available, however, courts may infer such access and copying of the work at issue if the plaintiff can show a “striking similarity” between the copyrighted work and the accused work.

In this case, the 9th Circuit agreed that the defendants did not have access to Radin’s screenplay because it was not “widely disseminated,” nor did Radin provide any evidence to show a chain of events that could have lead to defendants’ access to Radin’s work. Moreover, Radin was unable to show that her screenplay and The Big C television series were so “strikingly similar” such that the Showtime series could have come about only through copying.

In particular, the district court noted that although Radin was able to show certain conceptual similarities between the screenplay and the show (i.e., both works focus on middle-aged female school teachers facing terminal cancer, and both characters are dealing with troubled marriages and families, participating in support groups and are attracted to their physicians), none of the plot lines comprised protectable, expressive elements under copyright law. Furthermore, the district court identified substantial differences between the works that undercut any argument of “striking similarity” between them. Agreeing with the district court’s full analysis, the appeals court affirmed summary judgment for the defendants as to Radin’s copyright infringement claim.

The court also upheld the district court’s denial of additional discovery to Radin, finding that Radin did not provide adequate justification for her request for additional time. Radin also did not set forth any reasonable likelihood that additional discovery would lead to useful evidence to support her theories of the defendants’ access to her screenplay.

Finally, the Court also upheld the district court’s award of attorneys’ fees to the defendants under 17 USC § 505, as well as the district court’s refusal to impose Rule 11 sanctions on Radin or her counsel for filing a “frivolous” complaint.

Practice Note: Just a couple of weeks before The Big C decision, the U.S. Court of Appeals for the Second Circuit, in the precedential case of Alexander v. Murdoch, Case No. 11-4291 (2d Cir., Nov. 13, 2012) (Lynch, J.), reached a similar conclusion on similar facts, finding “no substantial similarity” between a script pitched by the plaintiff (called Loony Ben) and the ABC sitcom Modern Family. The pilot script for Loony Ben featured a character who suffered from psychological ailments in terms of his interactions with family members which (according to Alexander comprised a large, non-traditional, dysfunctional, contemporary American family. In affirming the dismissal of Alexander’s complaint, the 2d Circuit concluded that to the extent Loony Ben and Modern Family “share a common concept, they do so only at the most general level” and that the similarities “are insufficient to establish infringement.” Rather, the court found the overlapping character traits and plot lines to be “superficial and de minimis details” and to be “general abstractions insufficiently developed to merit protection” or otherwise standard treatments of modern life and “therefore unprotectable.” Ideas, themes, subjects, abstract profiles of characters and “scenes a faire” are not protectable under U.S. copyright law. Therefore, unless an accused infringing work is nearly identical to the original work at issue, it is critical...
for a plaintiff to prove that the defendant had access to the work, either through wide dissemination or an established chain of
events demonstrating such access.

Copyrights / Restitution (MVRA)

D.C. Circuit Holds Restitution Must Be Based on Loss of Victim, Not Defendant’s Gain
by Rose Whelan

Addressing for the first time the issue of whether restitution (in the context of pirated copyrighted software) under the Mandatory
Victim Restitution Act (MVRA) may be based on a defendant’s profit, the U.S. Circuit Court of Appeals for the District of Columbia
vacated a restitution order and joined numerous other circuits in holding that restitution must be based on the quantifiable loss of

From February 2001 to September 2007, Gregory Fair was involved in an infringement scheme in which he sold pirated outdated
versions of Adobe Systems software on eBay. Along with the outdated products, Fair included numerical codes that allowed buyers
to update their software to the most recent versions at a reduced cost from Adobe Systems. As a result of his scheme, customers
were able to obtain current versions of the Adobe products at less than half the legitimate retail price. Facing prosecution for his
actions, Fair plead guilty to copyright infringement and mail fraud. Pursuant to the MVRA, 18 U.S.C. §3663A, the district court
ordered him to pay restitution to the copyright holder, Adobe Systems, in an amount equivalent to the revenue he received from his
sales of the pirated products. Fair appealed.

