



Thomas | Kayden

THOMAS, KAYDEN, HORSTEMEYER & RISLEY, LLP

## Recent IP Decisions – June 2010

Mike D'Aurelio  
Tony Bonner



## Cases

*Haemonetics v. Baxter Healthcare and Fenwal*

- Claim construction

*Orion v. Hyundai printed publication*

- *Printed publication for 35 U.S.C. 102*

*Carter v. ALK*

- *Myers & Kaplan sanctions*

*AEMF v. Cochlear Corp.*

- *Standing for a licensor*

*Charts illustrating prevalence of inequitable conduct claims.*



Thomas | Kayden

THOMAS, KAYDEN, HORSTEMEYER & RISLEY, LLP

U.S. Court of Appeals for the Federal Circuit

*Haemonetics Corp.*

v.

*Baxter Healthcare Corp. and Fenwal Inc.*

(Docket No. 2009-1557 – June 2, 2010)



## *Haemonetics v. Fenwal – Background*

- Haemonetics is the owner by assignment of the '983 patent, which claims a compact blood centrifuge device for separating and collecting components in a liquid such as blood. The '983 patent describes a centrifugal device comprising (1) a vessel in which blood components are separated in a separation chamber and (2) tubing through which blood flows in and out of the vessel. The tubing connects the spinning vessel to a non-rotating support structure, forming a question mark-shaped loop around the vessel.



## *Haemonetics v. Fenwal – Background*

- Fenwal allegedly infringes and Haemonetics sues.
- After claim construction and summary judgment motions, Haemonetics limited its allegation of infringement to claim 16.
- Fenwal counterclaimed that claim 16 was invalid as indefinite, as anticipated by prior invention, and as obvious.



## *Haemonetics v. Fenwal – Background*

16. A **centrifugal unit comprising a centrifugal component and a plurality of tubes**, said unit to turn around an axis to separate the components of a liquid, blood in particular, with such plurality of tubes displaying a single tubular component wherein said unit includes:

- a base in the form of a disk;
- an external cylindrical wall extending from the base;

an internal cylindrical wall extending from the base and separated by the external wall so as to define a ring-shaped separation chamber among each other;

a tubular housing almost extending coaxially to said rotating axis from the base to receive an end of a tubular unit; and

a plurality of channels extending radially in the base of the **centrifugal unit**, with each channel providing communication between a respective tube of the tubular unit and the separation chamber, with the **centrifugal unit** having a radius between 25 and 50 mm and a height between 75 and 125% of the radius.



## *Haemonetics v. Fenwal – Background*

- The district court issued a claim construction order and construed the term “centrifugal unit” as used in claim 16.
- The court held, and the parties agreed, that “centrifugal unit” as used in the claim’s first line means “the combination of both the vessel *and* the tubing.”
- Nevertheless, the court construed the claim’s remaining two references to “centrifugal unit,” including the final one in the context of the “height” and “radius” limitations, to mean only the vessel.
- The court relied on claim 16’s use of identical dimensions to the patent’s other independent claims, which the parties agreed used “centrifugal unit” to refer exclusively to the vessel.



## *Haemonetics v. Fenwal – Background*

- The court reasoned that, because the vessel and the tubing together are always larger than the vessel alone, giving “centrifugal unit” a construction that includes the tubing in the context of the dimensional limitations “would yield an absurdity.”
- At the close of evidence, the district court granted without opinion Haemonetics’s motion for JMOL that claim 16 was not indefinite.
- The jury then found claim 16 infringed and not invalid, and awarded Haemonetics over \$11.3 million in lost profits damages and over \$4.3 million in reasonable royalty damages.
- The district court denied Fenwal’s motions for JMOL on anticipation and obviousness without opinion, then entered a permanent injunction to begin on December 1, 2010, and finally ordered Fenwal to pay a 10% royalty on sales of the infringing kits made after the jury verdict of infringement.



## *Haemonetics v. Fenwal – CAFC*

- Fenwal argues that the district court erred in construing “centrifugal unit” in the body of claim 16 to refer to just the vessel when the plain language of the claim’s preamble defines the unit as comprising a vessel *and* a plurality of tubes.
- Haemonetics argues that the specification makes clear that “centrifugal unit” in the context of the dimensional limitations refers to the vessel alone, as Fenwal concedes for claims 1 and 20.
- To reconcile this construction with claim 16’s first use of the term, which expressly defines “centrifugal unit” as comprising a centrifugal component *and* a plurality of tubes, Haemonetics asserts that the claim preamble does no more than state the claimed invention’s intended field of use.



## *Haemonetics v. Fenwal – CAFC*

- CAFC says patent claims function to delineate the precise scope of a claimed invention and to give notice to the public, including potential competitors, of the patentee's right to exclude.
- The CAFC construes claims with an eye toward giving effect to all of their terms, even if it renders the claims inoperable or invalid.



