

Supreme Court and Federal Circuit Case Law Reports

January – August 2012

Supreme Court and Federal Circuit Case Law Report: Jan – Aug 2012

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RPX CASE LAW REPORTS

RPX provides monthly case law reports, written by Robert Barr, Executive Director of the Berkeley Center for Law and Technology at UC Berkeley School of Law and Chairman of RPX's Advisory Board to its clients to help stay apprised of recent judicial news and developments in the patent landscape. All reports are accessible to clients via the RPX Client Portal.

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SUPREME COURT

March

***Mayo v. Prometheus*, No. 10-1150 (Mar. 20, 2012)**

Subject Matter Eligibility for Medical Diagnostic Inventions

In ***Mayo v. Prometheus***, the Supreme Court held the following claim invalid under 35 U.S.C. §101: A method of optimizing therapeutic efficacy for treatment of an immune-mediated gastrointestinal disorder, comprising:

- (a) Administering a drug providing 6-thioguanine to a subject having said immune-mediated gastrointestinal disorder; and
- (b) Determining the level of 6-thioguanine in said subject having said immune-mediated gastrointestinal disorder, wherein the level of 6-thioguanine less than about 230 pmol per 8×10^8 red blood cells indicates a need to increase the amount of said drug subsequently administered to said subject and wherein the level of 6-thioguanine greater than about 400 pmol per 8×10^8 red blood cells indicates a need to decrease the amount of said drug subsequently administered to said subject.

The Court held that the claim violated the prohibition on patenting laws of nature because it did not transform the unpatentable laws of nature (the relationships between the concentration in the blood of certain metabolites and the likelihood that the drug dosage will be ineffective or cause harm) into patent-eligible application of those laws. "In particular, the steps in the claimed processes (apart from the natural laws themselves) involve well-understood, routine, conventional activity previously engaged in by researchers in the field...upholding the patents would risk disproportionately tying up the use of the underlying natural laws, inhibiting their use in the making of further discoveries."

Although it relied on the "laws of nature" exception, the opinion has implications for software and business method patents. The Court relied on its software precedents *Diehr*, *Flook* and *Benson* as well as the *Bilski* case. They analyzed the application of mathematical algorithms and abstract ideas in those cases in the same manner as they analyzed the application of laws of nature —requiring that the claims have an "inventive concept" in the claimed application of the unpatentable mathematical algorithm or abstract idea. The inventive concept must be something more than "well-understood, routine, conventional activity."

Shortly after issuing the opinion, the Court remanded the *Myriad* case to the Federal Circuit for reconsideration in light of *Prometheus* of the district court's ruling that various claims to DNA lack patent-eligibility.

April

***Kappos v. Hyatt*, No. 10-1219 (Apr. 18, 2012)**

Civil Action in District Court Challenging Denial of Patent Application

An applicant dissatisfied with a decision of the Board of Patent Appeals and Interferences (BPAI) may, under 35 U.S.C. § 145, bring a civil action in district court instead of an appeal to the Federal Circuit. The Supreme Court affirmed the Federal Circuit's en banc decision that Section 145 imposes no limitation on an applicant's right to introduce new evidence before the district court, apart from the evidentiary limitations applicable to all civil actions, and that factual questions related to the new evidence are decided de novo. In this case, the new evidence was a declaration regarding enablement and written description.

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FEDERAL CIRCUIT (CAFC)

January

Marcotec v. Johnson & Johnson, No. 10-1285 (Jan. 03, 2012)

Exceptional Case, Attorneys Fees, and Expert Fees

In ***Marcotec v. Johnson & Johnson***, the court affirmed an award of attorney's fees and expert witness fees to the prevailing defendant.

To justify an award of attorneys' fees, the case must be 'exceptional' under 35 U.S.C. § 285. When the alleged infringer prevails, a case may be found exceptional for either fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Federal Rule of Civil Procedure 11, or similar infractions. In this case, the court found two independent grounds for finding the case exceptional: unjustified litigation and litigation misconduct.

To establish unjustified litigation, the defendant must prove that the litigation is both: (1) brought in subjective bad faith; and (2) objectively baseless. This case was objectively baseless because the plaintiff's proposed claim construction was clearly refuted by the specification and prosecution history. Although the district court used the term "bad faith," it did not use the term "subjective" or expressly find that the defendant knew his case was baseless. Nonetheless, the court's findings supported its conclusion that the plaintiff knew its allegations were baseless and therefore pursued the litigation in subjective bad faith.

The plaintiff engaged in litigation misconduct when it (1) misrepresented both the law of claim construction and the constructions ultimately adopted by the court; and (2) introduced and relied on expert testimony that failed to meet even minimal standards of reliability, thereby prolonging the litigation and increasing the defendant's expenses.

The authority to award of expert fees is not based on 35 U.S.C. § 285 however. It is based on the court's inherent authority "to impose sanctions in the form of reasonable expert fees in excess of what is provided for by statute." Use of this inherent authority is reserved for cases where the district court makes a "finding of fraud or bad faith whereby the 'very temple of justice has been defiled.'" In this case, the award of expert fees was justified by the bad faith filing and pressing of a frivolous infringement action (i.e. making the case 'exceptional' under 35 U.S.C. § 285), causing the defendant to incur expert witness expenses to rebut the plaintiff's "unreliable an irrelevant expert testimony."

Streck v. Research & Diagnostic Systems, No. 11-1044 (Jan. 10, 2012)

Declaratory Judgment Jurisdiction over Unasserted Claims

In ***Streck v. Research & Diagnostic Systems***, the CAFC affirmed the district court's decision that it did not have declaratory judgment jurisdiction over allegations of invalidity on certain claims of the patents-in suit. Although the complaint alleged infringement of "one or more claims" of the patents-in-suit, the patentee narrowed the scope of its claims at the start of litigation pursuant to the local patent rules and narrowed them even further before any dispositive rulings by the court. Although the district court incorrectly relied on the pre-*Medimmune* "reasonable apprehension of suit" test, this was not a basis for reversal where the declaratory plaintiff has not shown a continuing controversy with respect to the unasserted claims under the totality of the circumstances.

