

**April 14, 2010**

### **Federal Circuit Confirms District Courts Can Modify Claim Construction at Trial**

In a recent decision, *Pressure Products Medical Supplies, Inc. v. Greatbatch LTD.*, No. 2008-1602 (Fed. Cir. Mar. 24, 2010), the Federal Circuit vacated the U.S. District Court for the Eastern District of Texas's finding of infringement and remanded the case for further proceedings. In its decision, the Federal Circuit confirmed that district courts may engage in rolling claim construction and provided guidance on motions for leave to plead inequitable conduct.

During the underlying litigation, the magistrate judge held a claim construction hearing on August 15, 2007 and entered a claim construction order on March 19, 2008, about three months before trial. During trial, the court, sua sponte, amended the claim construction in response to the defendant's cross-examination of various witnesses. On appeal, the Federal Circuit concluded that it was proper for the district court to supplement the claim construction, even during trial. The Federal Circuit, however, held that the court's construction of a means-plus-function term in its amendment of the claim construction was incorrect because the construction included corresponding structures from prior art references that did not appear in, and were not incorporated by reference in, the specification. Because the court used structures from the prior art references listed in the patent to define structures not expressly disclosed in the specification, the Federal Circuit held the claim construction was in error and remanded the case for further proceedings.

The defendant also appealed the district court's denial of its motion for leave to amend its answer to plead inequitable conduct. The inequitable conduct allegation was based on a declaration filed during prosecution in which the declarant stated that he did not recall signing two previous declarations. Further, the defendant failed to conduct any discovery on the declaration. In affirming the district court's action, the Federal Circuit pointed to its recent opinions requiring "specific and demanding showings of evidence before a party may assert the defense of inequitable conduct." *Pressure Products*, No. 2008-1602 at 18 (citing *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 535 F.3d 1357 (Fed. Cir. 2008), and *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009)). Based on these cases, the Federal Circuit concluded that the amended pleading would likely not satisfy these higher standards of proof necessary to plead inequitable conduct, further supporting the lower courts decision.

The *Pressure Products* decision is an important reminder for litigants on two fronts. First, while the district court is not likely to amend its claim construction opinions, new evidence, even evidence submitted during trial, may place the court in a better position to interpret the claims as its understanding of the technology evolves. Thus, in appropriate situations, litigants should consider moving the court to supplement its claim construction. Second, defendants must be diligent in investigating inequitable

conduct allegations. Failure to diligently investigate and plead inequitable conduct may result in waiver of the defense. But even with diligence, pleading inequitable conduct requires specific and demanding showings of evidence; without such showings, a court may strike the pleading or deny a motion for leave to amend.

A copy of the opinion can be found at <http://www.cafc.uscourts.gov/opinions/08-1602.pdf>.

### **Appellate Judge Excludes Damages Theory from Patent Trial**

Judge Randall Rader of the Federal Circuit Court of Appeals periodically takes a break from his appellate duties to preside over trials of patent cases at the district court level. In one such case, *IP Innovation, LLC v. Red Hat, Inc.*, Case No. 2:07-cv-447, Judge Rader on March 2, 2010, issued a decision reminding lawyers, litigants, and expert witnesses that plaintiffs must have a firm evidentiary foundation before submitting a broad damages theory to the jury.

In late 2009, the parties in *IP Innovation* were preparing to try their case before Judge Leonard Davis in the Marshall Division of the Eastern District of Texas when they got a surprise—Judge Rader, sitting by designation, would be presiding over the trial. In March, Judge Rader made his presence felt when he issued an order completely excluding the proposed testimony of the plaintiffs’ damages expert.

The asserted patents in this case involved a method for allowing computer users to switch around among multiple different workspaces. The plaintiffs and their expert accused the defendants’ Linux-based operating systems of infringement, and sought to recover a royalty for each system in question based on the value of the *entire operating system*. The plaintiffs’ damages model was based on the theory known as the “entire market value rule,” which can allow a patentee to collect damages based on the entire market value of an accused instrumentality, even if the patented invention is only one component of a larger apparatus. Under the facts of this case, Judge Rader emphatically rejected the plaintiffs’ approach.

Judge Rader began by noting that the entire market value rule may only be invoked where the patented feature forms “the basis for customer demand” for the larger accused device. In this case, he found that “[t]he claimed invention is but one relatively small component of the accused operating systems. The evidence shows that the workplace switching feature represents only one of over a thousand components included in the accused products.” Although the plaintiffs’ expert pointed to some isolated statements about the popularity of workplace switching in general, the court held that such evidence had no “relationship to the actual claimed technology.”

Judge Rader went further and noted that the record in the case “suggests that users do not buy the accused operating systems for their workspace switching feature.” He noted that some accused products did not even include the allegedly infringing feature, others did not have the feature enabled, and, even in those products where it was included and enabled, many consumers still did not use the feature.

In the decision, Judge Rader noted that the plaintiffs had tried to “shift the burden” to the defendants by arguing that they had failed to produce evidence sufficient for the plaintiffs’ expert to perform the kind of analysis the court required. The court was unmoved, noting that it was the plaintiffs’ burden to prove damages and that they “must show some plausible economic connection between the invented feature and the accused operating systems before using the market value of the entire product as the royalty base.”

## Eastern District of Texas Case Confirms Sanctions and Permanent Injunction

In a recent decision, *TiVo, Inc. v. EchoStar Corp.*, 2010 WL 724807 (Mar. 4, 2010), the Federal Circuit affirmed a decision by the U.S. District Court for the Eastern District of Texas that found EchoStar in contempt of a permanent injunction order and imposed almost \$90 million in sanctions.

In the underlying case, a jury found that EchoStar's products infringed one of TiVo's patents. Based on the infringement, the Eastern District of Texas granted TiVo a permanent injunction. TiVo later asked the district court to find EchoStar in contempt of its permanent injunction due to EchoStar's sales of what EchoStar argued were redesigned and noninfringing products. The district court rejected EchoStar's argument, finding the redesigned products were not significantly different from the originally infringing products. Based on the continuing infringement, the court found EchoStar in contempt of the permanent injunction and imposed sanctions of nearly \$90 million. The court also ordered EchoStar to seek prior court approval before implementing any future workarounds. EchoStar appealed these rulings to the Federal Circuit, arguing, among other things, that the district court abused its discretion when it evaluated whether EchoStar's redesigned products infringed in the context of a contempt hearing, and that EchoStar should have a new trial to litigate whether its redesigned products infringed.

The Federal Circuit held that the trial court applied the correct standard in determining whether a contempt hearing was the right forum to determine infringement of redesigned products: the appropriateness of a contempt hearing is measured by "comparing the accused product with the original infringing product to determine if there is 'more than a colorable difference' between the accused product and the adjudged infringing product such that 'substantial open issues with respect to infringement' exist." After reviewing the evidence, the Federal Circuit held that the Eastern District of Texas had not abused its discretion in finding that there was not a major redesign in EchoStar's infringing products sufficient to raise substantial open issues of infringement. The Federal Circuit also held that EchoStar could not question the scope of the permanent injunction in the context of a contempt hearing, and that "EchoStar waived any argument that the injunction was overbroad." Last, the Federal Circuit held that, as EchoStar's attempts to design around TiVo's patent were wholly unsuccessful, the district court had ample justification for its determination that court preapproval for any new design-around was necessary.

A copy of this opinion may be found at <http://www.cafc.uscourts.gov/opinions/09-1374.pdf>.

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