



# PATENT HAPPENINGS

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on judicial, legislative, and administrative developments in patent law.

## HIGHLIGHTS

1. *Conditioning stay pending reexamination on accused infringer stipulating it would not use prior art cited in the reexamination*..... 1
2. *Judge Rader speaks out against perceived lessening of required level of intent in inequitable conduct determinations*..... 2
3. *Declaratory judgment claims for developing products* ..... 3
4. *Limited breadth of disclosure in specification limits claim scope* ..... 4
5. *Specification did not trump unambiguous claim language to save claim from drafting error* ..... 4
6. *Canceled and unasserted claims must be considered in determining whether a proposed construction reads out a preferred embodiment*. 5
7. *Arguments in prosecution history effectively limited scope of structural equivalents for a means-plus-function limitation* ..... 6
8. *Claim preclusion did not bar a second infringement suit even though the product accused in second suit could have been adjudicated in the first suit* ..... 6
9. *Claims added during reexamination solely to avoid a prior adverse claim construction ruling were improper under § 305* ..... 7
10. *Employee’s knowledge of infringing activity to start laches clock is not imputable to patentee if employee does not have duties regarding licensing and enforcing the asserted patent* ..... 8
11. *Settlement agreement with manufacturer allowed customer to practice later issuing patent despite provisions allegedly to the contrary* ..... 8
12. *Wavier for not first raising argument to district court not excused by use of new counsel on appeal* ..... 9

## JUDICIAL HAPPENINGS

### Imposing Conditions to Grant Stay

As district courts increase their experience in deciding motions to stay infringement actions pending reexamination proceedings in the PTO, the courts are becoming more sophisticated in their analyses.<sup>1</sup> One emerging trend from *some* of the judges in the Eastern District of Texas requires accused infringers to make stipulations that effectively give estoppel effect to the PTO reexamination.<sup>2</sup> Under the stipulation, accused infringers are “not . . . allowed to raise at trial any printed publications considered during the reexamination process.”<sup>3</sup> The court has justified this stipulation based on a concern that an accused infringer’s ability to raise an invalidity argument in the PTO during reexamination, and then to raise that same argument in the district court if the argument does not prevail in the PTO, unfairly gives an accused infringer “two bites at the apple” to the prejudice of the patentee. Judge Folsom applied this rationale in *Premier Intern. Associates LLC v. Hewlett-Packard Co.*, 2008 WL 2138158, \*6 (E.D. Tex. May 19, 2008), to condition a stay pending a reexamination, which reexamination had been requested by a third party, on the accused infringers accepting the following stipulation limiting the prior art they could assert in the litigation and a time period for them to file any of their own reexamination requests:

As a condition of the stay, Defendant[s] may not argue invalidity at trial based on one or more prior

<sup>1</sup> Compare district court stay cases collected in Robert A. Matthews, Jr., ANNOTATED PATENT DIGEST §§ 25:126-129 [hereinafter APD].

<sup>2</sup> Not all courts in the Eastern District of Texas are imposing conditions on accused infringers. *E.g.*, *Spa Syspatronic, AG v. Verifone, Inc.*, 2008 WL 1886020, \*1-3 (E.D. Tex. Apr. 25, 2008) (granting stay without conditions); *Alza Corp. v. Wyeth*, 2006 WL 3500015, \*1-2 (E.D. Tex. Nov. 21, 2006) (same).

<sup>3</sup> *Datatrans Corp. v. Wells Fargo & Co.*, 490 F. Supp. 2d 749, 755 (E.D. Tex. Oct. 25, 2006) (Folsom, J.).

art printed publications that were submitted by Yahoo! or those provided by Apple, either to the PTO directly or to Premier during the Apple litigation, in the reexamination proceedings, as well as, those prior art printed publications submitted in any newly requested reexamination process. However, Defendant will be permitted to rely for obviousness on the combination of printed publication references that were submitted by petitioner in the reexamination with prior art that was not so submitted. Any Defendant seeking a request for reexamination must do so within ninety (90) days of filing its stipulation. [*Id.* at \*6.]

It is interesting to note that the limitations imposed by Judge Folsom's stipulation in using the previously submitted prior art are more restrictive than the statutory limits on seeking a new reexamination. Under the Patent Act, the PTO may only grant a reexamination where there is "a substantial new question of patentability."<sup>4</sup> Before 2002, and as shown by *Portola*, reexaminations were prohibited where the "new" question of patentability was based on a combination of prior art references submitted to the PTO, even if the PTO had not expressly considered that combination.<sup>5</sup> Congress effectively overruled *Portola*, in 2002 by amending 35 U.S.C. § 303(a) to provide that "[t]he existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office."<sup>6</sup> Hence, under § 303(a) a substantial new question of patentability may be found in a new combination of previously considered prior art references, so long as the "new" combination is not cumulative of a combination the PTO already considered. The condition imposed in *Premier* — limiting the accused infringers in the litigation to only use prior art submitted in the reexamination in combination with *new* prior art — is more restrictive than the limitation on showing a new question of patentability to seek a

reexamination under the amended reexamination statute.

