



PATENT HAPPENINGS

during November 2007 (Part I)

A publication by **LATIMER, MAYBERRY & MATTHEWS IP LAW, LLP**
on judicial, legislative, and administrative developments in patent law.

HIGHLIGHTS

1. *JMOL overturning willful infringement verdict granted in view of closeness of case and competent opinion of counsel* 1
2. *Failure to incorporate entirety of grandparent specification in intervening specification defeated § 120 priority claim for child application*..... 2
3. *Actual notice from corporate affiliate of patentee was sufficient under § 287 where affiliate was responsible for licensing and enforcing the patent*..... 2
4. *Evidentiary burden shifting of Rule 11 does not apply to claims for attorney fees under § 285* 3
5. *Threat of contempt proceedings supported jurisdiction for declaratory judgment action regarding redesigned product* 3
6. *Remand order based on district court’s decision not to exercise supplemental jurisdiction held unreviewable on appeal*..... 4

JUDICIAL HAPPENINGS

Closeness of Case Defeats Willful Infringement

In one of the first cases to substantively apply the new willfulness standard of *Seagate*,¹ the district court in *TGIP, Inc. v. AT & T Corp.*, 2007 WL 3194125, *13 (E.D. Tex. Oct. 29, 2007), granted an accused infringer’s JMOL motion and overturned a jury’s verdict of willful infringement. The court noted that the totality of the patentee’s evidence of willful infringement consisted of evidence that the patentee sent notice letters to the accused infringer and the jury found infringement. According to the court, that evidence was “only a scintilla of the evidence needed to meet the clear and convincing standard,” to show

¹ *In re Seagate Technology*, 497 F.3d 1360, 1370-71, 83 USPQ2d 1865, 1870-71 (Fed. Cir. 2007) (*en banc*).

that the accused infringer “knew, or should have known, that there was an objectively high likelihood that [it] was infringing on one or both of the patents.” The court noted that the accused infringer had produced competent opinions of counsel of noninfringement and invalidity. It further found that while the accused infringer “ultimately did not prove its invalidity defense by clear and convincing evidence, its position [at trial] was hardly objectively unreasonable.” It further supported that finding by noting that the patentee had voluntarily placed its patents into reexamination before filing suit based on the invalidity arguments the accused infringer had presented to the patentee in response to the patentee’s notice letters, and that the PTO required changes to the claims during the reexamination. As for infringement, the court found that the question of infringement presented at trial was close. (Indeed, the court also granted the accused infringer’s JMOL of noninfringement and addressed the willfulness issue in the alternative that the Federal Circuit overturned the noninfringement JMOL.) Given this closeness, the court ruled that “[r]easonable persons, properly instructed and exercising impartial judgment, could not find by clear and convincing evidence that AT & T acted in the face of an unjustifiably high risk of harm that was either known, or so obvious that it should have been known.” Thus, the verdict of willful infringement could not stand.

In another case decided the same day as *TGIP*, the district court in *Informatica Corp. v. Business Objects Data Integration, Inc.*, 2007 WL 3203062, *5-*6 (N.D. Cal. Oct. 29, 2007), vacated its prior ruling awarding some enhanced damages based on the jury’s finding of willful infringement, and denied enhanced damages in view of its perception of the closeness of the case. The court stated “[c]onsidering the totality of the circumstances in light of *Seagate*, which significantly raised the bar for a finding of willfulness, the Court now declines to award any enhancement in

this case. Even at the time when the Court determined that a modest enhancement was appropriate, one of the primary *Read* factors weighing against a substantial enhancement was the closeness of the case. . . . Under the *Seagate* standard, the issue of willfulness becomes even closer; had the *Seagate* standard been used in this case, Plaintiff might well have lost on willfulness.”