DealerTrack v. Huber, No. 09-1566 (Jan. 20, 2012)

Patentable Subject Matter

In ***DealerTrack v. Huber***, the court found the following claim invalid under 35 U.S.C. § 101 for reciting an "abstract idea preemptive of a fundamental concept or idea that would foreclose innovation in this area."

1. A computer aided method of managing a credit application, the method comprising the steps of:
 - a. Receiving credit application data from a remote application entry and display device;
 - b. Selectively forwarding the credit application data to remote funding source terminal devices;
 - c. Forwarding funding decision data from at least one of the remote funding source terminal devices to the remote application entry and display device;
 - d. Wherein the selectively forwarding the credit application data step further comprises:
 - i. Sending at least a portion of a credit application to more than one of said remote funding sources substantially at the same time;

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- ii. Sending at least a portion of a credit application to more than one of said remote funding sources sequentially until a finding [sic, funding] source returns a positive funding decision;
- iii. Sending at least a portion of a credit application to a first one of said remote funding sources, and then, after a predetermined time, sending to at least one other remote funding source, until one of the finding [sic, funding] sources returns a positive funding decision or until all funding sources have been exhausted; or,
- iv. Sending the credit application from a first remote funding source to a second remote finding [sic, funding] source if the first funding source declines to approve the credit application.

According to the court, the claims cover the abstract idea of a clearinghouse process that uses any existing or future-devised machinery. Even though the phrase in the preamble "computer-aided" was construed as a limitation, the claims do not say how a computer aids the method. The addition of a machine thus did not impose any meaningful limits on the scope of the claim and did not change a claim covering an abstract concept into patentable subject matter. The court also rejected the argument that the claim was patent eligible because it covers the use of a clearinghouse only for car loan applications, comparing it to the dependent claim in *Bilski* that limited the abstract idea to the particular field of energy markets.

February

Mettler-Toledo v. B-Tek Scales, No. 11-1173 (Feb. 8, 2012)

Claim Construction - Means Plus Function Elements

In ***Mettler-Toledo v. B-Tek Scales***, the Federal Circuit affirmed the district court's holding that the structure corresponding to certain "means for" elements was limited to a specific type of A/D converter described in the preferred embodiment. The Federal Circuit rejected the Plaintiff's contention that the corresponding structure should not be limited to only the A/D converter described in the specification because the patentee only disclosed one structure in the specification and there are various A/D converters well known in the art (i.e. they aren't "equivalents thereof").

According to the court: "[S]tructure disclosed in the specification is 'corresponding' structure only if the specification or prosecution history clearly links or associates that structure to the function recited in the claim. If a patentee chooses to disclose a single embodiment, then any means-plus-function claim limitation will be limited to the single disclosed structure and equivalents thereof. . . . Although generic A/D converters were known in the art, the patentee chose to use means-plus-function language, which limits it to the disclosed embodiments and equivalents. While Mettler argues that the district court erred by limiting it to the "best mode," the best mode was also the only structure disclosed in the specification.

C.R. Bard v. W.L. Gore and Associates, No. 10-1510 (Feb. 10, 2012)

Joint Inventorship, Ongoing Royalties in Lieu of Injunction

In ***C.R. Bard v. W.L. Gore and Associates***, the court rejected a defense of non-joinder based on joint inventorship. They described the requirements for joint inventorship as follows:

"Joint inventorship arises only when collaboration or concerted effort occurs—that is, when the inventors have some open line of communication during or in temporal proximity to their inventive efforts. Additionally, a joint inventor must (1) contribute in some significant manner to the conception or reduction to practice of the invention, (2) make a contribution to the claimed invention that is not insignificant in quality, when that contribution is measured against the dimension of the full invention, and (3) do more than merely explain to the real inventors well-known concepts and/or the current state of the art."

Also in the *C. R. Bard* case, the district court denied Bard's request for a permanent injunction, finding that it was in the public interest to allow competition in the medical device arena, but in lieu thereof granted Bard an ongoing royalty to compensate for Gore's future infringement.

The Federal Circuit held that the district court's analysis was thorough and well-reasoned, and thus the court did not abuse its discretion in setting a 12.5% to 20% royalty rate for the ongoing royalty on Gore's infringing products.

The district court reasoned that a different royalty rate was warranted between Gore's two infringing products because one product competes directly with Bard in the more established market, while the parties do not presently compete in the more recently developed market for the other products. The Federal Circuit agreed that "taking economic market forces into account is a reasonable and valid assumption by the district court."

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The Federal Circuit also approved of an ongoing royalty on all of Gore's products that were higher than the 10% reasonable royalty rate set by the jury for past damages because the parties' legal post-verdict status had changed. The jury found the patent enforceable and not invalid; the jury found that Gore had willfully infringed and the case was deemed exceptional so that Bard was awarded enhanced damages and attorneys' fees and costs; and Gore "voluntarily chose to continue its post-verdict infringement unabated." The district court also considered other economic factors, including the direct competition with respect to some of the products, Gore's high profits from its infringing products, and Bard's lack of incentive to accept a below-market deal.

***Fort Properties v. American Master Lease*, No. 09-1242 (Feb. 27, 2012)**

Patentable Subject Matter

In ***Fort Properties v. American Master Lease***, the Federal Circuit (Judges Prost, Schall and Moore) held all claims unpatentable under Section 101. Claim 1 reads as follows:

1. A method of creating a real estate investment instrument adapted for performing tax-deferred exchanges, which comprise of: Aggregating real property to form a real estate portfolio; encumbering the property in the real estate portfolio with a master agreement; and creating a plurality of deedshares by dividing title in the real estate portfolio into a plurality of tenant-in-common deeds of at least one predetermined denomination, each of the plurality of deedshares subject to a provision in the master agreement for re-aggregating the plurality of tenant-in-common deeds after a specified interval. The court held that this and similar claims were directed to an abstract concept. They compared these claims to the invention in *Bilski*, also an investment tool not requiring the use of a computer. "Under *Bilski*, this abstract concept cannot be transformed into patentable subject matter merely because of connections to the physical world through deeds, contracts, and real property."

