

IP Update, Vol. 14, No. 4, April 2011

April 2011

Patents

[Sanctions May Be Awarded for Violation of Injunction, Even Absent Infringement](#)

[Split Within Federal Circuit On Preemption In Ownership Disputes](#)

[PTO's Prima Facie Case](#)

[False Marking Claims Must Be Pled with Specificity as to Intent](#)

[Judicial Economy Is Not a Trump Factor in Deciding Transfer Motions](#)

[Claim Construction: Too Much Structure Will Spoil the Brew](#)

["Exceptional" in §285 Really Means Exceptional](#)

[Specification Must Sufficiently Describe Claimed Invention to Show Possession of Claimed Subject Matter](#)

[You Cannot "Game" the Appellate System by Filing a "Protective" Cross-Appeal](#)

[Laser Board Game May Be Obvious Based on Laser Computer Game](#)

[The House Enters the Patent Reform Fray](#)

Trademarks

[No Likelihood of Confusion or Dilution Between CITIBANK and CAPITAL CITY BANK](#)

[KINDER Not Confusingly Similar to TiMi KINDERJOGHURT](#)

Copyrights

[“Situs of the Injury” for Exercising Personal Jurisdiction over Defendant for Online Copyright Infringement Is Location of Copyright Owner](#)

[No Standing if Plaintiff’s Exclusive Rights Were Limited in Time](#)

Trade Secrets

[Ninth Circuit No Friend to Winklevoss Twins: Facebook Settlement Stands](#)

[Software Compilation Not A Trade Secret Under State Law](#)

Patents/Contempt

Sanctions May Be Awarded for Violation of Injunction, Even Absent Infringement

Paul Devinsky and Melody Wirz

A unanimous U.S. Court of Appeals for the Federal Circuit revised the two-step test set forth in *KMS Fastening Systems* for determining when a contempt order is appropriate for an alleged violation of an injunction by a modified product. However, a divided (7-5) court affirmed the district court finding of contempt of injunction and sanctions, but vacated and remanded findings of contempt of infringement, pending a finding on the issue of “colorable difference” between previously adjudicated infringing devices and devices incorporating an alleged design-around. *TiVo, Inc. v. EchoStar Corp. et al.*, Case No. 09-1374 (Fed Cir. April 20, 2011) (*en banc*) (Lourie, J.)(Dyk, J., dissenting in part, joined by Judges Rader, Gajarsa, Linn, and Prost).

At trial, the district court issued a permanent injunction against EchoStar, ordering EchoStar to stop making, using, offering to sell and selling digital video receivers (DVRs) that had been found infringing. The district court further ordered EchoStar to disable DVR functionality in existing receivers. Following an appeal on unrelated issues, during which time EchoStar modified its DVRs in an attempt to avoid infringement, TiVo moved the district court to find EchoStar in contempt of the original injunction. The district court ruled that EchoStar was in contempt because despite EchoStar’s attempts at redesign the modified DVRs continued to infringe,. The district court additionally found that even if EchoStar had succeeded in a non-infringing design-around, it would still have been in contempt because it had not complied with

the disablement provision of the injunction. The district court held that the disablement provision extended to *all* digital video recording functionality and not just *infringing* functionality.

New Rules for Contempt Proceedings Involving Modified Products

In the unanimous portion of the decision, the Federal Circuit held that, with regard to contempt for violation of the infringement provision, a defendant's diligence and good faith efforts at a design around are not a viable defense, the propriety of a contempt proceeding need not be a separate determination from an inquiry regarding continued infringement, and, for a contempt analysis, a newly accused device must be more than colorably different from the previously adjudicated infringing devices, and must, under the same claim construction used earlier, actually infringe the asserted patent claims. The unanimous *en banc* court also held that when deciding whether a modified product should be subject to contempt proceeding versus a new trial on infringement, the district court should determine whether there is more than a colorable difference between the newly accused device and the previously adjudicated infringing devices focusing on the portions of the accused product that were the basis for the prior finding of infringement.

The court explicitly overruled its prior (1985) *KSM Fastening System* standard characterizing it as "unworkable." The prior rule involved a two-part inquiry requiring a district court to first assess whether the redesigned devices are colorably different from the adjudged infringing devices to determine whether a contempt hearing is appropriate. Then, if a contempt hearing is deemed appropriate, the district court had to determine whether the redesigned devices did in fact constitute a contempt; *i.e.*, an infringement.

The *en banc* court has eliminated the initial colorable difference determination in order to assess whether contempt proceedings are proper. Under the new standard, courts have broad discretion to consider modified products in the context of a contempt proceeding, so long as the movant provides "a detailed accusation ... setting forth the alleged facts constituting the contempt." However, the "colorable difference" standard still applies to evaluation of whether an injunction against patent infringement has been violated. Thus, for a contempt finding, a newly accused device must both actually infringe the asserted claim(s) and must not be more than colorably different from the previously adjudicated infringing devices. The court pointed out that the contempt analysis must first focus on the "differences between the features relied upon to establish infringement and the modified features of the newly accused products." If it is determined that the modification is significant, the newly accused device is necessarily more

than colorably different. Thus, unless the newly accused device is deemed to not be more than colorably different from the originally adjudicated infringement, an assessment of whether the modified device infringes is irrelevant for the purpose of contempt.

Merits Issue Raises Vigorous Dissent

On the merits of the present case, the majority found that with regard to contempt for violation of the disablement provision vagueness (of the original order) does not operate as a defense, and failure to raise the issue of an on direct appeal prevents later use of overbreadth as a defense. The dissent criticized the holding that lack of clarity does not operate as a defense to contempt and the holding that the district court should determine whether there is a colorable difference between the newly accused devices and the previously adjudicated infringing devices.

“Good Faith”

As for “good faith” as a defense to contempt, despite EchoStar’s assertion that it employed 15 engineers for 8,000 hours to redesign software and obtained a non-infringement opinion from a reputable law firm, the court concluded that “a defendant’s diligence and good faith efforts are not a defense to contempt.” However, the court noted that diligence and good faith efforts may be a factor in mitigating any penalties imposed by the district court.

“Colorable Differences”

On the issue of “colorable differences” between the modified DVRs and those found to infringe, the majority concluded that this is a fact issue to be determined on remand. The dissent, on the other hand, insisted that replacement of the sole feature that had been accused (in the original infringement action) of satisfying a limitation with a substantially different feature not known in the prior art *necessarily* results in devices that are more than colorably different. Thus, the dissent concludes that a remand on this issue is not necessary.