## *Haemonetics v. Fenwal – CAFC*

- In this case, claim 16's beginning and, in our view, controlling language could hardly be clearer.
- Claim 16 states: "A centrifugal unit comprising a centrifugal component and a plurality of tubes . . . ."
- This does not merely state the intended field of use in a preamble, as Haemonetics argues. Rather, it unambiguously defines "centrifugal unit" as "comprising" two structural components: a centrifugal component and a plurality of tubes.
- The claim then further recites, not the centrifugal component and not a centrifugal unit, but "*the* centrifugal unit" as "having a radius between 25 and 50 mm and a height between 75 and 125% of the radius."
- Reading "the centrifugal unit" in the context of the dimensional limitations to refer exclusively to the vessel, as the district court did, ignores the antecedent basis for "the centrifugal unit," and fails to give effect to the claim language "comprising a centrifugal component,"



## *Haemonetics v. Fenwal – CAFC*

- Furthermore, the specification defines “centrifugal unit” in the context of the height and radius limitations in two different embodiments, one that tracks the language of claim 1, in which the parties agree that “centrifugal unit” refers to the vessel alone, and one that tracks the language of claim 16.
- Specifically, the specification describes a “first embodiment” in which a centrifugal device “includes a centrifugal unit with a center and a rotation axis.”
- The specification also describes “another embodiment” in which a centrifugal unit “includes a centrifugal component *and* a plurality of tubes,” tracking the language of claim 16.
- Again, the “centrifugal unit has a radius between 25 and 50 mm and a height between 75 and 125% of the radius.”



## *Haemonetics v. Fenwal – CAFC*

- Haemonetics argues, and the district court concluded, that because the vessel with the tubing is larger than the vessel alone, construing “centrifugal unit” in the context of the dimensional limitations to include the tubing “would yield an absurdity.”
- Maybe so, but we do not redraft claims to contradict their plain language in order to avoid a nonsensical result.
- An “error” may have occurred in drafting claim 16, as Haemonetics’s counsel indicated during the district court’s claim construction hearing, but it is what the patentee claimed and what the public is entitled to rely on.



## *Haemonetics v. Fenwal – CAFC*

- It would not be appropriate for us now to interpret the claim differently just to cure a drafting error... That would unduly interfere with the function of claims in putting competitors on notice of the scope of the claimed invention.
- We thus reverse the district court's claim construction and hold that "centrifugal unit" in claim 16 consistently means a vessel and a plurality of tubes, irrespective of its meaning in claim 1.
- The CAFC then remands for a determination of indefiniteness and obviousness.



Thomas | Kayden

THOMAS, KAYDEN, HORSTEMEYER & RISLEY, LLP

U.S. Court of Appeals for the Federal Circuit

*Orion IP, LLC.*

*v.*

*Hyundai Motor America.*

(Docket No. 2009-1130 - May 27, 2010)



## *Orion v. Hyundai – District Court Decision*

Eastern District of Texas found:

- Hyundai infringed Orion's '627 patent.
- Denied Hyundai's motion for JMOL, finding that the '627 patent is not invalid on anticipation or obvious grounds.
- Orion's '627 patent is not unenforceable for inequitable conduct.



## *Orion v. Hyundai – Printed Publication*

- The '627 patent, entitled “Computer-Assisted Parts Sales Method” relates to a method for assisting a salesperson in selecting appropriate parts corresponding to a customer’s particularized need using a computerized system.
- The '627 patent teaches that when a customer requests a part, the salesperson uses an electronic system to search for the appropriate part, determines whether the appropriate part is available and how much it costs, and then provides this information to the customer.



## *Orion v. Hyundai – Printed Publication*

'627 Claim 1:

1. A computerized method of selling parts for particular equipment specified by a customer, comprising the steps of:
  - a) receiving information identifying a customer's parts requirements for the equipment, comprising the step of receiving equipment application information, comprising an identification of the equipment with which one or more parts are to be used;
  - b) electronically specifying information identifying a plurality of parts and specifications for the parts;
  - c) gathering parts-related information for one or more parts within the plurality of parts which meets the customer's requirements, comprising the step of electronically associating at least one of the parts within the plurality of parts with the received equipment application information; and
  - d) receiving the gathered parts-related information and compiling the parts-related information into a **proposal** meeting the customer's requirements.



## *Orion v. Hyundai – Printed Publication*

7. The method of claim 1 wherein the step (d) further comprises the step of including within the **proposal** price information corresponding to the one or more parts which meets the customer's requirements.
  
8. The method of claim 1 wherein the step (d) comprises the step of including within the **proposal** graphical information corresponding to the one or more parts which meets the customer's requirements.



## *Orion v. Hyundai – Printed Publication*

- On August 30, 2005, Orion sued Hyundai alleging that their online sales systems infringed the '627 patent.
- At trial, Hyundai alleged that it did not infringe the '627 patent and that the patent was invalid. The parties tried the case to a jury.
- The jury found that Hyundai infringed the '627 patent and its infringement of that patent was willful. The jury also determined that the '627 patent was not invalid.
- The jury awarded Orion \$34 million in damages for Hyundai's infringement of the '627 patent. The court augmented the \$34 million in damages with pre-judgment interest, post-judgment interest, and an ongoing two-percent royalty on post-verdict parts sales.
- The district court directed the entry of final judgment on the verdict and denied Hyundai's post-judgment motions for JMOL or a new trial.