Coincidentally, on the same day *Premier* came down, another district court granted a stay with conditions in *Bausch & Lomb Inc. v. Rexall Sundown, Inc.*, 2008 WL 2097563, \*4 (W.D.N.Y. May 19, 2008). There the court conditioned the stay pending reexamination on the accused infringer's promise not to reintroduce to the market the accused product during the stay. This condition appears to have been a condition voluntarily offered by the accused infringer to entice the court to grant the stay. It worked, as the district court stated "[t]hat the benefits of a stay outweigh its disadvantages is further underscored by the fact that Rexall is not currently selling the alleged infringing product and is willing to condition the stay on its undertaking not to do so during the pendency of the reexamination proceedings." *Id.*

Some accused infringers have also argued that where a patentee seeks a stay of an infringement action pending a reexamination, the patentee should toll damages during the stay.<sup>7</sup> While no court has yet imposed this condition, some have considered it as a factor to deny a patentee's requested stay.<sup>8</sup>

#### **Inequitable Conduct & Intent to Deceive**

In *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, No. 2007-1280, 2008 WL 2039065 (Fed. Cir. May 14, 2008), the Federal Circuit affirmed a summary judgment holding claims directed to drug composition unenforceable for inequitable conduct. To overcome a claim rejection during prosecution, the applicant submitted a declaration from a noninventor regarding experimental test data purportedly showing that the claimed drug composition had a substantially different and better half-life than a prior art composition that the PTO relied on to support a claim rejection. The district court found that the declaration failed to inform the examiner that the reported comparison used a much higher dose level of the claimed composition than the dose level of the prior art composition. The court further found that when the claimed invention and prior art composition were used with the same dosages

<sup>4</sup> 35 U.S.C. § 303(a); *see generally* APD § 25:97 Strictly Limited to New Questions of Patentability.

<sup>5</sup> *In re Portola Packing, Inc.*, 110 F.3d 786, 790 (Fed. Cir. 1997).

<sup>6</sup> *In re Bass*, 314 F.3d 575, 576 n.\*, 65 USPQ2d 1156, 1157 n.\* (Fed. Cir. 2002) ("On November 2, 2002, 35 USC § 303(a) was amended by the passage of Pub. L. No. 107-273, § 13105, (116 Stat.) 1758, 1900, to add '[t]he existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office,' thereby overruling *Portola Packing*.").

<sup>7</sup> *See generally*, APD § 25:119 Tolling Damages During Stay Requested by a Patentee.

<sup>8</sup> *E.g. Whatley v. Nike, Inc.*, 54 USPQ2d 1124, 1126 (D. Or. 2000) ("Despite his argument that defendant could simply change its shoe design, plaintiff's refusal to toll damages during the pendency of the reexamination proceeding weighs against his stay request and weighs in favor of a finding that a stay will prejudice the defense.").

there was no appreciable difference in the half lives. In view of what the district court characterized as an absence of a credible explanation for comparing half-lives at different doses and because the comparison at the same dose showed little difference in half-life, the district court ruled that a strong inference of an intent to deceive arose. *Id.* at \*4. The Federal Circuit affirmed. It rejected the patentee's factual arguments that the declaration effectively disclosed that different dose levels were used. Additionally, it rejected the alternative argument that if there was an error, that error arose by inadvertence. *Id.* at \*9-\*12.

Judge Rader dissented. *Id.* at \*12-\*14. Speaking on inequitable conduct in general, he noted problems in the court's jurisprudence that, in his view, seem to elevate materiality findings above the requirement that there also be an intent to deceive.<sup>9</sup> Commenting on "the rejuvenation of the inequitable conduct tactic," Judge Rader noted that the "court ought to revisit occasionally its *Kingsdown* opinion." *Id.* at \*13. According to him, *Kingsdown* "clearly conveyed that the inequitable conduct was not a remedy for every mistake, blunder, or fault in the patent procurement process. . . . In sum, *Kingsdown* properly made inequitable conduct a rare occurrence." *Id.* He also stated with concern that "[m]ore recently, . . . the judicial process has too often emphasized materiality almost to the exclusion of any analysis of the lofty intent requirement for inequitable conduct. Merging intent and materiality at levels far below the *Kingsdown* rule has revived the inequitable conduct tactic." *Id.*

#### **Immediacy & Reality for Developing Products**

Whether a declaratory judgment based on infringement allegations regarding a product only in development presents an actual case or controversy sufficient to sustain subject matter jurisdiction implicates the requirements of "immediacy" and "reality."<sup>10</sup> Applied to patent matters, this requires that an accused infringer must be "engaged in an actual making, selling, or using activity subject to an infringement charge or must have made *meaningful*