Scope of Incorporation by Reference

Selective incorporation by reference of the disclosure of a grandparent patent in an intervening parent patent led to a finding that the grandparent patent anticipated the claims of a child patent in *Zenon Environmental, Inc. v. U.S. Filter Corp.*, No. 206-1626, 2007 WL 3275025 (Fed. Cir. Nov. 7, 2007). The asserted patent in *Zenon* claimed § 120 priority to the filing date of its grandparent patent, and traced priority through an intervening parent patent. The grandparent patent described two components of its system; a skein and a gas discharge means. The child patent claimed the gas discharge means. The parent patent omitted all disclosure of the gas discharge means disclosed in the grandparent patent. But the parent patent did incorporate by reference a portion of the grandparent patent by stating that “[f]urther *details relating to the construction and deployment of a most preferred skein* are found in the [the grandparent patent] . . . , the *relevant disclosures of each of which are included by reference* thereto as if fully set forth herein.”

At issue was whether the incorporation by reference in the parent patent included the gas discharge means so that continuity of disclosure was maintained in a manner that supported the § 120 priority claim in the child patent as it related to the gas discharge means. The district court ruled that the incorporation by reference did include the gas discharge means. Treating the issue as a question of law, and therefore subject to *de novo* review, *id.* at *7, the Federal Circuit disagreed.

The Federal Circuit concluded that one of skill in the art would read the grandparent patent as describing the skein and the gas discharge means as being different components. Given the specific language of the incorporation by reference in the parent patent limiting the incorporation to details relating to the construction and deployment of the skeins, the court held that language did not operate to also incorporate by reference the gas discharge means. Accordingly, the court found that the failure to disclose the gas discharge means in the intervening parent patent broke

the continuity of disclosure of the gas discharge means. Consequently, the § 120 priority claim failed and the grandparent patent became a prior art reference that fully anticipated the claims of the child patent. *Id.* at *10.

Judge Newman dissented on the grounds that the district court’s ruling should have been reviewed as a question of fact, with the district court’s factual findings reviewed under the clearly erroneous standard, and not as a question of law subject to a *de novo* review that the majority applied. *Id.* at *13-*14.

Actual Notice from Corporate Affiliate

The Federal Circuit reversed a summary judgment that notice of infringement provided by a corporate affiliate of the patentee was insufficient to meet the requirements of “actual notice” under 35 U.S.C. § 287(a)² in *U.S. Philips Corp. v. Iwasaki Elec. Ltd.*, No. 2007-1117, 2007 WL 3225917, *4 (Fed. Cir. Nov. 2, 2007). In *U.S. Philips*, an in-house counsel of the foreign parent corporation to the patentee sent a letter to the accused infringer charging a specific product with infringing the asserted patent. The letter did not identify the patentee or disclose the corporate relationship between the patentee and the foreign parent. A copy of the patent, which correctly identified the patentee, was included with the letter. Under the corporate family structure, the foreign parent corporation had responsibility for prosecuting, licensing, and enforcing many of the patents owned by the various family members, including the asserted patent. Ruling that the foreign parent held nothing more than a nonexclusive license, and was not the patentee, the district court granted the accused infringer summary judgment that the notice was insufficient to constitute actual notice under § 287(a) because it did not come from the patentee as required by Federal Circuit precedent.³ Specifically, the district court relied on *Lans v. Digital Equip. Corp.*, where the Federal Circuit held that notice under § 287(a) “must be an affirmative act on the part of the patentee which informs the defendant of infringement,” so that the recipient of the letter has an opportunity to open negotiations with the patentee for a patent license.⁴

Reversing the district court’s judgment, the Federal

² See generally, Robert A. Matthews, Jr., 5 ANNOTATED PATENT DIGEST § 30:151 - § 30:161 [*hereinafter* APD].

³ *U.S. Philips Corp. v. Iwasaki Elec. Ltd.*, No. 03 Civ. 0172(PKC), 2006 WL 2792693, *4-*5 (S.D.N.Y. Sept. 28, 2006).

⁴ 252 F.3d 1320, 1327-28 (Fed. Cir. 2001).

