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Federal Circuit Reverses District Court Finding of No Invalidity

In *Galderma Labs L.P. v. Tolmar, Inc.* (Appeal No. 2013-1034), the Federal Circuit reversed the district court's finding that claims of the asserted patents were not invalid as obvious.

Tolmar filed an Abbreviated New Drug Application ("ANDA") with the FDA, seeking to market a generic version of Galderma's topical acne treatment, Differin Gel 0.3%. The district court held that although the prior art disclosed the treatment with the active ingredient from 0.1% to 1%, the claims of the Galderma patent were not obvious as the prior art taught away from the use of concentrations over 0.1%, there were unexpected results, and there was evidence of commercial success.

The Federal Circuit noted that the district court erred in framing its obviousness analysis. The district court required Tolmar to show motivation to triple the concentration of the active ingredient from 0.1% to 0.3%, but the law does not require a showing of motivation to alter a prior art commercial embodiment. The requirement to prove a claim obvious is to show that "the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains."

The Federal Circuit cited *Novo Nordisk A/S v. Caraco Pharm.* explaining that "where there is a range disclosed in the prior art, and the claimed invention falls within that range, the burden of production falls upon the patentee to come forward with evidence that (1) the prior art taught away from the claimed invention; (2) there were new and unexpected results relative to the prior art; or (3) there are other pertinent secondary considerations."

(1) The district court found that the prior art taught away from a selection of 0.3% active ingredient due to "dose-dependent increases in side effects," however, the Federal Circuit explained that a prior art expression of a preference for an alternative that does not "criticize, discredit, or otherwise discourage investigation into the invention claimed" does not teach away.

(2) The district court found that the tolerability of the 0.3% solution as compared to that of the 0.1% solution was an unexpected result as a skilled artisan in the field would have expected a "significant increase in side effects," when tripling the concentration. The Federal Circuit agreed that the result was unexpected, but held that it was not "probative of nonobviousness" as it was different in degree rather than kind.

(3) The district court found evidence of commercial success in the quick market capture of Differin Gel 0.3% and in Tolmar's application to market a generic version to profit from the invention. The Federal Circuit noted that others could not enter the market due to a blocking patent and this weakened the inference of nonobviousness and that "the mere fact that generic pharmaceutical companies

seek approval to market a generic version of a drug, without more, is not evidence of commercial success that speaks to the non-obviousness of patent claims." It found that the "commercial success of Differin Gel 0.3% is of minimal probative value," and that the "district court erred in adjudging this factor as confirming its conclusion of nonobviousness."

The Federal Circuit therefore reversed the district court's findings of no invalidity.

Federal Circuit Affirms Dismissal of Declaratory Judgment Action

In *Futurewei Technologies, Inc. v. Acacia Research Corp.* (Appeal No. 2013-1090), the Federal Circuit affirmed the district court's dismissal of a complaint for declaratory judgment.

Access Co., Ltd. owns the five patents at issue. Access entered into an exclusive license agreement with Acacia Patent Acquisition LLC ("APAC"), a wholly owned subsidiary of Acacia Research Corporation. The agreement gave APAC "the exclusive right to grant sublicenses, to sue for and collect past, present and future damages and to seek to obtain injunctive or any other relief for infringement of" specified patents. The agreement also provided that APAC could not enforce the patents against Access's customers and end-users. APAC subsequently assigned its rights to SmartPhone, a wholly owned subsidiary.

In April of 2012, SmartPhone sued Futurewei and Huawei ("Huawei") in the Eastern District of Texas for infringement of the patents. The next day Huawei filed complaints in the Central District of California against Access, APAC and SmartPhone seeking declaratory judgment of noninfringement and invalidity of the patents, that the parties to the agreement intended Huawei to benefit from the agreement as a third party beneficiary (ten year customer of Access), that SmartPhone is bound by the agreement, and that APAC and SmartPhone are acting as corporate alter egos. The California district court dismissed the complaints for differing reasons including the "first to file rule", failure to state a claim, and Federal Rule of Civil Procedure 13(a) ("FRCP13") regarding compulsory counterclaims. Huawei appealed the dismissal of the claims that the parties intended Huawei to benefit from the agreement as a third party and that APAC and SmartPhone are acting as corporate alter egos.

The Federal Circuit affirmed the district court dismissal of the claims, but on other grounds. The Federal Circuit applied the district court use of the "first to file" rule to the remaining complaints citing *Merial Ltd. v. Citla Ltd.* that "When two actions that sufficiently overlap are filed in different federal district courts, one for infringement and the other for declaratory relief, the declaratory judgment action, if filed later, generally is to be stayed, dismissed, or transferred to the forum of the infringement action." Although exceptions are made for "judicial and litigant economy, and judicial and effective disposition of disputes," the same provisions of the license agreement are, or could be, at issue in the first-filed action in Texas and Huawei is a Texas corporation. The Federal Circuit noted that the non-infringement and invalidity issues will be litigated in the Texas case and separating the third-party-beneficiary and alter ego issues "cannot serve the objective of efficiency" even where questions of California contract law may apply.