“Vagueness”

On the issue of vagueness as a defense to contempt, the majority held that vagueness does not operate as a defense to contempt for violation of an injunction, such as the disablement provision. According to the majority, EchoStar could not violate the injunction and later object to a finding of contempt because it had opportunities to present vagueness on appeal or through a motion to the district court to clarify or modify the injunction. The majority also disagreed with EchoStar’s assertions of vagueness, concluding that the “most natural reading” demanded that the term “Infringing Products” extended to particular models, even in instances where the infringing features are eliminated from those models, because those models are collectively

referred to as “Infringing Products” in the injunction. The dissent vigorously criticizes this holding, noting that extension of the term “Infringing Products” to non-infringing devices is contrary to the use of the term elsewhere in the injunction, and to the logic used by the district court. Finally, the dissent noted that interpretation proposed by the majority is contrary to policy favoring design-arounds. The dissent also attacked the majority’s position that vagueness does not operate as a defense to contempt.

“Overbreadth”

On the issue of overbreadth and EchoStar’s argument that an injunction in a patent infringement suit cannot prohibit non-infringing design-arounds, the majority held that EchoStar’s failure to raise the issue on direct appeal prevents EchoStar from using overbreadth as a defense to contempt. The dissent questions whether the district court has the authority to issue an injunction barring design-arounds, noting that without an explicit indication of such intent, “no reasonable attorney would read the disablement provision as barring design-arounds because such an injunction would likely exceed the district court’s authority.”

Patents / Ownership

Split Within Federal Circuit On Preemption In Ownership Disputes

Michael F. Martin

The U.S. Court of Appeals for the Federal Circuit has denied a petition for rehearing *en banc* of its panel decision in *Abraxis Bioscience v. Navinta LLC* (see [IP Update, Vol. 13, No. 11](#)) regarding the applicable rule of law to apply in patent ownership dispute standing issues. Concurring and dissenting opinions were filed by several members of the Court. *Abraxis Bioscience v. Navinta LLC*, Case No. 09-1539 (Fed. Cir., Mar. 14, 2011) (per curiam) (concurring opinion by Gajarsa, J. joined by Linn, J. and Dyk, J.) (dissenting opinion by O’Malley, J. joined by Newman, J.).

The problem with title to the patent in suit arose from a series of mergers and asset acquisitions carried out in relatively quick succession. In chronological order, the inventors assigned ownership to Astra Lakemedel Aktiebolag (Astra L) and AB Astra. AB Astra then merged into AstraZeneca AB (AZ-AB). Astra L and AZ-AB later (in late 2007) assigned ownership to their parent, AstraZeneca (AZ-UK), but not before plaintiff Abraxis had entered (on April 26, 2006) into an asset purchase agreement (APA) with AZ-UK. Thus, even at closing on June 28, 2006, when AZ-UK made a present assignment of its ownership to Abraxis in an IP assignment

agreement included in the closing documents, AZ-UK did not have legal title to the patents, which had not yet been assigned to AZ-UK by its subsidiaries Astra L and AZ-AB. When the oversight was corrected in late 2007, Abraxis had already filed its complaint against Navinta.

Although patent law is often thought to be exclusively federal, in fact many disputes over patent ownership turn on common law rules of contract and property that, at least since *Erie Railroad v. Tompkins*, have been considered state rather than federal. Last November, a split panel of the Federal Circuit vacated a district court finding of infringement by generic drug maker Navinta on the grounds that the plaintiff Abraxis had not properly transferred ownership of the asserted patents prior to the filing of the complaint. *Abraxis Bioscience v. Navinta LLC* (see [IP Update, Vol. 13, No. 11](#)). In that decision, the panel majority recognized limited federal preemption of state law in interpreting contracts of assignment. Unfortunately for Abraxis, the APA provided only that AZ-UK “shall cause” the assignment of ownership to Abraxis. In accordance with the Federal Circuit precedent of *DDB Techs.* (2008) (which applies to the interpretation of assignment), the Court found that such an assignment does not operate as a present assignment of rights, but rather as a promise to assign in the future.

The dissent from the original panel opinion (by Judge Newman) and the dissent from rehearing *en banc* by Judge O’Malley (joined by Judge Newman) argue that the application of New York state law by the district court (which upheld Abraxis’s claim to ownership) was correct and that the majority was overextending the reach of federal jurisdiction.

Practice Note: The concurring and dissenting opinions in connection with the rehearing *en banc* petition expose differences at the Court on the choice of law for interpretation of patent assignments. The precise rule of law (the issue of when an assignment is a present assignment or a promise of a future assignment) invoked by the panel majority is now under consideration by the Supreme Court in *Stanford v. Roche* (see [IP Update, Vol. 13, No. 11](#)). In that case, the Federal Circuit vacated a judgment against Roche because the inventor had made only a promise to assign. The Supreme Court agreed to review is directed to the issue of whether the Bayh-Dole Act (which permits transfer of title of federally funded inventions to universities) trumped common law rules of property. The Federal Circuit decision applied the rule of *DDB* without comment on the preemption of state by federal law.

In advising buyers in a merger, counsel should make closing contingent upon clear documentation of chain of title from any subsidiaries to the seller, so that a present assignment at closing includes all the bargained-for rights.

Patents/Obviousness

PTO's Prima Facia Case

Takashi Saito

The U.S. Court of Appeals for the Federal Circuit has affirmed that an examiner meets the requirements for establishing *prima facie* invalidity where the examiner provides the statutory basis of the rejection and the references relied upon in a sufficiently articulate and informative manner as to meet the notice requirement under 35 U.S.C. § 132. *In re Jung et al.*, Case No. 10-1019 (Fed. Cir., March 28, 2011) (Linn, J.).

After the examiner issued an office action, rejecting all claims of Jung's application for anticipation or single-reference obviousness, Jung responded by arguing that the claimed "well-charge-level controller" was different from the reset controller of the prior art. The examiner finally rejected all claims, noting that he found Jung's argument unpersuasive and finding the claimed well-charge-level controller to be the same as the prior art reset controller. Jung appealed to the Board of Patent Appeals and Interferences (the Board).

In the appeal, Jung argued that the claimed "well-charge-level controller" must "more or less continuously adjust the control signal inputs of active charge source and/or active charge sink" as disclosed in one embodiment and thus is different from the reset controller disclosed in the prior art. The Board, however, construed the claimed "well-charge-level controller" as "any component that controls the charge level of a well." In response to Jung's request for rehearing, the Board rejected Jung's argument that the Board erred in failing to address whether the examiner had set forth a *prima facie* rejection. Jung appealed to the Federal Circuit.

On appeal, Jung argued that the examiner failed to make a *prima facie* case of anticipation. Jung argued that establishing a *prima facie* case requires more than just a notice under §132 and that the *prima facie* case requirement is not met unless the examiner provides a reasonable construction and evidence bridging the facial differences between that reasonable claim construction and the purported anticipatory reference. Further, instead of arguing that the Board's decision constituted a new ground of rejection, Jung argued that the Board acted as a "super-examiner" by performing independent fact-finding and applying an improperly deferential standard of review to the examiner's rejections.

