

2013 DRAFTING REQUEST

Bill

Received: **8/26/2013** Received By: **mgallagh**
Wanted: **As time permits** Same as LRB:
For: **Paul Farrow (608) 266-9174** By/Representing: **Scott R.**
May Contact: Drafter: **mgallagh**
Subject: **Trade Regulation - other** Addl. Drafters:
Extra Copies: **MDK**

Submit via email: **YES**
Requester's email: **Sen.Farrow@legis.wisconsin.gov**
Carbon copy (CC) to: **michael.gallagher@legis.wisconsin.gov**

Pre Topic:

No specific pre topic given

Topic:

Prevention of patent trolling

Instructions:

See attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	mgallagh 9/18/2013	evinz 9/20/2013	rschluet 9/20/2013	_____			
/P1	mgallagh 10/21/2013	evinz 10/23/2013		_____	mbarman 9/20/2013		
/P2	mgallagh 10/31/2013	evinz 10/31/2013	jmurphy 10/23/2013	_____	lparisi 10/23/2013		

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/P3	mgallagh 12/12/2013	evinz 12/12/2013	rschluet 10/31/2013	_____	lparisi 10/31/2013		State Crime
/1			jmurphy 12/12/2013	_____	srose 12/12/2013	lparisi 12/13/2013	State Crime

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At
Intro.

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Fixed 12/12/13

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10/31/2013

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	<i>p3 eev 10/31/13</i>		<i>p3 eev 10/31/13</i>	<i>[Signature] 10/31/13 jm</i>			

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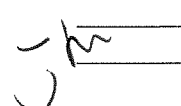
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1?	mgallagh	1 pleev 9/18/13					

FE Sent For:

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Gallagher, Michael

From: Rausch, Scott
Sent: Friday, August 23, 2013 1:13 PM
To: Gallagher, Michael
Subject: Bill Draft Request
Attachments: 201308231301.pdf

Michael,

Please see the attached Bill Request Form and accompanying materials. I think this proposal may fall under economic development, but I am not sure. Please let me know if this should be forwarded on to someone else with LRB.

Thank you for your attention to this request.

Regards,

Scott Rausch
Office of Senator Paul Farrow

Bill Request Form

Legislative Reference Bureau

One East Main Street, Suite 200

Legal Section 266-3561

You may use this form or talk directly with the LRB attorney who will draft the bill.

Date 8/23/13

Legislator, agency, or other person requesting this draft SEN. PAUL FARROW

Person submitting request (name and phone number) SCOTT RAUSCH; 6-9174

Persons to contact for questions about this draft (names and phone numbers) _____

Describe the problem, including any helpful examples. How do you want to solve the problem?

THIS PROPOSAL WOULD HELP COMBAT "PATENT TROLLING"
WHICH HAS BEEN SEEN AS UNFAIR COMPETITION IN
THE BUSINESS / MANUFACTURING INDUSTRIES.

PLEASE SEE THE ATTACHED SHEETS (5) FOR
FURTHER CLARIFICATION.

Please attach a copy of any correspondence or other material that may help us. If you know of any statute sections that might be affected, list them or provide a marked-up copy.

You may attach a marked-up copy of any LRB draft or provide its number (e.g., 2010 LRB-2345/1 or 2009 AB-67).

Requests are confidential unless stated otherwise. May we tell others that we are working on this for you? YES NO

If yes: Anyone who asks? YES NO
Any legislator? YES NO

Only the following persons _____

Do you consider this request urgent? YES NO

Should we give this request priority over any pending request of this legislator, agency, or person?

YES NO



N61W23044 Harry's Way
Sussex, WI 53089-3995
tel 414.566.6000
www.qg.com

Patent Assertion Entities ("Patent Trolls") Reform Legislation Rationale for needed reform

PROBLEM:

Innovators across Wisconsin are faced with challenges from Patent Assertion Entities (PAEs), companies that don't actually produce anything themselves and instead develop a business model to leverage and somebody else's idea and see if they can extort some money out of unsuspecting companies who innocently purchased some piece of technology or process.

Often these PAEs will send vague demand letters alleging an infringement without providing any clear details of who they are, what patent is being allegedly infringed upon, or any actual evidence of the alleged infringement. This lack of transparency means companies are faced with expensive investigations before they can even determine if there is any validity to the alleged infringement. These demand letters are designed to threaten the target and result in a settlement on a claim that may or may not actually be legitimate.

RATIONALE & GOALS FOR REFORM:

Wisconsin is striving to build a strong and vibrant economy. Attracting new and nurturing existing small and medium sized knowledge based companies is an important part of this effort and will be beneficial to Wisconsin's future.

Patents are essential to encouraging innovation, especially in the IT and knowledge based fields. The protections afforded by the federal patent system create an incentive to invest in research and innovation, which spurs economic growth. Patent holders have every right to enforce their patents when they are infringed, and patent enforcement litigation is necessary to protect intellectual property. The State of Wisconsin does not wish to interfere with the good faith enforcement of patents or good faith patent litigation.

Patent litigation can be technical, complex, and expensive. The expense of patent litigation, which may cost hundreds of thousands of dollars or more, can be a significant burden on small and medium sized companies. Wisconsin wishes to help its businesses avoid these costs by encouraging the most efficient resolution of patent infringement claims without conflicting with federal law.

In order for Wisconsin companies to be able to respond promptly and efficiently to patent infringement assertions against them, it is necessary that they receive specific information regarding how their product, service, or technology may have infringed the patent at issue. Receiving such information at an early stage will facilitate the resolution of claims and lessen the burden of potential litigation on Wisconsin companies.

Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm Wisconsin companies. A business that receives a letter asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and to pay a licensing fee, even if the claim is meritless. This is especially so for small and medium sized companies and nonprofits that lack the resources to investigate and defend themselves against infringement claims.

Not only do bad faith patent infringement claims impose a significant burden on individual businesses, they also undermine Wisconsin's efforts to attract and nurture small and medium sized knowledge based

companies. Funds used to avoid the threat of bad faith litigation are no longer available to invest, produce new products, expand, or hire new workers, thereby harming Wisconsin's economy.

This narrowly focused bill seeks to facilitate the efficient and prompt resolution of patent infringement claims, protect Wisconsin businesses from abusive and bad faith assertions of patent infringement, and build Wisconsin's economy, while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.

PROPOSAL:

In order to combat the problem established above the following is proposed:

- 1) Prohibit "bad faith" assertions of patent infringements under the unfair competition statutes
- 2) Require that "demand letters" and complaints clearly state the following:
 - a. The patent number for each asserted patent
 - b. The asserted claim or claims of each patent
 - c. Each product or service accused of infringement by each claim
 - d. The name and address of the patent owner or owners and assignee or assignees (if any)
 - e. Factual allegations and patent owner's theory concerning the specific areas in which the target's products, services and/or technology infringe on the patent
- 3) Require that the person sending the demand letter must conduct an analysis comparing the claims in the patent to the target's products, services, and technology. The analysis must identify specific areas in which the products, services and technology are covered by the claims in the patent.
- 4) Evidence of "bad faith" is as follows:
 - a. Demand letter demands payment of a license fee or response within an unreasonably short period of time.
 - b. The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.
 - c. The claim or assertion of patent infringement is meritless, and the person knew or should have known, that the claim or assertion is meritless
 - d. The claim or assertion of patent infringement is deceptive
 - e. The person or its subsidiaries have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and those threats or lawsuits lacked the information described in (2) above or the person attempted to enforce the claim and a court found the claim to be meritless.
7. 5) The bill would also lay out factors as evidence that person has not made a bad faith assertion of patent infringement (see DRAFT bill)
- 6) Enforcement, Remedies and Damages:
 - a. The attorney General and/or the target of the meritless claim shall have a cause of action against the PAE (patent troll). A court may awarded the following remedies to a plaintiff who prevails:
 - i. Equitable relief
 - ii. Damages
 - iii. Costs and fees, including reasonable attorney's fees; and
 - iv. Exemplary damages in an amount equal to \$50,000 or three times the total of damages, costs, and fees, whichever is greater.

PROPOSED WISCONSIN LEGISLATION

The following would be sample DRAFT Legislation for Wisconsin based on Patent Trolling being "Unfair Competition." This is largely based on the legislation that has been enacted into Law in Vermont.

DEFINITIONS

In this chapter:

- (1) "Notification" means a letter, e-mail, or other communication.
- (2) "Target" means a Wisconsin person or company
 - (a) who has received a notification raising questions or concerns in connection with a patent;
 - (b) who has been threatened with litigation or against which a lawsuit has been filed alleging patent infringement; or
 - (c) whose customers have received a notification in connection with a patent or who has been threatened with litigation or against which a lawsuit has been filed alleging patent infringement.
- (3) "Wisconsin person or company" means a natural person or business that resides or has a presence in Wisconsin.

BAD FAITH ASSERTIONS INVOLVING PATENTS

(A) In accordance with [WI unfair competition statute – whatever that is], a person shall not make a bad faith assertion with respect to a patent.

(B) A court may consider one or more of the following factors as evidence that a person has made a bad faith assertion with respect to a patent:

- (1) Providing a notification that does not contain one or more of the following information:
 - (a) the patent number or patent application number for each asserted patent or pending patent, including a physical or electronic copy of each such patent (b) each asserted claim or claims of each patent,
 - (c) each product, service, process or technology accused of being covered by, relating to, or infringed by each claim,
 - (d) the complete name and address of the patent owner(s), assignee(s) and licensee(s), if any, such address shall not be a p.o. box, the address of such owner(s), assignee(s) or licensee(s) legal representative or any other third party who does not have a vested right in and to the patent(s); and
 - (e) factual allegations and patent owner's theory concerning the specific areas in which the target's products, services, and technology are covered by, related to, or infringed by each limitation of each asserted claim of the patent.
- (2) In connection with the notification, the person fails to provide an analysis comparing the claims in the patent to the target's products, services, processes or technology, or such an analysis was done but does not identify with reasonably sufficient detail the specific areas in which the products, services, processes or technology are covered by, related to, or infringed by the claims in the patent.