The court also invalidated another independent claim (claim 32) that included the step of "using a computer to generate a plurality of deedshares." The court relied on *CyberSource* for the principle that "the basic character of a process claim drawn to an abstract idea is not changed by claiming only its performance by computers, or by claiming the process embodied in program instructions on a computer readable medium." Instead, "to impart patent-eligibility to an otherwise unpatentable process under the theory that the process is linked to a machine, the use of the machine 'must impose meaningful limits on the claim's scope.'" According to *DealerTrack*, another recent Federal Circuit case, "Simply adding a computer aided limitation to a claim covering an abstract concept, without more, is insufficient to render the claim patent eligible."

Applying those principles to this case, the court concluded that the recitation of a computer in these claims does not "play a significant part in permitting the claimed method to be performed." Adding a computer limitation to claims covering an abstract concept is, according to the court, simply an insignificant post-solution activity. The court distinguished *Ulramercial* as a case where the claimed invention "require[d] intricate and complex computer programming" and "specific application to the Internet and a cyber-market environment."

March

***MySpace v. GraphOn*, No. 11-1149 (Mar. 2, 2012)**

Patentable Subject Matter

In ***MySpace v. GraphOn***, which was decided prior to *Prometheus*, a panel of the court articulated two very different approaches to the procedure for determining patentable subject matter. Two judges (Plager and Newman) held that the patent was invalid on the grounds of anticipation and obviousness. They emphatically rejected the dissenting (Mayer) position that subject matter eligibility requirements contained in 35 U.S.C. § 101 are an "antecedent question" that must be addressed before the court can reach the §§ 102 and 103 issues even if § 101 is not raised by the parties. The majority took an opposite position, and held that "rather than taking the path the dissent urges, courts could avoid the swamp of verbiage that is § 101 by exercising their inherent power to control the processes of litigation...and insist that litigants initially address patent invalidity issues in terms of the conditions of patentability defenses as the statute provides, specifically §§ 102, 103, and 112. If that were done in the typical patent case, litigation over the question of validity of the patent would be concluded under these provisions, and it would be unnecessary to enter the murky morass that is §101 jurisprudence."

(The *Prometheus* Court did not directly address the process question, but it did "decline the Government's invitation to substitute §§ 102, 103, and 112 inquiries for the better established inquiry under §101.")

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***Digital-Vending v. University of Phoenix*, No. 11-1216 (Mar. 7, 2012)**

Claim Construction and Beauregard Claims

In *Digital-Vending v. University of Phoenix*, the court stated that a claim reciting a "computer storage medium having a configuration that represents data and instructions which will cause at least a portion of a multi-level computer system to perform method steps...." should be treated as a method claim for purposes of claim construction. The court cited *CyberSource Corp. v. Retail Decisions, Inc.*, a decision on patentable subject matter, for the proposition that "such functionally-defined claims should be treated as method claims to avoid "exalt[ing] form over substance."

***Aspex Eyewear v. Marchon Eyewear*, No. 11-1147 (Mar. 14, 2012)**

Res Judicata Effect of Prior Judgment on New Products

In *Aspex Eyewear v. Marchon Eyewear*, the court held that the plaintiff was barred by res judicata from asserting certain patent claims that were amended or added during reexamination because these claims were not materially different from a claim that existed, but was not asserted, during a prior action between the parties. The court's reasoning could apply to all claims amended or added during reexamination because such claims are necessarily narrower than the original claims. "Claims that emerge from reexamination do not create a new cause of action that did not exist before."

The court then held that res judicata does not bar an infringement lawsuit against products that were not in existence at the time of an earlier action, even if the products are essentially the same as the products involved in the earlier action. Collateral estoppel or issue preclusion may apply, but the action is not barred. Whether res judicata bars a claim against products sold during the pendency of the first lawsuit depends on whether the parties consented to have the court adjudicate their rights as to such products, but res judicata does not apply to products sold after the conclusion of the lawsuit.

The court then decided that the settlement agreement from the first case, which provided for dismissal with prejudice of "any claim which could have been had by and between the Parties arising from or connected with the California Action," only applied to claims against products in existence at the time the action was filed, regardless of whether those products were in existence as of the effective date of the settlement agreement.

***Marine Polymer v. HemCon*, No. 10-1548 (Mar. 15, 2012)**

Intervening Rights after Reexamination

In *Marine Polymer v. HemCon*, an en banc court decided that intervening rights do not apply to claims of a reexamined patent unless they are literally "new or amended." The decision is based on language from 35 U.S.C. § 307: "Any proposed amended or new claim determined to be patentable and incorporated into a patent following a reexamination proceeding will have the same effect as that specified in section 252 of this title for reissued patents...". (Section 252 is the source of intervening rights) The en banc decision replaces the vacated panel decision, which held that intervening rights can apply even when claims are not amended or added during re-examination or reissue if the claim scope is "actually and substantively changed" by attorney argument.

***3M v. Avery Dennison*, No. 11-1339 (Mar. 26, 2012)**

Declaratory Judgments

In *3M v. Avery Dennison*, the court held that the facts alleged by the declaratory plaintiff (3M), if true, were sufficient for DJ jurisdiction. The key facts were that Avery "effectively charged 3M with infringement" when its patent counsel expressly stated that a specific product "may infringe" a particular patent and that "licenses are available." When 3M said it had analyzed the product with regard to the patent and rejected the license offer, Avery responded that it would provide claim charts, which it never did.

The court noted that "to establish the existence of a 'definite and concrete' dispute, more is required than a communication from a patent owner to another party, merely identifying its patent and the other party's product line," but how much more is required is determined on a case-by-case analysis...That Avery's counsel employed the term "may infringe" instead of "does infringe" is immaterial in light of his offer to license the patents, his representation that Avery had analyzed the 3M product, and his statement that claim charts would be forthcoming. It was also irrelevant that the remarks were made informally over the telephone.

