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of a reasonable royalty or a potential award of increased damages, attorneys' fees, or an equitable remedy under the federal patent laws.

§ 21.12 Federal Circuit Decisions

§ 21.12.1 Patents

§ 21.12.1.1 Patents: Exhaustion and Implied License

*TransCore, LP v. Electronic Transaction Consultants Corp.*⁷⁸

Holding: In *TransCore, LP v. Electronic Transaction Consultants Corp.* the Federal Circuit elaborated on the patent exhaustion doctrine for the first time since the Supreme Court's 2008 *Quanta Computer, Inc. v. LG Electronics, Inc.* decision on the issue, and also analyzed the rarely used doctrine of implied license by legal estoppel. The court concluded that a patentee's covenant not to sue authorizes future sales under the doctrine of patent exhaustion. The court also held that the doctrine of implied license by legal estoppel bars a patentee from enforcing later-issued patents not specifically included in the covenant not to sue when those patents are necessary to practice the patents in the covenant.

Facts: In 2000, TransCore sued Mark IV for infringement of several patents relating to automated toll collection systems. The parties settled that dispute and entered into a covenant not to sue and a release of all existing claims (Mark IV Agreement). The Mark IV Agreement explicitly stated that it did not apply to any patent issued after the date of the agreement and that no express or implied license was granted to Mark IV or any third party. Years later, Electronic Transaction Consultants (ETC) agreed to set up and test toll-collection systems that a third party purchased from Mark IV. TransCore sued ETC for infringement of three of the patents that had been in the earlier lawsuit and a related patent—the '946 patent—that had not yet been issued at the time of the Mark IV Agreement. ETC filed a motion for summary judgment arguing that its activities were permitted by the Mark IV Agreement. The district court agreed, concluding that TransCore's patent infringement claims were barred by patent exhaustion and implied license by legal estoppel. TransCore appealed.

Reasoning: The Federal Circuit agreed that the doctrine of patent exhaustion barred TransCore's suit against ETC. The court explained that the doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to the item. The court reasoned that it is irrelevant whether an agreement is framed in terms of a covenant not to sue or a license

78. 563 F.3d 1271 (Fed. Cir. 2009).

agreement—the only issue is what the agreement authorizes. Because the Mark IV Agreement authorized Mark IV’s sales to the third party, TransCore’s patent rights were exhausted and ETC was authorized to use the products it obtained from the third party.

The court also concluded that Mark IV’s sales were authorized under the ’946 patent pursuant to the doctrine of implied license by legal estoppel, which applies when a patentee has licensed or assigned a right for consideration and then seeks to derogate from the right granted. The court explained that TransCore’s later-issued ’946 patent was necessary to practice at least one of the patents in the Mark IV Agreement, and under the doctrine of legal estoppel, Mark IV must be permitted to practice the ’946 patent to the same extent that it may practice the other patents. The court rejected TransCore’s argument that legal estoppel only applies to “prior” or “earlier” patents, explaining that there is no support for such a limitation. The court also rejected TransCore’s reliance on the language from the Mark IV Agreement that the covenant not to sue does not apply to patents issued in the future, explaining that such language protected TransCore from claims that all future patents are generally impliedly licensed, but it did not permit TransCore to derogate from the rights it expressly granted.

§ 21.12.1.2 Patents: Patentable Subject Matter

*Prometheus Laboratories, Inc. v. Mayo Collaborative Services*⁷⁹

Holding: (1) To determine whether a claim is patentable under 35 U.S.C. § 101, a court must look at the claim as a whole, rather than at individual limitations; (2) Where a method claim is otherwise patentable under 35 U.S.C. § 101, the presence of a mental process as a step or limitation will not generally defeat patentability; (3) The patent claims at issue met the “machine or transformation” test under *In re Bilski*⁸⁰ and were therefore patentable under 35 U.S.C. § 101.