## *Orion v. Hyundai – Printed Publication*

- On JMOL, Hyundai argued that the evidence presented to the jury established that the '627 patent was anticipated by prior art electronic parts catalogs, specifically the Bell & Howell IDB2000 system.
- Under a 1987 distribution agreement between Bell & Howell and Reynolds & Reynolds, the latter distributed and supported the IDB2000 electronic parts catalog under the Reynolds & Reynolds PartsVision private label.
- The IDB2000 system, was identified as an automated system for the sale of parts that allowed salespersons to sell parts faster and with more accuracy. The Electronic Parts Catalog promotional publication lists nine steps in the IDB2000 system. It provides an example, with illustrations, of a customer requiring a brake master cylinder for a 1986 Pontiac Grand Am. Using a touch-screen, the salesperson at the counter:



## *Orion v. Hyundai – Printed Publication*

Step 1: selects the desired make—Pontiac

Step 2: selects the desired year—1986

Step 3: selects the desired model—Grand AM

Step 4: selects the desired parts group—Group 4-transmission and brake

Step 5: selects the appropriate illustration—Illustration # 17-1985-86 “N”  
brake pedal and master cylinder mounting

Step 6: selects the part call-out number—#16 cylinder, brake motor

Step 7: At this point the PartsVision system has “found the correct part and has listed it on a shopping list. Now the counterman can find more parts or check inventory, price the part and print the invoice . . . all from the same workstation.”

Step 8: builds a shopping list, if needed

Step 9: selects the integration function key to “display the normal inventory detail,” “prices the part, and allows the counterman to complete preparation of a wholesale or retail price.”



## *Orion v. Hyundai – Printed Publication*

- Orion challenged Hyundai’s anticipation evidence on the sole basis that the IDB2000 system did not generate a customer “proposal” as required by claim 1, step (d).
- The district court had construed the term “proposal” to mean “information intended for conveyance to a potential customer.”
- At trial, Orion distinguished the IDB2000 system by arguing that because it generated information related to the dealer’s markup and cost, as per step 9 above, it did not generate a proposal since a salesperson would not want to disclose a wholesale price to a retail customer. The district court concluded that both parties presented evidence at trial as to whether the IDB2000 system generated a “proposal,” but because the jury had weighed the evidence and found the IDB2000 system did not anticipate the ’627 patent, it would not reweigh the evidence.



## *Orion v. Hyundai – Printed Publication*

- In our review of the denial of JMOL, we are mindful of the fact that anticipation is a question of fact that we review for substantial evidence when tried to a jury.
- Whether a document constitutes a printed publication under § 102 is a question of law based upon the underlying facts of each particular case.
- Here, to qualify as a printed publication, the Electronic Parts Catalog promotional publication must have been disseminated or otherwise made accessible to persons interested and ordinarily skilled in the subject matter to which the advertisement relates prior to the critical date.



## *Orion v. Hyundai – Printed Publication*

- The district court ruled that the '627 patent's critical date is November 10, 1988.
- The Electronic Parts Catalog reference has a copyright date of 1987 with a revision date of January 1991.
- Court finds the Parts catalog has a prior art date (1987, not 1991), since Sales people were still using the 1987 version after the critical date.
- A manager at Hyundai testified that the reference had two purposes:
  - (1) “to act as [a] direct mail piece to dealers to generate interest in the products,” and
  - (2) to “act[ ] as essentially a demonstration piece for our salespeople to present to dealers and dealer personnel, because the actual PartsVision system was too bulky to carry around to dealerships.”



## *Orion v. Hyundai – Printed Publication*

- The manager also specified that he personally demonstrated the IDB2000 system, in accordance with the nine steps outlined in the Electronic Parts Catalog reference, hundreds of times starting from late 1987.
- He also testified that he directed the after-sale installation of customized IDB2000 systems at the car dealerships. Orion did not rebut his testimony.
- Thus, the Electronic Parts Catalog promotional publication, as embodied by the IDB2000 system, qualifies as a prior art printed publication because it was accessible to those interested in the business of auto parts prior to November 10, 1988.



## *Orion v. Hyundai – Printed Publication*

- In addition to qualifying as a printed publication, a single prior art reference must expressly or inherently disclose each claim limitation to anticipate a claim.
- Additionally, the reference must “enable one of ordinary skill in the art to make the invention without undue experimentation.”
- Further, the party asserting invalidity due to anticipation must prove anticipation, a question of fact, by clear and convincing evidence.



## *Orion v. Hyundai – Printed Publication*

- Step (d) of claim 1 of the '627 requires “receiving the gathered parts-related information and compiling the parts-related information into a proposal meeting the customer’s requirements.” The district court previously construed “proposal” to mean “information intended for conveyance to a potential customer.”
- At trial, Hyundai presented expert testimony, third-party fact witnesses, and documentary evidence to the jury showing that the IDB2000 system was designed to be used by salespersons to convey parts-related information directly to customers.
- Hyundai’s expert witness, Mr. Klausner, testified that the IDB2000 system practiced the “proposal” element of claim 1 by generating a shopping list. This shopping list, he explained, constituted the last step in the IDB2000 system, as described in step 9 of the Electronic Parts Catalog reference.



