



PATENT HAPPENINGS

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

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JUDICIAL HAPPENINGS

Patent Exhaustion

Under the doctrine of patent exhaustion, an authorized sale by a patentee, or its licensee, of a product covered by a patent generally exhaust the

patentee’s exclusionary patent rights in that product.¹ Previously, the Federal Circuit had held that the doctrine of exhaustion does not apply to method claims.² In certain cases, however, the sale of a product that has no use other than for practicing a patented method can create an implied license for the purchaser to practice the claimed method.³ Rejecting the Federal Circuit’s categorical limitation on exhaustion, the Supreme Court held in *Quanta Computer, Inc. v. LG Elec. Inc.*, No. 06-937, 86 USPQ2d 1673, 2008 WL 2329719 (June 9, 2008), that the doctrine of exhaustion applies to method claims.

In a unanimous opinion authored by Justice Thomas, the Court instructed that the “authorized sale of an article that *substantially embodies* a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.” 86 USPQ2d at 1682 (emphasis added). Addressing method claims, the Court explained that while “a patented method may not be sold in the same way as an article or device, . . . methods nonetheless may be ‘embodied’ in a product, the sale of which exhausts patent rights.” *Id.* at 1679. Accordingly, the doctrine of exhaustion applies to method claims when the sold product “substantially embodies” the patented method. Indeed, the Court concluded that not applying exhaustion to method claims creates a danger of “violat[ing] the longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on its *use* to be

¹ See generally, Robert A. Matthews, Jr., 2 ANNOTATED PATENT DIGEST § 11:30 Implied Rights from Authorized Purchase [hereinafter APD].

² *Glass Equip. Develop., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999); see also *LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (“[T]he sale of a device does not exhaust a patentee’s rights in its method.”).

³ E.g., *Jacobs v. Nintendo of Am., Inc.*, 370 F.3d 1097, 1100, (Fed. Cir. 2004); see generally, § 11:40 Sales of Unpatented Nonstaple Articles for Use in Practicing Claimed Process.

implied for the benefit of the patentee.” *Id.*

To apply exhaustion to method claims based on the sale of a component part used in the practice of the method, the Court ruled that three conditions must exist. First, the sale of the product must have been “authorized” by the patentee. Indeed, the Court stated that “[e]xhaustion is triggered *only* by a sale authorized by the patent holder.” *Id.* at 1681 (emphasis added). Second, the product sold must have “no *reasonable* noninfringing uses.” *Id.* at 1682 (emphasis added); *see also id.* at 1680. Third, the sold component part must “include all the inventive aspects of the patented methods.” *Id.* at 1682.

Giving some guidance as to what constitutes a “reasonable noninfringing” use, the Supreme Court rejected the patentee’s argument that the ability to use the sold components in systems overseas, to sell the components as spare parts, or to sell the components for being installed in a disabled mode, provided a noninfringing use that avoided exhaustion. The Court instructed that

the question is whether the product is “capable of use only in *practicing* the patent,” not whether those uses are infringing. Whether outside the country or functioning as replacement parts, the Intel Products would still be *practicing* the patent, even if not infringing it. And since the features partially practicing the patent are what must have an alternative use, suggesting that they be disabled is no solution. The disabled features would have no real *use*.

Id. at 1680 n.6.

As for determining whether the sold component “include[s] all the inventive aspects of the patented methods,” the Court looked to see if the sold product “constitute[s] a material part of the patented invention and all but completely practice[s] the patent.” *Id.* at 1680. According to the Court, a component product has all the inventive aspects of a patent where “the only step necessary to practice the patent is the application of common processes or the addition of standard parts.” *Id.* Under the facts before it, the Court found that where the purchaser only had to combine the purchased products with other standard parts and “was not required to make any creative or inventive decision when it added those parts,” but indeed had to follow the seller’s specification for integrating the component parts with the standard parts, the sold products had all the “inventive aspects” of the patented invention. *Id.* at 1681. The Court

noted that its analysis looked to the “the nature of the final step” and whether the step was noninventive rather than merely whether the final step added additional components or processes. *Id.* The Court also specifically found for the patent at issue that “the inventive part of the patent is not the fact that memory and buses [the standard parts] are combined with a microprocessor or chipset; rather, [the inventive aspect] is included in the design of the Intel Products themselves and the way these products access the memory or bus.” *Id.*