*preparation* for such activity."<sup>11</sup> Revisiting the requirements of the "immediacy" and "reality" in detail for the first time since the Supreme Court handed down *Medimmune*,<sup>12</sup> the Federal Circuit held in *Cat Tech LLC v. TubeMaster, Inc.*, No. 2007-1443, 2008 WL 2188049 (Fed. Cir. May 28, 2008), that *Medimmune* does not dispose of the requirement that, to sustain jurisdiction for a declaratory judgment claim, an accused infringer must have engaged in at least "meaningful preparation" for making or using that product." *Id.* at \*7. Typically, this requires that the accused infringer has taken "concrete steps to conduct infringing activity." *Id.*

In *Cat Tech*, the Federal Circuit also addressed the issue "immediacy" and "reality" when applied to not yet built custom-made products. The accused infringer had developed several accused designs of its custom-made reactors to the point where all it needed for production was customer-specific dimension data supplied by the customer when the customer placed an order. Upon receiving the customer's data, the accused infringer could produce the finished product within a normal delivery schedule. Hence, the accused infringer could "take no further steps towards manufacturing . . . until it receives an order from a customer." *Id.* at \*8. Given that the accused infringer was prepared to produce its custom-made product as soon as it received an order, that court found that the "constitutionally mandated immediacy requirements" had been met. *Id.* As for the "reality" requirement, the court examined whether the design of custom-made product was fixed or subject to substantial revision. It found that the accused designs were "substantially fixed" since the designs had been developed to cover "virtually all" configurations that might be encountered at a customer site and the accused infringer did not expect to make "substantial modifications" to its design once it began making a customer's order. *Id.* at \*9. Accordingly, the court found that the infringement dispute between the parties was "real, not hypothetical because it appears likely that, once the cloud of liability for infringement is eliminated, the accused products can be produced without significant design change." *Id.*

<sup>9</sup> See generally, APD § 27:58 Intent is Separate Element Challenger Must Prove; and § 27:62 Intent May be Shown by Circumstantial Evidence and Inferences Therefrom.

<sup>10</sup> See generally, APD § 37:31 "Immediacy" and "Reality" Applied to Developing Products; see also § 37:29 Requirement of "Immediacy and Reality"; § 37:92 Seeking Declaration of Future Infringement.

<sup>11</sup> *Arrowhead Indus. Water Inc. v. Ecolchem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988); see generally § 37:30 Accused Infringers Actual Accused Activity or Concrete Steps to Engage in Such Activity.

<sup>12</sup> *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

### **Breadth of Disclosure Limited Claim Scope**

Leading up to the *en banc* decision on claim construction in *Phillips*<sup>13</sup> and even after, members of the Federal Circuit expressed the concern that applying the “plain and ordinary” meaning of claim terms could, in some circumstances, improperly give a patentee coverage for an invention that the inventor did not invent.<sup>14</sup> As one way to avoid this result, the court instructed in *Phillips* that “the ‘ordinary meaning’ of a claim term is its meaning to the ordinary artisan *after reading the entire patent*.”<sup>15</sup> Consequently, patentees are “not entitled to a claim construction divorced from the context of the written description and prosecution history.”<sup>16</sup>

The Federal Circuit implicitly applied these limiting principles in *Decisioning.com, Inc. v. Federated Dept. Stores*, No. 2007-1277, 2008 WL 1966704, \*6-\*9 (Fed. Cir. May 7, 2008), to claims directed to a system for processing financial account applications. There the court affirmed a narrow claim construction of the term “remote interface” as excluding a consumer’s privately-owned personal computer, and instead required the use of a publicly available interface.

The patentee argued that the plain and ordinary meaning of the term “remote interface” and the prosecution history supported a broad construction that would cover privately-owned personal computers. Rejecting this contention the Federal Circuit acknowledged that the term “remote interface” if “[d]ivorced from the specification, [] could encompass almost any user interface that is located remotely from the data processing system and that facilitates the exchange of information between the applicant and the transaction processor, including a consumer-owned personal computer.” *Id.* at \*6. But the specification of the asserted patent never expressly mentioned the term

“remote interface.” And it only described the use of publicly available kiosks as being the point of contact where the user would access the system. Indeed, in several instances the specification described the “present invention” as using a public kiosk. *Id.* at \*8. Nor did the specification suggest that a consumer’s privately-owned personal computer would be used to access the system. *Id.* Instructing that “[t]he construction of the term ‘remote interface’ must be resolved in the context of the particular facts before [the court],” the court concluded that one of ordinary skill in the art when reading the entire patent specification would conclude that the term “remote interfaces” excludes consumer-owned personal computers. *Id.* at \*9. In effect, it appears that the court determined that the inventor invented a system for use with remote kiosk, and did not invent a system to be used with personal computers, and therefore the claim scope had to be limited accordingly.