Although the Federal Circuit utilized the "first-to-file" rule in affirming the dismissal of the alter ego claim it was supported by the district court's finding that it was a compulsory counterclaim under FRCP13. The Ninth Circuit applies the "logical relationship test," and a "logical relationship exist when the counterclaim arises from the same aggregate set of operative facts as the initial claim." The Federal Circuit found a strong logical relationship between Huawei's alter ego claim, SmartPhone's right to enforce the patents, and Huawei's defense as an Access customer, all of which arise from the license agreement.

The Federal Circuit therefore affirmed the dismissal of the complaints under the

first to file rule.

Federal Circuit Limits Award Of Costs Relating To Electronic Discovery

In *CBT Flint Partners, LLC v. Return Path, Inc.*, (Appeal No. 2013-1036), the Federal Circuit overturned in part a district court award of electronic discovery costs. Specifically, CBT lost in the district court, and the district court ruled that CBT should have to pay the defendants their "costs." The Federal Circuit held that the district court erred in its interpretation of the statutory provision governing the taxation of costs under 28 U.S.C. § 1920(4).

The district court awarded the defendants all electronic discovery costs including those associated with project management, keyword searching, and ensuring compliance with the Federal Rules. The Federal Circuit held that recoverable costs under section 1920(4) are those costs necessary to duplicate an electronic document in as faithful and complete a manner as required by rule, by court order, by agreement of the parties, or otherwise. To the extent that a party is obligated to produce (or obligated to accept) electronic documents in a particular format or with particular characteristics intact (such as metadata, color, motion, or manipulability), the costs to make duplicates in such a format or with such characteristics preserved are recoverable as "the costs of making copies . . . necessarily obtained for use in the case." But only the costs of creating the produced duplicates are included, not a number of preparatory or ancillary costs commonly incurred leading up to, in conjunction with, or after duplication.

The Federal Circuit stated that the creation of "load files" would be covered to the extent that those files contain information required by the requested production. Also, the costs of copying responsive documents to production media would be recoverable. With respect to source code, covered costs include the costs incurred in providing a secured computer for the time the requester is entitled to access to it, installing on the secured computer whatever review software the requester requires, and copying the source code files to the secured computer. However, costs incurred in planning, preparation, coordination, and communications associated with those tasks would not be recoverable.

Federal Circuit Vacates Denial Of Motion For Attorneys' Fees

In *Kilopass Technology, Inc. v. Sidense Corp.* (Appeal No. 2013-1193), the Federal Circuit vacated and remanded the district court's denial of a motion seeking an award of attorneys' fees under 35 U.S.C. § 285.

The district court granted summary judgment in favor of Sidense, holding that it did not infringe Kilopass's patents. The Federal Circuit summarily affirmed that decision under Federal Circuit Rule 36. While that appeal was pending, Sidense filed a motion in the district court seeking an award of attorneys' fees under 35 U.S.C. § 285. The district court denied the motion and Sidense appealed.

The district court rejected Sidense's request for fees based solely on Sidense's purported failure to establish subjective bad faith. The Federal Circuit held that subjective bad faith only requires proof that 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. Actual knowledge of baselessness is not required. A defendant need only prove reckless conduct to satisfy the subjective component of the § 285 analysis.

The Federal Circuit noted that factors such as the failure to conduct an adequate pre-suit investigation, vexatious or unduly burdensome litigation tactics, misconduct in procuring the patent, or an oppressive purpose are factors which can be indicative of bad faith. The wide variety of ways available to establish bad faith is why the case law has long required a party seeking fees under § 285 to prove the other guilty of bad faith litigation by clear and convincing evidence in light of the

totality of the circumstances." Accordingly, the Federal Circuit vacated the district court's judgment denying fees and remanded the case for consideration of whether Kilopass acted in bad faith in light of the totality of the circumstances.

Federal Circuit Vacates In Part ITC Exclusion Order

In *Suprema, Inc. v. ITC* (Appeal No. 2012-1170), the Federal Circuit vacated in part an ITC exclusion order on the grounds that the accused device did not infringe at the time of import.

The asserted patents relate to fingerprint scanners and methods for capturing and processing a fingerprint image. The parties agreed that the accused scanners did not directly infringe the method claims at the time of importation. Rather, direct infringement only occurred after the scanners were combined with domestically developed software after the scanners were imported. It was further undisputed that the scanners have substantial non-infringing uses.

The Federal Circuit held that the ITC's authority under section 337 extended only to articles that infringed at the time of import and that an exclusion order may not be predicated on a theory of induced infringement where direct infringement does not occur until *after* importation of the articles the exclusion order would bar.

Contact Us:

www.gbpatent.com

gbpatent@gbpatent.com

703-716-1191 (phone)

703-716-1180 (fax)

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