

Latest Intellectual Property News



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Welcome to The Latest Intellectual Property News, a newsletter for updating you with recent information about Intellectual Property.

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PATENT ROYALTY STOPS UPON PATENT'S EXPIRATION

By Sean A. Passino, Ph.D., Esq./Partner (spassino@ipfirm.com)

The United States Supreme Court upheld *Brulotte v. Thys Co.*, 379 U. S. 29 (1964) in holding that assignment royalty clauses based on post patent-expiration date usage are unenforceable. *Kimble v. Marvel Entertainment, LLC*, slip op. 13-720 (Jun. 22, 2015).

Kimble obtained U.S. Patent No. 5,072,856 directed to a toy that allows children to shoot webs of pressurized foam string from the palm of his/her hand like Spider Man. Kimble sued Marvel Entertainment, LLC (Marvel) after Kimble identified Marvel's potentially infringing product, Web Blaster. The parties ultimately settled that litigation. Their agreement provided that Marvel would purchase Kimble's patent in exchange for a lump sum and a 3% royalty on Marvel's future sales of similar products. The parties set no end date for royalties.

Marvel sought a declaratory judgment in federal district court confirming that it could cease paying royalties come 2010—the end of Kimble's patent term, based on *Brulotte*. The district court approved that relief, holding that *Brulotte* made “the royalty provision

... unenforceable after the expiration of the Kimble patent.”

The Ninth Circuit Court of Appeals affirmed, but noted that *Brulotte* “is counterintuitive and its rationale is arguably unconvincing.”

In a 6-3 decision, Justice Kagan wrote to uphold *Brulotte* based on the principle of *stare decisis*—i.e., the idea that today’s Court should stand by yesterday’s Court’s decisions absent an exceptional circumstance, which the majority did not identify here. In the minority decision, Justice Alito wrote to overrule “this baseless and damaging precedent.” For now, however, *Brulotte* is good law.

LIMITATIONS ON LICENSEE TO BRING A LAWSUIT

By Bill Heckman, Esq. (bheckman@ipfirm.com)

The United States Court of Appeals for the Federal Circuit reversed, vacated, and remanded a ruling from the United States District Court for Middle District of Florida in *Alps South v. The Ohio Willow Wood Company*, slip ops. 2013-1452, -1488, 2014-1147, -1426 (Fed. Cir. Jun. 5, 2015). In 2011, the district court heard arguments from plaintiff, Alps South LLC (Alps) on an infringement action against defendant, Ohio Willow Wood (OWW). Alps contended ownership through its licensee status. The district court agreed. On appeal, the Federal Circuit ruled that Alps lacked standing to bring the suit against OWW.

Alps sued OWW, a competitor of Alps, in 2009 for infringement on patent US 6,552,109 (the ‘109 Patent). After the ‘109 patent issued, the owner assigned some of the rights of the patent to a third party, Applied Elastomers Inc. (AEI). Alps signed a limited license agreement with AEI. Just before the case went to trial, and sixteen months after signing the initial agreement, Alps amended the license agreement. OWW argued Alps lacked legal standing to file the suit, because AEI was not joined in the suit with Alps on the date the complaint was filed. The district court found that Alps had standing to file suit.

During trial, Alps argued that OWW directly infringed on the ‘109 patent. The jury agreed with the plaintiff, and the court held for Alps. OWW appealed the lack of standing issue to the Federal Circuit.

The Federal Circuit ruled Alps lacked sufficient ownership rights under the license agreement with AEI, and therefore lacked standing to sue OWW without joining AEI in the suit. A licensee without sufficient ownership rights in the patent, lacks standing to sue for infringement without joining the patent owner in the suit.

USPTO’S CANCELLATION MAY NULLIFY NON-FINAL PRIOR JUDGMENT

By Kien T. Le, Patent Agent (kien@ipfirm.com)

In *ePlus, Inc. v. Lawson Software, Inc.*, slip ops. 2013-1506, 2013-1587 (Fed. Cir. Jun. 18, 2015), the Federal Circuit vacated the district court’s injunction and contempt sanctions against the accused infringer (Lawson), after the United States Patent and Trademark Office cancelled the only claim found infringed in a prior appeal.