Seeking relief by relying on the prosecution history, the patentee argued that because it replaced the term “kiosk” as used in the claims originally submitted with the term “remote interface,” a broad construction or “interface” should apply. For this argument, the Federal Circuit accepted the patentee’s contention that replacing “kiosk” with “remote interface” showed that the claims did not require the use of a kiosk. *Id.* at \*7. The court, however, rejected the patentee’s argument that the amendment broadened the claim to cover a consumer’s privately-owned personal computer in view of the repeated limiting references in the specification to the use of a publicly available interface.

Judge Linn dissented. Perhaps reminiscent of his views expressed in the overruled aspect of *Texas Digital*,<sup>17</sup> Judge Linn stated that he was “unable to find a clear intention to disavow consumer-owned personal computers in the written description.” *Id.* at \*16. He viewed the specification as broadly describing a system that could use “virtually any user interface.” *Id.* Consequently, in his view the “plain and ordinary meaning” should apply.

### **Specification Did Not Trump Plain Meaning**

The Federal Circuit has often stated that no matter how great the temptation, the court will not rewrite unambiguous claim language to save a patentee from a

<sup>13</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*).

<sup>14</sup> See e.g., *Halliburton Energy Serv., Inc. v. M-I, LLC*, 514 F.3d 1244, 1253-54 (Fed. Cir. 2008) (rejecting broad construction since it would permit patentee to claim improvements the inventor did not invent); *Superguide Corp. v. DirectTV Enter., Inc.*, 358 F.3d 870, 898 (Fed. Cir. 2004) (Michel, J., *concurring*); see generally, APD § 7:29 Limiting Claim Scope to Breadth of Disclosure in Specification.

<sup>15</sup> *Id.* at 1321.

<sup>16</sup> *Nystrom v. Trex Co.*, 424 F.3d 1136, 1145 (Fed. Cir. 2005); accord *Old Town Canoe Co. v. Confluence Holdings Corp.*, 448 F.3d 1309, 1318 (Fed. Cir. 2006); *On Demand Machine Corp. v. Ingram Indus., Inc.*, 442 F.3d 1331, 1344 (Fed. Cir. 2006).

<sup>17</sup> *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193 (Fed. Cir. 2002), *criticized sub nom. Phillips v. AWH Corp.*, 415 F.3d 1303, 1319-24 (Fed. Cir. 2005) (*en banc*).

poorly drafted claim limitation.<sup>18</sup> The court applied this principle in *Lucent Technologies, Inc. v. Gateway Inc.*, Nos. 2007-1334, -1337, -1376, 2008 WL 1970225 (Fed. Cir. May 8, 2008), to affirm a summary judgment of noninfringement. *Lucent* involved claims directed to a process of producing a speech message. The claim recited an iterative process with five steps performed during each successive iteration. The claim expressly recited “each successive iteration *including* the steps of [1-5].” While the claim language unambiguously stated that each step had to be performed for each iteration, the specification only described an embodiment where steps one through four were performed once before the iteration, and the value obtained from that performance was used for each successive iteration. Step five was the only step actually performed for each iteration based on the embodiment described in the specification. The accused process did the same.

Seeking to defeat the summary judgment of noninfringement, the patentee argued that the term “including” did not require that all five steps had to be done for each iteration. It based its argument on dictionary definitions that “including” may mean “considering” or “involving as a factor.” The Federal Circuit rejected this argument. It noted that it “has consistently interpreted ‘including’ and ‘comprising’ to have the same meaning, namely, that the listed elements (i.e., method steps) are essential but other elements may be added. Therefore, the claim language supports the district court’s construction of the phrase to require each of steps 1-5 to be performed during each pulse-forming iteration.” *Id.* at \*11.<sup>19</sup> Thus, the court held that “[t]he claim language clearly requires performance of each of the method steps, not just the use of values from those steps.” *Id.*

The court acknowledged that its construction resulted in a claim that was not described by any embodiment in the specification. But due to the circumstances of the case, the court would not rewrite the claim to save the patentee from the drafting error because “the claim language expressly requires execution of steps 1-5 during each pulse-forming

iteration and the specification does not redefine the claim term to have an alternative meaning.” *Id.* at \*13.

As a last effort to avoid the problematic construction, the patentee asserted that the accused process infringed under the doctrine of equivalents. But, the limitation regarding the performance of the five steps had been added by a narrowing amendment to avoid prior art. Accordingly, the *Festo* presumption of total surrender applied. The patentee argued that the amendment was only tangentially related to the asserted equivalent, but the Federal Circuit rejected this argument. *Id.* at \*15. It held that the amendment added a five-step process to remove redundancies during each pulse-forming iteration to distinguish over prior art. Hence, an equivalent which removed some of those steps outside of the iterative process clearly had more than a tangential relationship between the reason for the amendment and the accused equivalent. *Id.* The Federal Circuit also noted that it was “not relevant to the determination of the scope of the surrender that the applicant did not need to amend the claims to require performance of steps 1-4 during each pulse-forming iteration in order to overcome the prior art.” *Id.* at \*15.