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April

***Noah Systems v. Intuit*, No. 11-1390 (Apr. 9, 2012)**

Claim Indefiniteness and Means Plus Function Software Claims

In ***Noah Systems v. Intuit***, the court held that when there are multiple functions recited for a single computer-implemented means element, the specification must disclose an algorithm for performing every function. When the specification discloses an algorithm that only accomplishes some, but not all of the functions, the specification is treated as if it disclosed no algorithm, and the claim is invalid for indefiniteness. Expert testimony or other evidence regarding what one skilled in the art would understand from the specification is not permitted in such cases. The court contrasted this situation with cases in which the specification does disclose an algorithm for performing the function(s), but a defendant contends that disclosure is inadequate. "This distinction is important because ... while ...the sufficiency of the disclosure of algorithmic structure must be judged in light of what one of ordinary skill in the art would understand the disclosure to impart, in a situation in which the specification discloses no algorithm, that principle ... has no application ..."

***Aventis Pharma v. Hospira*, No. 11-1018 (Apr. 9, 2012)**

Inequitable Conduct

In ***Aventis Pharma v. Hospira***, the court affirmed a finding of inequitable conduct by the district court that was made before the *Therasense* decision. The withheld references were "but for" material because the district court found the patent obvious in view of these references. According to the court, the standard for establishing but-for materiality in the inequitable conduct context only requires a preponderance of the evidence, giving claims their broadest reasonable construction. To invalidate a patent "Unlike the clear and convincing evidence standard for invalidating a patent in the under 35 U.S.C. §§ 102 and 103 in the district court requires clear and convincing evidence. As a result, when a claim is properly invalidated in district court based on the deliberately withheld reference, then that reference is necessarily material for purposes of the inequitable conduct inquiry. On the other hand, even if the withheld reference is not sufficient to invalidate the claim in district court, the reference may be material if it would have prevented issuance under the PTO's different evidentiary standards.

The court also found that the district court's finding of intent to deceive was not clearly erroneous, even under the *Therasense* "single most reasonable inference" standard, because the district court considered the patentee's explanation for withholding the reference and expressly rejected it based on both the evidence presented and the finding that witness lacked credibility.

***In re MSTG*, No. 11-M996 (Apr. 9, 2012)**

Discovery of Settlement Negotiations

In ***In re MSTG***, the court held that settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege. (Federal Rule of Evidence 408 governs the admissibility of such evidence, but does not control discovery.)

May

***In re EMC Corporation*, No. 11-M100 (May 4, 2012)**

Joinder of Defendants

In ***In re EMC Corporation***, the court granted a writ of mandamus ordering the district court (Eastern District of Texas) to reconsider the defendants' motion to sever and transfer. The case was filed just before the Smith-Leahy Act became effective. According to FRCP 20, defendants may be joined in a single action only if: (1) the claims against them are asserted "with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences," and (2) there is a "question of law or fact common to all defendants". The second requirement is usually met in patent cases because of common questions of claim construction and validity, but the court held that a mere allegation of infringement of the same claims of the same patent, without more, does not meet the first requirement.

According to the court, "joinder is not appropriate where different products or processes are involved... Claims against independent defendants (i.e. situations in which the defendants are not acting in concert) cannot be joined under Rule 20's transaction-or-occurrence test unless the facts underlying the claim of infringement asserted against each defendant share an aggregate of operative facts. To be part of the "same transaction" requires shared, overlapping facts that give rise to each cause of action, and not just distinct, albeit coincidentally identical, facts. The sameness of the accused products is not enough

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to establish that claims of infringement arise from the same transaction. Unless there is an actual link between the facts underlying each claim of infringement, independently developed products using differently sourced parts are not part of the same transaction, even if they are otherwise coincidentally identical.

"In addition to finding that the same product or process is involved, to determine whether the joinder test is satisfied, pertinent factual considerations include whether the alleged acts of infringement occurred during the same time period, the existence of some relationship among the defendants, the use of identically sourced components, licensing or technology agreements between the defendants, overlap of the products' or processes' development and manufacture, and whether the case involves a claim for lost profits."

The court explicitly declined to decide whether the new provision of the Smith-Leahy Act (35 U.S.C. § 299) changes the test for joinder applied in this case. Lastly, they noted that even if joinder is not permitted under Rule 20, the district court has considerable discretion to consolidate cases for discovery and for trial under Rule 42 where venue is proper and there is only "a common question of law or fact."

***Leader Technologies v. Facebook*, No. 11-1366 (May 8, 2012)**

On-Sale and Public Use Bars: Standard of Review

In ***Leader Technologies v. Facebook***, the court affirmed the district court's denial of a Judgment as a Matter of Law (JMOL) that would have reversed the jury's finding that the claims at issue were invalid for on-sale and public use bars. The court characterized the burden of proof and standard of review as follows: "Whether a patent is invalid for a public use or sale is a question of law, reviewed de novo, based on underlying facts, reviewed for substantial evidence following a jury verdict... One of those underlying facts is "whether the subject of the barring activity met each of the limitations of the claim, and thus was an embodiment of the claimed invention....Because we presume that an issued patent is valid, the party challenging the validity of a patent must prove by clear and convincing evidence that the product used or on sale prior to the critical date was embodied by the claimed invention." The court then found that legally sufficient evidence supported the jury's verdict that the product demonstrated and offered for sale before the critical date was an embodiment of the asserted claims. The evidence included interrogatory responses, contemporaneous documents, and trial testimony by an inventor. The jury was entitled to disbelieve the contrary testimony provided at trial.

***Apple v. Samsung*, No. 12-1105 (May 14, 2012)**

Injunctions: Irreparable Harm

In ***Apple v. Samsung***, the court reviewed the district court's denial of a preliminary injunction for abuse of discretion. Much of the opinion is about likelihood of success on the merits, but the court's analysis of irreparable harm is of general interest. For a design patent on a smartphone, Judge Koh found that Apple had not shown that it was likely to suffer irreparable injury because Apple failed to show that there was a nexus between the likely infringement of the patented design and Apple's claims of lost market share and brand dilution. The Federal Circuit held that district court was correct to require a showing of some causal nexus between Samsung's infringement and the alleged harm to Apple. For lost market share, "Sales lost to an infringing product cannot irreparably harm a patentee if consumers buy that product for reasons other than the patented feature. If the patented feature does not drive the demand for the product, sales would be lost even if the offending feature were absent from the accused product. Thus, a likelihood of irreparable harm cannot be shown if sales would be lost regardless of the infringing conduct." As for brand dilution, and "design erosion", the court affirmed the district court's finding that Apple had not presented sufficient evidence to support those theories.