On appeal, the D.C. Circuit vacated the district court’s restitution award, concluding that in ordering restitution pursuant to the
MVRA, a district court may not substitute a defendant’s ill-gotten gains for the victim’s actual, provable loss. The Court noted that
the plain text of the MVRA makes clear that its scope is purely compensatory. Thus, awarding restitution in excess of the victim’s
actual loss would be punitive in nature and falls outside the scope of the MVRA. The Court also noted that its holding is consistent
with other circuit courts of appeals that have considered the issue and found that a defendant’s gain is not an appropriate measure
of a victim’s actual loss in an MVRA calculation.

The MVRA places the burden on the government to prove the victim’s loss by a preponderance of the evidence. The Court held
that the district court abused its discretion because the government failed to ascertain or present evidence from which the district
court could determine Adobe System’s actual loss or that Fair’s gain was equivalent to that loss. For instance, the government
could have surveyed Fair’s customers to determine whether they would have bought full-priced Adobe Systems products, if Fair’s
products were not available. The D.C. Circuit also rejected the government’s argument that requiring proof of lost profits would
reward defendants by imposing on victims the task of quantifying each loss noting that the plain statutory text places the burden on
the government, not the victim.

Trade Secrets Misappropriation / Unjust Enrichment

Pleading Unjust Enrichment Does Not Support a Claim for the Underlying Trade Secret
Misappropriation
by Sarika Singh, Ph.D.

Affirming dismissal of an unjust enrichment claim, the U.S. Court of Appeals for the Second Circuit upheld a summary judgment for
the defendant concluding that plaintiffs-appellants had failed to state a claim for misappropriation of a trade secret when they
pleaded a claim for relief for unjust enrichment based on the alleged misappropriation. The 2d Circuit agreed with the district court
that a basic element of an unjust enrichment claim indicates a showing of a relationship between the parties, not merely a claim
order).

Jack J. Grynberg and his family-owned companies sued Eni S.p.A. in the United States District Court for the Southern District of
New York for unjust enrichment alleging Eni used Grynberg’s estimate of oil reserves in a Kazakhstan oil field to successfully bid
(jointly with British Gas, in 1992) for the development of the oil field. Earlier, Grynberg had told British Gas that they estimated the
recoverable oil in the field to be about 12 billion barrels, while Eni had estimated the oil reserves at around 2 billion barrels. Eni and
British Gas used an estimate of more than 15 billion barrels in their winning bid. Grynberg did not make a bid for the oil field.
Grynberg had sued British Gas on the same issue in 1992 and reached a settlement in 1995, but then filed this suit against Eni in 2006.

The district court concluded that Grynberg had to prove the basic elements of an unjust enrichment claim under New York law, i.e., that "(1) defendant was enriched, (2) at plaintiff's expense, and (3) equity and good conscience militate against permitting defendant to retain what plaintiff is seeking to recover." Also as a threshold matter, Grynberg was required to show that an actual or substantive relationship existed between the parties. Given the quasi contract nature of an unjust enrichment claim, direct contractual privity is not required, but the connection between the parties cannot be too attenuated. The district court found that there had been no communication between Grynberg and Eni, and that Grynberg had failed to provide any evidence that Eni had received the contentious information from British Gas. Therefore, since Grynberg had not met the threshold for an unjust enrichment claim, the district court dismissed his claim. Grynberg appealed.

The 2d Circuit agreed with the district court that Grynberg had failed to claim misappropriation of a trade secret. Moreover, the court found that the defendant Eni would have still prevailed on summary judgment even had the district court considered the merits of the alleged trade secret claim, because Grynberg had failed to show that Eni had any notice that the information it purportedly received from the joint venture with British Gas was in breach of a confidential relationship.

**Patents / Antitrust Interface**

**Joint DOJ-FTC Workshop Explores Competitive Impact of Patent Assertion Entities**

by Stefan M. Meisner and Daniel Powers

The Federal Trade Commission (FTC) and Department of Justice (DOJ) hosted a day-long workshop on December 10, 2012 that gathered lawyers, academics and industry representatives to discuss the growing activity of patent assertion entities (PAE). Patent assertion entities, often derogically referred to as patent "trolls," are organizations whose business model is to acquire patents and generate revenue through licensing or litigation. The PAE Workshop was billed as evidence of the agencies' continuing concern to ensure robust competition in the innovation economy. Panelists and a standing-room-only audience considered the impact of PAEs on competition from a variety of perspectives and heard valuable testimony from businesses directly affected by the surge in PAE activity. No new policy prescriptions emerged from the day's discussions, but the high-profile workshop signaled the agencies' intentions to closely monitor PAE activity as they determine whether regulatory or enforcement actions may be necessary. A public comment period on PAE activity remains open through March 2013.