(3) To the extent that the notification lacks the information described in subdivision (1) of this subsection, the target requests the information, and the person fails to provide the information within a reasonable period of time.

(4) The notification demands payment of a license fee or response within an unreasonably short period of time.

(5) The person providing the notification offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license in relation to target's products, services, processes or technology.

(6) The notification includes a claim or assertion of a patent that is meritless, and the person knew, or reasonably should have known, that the claim or assertion is meritless.

(7) The notification is deceptive.

(8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claims and there is a history of the following:

(a) those threats or lawsuits lacked the information described in subdivision (1) of this subsection; or

(b) the court dismissing the action or entering a judgment in favor of the party or parties against which the action was brought.

(9) Any other factor the court finds relevant.

(C) A court may consider one or more of the following factors as evidence that a person has not made a bad faith assertion with respect to a patent:

(1) The notification contains the information described in subdivision (B)(1) of this section.

(2) Where the notification lacks one or more of the information described in subdivision (B)(1) of this section and the target requests the information, the person provides the information within a reasonable period of time.

(3) The person engages in a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy.

(4) The person makes a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent.

(5) The person has engaged in good faith licensing negotiations and valuation with others.

(6) The person is:

(a) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

(b) an institution of higher education or a technology transfer organization owned or affiliated with and authorized by an institution of higher education.

(7) The person has:

(a) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

(b) successfully enforced the patent, or a substantially similar patent, through litigation.

(8) Any other factor the court finds relevant.

BOND

Upon motion by a target and a finding by the court that a target has established a reasonable likelihood that a person has made a bad faith assertion with respect to a patent in violation of this chapter, the court shall require the person to post a bond in an amount equal to a good faith estimate of the target's costs to litigate the claim and amounts reasonably likely to be recovered under § _____, conditioned upon payment of any amounts finally determined to be due to the target. A hearing shall be held if either party so requests. A bond ordered pursuant to this section shall not exceed \$250,000.00. The court may waive the bond requirement if it finds the person has available assets equal to the amount of the proposed bond or for other good cause shown.

ENFORCEMENT; REMEDIES; DAMAGES

(A) The Attorney General shall have the same authority under this chapter to make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance as provided under _____. In an action brought by the Attorney General under this chapter the court may award or impose any relief available under _____.

(B) A target of conduct involving assertions with respect to a patent, or a person aggrieved by a violation of this chapter or by a violation of rules adopted under this chapter, may bring an action in Circuit Court under s.s. _____ (the unfair competition statute in WI). A court may award the following remedies to a plaintiff who prevails in an action brought pursuant to this subsection:

- (1) equitable relief;
- (2) damages;
- (3) costs and fees, including reasonable attorney's fees; and
- (4) exemplary damages in an amount equal to \$50,000.00 or three times the total of damages, costs, and fees, whichever is greater.

(C) This chapter shall not be construed to limit rights and remedies available to the State of Wisconsin or to any person under any other law and shall not alter or restrict the Attorney General's authority under _____ with regard to conduct involving assertions with respect to a patent.

View the [complete text](#) of this act

Act No. 44 (H.299).

An act relating to amending consumer protection provisions for propane refunds, unsolicited demands for payment, bad faith assertions of patent infringement and failure to comply with civil investigations

This act amends multiple provisions of Vermont's consumer protection laws.

Sec. 1 amends provisions of 9 V.S.A. § 2461b governing propane. Subdivision 2461b(e)(4) creates a cap on the amount of the per diem penalty that accrues if a propane seller does not timely provide a refund owed to a consumer. The cap is equal to 10 times the amount of the refund. Subsection 2461b(h) creates a time line, protocol, and penalty structure for a propane seller to remove a tank from a former customer's property.

Sec. 2 provides that the penalties created for a seller's failure to remove in a timely way a tank do not begin to accrue until July 20, 2013.

Sec. 3, amending 9 V.S.A. § 2461e, specifies that a "cost-plus contract" qualifies as one of several possible types of guaranteed price plans for the retail sale of home heating oil, and that a "cost-plus contract" must be in writing, in plain language, and provide full disclosure of the terms and conditions of the price plan.

Sec. 4, amending 9 V.S.A. chapter 135, creates a new 9 V.S.A. § 4402, Solicitation in the Guise of a Bill, Invoice, or Statement of Account. This new section creates state-law consumer protection and enforcement provisions, paralleling current federal requirements of the U.S. Postal Service, for solicitations that are designed to look like invoices or bills to consumers demanding payment for goods or services that a consumer has not actually ordered. Subsection (a) defines the type of "solicitation" governed by the section. Subsection (b) makes it a violation of the Consumer Protection Act to send a solicitation without following the requirements set out in subsections (c)–(d).

Sec. 5, amending 9 V.S.A. § 2460, enhances penalties for the failure to comply with an Attorney General's or State's attorney's civil investigation or a court order under the Consumer Protection Act. Under subdivision (b)(2) as amended, a person who fails to comply with a civil investigation or an order of a court shall be subject to a civil penalty of not more than \$25,000.00 and to recovery by the Attorney General or State's attorney's office the reasonable value of its services and expenses in enforcing compliance with this section.

Sec. 6, adds chapter 120 to Title 9, concerning bad faith assertions of patent infringement. A new section 4195 sets forth the Legislature's findings and statement of purpose, and section 4196 defines terms. The heart of the statute is contained in section 4197, which prohibits a person from making a bad faith assertion of patent infringement, and lays out a list of factors a court may consider as evidence of bad faith. Section 4198 authorizes a court, upon a showing of a reasonable likelihood that a person has made a bad faith assertion of patent infringement, to require that a bond be posted. Section 4199 states that the Attorney General has the same enforcement powers as under the Consumer Protection Act, and that a private party can seek equitable relief, costs and fees, and actual and punitive damages. Note: Sec. 6 is identical to Sec. 2 in Act No. 47 (S.7).

Effective Date: July 1, 2013

Also see: Crimes and criminal procedures; Act No. 9 (S.3); An act relating to allowing participation in out-of-state contests requiring a fee to enter

Also see: Health; Act No. 85 (S.81); An act relating to the regulation of octaBDE, pentaBDE, decaBDE, and the flame retardant known as Tris in consumer products

Also see: Judiciary; Act No. 8 (H.431); An act relating to mediation in foreclosure actions

Sec. 6. 9 V.S.A. chapter 120 is added to read:

CHAPTER 120. BAD FAITH ASSERTIONS
OF PATENT INFRINGEMENT

§ 4195. LEGISLATIVE FINDINGS AND STATEMENT OF PURPOSE

(a) The General Assembly finds that:

(1) Vermont is striving to build an entrepreneurial and knowledge based economy. Attracting and nurturing small and medium sized internet technology (“IT”) and other knowledge based companies is an important part of this effort and will be beneficial to Vermont’s future.

(2) Patents are essential to encouraging innovation, especially in the IT and knowledge based fields. The protections afforded by the federal patent system create an incentive to invest in research and innovation, which spurs economic growth. Patent holders have every right to enforce their patents when they are infringed, and patent enforcement litigation is necessary to protect intellectual property.

(3) The General Assembly does not wish to interfere with the good faith enforcement of patents or good faith patent litigation. The General Assembly also recognizes that Vermont is preempted from passing any law that conflicts with federal patent law.

(4) Patent litigation can be technical, complex, and expensive. The expense of patent litigation, which may cost hundreds of thousands of dollars or more, can be a significant burden on small and medium sized companies.

Vermont wishes to help its businesses avoid these costs by encouraging the most efficient resolution of patent infringement claims without conflicting with federal law.

(5) In order for Vermont companies to be able to respond promptly and efficiently to patent infringement assertions against them, it is necessary that they receive specific information regarding how their product, service, or technology may have infringed the patent at issue. Receiving such information at an early stage will facilitate the resolution of claims and lessen the burden of potential litigation on Vermont companies.

(6) Abusive patent litigation, and especially the assertion of bad faith infringement claims, can harm Vermont companies. A business that receives a letter asserting such claims faces the threat of expensive and protracted litigation and may feel that it has no choice but to settle and to pay a licensing fee, even if the claim is meritless. This is especially so for small and medium sized companies and nonprofits that lack the resources to investigate and defend themselves against infringement claims.

(7) Not only do bad faith patent infringement claims impose a significant burden on individual Vermont businesses, they also undermine Vermont's efforts to attract and nurture small and medium sized IT and other knowledge based companies. Funds used to avoid the threat of bad faith litigation are no longer available to invest, produce new products, expand, or hire new workers, thereby harming Vermont's economy.

(b) Through this narrowly focused act, the General Assembly seeks to facilitate the efficient and prompt resolution of patent infringement claims, protect Vermont businesses from abusive and bad faith assertions of patent infringement, and build Vermont's economy, while at the same time respecting federal law and being careful to not interfere with legitimate patent enforcement actions.

§ 4196. DEFINITIONS

In this chapter:

(1) "Demand letter" means a letter, e-mail, or other communication asserting or claiming that the target has engaged in patent infringement.

(2) "Target" means a Vermont person:

(A) who has received a demand letter or against whom an assertion or allegation of patent infringement has been made;

(B) who has been threatened with litigation or against whom a lawsuit has been filed alleging patent infringement; or

(C) whose customers have received a demand letter asserting that the person's product, service, or technology has infringed a patent.

