



# FINNEGAN

## Last Month at the Federal Circuit

February 2011

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*Ohio Willow Wood Co. v. Thermo-Ply, Inc.*  
Nos. 10-1119, -1269 (Fed. Cir. Jan. 4, 2011)  
[Appealed from E.D. Tex., Judge Clark]

### Federal Circuit Rejects 25 Percent Rule of Thumb for Calculating Damages

*Uniloc USA, Inc. v. Microsoft Corp.*  
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[Appealed from C.D. Cal., Judge Phillips]

### Abbreviations

ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act

APJ	Administrative Patent Judge
Board	Board of Patent Appeals and Interferences
Commissioner	Commissioner of Patents and Trademarks
CIP	Continuation-in-Part
DJ	Declaratory Judgment
DOE	Doctrine of Equivalents
FDA	Food and Drug Administration
IDS	Information Disclosure Statement
ITC	International Trade Commission
JMOL	Judgment as a Matter of Law
MPEP	Manual of Patent Examining Procedure
NDA	New Drug Application
PCT	Patent Cooperation Treaty
PTO	United States Patent and Trademark Office
SJ	Summary Judgment
TTAB	Trademark Trial and Appeal Board

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### **Federal Circuit Remands for Decision on Vacatur Motion**

*Rachel L. Emsley*

**Judges: Rader (author), Newman (additional views), Moore (concurring)**  
**[Appealed from E.D. Tex., Judge Clark]**

In *Ohio Willow Wood Co. v. Thermo-Ply, Inc.*, Nos. 10-1119, -1269 (Fed. Cir. Jan. 4, 2011), the Federal Circuit granted the parties' joint motion for remand of the appeals for the limited purpose of allowing the district court to address the parties' motion for vacatur. The Federal Circuit, however, retained jurisdiction over the appeals so that the parties could seek appellate review within thirty days of the district court's decision on remand. Accordingly, the appeals were held in abeyance pending the district court's decision on the motion for vacatur. In addition, the Court denied a third party's motion to file an amicus curiae brief or, in the alternative, to intervene and oppose the parties' motion for remand.

In her concurrence, Judge Moore cautioned that the district court should not construe the Federal Circuit's decision to remand as an imprimatur on the parties' vacatur motion. Judge Moore, relying on the Supreme Court precedent of *U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership*, 513 U.S. 18 (1994), stated that vacatur was an "extraordinary remedy," requiring a showing of "equitable entitlement." Moore Concurrence at 2. Additionally, Judge Moore cited to *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83 (1993), while noting that the public interest should be considered when deciding whether to vacate a prior decision, especially where that decision invalidated a patent (a situation in which she characterized the public interest as "overwhelming"). Judge Moore stated that the public rights are particularly vulnerable when considering vacatur following settlement because the parties often benefit, and, thus, no "opposing voice" is heard. Although, as Judge Newman pointed out, in this instance, the third party seeking to intervene may well disagree with the parties' motion for vacatur.

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**"Whether a district court chooses to vacate its own decision in a particular case is a matter of case-specific discretion." Newman Additional Views at 2-3.**

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While the settlement of the present case also ended three other litigations between the parties involving three other patents, the patentee had already sued a third party on the patent in question. Judge Moore pointed out that if the district court did not vacate its invalidity judgment, the patentee would be collaterally estopped from asserting its invalid patent in future cases, resulting in judicial economy. On

the other hand, if the district court were to vacate its invalidity judgment, Judge Moore noted that collateral estoppel would likely not apply. Judge Moore advised that these concerns should weigh heavily against vacatur because the only reason, in her view, that a patentee would seek vacatur of an invalidity decision is to potentially enforce the patent against others.

Judge Newman wrote separately to add additional views in response to Judge Moore's concurrence. Judge Newman indicated that she did not endorse the "proffer of judicial advice on selected issues" provided in Judge Moore's concurrence. Newman Additional Views at 3. In particular, Judge Newman made clear that Judge Moore's concurrence is not part of the Court's remand order. Judge Newman stated that the district court is in the better position to rule on the parties' motion for vacatur after hearing all of the legal and equitable considerations that may be brought to the court's attention. In Judge Newman's view, the remand should be unencumbered by even the appearance of prejudice or of the weight to be given various considerations.

The logo for the law firm Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. The word "FINNEGAN" is written in a bold, green, sans-serif font.

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**February 2011**

### **Federal Circuit Rejects 25 Percent Rule of Thumb for Calculating Damages**

*Benjamin H. Huh\**

**Judges: Rader, Linn (author), Moore**  
**[Appealed from D.R.I., Judge Smith]**

In *Uniloc USA, Inc. v. Microsoft Corp.*, Nos. 10-1035, -1055 (Fed. Cir. Jan. 4, 2011), the Federal Circuit rejected the “25 percent rule” for calculating infringement damages as a fundamentally flawed tool for determining a royalty rate in a hypothetical negotiation. In reaching this conclusion, the Court reversed the district court’s grant of JMOL of noninfringement, affirmed its grant of JMOL of no willfulness, affirmed its grant of a new trial on damages, vacated its grant of an alternative motion for new trial on infringement, and affirmed its denial of JMOL of invalidity of claim 19 of U.S. Patent No. 5,490,216 (“the ‘216 patent”). The Court then remanded the case for proceedings consistent with its opinion.

Uniloc USA, Inc. and Uniloc Singapore Private Limited (collectively “Uniloc”) asserted the ‘216 patent against Microsoft Corporation (“Microsoft”). Specifically, Uniloc claimed that Microsoft’s Product Activation feature, which acts as a gatekeeper to Microsoft’s Word XP, Word 2003, and Windows XP software programs, infringes the ‘216 patent.

Uniloc’s ‘216 patent is directed to a software registration system to deter software copying. The system allows software to run without restrictions in a “use mode” only if the system determines that the software installation is legitimate. To do this, the system creates a local licensee unique ID based on information supplied by the user. The same user information is also sent to a remote vendor’s system, which performs the identical algorithm to create a remote licensee unique ID. If the local licensee unique ID matches the remote licensee unique ID, the program enables an unrestricted “use mode.” Otherwise it defaults to a restricted “demo mode.” Microsoft’s Product Activation feature utilizes a Product ID, Hardware ID, and additional activation information, which are run through either the MD5 message digest algorithm (“MD5”) or SHA-1 secure hash algorithm (“SHA-1”). This results in a remote “license digest” that is sent back to the user’s computer to create a local “license digest.” If the local and remote “license digest” match, the software product enters an unrestricted mode; otherwise, it defaults to a restricted mode.