In rejecting Jung’s *prima facie* invalidity argument, the Court ruled that “[t]here has never been a requirement for an examiner to make an on-the-record claim construction of every term in every rejected claim and to explain every possible difference between the prior art and the claimed invention in order to make out a prima facie rejection.” Further, the Court wrote, “there is no reason to impose a heightened burden on examiners beyond the notice requirement of §132.” The Court found that the examiner’s discussion of the theory of anticipation, the prior art and the identification of where each limitation of the rejected claims is shown in the prior art by specific column and line number was more than sufficient to meet the burden.

In rejecting the “super-examiner” argument (as applied to the Board), the Court ruled that the findings by the Board were simple factual assertions and the same as the examiner’s findings. The Court further ruled that “[t]o assert that the Board’s thoroughness in responding to his explanation put it in the position of a ‘super examiner’ would limit the Board to verbatim repetition of the examiner’s office actions, which would ill-serve the Board’s purpose as a reviewing body.”

Patents / False Marking

False Marking Claims Must Be Pled with Specificity as to Intent

Eric Garcia

The U.S. Court of Appeals for the Federal Circuit settled a split among the district courts when it held that false patent marking claims must be pled with particularity under Fed. R. of Civ. Pro. 9(b). In granting the defendant’s petition for a writ of mandamus, the Federal Circuit held that the district court should have dismissed a false marking complaint for failure to plead, with particularity, the circumstances of defendant’s alleged intent to deceive the public. *In re BP Lubricants USA Inc.*, Misc. Docket No. 960 (Fed. Cir., Mar. 15, 2011) (Linn, J.).

The plaintiff had included in its complaint allegations that BP was a “sophisticated company” having experience applying for, obtaining and litigating patents. Based on that categorization, the plaintiff claimed BP “knew or should have known” that the patent had expired. The district court concluded that the complaint satisfied the requirements of Rule 9(b) because it had pled the who, how, what and when of the alleged fraud. BP sought mandamus at the Federal Circuit.

The Federal Circuit clarified that in all cases sounding of fraud or mistake, Rule 9(b) requires the plaintiff to plead “with particularity the circumstances constituting the fraud or mistake.” The Court noted that Rule 9(b) acts as a “safety valve to assure that only viable claims alleging fraud or mistake are allowed to proceed to discovery. ... Permitting a false marking complaint to proceed without meeting the particularity requirement of Rule 9(b) would sanction discovery and adjudication for claims that do little more than speculate that the defendant engaged in more than negligent action.” The Court stated that the district court erred in denying BP’s motion to dismiss because it expressly relied on the plaintiff’s general allegations that BP knew or should have known that the patent expired. The Court explained that a complaint must provide some objective indication to reasonably infer that the defendant was aware that the patent expired. Accordingly, general allegations that the defendant is a “sophisticated company” and that it “knew or should have known” that the patent expired are insufficient under Rule 9(b).

The Court went further and provided exemplary allegations with which a court may reasonably infer an intent to deceive, “[alleging that a] defendant [had] sued a third party for infringement of a patent after the patent had, e.g., expired or made multiple revisions of the marking after expiration” may set forth facts upon which intent to deceive can be reasonably inferred.

Patents / Venue / Transfers

Judicial Economy Is Not a Trump Factor in Deciding Transfer Motions

Natalie A. Bennett

The U.S. Court of Appeals for the Federal Circuit granted a petition for writ of mandamus and ordered a suit to be transferred out of the Eastern District of Texas to the Northern District of Texas. The panel concluded that all parties would experience greater convenience in that forum when litigating the plaintiff’s claims. *In re Verizon Business Network Services, Inc.*, Misc. Order 956, 2011 WL 1026623 (Fed. Cir., Mar. 23, 2011) (Linn, J.).

Applying Fifth Circuit law, the Federal Circuit reviewed the district court’s balancing of public and private convenience factors under 28 U.S.C. §1404(a). Notably, the presiding magistrate Judge had also found that Dallas (in the Northern District of Texas) would be a more convenient venue than Marshall (in the Eastern District of Texas), but nevertheless ordered that the case remain in Marshall as a result of a previous lawsuit brought in the same court, by the same plaintiff, roughly five years earlier. The district court emphasized that keeping the case in Marshall would enhance judicial economy because the court had developed an in-depth understanding of

the claimed technology by construing 25 terms in the earlier case. Thus, the district court concluded that the identified “built-in efficiencies” were not outweighed by the facts relevant to the private interest factors and the issuance of a reexamination certificate years after the earlier case had settled. Verizon sought mandamus at the Federal Circuit.

The Federal Circuit’s precedential order departed from the district court’s reasoning most significantly on the issue of judicial economy. The Court found the connection with the earlier suit against Level 3 Communications, Inc. (settling in 2003) to be “distant” and “too tenuous a reason” to keep the case in Marshall. The panel also reversed on the relevance of the reexamination certificate, noting that this portion of the file history was not part of the record when the patent was construed in 2003 and the U.S. District Court for the Eastern District of Texas would have to not only familiarize itself with the reexamination materials, but also relearn the underlying technology.

As the Court noted in the order, this case is distinguishable from another recent decision weighing the influence of judicial economy in a transfer analysis. In *In re Vistaprint Ltd.*, (see [IP Update, Vol. 13, No. 12](#)) the Federal Circuit affirmed a decision to keep the case in the Eastern District of Texas where the district court had already construed the asserted patent and was also presiding over co-pending litigation involving the same plaintiff and the same claims. Here, the Federal Circuit makes clear that claim construction will not afford a patent owner a “free pass” to maintain all future litigation in the venue where the first claim construction issued, especially if there are not related cases before the same judge.

Practice Note: The Federal Circuit analogized the facts in this case to the facts presented in *In re Volkswagen of Am., Inc.* (see [IP Update, Vol. 11, No. 11](#)) As in *Volkswagen*, the panel noted that many of the witnesses reside within 100 miles of the Dallas courthouse and that the plaintiff, Red River Fiber Optic Corp., had no legitimate connection to Marshall. (The plaintiff conceded it operated from Oklahoma.) The reasoning in this case, however, goes a step farther in offering specific guidance that the efficiencies gained through adjudication of a previous suit must still be appropriately weighed against other competing considerations such as cost, time, and travel for identified witnesses.

Patents / Claim Construction

Claim Construction: Too Much Structure Will Spoil the Brew

Isaac Crum

In affirming-in-part grants of summary judgment on non-infringement by two separate district courts, the U.S. Court of Appeals for the Federal Circuit reiterated the role of a district court in claim construction is to give meaning to the limitations actually contained in the claims, “not to redefine claim recitations or to read limitations into the claims.” *American Piledriving Equip., Inc. v. Geoquip, Inc.*, Case Nos. 10-1283, -1314 (Fed. Cir., Mar. 21, 2011) (Linn, J.).