The Court also instructed that the sale of a component part can exhaust patent rights in more than one patent provided that the component meets the test for exhaustion as to each patent allegedly exhausted by the sale. *Id.*

Considering the interplay between an implied license and exhaustion, the Court further held that whether a licensee’s authorized sale of the component exhausts the patent rights is independent of whether the sale creates an implied license to the purchaser. In the case, the patentee had allowed its licensee to sell component parts to *any* purchasers and only required the licensee to notify the purchasers that their purchase did not include a right to combine the component parts with standard parts from other vendors. The Federal Circuit had held that by providing this express notice of the restriction in the rights given to the purchasers, no implied license arose to the purchasers.⁴ Finding the question of implied license irrelevant to the issue of exhaustion, the Supreme Court rejected the patentee’s argument that this restriction nullified *exhaustion*, without commenting on its impact regarding any implied license. The Court found that the patentee had “authorized” the licensee to sell to *anybody*, even purchasers who intended to combine the component parts in a way prohibited by the alleged restriction. The licensee’s obligation to give notice to purchasers of the alleged restrictions on how the component parts could not be used did not impose any conditions restricting the patentee’s authorization of the licensee’s sale. Consequently, because the licensee’s sales to these purchasers were “authorized” sales and met the Court’s announced standard for finding exhaustion, “the question [of] whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion. And exhaustion turns only

⁴ *Bizcom Elecs.*, 453 F.3d at 1369.

on Intel's own license to sell products practicing the LGE Patents." *Id.* at 1682.⁵ It thus appears that had the patentee restricted its licensee from selling to purchasers who intended to combine the components in the prohibited manner, the licensee's sales to such purchasers would have been *unauthorized* sales, and therefore would not have triggered exhaustion.⁶

Limiting Claim Terms and Claims

As an administrative tool to prevent patent cases from becoming too unwieldy, district courts are warming up to the practice of ordering parties to limit the number of claim terms submitted for construction. Additionally, some courts are also requiring the parties to proceed with only "representative" claims.⁷ For example, in January, the Northern District of California became the first court to impose by local rule a default limit of ten claim terms the parties could submit to the court for judicial construction.⁸ Other district courts have imposed by judicial fiat limits on the number of claim terms they will construe.⁹ The Federal Circuit has yet to speak on this issue in a published opinion.¹⁰

⁵ Through this holding the Court side-stepped addressing the issue of whether a patentee may impose restrictions as part of its sale that negates an implied license, e.g., a single-use restriction. *See generally*, APD § 11:33 Restrictions on Sale may Negate Implied License; *see also* APD §§ 11:34 – 11:36.

⁶ Of course, such a restriction may not have been commercially feasible or desirable.

⁷ *See generally*, § 3:17 Limiting Number of Claims or Terms that Will be Construed (section will be modified in future updates).

⁸ Local Rules for the Northern District of California, Rule 4-1(b) (2008) ("The parties shall also jointly identify the 10 terms likely to be most significant to resolving the parties' dispute, including those terms for which construction may be case or claim dispositive.")

⁹ *E.g. Accu-Time Sys., Inc. v. Zucchetti U.S.A.*, 486 F. Supp. 2d 165, 167 (D. Mass. May 3, 2007) (noting that while the parties initially sought the construction of a number of claim terms, "the court issued an order instructing the parties to identify with specificity those terms the construction of which was essential to a resolution of the infringement claims. The parties substantially narrowed their original submissions, and ultimately agreed that only two disputed terms needed to be construed by the court."); *see also Ampex Corp. v. Eastman Kodak Co.*, 460 F. Supp. 2d 541, 543 n.1 (D. Del. 2006) (noting that the parties proposed 99 claim terms as allegedly needing construction and refusing to construe all proposed terms, and instead construing those terms that appeared most dispositive to the issues); *Microstrategy Inc. v. Business Objects Americas*, 410 F. Supp. 2d 348, 355 (D. Del. 2006) (court limiting its claim construction analysis to just two claim construction issues it felt were dispositive).