Microsoft’s accused Product Activation feature requires the user to enter a twenty-five-character product key. If the key is valid, the user is asked to agree to the End User License Agreement (“EULA”), by which the licensor-licensee relationship is initiated. The user may then either use the software for a limited time

without initiating Product Activation or activate the product. Unless the user activates the product, he is not entitled to the rights granted by the EULA.

In a first iteration of this case, the district court granted SJ of noninfringement, finding that the algorithms used by Microsoft were not identical at the remote and local sites. The Federal Circuit reversed and remanded, holding that Uniloc provided extensive evidence that Microsoft's Product Activation feature used the same algorithm at the local and remote sites, and stating that the issue should have gone to the jury. On remand, the jury returned a verdict of infringement and no invalidity of claim 19 of the '216 patent. Further, the jury found Microsoft's infringement willful and awarded \$388 million in damages. The district court denied JMOL of invalidity, granted JMOL of noninfringement, granted JMOL of no willfulness, granted a new trial on damages on the improper use of the entire market value rule, rejected Microsoft's arguments regarding the 25 percent rule as having been previously decided, and granted in the alternative a new trial on infringement and willfulness. Uniloc appealed all but the denial of JMOL of invalidity, which Microsoft cross-appealed.

In this second appeal, the Federal Circuit first addressed three infringement issues: (1) whether the accused products contain "licensee unique ID generating means"; (2) whether the accused products contain a "registration system" with a "mode switching means" that precludes full use of the software unless the outputs of the local and remote algorithms match; and (3) whether Microsoft can be liable for direct infringement when it has no control over the user's computer.

With regard to the first and second issues, the Federal Circuit found substantial evidence for a jury to conclude that the accused product features performed the claim limitations. The Court found that a reasonable jury could conclude that the output of the MD5 and SHA1 algorithms in Microsoft's accused product was a "licensee unique ID" and that the algorithms are "summation algorithms" as those phrases are used in the context of the '216 patent. Moreover, the Court concluded that use during the grace period after agreement to the EULA and before Product Activation in the accused product does not constitute full use in accordance with the EULA. The Court found that once the user activates the software, the registration system switches the software into "full version." Accordingly, the Court found substantial evidence that Microsoft's Product Activation included a "registration system" and "mode switching means."

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**"This court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue." Slip op. at 41.**

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Regarding the third infringement issue—whether Microsoft can be liable for direct infringement when it has no control over the user's computer—the Federal Circuit concluded it could. The Court found that claim 19 of the '216 patent focuses entirely on the "remote registration station," thereby capturing infringement by a single party.

Next, the Court considered the district court's grant of a new trial on infringement issues. The Court found that the district court provided no additional analysis apart from its analysis of the JMOL infringement issues in granting the new trial on noninfringement. Thus, the Court concluded that the

district court's grant of a new trial on infringement had no more merit than the district court's grant of JMOL on infringement.

Turning to the issue of willfulness, the Federal Circuit analyzed the grant of JMOL of no willfulness and alternative grant of a new trial on willfulness. The Court found that Uniloc failed to meet the threshold objective prong set forth in *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007), as Uniloc did not present any evidence showing why Microsoft could not reasonably have determined that the features of its product did not meet the claim limitations. The Court concluded, therefore, that Uniloc failed to show that a reasonable jury could find Microsoft's conduct objectively reckless on the evidence presented, and thus affirmed the district court's grant of JMOL of no willfulness. In light of the affirmation, the Court did address the district court's alternative grant of a new trial on this issue.

The Federal Circuit next addressed three damages issues: (1) the propriety of using the 25 percent rule; (2) application of the entire market value rule as a "check"; and (3) excessiveness of damages. At trial, the jury awarded Uniloc \$388 million in damages based on the testimony of Uniloc's expert, who opined that damages should be \$564,946,803. The expert's analysis was based on a hypothetical negotiation between Uniloc and Microsoft using the 25 percent rule of thumb and consideration of the *Georgia-Pacific* factors. The 25 percent rule suggests that a licensee pay a royalty rate equivalent to 25 percent of its expected profits for the product that incorporates the intellectual property at issue. Uniloc's expert applied the 25 percent rule to the lowest value shown in an internal prelitigation Microsoft document describing the value of product keys as \$10 to \$10,000, obtaining a baseline royalty of \$2.50 per license issued. Multiplying the number of new licenses against the baseline \$2.50 royalty rate resulted in a royalty amount of \$564,946,803. Uniloc's expert then "checked" his analysis using the entire market value rule by comparing the gross revenue value of the licenses against the royalty rate, which amounted to approximately 2.9%.

Addressing first the application of the 25 percent rule, the Federal Circuit held that "the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation." Slip op. at 41. The Court further held that "[e]vidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue." *Id.* Before reaching this conclusion, the Court reviewed the history of the 25 percent rule and the Court's passive toleration of its use where its acceptability has not been the focus of the case.

In reasoning that the rule is inadmissible, the Court emphasized that expert testimony must pertain to scientific, technical, or other specialized knowledge based on a firm scientific or technical grounding. Also, the Court reiterated a *Daubert* principle that "[e]xpert testimony which does not relate to any issue in the case is not relevant and, ergo, non-helpful." *Id.* (quoting *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 591 (1993)). Applying these principles, the Court rejected the application of the 25 percent rule since "[t]he 25 percent rule of thumb as an abstract and largely theoretical construct fails to satisfy [the] fundamental requirement" of providing "a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." *Id.* at 45. Instead of starting with an arbitrary number of 25 percent, the Court stated that evidence of a reasonable royalty must be tied to the relevant facts and circumstances of the particular case at issue, such as the particular technology, industry, or party. Thus, the Court held that Microsoft was entitled to a new trial on damages because the testimony of Uniloc's expert was based on the use of the 25 percent rule, was unrelated to the facts of the case, and failed to pass muster under *Daubert*, thereby tainting the jury's damages calculation.

Turning to the application of the entire market value rule, the Court concluded that the district court did not abuse its discretion in granting a conditional new trial on damages. The Court agreed with Microsoft that Uniloc's use of the entire market value rule was improper because it was undisputed that Product Activation did not create the basis for customer demand or substantially create the value of the component parts. In the Court's view, this case provides a good example of the danger of admitting consideration of the entire market value, as the disclosure at trial of the \$19 billion revenue figure skewed the damages horizon for the jury, regardless of the contribution of the patented component to this revenue. The Court rejected Uniloc's argument that the rule was used only as a "check," and that the jury must be presumed to have followed the jury instructions and not based its damages calculation on the entire market value rule. Accordingly, the Court affirmed the district court's grant of a new trial on damages and expressed no opinion on the excessiveness or reasonableness of the damages awarded by the jury.