§ 4197. BAD FAITH ASSERTIONS OF PATENT INFRINGEMENT

(a) A person shall not make a bad faith assertion of patent infringement.

(b) A court may consider the following factors as evidence that a person has made a bad faith assertion of patent infringement:

(1) The demand letter does not contain the following information:

(A) the patent number;

(B) the name and address of the patent owner or owners and assignee or assignees, if any; and

(C) factual allegations concerning the specific areas in which the target's products, services, and technology infringe the patent or are covered by the claims in the patent.

(2) Prior to sending the demand letter, the person fails to conduct an analysis comparing the claims in the patent to the target's products, services, and technology, or such an analysis was done but does not identify specific areas in which the products, services, and technology are covered by the claims in the patent.

(3) The demand letter lacks the information described in subdivision (1) of this subsection, the target requests the information, and the person fails to provide the information within a reasonable period of time.

(4) The demand letter demands payment of a license fee or response within an unreasonably short period of time.

(5) The person offers to license the patent for an amount that is not based on a reasonable estimate of the value of the license.

(6) The claim or assertion of patent infringement is meritless, and the person knew, or should have known, that the claim or assertion is meritless.

(7) The claim or assertion of patent infringement is deceptive.

(8) The person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement and:

(A) those threats or lawsuits lacked the information described in subdivision (1) of this subsection; or

(B) the person attempted to enforce the claim of patent infringement in litigation and a court found the claim to be meritless.

(9) Any other factor the court finds relevant.

(c) A court may consider the following factors as evidence that a person has not made a bad faith assertion of patent infringement:

(1) The demand letter contains the information described in subdivision (b)(1) of this section.

(2) Where the demand letter lacks the information described in subdivision (b)(1) of this section and the target requests the information, the person provides the information within a reasonable period of time.

(3) The person engages in a good faith effort to establish that the target has infringed the patent and to negotiate an appropriate remedy.

(4) The person makes a substantial investment in the use of the patent or in the production or sale of a product or item covered by the patent.

(5) The person is:

(A) the inventor or joint inventor of the patent or, in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, is the original assignee; or

(B) an institution of higher education or a technology transfer organization owned or affiliated with an institution of higher education.

(6) The person has:

(A) demonstrated good faith business practices in previous efforts to enforce the patent, or a substantially similar patent; or

(B) successfully enforced the patent, or a substantially similar patent, through litigation.

(7) Any other factor the court finds relevant.

§ 4198. BOND

Upon motion by a target and a finding by the court that a target has established a reasonable likelihood that a person has made a bad faith assertion of patent infringement in violation of this chapter, the court shall require the person to post a bond in an amount equal to a good faith estimate of the target's costs to litigate the claim and amounts reasonably likely to be recovered under § 4199(b) of this chapter, conditioned upon payment of any amounts finally determined to be due to the target. A hearing shall be held if either party so requests. A bond ordered pursuant to this section shall not exceed \$250,000.00. The court may waive the bond requirement if it finds the

person has available assets equal to the amount of the proposed bond or for other good cause shown.

§ 4199. ENFORCEMENT; REMEDIES; DAMAGES

(a) The Attorney General shall have the same authority under this chapter to make rules, conduct civil investigations, bring civil actions, and enter into assurances of discontinuance as provided under chapter 63 of this title. In an action brought by the Attorney General under this chapter the court may award or impose any relief available under chapter 63 of this title.

(b) A target of conduct involving assertions of patent infringement, or a person aggrieved by a violation of this chapter or by a violation of rules adopted under this chapter, may bring an action in Superior Court. A court may award the following remedies to a plaintiff who prevails in an action brought pursuant to this subsection:

(1) equitable relief;

(2) damages;

(3) costs and fees, including reasonable attorney's fees; and

(4) exemplary damages in an amount equal to \$50,000.00 or three times the total of damages, costs, and fees, whichever is greater.

(c) This chapter shall not be construed to limit rights and remedies available to the State of Vermont or to any person under any other law and shall not alter or restrict the Attorney General's authority under chapter 63 of this title with regard to conduct involving assertions of patent infringement.

Sec. 7. EFFECTIVE DATE

This act shall take effect on July 1, 2013.

Date the Governor signed the bill: May 22, 2013



Caution
As of: Sep 16, 2013

800 ADEPT, INC., Plaintiff-Appellee, v. MUREX SECURITIES, LTD., MUREX LICENSING CORPORATION, TARGUS INFORMATION CORPORATION, and WEST CORPORATION, Defendants-Appellants.

2007-1272, 2007-1356

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

539 F.3d 1354; 2008 U.S. App. LEXIS 18521; 88 U.S.P.Q.2D (BNA) 1065

August 29, 2008, Decided

SUBSEQUENT HISTORY: Rehearing denied by, Rehearing, en banc, denied by *800 Adept, Inc. v. Murex Secs., Ltd.*, 2008 U.S. App. LEXIS 25086 (Fed. Cir., Oct. 6, 2008)

US Supreme Court certiorari denied by *800 Adept v. Murex Secs.*, 2009 U.S. LEXIS 1509 (U.S., Feb. 23, 2009)

PRIOR HISTORY: [1]**

Appeals from the United States District Court for the Middle District of Florida in case no. 6:02-CV-1354, Chief Judge Patricia C. Fawcett.

800 Adept, Inc. v. Murex Secs., Ltd., 505 F. Supp. 2d 1327, 2007 U.S. Dist. LEXIS 27051 (M.D. Fla., 2007)

DISPOSITION: AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, and REMANDED.

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff patent owner sued defendants, a telephone services provider and its

customers, in the United States District Court for the Middle District of Florida, alleging infringement of several patents and tortious interference with the patent owner's business relationships. The provider filed counterclaims alleging infringement of its patents. Judgment was entered for the patent owner and the provider appealed.

OVERVIEW: The patent owner held U.S. Patent No. Re. 36,111 ('111 patent), which was a reissue of U.S. Patent No. 5,588,048, and U.S. Patent No. 5,805,689. The plain language of the claims in the '111 patent made it clear that the "assigning" step required that a telephone number of a service location be assigned to each potential caller. Nothing in the claims suggested that storing an algorithm that would be used to determine the telephone number of the correct service location during a telephone call constituted an assignment of a service location telephone number to a potential caller before a telephone call was placed. Under the correct claim construction, only calculations that were necessary to complete the assignment had to be performed before any calls were made. The provider's system did not assign service

location telephone numbers to potential callers before calls were placed. Because all calculations necessary to complete the assignment were performed in real-time while the caller was on the line, the accused services did not satisfy the "assigning" limitations in the '111 patent claims. Accordingly, the accused services did not infringe.

OUTCOME: The appellate court: (1) reversed the judgment of infringement of the '111 patent; (2) reversed the judgment of invalidity with respect to the unasserted claims of the provider's patents; (3) vacated the judgment that claims in the provider's patents were invalid and remanded for a new trial; (4) affirmed the invalidity judgment with respect to the remaining claims; and (5) reversed the judgment on the tortious interference claim.

LexisNexis(R) Headnotes

Patent Law > Infringement Actions > Claim Interpretation > Construction Preferences ***Patent Law > Jurisdiction & Review > Standards of Review > General Overview***

[HN1] Though in patent claim construction matters the United States Court of Appeals for the Federal Circuit gives due weight to a trial court's claim construction, ultimately claim construction is a matter of law the final responsibility for which lies with the Federal Circuit. As usual, the court starts with the language of the claims themselves.

Patent Law > Infringement Actions > Prosecution History Estoppel > General Overview

[HN2] The prosecution history can often inform the meaning of the claim language by demonstrating how the inventor understood the invention.

Patent Law > Infringement Actions > Prosecution History Estoppel > Abandonment & Amendment

[HN3] Where the patentee has unequivocally disavowed a certain meaning to obtain his patent, the doctrine of prosecution disclaimer attaches and narrows the ordinary meaning of the claim congruent with the scope of the surrender.

Patent Law > Infringement Actions > Claim

Interpretation > Construction Preferences

[HN4] Preserving the validity of unasserted claims is an insufficient reason to ignore the meaning of the claims actually asserted in a patent case.

Patent Law > Jurisdiction & Review > General Overview

[HN5] In a patent case, the United States Court of Appeals for the Federal Circuit reviews the trial court's denial of a motion for judgment as a matter of law under the law of the regional circuit.

Civil Procedure > Trials > Judgment as Matter of Law > Postverdict Judgments

Patent Law > Jurisdiction & Review > Standards of Review > De Novo Review

[HN6] Under Eleventh Circuit law, an appellate court reviews the denial of a motion for judgment as a matter of law without deference, reapplying the same standard applied by the trial court. Judgment as a matter of law is appropriate when there is no legally sufficient evidentiary basis for a reasonable jury to find in favor of the nonmoving party. When a patent infringement verdict is based on an incorrect claim construction, we reverse the trial court's denial of a motion for judgment as a matter of law if no reasonable jury could have found infringement under the proper claim construction.

Patent Law > Infringement Actions > Defenses > Patent Invalidity > Notice

[HN7] A reference in the complaint is not sufficient to support a judgment that particular patent claims are invalid; the specific validity of those claims must have been at issue during the trial and actually litigated by the parties.

Patent Law > Infringement Actions > Defenses > Patent Invalidity > Validity Presumption

[HN8] Under the patent statute, the validity of each claim must be considered separately. 35 U.S.C.S. § 282 provides that each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims.

Civil Procedure > Judgments > Relief From Judgment > Motions for New Trials

Patent Law > Jurisdiction & Review > Standards of Review > Abuse of Discretion

[HN9] An appellate court reviews a trial court's denial of a motion for a new trial for abuse of discretion. When a jury verdict is judged to be against the great weight of the evidence, the trial judge has authority to grant a motion for a new trial.