For a utility patent on a smartphone, the court also affirmed the district court's decision that Apple failed to show that it would likely be irreparably harmed by the infringement because it failed to demonstrate that consumer purchasing decisions were based on the presence of the patented feature. "The district court was correct to require a nexus between infringement of the patent and some market-based injury, be it as a result of consumer preference or some other kind of causal link."

For a design patent on a tablet computer, the court affirmed the district court's finding that Apple had shown that it was likely to suffer irreparable harm from the sales of Samsung's infringing tablets. The district court properly considered the relative market share of the parties and (unlike smartphones) the absence of other competitors in the relevant market, and also found the required nexus when it determined that design mattered more to customers in purchasing tablets, and that in this case the design patent claimed all views of the device. (For this patent, the court reversed the district court's finding of low likelihood of success and remanded the case for consideration of the balance of hardships and public interest.)

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***In re Baxter*, No. 11-1073 (May 17, 2012)**

Reexamination after Judicial Opinion of Validity

In *In re Baxter*, the court affirmed a Board of Appeals finding of invalidity in a reexamination, which was decided after the court had affirmed a finding in litigation that the patent was not invalid. The court explained that the PTO in reexamination proceedings and the court system in patent infringement actions take different approaches in determining validity and could come to different conclusions on the same evidence. In litigation, a challenger has to prove invalidity by clear and convincing evidence. If the challenger fails to meet that burden, the court does not find the patent "valid," it finds only that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court. In reexaminations, there is no presumption of validity and the standard of proof—a preponderance of the evidence—is substantially lower than in a civil case.

***In re Hyon*, No. 11-1239 (May 24, 2012)**

Obviousness: Motivation to Combine as Question of Fact

In *In re Hyon*, the court affirmed a decision by the Board of Appeals that the claimed invention was obvious and specifically the finding that there was a motivation to combine references. The court stated that the existence of a reason for a person of ordinary skill to combine references is a question of fact that they review for substantial evidence. In this case, the court held that there was substantial evidence to support the Board's finding.

***Mintz v. Dietz & Watson*, No. 10-1341 (May 30, 2012)**

Obviousness: Common Sense and Secondary Considerations

In *Mintz v. Dietz & Watson*, the court vacated and remanded a grant of summary judgment of invalidity because the district court incorrectly invoked common sense and failed to consider evidence of secondary considerations. According to the court, "common sense" is a shorthand label for knowledge so basic that it certainly lies within the skill set of an ordinary artisan. With little more than an invocation of the words 'common sense' (without any record support showing that this knowledge would reside in the ordinarily skilled artisan), the district court over-reached in its determination of obviousness." The court also stressed that consideration of evidence of objective indicia of non-obviousness (aka secondary considerations) is required for avoiding subconscious reliance on hindsight. In this case, the district court failed to consider such evidence and improperly relied on hindsight by using the invention to define the problem that the invention solves.

June

***In re Bill of Lading Transmission and Processing Litigation*, No. 10-1493 (June 7, 2012)**

Pleading Requirements for Direct and Indirect Infringement

In *In re Bill of Lading Transmission and Processing Litigation*, the court held that compliance with the requirements of Form 18 in the Appendix of Forms of the Federal Rules of Civil Procedure is sufficient for allegations of direct infringement to overcome a motion to dismiss. Form 18 does not require a plaintiff to plead facts establishing that each element of an asserted claim is met, or to even identify which claims it asserts are being infringed. It requires only: (1) an allegation of jurisdiction; (2) a statement that the plaintiff owns the patent; (3) a statement that defendant has been infringing the patent 'by making, selling, and using [the device] embodying the patent'; (4) a statement that the plaintiff has given the defendant notice of its infringement; and (5) a demand for an injunction and damages. (Apparently, the standards of Form 18 apply even to the allegations of direct infringement embedded in a cause of action for indirect infringement.)

For allegations of indirect infringement, however, the pleading requirements of *Iqbal* and *Twombly* apply. These cases require "enough factual matter" that, when taken as true, "state[s] a claim to relief that is plausible on its face." This plausibility standard is met when "the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.

To state a claim for contributory infringement, therefore, a plaintiff must, among other things, plead facts that allow an inference that the components sold or offered for sale have no substantial non-infringing uses. For inducement, the complaint must contain facts plausibly showing that the defendant specifically intended their customers to infringe the patent and knew that the customer's acts constituted infringement. A claim for indirect infringement need not, however, identify a specific direct infringer if it pleads facts sufficient to allow an inference that at least one direct infringer exists.

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***Hollmer v. Harari*, No. 11-1276 (June 7, 2012)**

Written Description-Incorporation by Reference

In ***Hollmer v. Harari***, the court held that an incorporation by reference in an issued patent did not adequately identify the incorporated patent application when it referred to it only by name and as “copending”. There were other copending applications with the same name by the same inventors, so the incorporation by reference did not “identify with detailed particularity what specific material it incorporates and clearly indicates where that material is found in the various documents.”. This standard must be assessed from the point of view of a person of ordinary skill in the art. This contrasts with the “ordinary examiner” standard that is applied when a pending application is amended to include more specific identification, such as serial number. In fact, the patent application at issue in this case had been so amended. But the application lost its claim to an earlier priority date because an intervening patent in the chain of copendency had not been amended. Each application in the chain leading back to the earliest application must comply with the written description requirement.

***Toshiba v. Imation*, No. 11-1204 (June 11, 2012)**

Indirect Infringement

In ***Toshiba v. Imation***, the court held that a party alleging contributory infringement has the burden of proving the lack of substantial non-infringing uses and therefore must put forth evidence showing that any non-infringing uses were not substantial. “[N]on-infringing uses are substantial when they are not unusual, far-fetched, illusory, impractical, occasional, aberrant, or experimental.” In this case, Toshiba presented no survey, expert, or other evidence showing how frequently users choose to use the non-infringing method.