Finally, the Federal Circuit addressed the district court's denial of Microsoft's motion for JMOL of invalidity. The Court rejected Microsoft's argument that if claim 19 reaches far enough to read on Microsoft's Product Activation, then it necessarily extends far enough to read on the prior art. The Court reminded that "the proper framework for challenging the validity of a patent is not for the accused to show that it is practicing the prior art, but to show that every element of the patent claims reads on a single prior art reference." *Id.* at 57. Thus, the Court affirmed the district court's denial of JMOL of invalidity based on anticipation. Giving the jury its usual deference on the underlying factual questions, the Court also affirmed the denial of JMOL on the basis of obviousness.

*\*Benjamin H. Huh is an Associate at Finnegan*

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**February 2011**

### **Single Embodiment Is Sufficient Evidence to Show Commercial Success**

*Kevin D. Rodkey*

**Judges: Newman, Prost (author), Moore**

**[Appealed from Board]**

In *In re Glatt Air Techniques, Inc.*, No. 10-1141 (Fed. Cir. Jan. 5, 2011), the Federal Circuit reversed the Board's finding of obviousness because it was not supported by substantial evidence. The Court also reversed the Board's determination that the patentee failed to provide sufficient evidence of commercial success of the broadly claimed invention to demonstrate secondary considerations that would overcome the obviousness determination.

Glatt Air Techniques, Inc. ("Glatt") owns U.S. Patent No. 5,236,503 ("the '503 patent") directed to a Wurster coating apparatus. A Wurster coater is used to coat particles, such as pharmaceutical ingredients, by spraying the coating material onto particles circulating within the apparatus. Wurster coaters are known to suffer from agglomeration that occurs when particles prematurely enter the coating spray before the spray pattern has fully developed. This premature entry causes the particles to become overly wet and stick together, causing blockages. Glatt's solution, the '503 patent, shields the coating spray nozzle to prevent premature entry of the particles into the spray. The specification of the '503 patent describes several embodiments. One embodiment is a cylindrical partition that surrounds the coating spray nozzle and acts as a physical shield. The second is an "air wall" or stream of air that surrounds the nozzle and prevents particles from prematurely entering into the spray pattern. The '503 patent is written in *Jepson* format, where the preamble recites prior Wurster coaters as prior art.

A third-party ex parte reexamination request was granted by the PTO in February 2008 for claims 5-8 and 10 of the '503 patent. During the reexamination, Glatt cancelled claims 6-7 and 9-11, and amended claim 8. The examiner allowed amended claim 8 but rejected claim 5 as obvious in view of German Patent DE 3323418 ("Naunapper"). The Board affirmed the examiner's rejection based on the determination that Naunapper taught shielding the spray nozzle by creating an air wall or stream surrounding the spray nozzle. The Board also rejected Glatt's argument of secondary considerations based on commercial success. Glatt appealed the Board's obviousness determination and the Board's rejection of Glatt's secondary considerations evidence.

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**“[W]e have consistently held that a patent applicant need not sell every**

**conceivable embodiment of the claims in order to rely upon evidence of commercial success. Commercial success evidence should be considered so long as what was sold was within the scope of the claims.” Slip op. at 10 (internal quotation marks and citation omitted).**

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On appeal, the Court held that Glatt’s invention was not obvious in view of prior art Wurster coaters and Naunapper. According to the Court, Naunapper teaches a Wurster coater that combats particle agglomeration by temporarily increasing the airflow from the air source. This “burst” of air clears blockages by blowing the agglomerated particles through the blocked area and dispersing the particles. In contrast, the Court explained that Glatt’s invention teaches a shielding means that prevents circulating particles from prematurely entering the spray pattern and agglomerating. The Court determined that the Board properly found that Naunapper modulates gas flow to control agglomeration, but erred because Naunapper does not shield circulating particles from entering the initial spray pattern. The Court observed that Naunapper remedies blockages caused by particle agglomeration, while Glatt’s invention prevents agglomeration from occurring in the first place. Rejecting the Board’s finding that Naunapper teaches shielding the nozzle, the Court explained that Naunapper’s teaching can be used to circulate particles and to clear blockages, but not both of these simultaneously. Therefore, the Court held that Naunapper does not teach shielding and reversed the Board’s determination of obviousness. Turning to the issue of secondary considerations, the Court rejected the Board’s determination that Glatt’s secondary considerations evidence was not commensurate with the scope of claim 5. The Court observed that the Board construed “shielding means” in claim 5 to include both physical shields and an air wall shield, and the Board rejected Glatt’s secondary considerations evidence because Glatt presented evidence relating only to a physical shield. The Court rejected the Board’s determination that the evidence of commercial success must be commensurate with the scope of the claim. Noting that a company is unlikely to sell a product containing multiple, redundant embodiments of a patented invention, the Federal Circuit reaffirmed that an applicant does not need to sell every embodiment of the invention to rely on evidence of commercial success. The Court held that commercial success evidence should be considered as long as the product falls within the scope of the claims.

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### **Petition to Transfer from the Eastern District of Texas to the Western District of Washington Granted**

*Jessica L. Cox*

**Judges: Newman, Friedman, Lourie (per curiam)**

**[Appealed from E.D. Tex., Judge Davis]**

In *In re Microsoft Corp.*, No. 10-M944 (Fed. Cir. Jan. 5, 2011), the Federal Circuit granted Microsoft Corporation's ("Microsoft") petition for a writ of mandamus, directing the U.S. District Court for the Eastern District of Texas to transfer the case to the U.S. District Court for the Western District of Washington.

Allvoice Developments U.S., LLC ("Allvoice") brought suit for patent infringement against Microsoft in the Eastern District of Texas. Although Allvoice maintains an office in the Eastern District of Texas, it does not employ any individuals in that office or anywhere else in the United States. Allvoice's website directs requests and inquiries to its Texas office, which are then answered from the United Kingdom, the location of Allvoice's operations.

Microsoft moved to transfer the case to the Western District of Washington, where it maintains its corporate headquarters and where a substantial portion of its employees and operations are located, including all of its witnesses and relevant documents relating to the sales, marketing, development, and design of the accused products. The district court denied the motion to transfer, finding that Allvoice's maintenance of a Texas office, storage of its documents in that office, incorporation under the laws of Texas, and the convenience to witnesses in other jurisdictions such as New York, Massachusetts, and Florida, weighed in favor of maintaining the action in Texas.