Patent Law > Infringement Actions > Defenses > Patent Invalidity > Validity Presumption

[HN10] The "preemption" issue can be stated thus: if a patentee attempts to enforce its patents against a competitor's customers, under what circumstances, if any, is the patentee protected from the usual standards regarding unfair trade practices, imposed by various state unfair competition laws, on the theory that the rights accorded a patentee to enforce the patent supersede the usual anti-competition rules?

Patent Law > Remedies > Bad Faith Enforcement

[HN11] State tort claims against a patent holder, including tortious interference claims, based on enforcing a patent in the marketplace, are "preempted" by federal patent laws, unless the claimant can show that the patent holder acted in "bad faith" in the publication or enforcement of its patent. Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal. This "bad faith" standard has objective and subjective components. The objective component requires a showing that the infringement allegations are "objectively baseless." The subjective component relates to a showing that the patentee in enforcing the patent demonstrated subjective bad faith. Absent a showing that the infringement allegations are objectively baseless, it is unnecessary to reach the question of the patentee's intent.

Patent Law > Remedies > Bad Faith Enforcement

[HN12] Infringement allegations are objectively baseless if no reasonable litigant could realistically expect success on the merits.

Patent Law > Remedies > Bad Faith Enforcement

[HN13] Because of the value placed on property rights, which issued patents share, 35 U.S.C.S. § 261, and in light of the underlying jurisprudential basis for the bad

faith standard, rooted as it is in United States Supreme Court cases and constitutional principles, a party attempting to prove bad faith on the part of a patentee enforcing its patent rights has a heavy burden to carry.

Patent Law > Inequitable Conduct > General Overview

[HN14] Courts must resist the temptation to engage in post hoc reasoning by concluding that an ultimately unsuccessful action must have been unreasonable or without foundation.

COUNSEL: Stephen D. Milbrath, Allen, Dyer, Doppelt, Milbrath & Gilchrist, P.A., of Orlando, Florida, argued for plaintiff-appellee. With him on the brief were Brian R. Gilchrist and Stephen H. Luther.

William F. Lee, Wilmer Cutler Pickering Hale and Dorr, LLP, of Boston, Massachusetts, argued for defendants-appellants. With him on the brief were Lisa J. Pirozzolo and Benjamin M. Stern, and Paul R.Q. Wolfson, of Washington, DC.

JUDGES: Before GAJARSA, Circuit Judge, PLAGER, Senior Circuit Judge, and DYK, Circuit Judge. Opinion for the court filed by Senior Circuit Judge Plager. Circuit Judge Dyk concurs in the result.

OPINION BY: PLAGER**OPINION**

[*1357] PLAGER, Senior Circuit Judge.

This patent case involves technology for routing "1-800" telephone calls to an appropriate service location, e.g., the service provider closest to the customer who placed the call. Plaintiff 800 Adept, Inc. ("Adept") and Defendant Targus Information Corporation ("Targus") sell competing services that are used to route calls made to 800 numbers, and both [*2] companies own patents covering systems and methods for call routing. Their customers include owners of 800 numbers, such as Enterprise Rent-A-Car and Pizza Hut, as well as providers of telecommunications 'platforms'¹ that route 800 calls for such businesses.

¹ A platform is one or more computers linked to a long distance or local telecommunications network and is used to handle telephone calls requiring special services.

In 2002, Adept sued Targus, its affiliated companies Murex Securities, Ltd. and Murex Licensing Corporation, and its customer West Corporation² in the United States District Court for the Middle District of Florida, alleging that services sold by Targus infringed two patents owned by Adept.³ Adept further alleged that Targus had tortiously interfered with Adept's business relationships by asserting Targus's patents against Adept's customers. Targus filed counterclaims alleging that Adept's call routing services infringed various claims in several Targus patents.⁴

2 The Defendants will be collectively referred to as "Targus" throughout the remainder of this opinion unless otherwise indicated.

3 The Adept patents at issue in this case are *U.S. Patent No. Re. 36,111* ("the [**3] '111 patent"), which is a reissue of *U.S. Patent No. 5,588,048*, and *U.S. Patent No. 5,805,689* ("the '689 patent"), collectively referred to as the "Neville patents."

4 The Targus patents at issue are *U.S. Patent No. 4,757,267* ("the '267 patent" or "Riskin patent") and *U.S. Patent Nos. 5,506,897* ("the '897 patent"), *5,848,131* ("the '131 patent"), *5,901,214* ("the '214 patent"), *5,907,608* ("the '608 patent"), *5,910,982* ("the '982 patent"), *5,956,397* ("the '397 patent"), *5,982,868* ("the '868 patent"), *6,058,179* ("the '179 patent"), and *6,091,810* ("the '810 patent"), collectively referred to as the "Moore-Shaffer patents."

After a 24-day jury trial, the jury's verdict essentially found for plaintiff Adept on all issues. The jury found that Targus willfully infringed the asserted claims of Adept's patents and that Adept did not infringe the asserted claims of Targus's patents. The jury found that all the asserted claims of Targus's patents were invalid and further found that the unasserted claims of Targus's '897 patent and '131 patent were invalid as well. The jury also found Targus liable under state law for tortious interference with Adept's business relationships. The jury awarded Adept [**4] \$ 18 million for patent infringement and \$ 7 million on the tortious interference claim.

The trial court entered judgment on the jury verdict, issued a permanent injunction, and awarded enhanced damages of \$ 24 million on the patent infringement claim, bringing the total damages award to \$ 49 million. The trial court also determined that the case was

exceptional and therefore Adept was entitled to attorney fees under 35 U.S.C. § 285.

After thorough consideration of all the issues in the case, we conclude that the trial court erred regarding a critical claim construction issue in the Adept patents, [**1358] one that permitted the jury to make incorrect findings. Under the correct claim construction, no reasonable jury could find that Targus infringes the asserted claims of Adept's patents; accordingly, we reverse the trial court's judgment of infringement. For the reasons we shall explain, we also reverse the trial court's judgment for Adept on its tortious interference claim. In light of these determinations, we vacate the trial court's damages award, the permanent injunction, and the judgment with respect to willfulness, enhanced damages, and attorney fees.

Regarding the Targus patents, with [**5] two exceptions we affirm the trial court's judgment upholding the jury's verdict that the asserted claims of Targus's patents are invalid; for the reasons we explain, we vacate the invalidity judgment on two of the asserted claims of Targus's patents and remand for a new trial on these claims. Because the validity of the unasserted claims of Targus's patents was not at issue during the trial, we vacate the trial court's invalidity judgment with respect to all of those claims.

BACKGROUND

The patents at issue in this case relate to technology for routing telephone calls made to 800 numbers. Typically when a caller dials an 800 number, the long distance carrier ("LDC") handling the call must identify the 10-digit telephone number, known as a "Plain Old Telephone System" ("POTS") number, to which to route the call. (A POTS number has the form NPA-NXX-XXXX, where NPA is the area code and NXX is the exchange.) If all calls to a particular 800 number are to be routed to a single location, the process is relatively simple. Some businesses, however, advertise a single 800 number but have multiple service locations. When a caller dials the 800 number of one of these businesses, the LDC must have [**6] some way to determine the POTS number of an appropriate service location. For example, if the 800 number is for a chain of pizza restaurants, the correct service location could be the closest restaurant or one that delivers within the geographic area in which the caller is located.

Plaintiff Adept owns the '111 *patent* and its divisional, the '689 *patent*, both of which claim priority to an application filed on July 31, 1992. The two patents, referred to as the Neville patents, are entitled "Geographically Mapped Telephone Routing Method and System," and have virtually identical written descriptions. 5 The Neville patents disclose a method for directly routing an 800 call to the appropriate service location based on the caller's 10-digit telephone number (NPA-NXX-XXXX), sometimes referred to as the Automatic Number Identification ("ANI"). The invention involves the construction of a database that assigns a service location POTS number to every potential caller according to geographic criteria provided by the owner of the 800 number. This database can be provided to the LDC, which then routes calls made to the 800 number according to the routing instructions in the database. The process [**7] is summarized in the patent's abstract:

A method and system for direct routing of telephone calls made by a caller originating from within specific calling areas to one of a plurality of locations of a second party according to certain criteria established by the second party. This routing is accomplished based on the assignment of latitude and longitude coordinates to a potential caller's location. Once these coordinates are assigned to each of the potential callers, the second party's criteria is applied to assign the potential caller to a second [*1359] party. Such criteria could be existence within a previously-defined geographic area, a custom defined geographic area, or through calculations such as the shortest distance between coordinate points. *Once all such assignments have been made, a database is assembled to be used by a long distance carrier for direct routing of telephone calls from callers to an assigned second party.*

'111 *patent*, abstract (emphasis added).

5 For convenience, this opinion cites only to the written description of the '111 *patent*.

The '111 *patent* has five independent claims, and the '689 *patent* has one independent claim, all of which were

asserted by Adept against [**8] Targus. Claim 1 and claim 17 of the '111 *patent* are system claims; claim 9 and claim 29 of the '111 *patent* are method claims; and claim 41 of the '111 *patent* and claim 1 of the '689 *patent* are directed to a method of constructing a database. Claim 29, a method claim, is illustrative of the Adept patent claims:

29. A method for *direct routing* a telephone call from a first party who has an originating telephone number at a physical location and who dials a telephone number including digits uniquely characteristic to a second party having a plurality of service locations, said method comprising the steps of:

[a] allocating latitude and longitude coordinates to the physical location of all potential first parties;

[b] defining the boundaries of one or more geographical areas which can be of any size and shape according to predetermined criteria, each point along said boundaries being defined by latitude and longitude coordinates;

[c] *assigning to the physical location of said potential first parties a telephone number of a service location of a second party that will receive calls* originating from within the boundary of a geographic area in which the latitude and longitude coordinates of the [**9] physical location of each of said potential first parties lie;

[d] determining the originating telephone number of the first party from which said telephone call is to be routed; and

[e] *directly routing* said telephone call to a service location of the second party assigned to said originating telephone number of the first party by said step of assigning.