### **Reading Out Preferred Embodiments**

An often used cannon of claim construction provides that a claim construction that omits a preferred embodiment is seldom correct absent “highly persuasive evidentiary support.”<sup>20</sup> In *PSN Illinois, LLC v. Ivoclar Vivadent, Inc.*, No. 2007-1512, 2008 WL 1946550 (Fed. Cir. May 6, 2008), the Federal Circuit provided additional guidance on when this cannon can apply and when it may not. Accounting for the fact that each individual patent claim sets forth and claims a separate invention,<sup>21</sup> the court instructed in *PSN*, that patent law imposes no requirement that “all claims . . . cover all embodiments.” *Id.* at \*5. Thus, in applying the cannon regarding preferred embodiments it is important to determine whether other claims of the patent claim the allegedly omitted embodiment. If they do, the cannon may not apply. Instructing that a court must consider both unasserted claims and even canceled claims, the Federal Circuit stated “courts

<sup>18</sup> See *Honeywell Int’l, Inc. v. Universal Avionics Sys. Corp.*, 493 F.3d 1358, 1368 (Fed. Cir. 2007) (Plager, J., *dissenting*) (“[I]t is not the province of the courts to salvage poorly—or incorrectly—drafted patent claims.”); see also APD § 5:43 —Patentee Stuck With the Claim Language Chosen (collecting cases refusing to rewrite claim language).

<sup>19</sup> See generally, APD § 4:42 “Including” as a Transitional Term.

<sup>20</sup> *Vitronics Corp. v. Conception, Inc.*, 90 F.3d 1576, 1583 (Fed. Cir. 1996); accord *Oatey Co. v. IPS Corp.*, 514 F.3d 1271, 1276-77 (Fed. Cir. 2008); see generally, § 5:17 Construe so Preferred Embodiment is Within the Claim. Cf. *Lucent Technologies, Inc.*, *supra* (a scenario having the necessary support).

<sup>21</sup> *Smith & Griggs Mfg. Co. v. Sprague*, 123 U.S. 249, 256 (1887) (“each of the claims . . . is a separate and distinct invention”).

must recognize that disclosed embodiments may be within the scope of other allowed but unasserted claims. Likewise, during prosecution, an applicant may have cancelled pending claims but not amended the specification to delete disclosure relevant only to the cancelled claims. In such cases, unasserted or cancelled claims may provide ‘probative evidence’ that an embodiment is not within the scope of an asserted claim.” *Id.* Technically, these statements are dicta since the Federal Circuit construed the disputed claim term in a manner that encompassed the preferred embodiment.

Several days after handing down *PSN*, the Federal Circuit cited it in rejecting a broad claim construction in *General Atomics Diazyme Labs. Div. v. Axis-Shield ASA*, No. 2007-1349, 2008 WL 2019490 (Fed. Cir. May 12, 2008) (*nonprecedential*). There, the court had to construe the term “homocysteine conversion product” in a claim directed to a method of assaying homocysteine. The district court limited the term to products derived directly from homocysteine, and not just any product formed during a reaction of an enzyme with homocysteine. The patentee argued that this construction was too narrow since it read out an embodiment described in the specification where a product was created during the reaction with the homocysteine but it was not derived from the homocysteine. Citing *PSN*, the court held that because the alleged omitted embodiment was covered by claims in the parent patent to the asserted patent, the presence of the broader embodiment in the specification did not trump the other intrinsic evidence that supported limiting the claim scope to the plain language of the claim. The Federal Circuit stated that “Axis-Shield’s assertion that ‘homocysteine conversion products’ must be construed broadly so that the asserted claims cover the inhibition embodiment is inapt, particularly in light of the plain language of the claim, which is both clear and unambiguous, and the coverage of this embodiment in the parent patent.” *Id.* at \*7.

### **Limiting Structural Equivalents**

In a similar way that the arguments in the prosecution history limit the available scope of equivalents under the doctrine of equivalents, arguments an applicant makes to distinguish over prior art can limit the scope of structural equivalents of a means-plus-function limitation.<sup>22</sup> Illustrating this in

<sup>22</sup> See generally, APD § 12:46 Surrenders Made During Prosecution Can Preclude Structural Equivalents.

*Solomon Technologies, Inc. v. Int’l Trade Comm’n*, No. 2007-1391, 2008 WL 1959515, \*6 (Fed. Cir. May 7, 2008), the Federal Circuit affirmed a noninfringement finding to claim directed to a hybrid automobile. Specifically, the claim at issue required a “power conversion means,” which was construed to require corresponding structure of a disk connecting an armature to a gear element. The accused product used a rotor shaft to connect its elements. The ITC held that, under the circumstances, a shaft was not a structural equivalent of the disk.

