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Recent Litigation News in Intellectual Property

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Federal Circuit Reverses Order Denying Stay

In *VirtualAgility Inc. v. Salesforce.com, Inc.* (Appeal No. 2014-1232), the Federal Circuit reversed the district court's order denying defendants' motion for a stay of the district court proceedings pending CBM review.

In January 2013, VirtualAgility sued the defendants alleging infringement of U.S. Patent No. 8,095,413 ('413 patent). On May 24, 2013, defendant Salesforce filed a petition with the Patent Trial and Appeal Board (PTAB) for post-grant review of all claims of the '413 patent under the CBM program. On May 29, 2013, defendants filed a motion to stay district court proceedings pursuant to AIA § 18(b)(1). In November 2013, the PTAB granted-in-part Salesforce's petition based on its conclusion that all claims of the '413 patent are directed to a covered business method, and are more likely than not patent-ineligible under 35 U.S.C.

§ 101 and invalid under § 102.

In January 2014, the district court denied defendants' motion to stay the case pending CBM review. Defendants filed an interlocutory appeal, and also filed motions to stay the district court proceedings pending the disposition of the appeal.

The Federal Circuit noted that the statute (AIA § 18(b)(1)) instructs the district court to consider four factors when deciding whether to grant a stay: (1) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial; (2) whether discovery is complete and whether a trial date has been set; (3) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and (4) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

The Federal Circuit, in a split decision, found that three of the four factors weighed heavily in favor of a stay: simplification of the issues and streamlining of the trial, whether discovery is complete and a trial date has been set, and reduction of the burden of litigation on the parties and the court. The Federal Circuit also found that the undue prejudice factor, at best, weighed slightly in favor of denying a stay. On this record, the Federal Circuit concluded that the district court abused its discretion when it denied the stay.

Federal Circuit Affirms Dismissal For Lack Of Standing

In *Stauffer v. Brooks Brothers Group, Inc.* (Appeal No. 2013-1180), the Federal

Circuit affirmed the dismissal of Mr. Stauffer's suit for lack of standing due to the elimination of the qui tam provision in the false-marking statute.

The basis of Mr. Stauffer's allegation was that Brooks Brothers had violated the false-marking statute by marking its bow ties with patent numbers that had expired more than a half century ago. However, before reaching the merits of the suit and before enactment of the AIA, the district court dismissed the suit for lack of standing, finding that Mr. Stauffer failed to satisfy the constitutional requirement of an "injury in fact." On appeal, the Federal Circuit held that, if Mr. Stauffer's allegations were correct, the United States had suffered an "injury in fact" and that therefore Mr. Stauffer, as an assignee of the government's damages claim, satisfied the requirement of showing standing. The case was the remanded.

While the case was pending, the AIA was enacted. The AIA made three significant changes to the false-marking statute: it eliminated the statute's qui tam provision; it expressly stated that marking a product with an expired patent is not a violation of the statute; and it provided that the amendments apply to all pending cases.

After enactment of the AIA, Mr. Stauffer conceded that the amendments eliminated his standing and left him with no claim for relief on the merits. He contended, however, that applying the amendments retroactively violated the Constitution's separation of powers. In response to the district court's order to show cause why his case should not be dismissed, Mr. Stauffer argued that the retroactive application of the amendments usurped the President's pardon power. According to Mr. Stauffer, Brooks Brothers committed a criminal act by falsely marking its bow ties with expired patent numbers. By eliminating Brooks Brothers' criminal liability, Mr. Stauffer claimed, Congress effectuated a pardon -a right exclusively granted to the President. Mr. Stauffer also argued that the amendments to the false-marking statute violated the common-law qui tam principle that prohibits use of a pardon to vitiate a qui tam action once it has commenced. The district court again dismissed Mr. Stauffer's suit for lack of standing.

The Federal Circuit held the AIA amendments did not constitute an impermissible pardon, but were "better characterized as repealing a law, an action undoubtedly within Congress's power." The Federal Circuit affirmed the dismissal of Mr. Stauffer's suit for lack of standing due to the elimination of the qui tam provision in the false-marking statute.

Federal Circuit Affirms Summary Judgment That Claims Were Patent Ineligible

In *Digitech Image Technologies, LLC v. Electronics for Imaging, Inc.* (Appeal No. 2013-1600), Digitech asserted a patent directed to the generation and use of an "improved device profile" that describes spatial and color properties of a device within a digital image processing system.

Digitech filed infringement suits against 32 defendants asserting claims directed to a "device profile" or to methods for generating a "device profile." Several defendants filed summary judgment motions seeking to invalidate the asserted claims of under 35 U.S.C. § 101. The district court granted the defendants' motions and found that all of the asserted claims were subject

matter ineligible. The district court found that the "device profile" claims were directed to a collection of numerical data that lacks a physical component or physical manifestation. The district court thus concluded that a "device profile" is nothing more than information and does not fall within one of the categories of eligible subject matter under section 101. The district court further concluded that the asserted method claims for generating a device profile encompass the abstract idea of organizing data through mathematical correlations. The district court thus concluded that the asserted method claims were also ineligible under section 101.

On appeal, the Federal Circuit stated that the device profile described in the patent was not a tangible or physical thing and thus does not fall within any of the categories of eligible subject matter. Rather, the independent claims describe a device profile as a collection of information; specifically, a description of a device dependent transformation of spatial and color information.

The Federal Circuit held that the device profile, as claimed, is a collection of intangible color and spatial information, and therefore did not encompass eligible subject matter as required by section 101 and is not patent eligible. The Federal Circuit accordingly upheld the district court's grant of summary judgment that the claims were patent ineligible.

Federal Circuit Vacates Injunction And Contempt Sanctions

In *ePlus, Inc. v. Lawson Software, Inc.* (Appeal No. 2013-1506), the Federal Circuit vacated an injunction and civil contempt sanctions.

ePlus sued Lawson for infringement and the district court found two of the asserted system claims and three of the asserted method claims not invalid, and a jury found that Lawson infringed those claims. In an earlier appeal, the Federal Circuit reversed in part on the ground that the system claims were invalid and that two of the asserted method claims were not infringed. The Federal Circuit affirmed only the infringement verdict as to one method claim—claim 26 of the '683 patent. On remand, the district court modified the injunction in one respect and found Lawson in civil contempt for violating the injunction. Lawson appealed both the injunction and contempt order. During the pendency of Lawson's appeals, the PTO completed a reexamination of the '683 patent and determined that claim 26 was invalid. In a separate appeal, the Federal Circuit affirmed the PTO's invalidity determination, and the PTO cancelled claim 26.

The issues raised on appeal were (1) whether an injunction can continue after the PTO has cancelled the only claim on which the injunction was based; and (2) whether civil contempt remedies based on the violation of an injunction are appropriate when the injunction has been overturned on direct appeal.

The Federal Circuit, following its *Fresenius* decision, held that the district court's injunction and contempt orders could not stand. The case was vacated and remanded with instructions to dismiss.

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