Facts: Prometheus sued Mayo for infringement of two patents that claimed methods for calibrating the proper dosage of drugs used to treat autoimmune diseases. The drug contains a substance that the human body breaks down into “metabolites.” The patents claimed a method containing two steps: (1) “administering” the drug to a patient, and (2) “determining” the level of metabolites in the patient, “wherein” certain levels (specified in the patent) of metabolites “indicate[] a need to increase the amount of said drug subsequently administered to said patient,” and other levels indicate a need to decrease subsequent doses. The district court held that the patents claimed unpatentable subject matter under 35 U.S.C. § 101. The court reasoned that the inventors were essentially seeking to patent laws of nature and mental processes. As the district saw it, the patent claimed correlations between naturally produced metabolites and therapeutic

79. 581 F.3d 1336 (Fed. Cir. 2009), *cert. petition filed*, No. 09-490 (U.S. Oct. 22, 2009).

80. 545 F.3d 943 (Fed. Cir. 2008), *cert. granted*, 129 S. Ct. 2735 (2009).

effectiveness, which is a law of nature. The “administering” and “determining” steps were merely the gathering of the data necessary to observe the level of metabolites in the patient. Moreover, the “wherein” portion of the second step of the method was an attempt to claim the mental process of a physician in recognizing those correlations.

Reasoning: The Federal Circuit reversed. The court began with the “machine-or-transformation” test established in *In re Bilski*: to be patentable, a process must be tied to a machine or apparatus, or it must transform a particular article into a different state or thing. Moreover, a patentee may not circumvent that test by adding insignificant limitations: the involvement of the machine or transformation must impose meaningful limits on the patent’s scope and may not be “insignificant extra-solution activity.”

The court found that the patents passed the test. First, the administering and determining steps were transformative. The step of administering the drug to the patient “transforms” the body of the patient through the therapeutic effect of the drug. And the step of “determining” the metabolite levels requires a test that goes beyond mere observation: blood or tissue must be extracted and chemically manipulated to determine the level of metabolite. Second, those steps were not insignificant or mere data-gathering, but were central to the purpose of the claims. The first step is the administering of the drug meant to treat the disease, and the second step is measuring metabolite levels for the purpose of optimizing the dosage of the drug.

Finally, the court held that the presence of a mental step did not render the claims unpatentable. The test for patentability under section 101 requires the court to look at each claim as a whole, rather than at individual limitations. Looking at the claim as a whole leads to the conclusion that patentee claimed “a series of transformative steps that optimizes efficacy and reduces toxicity of a method of treatment for particular diseases using particular drugs.” Notably, the district court relied heavily on Justice Breyer’s dissent in *Laboratory Corporation of America Holdings v. Metabolite Laboratories, Inc.*⁸¹ The Prometheus panel dismissed the relevance of that case in a footnote: “[t]hat dissent is not controlling law and also involved different claims from the ones at issue here.”

In re Comiskey⁸²

Holding: (1) The Federal Circuit could affirm the Patent Office’s rejection on a ground raised sua sponte on appeal if there is no issue of fact, policy, or agency expertise; (2) Patents that depend entirely on the use of mental processes or the application of human intelligence to the solution of practical problems are not patentable; (3) Applicant’s claims for arbitration methods and systems that did not require the use of a machine were rejected as unpatentable under

81. 548 U.S. 124 (2006) (Justice Breyer joined by Justices Stevens and Souter, dissenting from dismissal of writ of certiorari as improvidently granted).

82. 554 F.3d 967 (Fed. Cir. 2009).

section 101; (4) Claims that required the use of a machine were remanded for further consideration.

Facts: Comiskey applied for a patent for a method and system for mandatory arbitration involving legal documents. Two of the independent claims did not require the use of a machine or device, and recited methods essentially as follows: (1) enrolling the document and its author; (2) incorporating arbitration language into the document; (3) requiring a complainant to submit a request for arbitration; (4) conducting arbitration; (5) “providing support to the arbitration resolution” and (6) determining “an award or decision [that] is final and binding.” Two other independent claims recited systems comprising “a registration module, “an arbitration module,” and “a means for selecting an arbitrator,” where each component performed or facilitated a function similar to each of the steps in the method claims. Moreover, four of the dependent claims explicitly required the use of computers or machines. The Patent Office rejected all of the claims as obvious under 35 U.S.C. § 103(a), and Comiskey appealed to the Federal Circuit. After oral argument, the Federal Circuit asked for supplemental briefing on whether the claims were patentable subject matter under 35 U.S.C. § 101.