## *Orion v. Hyundai – Printed Publication*

- David Gump, testified that the commercial use of the IDB2000 system was designed to enable salespeople to convey parts-related information directly to potential customers.
- Orion offered minimal contradictory evidence regarding whether the IDB2000 system’s functionality before 1988 anticipated the “proposal” element of claim 1 except to state that because the IDB2000 system showed both wholesale and retail prices, the markup information generated could not have been “intended to be conveyed to a potential customer.”



## *Orion v. Hyundai – Printed Publication*

- Orion also introduced statements by Orion’s expert witnesses that the IDB2000 system was a “back-office” look up system.
- In an affidavit, Mr. Frey, without making reference to the “proposal” element, testified that the IDB2000 system was intended “to be used primarily by mechanics in service bays,” and not at the sales counter.



## *Orion v. Hyundai – Printed Publication*

- First, the claim does not define what type of information is “intended for conveyance to a customer” and instead only requires that parts-related information is intended to be communicated to the customer as part of a potential sale.
- Second, price information is not required by claim 1 and is the subject of claim 7.
- Third, there is overwhelming documentary and testimonial evidence that the Electronic Parts Catalog reference teaches parts-related information being conveyed to a customer using the IDB2000 system in order to improve communications with customers for faster and more accurate sales by counter salespersons.



## *Orion v. Hyundai – Printed Publication*

- Thus, testimonial and documentary evidence regarding the Electronic Parts Catalog reference establish that the Electronic Parts Catalog reference anticipates claim 1 of the '627 patent.
- Based on the considerable evidence, and in the absence of the “proposal” claim element limiting the type of parts-related information that was intended for conveyance to a customer, no reasonable fact-finder could reach a conclusion other than that the IDB2000 system, as described in the Electronic Parts Catalog reference, discloses the proposal element, in an enabling manner.



## *Orion v. Hyundai – Printed Publication*

- The evidence also required JMOL on dependent claim 7 that states the additional element of “price information.” It is undisputed that the IDB2000 system generated price information; the only question was whether the price information was “intended for conveyance to a customer” because it revealed a markup. Again, the claim did not specify what type of price information was intended for conveyance to a customer. It is unquestionable that wholesale customers would be interested in the wholesale price as well as the retail price. Moreover, any salesperson would have known the advantages of conveying only the retail price to a retail customer.



## *Orion v. Hyundai – Printed Publication*

- With regards to dependent claim 8 that requires “graphical information,” because steps 7 and 9 of the IDB2000 system required selecting appropriate illustrations and the Electronic Parts Catalog reference showed large screen shots of part diagrams as examples, it is clear that the IDB2000 system allowed both the customer and the salesperson to see graphical information. Therefore, dependent claims 7 and 8 are also anticipated by the Electronic Parts Catalog reference.



## *Orion v. Hyundai – Inequitable Conduct*

- Finally, we turn to Hyundai’s appeal of the district court’s determination that Hyundai failed to establish inequitable conduct. To prove inequitable conduct, Hyundai must provide clear and convincing evidence of
  - (1) affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false material information and
  - (2) an intent to deceive the United States Patent and Trademark Office (“PTO”).



## *Orion v. Hyundai – Inequitable Conduct*

- At trial, Hyundai attempted to prove that before the critical date (1) the '627 patent's commercial embodiment, CASS Parts, was in public use at a parts fair and (2) that Mr. Johnson's company, Clear with Computers, had licensed the invention to Case-1H to develop the CASS Parts software. Hyundai claimed that these alleged on-sale bar activities conflicted with Mr. Johnson's sworn affidavit to the PTO that the invention had not been in public use or on sale before the critical date. The affidavit was submitted in response to the examiner's inquiry regarding on-sale activity relating to CASS Parts.



## *Orion v. Hyundai – Inequitable Conduct*

- The district court did not clearly err by finding that the Case-1H agreement and the parts fair were not material given the evidence showing that the invention was not ready for patenting until after the critical date.
- The court found that while “Clear With Computers wanted to promote CASS Parts at the Parts Fair, the evidence does not show that they had reduced the invention to practice or that there were drawings or descriptions or other materials that would allow one skilled in the art to produce or perform the invention at the time of the Parts Fair.”
- Likewise, with respect to the agreement between Clear With Computers and Case-1H to license and develop CASS Parts, the court found “the agreement did not constitute a license or a sale as the invention did not even exist at the time.”



## *Orion v. Hyundai – Inequitable Conduct*

- The district court also did not clearly err in finding no deceptive intent based on the pre-critical date activities alone. Rather, there must be clear and convincing evidence of “culpable” conduct.
- To make an inference of intent to deceive, the inference must not only be based on sufficient evidence and be reasonable in light of that evidence, but it must also be the single most reasonable inference able to be drawn from the evidence to meet the clear and convincing standard.