¹⁰ In *ReRoof Am., Inc. v. United Structures of Am., Inc.*, 215 F.3d 1351 (Table), 1999 WL 674517, *4-*6 (Fed. Cir. Aug. 30, 1999) (*nonprecedential*), the district court limited the patent to one representative claim from each of the five patents it was asserting.

But a district court judge sitting by designation on the Federal Circuit expressed his view that district courts should have the power to limit the number of claims a patentee may assert by stating:

There are legitimate ways in which district courts can streamline the claim construction analysis when faced with myriad claims from multiple patents. District courts may choose, for instance, to construe only the independent claims of the various patents, or may direct the parties to identify the most representative claims for construction. In that way, the district court can provide guidance as to its construction of the most critical or oft-repeated claim terms and, thus, provide a roadmap with respect to the direction any additional claim construction might take. Employing strategies to streamline the claim construction process is fundamentally different, however, from avoiding the process altogether.¹¹

Joining these other courts, the Eastern District of Texas recently issued an order restricting the number of claim terms and claims it would consider in *Hearing Components, Inc. v. Shure, Inc.*, No. 9:07CV104, 2008 WL 2485426, *1 (E.D. Tex. Jun. 13, 2008) (Clark, J.). Seeking to present 20 claim terms from 12 different claims for consideration, the parties in *Hearing Components* filed a joint motion requesting relief from a 35-page limit on their claim construction briefs. Rejecting the parties' request, Judge Clark ordered the parties to select no more than ten claim terms for construction and ordered the plaintiff to select no more than three representative claims from each asserted patent. *Id.*

It seems likely that district courts will issue more orders in the future limiting the number of claim terms and requiring the use of representative claims. How such orders will impact the validity of the unasserted claims presents an interesting question that future cases will have to resolve.¹²

Initially, the patentee had sought to present 18 "illustrative" claims. The Federal Circuit held that, under the circumstances, the trial court did not err because the patentee failed to show it was prejudiced by the order by failing to show that the outcome of the trial would have been different had it been permitted to present the remaining illustrative claims.

¹¹ *Ormco Corp. v. Align Tech., Inc.*, 498 F.3d 1307, 1321 n.2 (Fed. Cir. 2007) (O'Malley, J. *sitting by designation, dissenting*)

¹² Compare *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1371 (Fed. Cir. 2003), and its statement that "[t]he grouping of recitations in different claims for the purpose of claim construction does not permit the grouping of claims, each

Litigation Defenses Defeat Willful Infringement

Kleen-Tex Indus., Inc. v. Mountville Mills, Inc., 2008 WL 2486363 (N.D. Ga. Mar. 3, 2008), provides an eye-opening example that the new willfulness standard of *Seagate*¹³ may have over corrected the willfulness pendulum in favor of infringers. In that case, the patentee had provided actual notice to the infringer of its charge of infringement. *Id.* at *18. The infringer did not obtain an opinion of counsel. *Id.* It responded to the patentee by arguing that features of its product having nothing to do with the limitations of the asserted independent claim showed that its product did not infringe. The district court characterized this response as denying “infringement on the basis of completely irrelevant considerations.” *Id.* The court also found that the infringer had made a “clear threat to disrupt [the patentee]’s economic interests in the event that [the patentee] maintained the lawsuit.” *Id.* In view of the foregoing, the court concluded that the infringer “did not take Kleen-Tex’s claim of patent infringement seriously,” *id.*, it “displayed questionable business practices and *intentionally* infringed the ’622 patent,” *id.* at *8 (emphasis added).

Despite the finding of “intentional” infringement, the court held that because the infringer raised “plausible” invalidity defenses, which had to be adjudicated at trial, willful infringement could not be found. The court cited *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, 2008 WL 60501, at *7 (Fed. Cir. Jan. 7, 2008) [(*nonprecedential*)] and the Federal Circuit’s instruction therein that “both legitimate defenses to infringement claims and credible invalidity arguments demonstrate the lack of an objectively high likelihood that a party took actions constituting infringement of a valid patent.” In view of this case, the district court held that “a ‘credible invalidity argument’ is sufficient, under *Black & Decker*, to

avoid a finding of willful infringement. Thus, in light of the recent decisions in *Seagate* and *Black & Decker*, the Court finds that there is insufficient evidence to support a finding of willful infringement.” *Id.* at *8.