Reasoning: The Federal Circuit affirmed. Comiskey argued that because the Patent Office had not considered whether his application claimed patentable subject matter under section 101, the Federal Circuit could not consider that question for the first time on appeal. The Supreme Court held in *Securities & Exchange Commission v. Chenery*, 318 U.S. 80 (1943), that courts should not affirm agency decisions on grounds not relied on by the agency, but that they may affirm when the ground of affirmance concerns no issue of fact, policy, or agency expertise. Patentability under section 101 is generally a pure legal issue and not “a determination of policy or judgment” committed to the Patent Office, and the court could therefore reach it on appeal. Moreover, the court noted, Supreme Court case law states that patentability under section 101 should be decided first, before proceeding to questions of novelty and nonobviousness.

Although 35 U.S.C. § 101 is written in broad terms, the Supreme Court has rejected a “purely literal reading” and held that some types of “processes” are not patentable. Based on history and case law, the Federal Circuit panel derived three relevant governing principles: (1) abstract concepts that have no claimed practical applications are not patentable; (2) abstract concepts with claimed practical applications are patentable only when the concept is tied to a machine or creates or involves a composition of matter; and (3) mental processes, standing alone, are not patentable even if they have practical application.

Applying those principles to Comiskey’s patent application, the court held that the two independent claims that did not require the use of a machine or device were unpatentable: they essentially claimed the use of mental processes to resolve a legal dispute. For the other claims that recited the use of “modules” or machines to perform or facilitate the arbitration process, their patentability was less clear, and the court remanded to the Patent Office to consider issue in the first instance.

§ 21.12.1.3 Patents: Mandamus and Venue

*In re Genentech*⁸³ and *In re Volkswagen of America, Inc.*⁸⁴

Holding: A district court's decision to deny a motion to transfer is not immediately appealable, and a petition for a writ of mandamus—essentially an emergency request for an order from the Federal Circuit ordering the district court to do something—is usually a long shot. In 2008, however, the Federal Circuit granted a defendant's mandamus petition and ordered a district court to transfer a patent case out of the Eastern District of Texas.⁸⁵ In two decisions signed by the same judge and issued on the same day in 2009—one denying mandamus and the other granting it—the Federal Circuit gave further guidance on the showing required for a mandamus petition. (1) Mandamus denied in *Volkswagen*: the district court did not clearly abuse its discretion in denying the defendants' motion to transfer. The existence of multiple lawsuits involving the same issues weighs heavily against motions to transfer those cases to different districts, and the defendants did not show that other factors strongly weighed in favor of transfer. (2) Mandamus granted in *Genentech*: the district court clearly abused its discretion in denying the defendants' motion to transfer. The district court made several identifiable legal errors in its analysis, and where both defendants, their documents, and their key witnesses were in California and no parties, witnesses, or documents were in Texas, there was “simply no rational argument” that the proposed transferee court was not a more convenient venue.

Facts: In *Volkswagen*, MHL, a company incorporated in Texas but operating out of Michigan, filed two patent infringement suits in the Eastern District of Texas, naming a total of 30 automobile manufacturers as defendants, including Volkswagen of America. Volkswagen filed a declaratory judgment suit in the Eastern District of Michigan against MHL, but that court transferred the case to the Eastern District of Texas and the Federal Circuit denied Volkswagen's mandamus petition. In the Eastern District of Texas, Volkswagen filed a motion under 28 U.S.C. § 1404(a) to transfer the whole 21-defendant suit to the Eastern District of Michigan. The court denied the motion, citing the judicial economy that would result from one court deciding all of the related patent issues, and Volkswagen petitioned for a writ of mandamus.