Circuit distinguished over *Lans* by noting that the foreign parent was the corporate entity ultimately responsible for licensing and enforcing the patent. Accordingly, notice from the foreign parent provided the recipient with the opportunity to attempt to negotiate a patent license as envisioned by the policy underlying *Lans*'s requirement that notice come from the patentee. *Id.* at *4. Further, since the notice letter included a copy of the patent, which correctly identified the patentee on its face, the letter provided a sufficient identification of the correct patentee. The court stated that "[a]lthough the assignation printed on the face of a patent is not a conclusive indication of the patent's current ownership, we hold that when the information printed on the patent is correct, it is enough to put an accused infringer on notice of the patentee's identity." *Id.* In view of these facts, the court found that the "reasons . . . articulated in *Lans* for strictly enforcing the notice requirement were all fulfilled[.]" and therefore the notice from the foreign parent sufficed to give "actual notice" under § 287(a). *Id.*

Burden of Proof Does not Shift under § 285

Addressing the circumstances when a court may award attorney fees against an unsuccessful patentee under 35 U.S.C. § 285, the Federal Circuit, in *Digeo, Inc. v. Audible, Inc.*, No. 2007-1133, 2007 WL 3196676 (Fed. Cir. Nov. 1, 2007), affirmed the denial of fees where the plaintiff unknowingly asserted a patent whose chain of title included a forged assignment. More specifically, the plaintiff had purchased the patent "as is" at a bankruptcy estate sale. The file history included power of attorney forms showing that the named inventor was allegedly deceased. Assignments of the patent, to the bankrupt corporation, allegedly executed by the inventor's brother, were filed in the Patent Office shortly before the estate sale. During the litigation, the accused infringer learned that the named inventor was alive, and that the assignment allegedly executed by the brother was a forgery. After obtaining a retroactive license from the named inventor, the accused infringer successfully moved to dismiss the infringement suit. Thereafter it requested attorney fees under § 285. The district court denied the request for fees since it found that the accused infringer had failed to prove by clear and convincing evidence that the plaintiff knew or should have known of the forged assignment and the defect in its title to the patent.

Affirming the district court, the Federal Circuit

instructed that a sufficient basis to require a district court to deem the case exceptional under § 285 may lie "[i]f there is clear and convincing evidence that a plaintiff has brought a baseless or frivolous suit against an accused infringer." *Id.* at 2. But "merely negligent conduct does not suffice to establish that a case is exceptional." *Id.* at *4. Because the district court found that the accused infringer put forth no evidence to show that the plaintiff was more than negligent in not learning of the defect in its title to the patent, the district court properly found that the case was not exceptional. *Id.* In reaching its ruling, the Federal Circuit rejected the accused infringer's argument that the patentee should have borne an evidentiary burden to prove that it performed an adequate pre-filing investigation. Dismissing the accused infringer's reliance on Rule 11 precedent, which does permit a shift in the burden of proof after the accused infringer shows a non-frivolous allegation for a Rule 11 sanction, the court held that for purposes of § 285, the burden of proof always remains on the party seeking the attorney fees to show by clear and convincing evidence that the case is exceptional. *Id.* at 3. The court also rejected the accused infringer's contention that a purchaser of an "as is" patent should have to comply with a higher standard of care in its pre-filing investigation than an original owner of a patent. *Id.* at *4.

Contempt and DJ Jurisdiction

In *Targus Information Corp. v. 800 Adept, Inc.*, 2007 WL 3306762, *3-*4 (M.D. Fla. Nov. 6, 2007), the district court rejected a patentee's attempt to dismiss or stay a manufacturer's declaratory judgment suit, which involved a redesigned version of an original product previously found to have infringed, in favor of a suit the patentee had filed against the manufacturer's customers in the Eastern District of Texas. The district court found that a sufficient case or controversy existed to support subject matter jurisdiction for the manufacturer's declaratory judgment action regarding its redesigned product. Rejecting the patentee's arguments that no case or controversy existed over the redesigned product because the patentee had not threatened suit on that product, the court noted that the patentee had brought a motion to compel discovery from the manufacturer as to the redesigned product so that the patentee could evaluate whether to bring contempt proceedings based on the redesigned product. According to the court, the patentee's threat to bring contempt proceedings coupled with the prior litigation

history between the parties, showed that a controversy with sufficient immediacy to sustain declaratory judgment existed. While noting that the judgment of the earlier suit was on appeal before the Federal Circuit, and that a decision by the Federal Circuit in favor of the manufacturer on the invalidity issues could moot the declaratory judgment action, the court held that possibility of mootness did not provide a sufficient basis to decline jurisdiction for the declaratory judgment action. Additionally, citing the rule that suits against a manufacturer are preferred over suits against the customers of the manufacturer, the court denied the patentee's request to stay the declaratory judgment action until its co-pending suit against the manufacturer's customers in the Eastern District of Texas concluded.