Workshop participants explored the reasons for the growth in PAE activity and assessed the benefits and harms that such activity may bring. Panelists indicated that PAEs now account for more than 60 percent of patent litigation activity. The actual impact belies even this impressive statistic, however, since the number of demand letters issued by PAEs far exceeds the number of cases ultimately litigated. PAE targets include large manufacturers, but they focus especially on smaller companies and start-ups, which cannot absorb high legal defense costs and face tremendous pressure to settle.

PAE supporters described their emergence as a predictable outcome of a system that allegedly under-enforces patent rights. Several participants noted that patent owners wishing to negotiate intellectual property licenses face an uphill struggle and must threaten or actually commence litigation to make headway. PAEs succeed through specialization: they more effectively identify the best patents to assert and have greater experience in negotiations, licensing and litigation. For supporters, PAEs are often the only way that inventors may be able to profit from their inventions.

Detractors questioned how much of the revenue generated by PAE activity actually flows back to innovation. Reliable data is scarce, but one of the few studies available suggests that the direct costs of PAE activity on defendants and licensees may reach as high as $30 billion. Only a fraction of this amount makes its way back to innovation, according to experts. The indirect costs of PAE activity are also substantial.

Many participants noted that the emergence of PAEs had significantly altered the playing field in patent litigation. Previously, in the words of one panelist, the threat of "mutually assured destruction" deterred manufacturers from making excessive demands regarding their patents. The assurance that any litigation would prompt counter-claims counseled caution. PAEs, however, are effectively immune from counterclaims since they do not practice the patents they litigate. Some PAE opponents warned that this "immunity" encourages owners of large patent portfolios to transfer patents to PAEs, who can then engage in litigation against the
original owner’s rivals that would not otherwise be feasible. Such transfers may also offer a way to avoid fair, reasonable and non-discriminatory (FRAND) commitments that encumber standards-essential patents.

The workshop closed with a panel of antitrust experts who considered the potential application of antitrust law to PAE activity. While the panelists considered a variety of theoretical scenarios, significant questions remained as to applicability of antitrust rules. Market definition emerged as a particular problem, since PAEs manufacture no products and thus do not compete in the same markets as the companies from whom they acquire their patents. Senior regulators, however, appeared to question whether this characterization is the best view of such transactions. The DOJ’s chief economist, for example, appeared less focused on the aggregating role PAEs play in accumulating vast patent portfolios and more concerned with their disaggregating role (whereby owners of existing large portfolios sell off portions to the PAEs). From this perspective, it may be possible to cast the two parties as players in the same patent licensing market and to analyze the conduct accordingly. This line of thought was not pursued in depth, but it is indicative of the creative and probing assessment the agencies are pursuing as they assess this rapidly developing area.

While the workshop generated stimulating discussions regarding important issues in antitrust/IP law, it appeared that no consensus views emerged. The agencies indicated that ongoing work and a careful review of the comments they receive during the official comment period may crystallize recommendations for any policy changes. However, a strong undercurrent permeated the workshop that more effective changes may come on the patent law and patentability side of the antitrust/IP interface, as an obvious antitrust law solution may not be available.

**Patents / Injunctive Relief**

**FTC Signals Stricter Stance on Injunctions for FRAND-Encumbered Patents**

by Daniel Powers

Highlighting its continued focus on standard-setting processes, the Federal Trade Commission (FTC) recently warned patent holders seeking injunctive relief against willing licensees of FRAND-encumbered standards-essential patents (SEPs) that it can and will challenge such conduct as an unfair method of competition under Section 5 of the FTC Act. The agency’s prominent and controversial warning accompanied its announcement of a proposed Consent Order that requires Robert Bosch GmbH (Bosch) to divest its U.S. automotive air conditioning repair business to remedy the alleged anticompetitive effects of its acquisition of SPX Service Solutions U.S. LLC (SPX). Statement of the Fed. Trade Comm’n, In the Matter of Robert Bosch GmbH, 77 Fed. Reg. 71,593, 71,596 (FTC, Dec. 3, 2012).