In *Genentech*, a German pharmaceutical company, Sanofi, sued a California company, Genentech, and a company with facilities in California, Biogen, in the Eastern District of Texas for patent infringement. Genentech and Biogen filed a declaratory judgment suit in the Northern District of California, and filed a motion under section 1404(a) to transfer the Texas case to the Northern District of California. The defendants noted that 10 potential material witnesses, including two of the patent prosecution attorneys, lived in the Northern District

83. 566 F.3d 1338 (Fed. Cir. 2009).

84. 566 F.3d 1349 (Fed. Cir. 2009).

85. *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

of California, and that all of the defendants' documents relating to the accused products were in California. The plaintiffs argued that Texas was a more convenient location than California for 10 potential witnesses who lived in Europe and on the U.S. East Coast and for a prior art author who lived in Iowa because Texas is physically closer to those places. The district court denied the motion to transfer, and the defendants petitioned for a writ of mandamus.

Reasoning: The Federal Circuit granted mandamus in *Genentech* and denied it in *Volkswagen*. Both decisions emphasized that mandamus is available "in extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power," and that mandamus will only be granted where the right to it is "clear and indisputable." *Volkswagen* added that a "suggestion that the district court abused its discretion, which might warrant reversal on a direct appeal, is not a sufficient showing to justify mandamus relief."

Under 28 U.S.C. § 1404(a), a district court may transfer a civil action to any other venue where it "might have been brought," and its discretion to do so is according to "the convenience of parties and witnesses," and "the interest of justice." In *Genentech*, the case for transfer was overwhelming, the district court made several identifiable legal errors in its analysis, and the Federal Circuit concluded that there was "simply no rational argument" to support the district court's decision to deny the transfer motion. All of the defendants, and most of their evidence, were in California; there were a substantial number of witnesses within the subpoena power of the Northern District of California but none who could be compelled to appear in the Eastern District of Texas; and the defendants could identify no witnesses or evidence in Texas. The district court's decision to deny the motion to transfer was based largely on the fact that Texas was physically closer to the European plaintiffs and their witnesses. The Federal Circuit found that "the more appropriate approach" takes into account that for parties and witnesses who must travel great distances, such as from Germany, it is essentially no more inconvenient to travel to California than to Texas. The district court also found that it was a "critical" problem for the defendants' transfer motion that the transferee court might lack personal jurisdiction over the *plaintiff*. The Federal Circuit held that there is no requirement under the law that the transferee court have personal jurisdiction over the plaintiff, only that it be a venue where the case "might have been brought." Finding that "no rational argument" supported the district court's decision, the Federal Circuit granted the writ of mandamus and ordered the district court to transfer the case to the Northern District of California.

In *Volkswagen*, by contrast, the district court's decision to deny the transfer motion was "rational," which may be all that is necessary to decide a mandamus petition. The Federal Circuit described the district court's decision as "based on the rational argument that judicial economy is served by having the same district court try the cases involving the same patents." "[T]he existence of multiple lawsuits involving the same issues," the court held, "is a paramount consideration in determining whether a transfer is in the interest of justice." There were apparently no factors strongly favoring transfer, and the court accordingly denied the mandamus petition.

§ 21.12.1.4 Patents: Infringement of Product-by-Process Claims

*Abbott Laboratories v. Sandoz, Inc.*⁸⁶

Holding: In *Abbott Laboratories v. Sandoz, Inc.*, the court resolved an ongoing Federal Circuit split on the issue of infringement of product-by-process limitations, which are claims directed to a product with a statement in the claims of the process used to obtain the product. The 1991 *Scrrips Clinic & Research Foundation v. Genentech, Inc.* decision authored by Judge Newman declared that when a patent claim is directed to a product-by-process, the process is not a limitation for infringement. The 1992 case of *Atlantic Thermoplastics Co. v. Faytex Corp.* authored by Judge Rader disagreed, asserting that process terms in product-by-process claims serve as limitations in determining infringement. The Abbott court, en banc, resolved the split and concluded that in a product-by-process claim, the process is a limitation for infringement.