Remand Order Held Unreviewable

Considering recent Supreme Court holdings construing 28 U.S.C. § 1447(d), the statute that limits appellate review of remand orders, the Federal Circuit, in *HIF Bio, Inc. v. Yung Shin Pharm. Industrial Co. Ltd.*, No. 2006-1522, 2007 WL 3342581 (Fed. Cir. Nov. 13, 2007), held that it lacked subject matter jurisdiction to review a district court's order remanding to state court an action involving a dispute regarding

ownership and inventorship of patents. After dismissing federal law RICO claims, the district court ruled that the patent ownership and inventorship claims arose under state law. It then declined to exercise supplemental jurisdiction to hear these claims, and remanded the action to state court. On appeal, the defendant argued that the inventorship claims arose under the patent laws, and therefore the district court erred in remanding the case to state court. Considering the scope of 28 U.S.C. § 1447(d), the Federal Circuit held that as a threshold issue it did not have subject matter jurisdiction to hear the appeal. Reviewing the Supreme Court's precedent regarding § 1447(d), the Federal Circuit concluded that remand orders based on a district court's finding that it lacked subject matter jurisdiction are not reviewable. Applying this principle, the Federal Circuit held that when a district court declines to exercise supplemental jurisdiction under 28 U.S.C. § 1367 it has implicitly found that it lacks subject matter jurisdiction. "Accordingly, a remand based on declining supplemental jurisdiction must be considered within the class of remands described in § 1447(c) and thus barred from appellate review by § 1447(d)." *Id.* at *7.

LATIMER, MAYBERRY & MATTHEWS IP LAW, LLP, an "AV®" rated law firm, provides legal services to corporations and law firms in the area of U.S. patent law including: consulting services for patent infringement litigation; patent application and prosecution services; investigation, analysis, and opinions of counsel for issues of patent infringement, validity, and enforceability; and patent licensing and portfolio management. Our attorneys have years of dedicated experience in patent litigation and procurement, and have authored numerous articles and publications on the subject, including the seven-volume patent-law treatise *Annotated Patent Digest*, available on Westlaw. We maintain offices in Blacksburg, VA and Herndon, VA, but assist clients nationally. For questions regarding our patent litigation consulting services or the content of *Patent Happenings* or the *Annotated Patent Digest*, please contact **Robert A. Matthews, Jr.** (434.525.1141; robert.matthews@latimerIP.com). For further details on the firm, please visit our website at www.latimerIP.com or contact any of our lawyers: **Matthew Latimer** (703.463.3072), **Michele Mayberry** (540.953.7075), or **Timothy Donaldson** (703.463.3073).

This newsletter is for informational purposes only and is a marketing publication of LATIMER, MAYBERRY & MATTHEWS IP LAW, LLP. It is intended to alert the recipients to developments in the law and does not constitute legal advice or a legal opinion on any specific facts or circumstances. The contents are intended as general information only. This newsletter may be copied by and/or transmitted to others freely by its recipients, but only in its entirety so as to include proper recognition of the authors. The information presented in this newsletter is, to the best of our knowledge, accurate as of publication. However, we take no responsibility for inaccuracies or other errors present in this newsletter. The information in this newsletter does not necessarily reflect the opinions of the firm, its lawyers or its clients. This newsletter may be considered ADVERTISING MATERIAL in some jurisdictions.

"AV®" peer-reviewed rating given by Martindale-Hubbell. According to Martindale-Hubbell: "An AV rating is a significant accomplishment — a testament to the fact that a lawyer's peers rank him or her at the highest level of professional excellence." "Martindale-Hubbell is the facilitator of a peer review rating process. Ratings reflect the confidential opinions of members of the Bar and the Judiciary. Martindale-Hubbell Ratings fall into two categories — legal ability and general ethical standards." "CV, BV and AV are registered certification marks of Reed Elsevier Properties Inc., used in accordance with the Martindale-Hubbell certification procedures, standards and policies."