American Piledriving filed suit against Geoquip in the Eastern District of Virginia and separately against Bay Machinery in the Northern District of California alleging that each infringed its patent by selling piledrivers manufactured by Hydraulic Power Systems. The patent in issue relates to counterweights for “vibratory” piledrivers, which rely on vibrations to drive piles into the ground.

The representative claim recites, *inter alia*, a limitation requiring “counterweights having a cylindrical gear portion and an eccentric weight portion integral with said cylindrical gear portion, said eccentric weight portion having at least one insert-receiving area formed therein.”

A *Markman* hearing was held in each case and each of district courts consistently construed the term “integral” to mean “formed or cast of one piece.”

The district courts diverged, however, on their construction of “eccentric weight portion” and “insert-receiving area.” The California district court construed “eccentric weight portion” to mean “the bottom portion of the counterweight, which extends forward from the front face of the gear portion, containing more weight than the top portion due to its larger mass, including at least one insert receiving area formed therein to receive at least one solid tungsten rod.” The Virginia district court construed the same term to mean “that portion of the counterweight that extends either forward or rearward from the front or back face of the gear portion such that it shifts the center of gravity radially outward from the gear’s rotational axis.”

With regard to the term “insert-receiving area,” the Virginia district court construed that term to mean “a bore located, at least in part, within the eccentric weight portion that is shaped to hold securely a solid insert member,” whereas the California district court construed the same claim language to mean “a bore formed in the eccentric weight portion of the counterweight, which

extends fully through the gear portion and fully through the eccentric weight portion of the counterweight capable of receiving a solid tungsten rod.”

In both the California and Virginia actions, the defendants moved for, and the district courts granted, summary judgment of non-infringement. The summary judgment grants were based on each court’s constructions of the disputed phrases “integral,” “insert-receiving area” and “eccentric weight portion.” American Piledriving appealed.

On appeal, American Piledriving argued that the district courts misconstrued these three terms. The Federal Circuit affirmed the Virginia court’s construction of each of these claim terms, as well as the California court’s construction of “integral” (which was identical to that of the Virginia court).

In upholding the Virginia constructions, the Federal Circuit found that the California constructions imported unnecessary limitations into the construction of “eccentric weight portion” and “insert-receiving area.” In its analysis, the Court reviewed the claims, the specification and the file history as it related to each of these terms. With regard to both “eccentric weight portion” and “insert-receiving area,” the Court found that there was no support in the intrinsic evidence for the additional structural limitations imported by the California district court.

The Federal Circuit affirmed both of the district court’s grants of summary judgment of non-infringement with regard to the accused products.

Patents / Exception Case Doctrine

“Exceptional” in §285 Really Means Exceptional

Natalie A. Bennett

The U.S. Court of Appeals for the Federal Circuit reversed a district court decision awarding of attorneys’ fees under 35 U.S.C. §285, focusing on the “exacting standard” for enhanced damages and attorneys’ fees and finding the objective inquiry identical to the “objective recklessness” standard established in *Seagate* for willful infringement. *Old Reliable Wholesale Inc. v. Cornell Corp.*, Case No. 10-1247, 2011 WL 891560 (Fed. Cir., Mar. 16, 2011) (Mayer, J.).

The district court invalidated the asserted patent for anticipation and obviousness on summary judgment. The summary judgment ruling came after both the named inventor and plaintiff’s

expert conceded during depositions that the accused device and the anticipatory prior art did “[e]xactly the same thing.” The invalidity ruling received a Rule 36 affirmance on appeal.

Later the district court awarded attorneys’ fees, finding the case exceptional. The award of attorneys’ fees was limited, however, to those fees incurred after the inventor admitted in his deposition that the anticipatory reference was basically the same as the claimed invention. The district court observed that “it was apparent that ... [the] patent was anticipated and any further action against [the defendant] for infringement was baseless.” Old Reliable appealed.

In reversing the lower court, the Federal Circuit emphasized not only that exceptionality must be established by clear and convincing evidence, but also reiterated that absent litigation misconduct, it is a high burden to impose sanctions on a patentee. Citing to recent precedent, the Court explains that sanctions are warranted only if the litigation is brought in subjective bad faith and if the litigation is “objectively baseless.” Here, the reversal of the award of attorneys’ fees was appropriate because Old Reliable’s arguments for validity and infringement were not “so unreasonable that no reasonable litigant could believe it would succeed.”

In this case the patentee was largely able to rely upon the findings of the U.S. Patent and Trademark Office (USPTO) during *ex parte* re-examination to maintain that it had a reasonable basis for its infringement action. After the Federal Circuit had affirmed the invalidity finding, the PTO issued a notice of intent to issue the reexamination certificate confirming the patentability of all claims. It was only after learning of the Federal Circuit’s affirmance that the USPTO withdrew the notice and stated that the claims were invalid. Taking judicial notice of the USPTO’s original intent to confirm patentability after reviewing the relevant prior art, the Federal Circuit declined to find the suit “frivolous or inherently implausible.”

Practice Note: Under the Federal Circuit decision if there is any basis for arguing the existence of a genuine dispute, fees are not proper under the “objectively baseless” prong. It is clear that a grant of summary judgment alone is insufficient to render the suit baseless, as is a patentee’s subjective bad faith. Instead, there must be a clear and convincing showing that the patentee altogether lacked a reasonable foundation for its infringement allegations. This decision comes on the heels of the decision in *iLor v. Google* (see [IP Update, Vol. 14, No. 1](#)), in which the plaintiff unsuccessfully sought fees against the accused infringer under §285. It seems that going forward, whether representing a patentee seeking to establish willful infringement or a defendant seeking to establish that the suit was baseless, either side will face an increasingly uphill battle for attorneys’ fees.

Patents / Written Description

Specification Must Sufficiently Describe Claimed Invention to Show Possession of Claimed Subject Matter

Mark R. Anderson

Reversing a grant of summary judgment holding that patents covering claims to a beverage can and a method for making a beverage can were invalid for failure to satisfy the written description requirement and being anticipated, the U.S. Court of Appeals for the Federal Circuit concluded that under the “problem solution” analysis of *Revolution Eyeware*, the patent in issue satisfied the written descriptive requirement by providing multiple solutions to the stated problem and that a genuine issue of material fact existed as to whether a prior art reference inherently disclosed elements of the claims. *Crown Packaging Tech., Inc. v. Ball Metal Container Corp.*, Case No. 10-1020 (Fed. Cir. April 1, 2011) (Whyte, J., N.D. Cal., sitting by designation) (Dyk, J, concurring-in-part and dissenting-in-part).

Crown Packaging sued Ball Metal Container asserting infringement of two patents sharing a common specification that related to beverage cans that use less metal, based on the connection of the can end to the can body. The district court granted Ball a summary judgment ruling of invalidity, finding that the patents in suit failed to satisfy the written description requirement and were anticipated under principles of inherency. The district court found that the asserted claims cover driving a chuck either inside or outside of the reinforcing bead of the lid, but the specification only supports driving a chuck outside of the reinforcing bead at the end of the can, thus failing to satisfy the written description requirement. Further, the district court found that a published Japanese patent application anticipated the asserted claims, with at least one claim limitation being inherently disclosed. Crown Packaging appealed.