On appeal, the Federal Circuit reiterated that a motion to transfer under 28 U.S.C. § 1404(a) calls upon the trial court to weigh a number of case-specific factors relating to the convenience of the parties and witnesses, and the proper administration of justice, based on the individualized facts on record. Moreover, the Court noted that, on several occasions in the past, its application of Fifth Circuit law in cases arising from district courts in that circuit resulted in a writ of mandamus to transfer when the trial court's application of those factors amounted to a clear abuse of discretion.

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**"Allvoice's argument . . . rests on a fallacious assumption: that this [C]ourt**

**must honor connections to a preferred forum made in anticipation of litigation and for the likely purpose of making that forum appear convenient.” Slip op. at 5.**

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The Federal Circuit found the facts of this case analogous to those in *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009). The Court noted that, as in *Genentech*, there is a stark contrast in convenience and fairness with regard to the identified witnesses. All individuals identified by Microsoft as having material information resided within 100 miles of the Western District of Washington, would not have to undergo considerable cost and expense to testify, and would be subject to that district’s subpoena powers. Allvoice identified fourteen witnesses, only two of whom resided in Texas, but failed to represent that either of the two Texas-based witnesses had knowledge of the patent or issues of the suit. Thus, maintaining trial in Texas would similarly require the majority of Allvoice’s witnesses to undergo the cost, time, and expense of travel to attend trial.

The Court squarely rejected Allvoice’s attempt to distinguish *Genentech* based on Allvoice’s alleged “established presence” in the Eastern District of Texas. The Federal Circuit stated that “Allvoice’s argument . . . rests on a fallacious assumption: that this [C]ourt must honor connections to a preferred forum made in anticipation of litigation and for the likely purpose of making that forum appear convenient.” Slip op. at 5. The Federal Circuit indicated that it has diligently followed Supreme Court precedent to ensure that the purposes of jurisdictional and venue laws are not frustrated by a party’s attempt at manipulation. In particular, the Court pointed to its decisions in *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009), and *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010). In *Hoffman-La Roche*, the Court held that transferring documents to litigation counsel in Texas and then asserting that those documents were “Texas” documents was a fiction that appeared to be created to manipulate the propriety of venue and was therefore entitled to no weight in the venue analysis. Furthermore, in *Zimmer*, the Court held that transferring documents to a company’s office in anticipation of litigation rather than to litigation counsel was a distinction without a difference, particularly where the office did not have any employees, was recent and ephemeral, and appeared to be undertaken for no other purpose than to manipulate venue.

Applying those principles here, the Federal Circuit found that Allvoice’s maintenance of documents in its Texas office and its incorporation under the laws of Texas a mere sixteen days before filing suit were no more meaningful, and no less in anticipation of litigation, than the factors the Court rejected in *In re Hoffmann-LaRoche* and *In re Zimmer Holdings*. The Federal Circuit concluded that the realities made clear that the Western District of Washington was comparatively the only convenient and fair venue in which to try the case. Additionally, the Court found unpersuasive Allvoice’s argument that Microsoft’s attempt to transfer the case to the U.S. District Court for the Southern District of Texas should be weighed against mandamus. The Court found that because the thrust of that motion was to transfer the case to a court that had previous experience adjudicating the patent-at-issue, the Court could not say that “any asserted inconsistency” should “preclude transfer to a venue that is far more convenient and fair.” Slip op. at 7.

Accordingly, the Federal Circuit granted Microsoft’s writ of mandamus and directed the district court to vacate its order denying Microsoft’s motion and to transfer the case to the Western District of Washington.

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### **Award of Attorneys' Fees Improper Where Proposed Claim Construction Is Not Objectively Baseless**

*Jeff T. Watson*

**Judges: Rader, Linn, Dyk (author)**

**[Appealed from E.D. Ky., Senior Judge Hood]**

In *iLOR, LLC v. Google, Inc.*, Nos. 10-1117, -1172 (Fed. Cir. Jan. 11, 2011), the Federal Circuit reversed the district court's determination that the case was exceptional under 35 U.S.C. § 285, concluding that the plaintiff's proposed claim construction was not objectively baseless. The Court reversed the district court's award of attorneys' fees and expert fees, but noted that certain other costs and expenses may be allowed on remand.

iLOR, LLC ("iLOR") is an Internet company and assignee of U.S. Patent No. 7,206,839 ("the '839 patent"), which is directed to, inter alia, a method for enhancing hyperlinks using a toolbar, "the toolbar being displayable based on a location of a cursor in relation to a hyperlink." iLOR sued Google, Inc. ("Google") for infringement of the '839 patent, alleging that Google's Notebook product infringed because its online application allowed users to right click on a hyperlink, causing a toolbar to be displayed.

The district court construed "being displayable" to mean that "the toolbar is 'automatically displayed' upon the placement of the cursor in proximity to a hyperlink with no further action on the part of a user." Slip op. at 4 (citation omitted). Because it was undisputed that the Google Notebook did not automatically display its toolbar, but instead required the user to right click on the hyperlink, the district court granted SJ on noninfringement and dismissed the suit with prejudice. On appeal, the Federal Circuit upheld the district court's claim construction, noting that it was supported by the claim language, specification, and prosecution history.

Following the appeal, the district court granted Google's motion to recover its attorneys' fees, costs, and expenses, finding the case exceptional under § 285. iLOR appealed to the Federal Circuit.

The Federal Circuit began its analysis of whether the case was exceptional by evaluating the language of § 285 and its proper interpretation in light of Federal Circuit and Supreme Court precedent. In *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005), the Federal Circuit held that absent misconduct during patent prosecution or litigation, sanctions under § 285 may be imposed against a patent plaintiff only if (1) the litigation is brought in subjective bad faith, and

(2) the litigation is objectively baseless. Both the objective and subjective prongs must be established by clear and convincing evidence.

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**“The question is whether [the proposed] claim construction was so unreasonable that no reasonable litigant could believe it would succeed.” Slip op. at 10.**

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The Court noted that the objective baselessness standard of *Brooks Furniture* is identical to the objective recklessness standard for awarding enhanced damages and attorneys’ fees for willful infringement under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). The Court stated that under both *Brooks Furniture* and *Seagate*, objective baselessness does not depend on the plaintiff’s state of mind at the time the action was commenced, but rather requires an objective assessment of the merits.