The Federal Circuit affirmed the noninfringement finding. It noted that in the prosecution history, the applicant distinguished its invention over the prior art by stating that the power transfer was directly done via the disk and not along any shafts connecting the components. Because “the prosecution history show[ed] that the patentee relied on th[e] advantage of a disk over a shaft in order to overcome the prior art,” the Federal Circuit held that the ITC did not err in ruling that use of rotor shafts rather than disks was not structurally equivalent. *Id.*

### **Claim Preclusion for Second Accused Product**

Claim preclusion (*res judicata*) bars a second suit having subject matter that is part of the “same transaction” adjudicated in a first suit. In patent litigation, claim preclusion may bar an accused infringer’s ability to raise invalidity defenses in a second action.<sup>23</sup> In some cases, claim preclusion may also bar a patentee’s second infringement suit.<sup>24</sup> Where a patentee brings a second infringement suit on the same patent asserted in a first suit, against the same accused infringer, but against a different accused product, whether claim preclusion applies to bar the second suit will depend on whether the infringement claims against the new accused product are deemed part of the “same transaction.” The Federal Circuit addressed what constitutes the “same transaction” for purposes of patent infringement in *Acumed LLC v. Stryker Corp.*, No. 2007-1115, 2008 WL 2020534 (Fed. Cir. May 13, 2008).

In prior cases, the Federal Circuit established that a

<sup>23</sup> See generally, APD § 38:13 Barring Defenses where Same Patent is Asserted Against a Different Accused Product of a Prior Action.

<sup>24</sup> See generally, APD § 38:13.25 May Patentee Bring Second Infringement Suit on Same Patent and Same Product; and § 38:13.75 May Patentee Bring Second Infringement Suit on Same Patent but Different Product.

suit involving a second accused product is part of the “same transaction,” and therefore claim preclusion can apply, where the second accused product is “essentially the same” as the accused product litigated in the first action.<sup>25</sup> Some district courts expanded on the “same transaction” standard by ruling that a second infringement suit on a second accused product may also be barred under claim preclusion if the patentee could have brought the second product into the first infringement action but did not.<sup>26</sup> The district court in *Acumed*,<sup>27</sup> applied this rationale and dismissed a patentee’s second infringement action against a second accused product because, in the first action, the court had given the patentee the opportunity to bring the second accused product into the first suit. The patentee declined the invitation since adding the second accused product to the first suit would have delayed the trial of the first suit by a year.

The Federal Circuit reversed the dismissal. It held that determining whether the subject matter of a second suit involves the “same transaction” is not satisfied merely because the plaintiff could have brought that subject matter into the first suit. *Id.* at \*4-\*5. Adhering to the rule that “a claim for patent infringement can only be barred by claim preclusion if that claim arises from the same transactional facts as a prior action,” the court held that “two claims for patent infringement do not arise from the same transactional facts unless the accused devices in each claim are ‘essentially the same.’” *Id.* at \*5. Applying this rule to the facts of the case, and noting that the accused infringer had conceded that the second accused product had structural differences that were “related to the limitations” of the asserted patent, the court found that the second accused product was not “essentially the same” as the first accused product, and therefore the second suit was not barred by claim preclusion. *Id.* at \*5-\*6.

Three days after *Acumed* came down the district court in *Nystrom v. Trex Co., Inc.*, 2008 WL 2081496, \*2-\*4 (E.D. Va. May 16, 2008), reached a similar conclusion without citing to *Acumed*. There the accused infringer contended that claim preclusion barred the patentee’s second suit on a new accused

product. The court rejected this argument since it found that the second product had features that were different from the features of the first accused product and these features were relevant to the claim limitations. The district court also ruled that it had to base its analysis for whether the two products were “essentially the same” on a device-to-device comparison, and not just whether the two products implicated the same claim limitations. The court noted that “[w]hile claim construction is necessary to decide infringement, a separate and distinct inquiry is made for purposes of res judicata.” *Id.* at \*3.<sup>28</sup>

### Improper Addition of Claims in Reexamination

The Federal Circuit considered the limits on a patentee’s ability to add new claims during a reexamination under 35 U.S.C. § 305 in *Southwestern Bell Telephone Co. v. Collins*, No. 2007-1577, 2008 WL 2186018 (Fed. Cir. May 27, 2008) (*nonprecedential*). On summary judgment, the district court ruled that new claims a patentee added during a reexamination were invalid because the patentee added the claims only to avoid an adverse claim construction ruling given in a prior case.<sup>29</sup> The Federal Circuit affirmed.

Relying on its statement in *In re Freeman* that “amendment of claims during reexamination is limited to amendment in light of prior art raising a substantial new question of patentability,”<sup>30</sup> the court held that a patentee “cannot use reexamination for the purpose of amending its claims to address an adverse claim construction.” *Id.* at \*2. Since the patentee presented no evidence that its amendment adding the new claims had any purpose other than to avoid the earlier narrow claim construction ruling, the court held that the addition of the new claims was improper. *Id.*

In January of this year, the Federal Circuit reached an apparent opposite conclusion in *Cordis Corp. v. Medtronic Ave, Inc.*<sup>31</sup> In *Cordis* the court reversed a district court’s judgment that claims added in a reexamination proceeding solely to cover a

<sup>25</sup> *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 479-80 (Fed. Cir. 1991).