The district court found three system claims and two method claims infringed, and issued an injunction enjoining Lawson from “making, . . . offering to sell, or selling” the infringing products. On appeal, the Federal Circuit found only one claim, method claim 26, infringed, and remanded for the district court to consider what changes are required to the injunction. The district court essentially maintained the injunction and found

Lawson in civil contempt, with an \$18 million penalty, for its violating activities after the original injunction. In a separate proceeding, the USPTO found claim 26 invalid, which the Federal Circuit later affirmed, and the USPTO cancelled claim 26 after the contempt sanctions were issued.

The question before the Federal Circuit was whether to vacate the injunction and/or the contempt sanctions after the USPTO cancelled the only claim found infringed. With respect to the injunction, there was no dispute and all sides agreed that the injunction should be vacated. With respect to the contempt sanctions, the Supreme Court's and Federal Circuit's precedent set aside civil contempt sanctions imposed for violating an injunction based on patents found to be invalid on appeal of a non-final injunction. See *Worden v. Searls*, 121 U.S. 14, at 26 (1887); *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1344, 1347 (Fed. Cir. 2013). This was the point where the Federal Circuit was sharply divided, i.e., whether the district court's judgment was final or not. The majority found that the original appeal did not resolve the question of whether method claim 26 could support the sales injunction, that the injunction was not final, and that, under *Worden*, the cancellation of claim 26 required that the contempt sanctions be vacated.

OVERSTATEMENT IS NOT MISCONDUCT IN ATTORNEY-FEE SUIT

By Ricky Shi, Intern (info@ipfirm.com)

In *Gaymar Industries, Inc. V. Cincinnati Sub-Zero Products* (hereinafter CSZ), Slip op. 2014-1174 (Fed. Cir. Jun. 25, 2015), the Federal Circuit reversed a district court's denial of attorney fees as it was based on CSZ's litigation misconduct, finding that the district court's reliance on the four misconduct examples was clearly erroneous.

After prevailing in a patent infringement action involving a patent directed to a patient temperature control system brought by Gaymar, CSZ sought an award of attorney fees, alleging Gaymar's claims were objectively baseless. However, the district court refused to award fees because CSZ did not have "clean hands" sufficient to render this an "exceptional case." In other words, CSZ's own action stopped the company from winning the attorney fees.

The Federal Circuit indicated that CSZ's own action, namely, lacking sufficient ground to support an argument and the inconsistent position, does not amount to misconduct. The Federal Circuit stated that these issues are overstatements which are very common in lawsuits. For determining whether a case is exceptional under §285, the district court should follow *Octane Fitness v. Icon Health & Fitness*, 134 S. Ct. 1749 (2014). In *Octane*, the Supreme Court rejected the objectively baseless and subjective bad faith standard articulated in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378. There is no precise rule or formula for making the determination. The trial judges should decide the reasonableness of the case under a totality-of-the-circumstances inquiry. Therefore, the conduct of CSZ is a factor in the inquiry, and the case was remanded for reconsidering other factors including the subjective intention of Gaymar's claim and the strength of Gaymar's litigation position.

DEFERENTIAL STANDARD OF REVIEW IS NOT AUTOMATIC

By Lenwood Faulcon, Jr., Esq. (lfaulcon@ipfirm.com)

The Federal Circuit held that a district court's claim construction is not held to a deferential standard of review, even when a district court hears or receives extrinsic

evidence, if the district court does not make factual findings based on that evidence. *Shire Development, LLC v. Watson Pharmaceuticals, Inc.*, slip op. 2013-1409 (Fed. Cir. Jun. 3, 2015).

Shire sued Watson for allegedly infringing U.S. Patent No. 6,773,720, which is directed to an oral pharmaceutical composition for the treatment of inflammatory bowel diseases. In 2013, after construing disputed claim terms, including “inner lipophilic matrix” and “outer hydrophilic matrix,” the district court found that Watson infringed the ‘720 patent. In 2014, the Federal Circuit reversed the claim construction of the disputed terms and the finding of infringement and held that the district court had erroneously broadened the claim scope. *Shire Development, LLC v. Watson Pharmaceuticals, Inc.*, 746 F.3d 1326 (Fed. Cir. 2014).

Earlier this year, in *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015), the Supreme Court clarified how the Federal Circuit should review a district court’s claim construction and held that a district court’s underlying factual conclusion that supports a claim construction decision should be given deference on appeal and only overturned when clearly erroneous. The Supreme Court vacated and remanded the 2014 *Shire* decision to the Federal Circuit to reconsider the appeal in view of the *Teva* decision.