Facts: Abbott's '507 patent claimed a product with a statement in the claims that the product "is obtainable by" different specific processes. Lupin filed a declaratory judgment action in the Eastern District of Virginia against Abbott, asserting that it did not infringe the '507 patent. The district court concluded that the claims were product-by-process claims and that the phrase "is obtainable by" limited the claims to the specified process steps. Because Lupin made its products with processes other than those claimed in the '507 patent, the district court granted Lupin's motion for summary judgment that it did not infringe the product-by-process claims. Abbott appealed. In a separate action in the Northern District of Illinois, Abbott sued Sandoz and other defendants for infringement of the '507 patent. Abbott sought a preliminary injunction in that case, and the parties agreed for the purposes of the motion to adopt the Eastern District of Virginia's construction. Based on that construction, the district court denied the preliminary injunction. Abbott appealed. The cases were combined on appeal.

Reasoning: In an opinion authored by Judge Rader, the court agreed that the claims were product-by-process claims. It then adopted the rule in *Atlantic* and declared that product-by-process claims are limited by the process recited in the claims. The court asserted that this rule found extensive support in relevant Supreme Court decisions that found infringement of a product claim only if the process in the claim was employed as well. The court further pointed to the language in the Supreme Court's *Warner-Jenkinson* case (dealing with the doctrine of equivalents) that "[e]ach element contained in a patent claim is deemed material to defining the scope of the patented invention." The court also explained that Federal Circuit case law supported its decision, noting the Federal Circuit case of *In re Thorpe*, where the court stated that "even though *product-by-process claims* are limited by and *defined by the process*, determination of patentability is based on the product itself." The court then explicitly

86. 566 F.3d 1282 (Fed. Cir. 2009) (en banc).

overruled the *Scripps* case. The majority also suggested that the reasons for product-by-process claims—namely, that the new product is not fully known or too complex to analyze for the purposes of claiming it in a patent—“may no longer in reality exist.”

Judge Newman issued a dissent, asserting that the court’s decision was contrary to practice and overturned a century of precedent. She concluded that, “[f]or the first time, claims are construed differently for validity and for infringement.” Judge Lourie authored a second dissent, reasoning that there should not be a bright-line rule that a new product claimed by a process cannot be infringed when made by another process.

§ 21.12.1.5 Patents: Inequitable Conduct

*Exergen Corp. v. Wal-Mart Stores, Inc.*⁸⁷

Holding: The Federal Circuit articulated the standard for pleading inequitable conduct in *Exergen Corp. v. Wal-Mart Stores, Inc.*, when it affirmed a district court’s decision denying a defendant’s motion to add an inequitable conduct defense. While it is well-settled that allegations of fraud—such as inequitable conduct—must be pled with particularity pursuant to Federal Rule of Civil Procedure 9(b), the court’s application of that law to the facts of the case demonstrates that a high level of detail is required for pleading inequitable conduct.

Facts: In the Exergen case, Exergen sued SAAT for infringement of three patents, the ’813 patent, the ’205 patent, and the ’685 patent. SAAT sought to amend its answer to add an inequitable conduct defense against Exergen’s ’685 patent and articulated three specific instances of alleged inequitable conduct: (1) Exergen’s previously filed ’808 patent was material and not cumulative and intentionally withheld during prosecution with an intent to deceive; (2) the ’998 patent cited in an IDS during the prosecution of the ’205 patent was material and not cumulative and intentionally withheld with an intent to deceive; and (3) Exergen’s statements to overcome rejections during prosecution were contradicted by specific statements from its own Web site, and the misrepresentation and omission was material and not cumulative and was made with an intent to deceive. The district court denied SAAT’s motion to amend because SAAT failed to plead fraud with particularity pursuant to Federal Rule of Civil Procedure 9(b).

Reasoning: On appeal, the Federal Circuit recognized that allegations of fraud must be stated with particularity pursuant to Rule 9(b) while conditions of mind may be averred generally. The court then explained that to plead the circumstances of inequitable conduct with the requisite particularity, the pleading must identify the “who, what, where, when, and how” of the material misrepresentation or omission. It also asserted that while knowledge and specific intent to deceive may be averred generally, the pleading must “include sufficient allegations of underlying facts from which a court may reasonably

87. 575 F.3d 1312 (Fed. Cir. 2009).

infer that a specific individual (1) knew of the withheld material information or of the falsity of the material misrepresentation, and (2) withheld or misrepresented this information with a specific intent to deceive the PTO.” The court recognized that because one of the purposes of Rule 9(b) is “to protect those whose reputation would be harmed as a result of being subject to fraud charges,” a district court may require that such filings be made under seal or require redaction of individuals’ names.