Although ruling that it could not find willful infringement, the court found the case “exceptional” and awarded the patentee all of its reasonable attorney’s fees. *Id.* at *18-*19. Interestingly, in evaluating the factors that made the case “exceptional,” the court appeared to consider implicitly many of the *Read* factors typically used to determine whether to enhance damages for willful infringement.¹⁴ For example, in addition to the bad acts previously noted, the court relied on its finding that the question of infringement was not close. It also noted that the infringer continued to sell its infringing product during the law suit even though the infringer could have implemented a noninfringing alternative for the cost of 58 cents per product. *Id.* at *19. The court also considered the infringer’s behavior in the litigation and tactics it considered to be “litigation by ambush” and other misconduct. *Id.*

Subsidiary’s Lost Profits

A patentee who does not make or sell a product that competes with an infringing product, but has a related subsidiary or sibling corporation that does, often tries to recover from an infringer the lost profits sustained by the subsidiary or sibling corporation. For the most part, Federal Circuit case law limits the ability to recover a subsidiary’s lost profits to the situation where the subsidiary holds some form of *exclusive* rights in the patent that are infringed and joins the patentee in the infringement action.¹⁵ Where the subsidiary only holds nonexclusive rights in the patent, the subsidiary has no standing to join in the infringement action and the subsidiary’s lost profits are

independently possessing a presumption of validity, for disposition of their validity” with *Scanner Technologies Corp. v. ICOS Vision Sys. Corp., N.V.*, No. 2007-1399, 2008 WL 2468487 *14-*15 (Fed. Cir. Jun. 19, 2008) (ruling that parties’ stipulation to try the issues of infringement, validity and enforceability for two asserted patents based on one representative claim from only one patent was a binding stipulation such that the district court’s finding that the representative claim was invalid permitted the court to enter a judgment of invalidity for all of the claims of both patents even though the district court did not consider the validity of each claim individually).

¹³ *In re Seagate Technology*, 497 F.3d 1360, 1370-71 (Fed. Cir. 2007) (*en banc*), *cert denied* No. 07-656 (Feb. 25, 2008); *see also* APD § 31:22 “Objective Recklessness” Standard of *Seagate*.

¹⁴ *See generally*, APD § 31:26 Factors Relevant in Evaluating if Infringement is Willful. The *Read* factors include 1) whether the infringer deliberately copied the ideas or design of another; 2) whether the infringer, when he knew of the other’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; 3) the infringer’s behavior as a party to the litigation; 4) defendant’s size and financial condition; 5) the closeness of the case; 6) duration of the defendant’s misconduct; 7) remedial action by the defendant; 8) defendant’s motivation for harm; and 9) whether the defendant attempted to conceal its misconduct. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992).

¹⁵ *See generally*, APD § 30:65 Exclusive Licensee can Recover its Lost Profits.

not normally recoverable.¹⁶

Recently, in *Mars, Inc. v. Coin Acceptors, Inc.*, No. 207-1409, -1436, 2008 WL 2229783, *5-*6 (Fed. Cir. Jun. 2, 2008), the Federal Circuit reaffirmed this state of the law. In *Mars*, the patentee did not make a product, but one of its subsidiary corporations did. The patentee argued that the subsidiary's lost profits were "inherently" the patentee's lost profits. The Federal Circuit noted that the patentee received a royalty from its subsidiary and that the royalty amount remained the same regardless of whether the subsidiary sustained lost profits. Indeed, the subsidiary had to make royalty payments to the patentee even if the subsidiary made no profits. In view of these facts, the Federal Circuit rejected the patentee's claims that any losses of the subsidiary were "inherently" lost profits of the patentee. *Id.* at *6. It therefore affirmed the denial of lost profit damages. Additionally, the Federal Circuit also found that since the patentee permitted a second subsidiary corporation to practice the invention, the first subsidiary corporation for whom the patentee had relied on for its lost profits claim, only held a nonexclusive license, and therefore did not have constitutional standing to pursue any claims for damages from the infringement. *Id.* at *6-*7.