The Federal Circuit began the analysis by reviewing the written description requirement. Citing *Ariad Pharms., Inc. v. Eli Lilly & Co.* (see [IP Update, Vol. 12, Nos. 5 and 9](#)) the Court noted that the test for the written description requirement is “whether the disclosure clearly ‘allow[s] persons of ordinary skill in the art to recognize that [the inventor] invented what is claimed.’” Put another way, the disclosure must convey that “the inventor has possession of the claimed subject matter as of the filing date.” Possession is shown by the specification disclosing what is claimed. The Court noted that the originally filed claims are part of the specification and often satisfy the written description requirement. The Court, distinguishing the enablement requirement from written description, agreed with Crown Packaging that the specification taught

two different ways to address the problem of reducing metal usage in beverage cans and that the specification does not require the use of both methods in all instances. Since the patents in suit teach two separate ways to save metal and the original claims show that Crown Packaging recognized that two independent ways to save metal were disclosed in the patent, the written description requirement was satisfied.

Turning to the issue of anticipation, the Federal Circuit found that the experts' reports materially differed regarding the disclosure of the prior art Japanese patent application, thus summary judgment was inappropriate in this case, as a genuine issue of material fact existed.

Judge Dyk dissented in part, writing that the patents should be invalid for failing to satisfy the written description requirement. Judge Dyk found that specification did not teach the combination of elements found in the claims, and thus, the patents should be invalidated.

Judge Dyk wrote that *Revolution Eyewear v. Aspex Eyewear* requires "explicit disclosure of the embodiments in the claims." In his view, "[t]he fact that the claims are broad enough to cover such an invention or imply that the claims cover such an invention is not sufficient when the invention itself is not described either in the claims or elsewhere in the specification."

Patents / Appellate Procedure

You Cannot "Game" the Appellate System by Filing a "Protective" Cross-Appeal

Charles J. Hawkins

Believing that an appellee's cross-appeal following a favorable judgment was nothing more than an attempt to get the upper hand in the appeal, the U.S. Court of Appeals for the Federal Circuit granted a motion to dismiss a cross-appeal, finding the cross-appeal improper because, if successful, it would not expand the scope of the judgment in appellee's favor. *Aventis Pharma S.A. v. Hospira, Inc.*, Case No. 11-1047 (Fed. Cir., Mar. 24, 2011) (Moore, J.).

In separate actions, Aventis Pharma sued Hospira and Apotex for infringement of patents relating to drugs used to treat certain types of cancers. The cases were consolidated and the district court ruled in favor of the defendants, finding that all the asserted claims were invalid for obviousness and unenforceable due to inequitable conduct. The district court, however, rejected Apotex's assertion that some of the claims were invalid for double-patenting.

After Aventis appealed, Apotex filed a “protective” cross-appeal, allegedly aimed at preserving its right to challenge the district court’s double-patenting ruling should the Federal Circuit reverse the invalidity and unenforceability rulings. Subsequently, Aventis asked Apotex to withdraw the cross-appeal. After Apotex refused, Aventis moved to dismiss the cross-appeal.

The Federal Circuit granted Aventis’ motion. The Court noted that “[a] cross-appeal may only be filed ‘when a party seeks to enlarge its own rights under the judgment or to lessen the rights of its adversary under the judgment,’” The Court noted that parties should not be permitted “to game the system by filing a cross-appeal to obtain the final word: this is neither fair to the appellant nor an efficient use of the appellate process.”

The Federal Circuit rejected Apotex’s argument that Federal Circuit policy is in conflict with other circuits, characterizing other circuits’ allowance for conditional cross-appeals “as a means to raise additional arguments which do not expand the scope of the judgment.” The Federal Circuit noted it offers the same opportunity, albeit in a different form, by “requir[ing] parties to raise such arguments in their primary briefing.”

The court explained that under its precedent “as a general matter ... a finding of invalidity means there is ‘no basis for a cross-appeal’ of non-infringement or additional claims of invalidity.” The Federal Circuit acknowledged that the court has not *sua sponte* struck every improperly filed cross-appeal, but found that “[t]his infrequent leniency is not an invitation to flaunt our practice and precedent, and the improper use of a cross-appeal directly contrary to our precedent may meet with sanctions.”

Practice Note: At the Federal circuit, an invalidity decision in a lower court leaves no room for the successful defendant to file a contingent cross-appeal as to infringement or other validity issues.

Patents / Obviousness

Laser Board Game May Be Obvious Based on Laser Computer Game

Adam A. Auchter

The U.S. Court of Appeals for the Federal Circuit affirmed a district court’s judgment of infringement of a chess-like laser board game, but vacated the judgment of nonobviousness based on the district court’s narrow view of analogous art and unduly a low view of the level of

skill in the art. *Innovention Toys LLC v. MGA Entertainment Inc.* Case No. 10-1290 (Fed. Cir., Mar. 21, 2011) (Lourie, J.).

Innovention's patent involves a chess-like board game in which opposing players shoot a laser beam at mirrored game pieces in order to reflect the beam in an attempt to strike an opponent's key playing piece, *i.e.*, the "king." The patent disclosed and claimed that the key playing pieces were "movable." The object of the patented game is to move game pieces so as to eliminate the opponents key piece. MGA introduced a chess-like laser board game titled Laser Battle. One month after Innovention obtained its patent it sued MGA, alleging infringement (both literal and by the doctrine of equivalents).

The district court interpreted the claim term "movable" according to its plain meaning—"capable of movement" per the rules of the game. The infringement issue revolved around whether movement was something that occurred during game play (as MGA argued) or also during game setup (as Innovention Toys argued). On the issue of obviousness the district court also found two pieces of prior art to not be analogous because they were directed to electronic laser chess games rather than physical board games and concluded that the level of a person of ordinary skill was that of a lay person. After the claims were found to be infringed and not invalid, MGA appealed.

On appeal, the Federal Circuit affirmed the district court's literal infringement determination and construction of the claim term "movable. However, the Federal Circuit determined that the district court erred in finding that the laser chess references failed to qualify as analogous art.

The Court explained that there are two separate tests used to define the scope of analogous art: whether the art is from the same field of endeavor, regardless of the problem addressed, and if the reference is not within the field of the inventor's endeavor, whether the reference still is reasonably pertinent to the particular problem with which the inventor is involved. As explained by the Federal Circuit, the district court erred in failing to consider that an *electronic*, laser-based strategy game, even if not in the same field of endeavor, would have been reasonably pertinent to the problem facing an inventor of a *physical*, laser-based strategy game.

