

# Recent Decisions In The United States

A recurring feature  
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## NEVADA PATENT HOLDER MAY BE SUED IN CALIFORNIA AFTER VARIOUS REPEATED CONTACTS IN CALIFORNIA

The law concerning personal jurisdiction of a court over a party prevents a party from being sued and dragged into court in unfavorable or inconvenient locations when the party's activities have little or no relation to the court where it is sued. In *Electronics for Imaging, Inc. v. Coyle*, No. 02-1536 (Fed. Cir. Aug. 18, 2003), the Federal Circuit held that repeated communications directed at a California-based company (EFI) by a Nevada patent holder (Coyle) were activities sufficient to allow a California court to have personal jurisdiction over Coyle when EFI brought a declaratory judgment action against Coyle in a California court.

In late 1999 or early 2000, Coyle solicited EFI, a company based in California, to purchase his printer interface technology for which a patent application had been filed. EFI and Coyle then entered into a non-disclosure agreement ("NDA") with a choice of law provision favoring California law. After signing the NDA, Coyle contacted EFI in California repeatedly, sending EFI information about his interface technology, sending representatives to visit EFI's facilities in California to demonstrate the technology, providing portions of the patent application prosecution history to EFI, and personally contacting EFI.

In September 2001, Coyle informed EFI that his patent application had been allowed and covered EFI's products and provided further information about his technology. Later in 2001, Coyle repeatedly threatened EFI with litigation. In response, EFI filed a declaratory judgment action in the United States District Court for the Northern District of California in which it sought a judgment that it did not breach the NDA or misappropriate trade secrets and that Coyle's patent is invalid. The district court dismissed the complaint for lack of personal jurisdiction, finding EFI had failed to establish that Coyle had purposely directed his activities at California. On appeal, the Federal Circuit reversed.

The Federal Circuit first held that Federal Circuit law applies to EFI's patent claim and that Ninth Circuit law applies to its state law claim. The Federal Circuit explained that its prior decisions make clear that where a

personal jurisdiction issue is intimately involved with the substance of patent laws, Federal Circuit law should be applied. On the other hand, the court noted that claims of breach of an NDA and misappropriation of trade secrets do not present questions that are intimately involved with the substance of patent laws, and that Ninth Circuit law should be applied.

Addressing the patent claim under Federal Circuit law, the court recounted its tripartite test for determining whether jurisdiction over an out-of-state defendant comports with due process:

- 1) whether the defendant purposefully directed its activities at the residents of the forum state;
- 2) whether the claim arises out of or relates to the defendants' activities with the forum state; and
- 3) whether assertion of personal jurisdiction is reasonable and fair.

Addressing the first prong, the court concluded that Coyle had purposefully directed his activities at EFI in California with his repeated contacts and threats of litigation. In addition, the court noted that Coyle hired two California law firms to prosecute his patent, hired a California attorney to contact EFI and report on the progress of his patent application, and sent two representatives to visit EFI's facility in California. The Federal Circuit concluded that the totality of these contacts sufficiently demonstrated that Coyle purposely directed his activities at EFI in California.

The Federal Circuit likewise concluded that the second prong of the jurisdictional analysis was satisfied because EFI's invalidity claim related to Coyle's contacts with California. Finally, the Federal Circuit found that the exercise of personal jurisdiction over Coyle was reasonable and fair. In particular, the Federal Circuit concluded that the exercise of jurisdiction would not impose a geographic burden on Coyle who lived in Nevada, that California has a substantial interest in protecting its residents from claims of patent infringement, that EFI has an interest in protecting itself from infringement claims, that having California as a forum would result in the efficient resolution of the dispute, and that there is no conflict between the interests of California and Nevada as the same body of federal patent law governs EFI's invalidity claim. The

court therefore concluded that personal jurisdiction over Coyle was proper for EFI's patent claim.

Addressing EFI's state law claim, the court stated the first part of the Ninth Circuit test requires that Coyle have performed some type of affirmative conduct which allowed or promoted the transaction of business within California. With respect to EFI's claim that it did not breach the NDA, the court noted that the confidentiality requirements in the agreement governed Coyle's contacts to California when he conveyed information about and solicited EFI to purchase his technology. The court further noted that the NDA contained a California choice-of-law clause. The court held that these contacts were sufficient to establish purposeful availment of the laws and protection of California.