On remand, Shire argued that because of the district court’s hearing of testimony from expert witnesses during a *Markman* hearing and the subsequent trial, the Federal Circuit should defer to the district court’s claim constructions. The panel noted that when a district court reviews evidence intrinsic to the patent, such as the claims, specification, and prosecution history, and the district court’s determination of claim construction is based on that evidence, the standard of review is *de novo*.

The panel found that although the district court heard expert testimony, there was no indication that the district court made factual findings based on such evidence that underlie its construction of the disputed terms. As such, the panel held that the district court’s claim construction was based on intrinsic evidence and does not “involve factual finding to which we owe deference under *Teva*,” and again reversed the district court’s claim construction of the disputed claim terms and finding of infringement.

LACK OF INTENT TO USE A MARK VOIDS TRADEMARK APPLICATION

By Sam Araia, Esq. (saraia@ipfirm.com)

In affirming the decision of the Trademark Trial and Appeal Board (TTAB), the Federal Circuit ruled that M.Z. Berger & Co. (a watchmaker) could not register a trademark for “iWatch” because it did not have enough evidence to prove it had a “bona fide intent” to use the name. (*M.Z. Berger & Co., Inc. v. Swatch AG (Swatch SA) (Swatch Ltd.)*, slip op. 14-1219 (Fed. Cir. Jun. 5, 2015)).

On July 9, 2007, M.Z. Berger & Co. applied to register the mark “iWatch,” in standard character form, for over 30 different goods, that fell into the categories of watches, clocks, and goods related to watches and clocks, such as clock dials and watch bands. The declaration in the application stated that M.Z. Berger & Co. had a *bona fide* intention to use the mark in commerce with the identified goods.

On October 22, 2008, Swatch filed an opposition stating that “iWatch” was confusingly similar to its “Swatch” mark and that M.Z. Berger & Co. lacked a *bona fide* intent to use the mark in commerce *at the time it filed its application*.

The Trademark Trial and Appeal Board ruled that the intent of M.Z. Berger & Co. at the time of filing the application was to merely reserve a right in a mark in case it decides to use it in the future. The TTAB agreed with Swatch by stating that under Section 1(b) of the Lanham Act, 15 U.S.C. §1051(b), “mere intent to reserve rights in a mark does not equate to *bona fide* intent to use a mark in commerce.”

M.Z. Berger & Co. appealed, and the Federal Circuit affirmed.

The Federal Circuit stated that “*bona fide* intent to use the mark in commerce” was a statutory requirement of an intent-to-use application under Section 1(b). It stated that although “*bona fide* intention” under Section 1(b) was not defined in the statute, it has clearly stated that an applicant’s intent must be “under circumstances showing the good faith of such person” - *intent must be demonstrable and more than a mere subjective belief*. “Bona fide” should be assessed objectively.

M.Z. Berger & Co. introduced what the Federal Circuit has labeled as “documentary evidence related only to prosecution of the trademark application and not to actual use in commerce of the mark.” These documents include a trademark search conducted by the applicant’s employee, an internal email describing the employee’s discussion with the examining attorney, and a few internal emails forwarding pictures of a few marks, and images of a clock and two identical watches depicting the mark.

In an attempt to prove that it did have the requisite *bona fide* intent to use the IWATCH mark at the time its application was filed, Berger relied on (1) a trademark search in Class 14 that was conducted by a non-attorney employee who handled the prosecution of the matter; (2) an internal company e-mail relating to discussions with the examining attorney that “essentially echoes the wording of a response to an Office Action”; and (3) internal e-mails forwarding sample mock-ups and product renderings featuring stylized versions of the IWATCH mark, and one clock and two watches bearing the IWATCH mark. There were also evidence that the CEO of M.Z. Berger & Co. testified that the company “never intended for the mark to be used for any goods other than watches” and evidence of an employee testifying that her boss instructed her to include the other goods on the application in order to “leave all doors open.”

The Federal Circuit stated that the TTAB properly applied the standard required under the Lanham Act. It also clarified that the applicable standard does not impose a duty to actually promote, develop, and market the mark at the time of the application.

PROMPT PATENT ELIGIBILITY RESOLUTION IS ALL ABOUT THE MONEY

By Michael J. Steger, Esq. (msteger@ipfirm.com)

In *OIP Technologies, Inc. v. Amazon.com, Inc.*, slip op. 2012-1696, (Fed. Cir. Jun. 11, 2015), OIP sued Amazon for infringement of U.S. Patent No. 7,970,713. The ‘713 patent is directed to a price optimization method that helps vendors automatically reach better pricing decisions through automatic estimation and measurement of actual demand to select prices. The district court granted judgment on the pleadings, concluding that the patent does not claim patentable subject matter under 35 U.S.C. §101. The district court reasoned that the asserted claims merely use a general-purpose computer to implement the abstract idea of price optimization. OIP appealed. The Federal Circuit affirmed.