As explained by the Court, the patent and the references are both directed to the same purpose of detailing the specific game elements comprising a chess-like, laser-based strategy game. If a reference disclosure has the same purpose as the claimed invention, the reference relates to the same problem and that fact supports use of that reference in an obviousness rejection.

Game designers, as evidenced in numerous prior art patents, contemplate the implementation of their strategy games in both physical and electronic formats. The Federal Circuit relied on comparing the games components, rules and ultimate objective as opposed to the medium in which they were implemented.

The Federal Circuit also found fault with the district court inappropriately low level of skill in the art: that of a layperson. Since Innovention had previously conceded that the level of ordinary skill in the art was greater than that of a layperson and the higher level of skill mitigated in favor of a conclusion of obviousness, the error was not harmless. The Federal Circuit remanded the case back to the district court for a determination of proper level of skill.

Patents / Patent Act / Reform Legislation

The House Enters the Patent Reform Fray

Leigh J. Martinson and Paul Devinsky

The U.S. House of Representatives March 30 began discussion on a patent reform bill, H.R. 1249, introduced earlier that day. The House bill (known as the America Invents Act) aligned with a Senate bill (S. 23) in a number of ways but also had some differences, as expected.

Throughout the month, a number of changes to the House bill were proposed. Most of those changes were designed to bring the House bill closer to the Senate's bill. For example, on April 12, 2011 Lamar Smith (R-TX) floated a draft of a manager's amendment, scheduled to be discussed in an April 14 markup session. The draft expands an inventor's options during the one-year grace period before patent application filing, curtails options to use the prior user rights defense and adopts the heightened threshold for *inter partes* review of the Senate bill.

Another run was made to remove the transition to a first-to-file system. That effort failed.

However, Rep. Jim Sensenbrenner (R-WI) vowed to try again to remove the first-to-file provision.

One interesting addition to the House bill is the commissioning of a federal study of patent suits by non-practicing entities.

After the intense mark-up session on April 14, the House Judiciary Committee voted 32-3 to report out an amended H.R. 1249, sending the revised legislation to the House floor for further debate and a vote on the long-awaited bill's final passage.

As passed to the floor, the House bill transitions the United States to a first-to-file system, establishes a new post-grant review process, subjects business method patents to a special *ex parte* reexamination procedure, allows third parties to submit prior art for review, allows the U.S. Patent and Trademark Office (USPTO) to set its fee amounts and hang onto the fees it collects and retains a best mode requirement for patent application filings.

Although the House bill largely tracks the Senate version (see [IP Update, Vol. 13, No. 2](#)) and both move the United States from a first-to-invent to a first-to-file system (thus harmonizing the U.S. system with the systems in place in most industrialized countries), there are a few differences in terms the post grant opposition systems provided by each.

Post-Grant Oppositions

The post-grant opposition period in H.R. 1249 is longer than that provided in S.23 (12 months as opposed to nine months) and includes, in addition to a showing of a likelihood that at last one claim will be found unpatentable as the threshold basis for acceptance, the existence of important unsettled legal question.

The House bill also provides for an automatic stay of declaratory judgment actions if the declaratory judgment plaintiff is the party in interest petitioning for post-grant review and a discretionary stay in the event of litigation involving a patent involved in post-grant review.

Trademarks / Likelihood of Confusion Analysis

No Likelihood of Confusion or Dilution Between CITIBANK and CAPITAL CITY BANK

Whitney D. Brown

Although the majority of the relevant likelihood of confusion factors favored an opposer, the U.S. Court of Appeals for the Federal Circuit affirmed the Trademark Trial and Appeal Board's denial of an opposition filed by opposer Citigroup Inc. against four service mark applications filed by Capital City Bank (CCB). *Citigroup Inc. v. Capital City Bank Grp., Inc.*, Case No. 10-1369 (Fed. Cir., March 28, 2011) (Gajarsa, J.)

Citigroup began using the mark CITIBANK in 1897 and adopted “Citibank” as its official company name in 1967. Citigroup owns multiple federally registered trademarks for financial services containing the CITI prefix, including CITI, CITICORP and CITIBANK. Many of Citigroup’s registrations have become “incontestable,” and the CITIBANK brand has been recognized as one of the most valuable brands in the world. Capital City Bank Group offers banking services through 69 branches in three U.S. states. Capital City Bank Group applied to register four marks, including CAPITAL CITY BANK, CAPITAL CITY BANK INVESTMENTS, CAPITAL CITY BANK GROWING BUSINESS and CAPITAL CITY BANC INVESTMENTS. As standard character marks, the applications were not limited to a particular font style, size, color or design element.

Citigroup filed a notice of opposition with the TTAB against each of CCB’s applications, alleging likelihood of confusion with and likelihood of dilution of its CITIBANK marks. The TTAB treated all four applications as one for evaluating likelihood of confusion under the *DuPont* factors. The TTAB found that four of the six relevant factors favored Citigroup, namely, the fame of the CITIBANK marks, the similarity of the parties’ financial products and services, the similarity of the parties’ trade channels and the similarity of the parties’ target customers. However, the TTAB determined that no likelihood of confusion or dilution would result from registration of CCB’s marks because the two remaining *DuPont* factors, *i.e.*, the nature and extent of any actual confusion and the similarity of the marks, favored applicant CCB.

On appeal, Citigroup challenged the TTAB’s factual determinations concerning actual confusion and the similarity of the parties’ marks. The Federal Circuit affirmed the TTAB’s finding that the similarity of the marks factor favored applicant CCB, as the record detailed the distinctive spellings of the parties’ marks and common third-party usage of the phrase “City Bank” within the banking industry. Concerning actual confusion, the Court found again that substantial evidence, namely the concurrent use of the respective marks in the same geographic markets since 1975, supported the TTAB’s finding of an absence of actual confusion. Finally, the Court also rejected Citigroup’s approach of “mechanically tallying” the *DuPont* factors as improper, holding in accordance with Federal Circuit precedent, that not all of the *DuPont* factors are necessarily relevant in every case and that any one of these factors may control.

Trademarks / EU Invalidity

KINDER Not Confusingly Similar to TiMi KINDERJOGHURT

Désirée Fields

The Court of Justice of the European Union (CJEU) has upheld a decision of the EU General Court rejecting an invalidity action brought by the owner of trademarks for KINDER against a Community Trademark incorporating the words TiMi KINDERJOGHURT. *Ferrero SpA v. Office of Harmonisation in the Internal Market, Tirol Milch reg.Gen.mbH, Innsbruck, Case C-552/09* (CJEU, March 24, 2011).

In 1998, Tirol Milch filed a figurative Community Trademark application for a sign incorporating the words TiMi KINDERJOGHURT covering yoghurt and related goods in class 29. Ferrero, which owns marks incorporating KINDER for a range of confectionary products, opposed the application. Ferrero's opposition failed on the grounds that the parties' marks were insufficiently similar.