According to the FTC, the proposed acquisition would have created a virtual monopoly in the market for “air conditioning recycling, recovery, and recharge devices” (ACRRRs). The merged company would have accounted for 90 percent of the U.S. ACRRR market. This degree of consolidation alone would likely have attracted the agency’s attention and prompted its ultimate demand for divestiture. However, the FTC also alleged that SPX had reneged on commitments to license its SEPs on fair, reasonable and non-discriminatory (FRAND) terms to willing licensees by seeking injunctions against competitors using the patents to implement the standards. The FTC believes the threat of such injunctive relief can cause significant competitive harm: “[b]y threatening to exclude standard-compliant products from the marketplace, a SEP holder can demand and realize royalty payments that reflect the investment firms make to develop and implement the standard, rather than the economic value of the technology itself.” The FTC deemed SPX’s conduct an unfair method of competition under Section 5 of the FTC Act.

Bosch agreed to abandon SPX’s claims for injunctive relief. To further address the FTC’s concerns, the proposed Consent Agreement requires Bosch to offer a royalty-free license for certain patents to potential competitors seeking to manufacture ACRRR devices in the United States. Bosch must also commit to grant U.S. manufacturers licenses to any additional essential patents it may acquire in the future.

The FTC contends that the courts increasingly recognize FRAND commitments are incompatible with demands for injunctive relief. See e.g., See e.g., Microsoft Corp. v. Motorola, Inc., (9th Cir. 2012); Apple v. Motorola (N.D Ill., 2012). Its decision, however, was not without controversy. Dissenting from her colleagues, Commissioner Maureen Olhausen claimed this policy creates jurisdictional and institutional conflicts and allows the FTC to assume sole responsibility in the “important and complex area of SEPs.” She also questioned whether seeking injunctive relief is not protected petitioning of the government under the Noerr-Pennington doctrine.
Practice Note: While the actions of SPX may have been especially blatant given its substantial market share, the unique facts here should not obscure the clear signal sent by the FTC. Owners of FRAND-encumbered SEPs will need to proceed carefully before seeking injunctive relief against willing licensees.

Antitrust

Walker Process Standing Affirmed for Direct Purchaser Antitrust Plaintiffs
by Carrie G. Amezcua

On interlocutory appeal from a district court, the U.S. Court of Appeals for the Federal Circuit addressed whether a direct-purchaser plaintiff has standing to bring an antitrust claim based on Walker Process if the plaintiff would not have standing under the Declaratory Judgment Act. The Court affirmed that “a direct purchaser is not categorically precluded from bringing a Walker Process antitrust claim, even if it would not be entitled to seek declaratory relief against the patentee under the patent laws.” Ritz Camera & Image LLC v. SanDisk Corp., Case No. 12-1183, (Fed. Cir., Nov. 20, 2012) (Bryson, J.).

The plaintiff, retailer Ritz Camera, is a direct purchaser of SanDisk’s flash memory for use in its cameras. Ritz filed a complaint on behalf of itself and a class of direct purchasers of flash memory alleging that SanDisk fraudulently procured two patents critical to its flash memory business by failing to disclose known prior art and making affirmative misrepresentations to the U.S. Patent and Trademark Office (PTO). Ritz alleged that SanDisk’s enforcement of these patents suppressed competition in the flash memory product market and permitted SanDisk to illegally maintain its monopoly position, in violation of Sherman Act § 2 (monopolization).

Defendant SanDisk argued in its motion to dismiss that Ritz did not have standing to bring a Walker Process antitrust claim based on the invalidity or unenforceability of SanDisk’s patents because Ritz faced no threat of an infringement action and had no other basis to bring a declaratory judgment action challenging the patents. After the district court declined to dismiss the claims SanDisk brought this interlocutory appeal.

The Federal Circuit concluded that nothing in Walker Process, or in the patent laws, prohibited “those injured by any monopolistic action” to bring an antitrust claim because an antitrust claim is a separate cause of action from a patent declaratory judgment action and is governed by the principles of antitrust law. However, the Court conceded that even though a Walker Process antitrust claim did not seek a patent’s annulment, the “likely practical effect” on the patent in suit should the plaintiff win on its Walker Process antitrust claim would be the same.