## *Orion v. Hyundai – CAFC*

- Because we conclude that claims 1, 7, and 8 are anticipated as a matter of law, the judgment that these claims are valid is reversed and no new trial is warranted. Given our holding, we need not reach Hyundai's remaining validity arguments presented on appeal. We affirm the district court's ruling that the '627 patent is not unenforceable due to inequitable conduct. Accordingly, the remainder of the district court's judgment is vacated, including the damages award.



Thomas | Kayden

THOMAS, KAYDEN, HORSTEMEYER & RISLEY, LLP

U.S. Court of Appeals for the Federal Circuit

*Randall B Carter*

v.

*ALK holdings Inc. (DBA Acme Security) and  
Michael Hassebrock*

(Docket No. 2008-1168 – May 24, 2010)



## *Carter v. ALK – Background*

Myers & Kaplan Intellectual Property Law, LLC (“Myers & Kaplan”) appeals from an order of the United States District Court for the Northern District of Georgia imposing sanctions of \$30,356.89 pursuant to Rule 11 of the Federal Rules of Civil Procedure. The district court imposed the sanctions after it found that three claims advanced by Myers & Kaplan on behalf of the plaintiff Randall B. Carter (“Carter”), Counts I, VIII, and XI, were baseless legal theories that had no chance of success and for which no reasonable argument could be advanced.



## *Carter v. ALK – Background*

- During Carter’s period of employment at ALK, he allegedly developed a high security locking assembly for a safe deposit box door on his own time and with his own resources.
- ALK and Michael Hassebrock, the President of ALK at that time, initially showed no interest in the invention.
- After a bank expressed an interest in acquiring a license to the invention, Hassebrock proposed a “50/50 partnership” with Carter.
- Hassebrock and Carter retained a patent attorney (referred to as “John Doe I”) to draft a patent application for the invention.



## *Carter v. ALK – Background*

- The provisional application listed Hassebrock, Carter, and Curtis P. Taylor (“Taylor”) as co-inventors.
- John Doe I then filed with the United States Patent and Trademark Office (“PTO”) a non-provisional patent application, Patent Application which claimed priority benefit to the earlier-filed provisional patent application. The non-provisional application listed Hassebrock and Carter as inventors. Taylor’s name was not listed on it.
- Subsequently, Hassebrock allegedly demanded that Carter assign his patent rights to Acme Security. Carter refused, and Acme Security terminated his employment.



## *Carter v. ALK – Background*

- Carter (via Myers & Kaplan) filed suit against ALK, Hassebrock, and John Doe I. Carter’s complaint contained fifteen claims.
- Count VIII alleged that John Doe I had represented both Hassebrock and Carter in the drafting and filing of the patent applications and had a fiduciary duty to both of them, which he breached.
- Count I alleges a violation of Article I, Section 8, Clause 8 of the U.S. Constitution, which grants Congress the power to “promote the progress of science and useful arts by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries.”



## *Carter v. ALK – Background*

- Count XI alleges a violation of 35 U.S.C. § 122. Section 122(a) provides that “applications for patents shall be kept in confidence by the Patent and Trademark Office.”
- The district court dismissed the federal claims for failure to state a claim and declined to exercise supplemental jurisdiction over his state claims.
- The district court also found Count I, Count VIII, and Count XI frivolous. The district court then imposed sanctions on Myers & Kaplan of \$30,356.89.



## *Carter v. ALK – Background*

- CAFC reviews the Rule 11 determinations for abuse of discretion.
- Under the Eleventh Circuit’s jurisprudence, Rule 11 sanctions should only be imposed in limited circumstances where the frivolous nature of the claims-at-issue is unequivocal.
- The Eleventh Circuit has explained that: “Rule 11 is intended to deter claims with no factual or legal basis at all; creative claims, coupled even with ambiguous or inconsequential facts, may merit dismissal, but not punishment.”



## *Carter v. ALK – Background*

- Rule 11 sanctions are appropriate when
  - (1) a party files a pleading that has no reasonable factual basis;
  - (2) the party files a pleading that is based on a legal theory that has no reasonable chance of success and that cannot be advanced as a reasonable argument to change existing law; or
  - (3) the party files a pleading in bad faith for an improper purpose.



## *Carter v. ALK – Count VIII – Fiduciary Duty*

- The district court found that “[t]he gravamen of Count VIII is that Defendant John Doe I breached the fiduciary duty owed to Plaintiff by representing two parties with conflicting interests and by sacrificing the interests of one party for another.”
- In evaluating this claim, the district court stressed its concern that the claim constituted an attempt “to manufacture a federal cause of action by couching a garden-variety malpractice claim in terms of patent law.”
- In the district court’s view, “[h]owever Plaintiff’s counsel couches it, no federal cause of action exists for breach of fiduciary duty under federal patent law or the MPEP.”



## *Carter v. ALK – Count VIII – Fiduciary Duty*

- Myers & Kaplan contends that the district court erred by failing to recognize that, even though malpractice is a claim under state law, the claim here is dependent on federal law.
- This is so, Myers & Kaplan asserts, because the court must measure the scope of John Doe I's fiduciary duty to his clients as a patent practitioner under the Patent Act, the Code of Federal Regulations ("CFR"), and the Manual of Patent Examining Procedure ("MPEP").