After Tirol Milch registered TiMi KINDERJOGHURT, Ferrero brought cancellation proceedings against the mark before the Cancellation Division of the Office for Harmonisation in the Internal Market. Ferrero succeeded in its cancellation proceeding, but the Board of Appeal overturned the decision. Ferrero appealed to the EU General Court, arguing that the similarity of the marks and goods gave rise to a likelihood of confusion and infringement under Art 8(1)(b) of the CTM Regulation (40/94/EEC, now replaced by 2009/207/EC). Ferrero also argued that its KINDER mark was a well-known mark, and thus the registration of TiMi KINDERJOGHURT took unfair advantage of, or damaged, its reputation or distinctive character without due cause under Article 8(5).

The EU General Court held that notwithstanding the fact that the word "KINDER" was present in both parties' signs, a number of visual and phonetic differences existed that precluded the signs from being perceived as similar. The Court held that that even if the reputation of Ferrero's earlier marks and the similarity of the parties' goods could be considered in assessing the likelihood of confusion, it did not affect the assessment of the similarity of the signs. Ferrero appealed to the CJEU.

The CJEU rejected Ferrero's appeal, holding that the existence of a similarity between the earlier mark and the challenged mark was a precondition for the application of both Article

8(1)(b) and Article 8(5). The court explained that likelihood of confusion must be assessed globally, taking into account all of the relevant factors, which included not only the similarity between the conflicting marks but also the strength of the earlier mark's reputation. However, the reputation and distinctive character of the marks were not relevant for purposes of assessing whether the marks at issue were similar, but whether the relevant section of the public makes a link between the marks.

Although the global assessment of the existence of a link between the earlier mark and challenged mark under Art 8(5) implied some interdependence between the relevant factors, such that a low degree of similarity between the marks could be offset by the strong distinctiveness of the earlier mark, the court determined that the reputation of the KINDER mark and the fact that the parties' goods were identical or similar was not sufficient to establish a likelihood of confusion between the marks or that the public would make a link between them. In order for Article 8(1)(b) or Article 8(5) to apply, the court held that the marks must be identical or similar. Accordingly, those provisions did not apply because the court had ruled that the marks were not similar.

Further, the court acknowledged that it was settled case law that the existence of a "family" of marks was a relevant element to consider in assessing likelihood of confusion. However, that element was irrelevant for assessing similarity between the parties' marks, the court explained, and only became relevant once similarity between the marks had been found. Consequently, the CJEU held that the General Court did not err in its holding that the parties' marks are not similar based upon the existence of several visual and phonetic differences.

The moral of the story? No amount of fame and reputation can make two marks similar when they are not.

Copyright Infringement / Jurisdiction

"Situs of the Injury" for Exercising Personal Jurisdiction over Defendant for Online Copyright Infringement Is Location of Copyright Owner

Rita Weeks

In a decision favorable to copyright owners based in the state of New York, the New York State Court of Appeals held that in copyright infringement cases involving the uploading of copyrighted literary works onto the internet, the situs of the injury for purposes of determining

personal jurisdiction under New York's long-arm jurisdiction statute is the location of the copyright holder and not the location of the infringing conduct. *Penguin Group (USA), Inc. v. American Buddha*, 2011 N.Y. Slip Op. 02079, 2011 WL 1044581 (N.Y., March 24, 2011). (Grafteo, J.)

Plaintiff Penguin Group (USA) is a book publisher based in New York City. Defendant American Buddha is an Oregon not-for-profit corporation with a principal place of business in Arizona. American Buddha operates two websites, hosted on servers in Oregon and Arizona, that make available free of charge to its members a variety of publications. Penguin Group brought a copyright infringement action in New York federal court, alleging that the defendant published complete copies of four of Penguin's books on the defendant's websites. The electronic copying and uploading of the books occurred in Oregon or Arizona.

American Buddha moved to dismiss the complaint for lack of personal jurisdiction, arguing that as an Oregon company, it possessed insufficient ties to New York. Further, the plaintiff had not alleged any infringing activity within New York. Penguin Group claimed that jurisdiction was proper under New York's long-arm jurisdiction statute, which provides jurisdiction over non-New York residents who commit tortious acts outside of the state that result in injuries within New York. The district court granted the defendant's motion to dismiss, holding that the plaintiff was injured in Oregon or Arizona where the copying and uploading of the copyrighted works took place.

On appeal, the U.S. Court of Appeals for the Second Circuit recognized a split of authority in New York district courts concerning the application of New York's long-arm statute to copyright infringement cases involving out-of-state defendants and certified the issue for consideration to the New York Court of Appeals. After reviewing the applicable New York cases, the New York Court of Appeals determined that the jurisdictional analysis required in internet cases is different than that used in traditional commercial tort cases. Because the infringed works were made available to internet users everywhere there was internet access, it was "difficult, if not impossible, to correlate lost sales to a particular geographic area," as would be the focus in a more traditional commercial tort case. Therefore, in internet copyright infringement cases the court determined that it was more reasonable to determine that the injury caused by the infringement was suffered where the copyright owner is located. The decision clarifies that New York copyright owners may bring infringement actions in New York for online infringement of their literary works, even if the infringing download or use occurs outside of the state.

Copyright / Standing

No Standing if Plaintiff's Exclusive Rights Were Limited in Time

Rita Weeks

Evaluating ownership of a sound recording under both the Indian Copyright Act and U.S. Copyright Act, the U.S. Court of Appeals for the Eleventh Circuit upheld a district court's grant of summary judgment to defendants in a copyright infringement action, finding that the plaintiff lacked standing to sue because the underlying agreement granted exclusive rights that were limited in time. *Saregama v. Timbaland, et al.* Case No. 10-10626 (11th Cir., March 25, 2011) (Marcus, J.)

Saregama asserted that hip hop producer Timbaland and other defendants infringed its sound recording copyright by digitally sampling a portion of the Indian song "Baghor Mein Bahar Hai" in the song "Put You on the Game." Saregama claimed ownership of the copyright in the sound recording through an agreement between Saregama's predecessor and another company, which was governed by Indian law. The agreement provided the plaintiff with exclusive rights in certain sound recordings for a two-year period. The district court granted the defendants' motion for summary judgment, holding that Saregama did not possess a valid copyright, as the agreement limited the plaintiffs' exclusive rights to the sound recording to a two-year period. Second, the district court determined that the defendants' digital sample was not substantially similar to the plaintiff's asserted work.

On appeal, the 11th Circuit affirmed the grant of summary judgment to defendants. The 11th Circuit held that Saregama possessed only a two-year right to the sound recording, which had since lapsed, such that the plaintiff did not own a copyright as to possess the standing required to institute an infringement lawsuit.