'111 *patent*, col. 15 ll.19-45 (emphases and paragraph lettering added).

Defendant Targus owns two families of patents referred to as the Moore-Shaffer patents, which, like the Neville patents, disclose various systems and methods for routing 800 calls to an appropriate service location based on the caller's 10-digit telephone number. The first family includes seven patents: the '897 patent; its continuation-in-part, the '131 patent; its continuation-in-part, the '868 patent; and its four continuations, the '608 patent, the '982 patent, the '397 patent, and the '810 patent. The second family includes the '214 patent and its continuation, the '179 patent.

The earliest Moore-Shaffer patent is the '897 patent, which claims priority to an application filed on February 22, 1993. The '897 patent, which issued in 1996, was also the subject of [**10] a reexamination request filed by Adept in 1999. The United States Patent and Trademark Office ("PTO") granted the request and in 2001 issued a reexamination certificate, confirming the patentability of all claims.

The '897 patent discloses a database containing two tables--a master table and a client table--linked by a spatial key. Each record in the master table contains a caller telephone number and a corresponding spatial key, such as a nine-digit postal code (referred to as "zip+4"). '897 patent, col.8 l.55 to col.9 l.6. Each record in [**1360] the client table contains a spatial key and the telephone number of a corresponding client service location. Id. at col. 9 ll.7-26. The master table is indexed by caller telephone numbers, and the client table is indexed by the spatial key, so that when a call is placed the system retrieves from the master table the spatial key corresponding to the caller's telephone number and then retrieves from the client table the telephone number of the client service location corresponding to that spatial key. Id. at col.10 ll.1-7. The '897 patent describes two methods for constructing the client table, one involving radius-defined service areas and one involving [**11] polygon-defined service areas for each service location. Id. at col.15 l.52 to col. 28 l.5. The '131 patent, a continuation of the '897 patent, is similar to the '897 patent but additionally includes a third table containing specific service location information, such as store hours, that may be recited to the caller by a Voice Response Unit. '131 patent col.31 ll.27-53.

With the '868 patent, a continuation-in-part of the '131 patent, Moore and Shaffer introduced several new embodiments. One of these was a "real-time" system, in

which spatial calculations are performed during the call to determine the appropriate service location for a caller. '868 patent col.45 l.35 to col.55 l.50. As in the '897 patent, the service area for each client service location can be defined as an area with a radius of any size or a polygon of any size and shape. Id. at col.47 ll.14-17. Unlike the two-table system first described in the '897 patent, however, the real-time system does not simply retrieve records from tables to obtain a service location for a caller. Instead, after a call is placed, the system creates a window key (e.g., a rectangular area defined by longitude and latitude coordinates) that [**12] is associated with the caller's location. Id. at col.51 ll.26-42. Based on this window key, the system builds a list of potential service locations and then performs more detailed spatial calculations to generate a final list of service locations whose service areas encompass the caller's location, in ascending order of distance between the caller's location and the service location. Id. at col.51 l.42 to col.54 l.45. The claims of the '868 patent are directed to various aspects of the real-time system and process.

The four continuations of the '868 patent--the '608 patent, '982 patent, '397 patent, and '810 patent--have the same written description as the '868 patent. While some claims of these patents are directed to the real-time system, many are directed to other embodiments, including, for example, a single-table database, referred to as a "telephone number to telephone number" ("TNTTN") table, which is essentially a merger of the master and client tables first disclosed in the '897 patent.

The second family of Moore-Shaffer patents includes the '214 patent and '179 patent. They disclose spatial key-linked, multi-table databases for providing information to callers or service locations. [**13] The processes described in the '214 and '179 patents for applications that require connecting a caller to a service location are similar to the process described in the '131 patent.

Targus sells services that operate in conjunction with telecommunications platforms to route 800 calls. One service, IntelliRouting Express, uses the real-time process described in Targus's '868 patent to identify the location of a caller and determine an appropriate service location after the call is placed and while the caller remains on the line. The service provides the telephone number of the correct service location to the platform, which then

processes the call. Another Targus service, Location Express, merely identifies the latitude/longitude location of the caller and provides it to the platform, which then uses that information while the caller is on [*1361] the line to perform whatever calculations are necessary to determine an appropriate service location.

Plaintiff Adept alleged that Targus's IntelliRouting Express and Location Express services literally infringe all six independent claims of the Neville patents and several dependent claims. Two key claim construction issues before the trial court concerned [**14] the "directly routing" (paragraph [e] in illustrative claim 29, above) and "assigning" (paragraph [c]) limitations in the Neville patents. The case was initially assigned to District Judge Antoon, who construed the term "directly routing" in the Neville patents to mean "routing a telephone call to another party without a human or computer re-dialing or otherwise placing a second call." 800 Adept, Inc. v. Murex Secs., Ltd., No. 6:02-CV-1354, slip op. at 38 (M.D. Fla. May 27, 2005).

Subsequently, the case was transferred to Chief Judge Fawsett three months before trial. On Targus's motion, she construed the claim language in the "assigning" limitation, language that is present in all of the asserted claims of the Neville patents. First, she construed the term "potential first parties" as "individuals who can place a telephone call but have not yet done so." 800 Adept, Inc. v. Murex Secs., Ltd., No. 6:02-CV-1354, 2006 U.S. Dist. LEXIS 53696, slip op. at 16 (M.D. Fla. Aug. 3, 2006). She then construed "assigning" as referring to "a designation made *prior* to the telephone call of the first parties" (emphasis added). However, she declined to find that there was a disclaimer of calculations made *after* the call is placed. [**15] 2006 U.S. Dist. LEXIS 53696, [slip op.] at 19-22. She further held that the claims are not limited to a database containing a single look-up table. 2006 U.S. Dist. LEXIS 53696, [slip op.] at 18-19.

During trial, a critical issue in Adept's infringement case against Targus was whether Targus's "real-time" process, which performs spatial calculations during the call to determine an appropriate service location, satisfies the "assigning" limitation in the claims of the Neville patents. Adept's counsel argued that the court's construction of the term "assigning" should be modified so the jury would understand it to cover "a stored procedure and algorithm in the database that constitutes

a, quote, assignment, closed quote, but nevertheless makes that calculation while the caller is on-line." (Trial Tr. 254:7-10, Oct. 20, 2006). On the nineteenth day of trial, in response to Adept's argument, and over the objection of Targus's counsel, Chief Judge Fawsett added a sentence to the claim construction. The final jury instruction regarding this limitation read:

The term "*assigning*" as used in the third element of the claims of the '111 and '689 Patents refers to "*a designation made prior to the telephone call of the first parties.*" However, the '111 and '689 patents [**16] do not exclude calculations made during the telephone call.

As we explain more fully below, the addition of the "However . . ." sentence to the assigning limitation changed the dynamic of the trial.

The jury ruled in Adept's favor on all of its patent infringement allegations against Targus, finding that Targus infringed all six independent claims and the asserted dependent claims of the Neville patents and that those claims were not invalid or unenforceable. The jury also found that Targus's infringement was willful.⁶ In addition, the jury found that Targus tortiously interfered with the business relationships between Adept and its customers and further found that Targus acted in bad [*1362] faith. The jury awarded Adept \$ 18 million in patent infringement damages and \$ 2 million in compensatory damages and \$ 5 million in punitive damages on the tortious interference claim.

6 The jury found that Targus's customer West infringed the asserted system and method claims but not the database claims and further found that West's infringement was not willful.

Adept also prevailed at trial on all issues related to Targus's patents. The jury found that Adept did not infringe any of the asserted claims [**17] of Targus's patents. Regarding the validity of Targus's patents, the jury determined that *all* claims of the '897 patent and the '131 patent were invalid, even though Targus asserted only claim 69 of the '897 patent and claims 1 and 50 of the '131 patent. The jury also found that the asserted claims of the other Moore-Shaffer patents were invalid.⁷

7 The asserted claims of the other Moore-Shaffer patents were claim 19 of the '214 patent, claim 25

of the '179 patent, claim 46 of the '868 patent, claims 1 and 20 of the '608 patent, claims 4 and 13 of the '982 patent, claim 1 of the '397 patent, and claim 10 of the '810 patent.

Targus filed a renewed motion for judgment as a matter of law and an alternative motion for a new trial, both of which the trial court denied without discussion. The trial court awarded Adept an additional \$ 24 million in enhanced patent infringement damages in accordance with 35 U.S.C. § 284, bringing the total damages award to \$ 49 million. The court then entered final judgment and a permanent injunction. The trial court also determined that the case was exceptional under 35 U.S.C. § 285 and that Adept was entitled to attorney fees, but the court denied the motion [**18] for attorney fees without prejudice to reassertion after completion of the appellate process.

Targus appeals the judgment with respect to infringement of Adept's patents, the invalidity of Targus's patents, tortious interference, and willfulness. Targus also appeals the jury's damages award, the trial court's award of enhanced damages, and the trial court's determination that Targus was entitled to attorney fees. Finally, Targus challenges the permanent injunction as vague or overbroad. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

I. Adept Patents

Targus contends that the trial court erred in failing to enter judgment as a matter of law that the accused Targus services do not infringe the asserted claims of the Neville patents. Targus focuses on the two claim limitations previously noted--"assigning" and "directly routing." Regarding the assigning limitation, Targus argues that the trial court erred in modifying its claim construction in a way that allowed Adept to argue at trial that the assignment could be done during the call. Under the proper construction of "assigning," Targus maintains, its services do not infringe the claims of the Neville patents. Because [**19] we agree with Targus that under the correct claim construction no reasonable jury could find that Targus's services perform the "assigning" step, we need not address Targus's arguments with respect to the "directly routing" limitation.