## *Carter v. ALK – Count VIII – Fiduciary Duty*

- The CAFC found that federal law is a necessary element of Count VIII. Count VIII alleged that the patent prosecuting attorney, John Doe I, breached his fiduciary duties under the patent laws and regulations, including the CFR and the MPEP, by representing two inventors with conflicting interests. The standards for practice before the PTO are governed by federal law, as both the Supreme Court and we have previously recognized.
- Specifically, 37 C.F.R. § 10.66(a) generally requires a patent practitioner to “decline proffered employment if the exercise of the practitioner’s independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, or if it would be likely to involve the practitioner in representing differing interests.” Also 37 C.F.R. 10.66(b), 11.18, 11.18(b)(1), and 35 U.S.C. 32



## *Carter v. ALK – Count VIII – Fiduciary Duty*

- Here, the determination of John Doe I's compliance with the MPEP and the CFR is a necessary element of Carter's malpractice cause of action because the CFR and the MPEP establish John Doe I's expected fiduciary duties to his clients. Count VIII thus involves a substantial question of federal patent law and is not frivolous.



## *Carter v. ALK – Count I – Constitution*

- Count I alleges a violation of Article I, Section 8, Clause 8 of the U.S. Constitution.
- The district court noted that Myers & Kaplan presented “no legal authority or reasonable explanation as to how [the Patent Clause] does confer a private cause of action.”
- The CAFC said there is no basis for inferring that Article I, Section 8, Clause 8 provides rights to inventors without congressional action, and we long ago made clear, in the context of the Copyright Clause, that it does not.
- Article I, Section 8, eighth clause, of the Constitution . . . does no more than grant power to Congress to secure certain rights to authors and inventors insofar as it elects to do so. The cited clause grants no rights to authors and has nothing to do with the registration of trademarks.
- Thus, Count I is frivolous.



## *Carter v. ALK – Count XI – 35 U.S.C. 122*

- Count XI alleges a violation of 35 U.S.C. § 122. Section 122(a) provides that “applications for patents shall be kept in confidence by the Patent and Trademark Office.”
- Count XI alleged that through the unlawful listing of Curtis P. Taylor and Hassebrock as co-inventors of all the subject matter of the patent application, despite the fact that Carter was the one true inventor, the subject matter of the patent application was intentionally disclosed to an unauthorized individual in violation of 35 U.S.C. § 122(a).
- In concluding that Myers & Kaplan failed to show adequate cause to avoid sanctions for bringing Count XI, the district court rejected the theory that “Section 122 creates a cause of action against attorneys practicing before the PTO” and held that the “plain language of Section 122 shows that it applies only to the actions of the PTO itself.”



## *Carter v. ALK – Count XI – 35 U.S.C. 122*

- Myers & Kaplan contends on appeal, however, that the theory of Count XI is not that the defendants violated § 122, but that their conduct fraudulently induced the PTO to violate § 122.
- Even if we were to assume that inducing a violation of § 122 could somehow create a private cause of action (an issue we do not reach), any parties that may have become aware of the contents of the application did so because of a disclosure by the patent practitioner John Doe I, not because of a disclosure by the PTO.
- Because Myers & Kaplan has failed to proffer any reasonable explanation for bringing Count XI, we hold that Count XI is frivolous.



## *Carter v. ALK – CAFC Decision*

- In summary, we conclude that, while the district court correctly determined that Counts I and XI are frivolous, the court erred by finding Count VIII frivolous. We remand for the district court to determine whether sanctions should be imposed, and, if so, in what amount. We note that the district court's primary concern in imposing sanctions appeared to have been that Myers & Kaplan was attempting to make an impermissible claim to federal jurisdiction. Since we have established that Count VIII contains a non-frivolous allegation of federal jurisdiction, the district court's previous concern no longer exists. Under the circumstances, the district court may appropriately conclude that no sanctions should be imposed.



## *Carter v. ALK – Concurring in Part, Dissenting in Part*

Judge Newman provided:

- I join the court’s holding that Count VIII of the complaint, as filed on behalf of Randall B. Carter, does not violate Rule 11.
- The Eleventh Circuit has explained that “Rule 11 is intended to deter claims with *no* factual or legal basis at all; creative claims, coupled even with ambiguous or inconsequential facts, may merit dismissal, but not punishment.”
- The issue on this appeal is not whether Count I was properly dismissed under Rule 12(b)(6); the issue is whether counsel should be sanctioned for presenting this count at all.
- The Eleventh Circuit has explained that Rule 11 “is not intended to chill an attorney’s enthusiasm or creativity in pursuing factual or legal theories.”



## *Carter v. ALK – Concurring in Part, Dissenting in Part*

- Tolerance is warranted here, where there is no issue of fraud, misrepresentation, bad faith, abuse of process, or other egregious act in presenting this pleading.
- With regard to Claim XI, again, the issue on appeal is not the merits of the dismissal; the issue is whether the pleading of Count XI was “egregious” and should be sanctioned.
- In this case, Claim XI is not egregious.