Considering the specific facts of the case, the court concluded that SAAT failed to adequately identify the who, what, where, why, and how of the representation and omissions and thus failed to plead inequitable conduct with the required specificity. With respect to “who,” the court explained that the pleading referred generally to “Exergen, its agents and/or attorneys,” but failed to adequately name the specific individual associated with the filing or prosecution of the application who both knew of the material information and deliberately withheld or misrepresented it. With respect to the “what” and “where,” the court explained that the pleading failed to identify which claims, and which limitations in those claims, the withheld references were relevant to, and where in those references the material information was found. With respect to the “why” and “how,” the court asserted that the pleading stated generally that the withheld references were “material” and “not cumulative to the information already of record,” but did not identify the particular claim limitations, or combination of claim limitations, that were absent from the prior art in the record. The court declared that such allegations are necessary to explain “why” the withheld information is material and not cumulative and “how” an examiner would have used it in assessing the patentability of the claims.

The court also concluded that the facts of the case did not give rise to a reasonable inference of intent to deceive. The court asserted that the pleading provided no factual basis to infer that any specific individual who owed a duty of disclosure knew of the allegedly material information in the prior art references and explained that a reference may be many pages long with teachings relevant to different applications for different reasons and “one cannot assume that an individual, who generally knew that a reference existed, also knew of the specific material *information* contained in that reference.” The court also asserted that no facts were alleged from which one could reasonably infer that, at the time of the allegedly false statement, the individual who made the statement to the PTO was aware of an allegedly contradictory statement on Exergen’s Web site. The court concluded that “[t]he mere fact that an applicant disclosed a reference during prosecution of one application, but did not disclose it during prosecution of a related application, is insufficient to meet the threshold level of deceptive intent required to support an allegation of inequitable conduct.”

§ 21.12.1.6 Patents: Infringement under 271(f)

*Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*⁸⁸

Holding: The Federal Circuit clarified the scope of infringement of method claims under 35 U.S.C. § 271(f) in *Cardiac Pacemakers, Inc. v. St. Jude Medical, Inc.*, when it held en banc that the statute does not cover method claims. Section 271(f)(1) provides that one who “supplies . . . in or from the United States, all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components” shall be liable as an infringer.

Facts: Cardiac sued St. Jude for patent infringement of its ’228 patent, which claimed a method of heart stimulation using implantable cardioverter defibrillators (ICDs). Cardiac did not allege that St. Jude carried out any of the steps of the patent in the United States and instead argued that St. Jude’s shipment of ICDs out of the United States that were capable of performing the patented method was an infringement under section 271(f)(1). St. Jude responded that section 271(f)(1) does not apply to method claims. The district court found that St. Jude was potentially liable for sales of devices supplied from the United States to other countries under section 271(f)(1) and granted summary judgment of infringement for St. Jude.

Reasoning: On appeal, the Federal Circuit rejected the district court’s reading of section 271(f) and held that the statute does not apply to method claims. The court admitted that the statute covers a “patented invention” and could include method claims, but concluded that the remainder of the language in the statute made clear that it did not extend to method claims. The court reasoned that apparatus claims have components that are tangible products while method claims have steps that are not physical components used in the performance of the method. The court cited section 271(c)—which contrasted a “component” in product claims with “material or apparatus” for use in method claims—and reasoned that Congress likewise intended the term “component” in section 271(f) to be different from a material or apparatus for use in practicing a method. The court explained that this demonstrated that a component of a process is a step in the process, *not* the apparatus for use in practicing the process. It concluded that section 271(f) requires the components be “supplied” and it is a physical impossibility to supply an intangible step, so the statute does not apply to method claims.