The second part of the Ninth Circuit test inquires whether a particular claim arises out of forum-related activities. The Federal Circuit explained that the Ninth Circuit uses a "but for" test, which was satisfied in this case because the information Coyle provided to EFI constituted the factual basis for Coyle's threatened breach of contract action. As to the third prong of the Ninth Circuit test, the court concluded that jurisdiction over Coyle on the contract claim was reasonable given the many factors discussed above with respect to the patent claim and the California choice-of-law clause in the NDA. Finally, the court concluded that the district court's exercise of jurisdiction over Coyle as to EFI's claim that it did not misappropriate trade secrets would comport with due process for the reasons discussed with respect to the contract claim.

### **PRE-LITIGATION CONDUCT IS INSUFFICIENT TO SUPPORT AN AWARD OF ATTORNEY FEES**

In *Forest Laboratories, Inc. v. Abbott Laboratories, Inc.*, No. 03-1067 (Fed. Cir. Aug. 7, 2003), the Federal Circuit held that bad faith business conduct, occurring before litigation, is insufficient to support an award of attorney fees.

In this case, two competing drug companies developed similar products for the treatment of respiratory distress syndrome in premature babies. In the 1980s, Abbott Labs, under an exclusive license from Tokyo Tanabe Co., developed a commercial product known as Survanta®, for which it received FDA approval in 1991. Also during the 1980s, ONY, Inc. developed its own product known as CLSE. In 1991, ONY, Inc. entered into an agreement with Forest Labs to further develop and market CLSE under the trade name Infasurf®.

From 1983 until 1991, ONY and Abbott maintained contact regarding the development of CLSE. They met in 1983 to discuss the joint development and testing of CLSE, but Abbott opted not to pursue a relationship with ONY. Instead, Abbott entered into an exclusive license with Tokyo Tanabe for two patents covering what later became Abbott's Survanta®. In 1984, at Abbott's request, ONY submitted a memorandum of invention to Abbott disclosing everything known about CLSE for Abbott to conduct a patentability search. Upon completion of the search, Abbott informed ONY that CLSE was not patentable in light of two references, but did not mention the

two Tokyo Tanabe patents, and Abbott indicated that it looked forward to working with ONY in the future. In 1986, Abbott met again with ONY to discuss the possibility of jointly developing CLSE, and Abbott continued to monitor ONY's development of CLSE.

In 1994 Abbott informed ONY and Forest Labs that it had reason to believe that ONY's Infasurf® would infringe the Tokyo Tanabe patents licensed to Abbott. In 1995, after Abbott's Survanta® received FDA approval, ONY filed a new drug application for its competing product, Infasurf®. The FDA concluded that the two drugs were the same and that ONY's Infasurf® could not be approved. ONY and Forest Labs then sued Abbott and Tokyo Tanabe in the United States District Court for the Western District of New York, seeking a declaratory judgment of noninfringement and invalidity of the Tokyo Tanabe patents. ONY and Forest also claimed that Abbott, because of its behavior, was equitably estopped from asserting the patents. Abbott and Tokyo Tanabe counterclaimed for infringement.

A jury found the patents infringed and not invalid and issued an advisory ruling that Abbott was not equitably estopped from asserting infringement. The district court, however, granted judgment of noninfringement as a matter of law. The court further held that Abbott was equitably estopped from asserting infringement of the Tokyo Tanabe patents because (1) Abbott, in bad faith, misled ONY and Forest Labs into believing that it would not assert infringement by encouraging their development of Infasurf®, (2) ONY and Forest Labs reasonably relied on Abbott's misleading conduct, and (3) ONY and Forest Labs would suffer economic and evidentiary prejudice if Abbott were permitted to proceed with its infringement claim. The district court, finding the case exceptional, also granted ONY and Forest Labs' motion for attorney fees and expenses against Abbott. Abbott appealed the fee award and the Federal Circuit reversed.

The Federal Circuit recounted the two step inquiry, under 35 U.S.C. § 285, for assessing attorney fees: (1) whether the prevailing party has proven by clear and convincing evidence that the case is exceptional and (2) if the case is exceptional, whether an award of fees is appropriate. The Federal Circuit noted that exceptional cases are limited to those involving inequitable conduct before the Patent Office, litigation misconduct, vexatious, unjustified, and otherwise bad faith litigation, a frivolous suit, or willful infringement. Emphasizing that it has only upheld findings of exceptionality in cases in which a patentee procured its patent by bad faith or litigated its claim of infringement in bad faith, the Federal Circuit held that bad faith business conduct, prior to litigation, does not render a case exceptional. The Court noted that while such conduct may form the basis for an equitable estoppel defense, barring a patentee from asserting infringement, it does not qualify a case as exceptional under 35 U.S.C. § 285.