The Federal Circuit held that the ‘713 patent claims lack an inventive concept sufficient to transform the claimed subject matter into a patent-eligible application, because the

claims recite no more than an abstract idea coupled with routine data-gathering steps and conventional computer activity. The Federal Circuit reasoned that the reliance on a computer to perform routine tasks more quickly or accurately is insufficient to render a claim patent eligible.

Judge Mayer's concurring opinion commended the district court's adherence to the Supreme Court's instruction in *Bilski* that patent eligibility is a "threshold" issue. Judge Mayer stated that the failure to recite statutory subject matter is the sort of "basic deficiency," that can, and should, be exposed at the point of minimum expenditure of time and money by the parties and the court. Judge Mayer asserted that addressing 35 U.S.C. §101 at the outset conserves scarce judicial resources, spares litigants the staggering costs associated with discovery and protracted claim construction litigation, and works to stem the tide of vexatious suits brought by the owners of vague and overbroad business method patents.

INVENTIVE CONCEPT SEARCH NO RESCUE FOR ABSTRACT IDEA CLAIM

By Victoria Wang, Intern (info@ipfirm.com)

The Federal Circuit affirmed a district court's finding that U.S. Patent No. 7,707,505 (the '505 Patent) was an abstract concept and thus ineligible for patenting based on a two-step methodology for determining patent-eligible subject matter set up in the Supreme Court's *Mayo* decision, in *Internet Patents Corporation (IPC) v. Active Network, Inc.*, Slip op. 14-1048 (Fed. Cir. Jun. 23, 2015).

The '505 patent claimed a method to "retain information lost in navigation of online forms," which was deemed to be an abstract idea with no "inventive concept" by the district court. On appeal, IPC argued that specific limitations, such as "maintaining state," removed the claims from being an abstract idea.

Applying the two-step *Mayo* test, the Federal Circuit found the claimed invention was an abstract idea, and IPS's proposed interpretation of "maintaining state" did not change the result. The court analyzed the specification and other claims and found that those limitations did not add an "inventive concept" to rescue the independent claim from patent ineligibility.

Independent claims 9 and 17 limit the abstract idea in claim 1 to "computer system" and "computer-readable storage medium." Some other claims also recite identical limitations. However, the court indicated that these limitations "represent merely generic data collection steps or siting the ineligible concept in a particular technological environment." Under instructions from the Supreme Court decisions in *Mayo* and *Alice*, neither simply appending conventional steps nor limiting the use of an abstract idea to a particular technological environment is enough to supply an "inventive concept" for otherwise patent ineligible claims.

EXTERNAL EVIDENCE AND CLAIM CONSTRUCTION

By David Beardall, Esq. (dbeardall@ipfirm.com)

Lighting Ballast Control v. Philips Electronics North America, slip op. 2012-1014 (Fed. Cir. Jun. 23, 2015) applies the rule of *Teva Pharmaceutical* regarding the use of extrinsic evidence in claim construction before trial. The district court reversed itself in favor of Lighting Ballast regarding construction of claim 1, stating that it had improperly underweighed the testimony of the inventor and an expert witness regarding what

persons of ordinary skill in the art would understand “voltage source means” could include. Lighting Ballast prevailed at the district court jury trial. *Lighting Ballast Control, LLC v. Philips Elecs. N. AM. Corp.*, No. 7:09-CV-29, 2010 WL 4946343, at *12 (N.D. Tex. Dec. 2, 2010). The defendants appealed to a panel of the Federal Circuit, who reversed the district court. Lighting Ballast petitioned for *en banc* rehearing that ultimately reversed the Federal Circuit panel. *Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp.*, 500 Fed. App’x 951 (Fed. Cir. 2013). The Supreme Court granted Philips Electronics’ petition for *certiorari* after deciding *Teva Pharmaceutical* and remanded to the Federal Circuit for reconsideration in light of the *Teva Pharmaceutical* decision.