The court asserted that its holding was supported by the legislative history of the statute, as Congress was focused on overturning a case dealing with a patented product when it enacted the statute. The court noted that there was almost no mention of method patents in the legislative history and that it is for Congress, and not the courts, to extend the statute beyond the problem it was enacted to fix. The court further found that any ambiguity as to Congress’s intent was resolved by the presumption against extraterritoriality. The court

88. 576 F.3d 1348 (Fed. Cir. 2009) (en banc in part).

concluded that St. Jude's shipment of the ICDs out of the United States was not an infringement because the method was not practiced in the United States and section 271(f) does not apply to method patents.

Judge Newman issued a dissent, asserting that the court's construction was contrary to the text of the statute, ignored the legislative history, was without support in case law, and defeated the statutory purpose.

§ 21.12.1.7 Patents: Damages

*Lucent Technologies, Inc. v. Gateway, Inc.*⁸⁹

Holding: The Federal Circuit provided substantial guidance on patent damages in *Lucent Technologies, Inc. v. Gateway, Inc.*, when it vacated a jury's \$358 million damages award as based mainly on "speculation or guesswork." The court explained that if a patentee relies on previous license agreements for evidence of a reasonable royalty, the evidence must demonstrate how the previous license agreements are comparable. With respect to the entire market value rule, the Federal Circuit reiterated that a patented feature must be the basis for demand, but explained that it is not error to use the market value of the entire product to determine a royalty as long as it accounts for the proportion of the product represented by the infringing feature.

Facts: Lucent sued several companies for infringement of its '356 patent, which is directed to a method of entering information into fields on a computer screen without using a keyboard (the date-picker). Lucent alleged that Microsoft indirectly infringed the patent by selling approximately 110 million units of Microsoft Outlook, Microsoft Money, and Windows Mobile for about \$8 million. At trial, Lucent argued that it was entitled to a running royalty of 8 percent of the sales revenue for the accused products, or \$561.9 million. Microsoft countered that a lump-sum payment of \$6.5 million was the correct amount. The jury awarded a \$357,693,056.18 lump sum for damages and the district court declined to award Microsoft a new trial or judgment as a matter of law on damages. Microsoft appealed.

Reasoning: The Federal Circuit agreed that the damages calculation lacked sufficient evidentiary support by focusing on the Outlook product and evaluating the relevant *Georgia-Pacific* factors. The court considered the eight license agreements that were admitted at trial in connection with *Georgia-Pacific* factor 2—rates paid by the licensee for the use of other patents comparable to the patent in suit—but found that the previous license agreements did not support the damages award. The court explained that the previous license agreements were created from events very different from the one in the Lucent case, and that there was little evidence of how previous running-royalty licenses would be probative of a lump-sum payment.

With respect to factors 10—nature of the patented invention—and 13—portion of the realizable profit that should be credited to the invention—the court

89. 580 F.3d 1301 (Fed. Cir. 2009)

concluded that the patented invention was only a “tiny feature” and that it is “inconceivable to conclude, based on the present record, that the use of one small feature, the date-picker, constitutes a substantial portion of the value of Outlook.” Instead, “numerous features other than the date-picker appear to account for the overwhelming majority of the consumer demand and therefore significant profit” and “Outlook’s date-picker feature is a minor aspect of a much larger software program and that the portion of the profit that can be credited to the infringing use of the date-picker tool is exceedingly small.”

With respect to factor 11—extent to which the infringer has made use of the invention—the Federal Circuit agreed with Lucent that post-infringement evidence is probative in certain circumstances, but held that the “evidence of record is conspicuously devoid of any data about how often consumers use the patented date-picker invention.” The court reasoned that “[t]he damages award ought to be correlated, in some respect, to the extent the infringing method is used by consumers. . . . because this is what the parties to the hypothetical negotiation would have considered.” The court explained that the remaining factors tended to offset each other and concluded that it had the “unmistakable conclusion” that the jury’s damages award was not supported by the evidence and was instead based on guesswork.