The Federal Circuit also held that Abbott's pre-litigation conduct does not equate to bad faith litigation which requires vexatious, unjustified, or frivolous litigation. According to the court, the pertinent inquiry is whether Ab-

bott knew or should have known that it would be estopped from asserting the Tokyo Tanabe patents, but pursued its infringement counterclaim anyway. The court, citing the jury's advisory verdict of no equitable estoppel and the district court's denial of judgment as a matter of law at the close of evidence, held that Abbott's position was not baseless. Therefore, the case was not exceptional and an award of attorney fees was inappropriate.

### **DISMISSAL OF A PATENT INFRINGEMENT SUIT BROUGHT BY A PLAINTIFF WHO RECEIVED AN INEFFECTIVE ASSIGNMENT OF PATENT RIGHTS DOES NOT PRECLUDE A SUBSEQUENT SUIT BY A PLAINTIFF WHO RECEIVES AN EFFECTIVE ASSIGNMENT OF THOSE RIGHTS**

The policy of having finality and certainty in legal matters and the doctrine of claim preclusion prevents parties from raising claims that have been decided by a court. *Media Technologies Licensing, LLC. v. The Upper Deck Co.*, No. 02-1555 (Fed. Cir. July 11, 2003), involved a situation where a first suit was filed by a plaintiff who did not receive an assignment of patent rights before filing suit. After the court dismissed the case, the actual owner of the rights needed to determine whether it could effectively assert those rights in some way after the adverse determination, and decided to assign the patent rights to a new company that could then bring suit.

Adrian Gluck was the named inventor of U.S. Patent No. 5,803,501 relating to memorabilia cards. Gluck attempted to assign his rights in the '501 patent to LNCJ, Ltd., which then licensed the patent to Telepresence Technologies, LLC. With Gluck as its principal, Telepresence filed suit against several of its competitors in the memorabilia card industry for infringement. In that case, the district court held that the assignment from Gluck to LNCJ was ineffective and that Telepresence, therefore, did not have standing to assert infringement and dismissed the action. Telepresence did not appeal.

Gluck later created Media Technologies Licensing, LLC, naming himself as president of the company. Gluck then assigned and transferred his rights in the '501 patent to LNCJ by way of a quitclaim deed. At the same time, LNCJ and Telepresence terminated their outstanding license agreement, and Telepresence assigned and transferred any outstanding rights in the '501 patent to LNCJ. One week later, LNCJ assigned its patent rights to Media. Gluck and Telepresence also quitclaimed any interests they had in the '501 patent to Media.

Media then filed suit against Upper Deck, a memorabilia card competitor, for infringement. Upper Deck moved for summary judgment, asserting that Media's suit was barred by claim preclusion. The district court granted Upper Deck's motion, holding that Media was in privity with Telepresence, an entity whose similar infringement claim had been dismissed with prejudice for lack of standing. The Federal Circuit reversed.

Applying the law of the regional circuit, the Federal Circuit explained that the Ninth Circuit has held that claim preclusion is proper where:

- (1) the prior litigation was terminated by a final judgment on the merits;
- (2) the prior litigation involved the same claim or cause of action as the later suit; and
- (3) the same parties, or their privies, were involved in the prior litigation. The court focused its analysis on the first and third requirements.

First, the court held that prior dismissal for lack of standing in the Telepresence action was not a final adjudication on the merits. According to the court, standing is a threshold jurisdictional issue that must be resolved before proceeding to the merits of a case. The court reasoned that because a dismissal for lack of standing occurs before the merits of a case can be reached, it is not a final judgment on the merits.

Next, the Federal Circuit held that Telepresence was not in privity with Media. The court noted that privity exists between a party and a nonparty if their interests are so closely aligned that the party could be said to have been the nonparty's "virtual representative" in the prior action. The court further noted that privity requires the virtual representation relationship to have existed at the time of the prior action, and since in this case, Media did not exist at the time of Telepresence's prior action, there was no privity between Media and Telepresence. The court also pointed out that Media is not the same as Telepresence coming back for a second bite of the apple; it is the entity with all the interest in the patent that was lacking before in the prior suit by Telepresence.

Since the court found both a lack of a prior final judgment on the merits and a lack of privity between Media and Telepresence, it held that Media was not precluded from asserting infringement and reversed the district court's grant of summary judgment.