Claim construction is a matter of law that is reviewed *de novo* on appeal. However, under *Teva Pharmaceutical*, “subsidiary” factual findings by district courts related to the extrinsic record associated with the action are reviewed for “clear error,” giving considerable deference to the district court. The district court stated that it had originally “unduly discounted the unchallenged expert testimony” and “exalted form over substance and disregarded the knowledge of a person of ordinary skill in the art.” After remand, the Federal Circuit upheld its prior decision in favor of Lighting Ballast. The meaning of “voltage source means” to an ordinary practitioner was properly determined by using extrinsic evidence, “because the extrinsic evidence was not used to contradict claim meaning that is unambiguous in light of the intrinsic evidence.”

WHERE CLAIM CONSTRUCTION AFFECTS INFRINGEMENT

By *Bernard Berman, Esq.* (bberman@ipfirm.com)

In *TomTom Inc. v. Adolph*, slip op. 2014-1699 (Fed. Cir. Jun. 19, 2015), infringement by TomTom of Claims 1 and 22 of U.S. Patent No. 6,356,836 to Adolph was at issue. In the patent’s Brief Summary, a purpose of the invention is provided as “to establish a method to generate appropriate data utilizable for a practical destination tracking system which carries out a permanent self updating and with data generation which requires little effort.”

In May 2012, TomTom filed a declaratory judgment suit alleging that the ‘836 patent is invalid as obvious and anticipated by the prior art, and that TomTom does not infringe. In October 2012, Adolph filed a counterclaim alleging that TomTom directly and indirectly infringes Claims 1 and 22 of the ‘836 patent.

After a *Markman* hearing regarding the disputed terms and phrases, the district court issued an opinion directed to the resolution of the dispute. TomTom moved for summary judgment, and Adolph moved for reconsideration. The district court denied Adolph’s motion and issued another opinion in line with the first. Both parties then stipulated that several construed terms would actually affect an infringement analysis and requested entry of final judgment of non-infringement which was entered.

Adolph appealed. In its brief to the Federal Circuit TomTom asserted that claim construction is not properly before this court. However, citing to *Jang v. Bos. Sci. Corp.*, 532 F.3d 1330, 1336, the Federal Circuit responded that where claim construction affects the issue of infringement, as was stipulated by the parties, it does have such jurisdiction. Accordingly, under *Jang*, all of the district court’s claim construction is reviewed *de novo*. Of particular note, the Federal Circuit found that the district court had erred in its construction of the preamble, noting that while a portion of the preamble can be found to

provide a necessary structure for the claim, the entire preamble should not become a limitation, particularly not a portion that only refers to intended use.

The Federal Circuit reversed the claim construction of the district court and remanded.

DOES MAYO TAKE PATENT INELIGIBILITY TOO FAR?

By Joshua L. Pritchett, Esq. (jpritchett@ipfirm.com)

While the decision in *Ariosa Diagnostics, Inc. v. Sequenom, Inc.* (slip op. 2014-1139, Fed. Cir. Jun. 12, 2015), would be expected for anyone following recent court decisions related to patent eligible subject matter, the concurring opinion of Judge Linn takes a strong stance that the Supreme Court was too broad in announcing the second step of the *Mayo* test for patent eligibility.

The claim at issue in this case was a method of detecting cell-free fetal DNA (cffDNA) from maternal plasma and serum. The claim at issue was a method claim containing two steps: an amplification step; and a detection step. Both of these steps were performed by routine techniques and processes known at the time the patent application was filed. The Federal Circuit held that the cffDNA was a natural phenomenon, which falls into one of the exceptions for patent eligibility; and that the routine steps of the method did not transform the natural phenomenon into patent eligible subject matter. This outcome has become a common tale in the recent opinions related to patent eligible subject matter.

The interesting portion of this decision comes from the concurring opinion written by Judge Linn. Judge Linn states that the opinion reached by the Federal Circuit is legally accurate, but stated that the method for detecting cffDNA deserved patent protection. Judge Linn stated “the Supreme Court’s blanket dismissal of conventional post-solution steps leave no room to distinguish *Mayo* from this case, even though here *no one* was amplifying and detecting paternally-inherited cffDNA using the plasma or serum of pregnant mothers.” Judge Linn challenged the Supreme Court’s position in *Mayo* with respect to *Diamond v. Diehr* by stating that even though *Diehr* included only routine post-solution steps that the combination of steps in *Diehr* was still held to be patentable. Judge Linn seemed to propose that a showing that others in the art are not performing the claimed combination of method steps should be sufficient to transform the judicial exception into patent eligible subject matter.

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