While denying lost profits on the facts before it, the Federal Circuit noted that its ruling did not foreclose the possibility that a patentee could recover as infringement damages an amount of damages equal to the subsidiary's lost profits where the facts show that the lost profits of the subsidiary "actually *do* flow inexorably up to the parent." *Id.* at *6. The court also instructed that "while lost profits is plainly one way to measure the amount of damages that will 'fully compensate' the patentee under § 284, we have never held that it is the *only* one." *Id.* at *5 (emphasis in original). Hence it appears that if a parent holding company structures intra-company licenses to transfer profits, rather than royalties, a viable theory may exist for the patentee to assert entitlement to lost profits even where the subsidiary does not hold any exclusive rights

¹⁶ *E.g.*, *Poly-America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004); *see generally*, APD § 30:67 Nonexclusive Licensee Cannot Recover its Lost Profits and § 30:71 Patent-Holding Company and Related Manufacturer; *see also* Robert A. Matthews, Jr., *A Potential Hidden Cost of a Patent-Holding Company: The Loss of Lost-Profit Damages*, 32 AIPLA Q.J. 503 (Fall 2004) (discussing, *inter alia*, use of patent holding companies and standing issues regarding manufacturing corporations who own the holding company).

in the patent.¹⁷

Prosecution Disclaimer From Parent

Under the doctrine of prosecution disclaimer, a clear and unmistakable surrender of claim scope precludes a claim from covering an accused product or process having the surrendered subject matter.¹⁸ In some circumstances, a prosecution disclaimer in a parent patent can apply to limit the scope of the claims of a child patent.¹⁹ Typically, this occurs where the disclaiming statements in the prosecution history of the parent patent address "the same subject matter as the claim language at issue in the patent being construed."²⁰ In *Heuft Systemtechnik GmbH v. Industrial Dynamics Co., Ltd.*, No. 2007-1417, -1462, 2008 WL 2518562, *3-*6 (Fed. Cir. June 25, 2008) (*nonprecedential*), the court addressed the requirement of "same subject" matter and reversed a denial of a motion for JMOL of no infringement because the district court erred in not finding that the patentee's actions in a parent patent created a prosecution disclaimer for the accused subject matter asserted to be covered by a patent issuing from a child divisional application.

The claims at issue concerned a method for handling and inspecting bottles. The claims required "arranging" one of two consecutive containers to be stable by the use of guide rails having an exit angle. The claims of the divisional patent were silent as to the magnitude of the exit angle, and therefore the district court did not impose any limitation on the magnitude of the exit angle of the guide rails. Based on the prosecution history described below, the Federal Circuit held this was error.

To overcome prior art rejections in the parent case, the patentee amended its claim to recite the limitation of "arranging one of two consecutive containers stable against one of the at least two railings and the other container stable against the other railing in the direction of conveyance after the first area." It then

¹⁷ There are other interesting damage and standing related rulings in *Mars*, including the Federal Circuit's rejection of an infringer's argument that reasonable royalty damages must be "capped at the cost of implementing the cheapest available, acceptable, noninfringing alternative." *Id.* at *12.

¹⁸ *See generally*, APD § 6:12 Statements Distinguishing Over Prior Art Can Evidence a Disclaimer.

¹⁹ *See generally*, APD § 6:53 Parent Applications Limiting Scope of Child Applications.

²⁰ *Ormco Corp. v. Align Tech., Inc.*, 498 F.3d 1307, 1314 (Fed. Cir. 2007).

argued that its invention differed over the prior art by having an exit angle of at least 30°. The examiner maintained its rejection. The patentee further amended the claim to expressly recite a limitation that the rails have an exit angle between 30 to 100°. With this amendment the claims were allowed. In prosecuting the divisional application, the patentee omitted the express recitation that the rails have an exit angle of at least 30°. Instead, the patentee submitted a claim reciting the step of “rotating the containers continuously alternately in opposite directions by arranging one of two consecutive containers stable against one of the at least two railings and the other stable against the other of the at least two railings in the direction of conveyance after the first area.” The examiner allowed the divisional application without any rejections.