Thomas | Kayden

THOMAS, KAYDEN, HORSTEMEYER & RISLEY, LLP

U.S. Court of Appeals for the Federal Circuit

*Alfred E. Mann Foundation for Scientific  
Research*

v.

*Cochlear Corporation and Cochlear Ltd.*

(Docket No. 2009-1447 – May 14, 2010)



## *AMF v. Cochlear – Background*

- AMF sued Cochlear for patent infringement, and the district court dismissed the case for lack of standing to sue.
- At issue is a 2004 agreement between AMF and Advanced Bionics (“AB”), another company that builds cochlear implants, granting AB an exclusive license to the patents that AMF later accused Cochlear of infringing.
- Cochlear contends, and the district court held, that this agreement was a virtual assignment of the patents-in-suit to AB, giving AB the sole right to sue for infringement of those patents.



## *AMF v. Cochlear – Background*

- AMF received patents on Cochlear implants. As a source of funding for its research work, AMF licenses its patents to for-profit companies that build medical devices. Here, the patents were licensed to Advanced Bionics (AB) under a license agreement entered into in 2004.
- The license agreement granted AB the following rights:
  - The exclusive, worldwide right to make, have made, use, lease, offer to lease, sell, offer to sell, and otherwise commercially exploit the '616 and '691 patents for the full term of those patents.
  - The first right to sue to enforce the patents when either AMF or AB learns of any alleged, actual, suspected, potential, or threatened infringement, misappropriation, or unauthorized use. This right to choose whether to sue includes the right to control any litigation commenced by AB, including the right to choose counsel and the right to make unilateral decisions about litigation and settlement strategy and tactics.



## *AMF v. Cochlear – Background*

- The right to settle any AB-controlled litigation on any terms (with or without payment of money) without any prior authorization by AMF. Exercise of this right does require first consulting with AMF.
- The right to grant sublicenses, as long as the sublicenses include specified confidentiality requirements; particular reporting, inspection, and audit rights; provisions terminating the sublicense if the license is terminated; and the payment of specified pass-through royalties to AMF.



## *AMF v. Cochlear – Background*

- In addition, AMF retained several rights and obligations under the license agreement:
  - The secondary right to sue to enforce the patents when either AMF or AB finds out about any alleged, actual, suspected, potential, or threatened infringement, misappropriation, or unauthorized use and when AB declines to exercise its right to sue, described above. This secondary right to sue includes the right to control any litigation commenced by AMF, including the right to choose counsel and the right to make unilateral decisions about litigation and settlement strategy and tactics.



## *AMF v. Cochlear – Background*

- The apparent obligation to pay maintenance fees on the patents-in-suit.
- The right to some significant portion of the recovery in infringement suits, whether initiated by AB or by AMF.
- The apparent right to grant licenses to settle litigation initiated by AMF.
- The right to prevent AB from assigning its rights to anyone else except under certain specified conditions. AMF's consent to AB's assignment of its rights cannot be unreasonably withheld.
- The right to terminate the license agreement and any sublicenses if AB misses payments to AMF.



## *AMF v. Cochlear – Background*

- In litigation commenced by either party, the other party to the agreement maintained the right (but not the obligation) to participate in the litigation by hiring its own counsel and by requiring the litigation-commencing party to keep it informed about the status of the litigation, but the non-commencing party was not permitted to interfere with the commencing party's control of the litigation in any way.



## *AMF v. Cochlear – Background*

- Having received assurance that AB did not plan to sue over this alleged infringement, AMF filed suit in December 2007. Eventually, the pleadings were amended to allege infringement of both patents.
- Cochlear filed a motion to dismiss AMF’s infringement claims for lack of standing to sue.
- The district court granted the motion, finding that, because AMF had transferred to AB “all substantial rights under the patents,” AB should be “considered the owner of those patents.”



## *AMF v. Cochlear – CAFC*

- To determine whether an exclusive license is tantamount to an assignment, we “must ascertain the intention of the parties [to the license agreement] and examine the substance of what was granted.”
- As noted above, a patent owner may grant an exclusive license to his patents under such terms that the license is tantamount to an assignment of the patents to the exclusive licensee. This happens when the exclusive license transfers “all substantial rights” in the patents. When this happens, the exclusive licensee has sole standing to sue those suspected of infringing the patents’ claims.



## *AMF v. Cochlear – CAFC*

- In addition, we have held that, where an exclusive license transfers less than “all substantial rights” in the patents to the exclusive licensee, the exclusive licensee may still be permitted to bring suit against infringers, but the patent owner is an indispensable party who must be joined.
- The CAFC said a patent may not have multiple separate owners for purposes of determining standing to sue.



## *AMF v. Cochlear – CAFC*

- The question is whether the license agreement transferred sufficient rights to the exclusive licensee to make the licensee the owner of the patents in question. If so, the licensee may sue but the licensor may not.
- If not, the licensor may sue, but the licensee alone may not.
- When there is an exclusive license agreement, as opposed to a nonexclusive license agreement, but the exclusive license does not transfer enough rights to make the licensee the patent owner, either the licensee or the licensor may sue, but both of them generally must be joined as parties to the litigation.