The existence of a substantial non-infringing use does not preclude a finding of inducement. Furthermore, although direct infringement is an element of inducement, circumstantial evidence may be sufficient if it shows that at least one person directly infringed. Where a party accused of inducement designs a product for use in an infringing way and instructs users to use the product in an infringing way, there is sufficient evidence to find direct infringement.

***Bard Peripheral Vascular v. W.L. Gore and Associates*, No. 10-1510 (June 14, 2012)**

Willfulness

In ***Bard Peripheral Vascular v. W.L. Gore and Associates***, the court held that the objective prong of the willfulness standard enunciated in *Seagate* is a question of law based on underlying mixed questions of law and fact and is subject to de novo review.

The objective prong is a threshold test of whether a reasonable person would have considered there to be a high likelihood that the infringer’s actions constituted infringement of a valid patent. This requires an objective assessment of potential defenses, and, according to the Federal Circuit, the court is in the best position to make the determination of reasonableness.

July

***Sciele Pharma v. Lupin Ltd.*, No. 12-1228 (July 2, 2012)**

Presumption of Validity and Burden of Proof

In ***Sciele Pharma v. Lupin Ltd.***, the court held that the presumption of validity and the clear and convincing burden of proof applied to all issued patents, even to a claim that was mistakenly included in an issued patent after the applicant canceled it following an obviousness rejection. Issues such as whether a reference was considered by the examiner and the “bizarre circumstances” present in this case do not change the presumption or the burden, but they do go to the weight of the evidence. The examiner’s analysis that the canceled claim was obvious in view of certain references should be “taken into account” in the obviousness analysis.

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***CLS Bank International v. Alice Corporation*, No. 11-1301 (July 9, 2012)**

Patentable Subject Matter

In ***CLS Bank International v. Alice Corporation***, the court (Judges Lin and Prost with O'Malley dissenting) reversed the D.C. district court's holding on Summary Judgment that the system, method and media claims were not patentable subject matter. The claims are set out in full after this summary.

Noting that the "abstractness of the abstract ideas test has become a serious problem", the court held that "when—after taking all of the claim recitations into consideration—it is not manifestly evident that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under § 101....Unless the single most reasonable understanding is that a claim is directed to nothing more than a fundamental truth or disembodied concept, with no limitations in the claim attaching that idea to a specific application, it is inappropriate to hold that the claim is directed to a patent ineligible abstract idea". For computer-implemented inventions, "a claim that is drawn to a specific way of doing something with a computer is likely to be patent eligible whereas a claim to nothing more than the idea of doing that thing on a computer may not."

The court determined that all of the claims in this case, including the method claim, require computer implementation. The court acknowledged that the mere fact of computer implementation alone does not resolve the patent eligibility question, but "it is difficult to conclude that the computer limitations here do not play a significant part in the performance of the invention or that the claims are not limited to a very specific application of the concept of using an intermediary to help consummate exchanges between parties....The claim limitations can be characterized as being integral to the method, as playing a significant part in permitting the method to be performed, and as not being token post-solution activity".

The court also stated that, although Section 101 has been characterized by the Supreme Court as a "threshold test", district courts have discretion to address other validity issues before considering Section 101, particularly if the other issues "might be discerned by the trial judge as having the promise to resolve a dispute more expeditiously or with more clarity and predictability."

***Wi-LAN v. LG Electronics*, No. 11-1626 (July 13, 2012)**

Waiver of Privilege

In ***Wi-LAN v. LG Electronics***, the court held that a pre-litigation express, intentional waiver of attorney-client privilege by disclosure of a privileged communication did not necessarily waive the privilege beyond the communication itself to other related matter.

The Townsend firm, representing Wi-LAN in pre-litigation license negotiations with LG, delivered to LG a letter written by a Townsend attorney addressed to Wi-LAN's general counsel and marked "confidential". The letter contained a detailed analysis of Wi-LAN's patent rights as applied to LG's technology. In subsequent litigation, LG subpoenaed all documents and testimony related to the subject matter of the letter. The district court (Northern District of CA) held Townsend in contempt for refusing to comply with the subpoena.

The Federal Circuit held that the law of the Ninth Circuit applied, but since the Ninth Circuit had not decided the issue, the Federal Circuit proceeded to predict how the Ninth Circuit would decide the issue. The Federal Circuit held that the Ninth Circuit would require fairness balancing, i.e., whether LG would be unfairly prejudiced by Wi-LAN's assertion of privilege beyond the letter itself, and remanded the case for further proceedings. The court based its analysis in part on FRCP 52(a), which restricts the scope of an express waiver of privilege in a Federal or State proceeding to the matter disclosed unless fairness requires more extensive disclosure. The rule does not directly apply to pre-litigation disclosures, but the court determined that the Ninth Circuit would conclude that the fairness protections of this rule should be applicable to such disclosures.

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***Bancorp Services v. Sun Life Assurance*, No. 11-1467 (July 26, 2012)**

Patentable Subject Matter

Bancorp Services v. Sun Life Assurance was decided after the *CLS Bank* case discussed above by a different panel (Lourie, Prost, Wallach). The *Bancorp* panel found that the claims (set out in full after this summary) recited ineligible subject matter directed to an abstract idea.

The court first construed the claims to determine whether the claimed methods and systems require a computer. They concluded that the system claims do require one or more computers because of terms like “generator”, “calculator” and “digital storage”. The independent method claims do not require a computer because they are each followed by a dependent claim reciting “performed by a computer” and claim differentiation should be applied.

The court next concluded that the format of the various claims asserted in this case did not change the patent eligibility analysis. “A machine, system, medium, or the like may in some cases be equivalent to an abstract mental process for purposes of patent ineligibility.”