<sup>26</sup> *E.g. Black & Decker, Inc. v. Robert Bosch Tool Corp.*, 500 F. Supp. 2d 864, 871-73 (N.D. Ill. April 25, 2007).

<sup>27</sup> No. 06-CV-642-BR, 2006 WL 3253115, \*6-\*8 (D. Or. Nov. 6, 2006).

<sup>28</sup> Nevertheless, on the merits of the infringement issues, the district court granted a summary judgment of noninfringement after ruling that the patentee’s asserted scope of equivalents vitiated claim limitations and was barred by argument-based estoppel. *Id.* at \*5-\*7.

<sup>29</sup> 464 F. Supp. 2d 588, 595-96 (N.D. Tex. Nov. 2, 2006).

<sup>30</sup> 30 F.3d 1459, 1468 (Fed. Cir. 1994).

<sup>31</sup> 511 F.3d 1157 (Fed. Cir. 2008). The January 2008 issue of *Patent Happenings*, available at [www.latimerIP.com](http://www.latimerIP.com), provides a summary on this aspect of *Cordis*.

competitor's product were invalid under § 305. The Federal Circuit held that even if the prosecution record did not expressly show that the new claims were added to further distinguish the claimed invention over the prior art, a court could effectively presume that was the case. The *Cordis* court explained that a patentee is "free to include . . . new claims even apart from the office action if they [a]re added to distinguish the invention from prior art cited under section 301. Section 305 does not require the patent owner to include an express statement that the new claims distinguish the prior art or remarks indicating how the new claims distinguish the prior art references."<sup>32</sup>

The *Southwestern* panel did not cite to *Cordis* in its opinion, which raises the question of how to reconcile these apparent contradictory decisions. *Cordis* arguably differs factually from *Southwestern* based on the *Cordis*'s panel acceptance of the argument that one of the implicit purposes of including the new claims on reexamination was to distinguish over the prior art. In *Southwestern*, the panel noted that the patentee presented *no evidence* that it added the new claims to distinguish over prior art, but that its *sole* reason for the new claims was to avoid a prior adverse claim construction ruling. Viewed in this light, the decisions may be reconcilable.

#### **Imputing Employee's Knowledge for Laches**

Before the clock for laches can begin to run against a patentee, the patentee must have knowledge of the alleged infringing activity.<sup>33</sup> The district court in *U.S. Philips Corp. v. ATI Technologies, Inc.*, 2008 WL 2073928, \*2-\*3 (S.D.N.Y. May 8, 2008), addressed the issue of when knowledge of potential infringing activity by an employee of the patentee imputes to the patentee to begin the laches clock. In the case, the accused infringer alleged that even though the patentee had not sent a cease and desist letter until 2002, one of the patentee's engineers knew of the alleged infringing activity in 1997. Citing to agency law, the district court held that before an employee's knowledge may be imputed to the patentee, the accused infringer had to show that the employee "at some time had some duties to perform on behalf of the [the patentee] with respect to the transaction, although the [employee] need not

have acquired his knowledge in connection with those duties." *Id.* Applying this principle, the district court ruled that the accused infringer had failed to produce any evidence to show that the employee "had any duties relating to the enforcement or licensing of Philips's patent rights." *Id.* Further, the court found that the accused infringer failed to show that the employee "had knowledge of patent law generally or even knowledge of the specific patent-in-suit." Because the employee had no duties relating to enforcing or licensing the corporation's patents, "the knowledge of [the employee], one of tens of thousands of Philips Semiconductor employees, cannot be imputed to Plaintiff here." Consequently, the district court denied the accused infringer's motion for summary judgment of laches.

#### **Customer Benefits from Settlement Agreement**

A patentee's settlement with a manufacturer often has consequences to the patentee's ability to sue customers of the manufacturer.<sup>34</sup> *Transcore, LP v. Electronic Transaction Consultants Corp.*, 2008 WL 2152027 (N.D. Tex. May 22, 2008), illustrates some of the legal theories a customer can assert to show that a patentee's settlement with a manufacturer did not preserve sufficient rights for the patentee to sue the customer. In *Transcore*, the district court granted an accused infringer, a customer of a nonparty manufacturer, summary judgment that the infringement claims the patentee had asserted against the customer were barred under patent exhaustion and legal estoppel based on a settlement agreement that the patentee had entered into with the manufacturer. In settling a prior infringement suit, the patentee had given the manufacturer a covenant not to sue for any future acts regarding three patents. The agreement included a provision that its rights did not extend to any future patents. During the negotiation, the manufacturer attempted to include a provision in the agreement that the covenant not to sue expressly applied to the manufacturer's customers. That provision did not make it into the final agreement. Additionally, after the agreement was executed a fourth patent, with broader claims, issued as a child to one of the patents included in the settlement agreement.