Because the underlying work originated in India, the court first looked to the Indian Copyright Act to analyze the ownership issue. Comparing the Indian Copyright Act with the U.S. Copyright Act, the court ultimately concluded that the result would be the same under either law. While the agreement conveyed Saregama an exclusive right to certain sound recordings, that right was limited to two years. After those two years, the other company had the unambiguous right to allow third parties to record the song, although the plaintiff retained non-exclusive rights to the song. Because the exclusive right granted to Saregama in the agreement became non-exclusive, the court explained that the plaintiff, at most, possessed a two-year

exclusive license. As such, Saregama did not possess the requisite exclusive rights to confer standing.

Trade Secret/Confidentiality Agreement

Ninth Circuit No Friend to Winklevoss Twins: Facebook Settlement Stands

Elisabeth (Bess) Malis

Putting what appears to be an end to a highly publicized legal battle dramatized in the movie *The Social Network*, the U.S. Court of Appeals for the Ninth Circuit has upheld a \$65 million settlement agreement made between brothers Cameron and Tyler Winklevoss, their former classmate Divya Narendra, and social-networking website Facebook and its CEO Mark Zuckerberg. *Facebook Inc. v. Divya Narendra et al.*, Case No. 08-16745 (9th Cir., Apr. 11, 2011) (Kozinski, J.).

In 2004, Cameron Winklevoss, Tyler Winklevoss and Divya Narendra sued Facebook and its CEO Mark Zuckerberg, alleging that Zuckerberg stole from them the idea for Facebook while classmates at Harvard. Facebook and Zuckerberg countersued the plaintiffs and their competing social networking website Connect U, alleging that the plaintiffs hacked into Facebook and spammed Facebook users. The parties were ordered to mediation in 2008. After one day of negotiations, the parties signed a handwritten settlement agreement in which the plaintiffs agreed to give up their social networking website ConnectU in exchange for a \$20 million payment and \$45 million worth of stock in Facebook.

When final settlement negotiations fell apart, Facebook filed a motion asking the district court to enforce the signed settlement agreement and order the Winklevosses to sign more than 130 pages of documents that would finalize the settlement. The Winklevosses argued that the settlement was unenforceable because it lacked material terms and had been procured by fraud. Namely, the Winklevosses argued that Facebook had committed securities fraud by providing an incorrect valuation of the company such that the Winklevosses should have received more shares in the settlement. The district court found the settlement agreement enforceable and ordered the Winklevosses to transfer all ConnectU shares to Facebook. The Winklevosses appealed.

The Ninth Circuit rejected the Winklevosses argument that the settlement agreement lacked material terms, determined the terms were sufficiently definite for a court to determine whether a

breach has occurred and to order specific performance or award damages. Further, the settlement agreement contained a mutually agreed upon procedure for filling in missing “material” terms, demonstrating that the parties intended to be bound even though some material terms might be resolved later.

In rejecting the Winklevoss brothers’ argument that Facebook procured the settlement by fraud, the court pointed out that the Winklevosses were sophisticated litigants who had obtained extensive information about Facebook through discovery during the long-standing litigation over ownership rights in one of the world’s “fastest-growing companies.” The court also noted that at mediation the Winklevosses had a “team of lawyers and a financial advisor.” Namely, the Winklevosses’ father, a former accounting professor at the Wharton School of Business and an expert in valuation, participated in the mediation. “A party seeking to rescind a settlement agreement by claiming a Rule 10b-5 violation under these circumstances,” the court warned, “faces a steep uphill battle.” In any event, the Court determined that the Winklevosses’ securities fraud claims failed on the merits, as the only evidence proffered towards the claims concerning what Facebook allegedly said and did not say during the mediation, which was properly excluded by the district court due to a confidentiality agreement entered into by the parties. In conclusion, the court stated: “At some point, litigation must come to an end. That point has now been reached.”

Trade Secrets / Software

Software Compilation Not A Trade Secret Under State Law

Rose Whelan

The U.S. Court of Appeals for the Fourth Circuit vacated and remanded a grant of summary judgment to Defendants on Plaintiff’s claims for misappropriation of trade secrets and breach of contract against defendant Sentia Group and several former employees of the plaintiff.

Decision Insights, Inc. v. Sentia Group, Inc et al., Case No. 09-2300, (4th Cir., March 15, 2011) (*per curiam*).

Decision Insights offers software used as an analytical tool in preparing negotiation strategies.

In 2006, Decision Insights filed suit against a group of former employees alleging that they improperly used the plaintiff’s propriety source code and breached non-disclosure agreements in forming Sentia Group, a competing software company. Decision Insights also alleged that

the defendants used materials containing the plaintiff's trade secrets, such as marketing and research reports, client information and information contained in its software user manual.

To qualify as a trade secret under Virginia law, information must possess independent economic value, not be generally known or readily ascertainable by proper means and be subject to reasonable efforts to maintain secrecy.

The district court granted summary judgment for the defendants, holding that Decision Insights failed to establish that its software qualified as a trade secret, because the plaintiffs did not show that the software was not generally known or ascertainable. The district court also dismissed the plaintiff's trade secret claims towards the additional, non-software materials, finding that because the plaintiff's claims failed towards its source code, the plaintiff's other claims also failed.

On appeal, the 4th Circuit determined that the deposition testimony and testimony of Plaintiffs' expert witnesses created sufficient issues of fact to merit consideration by a jury and on that basis vacated and remanded the summary judgment determination. One of the plaintiff's expert witnesses, a co-author of the original source code at issue, opined that certain elements of the source code had never been published, supporting a finding that the plaintiff's source code qualified as a trade secret. A second expert witness, also a co-author of the source code, testified that portions of the source code and its sequence had been purposefully kept confidential.

Further, the 4th Circuit determined that the district court improperly granted summary judgment without considering the other two elements required for trade secret protection – whether the plaintiff's source code possessed independent economic value and whether Decision Insights engaged in reasonable efforts to maintain secrecy. Further, the 4th Circuit directed the district court to consider the plaintiff's trade secret claims towards non-source code materials independently from the trade secret claim concerning the plaintiff's source code.

The material in this publication may not be reproduced, in whole or part without acknowledgement of its source and copyright. On the Subject is intended to provide information of general interest in a summary manner and should not be construed as individual legal advice. Readers should consult with their McDermott Will & Emery lawyer or other professional counsel before acting on the information contained in this publication.

© 2010 McDermott Will & Emery. The following legal entities are collectively referred to as "McDermott Will & Emery," "McDermott" or "the Firm": McDermott Will & Emery LLP, McDermott Will & Emery/Stanbrook LLP, McDermott Will & Emery Rechtsanwälte Steuerberater LLP, MWE Steuerberatungsgesellschaft mbH, McDermott Will & Emery Studio Legale Associato and McDermott Will & Emery UK LLP. McDermott Will & Emery has a strategic alliance with MWE China Law Offices, a separate law firm. These entities coordinate their activities through service agreements. This communication may be considered attorney advertising. Previous results are not a guarantee of future outcome.