Despite the fact that the issued claim in the divisional application did not carry over the express recitation of an exit angle being at least 30°, as in the issued claim of the parent application, the Federal Circuit found there was a prosecution disclaimer limiting the scope of the claims in the divisional application to processes using an exit angle of at least 30°. The Federal Circuit determined that when the patentee had argued that its invention differed over the prior art by having an exit angle of at least 30°, the claim language in the parent patent then recited the same claim language as in the issued divisional patent; namely, “arranging one of two consecutive containers stable against one of the at least two railings and the other container stable against the other railing in the direction of conveyance after the first area.” *Id.* at *4-*5. Accordingly, the court determined that the limitation as recited in the divisional patent “related to the same subject matter” for which the disclaiming statement regarding the magnitude of the exit angle had been originally made in the parent patent. *Id.* at *6. Consequently, the prosecution disclaimer in the parent case arising from the applicant’s statements that its process used exit angles of at least 30° applied to, and limited, the scope of the asserted claims in the divisional patent. Because the accused process used exit angles between 12 and 14°, subject matter disclaimed, the court held there was no infringement as a matter of law, and ordered the district court to enter a judgment of noninfringement on remand. *Id.* at *6.

Construing “Partially”

The Federal Circuit in *Helmsderfer v. Bobrick Washroom Equip., Inc.*, No. 2007-1312, 2008 WL

2262435 (Fed. Cir. Jun. 4, 2008), yet again demonstrated that it will not rewrite claims to save a patentee from poor claim drafting.²¹ In *Helmsderfer* the Federal Circuit affirmed a claim construction that the term “*partially* hidden from view” excluded an accused product having its component totally hidden from view. Directed to a baby diaper changing station, the asserted claim recited that a “platform top surface is *partially hidden from view*.” The accused product had its surface wholly hidden from view. Seeking to cover the accused product, the patentee argued that the claim limitation should be construed as if it read “*at least partially* hidden from view.” Relying on three dictionary definitions of “partially” and noting that none of them included “totally,” the district court rejected the patentee’s proposed construction.²²

Affirming the claim construction, the Federal Circuit rejected several arguments posed by the patentee. First, the court noted that the written description did not mention the phrase “partially hidden from view.” It only described the platform surface as being “generally hidden.” The Federal Circuit rejected the patentee’s contention that “generally” equated to “at least,” and therefore the specification supported construing “partially” to mean “at least.” The court further noted that in other claim limitations, the inventor had used the terms “generally” and “at least,” but had not used either of these qualifying terms in the “partially hidden” limitation. Not giving the patentee any sympathy, the court stated that “[i]f Brocar had intended to use these terms to describe the platform top surface, it should have.” *Id.* at *2.²³

Second, the Federal Circuit also held that the district court properly considered dictionary definitions in construing the term “partially.” Judge Moore instructed that “[w]hen the intrinsic evidence is silent as to the plain meaning of a term, it is entirely appropriate for the district court to look to dictionaries or other extrinsic sources for context—to aid in

²¹ See generally, APD § 5:45 —Patentee Stuck With the Claim Language Chosen.

²² 2007 WL 2407048, *6 (S.D. Ohio Aug. 20, 2007).

²³ In this regard, the court’s analysis appears similar to *Jeneric/Pentron, Inc. v. Dillon Co.*, 205 F.3d 1377, 1381 (Fed. Cir. 2000), where the court required exact numerical precision for a claim term that did not use qualifying language when other limitations in the claim used qualifying language.

arriving at the plain meaning of a claim term.” *Id.*²⁴

Finally, the court rejected the patentee’s argument that the exclusionary construction was improper because it excluded from the asserted claims the preferred embodiment and every illustrated embodiment of the invention. The Federal Circuit explained that because other unasserted claims did not contain the “partially hidden” limitation, its narrow construction of the asserted claims left open the possibility that the unasserted claims could cover the preferred and illustrated embodiments.²⁵ *Id.* at *3. It stated that “[i]t is often the case that different claims are directed to and cover different disclosed embodiments. The patentee chooses the language and accordingly the scope of his claims.” *Id.*

Entire-Market-Value Rule

The entire-market-value rule (“EMV Rule”) allows a patentee to recover damages based on the overall value of an accused product even though the patented technology comprises only a component of the overall accused product *if* the patentee can prove that the patented technology drove the sale of the product.²⁶ The rule also permits a patentee to recover damages on convoyed sales, e.g., sales of unpatented components normally sold with the patented components, where the unpatented and patented components “together constitute[] a functional unit.”²⁷ The entire-market-value rule can apply to a recovery of lost profits or damages based on a reasonable royalty.