Applying this standard, the Federal Circuit found that Google had not shown by clear and convincing evidence that iLOR had brought the suit frivolously or that iLOR’s proposed claim construction was objectively baseless. The Court noted that “[t]he question is whether iLOR’s broader claim construction was so unreasonable that no reasonable litigant could believe it would succeed.” Slip op. at 10. Although the Court had previously accepted Google’s proposed claim construction, the Court noted that iLOR’s proposed construction found support in the claim language, the specification, and the prosecution history. The Court concluded that iLOR could reasonably argue for its proposed claim construction and, thus, reasonably argue that Google infringed its claims. Accordingly, the Federal Circuit held that the district court committed clear error in finding the case exceptional under § 285, and vacated the award of attorneys’ fees.

The Federal Circuit also set aside the district court’s award of expert fees. The Court stated that a district court could award such fees under § 285 in exceptional cases based upon a finding of bad faith, but that there was no basis for finding bad faith in this case. The Court noted, though, that other costs and expenses may be allowed on remand.

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**February 2011**

### **Federal Jurisdiction Proper in a State Law Malpractice Action Where Patent Infringement Is a “Necessary Element” of the State Law Claim**

*Jeffrey A. Freeman*

**Judges: Newman, Bryson (author), Prost**  
**[Appealed from E.D. Mich., Judge Rosen]**

In *Warrior Sports, Inc. v. Dickinson Wright, P.L.L.C.*, No. 10-1091 (Fed. Cir. Jan. 11, 2011), the Federal Circuit held that at least one of Warrior Sports, Inc.’s (“Warrior”) malpractice claims against the law firm of Dickinson Wright, P.L.L.C. (“Dickinson”) required the district court to resolve a substantive issue of patent law, thus conferring the district court with subject matter jurisdiction under 28 U.S.C. § 1338.

Warrior had previously asserted U.S. Patent No. RE 38,216 (“the ’216 patent”) in a lawsuit against one of its competitors, STX, L.L.C. (“STX”). STX argued that the ’216 patent was unenforceable due to conduct by two attorneys (who later joined Dickinson) during the reissue proceedings. Before the district court issued a ruling on unenforceability or infringement, Warrior settled with STX.

Following the settlement, Warrior filed suit against Dickinson for legal malpractice, citing a number of alleged errors in Dickinson’s handling of the ’216 patent, including the conduct that led to the allegation of inequitable conduct by its competitor, failure to pay a maintenance fee, failure to pursue reinstatement on a timely basis, and failure to properly communicate with Warrior. Warrior argued that, as a result of the malpractice by Dickinson, it was forced to settle the infringement action against its competitor for much less than the true value of its claim. Both Warrior and Dickinson requested that the district court hear the malpractice case under 28 U.S.C. § 1338. However, the district court dismissed Warrior’s lawsuit for lack of subject matter jurisdiction, believing that the alleged acts of malpractice could all be analyzed under state law without reference to patent law. Dickinson appealed.

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**“[F]ederal courts have exclusive jurisdiction over state-law legal malpractice actions when the adjudication of the malpractice claim requires the court to address the merits of the plaintiff’s underlying patent infringement lawsuit.” Slip op. at 6.**

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On appeal, initially the Court held that the district court’s dismissal of the case for lack of subject matter

jurisdiction did not divest the Court of appellate jurisdiction under 28 U.S.C. § 1295(a)(1). Relying on past precedent, the Court held that, in order to determine the scope of its own jurisdiction, it must decide whether the jurisdiction of a district court whose decision is before it is based on 28 U.S.C. § 1338. The Court stated that federal jurisdiction under § 1338 exists if the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, holding that "federal courts have exclusive jurisdiction over state law legal malpractice actions when the adjudication of the malpractice claim requires the court to address the merits of the plaintiff's underlying patent infringement lawsuit." Slip op. at 6.

Turning to the merits of the appeal, the Court addressed the issue of whether patent law was a "necessary element" of Warrior's right to relief. The Court found that, to prove the proximate cause and injury elements of its malpractice claim, Michigan law requires Warrior to show that it would have prevailed on its infringement claim against STX and would have been entitled to an award of damages as a result. Thus, because patent infringement was found to be a "necessary element" of Warrior's malpractice claim, the Court concluded that Warrior's claim presented a substantial question of patent law conferring § 1338 jurisdiction upon the federal district court. Likewise, the Court found the remainder of Warrior's claims to be properly before the district court as a matter of supplemental jurisdiction. Accordingly, having found the district court had subject matter jurisdiction to hear Warrior's malpractice claims, the Court reversed the district court's holding and remanded the case for further proceedings.

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### **The Fine Line Between Reading a Claim in Light of the Specification and Importing a Limitation from the Specification into the Claim**

*Jennifer R. Gupta*

**Judges: Rader (author), Lourie (concurring-in-part and dissenting-in-part), Moore  
[Appealed from M.D. Pa., Judge Caputo]**

In *Arlington Industries, Inc. v. Bridgeport Fittings, Inc.*, No. 10-1025 (Fed. Cir. Jan. 20, 2011), the Federal Circuit vacated the district court's grant of SJ of noninfringement of U.S. Patent Nos. 5,266,050 ("the '050 patent") and 6,521,831 ("the '831 patent"), and remanded for further proceedings.

Arlington Industries, Inc. ("Arlington") owns the '050 and '831 patents. The '050 patent discloses an improved electrical connector that can be snapped into an electrical junction box with one hand instead of two. A "spring metal adaptor" or "spring steel adaptor" surrounds the leading end of the electrical connector and attaches the connector to the junction box. The '050 patent claims recite a "spring metal adaptor." The '831 patent discloses a duplex electrical connector having two openings to allow the insertion of two electrical cables through the connector into a single hole in the junction box. The '831 patent claims recite "a spring steel adapter" secured to the cylindrical outbound end of the housing.