The court next considered Microsoft’s argument that the jury erroneously applied the entire market value rule, which allows for the recovery of damages based on the value of an entire apparatus containing several features when the patented feature constitutes the basis for customer demand. Although the jury indicated on the verdict form that its damages award was a lump-sum reasonable royalty, the court agreed with Microsoft that it appeared the jury applied a royalty percentage to the total sales of the software. The court explained that it would have been error for the jury to apply the entire market value rule to the value of the software because Lucent did not prove that the patent-related feature was the basis for customer demand, as the evidence demonstrated that no one bought the product for the patented feature.

But the court held that it is appropriate to calculate a royalty amount using the value of the entire commercial embodiment “as long as the magnitude of the rate is within an acceptable range.” For example, the court explained, it would have been an acceptable methodology for calculating damages if the jury had awarded Lucent less than \$6.5 million—the amount Microsoft proposed—using a 0.1 percent royalty on the entire market. The court held that “[t]here is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature.” The court then vacated the jury’s damages award and remanded the case for a new trial.

§ 21.12.2 Trademarks

§ 21.12.2.1 Trademarks: Cancellation for Fraud

*In re Bose Corporation*⁹⁰

Holding: (1) A mark may not be cancelled under 15 U.S.C. § 1064(3) for fraud during the registration process unless it is shown that the applicant acted with subjective intent to deceive, as opposed to an honest, though mistaken and possibly unreasonable, belief that his statements to the Patent and Trade Office (PTO) were truthful; and (2) Bose's repair and return shipping service did not constitute "use in commerce" under 15 U.S.C. § 1127.

Facts: In 1993, Bose registered the mark "WAVE" for various goods, including audio tape players and recorders. In 1996 or 1997, Bose stopped selling audio tape players and recorders bearing the WAVE mark, but continued to repair those products and to ship the repaired products back to its consumers. In 2001, Bose renewed its registration of the WAVE mark. As part of the renewal process, Bose's general counsel signed an affidavit stating that Bose continued to use the WAVE mark in commerce on audio tape recorders and players.

Bose opposed Hexawave Inc.'s application to register the mark HEXA-WAVE for various semiconductor devices, arguing that Hexawave's use of that mark was confusingly similar to Bose's marks, including the WAVE mark. Hexawave counterclaimed, asking the PTO to cancel the WAVE mark under 15 U.S.C. § 1064(3) because Bose had committed fraud in renewing its registration because it stated falsely in 2001 that it continued to use the "WAVE" mark in commerce on audio tape recorders and players. Bose argued that the affidavit was accurate because Bose's repair and shipping activities constituted "use in commerce" under 15 U.S.C. § 1127. The Trademark Trial and Appeal Board held that the repairing and shipping did not constitute sufficient use in commerce, and that it was unreasonable for Bose's general counsel to believe otherwise. The Board therefore held that Bose committed fraud on the PTO in renewing the WAVE mark, and ordered the mark cancelled. Bose appealed.

Reasoning: The Federal Circuit reversed. 15 U.S.C. § 1064(3) provides that a mark may be cancelled if "its registration was obtained fraudulently." As prior decisions of the Federal Circuit and the Court of Customs and Patent Appeals have held, the word "fraudulently" is legally distinct from the word "falsely" in that the former implies a willful, subjective intent to deceive, rather than mere inadvertence or misunderstanding. "[H]owever difficult it may be to prove," the court held, subjective intent to deceive is "an indispensable element in the analysis." There was no evidence in the record that Bose's general counsel did not genuinely believe that Bose's repair and return shipping service constituted "use in commerce," and thus no evidence that he intended to deceive the PTO. The Board erred by basing its decision on whether Bose's general counsel's

90. 580 F.3d 1240 (Fed. Cir. 2009).

belief was objectively reasonable, as reasonableness “is not part of the analysis.” The Board’s decision “erroneously lowered the fraud standard to a simple negligence standard.” Nonetheless, the court agreed with the Board—without much discussion—that Bose’s repair and shipping of audio tape recorders and players did not constitute “use in commerce” and ordered that Bose’s registration of the WAVE mark be adjusted accordingly on remand.