The Federal Circuit’s Judge Rader, sitting by designation as the trial judge, in *Cornell University v. Hewlett-Packard Co.*, No. 01-CV-1974, 2008 WL 2223197 (N.D.N.Y. May 27, 2008), rejected an accused infringer’s attempt to restrict the availability of the entire-market-value rule in the context of reasonable royalty damages. In *Cornell*, the accused

²⁴ See generally, APD § 4:13 Dictionary Usage to Define Ordinary Meaning.

²⁵ The court’s analysis follows the dicta in the recent case of *PSN Illinois, LLC v. Ivoclar Vivadent, Inc.*, 525 F.3d 1159 (Fed. Cir. 2008). In *PSN*, the Federal Circuit instructed that “courts must recognize that disclosed embodiments may be within the scope of other allowed but unasserted claims,” and therefore “unasserted or cancelled claims may provide ‘probative evidence’ that an embodiment is not within the scope of an asserted claim.” *Id.* at 1166. See last month’s issue of *Patent Happenings* at p.5 for a summary of *PSN*.

²⁶ See generally, APD § 30:58 Substantive Aspects of the Entire Market Value Rule.

²⁷ See generally, APD § 30:62 Convoyed Sales and Derivative Sales.

infringer argued that the EMV Rule should not permit a patentee to recover royalties based on unpatented components where the patentee did not itself make or sell competing unpatented components. Characterizing the accused infringer’s contention as imposing “severe constraints” on patentees, Judge Rader ruled that the proposed restriction was “nonsensical” and “ignore[d] longstanding jurisprudence in this area.” *Id.* at *1. Judge Rader, noted that Federal Circuit law imposes “no requirement that a patentee must have made, sold, or licensed the patented invention to be entitled to claim the entire market value of the accused products as the royalty base. Instead, the critical requirement is a connection between the patented invention and the unpatented components that the patentee seeks to include in the royalty base.” *Id.* Accordingly, Judge Rader denied the accused infringer’s motion in limine seeking to exclude any evidence of damages under the EMV Rule based on the accused infringer’s sales of unpatented components.

Judge Rader further ruled, however, that the jury could be told that the patentee did not make or sell the unpatented components it sought to include in the royalty base. He also ruled that the jury could be told that none of the patentee’s prior licenses included royalty obligations based on the sale of unpatented components like those sought to be included in the royalty base. Judge Rader ruled that these facts were “plainly relevant” to the analysis of the hypothetical negotiation. *Id.* at *2.²⁸

Refusing to Revive Lapsed Patent

The Federal Circuit addressed the PTO Director’s discretion and the legal standards for reviving a patent that lapsed for the failure to timely pay maintenance fees²⁹ in *Burandt v. Dudas*, No. 2007-1504, 2008 WL 2344993 (Fed. Cir. Jun. 10, 2008). There, the court affirmed a summary judgment in favor of the PTO that the Director did not abuse its discretion by denying an inventor’s petition to revive a patent for an alleged unavoidable delay in paying a maintenance fee. The inventor had originally assigned its patent to another when the patent issued. A maintenance fee was due in 1994 and was never paid by the assignee, and the patent therefore lapsed. Approximately seven years later the inventor reacquired legal title to the patent and sought to revive the patent. The inventor argued that it

²⁸ On May 30, 2008, the jury returned a verdict in favor of the patentee and awarded \$ 184 million in damages.

²⁹ See generally, APD § 24:24 Reviving Lapsed Patents.

held equitable title to the patent during the assignee's ownership period based on a purported repurchase of the patent rights. Further, the inventor argued that due to a mental disability and financial hardships, he was not capable of discovering that the patent had lapsed.

The inventor argued that the PTO erred by focusing solely on the actions of the legal title holder at the time the maintenance fee first became due, i.e., the assignee. The Federal Circuit rejected this argument as "fl[y]ing in the face" of its prior precedent³⁰ holding that it is "the actions of the party responsible for making payments of the maintenance fees, the legal title owner, that must be considered when evaluating unavoidable delay under 35 U.S.C. § 41(c)." *Id.* at *5. The court also held that the "Director is entitled to rely on the record and does not have to conduct an equitable analysis in order to determine who must pay the maintenance fee." *Id.* Thus, the court concluded that "[a]lthough the facts surrounding [the inventor]'s situation are no doubt unfortunate, they are irrelevant given [the assignee]'s status as the legal owner of the patent at the time the first maintenance fee was due." *Id.* at *6.