Arlington brought suit against Bridgeport Fittings, Inc. ("Bridgeport") in two concomitant district court proceedings that produced different constructions of the same claim term from the '050 patent. In the earlier-filed case, the district court construed the term "spring metal adaptor" to mean "an adaptor made of spring metal," finding the meaning clear in view of the claim language, specification, and prosecution history. *Arlington Indus., Inc. v. Bridgeport Fittings, Inc.*, No. 01-CV-0485, 2008 WL 542966 (M.D. Pa. Feb. 25, 2008) ("*Arlington I*"). In the later-filed case, the district court construed the same claim term, however, to mean a "split spring metal adaptor," finding that a necessary feature of the "spring" metal adaptor is that it is split. *Arlington Indus., Inc. v. Bridgeport Fittings, Inc.*, No. 06-CV-1105, 2007 WL 4276565 (M.D. Pa. Dec. 4, 2007) ("*Arlington II*"). The *Arlington II* court found that a "split" allows the diameter of the adaptor to narrow upon insertion into the electrical junction box, and, without a split, it would not "spring." The *Arlington II* court similarly construed the term "spring steel adaptor" from the '831 patent to require a split, applying the same analysis. Bridgeport moved for SJ of noninfringement in light of the *Arlington II* construction. The district court granted Bridgeport's motions, and Arlington appealed.

On appeal, the Federal Circuit held that the *Arlington II* court erred in importing a "split" limitation into its

constructions of “spring metal adaptor” and “spring steel adaptor.” First, the Court found that the ordinary and customary meaning of “spring metal adaptor” in the ’050 patent was an adaptor made of spring metal. The Court rejected Bridgeport’s arguments that the term “spring” modified the phrase “metal adaptor” such that the metal adaptor performs a “springing function.” In so doing, the Federal Circuit noted that Bridgeport conceded before the district court that the adaptor is made from spring metal, thus indicating that the term “spring” described the type of metal rather than a particular function.

Second, the Federal Circuit rejected Bridgeport’s argument that the entire term “spring metal adaptor” should be defined by implication to require a split because the Court found that the specification did not show a clear intent to limit the claims to “split” embodiments. In particular, only one of four embodiments was expressly described as having an “opening” that changes diameter to permit a spring action, and although the drawings consistently depicted an incomplete circle, the Court reiterated that drawings need not illustrate the full scope of the invention.

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**“This [C]ourt has often acknowledged the fine line between reading a claim in light of the specification and importing a limitation from the specification into the claim.” Slip op. at 14.**

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Importantly, the Court found that the ’050 patent claim language supported Arlington’s proposed construction. Specifically, claim 1 recites a “spring metal adaptor being less than a complete circle,” while claim 8 omits the “less than a complete circle” modifier. This difference indicated that, unlike the adaptor of claim 1, the spring metal adaptor of claim 8 can be either a complete or incomplete circle. Similarly, a claim in a parent patent to the ’050 patent recites “a split circular spring metal adaptor,” while claim 8 of the ’050 patent omits the “split” modifier. The Court concluded that reading a “split” or “incomplete circle” limitation into the term “spring metal adaptor” would render those additional modifiers superfluous.

Finally, the Court considered the prosecution history and Bridgeport’s expert testimony, and found that neither supported reading a “less than a complete circle” or “split” limitation into the terms “spring metal adaptor” or “spring steel adaptor.” The Court acknowledged the “fine line between reading a claim in light of the specification and importing a limitation from the specification into the claim,” slip op. at 14, but found that the intrinsic evidence revealed no intent to limit the term “spring metal adaptor” to exclude unsplit adaptors. Thus, the Court vacated the grant of SJ of noninfringement of the ’050 patent and remanded for further proceedings.

The Federal Circuit also held that the district court erroneously imported a “split” limitation into the “spring steel adapter” term from the ’831 patent. In particular, the claim did not state that the adaptor is split, the specification did not define the spring steel adaptor as split, and nothing in the specification implicitly required a split adaptor. The Court similarly rejected Bridgeport’s argument relying on the disclosure of embodiments showing a split adaptor in the specification, noting that the specification does not delimit the right to exclude; rather, that is the function and purpose of the claims. Accordingly, the Court vacated the district court’s grant of SJ of noninfringement of the ’831 patent and remanded for further proceedings.

Judge Lourie concurred-in-part and dissented-in-part, agreeing with the majority in vacating the district court’s SJ decision regarding the ’831 patent, but disagreeing with the majority’s holding regarding the ’050 patent. Specifically, Judge Lourie would construe the term “spring metal adaptor” in the ’050 patent to include the “split” limitation as construed by the *Arlington II* court because the figures and each

disclosed embodiment showed the spring metal adaptor as less than a complete circle. Ultimately, in Judge Lourie's view, "[t]he specification is the heart of the patent. In colloquial terms, 'you should get what you disclose.'" Lourie Dissent at 2.

In a footnote response, the majority pointed to the importance of the claim language in delimiting the scope of legal protection. Quoting the late Judge Rich, the majority stated: "[T]he name of the game is the claim." Slip op. at 15 n.2 (emphasis and citation omitted).

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### **Federal Circuit Defines “Use” Under § 271(a) for System and Apparatus Claims Involving Multiple Actors**

*Michael D. Stone*

**Judges: Lourie, Linn, Moore (author)**

**[Appealed from S.D. Ind., Chief Judge McKinney]**

In *Centillion Data Systems, LLC v. Qwest Communications International, Inc.*, Nos. 10-1110, -1131 (Fed. Cir. Jan. 20, 2011), the Federal Circuit vacated and remanded the district court’s grant of SJ of noninfringement, and reversed and remanded the district court’s grant of SJ that the asserted claims were not anticipated.

Centillion Data Systems, LLC (“Centillion”) owns U.S. Patent No. 5,287,270 (“the ‘270 patent”), which, at a high level, discloses and claims a system for presenting information to a user comprising four components: (1) storage means for storing transaction records; (2) data processing means for generating summary reports specified by a user; (3) transferring means for transferring the reports to a user; and (4) personal computer data processing means adapted to perform additional processing on the transmitted reports. The system thus includes a “back-end” (claim elements 1-3) maintained by a service provider and a “front-end” (claim element 4) maintained by an end user. Centillion accused a number of billing systems of Qwest Communications International, Inc., Qwest Corporation, and Qwest Communications Corporation (collectively “Qwest”) of infringing the ‘270 patent. For purposes of the appeal, the Federal Circuit stated that it did not need to differentiate between the accused systems. Each system included a back-end, maintained by Qwest, and front-end client applications that Qwest’s customers could install on their personal computers.

In the district court, the parties filed cross-motions for SJ regarding infringement, Qwest filed an SJ motion for invalidity, and Centillion filed an SJ motion for no anticipation. The district court found that Qwest did not directly infringe the ‘270 patent because Qwest did not use or control the use of the front-end elements on its customers’ personal computers nor did it require its customers to load the software and perform the additional processing element required by the claims. Additionally, the district court granted Centillion’s SJ motion for no anticipation, finding that the prior art fell outside the claims as construed.