## *AMF v. Cochlear – CAFC*

- With these rules in mind, we can proceed to determine who was permitted to sue suspected infringers under AMF's license agreement with AB. The first step is to determine whether the license is exclusive or nonexclusive, because AB, as the licensee, would have no right to sue, even by joining AMF, under a nonexclusive license agreement.
- Both parties to this appeal agree that the license agreement between AMF and AB was exclusive, and they could hardly argue otherwise.
- Having found that AMF granted AB an exclusive license, we next need to determine the scope of that license grant in order to decide which party to the agreement was the owner of the patents-in-suit.



## *AMF v. Cochlear – CAFC*

- Prior decisions have never purported to establish a complete list of the rights whose holders must be examined to determine whether a licensor has transferred away sufficient rights to render an exclusive licensee the owner of a patent.
- However, the CAFC has listed at least some of the rights that should be examined.
- The transfer of the exclusive right to make, use, and sell products or services under the patent is vitally important to an assignment.



## *AMF v. Cochlear – CAFC*

- The CAFC has also examined the scope of the licensee's right to sublicense, the nature of license provisions regarding the reversion of rights to the licensor following breaches of the license agreement, the right of the licensor to receive a portion of the recovery in infringement suits brought by the licensee, the duration of the license rights granted to the licensee, the ability of the licensor to supervise and control the licensee's activities, the obligation of the licensor to continue paying patent maintenance fees, and the nature of any limits on the licensee's right to assign its interests in the patent.



## *AMF v. Cochlear – CAFC*

- Where the licensor retains a right to sue accused infringers, that right often precludes a finding that all substantial rights were transferred to the licensee. It does not, however, preclude such a finding if the licensor's right to sue is rendered illusory by the licensee's ability to settle licensor-initiated litigation by granting royalty-free sublicenses to the accused infringers.
- Under the prior decisions of the CAFC, the nature and scope of the licensor's retained right to sue accused infringers is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee the owner of the patent.



## *AMF v. Cochlear – CAFC*

- Here, as noted above, the license agreement provides as follows regarding infringement litigation. Both AMF and AB are required to notify the other party upon learning of a possible infringement of the patents. After this notification, AB has the absolute right to decide whether or not to initiate litigation against the accused infringer.
- If AB chooses to exercise this right by filing suit, it maintains complete control over the litigation.
- AB is required to keep AMF informed of the progress of the litigation, and AMF is permitted to participate in the litigation using counsel of its choice, but AB has the final say on all decisions relating to the litigation.



## *AMF v. Cochlear – CAFC*

- This decision-making power extends to the resolution of the litigation: AB must consult with AMF before settling a lawsuit, but after this consultation, AB is permitted “to enter into any settlement or judgment that involves any outcome . . . whether or not involving the payment of money without the prior written approval of AMF.”
- The proceeds of the litigation, whether obtained through settlement or judgment, are to be shared between AMF and AB according to a formula that gives each party a substantial portion of the proceeds.
- If, however, AB chooses not to file suit against an accused infringer, AMF has the right (but not the obligation) to initiate litigation.



## *AMF v. Cochlear – CAFC*

- If AMF chooses to exercise this right, it controls the litigation in much the same way that AB controls litigation it initiates.
- Thus, while AB is permitted to join in the litigation, AMF has the final say regarding all decisions, including decisions about whether and how to settle the litigation.
- As with AB-initiated litigation, the proceeds of AMF-initiated litigation are to be shared between the parties, with each party taking a substantial portion.
- Cochlear correctly notes that AMF's rights to sue are secondary to those of AB and argues that this means AMF's rights are insubstantial.



## *AMF v. Cochlear – CAFC*

- A complicating factor is the right of AB to grant sublicenses under the license agreement.
- Cochlear argues that AB's right to sublicense is essentially unfettered, leaving open the possibility that, even though AMF could bring suit against an accused infringer, AB could terminate that suit by granting an inexpensive or even cost-free sublicense to the infringer.
- Cochlear further argues that this unfettered ability of AB to frustrate AMF-initiated litigation by sublicensing accused infringers renders AMF's right to sue illusory. AMF argues to the contrary that AB's sublicense rights are limited to granting sublicenses to AB's own affiliates and therefore do not include the right to settle AMF-initiated litigation by granting sublicenses to other accused infringers.



## *AMF v. Cochlear – CAFC*

- The CAFC agrees with AMF that it makes no difference that the license agreement fails to specify a time within which AB must make its decision as to whether to sue. Under California law, “[i]f no time is specified for the performance of an act required to be performed, a reasonable time is allowed.”
- Because AB cannot indulge infringements for an unlimited time, under Abbott Laboratories, AB holds substantially less than the complete right to sue. Thus, AMF’s retained right to sue is significant, and so the CAFC holds that the license agreement was not a virtual assignment of the patents-in-suit to AB.
- On remand, the district court should consider whether AB is an indispensable party to this litigation.