The customer argued that the covenant not to sue on the three patents created a nonexclusive license to these patents that exhausted the patentee's rights in the

<sup>32</sup> 511 F.3d at 1185.

<sup>33</sup> See generally, APD § 11:101 Laches Cannot Start Without Knowledge of Claim; see also APD § 11:102 Patentee First has Knowledge of Infringement; § 11:103 Level of Knowledge of Infringement.

<sup>34</sup> See generally APD § 11:32 Implied License Can Pass on to Customers of Licensee.

products as used by the customer. The patentee argued that the extrinsic evidence of the failure of the manufacturer and patentee to include an express provision extending the covenant not to sue to the customer showed that the patentee did not exhaust its rights as to the customer. Applying the parol evidence rule, the district court rejected this argument. It noted that the patentee could avoid a finding of exhaustion only if the settlement agreement expressly set forth the condition that the license did not extend to downstream users. Because it found that the settlement agreement was a “final” expression of the parties’ bargain, and that it did not impose any express conditions precluding rights to downstream users, the parol evidence rule barred considering the fact that the parties had attempted to expressly include a provision that affirmatively would have extended rights to downstream users but did not. *Id.* at \*5-\*6. The court also noted that the manufacturer’s settlement “would be meaningless” if the patentee could still effectively prevent the manufacturer from manufacturing and selling its products by suing the manufacturer’s customers. *Id.* at \*6

As to the later-issuing patent, the district court held that legal estoppel applied to prevent the patentee from asserting that patent against the customer. The patentee argued that because the settlement agreement contained a provision that stated that the covenant not to sue did not apply to any future patents, no legal estoppel should arise. The district court rejected this argument. It found that the manufacturer had no knowledge of the possibility of this patent when it entered into the settlement agreement. Further, the settlement agreement was viewed as being an agreement to permit the manufacturer to make and sell a product, not just to license specific patents. Hence, the assertion of a later-issuing related patent with broader claims derogated the rights the manufacturer bargained for under the settlement agreement.<sup>35</sup> Legal estoppel, therefore, applied to bar assertion of the later-issuing patent. *Id.* at \*7-\*8.

#### **Waiver on Appeal**

The Federal Circuit illustrated the well-established general rule that arguments not raised in the district court may not be asserted on appeal,<sup>36</sup> in *Golden*

<sup>35</sup> See generally APD § 11:49 Derogation of Prior Granted License Rights.

<sup>36</sup> See generally, APD § 43:47 Issues Raised on Appeal, But Not Before District Court Are Waived.

*Bridge Technology, Inc. v. Nokia, Inc.*, No. 2007-1215, 2008 WL 2120073, \*2-\*3 (Fed. Cir. May 21, 2008). There the patentee had appealed a summary judgment of invalidity for anticipation. At the district court, the patentee had argued that the anticipatory prior art reference failed to teach a first limitation of the claim. The district court found to the contrary and granted the accused infringer summary judgment finding the claim anticipated. On appeal, the patentee abandoned the argument regarding the first limitation, and for the first time, argued that the prior art reference failed to disclose a second limitation. Rejecting the patentee’s effort to raise the new argument, the Federal Circuit stated that it would not “sanction the iterative process [the patentee] would like to pursue,” because “it would be unfair to allow [the patentee] to bring some arguments distinguishing the [prior art] reference during proceedings at the district court and then, only after those arguments have been completely rejected, bring entirely different arguments on appeal for the first time.” *Id.* at \*2.

As justification for raising the new argument, the patentee argued that its use of new appellate counsel should count as a hardship exception to the general rule. The Federal Circuit did not agree. It noted that permitting that excuse “would open the door to every litigant who is unsuccessful at the district court to simply hire new counsel and then argue he should get to raise new issues on appeal.” *Id.* at \*3. Hence, concluding that one “cannot simply choose to make its arguments in iterative fashion, raising a new one on appeal after losing on its other at the district court,” the Federal Circuit held that the patentee had waived the argument that the prior art reference failed to disclose the second claim limitation. *Id.* Because the patentee had not offered any other grounds to appeal the summary judgment, the Federal Circuit affirmed the invalidity summary judgment.

#### **ADMINISTRATIVE HAPPENINGS**

The PTO appealed the ruling in *Tafas v. Dudas*, 541 F. Supp. 2d 805 (E.D. Va. Apr. 1, 2008), to the Federal Circuit. In *Tafas* the court considered the legality of the PTO’s proposed prosecution rules limiting the number of continuation applications an applicant may file and imposing additional submission requirements should the total number of claims exceed a certain number. On summary judgment, the district court held that the new rules are “substantive rule making.” Because the PTO only has authority to implement rules affecting the procedural aspects of

prosecuting patent applications, the district court held the new rules invalid for exceeding the PTO's rule making authority.

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