On appeal, the Federal Circuit first addressed the district court’s definition and application of “use” under 35 U.S.C. § 271(a) for system and apparatus claims. The Court noted that it had never directly

addressed the question of infringement for “use” of a system claim that includes elements in the possession of more than one actor. Relying on its decision in *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), which focused on the situs of infringement rather than the nature of the infringing act, the Court held that “to ‘use’ a system for purposes of infringement, a party must put the invention into service, *i.e.*, control the system as a whole and obtain benefit from it.” Slip op. at 8. While the “control” contemplated in *NTP* and by the Court’s definition of “use” for system claims “is the ability to place the system as a whole into service,” it does not require “exercis[ing] physical or direct control over each individual element of the system,” as the district court had required. *Id.* Thus, to put a system into service, the end user must use all elements of the claimed invention.

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**“[T]o ‘use’ a system for purposes of infringement, a party must put the invention into service, *i.e.*, control the system as a whole and obtain benefit from it.” Slip op. at 8.**

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The Federal Circuit then applied its definition of “use” to the facts of the case, noting that Qwest’s accused system had two different manners of operation relevant to the appeal: (1) an “on-demand” operation where a customer seeks specific information by creating a query that Qwest’s back-end system processes and provides a response for downloading; and (2) a “standard” operation, in which a customer subscribes for Qwest’s services and Qwest’s back-end system periodically provides downloadable summary reports. The Court found that both manners of operation “used” Qwest’s system as a matter of law. In each instance, the customer puts the system as a whole into service—controlling and obtaining a benefit from the system—by creating a query and transmitting it to Qwest’s back-end in the “on demand” operation and by subscribing to Qwest’s services thereby causing the back-end processing to perform its function on a monthly basis in the “standard” operation.

The Federal Circuit also found, as a matter of law, that Qwest did not “use” all of the elements required by the claimed system under § 271(a) because it did not use or control the use of the front-end element of the claimed system. First, Qwest did not load the software or process data on the front-end personal computer data processing means. The Court found that supplying the software was not the same as using the system. Second, Qwest was not vicariously liable for “use” of the front-end element of the system because it did not direct its customers to perform or act as its agents; rather, it was entirely the customer’s decision to install and operate the Qwest-provided software on the customer’s personal computer data processing means.

Further, the Court found that, as a matter of law, Qwest was not liable for “making” the claimed system under § 271(a). Qwest made only a part of the claimed system. In order to “make” the entire claimed system, Qwest would need to combine all of the claim elements. The Federal Circuit found that since it was Qwest’s customers, not Qwest, who complete the system by providing the “personal computer data processing means” and installing the client software, Qwest did not make the entire system and thus could not be liable for “making” under § 271(a). Further, the Court concluded that Qwest was not vicariously liable for “making” the entire system because Qwest’s customers do not act as Qwest’s agents, as a matter of law, and are not contractually obligated to act in a manner that would practice the missing element of the claims.

Accordingly, the Federal Circuit vacated the district court’s SJ of noninfringement and remanded these issues for further consideration, noting that the district court had not compared Qwest’s accused systems to each and every element of the claimed system and the Federal Circuit would not do so in the first

instance on appeal.

Finally, the Court found that the district court erred in granting Centillion's motion for SJ of no anticipation because, under the district court's claim construction, which was not disputed on appeal, there were factual disputes as to whether a prior art system provided "summary reports" created "as specified by the user," as required by the claims. Accordingly, the Federal Circuit reversed and remanded for the district court to consider these genuine issues of material fact.

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### **Court Affirms Finding of Obviousness Where Elements of Claims Are Found in Combination of Prior Art References**

*Alissa K. Lipton*

**Judges: Newman (dissenting), Lourie (author), Bryson**  
**[Appealed from C.D. Cal., Judge Phillips]**

In *Tokai Corp. v. Easton Enterprises, Inc.*, Nos. 10-1057, -1116 (Fed. Cir. Jan. 31, 2011), the Federal Circuit affirmed the district court's grant of SJ of invalidity for obviousness in favor of Easton Enterprises, Inc. (d.b.a. Easton Sales) and Fun Line Industries, Inc. (collectively "Easton"). In view of its holding, the Federal Circuit did not consider Easton's cross-appeal of the district court's claim construction order and order excluding Easton's supplemental invalidity contentions.

Tokai Corp., Scripto-Tokai, Inc., and Calico Brands, Inc. (collectively "Tokai") own three patents directed to safety utility lighters having extended lighting rods, such as those used for lighting barbecue grills: U.S. Patent Nos. 5,697,775 ("the '775 patent"); 5,897,308 ("the '308 patent"); and 6,093,017 ("the '017 patent"). The patents claim utility lighters with automatic child-safety mechanisms for preventing accidental ignition. Easton competes with Tokai in the market for safety utility lighters.

Tokai sued Easton for infringement of the asserted patents. Easton counterclaimed for invalidity. After the district court's claim construction ruling, Easton stipulated that its accused utility lighters infringe all but one of the asserted claims. The parties then filed cross-motions for SJ on the issue of obviousness of the asserted patents. In opposition to Easton's motion, Tokai submitted two expert declarations: the "Jones declaration" and the "Sung declaration." The district court declined to consider either declaration on the ground that Tokai failed to submit written reports from Jones and Sung during expert discovery as required by Fed. R. Civ. P. 26(a)(2)(B). The district court determined that there was no genuine issue of material fact as to the obviousness of the asserted claims and granted Easton's motion for SJ of invalidity. Tokai appealed the district court's invalidity ruling. Easton cross-appealed the claim construction order and an order granting Tokai's motion to strike Easton's supplemental invalidity contentions.

On appeal, the Federal Circuit first considered whether the district court improperly excluded the Jones and Sung declarations pursuant to Fed. R. Civ. P. 37(c)(1). Tokai argued that Sung, as an employee of Tokai, was exempt from the written report requirements of Rule 26(a)(2)(B). Tokai also argued that its failure to submit written reports for both Jones and Sung should be excused because the invalidity

portions of Easton's expert reports had been "effectively gutted" by the district court's exclusion of particular prior art references on which Easton's expert relied. Easton argued that it was prejudiced by its inability to depose Jones and Sung on the subject matter of their declarations and that the two declarations were wholly conclusory, and, therefore, their exclusion—even if an abuse of discretion—was harmless.