A. Claim Construction--the "Assigning" Limitation

Targus argues that the claims in the Neville patents require assignment of a service location telephone number to the telephone number of each potential caller before any call is placed. Adept does not dispute that the assignment must occur before a call is placed, but argues that the assigning limitation can be satisfied by placing "in or with" a database an algorithm or criteria for determining the correct service location, even though the calculations necessary to implement [*1363] the algorithm or apply the criteria are performed during the telephone call. Targus responds that any calculations needed to complete the assignment of service location numbers to potential callers must occur before the call. The ultimate question, then, is not when the assigning step must occur, which the parties agree must be prior to any telephone call, but rather what constitutes an assignment. To that end, Targus argues that [**20] the trial court erred when it added to its original claim construction the "However . . ." statement that the patents "do not exclude calculations made during the telephone call" because that allowed the jury to apply Adept's flawed interpretation.

[HN1] Though in claim construction matters we give due weight to a trial court's claim construction, ultimately claim construction is a matter of law the final responsibility for which lies with us. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456 (Fed. Cir. 1998) (en banc). As usual, we start with the language of the claims themselves. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc). The relevant language (see, e.g., claim 29 of the '111 patent, above) is: "assigning to the physical location of said potential first parties a telephone number of a service location of a second party that will receive calls . . ." ⁸ '111 patent col. 15 ll.33-35. Use of the word "potential" to describe the callers and use of the future tense ("will receive calls") for the recipient points directly to the conclusion that the assigning step must occur before a call is placed. The plain language of the claims makes clear that the "assigning" [**21] step requires that "a telephone number of a service location" be assigned to each potential caller. Nothing in the claims suggests that storing an algorithm that will be used to determine the telephone number of the correct service location *during a telephone call* constitutes an assignment of a service location telephone number to a potential caller *before a telephone call is placed*.

⁸ The other independent claims either include identical language or refer to the "originating

telephone number" of said potential first parties (i.e., callers) rather than their "physical location."

The patents' written description confirms this. See *Phillips*, 415 F.3d at 1315-17. The Neville patents disclose a method for routing 800 calls using routing instructions contained in a database. According to the written description, the database is constructed by assigning the telephone number of an appropriate service location to each potential caller. '111 patent fig. 1, col. 11 ll.42-54. The assignments are made by applying customer-provided criteria, such as "existence within a previously-defined geographic area, a custom defined geographic area, or through calculations such as the shortest distance between [**22] coordinate points." Id. abstract. As summarized in the abstract, the patents make clear that assignment of service location telephone numbers to potential callers must be completed before a telephone call is ever placed: "*Once all such assignments have been made, a database is assembled to be used by a long distance carrier for direct routing of telephone calls.*" Id. (emphasis added).

The assigning step in the Neville patents results in "direct routing instructions" that are submitted to an LDC to be used for routing calls. Adept argues that these routing instructions could include stored procedures such as the distance calculations mentioned in the abstract. The written description, however, does not support Adept's position. The "routing instructions" are always described as a database containing potential caller telephone numbers and corresponding service location [*1364] telephone numbers. Id. col.4 ll.10-12, col.12 ll.48-51. To the extent that procedures like distance calculations are implemented or geographic criteria are applied, it is only to construct a database containing assignments of service locations telephone numbers to potential callers, a step that is completed prior to any [**23] call. Nowhere do the patents characterize the routing instructions given to an LDC as a stored procedure, algorithm, or criteria to be used later during a call to determine an appropriate service location telephone number.

Statements made by the applicant during prosecution reinforce the conclusion that any calculations necessary for assigning service location telephone numbers to callers must be performed before any calls are placed. See *Phillips*, 415 F.3d at 1317 ([HN2] "[T]he prosecution history can often inform the meaning of the claim

language by demonstrating how the inventor understood the invention . . ."). During prosecution of the original application that led to the Neville patents, the examiner rejected most of the claims as anticipated by a prior art patent to Finucane, et al. ("Finucane"). In response, the applicant distinguished Finucane on several grounds, one of which was that Finucane "requires . . . a computer [to] perform 'point of origin' to 'point of termination' calculations while a caller is on the line." J.A. 8572. The applicant contrasted this feature with his system, which "performs all such calculations prior to the call even being made and, in fact, prior to [**24] delivery of the data base to the Long Distance Carrier (LDC)." Id.

The examiner maintained his rejection during prosecution of a continuation application. In remarks accompanying an amendment in which he canceled all independent claims and added new claims, the applicant once again distinguished his invention from Finucane:

The major difference [between the present invention and Finucane] is that with the present invention *all point of origin to point of termination calculations have already been performed* by determining in which response zone (client-defined polygon) the call originated, and to which corresponding terminating number the call should be routed. The results of these calculations are stored in a database at the service provider's location. *Thus, the present invention eliminates the need to perform on-line-calculations to determine the appropriate terminating number.*

J.A. 8626 (emphasis added). Thus Adept and Neville repeatedly characterized the invention as one in which all calculations necessary for assigning service location telephone numbers to callers are performed before any telephone calls are made.

Adept argues that it is improper to rely on these statements from the [**25] prosecution history because they are too ambiguous to serve as a "clear and unmistakable" disavowal of claim scope. See *Omega Eng'g, Inc. v. Raytek Corp.*, 334 F.3d 1314, 1325-26 (Fed. Cir. 2003). Adept points out that the issued claims are quite different from those pending at the time the statements were made. Because there is no link between

the applicant's arguments and the specific claim language at issue, Adept asserts, there can be no disclaimer.

The doctrine of prosecution disclaimer to which Adept refers is typically invoked to limit the meaning of a claim term that would otherwise be read broadly. See *id.* at 1324 ([HN3] "[W]here the patentee has unequivocally disavowed a certain meaning to obtain his patent, the doctrine of prosecution disclaimer attaches and narrows the ordinary meaning of the claim congruent with the scope of the surrender." (emphasis added)); see also *Rheox, Inc. v. Entact, Inc.*, 276 F.3d 1319, 1325 (Fed. Cir. 2002) (construing the broad term "calcium orthophosphate" to exclude monocalcium orthophosphate based on prosecution disclaimer although excluded compound was within the ordinary and accustomed meaning of the claim term); *Southwall Techs., Inc. v. Cardinal IG Co.*, 54 F.3d 1570, 1576-77 (Fed. Cir. 1995) [**26] (holding that "sputter-deposited dielectric" could not be formed by a two-step process because patentee argued during prosecution that it was formed by a one-step process). In this case, however, we do not consult the prosecution history for that purpose. We simply use it as support for the construction already discerned from the claim language and confirmed by the written description, i.e., that all calculations necessary to assign a service location telephone number to a potential caller are completed before any call is placed. Although the claims pending at the time of the quoted statements did not include the "assigning" limitation, the applicant was quite clear throughout prosecution that his invention performed calculations for assigning service location telephone numbers to callers prior to any call being placed. As is true of the written description, nothing in the prosecution history supports Adept's position that a stored algorithm constitutes an assignment of a service location to a caller.

Adept asserts that a claim construction requiring all calculations to be performed prior to any telephone calls cannot be correct because even its preferred embodiment performs some calculations [**27] during the telephone call. Specifically, Adept claims that when a call arrives, the Neville system must perform "lookup" calculations to retrieve from the database the service location assigned to the caller. Adept fails to recognize, however, that these lookup calculations are not part of the assigning step in the Neville patents--service location telephone numbers are assigned to callers when the database is created, i.e., before any calls take place. Under the correct claim

construction, only calculations that are necessary to complete the assignment must be performed before any calls are made. As long as that requirement is met, the claims do not preclude any additional calculations during the telephone call.

According to Adept, three dependent claims not asserted in the case should compel a different claim construction. In these claims--28, 40, and 52 of the '111 patent--the originating telephone number is that of a "non-stationary telephone, such as a mobile, cellular or transportable telephone." Adept contends that these mobile telephone claims require some sort of spatial calculation at the time of the call to determine the correct service location based on the caller's physical [**28] location and therefore would be impossible to practice under a claim construction such as the one we adopt.

We are not persuaded. As discussed, the plain language of the independent claims requires each potential caller to be assigned a service location telephone number before any call is placed. Since the mobile telephone claims depend from the independent claims, all potential mobile telephone callers must also be assigned a service location before a call is placed. Nothing in the language of the claims indicates otherwise. While the claims and the written description appear to contemplate that the assignment will be based on the caller's physical location at the time of the call, the written description does not teach a method for doing so. Significantly, the patents do not disclose the use of stored algorithms that could be used to assign service location telephone numbers during a call from either a mobile telephone or a fixed landline, and thus the written description does not support Adept's proposed construction.

[*1366] Furthermore, it is not clear that the mobile telephone claims would be impossible to practice under the correct claim construction. Prior to any calls, a service location [**29] could be assigned to a mobile telephone based on, for example, a physical location associated with its NPA-NXX. Be that as it may, we need not resolve this question. Even if the mobile telephone claims are rendered inoperative by a proper claim construction, [HN4] preserving the validity of unasserted claims is an insufficient reason to ignore the meaning of the claims actually asserted in the case. See *Intamin Ltd. v. Magnetar Techs. Corp.*, 483 F.3d 1328, 1337 (Fed. Cir. 2007).