Regarding the effect of the use of a computer on the patent-eligibility analysis, the court stated that “the use of a computer in an otherwise patent-ineligible process for no more than its most basic function—making calculations or computations—fails to circumvent the prohibition against patenting abstract ideas and mental processes. ..[s]imply adding a ‘computer aided’ limitation to a claim covering an abstract concept, without more, is insufficient to render the claim patent eligible....To salvage an otherwise patent-ineligible process, a computer must be integral to the claimed invention, facilitating the process in a way that a person making calculations or computations could not”. They then concluded that the claims in this case “merely employ computers to track, reconcile, and administer a life insurance policy with a stable value component—i.e., the computer simply performs more efficiently what could otherwise be accomplished manually...Using a computer to accelerate an ineligible mental process does not make that process patent-eligible”. Finally, citing *Mayo*, the court set aside the “insignificant computer-based limitations” and concluded that “nothing remains in the claims but the abstract idea of managing a stable value protected life insurance policy by performing calculations and manipulating the results.”

The court asserted that its decision is not inconsistent with the *CLS Bank* case because in *CLS Bank* the court found that the computer limitations played a significant part in the performance of the invention and were limited to a very specific application of the invention.

August

***InterDigital Communications v. ITC*, No. 10-1093 (Aug. 1, 2012)**

ITC Domestic Industry Requirement

In ***InterDigital Communications v. ITC***, the court held that the domestic industry requirement can be satisfied based on patent licensing activities alone. There is no requirement that the articles that are the objects of the licensing activities be made in the United States. The court based its decision on the language of the statute, the legislative history, and the previous consistent interpretation by the ITC.

***Highmark v. AllCare Health*, No. 11-1219 (Aug. 7, 2012)**

Attorneys Fees for Prevailing Party

In ***Highmark v. AllCare Health***, the court affirmed a finding of an “exceptional case” under 35 U.S.C. § 285, justifying an award of attorneys but remanding the case for recalculation of the amount.

A case may be “exceptional” based on a frivolous claim, inequitable conduct before the PTO, or litigation misconduct. A claim is frivolous only if it is 1) objectively baseless and 2) brought in subjective bad faith. A claim is objectively baseless if no reasonable litigant could reasonably expect success on the merits, in light of the full record. The objective prong is a question of law to be reviewed de novo by the court. A claim is brought in subjective bad faith if the lack of objective foundation for the claim was either known or so obvious that it should have been known by the party asserting the claim. For the subjective prong, there is a presumption that an assertion of infringement of a duly granted patent is made in good faith, so this prong must be established with clear and convincing evidence and the factual findings as to subjective bad faith are reviewed for clear error.

This two-part test for a frivolous claim must be applied on a claim-by-claim basis. In this case, the court found only one of the asserted claims to be frivolous so it remanded the case to the trial court to determine the amount of the attorney’s fees apportionable to defending against that claim.

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Kinetic Concepts v. Smith & Nephew, No. 11-1105 (Aug. 13, 2012)

Obviousness and the TSM Test

In *Kinetic Concepts v. Smith & Nephew*, the court reversed a finding of obviousness because, among other reasons, there was no evidence of a motivation to combine references. The court discussed the relevance of the teaching-suggestion-motivation (TSM) test after *KSR*: “While an analysis of any teaching, suggestion, or motivation to combine elements from different prior art references is useful in an obviousness analysis, the overall inquiry must be expansive and flexible...While the Supreme Court made clear that a mechanical application of the teaching-suggestion-motivation test, requiring an explicit teaching in the prior art, is inappropriate, [w]e must still be careful not to allow hindsight reconstruction of references to reach the claimed invention without any explanation as to how or why the references would be combined to produce the claimed invention. ...S&N never offered evidence articulating why a person having ordinary skill in the art would combine the primary references to obtain the disclosed inventions. Although expert testimony regarding motivation to combine is not always required, the technology at issue here is not the type of technology where common sense would provide the motivation to combine these references.”

Magsill v. Hitachi Global Storage Technologies, No. 11-1221 (Aug. 14, 2012)

Claim Scope and Enablement

In *Magsill v. Hitachi Global Storage Technologies*, the court held that the asserted claims were invalid for lack of enablement because their broad scope was not reasonably supported by the scope of enablement in the specification. The claims included this clause: “wherein applying a small magnitude of electromagnetic energy to the junction reverses at least one of the magnetization directions and causes a change in the resistance by at least 10% at room temperature”. The largest change in resistance enabled by the specification was 11.8%. Even after filing the patent application, the largest change in resistance accomplished by the inventors was 120%. According to the court, “the specification containing these broad claims, however, does not contain sufficient disclosure to present even a remote possibility that an ordinarily skilled artisan could have achieved the modern dimensions of this art. Thus, the specification enabled a marginal advance over the prior art, but did not enable at the time of filing a tunnel junction of resistive changes reaching even up to 20%, let alone the more recent achievements above 600%.... The record contains no showing that the knowledge of that {ordinarily skilled} artisan would permit, at the time of filing, achievement of the modern values above 600% without undue experimentation, indeed without the nearly twelve years of experimentation necessary to actually reach those values.”

Meyer Intellectual Properties v. Bodum, No. 11-1329 (Aug. 15, 2012)

Obviousness

In *Meyer Intellectual Properties v. Bodum*, the court reversed the district court’s decisions precluding the defendant from introducing prior art that was disclosed during discovery, excluding certain testimony as to other prior art evidence and barring the defendant’s expert from testifying on the issue of obviousness. The case was remanded to the district court. Of particular interest is Judge Dyk’s concurrence:

“While I agree with and join the thorough majority opinion, in looking at this case from a broader perspective, one cannot help but conclude that this case is an example of what is wrong with our patent system. The patents essentially claim the use of a prior art French press coffee maker to froth milk. Instead of making coffee by using the plunger to separate coffee from coffee grounds, the plunger is depressed to froth milk. The idea of frothing cold milk by the use of aeration rather than steam is not new as reflected in the prior art Ghidini patent. Under the Supreme Court’s decision in *KSR International Co. v. Teleflex, Inc.*, and its predecessors, it would be reasonable to expect that the claims would have been rejected as obvious by the examiner, and, if not, that they would have been found obvious on summary judgment by the district court. But no such thing. The parties have spent hundreds of thousand of dollars and several years litigating this issue, and are invited by us to have another go of it in a second trial. Such wasteful litigation does not serve the interests of the inventorship community, nor does it fulfill the purposes of the patent system.”