In addition, the Court did not agree with SanDisk’s fear that allowing standing to such direct purchaser plaintiffs would “trigger a flood of litigation.” Quoting the Supreme Court in Walker Process, the Court stated that “the interest in protecting patentees from innumerable vexatious suits cannot be used to frustrate the assertion of rights conferred by the antitrust laws.” Furthermore, because Walker Process has the heightened evidentiary requirements of proving intentional fraud, the Court was also not persuaded by SanDisk’s “flood of litigation” argument.

Practice Note: Patent holders should be cognizant of antitrust claims that could have the indirect effect of rendering their patents unenforceable. However, while a Walker Process antitrust claim from a direct purchaser plaintiff could now survive a motion to dismiss, the heightened evidentiary standard required to prove such a claim could still serve as the basis for a dismissal of such claims at the summary judgment stage.

Cert Alert

U.S. Supreme Court to Rule on “Pay-for-Delay” Antitrust Issue
by Jeffrey W. Brennan and Wilko van Weert


The Federal Trade Commission (FTC) has opposed pay-for-delay agreements, also called “reverse payment” settlements, on antitrust grounds since at least 2001. Until earlier this year, however, U.S. courts of appeals have repeatedly rejected the FTC’s
theory of consumer harm and ruled for defendants in upholding the agreements. That trend changed in July 2012 when, in a private antitrust challenge to a patent settlement, the U.S. Court of Appeals for the Third Circuit in In re K-Dur Antitrust Litigation, adopted the FTC’s analysis and ruled against the defendants. K-Dur reflects a “split” on the issue between the U.S. Court of Appeals for the Third and Eleventh Circuits. Two other U.S. Courts of Appeals—the Second Circuit (in In re Tamoxifen Citrate Antitrust Litigation) and Federal Circuit (in In re Ciprofloxacin Hydrochloride Antitrust Litigation)—are aligned with the 11th Circuit on this issue.

Pay-for-delay cases arise in settlements of patent infringement suits by branded drug patent-holders against generic drug applicants that defend on grounds of non-infringement or patent invalidity. The antitrust claim stems from two provisions (both necessary to trigger the claim): a restriction on generic entry until a future date and the brand’s payment of money or other value to the generic, often in the form of an ancillary agreement such as a supply arrangement or patent license (coined a “reverse” payment because the plaintiff pays the defendant). The FTC argues that this paradigm delays competition because it induces the generic to accept later entry than it would demand in settlement negotiations absent the payment or that it would obtain under exclusivity provisions if it prevailed in the lawsuit. Defendants counter that the settlements accelerate competition because they enable generic entry prior to patent expiration.

Faced with these arguments, the 11th, 2d and Federal Circuits have applied a “scope of the patent” test to resolve them. Under this test, so long as the underlying infringement suit is not a sham, an agreement authorizing generic entry prior to patent expiration—even with a “reverse payment”—is lawfully within the brand’s patent right to exclude. The 3d Circuit rejected that test, holding that it “entitles the patent-holder to pay its potential generic competitors not to compete” and instead applied a rebuttable presumption that the payment is an anticompetitive quid pro quo for delayed generic entry. It is into this state of judicial uncertainty that the Supreme Court now steps.

Practice Note: The “pay-for-delay” controversy is not limited to the United States. The European Commission (EC) has recently issued Statements of Objections in its first two investigations into alleged delayed generic-entry arrangements: Citalopram (July 25, 2012) and Perindopril (July 30, 2012). The EC’s analytical approach to the competition issues follows that of the FTC. Whether and to what extent the EC adopts the legal reasoning of the Supreme Court—no matter which way it resolves the split within U.S. courts—will be an important development for the pharmaceutical industry. The extent to which the U.S. and EU approaches to patent settlements are harmonized will be a significant factor in how much legal uncertainty pharmaceutical companies will face when trying to settle cases.

The defendants in K-Dur also sought Supreme Court review, but the Court is holding that petition pending its ruling in FTC v. Watson Pharmaceuticals. The Court is likely to hear oral argument in Watson Pharmaceuticals during the last two weeks of March 2013.