In sum, based on consideration of the claims, the written description, and the remainder of the intrinsic evidence, we conclude that the trial court was correct in the first instance when it construed the "assigning" language to refer to "a designation made prior to the telephone call of the first parties." We must also recognize, however, what the assignment entails--the telephone number of a service location is assigned to the physical location or telephone number of each potential caller. As noted, this assignment must be made before any calls are placed. Thus, to the extent any calculations are needed to complete the assignment of service location telephone numbers to potential callers, they must be performed [**30] prior to any calls.

The trial judge modified the original claim construction by adding that the Neville patents "do not exclude calculations made during the telephone call." That statement is imprecise in the context in which it was presented, i.e., as part of the construction of the term "assigning," and allowed Adept to argue before the jury that calculations for completing the assigning step could be performed while a caller is on-line, an argument that is not consistent with the patented invention. Under the correct claim construction, assignment of service location telephone numbers to potential callers must occur prior to any calls, and thus any calculations necessary for completing that assignment must be performed before any telephone calls are placed.

B. Infringement

With the trial court's modified claim construction before them, the jury found that defendant Targus infringed the Neville patents, and the trial court subsequently denied a motion by Targus to grant, contrary to the jury's verdict, judgment as a matter of law in Targus's favor. The question before us is whether the trial judge erred in denying the motion. [HN5] We review the trial court's denial of Targus's motion for [**31] judgment as a matter of law under the law of the regional circuit. *z4 Techs., Inc. v. Microsoft Corp.*, 507 F.3d 1340, 1346 (Fed. Cir. 2007). [HN6] Under Eleventh Circuit law, we review the denial of a motion for judgment as a matter of law without deference, reapplying the same standard applied by the trial court. *Christopher v. Florida*, 449 F.3d 1360, 1364 (11th Cir. 2006). Judgment as a matter of law is appropriate when there is no legally sufficient evidentiary basis for a reasonable jury to find in favor of the nonmoving party. *Id.* When a patent

infringement verdict is based on an incorrect claim construction, we reverse the trial court's denial of a motion for judgment as a matter of law if no reasonable jury could have found infringement under the proper claim construction. *Finisar Corp. v. DirecTV Group, Inc.*, 523 F.3d 1323, 1333 (Fed. Cir. 2008).

In the Targus system, the telephone numbers and locations of potential callers are maintained in a database. The system also includes a database for each system customer containing the telephone numbers of the customer's service locations [**1367] along with their corresponding service areas. Those service areas are configured by the customer before [**32] any calls are placed and may be radius-based (a circle around the service location) or defined by polygonal regions around each service location. While the Targus system contains information relating to both potential callers and customer service locations, it does not match a customer service location to a particular caller prior to any calls taking place. Instead, as described in the IntelliRouting Express User Guide, callers are assigned to a service location "on the fly" with each telephone call.

When a call comes into the platform, the Targus system determines the caller's approximate latitude and longitude based on the caller's ANI. The system then computes a rectangular area, referred to as a window key, around that latitude/longitude. Next the system identifies a list of candidate service locations whose service areas overlap the window key. For each candidate, the system performs a detailed spatial calculation, either a distance computation or "point-in-polygon" calculation, to determine whether the caller's location is within the service area. This results in a list of one or more service locations to which the call may be routed.

Thus the accused Targus services do not assign [**33] service location telephone numbers to potential callers before calls are placed. Because all calculations necessary to complete the assignment are performed in real-time while the caller is on the line, the Targus services do not satisfy the "assigning" limitations in the Neville claims. Under the correct claim construction, no reasonable jury could find that Targus infringes the asserted claims of Adept's patents. Accordingly, we reverse the trial court's denial of Targus's motion for judgment of non-infringement as a matter of law. In light of that result, we vacate the infringement damages award and the permanent injunction; we also vacate the trial

court's judgment with respect to willfulness and attorney fees.

II. Targus Patents

A. Unasserted Claims

The jury found that all claims of the '897 *patent* and '131 *patent* were invalid, and the trial court entered judgment accordingly. Targus argues that the trial court erred because only claim 69 of the '897 *patent* and claims 1 and 50 of the '131 *patent* were asserted and at issue. Adept responds that all claims of the two patents were placed in issue by the declaratory judgment count in its complaint. If the evidence at trial proved that [**34] all the claims were invalid, Adept maintains, the trial judge properly entered judgment on the jury verdict.

We agree with Targus that the unasserted claims were not at issue, and thus the trial court erred. First, the scope of Adept's complaint is less than clear. Adept requested a declaratory judgment with respect to the invalidity of Targus's "asserted claims," an apparent reference to Targus's assertions of infringement against Adept and its customers prior to the filing of the lawsuit. (First Am. Compl. PP 57-58.) The complaint does not specify which claims fall into that category. In any event, [HN7] a reference in the complaint is not sufficient to support a judgment that particular claims are invalid; the specific validity of those claims must have been at issue during the trial and actually litigated by the parties. *Datascope Corp. v. SMEC, Inc.*, 776 F.2d 320, 327 (Fed. Cir. 1985).

Second, the parties' Joint Final Pretrial Statement demonstrates that only claim 69 of the '897 *patent* and claims 1 and 50 of the '131 *patent* were at issue during the trial. In that document, the parties stipulated that the asserted claims of the '897 *patent* [*1368] and '131 *patent* were claim 69 and claims 1 and [**35] 50, respectively. (Joint Final Pretrial Statement 31.) Then, under the heading "Concise Statement of Issues of Fact and Issues of Law Which Remain for Determination by the Trial Court," the parties included the following two questions: "Are the asserted claims of the Shaffer-Moore patents valid?" and "Are the asserted Shaffer-Moore patents infringed, literally or under the doctrine of equivalents?" (Id. at 32-22.) There were no references whatsoever to the unasserted claims of the '897 *patent* and '131 *patent*.

Third, at trial, neither party presented evidence with respect to the unasserted claims. Adept's expert, Dr. Brody, expressly limited his validity analysis and opinions to claim 69 of the '897 *patent* and claims 1 and 50 of the '131 *patent*. (Trial Tr. 148-49, 184-85, 198-200, 208-10, 213, Oct. 16, 2006.) This is true with respect to both Adept's anticipation and obviousness contentions and its argument that the claims of the '131 *patent* were invalid due to an on-sale bar. Adept's argument that it was unnecessary for its validity expert to put forth a claim-by-claim analysis of the unasserted claims is simply incorrect. [HN8] Under the patent statute, the validity of each claim must be [**36] considered separately. See 35 U.S.C. § 282 ("Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims . . ."); *Schumer v. Lab. Computer Sys., Inc.*, 308 F.3d 1304, 1316 (Fed. Cir. 2002); *Sandt Tech., Ltd. v. Resco Metal & Plastics Corp.*, 264 F.3d 1344, 1356 (Fed. Cir. 2001).

In this case, it is clear from the parties' pretrial statement and from the trial proceedings that the unasserted claims were neither litigated nor placed in issue during the trial. We therefore reverse the trial court's judgment of invalidity with respect to the unasserted claims, i.e., all the claims of the '897 *patent* except claim 69 and all the claims of the '131 *patent* except claims 1 and 50.⁹

⁹ In light of this conclusion, we need not address Targus's additional argument that the trial court lacked jurisdiction to adjudicate the validity of the unasserted claims because there was no case or controversy with respect to those claims.

B. Asserted Claims

The jury also found all twelve of the asserted claims in the Moore-Shaffer patents invalid. Targus chose not to appeal the trial court's denial of its motion for [**37] judgment as a matter of law that the asserted claims are not invalid, and thus does not challenge on appeal the sufficiency of the evidence in support of the jury's verdict. Instead, Targus appeals only the trial court's denial of its motion for a new trial on the validity of these claims. Applying Eleventh Circuit law, [HN9] we review the trial court's denial of a motion for a new trial for abuse of discretion. *Hicks v. Talbot Recovery Sys., Inc.*, 196 F.3d 1226, 1242 (11th Cir. 1999). When a jury verdict is judged to be against the great weight of the

evidence, the trial judge has authority to grant a motion for a new trial. *Id.*; Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice and Procedure* § 2806 (2d ed. 1995).

Targus argues on appeal that the jury's invalidity findings were "tainted" by the erroneous characterization of the Neville patents by Adept's expert, Dr. Brody. In particular, Targus complains that Dr. Brody repeatedly asserted that the Neville patents teach real-time spatial calculations of the sort used by Targus and claimed in some of the Moore-Shaffer patents. Because Dr. Brody testified that the asserted claims were either anticipated by the Neville [**38] patents or rendered obvious by the [**1369] combination of the Neville patents and other prior art, Targus believes it is entitled to a new trial on the validity of the asserted claims.

We agree with Targus, but only in part. Targus requests on appeal a new trial on "whether the asserted claims of the Moore-Shaffer patents that concern 'on line calculations' are invalid." (Appellant's Reply Br. 22-23.) In its brief, Targus identifies only two asserted claims that involve on-line or real-time calculations--claim 46 of the '868 patent and claim 10 of the '810 patent. (Appellant's Br. 49-50.) Our review of the record confirms that those are the only asserted claims directed to Targus's real-time system. Our review further confirms that Dr. Brody's testimony with regard to the alleged real-time aspect of the Neville patents was directed to the validity of only those two claims and not to the other asserted claims.

As explained above in the discussion on the Adept patents, Dr. Brody's characterization of the scope of the Neville patent disclosure was mistaken. Furthermore, the primary if not the entire evidence on which the jury could have relied in finding claim 46 of the '868 patent and claim 10 [**39] of the '810 patent invalid was Dr. Brody's erroneous testimony. Under these circumstances, the trial judge should have granted the motion for a new trial with regard to these two claims because the great weight of the evidence in the record was against the jury's verdict. This does not preclude the possibility that other evidence produced at a retrial would be sufficient to establish invalidity.