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***Whitserve v. Computer Packages*, No. 11-1206 (Aug. 20, 2012)**

Damages and Relief for Ongoing Infringement

In ***Whitserve v. Computer Packages***, the court held that the district court abused its discretion when it denied a motion for a new trial on damages because the Plaintiff's expert's testimony in support of the royalty was "conclusory, speculative and, frankly, out of line with economic reality." The court found that the Plaintiff's expert's reliance on a proposed, but unaccepted license offer was "based on fiction" and contradicted other testimony; that the use of lump-sum payments as evidence did not support running royalty rates without testimony explaining how they apply to the facts of the case; and that "superficial recitation of the *Georgia-Pacific* factors, followed by conclusory remarks, cannot support the jury's verdict." On the last point, the court said that it does not "require that witnesses use any or all of the *Georgia-Pacific* factors when testifying about damages in patent cases. If they choose to use them, however, reciting each factor and making a conclusory remark about its impact on the damages calculation before moving on does no more than tell the jury what factors a damages analysis could take into consideration... Expert witnesses should concentrate on *fully* analyzing the *applicable* factors, not cursorily reciting all fifteen. And, while mathematical precision is not required some explanation of both why and generally to what extent the particular factor impacts the royalty calculation is needed."

The court also ordered the district court to address the propriety of prospective relief in light of both any new damages award and relevant equitable considerations and to explain its decision. The court listed several types of relief for ongoing infringement: an injunction; an order for the parties to negotiate terms for future use of the invention; an ongoing royalty; or a decision that no forward-looking relief is appropriate in the circumstances. In this case, the court did not explain why it refused to grant an injunction or a compulsory license with ongoing royalties. "While a trial court is not required to grant a compulsory license even when an injunction is denied, the court must adequately explain why it chooses to deny this alternative relief when it does so."

Lastly, the court held that the district court abused its discretion when it failed to explain its refusal to increase damages or grant attorneys fees after the jury found the infringement willful.

***Amkor Technology v. ITC*, No. 10-1550 (Aug. 22, 2012)**

Proof of Prior Invention for 102(g)(2) Defense

To qualify as prior invention under 102(g)(2), an invention must be "made in this country by another inventor". In ***Amkor Technology v. ITC***, the court held that the conception date for an invention of foreign origin is the date that the invention was disclosed in the United States in sufficient detail to encompass the "complete and operative invention." The disclosure may be oral or written.

***ActiveVideo Networks v. Verizon*, No. 11-1538 (Aug. 24, 2012)**

Patent Marking and Damages, Injunctions and Irreparable Harm

In ***ActiveVideo Networks v. Verizon***, the court held a patent with only method claims does not require patent marking (for purposes of back damages) even if it merely claims a method of using the system claimed in another patent-in-suit.

Also in ***ActiveVideo Networks v. Verizon***, the court held 1) that it was legal error for the district court to determine that the plaintiff's litigation costs supported irreparable harm and 2) the district court clearly erred in its reliance on loss of market share suffered by the plaintiff's customer as a basis for finding irreparable harm. The customer is a competitor of Verizon, but the plaintiff is not a competitor. There was no evidence of loss of market share by the plaintiff. The plaintiff can be adequately compensated by damages in the form of subscriber fees.

***LaserDynamics v. Quanta Computer*, No. 11-1440 (Fed. Cir. Aug. 30, 2012)**

Damages and the Entire Market Value Rule, Damages and the Use of Other License Agreements as Evidence of Royalty Rate

In ***LaserDynamics v. Quanta Computer***, the court affirmed the district court's grant of a new trial based on the unjustified use of the entire market value rule. The court reaffirmed "that in any case involving multi-component products, patentees may not calculate damages based on sales of the entire product, as opposed to the smallest salable patent-practicing unit, without showing that the demand for the entire product is attributable to the patented feature." In this case, the plaintiff failed to present evidence showing that the patented method drove demand for laptop computers. According to the court, "It is not enough to merely show that the {patented} method is viewed as valuable, important, or even essential to the use of the laptop computer. Nor is it enough to show that a laptop computer without {the patented} method would be commercially unviable. Were this

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sufficient, a plethora of features of a laptop computer could be deemed to drive demand for the entire product...But proof that consumers would not want a laptop computer without such features is not tantamount to proof that any one of those features alone drives the market for laptop computers.” The plaintiff’s expert did not conduct any market studies or consumer surveys and there was no evidence that the patented feature alone motivates consumers to buy a laptop.

Also in *LaserDynamics v. Quanta Computer*, the court also held that the district court erred in allowing the jury to hear testimony favoring a 6% royalty rate based on unrelated licensing programs and a Licensing Executives survey. The 6% rate was “untethered from the patented technology... and, as such, was arbitrary and speculative”. The district court also erred when it admitted a prior settlement agreement “tainted by the coercive environment of patent litigation”. The court distinguished the *ResQNet* case “where a lone settlement agreement stood apart from all other licenses in the record as being uniquely relevant and reliable.”

***Akamai Technologies v. Limelight Networks*, No. 09-1372 (Aug. 31, 2012)**

Inducement of Joint Infringement

In *Akamai Technologies v. Limelight Networks*, the *en banc* Court held that a defendant may be held liable for inducing infringement if the defendant has performed some of the steps of a claimed method and has induced other parties to perform the remaining steps, or if the defendant has induced other parties to collectively perform all of the steps of the claimed method, but no single party has performed all of the steps itself. In other words, all of the steps of a claimed method must be performed in order to find induced infringement, but it is not necessary to prove that all the steps were committed by a single entity.

The court did not modify the rule that for liability for direct infringement, the steps of a method claim must all be performed by a single party acting alone, unless the remaining steps are performed by an agent of the accused infringer or a party acting pursuant to the accused infringer’s direction or control. They did however, reverse the requirement that in order to support a finding of induced infringement, not only must the inducement give rise to direct infringement, but the direct infringement must be committed by a single actor. According to the court, “requiring proof that there *has been* direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be *liable* as a direct infringer.” Liability for inducement thus does not require that the induced party be an agent of the inducer or be acting under the inducer’s direction or control to such an extent that the act of the induced party can be attributed to the inducer as a direct infringer.