As to the actions of the assignee, the Federal Circuit found that they fell far short of showing an unavoidable delay in not paying the maintenance fee. The court instructed that the "unavoidable" standard looks to see if the legal title holder had "exercise[d] reasonable care in ensuring that the maintenance fee would be paid in a timely manner." *Id.* at *4. From the facts before, it the court concluded that the "record was devoid of any evidence suggesting that [the assignee] took any steps to make timely payment of the maintenance fee." *Id.* To the contrary, the evidence showed that the assignee had let three other patents of the inventor lapse by not paying their maintenance fees, which showed a deliberate course of action, rather than an unavoidable delay. *Id.*

Collateral Estoppel and Reexamination

In *Tan v. Integrated Silicon Solutions, Inc.*, 2008 WL 2340217, *4 (N.D. Cal. June 5, 2008), Judge Aslup applied collateral estoppel to a PTO's final rejection of a claim in a reexamination proceeding that the Board of Patent Appeals and Interferences (BPAI) had affirmed, thereby precluding the patentee from asserting that claim in the litigation.³¹ The district

³⁰ *Ray v. Lehman*, 55 F.3d 606, 609 (Fed. Cir. 1995).

³¹ See generally, APD § 38:29 Patent Office Decisions and Examiner's Rejections.

court applied the estoppel even though the patentee had appealed the PTO's decision to the Federal Circuit. The court found that the patentee had a "full and fair opportunity to litigate the validity of [the] claim" before the BPAI, and that the other requirements for applying issue preclusion were met. *Id.* Noting the general rule that the pendency of an appeal does not affect the applicability of collateral estoppel,³² the district court rejected the patentee's argument that the pendency of its appeal before the Federal Circuit justified not applying an estoppel. *Id.*

The ability to invoke collateral estoppel in this context may be a factor for courts to consider in assessing whether to grant or continue a stay pending a reexamination. In deciding whether to grant a stay, some courts look to the likely delay from the reexamination, including the pendency of any appeal to the Federal Circuit. Using collateral estoppel as done in *Tan* could dispose of the need to consider the pendency in the Federal Circuit as part of a delay arising from a reexamination.

ADMINISTRATIVE HAPPENINGS

On June 10, 2008, the U.S. Patent and Trademark Office (USPTO) published in the Federal Register (73 Fed. Reg. 32938) a notice setting forth amended rules governing practice before the Board of Patent Appeals and Interferences in *ex parte* patent appeals. According to the USPTO, the amendments to the rules "are needed to permit the Board to handle an increasing number of *ex parte* appeals in a timely manner," in part by "avoid[ing] unnecessary returns to examiners by the Appeals Center and the Board, along with the resulting delays in application and appeal pendency." Among other things, the amended rules require:

- a claims and drawing analysis and a means or steps plus function analysis for each independent claim involved in the appeal and each dependent claim argued separately. The analysis requires an annotated copy of the claim, indicating where each limitation is supported in the specification and replaces the previous written summary of the invention section.
- a 30-page limit for the appeal brief, excluding any statement of the real party in interest, statement of the related cases, table of contents, table of

³² See generally, APD § 38:36 Finality Not Lost Because Appeal is Pending.

authorities, status of amendments, jurisdictional statement, signature block, and appendix (20-page limit for the reply brief).

- a statement of the facts, setting out “material facts relevant to the rejections on appeal.”
- an argument section explaining “why the examiner is believed to have erred as to each rejection to be reviewed” and identifying where the argument was first presented or stating that the argument has not previously been made to the examiner. The notice provides examples of argument formats that are acceptable under Bd. R. 41.37(o)(3).

In addition, whereas under the previous rules, the Director of each Technology Center decided petitions authorized by part 41, under the amended rules, the Chief Administrative Patent Judge of the Board will decide such petitions. The new rules also provide sanctions against the appellant for misconduct, including 1) failing to comply with an order or applicable rule, 2) advancing or maintaining a misleading or frivolous argument or request for relief, or 3) engaging in dilatory tactics.

The new rules apply to all appeals where an appeal brief is filed on or after December 10, 2008.

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