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**“[T]he undisputed facts in this case—including the state of the prior art, the simplicity and availability of the components making up the claimed invention, and an explicit need in the prior art for safer utility lighters—compel a conclusion of obviousness as to the subject matter of each of the asserted claims.” Slip op. at 21.**

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Applying Ninth Circuit law, the Federal Circuit held that the district court did not abuse its discretion in excluding the declarations. The Court noted that Tokai failed to introduce evidence indicating that Sung qualified for the employee-expert exception. The Court further explained that even if Sung were a Tokai employee, Tokai failed to introduce evidence indicating that his duties did not regularly involve giving expert testimony. The Court also found Tokai's assertion that it was justified in not submitting written expert reports to be without merit. The Court concluded that Tokai's failure to adhere to the requirements of Rule 26(a)(2)(B) was neither harmless nor substantially justified and emphasized that the Court has previously cautioned litigants of the pitfalls of playing fast and loose with the rules of discovery. The Federal Circuit further held that, even assuming the district court abused its discretion by excluding the Sung declaration, the error was harmless, as the declaration was conclusory and did not raise a genuine issue of material fact.

Turning to the district court's grant of SJ of invalidity, the Federal Circuit first found that the district court correctly determined that there was no enhanced burden of overcoming the statutory presumption of validity because the PTO did not consider all of the prior art supporting Easton's validity challenge. Next, the Court found that there was no genuine issue of material fact concerning the scope and content of the prior art. The parties agreed that the prior art disclosed a utility lighter with a safety device, in which the safety device must be manually reset to the locking position after each use. In addition, the prior art disclosed a cigarette lighter with a safety device that automatically resets after each use. With the exception of claims 10 and 13 of the '308 patent, there was no dispute that a combination of prior art references disclosed every element of the asserted claims. With respect to claims 10 and 13 of the '308 patent, the only difference between the claims and the prior art was the intended position of the thumb and finger for operating the lighter. The Court also concluded that there was no genuine issue of material fact as to the appropriate level of skill in the art, as the district court found that the asserted claims would have been obvious to the less sophisticated artisan.

The Court next addressed secondary indicia of nonobviousness, including Tokai's evidence of commercial success and copying. With regard to commercial success, the Court found that Tokai failed to show that its commercial success was due to anything disclosed in the patents-in-suit that was not available in the prior art. In particular, Tokai failed to show a nexus between its sales data and its utility lighters' automatic-locking features. The Court determined that, even if a nexus had been shown, the evidence of commercial success would not have carried sufficient weight to override the strong prima facie showing of obviousness. The Court further agreed with the district court that Tokai's asserted evidence of copying, *viz.* Easton's stipulation of infringement, was unpersuasive. The Court explained that copying requires evidence of efforts to replicate a specific product and that a stipulation of

infringement alone is not probative evidence of copying.

The Federal Circuit concluded that the undisputed facts of the case—including the state of the prior art, the simplicity and availability of the components making up the claimed invention, and an explicit need in the prior art for safer utility lighters—compelled a conclusion of obviousness.

Judge Newman dissented, explaining that the majority should have reversed the district court's grant of SJ of invalidity for obviousness. According to Judge Newman, the district court improperly used hindsight in its analysis. In addition, Judge Newman would have credited Tokai's evidence of commercial success as she believed that Tokai demonstrated a prima facie case of nexus because it showed both commercial success and that its product was covered by the claims of the asserted patents. Judge Newman would also have given some weight to Tokai's asserted evidence of copying. Thus, Judge Newman found genuine issues of material fact bearing on obviousness. Moreover, Judge Newman believed that the district court wrongly excluded the Sung declaration, as Tokai stated in connection with the SJ proceeding that Mr. Sung was an employee exempt from the Rule 26(a)(2)(B) report requirement. Finally, Judge Newman did not find the exclusion of the Sung declaration to be harmless error.

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#### Spotlight Info

In *Centillion Data Systems, LLC v. Qwest Communications International, Inc.*, Nos. 10-1110, -1131 (Fed. Cir. Jan. 20, 2011), the Federal Circuit defined “use” under 35 U.S.C. § 271(a) for system and apparatus claims involved multiple actors. Centillion Data Systems, LLC’s (“Centillion”) U.S. Patent No. 5,287,270 (“the ‘270 patent”) discloses and claims a system for presenting information to a user comprising four components. Three of the components were allegedly included in the “back-end” of the defendants’ (collectively “Qwest”) billing systems, while the fourth was allegedly Qwest’s customers’ personal computers with downloaded software provided by Qwest. The Federal Circuit noted that it had never directly addressed the question of infringement for “use” of a system claim that includes elements in the possession of more than one actor. Relying on its decision in *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), the Court held that “to ‘use’ a system for purposes of infringement, a party must put the invention into service, *i.e.*, control the system as a whole and obtain benefit from it.” Slip op. at 8. While the “control” contemplated in *NTP* and by the Court’s definition of “use” for system claims “is the ability to place the system as a whole into service,” it does not require “exercis[ing] physical or direct control over each individual element of the system,” as the district court had required. *Id.* Thus, the Court concluded that Qwest’s customers put the system as a whole into service—controlling and obtaining a benefit from the system. Accordingly, the Federal Circuit vacated the district court’s SJ of noninfringement and remanded for further consideration by the district court since the district court had not compared Qwest’s accused systems to each and every element of the claimed system.

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**If you have any questions or need additional information, please contact:**

[Esther H. Lim](#), Editor-in-Chief

[Tina E. Hulse](#), Assistant Editor

[Joyce Craig](#), Assistant Editor

[Elizabeth D. Ferrill](#), Assistant Editor

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#### Looking Ahead

Oral argument in *Microsoft Corp. v. i4i Ltd.*, Supreme Court No. 10-290, is scheduled for April 18, 2011.

In keeping with its long-standing precedent, the Federal Circuit held below that Microsoft Corporation (“Microsoft”) was required to prove its defense of invalidity under 35 U.S.C. § 102(b) by “clear and convincing evidence.” *i4i Ltd. v. Microsoft Corp.*, 589 F.3d 1246 (Fed. Cir. 2009), *vacating prior panel opinion*, 598 F.3d 831 (Fed. Cir. 2010). The prior art on which Microsoft’s invalidity defense rested was not considered by the PTO prior to the issuance of the asserted patent.

The question that Microsoft presented to the Supreme Court is “[w]hether the court of appeals erred in holding that Microsoft’s invalidity defense must be proved by clear and convincing evidence.” (Pet. for Writ of Cert. at i.)

A decision is expected by the end of the current term in June 2011.

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