The failure to have granted Targus's motion was an abuse of discretion; accordingly, we vacate the trial court's judgment that claim 46 of the '868 patent and claim 10 of the '810 patent are invalid, and remand for a

new trial on their validity. We affirm the trial court's judgment that the remaining asserted claims of the Moore-Shaffer patents are invalid.

III. Tortious Interference

In its suit against Targus, Adept claimed that, because Targus had asserted certain of its patent claims against some of Adept's customers, Targus had tortiously interfered with Adept's business relationships with those customers. This, according to Adept, entitled Adept to the state-law remedy available for such an unfair trade practice. Targus responded that the state-law remedy is preempted by the federal patent [**40] laws. [HN10] The "preemption" issue can be stated thus: if a patentee attempts to enforce its patents against a competitor's customers, under what circumstances, if any, is the patentee protected from the usual standards regarding unfair trade practices, imposed by various state unfair competition laws, on the theory that the rights accorded a patentee to enforce the patent supersede the usual anti-competition rules? See *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1345-46 (Fed. Cir. 1999).

The answer to the question is now well-established. [HN11] State tort claims against a patent holder, including tortious interference claims, based on enforcing a patent in the marketplace, are "preempted" by federal patent laws, unless the claimant can show that the patent holder acted in "bad faith" in the publication or enforcement of its patent. *Id. at 1355*; *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336-37 (Fed. Cir. 1998). As the Supreme Court said long ago, "Patents would be of little value if infringers of them could not be notified of the consequences of infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal." *Virtue v. Creamery Package Mfg. Co.*, 227 U.S. 8, 37-38, 33 S. Ct. 202, 57 L. Ed. 393, 1913 Dec. Comm'r Pat. 519 (1913).

[**1370] The [**41] issue in this case is whether Adept presented to the jury sufficient facts, if believed, that a reasonable jury could find for Adept on the issue of Targus's bad faith. This "bad faith" standard has objective and subjective components. *Dominant Semiconductors Sdn. Bhd. v. Osram GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008). The objective component requires a showing that the infringement allegations are "objectively baseless." *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 1375 (Fed. Cir. 2004). The

subjective component relates to a showing that the patentee in enforcing the patent demonstrated subjective bad faith. See *id.* Absent a showing that the infringement allegations are objectively baseless, it is unnecessary to reach the question of the patentee's intent. See *id.*

[HN12] Infringement allegations are objectively baseless if "no reasonable litigant could realistically expect success on the merits." *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993); see also *GP Indus., Inc. v. Eran Indus., Inc.*, 500 F.3d 1369, 1374 (Fed. Cir. 2007); *Globetrotter*, 362 F.3d at 1375-76. To prove at trial that Targus's actions were objectively [**42] baseless, Adept was required to offer clear and convincing evidence that Targus had no reasonable basis to believe that its patent claims were valid or that they were infringed by Adept's customers. See *Golan v. Pingel Enter., Inc.*, 310 F.3d 1360, 1371 (Fed. Cir. 2002). [HN13] Because of the value placed on property rights, which issued patents share, see 35 U.S.C. § 261 ("[P]atents shall have the attributes of personal property."); *Consol. Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96, 24 L. Ed. 68 (1876) ("A patent for an invention is as much property as a patent for land."); *Kearns v. Gen. Motors Corp.*, 94 F.3d 1553, 1555 (Fed. Cir. 1996) ("By statutory and common law, each patent establishes an independent and distinct property right."), and in light of the underlying jurisprudential basis for the bad faith standard, rooted as it is in Supreme Court cases and Constitutional principles, see *Globetrotter*, 362 F.3d at 1375-77, a party attempting to prove bad faith on the part of a patentee enforcing its patent rights has a heavy burden to carry.

The jury verdict was that Adept had proved its case. Targus appeals the trial court's denial of its motion for judgment as a matter of law, arguing that there was no [**43] clear and convincing evidence on which a reasonable jury could conclude its actions were objectively baseless. On the record before us, for the reasons we shall explain, we believe Targus is correct that Adept has not successfully carried its burden.

We first address the question of whether Targus could have had a reasonable belief that its patents were valid, beginning with the '897 patent. The main dispute regarding the validity of the '897 patent was whether Neville discloses a two-table embodiment, which would anticipate the claims of the '897 patent. While the

preferred embodiment in Neville uses a single-table TNTN database, one sentence in the written description states that "the correlational database may be relational or hierarchical," which implies that the database could have more than one table. '111 patent col.9 ll.50-51. The issue before us is not the validity *vel non* of the '897 patent, but whether the evidence was such that Targus could not have had a reasonable basis for believing that the patent was valid when it asserted the patent against Adept's customers.

Adept alleges that Targus knew the disclosure in the Neville patents anticipated the claims of the '897 patent, [**44] and that Targus misrepresented the scope of Neville to the PTO so that the '897 patent claims would survive the reexamination requested [*1371] by Adept in 1999. Adept's argument sounds more like an allegation of subjective bad faith on Targus's part, a question that is not at issue absent the predicate showing that the claims asserted by Targus were objectively baseless. Furthermore, none of the evidence cited in Adept's brief supports its theory that Targus acted deceptively. The evidence introduced at trial shows that many people, including the examiner who conducted the reexamination and even Adept's own patent attorney, understood Neville to disclose only a one-table system. Notably, Targus did not file suit against any of Adept's customers until after reexamination of the '897 patent had been completed. On this record, a reasonable jury could not have found by clear and convincing evidence that Targus lacked a reasonable basis to believe that the claims of the '897 patent were not anticipated by Neville.

Adept also asserts that Targus knew that Neville anticipated Targus's one-table claims--claim 1 of the '608 patent and claim 4 of the '982 patent. Targus argues that it reasonably believed [**45] Neville did not disclose the automated table-build process required by the Targus claims. This was a reasonable view, as evidenced by the opinion of Targus's expert at trial that Neville does not teach a fully automated system. The contrasting opinion of Adept's expert does not render Targus's position unreasonable. As with the '897 patent, we conclude that no reasonable jury could have found that Adept met its burden to show that there was no reasonable basis on which Targus could believe in the validity of its one-table claims.

Regarding the '131 patent, Adept argues that Targus knew it was subject to an on-sale bar based on work that

Targus did for Federal Express, and that Targus actively concealed that information from the PTO. The record indicates, however, that Targus reasonably believed that that work was experimental, even if ultimately the jury in this case may have found otherwise. Furthermore, during prosecution of the application that led to the '131 patent, Targus submitted a declaration to the PTO detailing the development and testing of the FedEx system. Under these circumstances, no reasonable jury could find that Adept proved by clear and convincing evidence that Targus [**46] lacked a reasonable basis for believing that the claims of the '131 patent were not subject to the on-sale bar.

With respect to Targus's other patents, Adept alleges that the examiner was led astray so that he failed to consider Neville in combination with Riskin or other references, even though Neville and Riskin and multiple other references were before him. Yet Adept cites no evidence demonstrating that Targus knew its claims were invalid for obviousness or showing that Targus somehow caused the examiner not to combine prior art references. On this record, no reasonable jury could have found that a belief by Targus that its patents were valid had no reasonable basis.

We must also consider whether there was a basis for Targus to reasonably believe that Adept's customers infringed the Targus patents. Adept essentially argues that Targus could not have had a reasonable basis for asserting its patents against Adept's customers because Targus did not succeed at trial on its infringement claims against Adept. [HN14] Courts, however, "must 'resist the temptation to engage in *post hoc* [**47] reasoning by concluding' that an ultimately unsuccessful 'action must have been unreasonable or without foundation.'" *Prof'l Real Estate*, 508 U.S. at 60 n.5 (quoting *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 421-22, 98 S. Ct. 694, 54 L. Ed. 2d 648 (1978)); see also *Dominant*, 524 F.3d at 1261 & n.6 (citing *Prof'l Real Estate*, 508 U.S. at 60 n.5). Thus the result of Targus's infringement [**1372] claims in this case is not dispositive of whether Targus's claims against Adept's customers were reasonable.

Targus presented evidence that it reasonably believed Adept's customers were infringing the Targus patents. For instance, Adept admitted that the database it provided to two of its customers was in the same format as the database used in the Targus system. Also, Targus did not assert its claims against another Adept customer

until after Targus's in-house counsel had prepared claim charts explaining Targus's infringement theories. Adept has not cited any contradictory evidence that was introduced at trial. On this record, no reasonable jury could find by clear and convincing evidence that Targus had no reasonable basis for believing that Adept's customers were infringing its patents.

Adept's tortious interference claim with [**48] respect to its customer Allstate Motor Club ("AMC") was based on Targus's infringement claim against its own customer, Vail Systems. In providing routing services to AMC, Vail used data received from AMC, which included a database that Allstate had received from Adept. After learning about this arrangement through discovery in this case, Targus believed that Vail infringed its patents and filed claims against Vail, which subsequently sought indemnification from AMC. While Adept alleges that Targus and Vail colluded to pressure AMC, Adept fails to cite evidence showing that Targus's belief that Vail infringed its patents was unreasonable. As with Targus's infringement allegations against Adept's customers, no reasonable jury could find that Adept met its burden to show that Targus lacked a reasonable basis for believing that Vail infringed its patents.

In sum, we conclude that there is not clear and convincing evidence on which a reasonable jury could find that Targus acted in bad faith by asserting objectively baseless patent infringement allegations. Thus Adept's state-law tortious interference claim is preempted by federal patent law. The trial judge erred in denying Targus's motion [**49] for judgment as a matter of law on this claim, and we therefore reverse the trial court's judgment.

CONCLUSION

We reverse the trial court's judgment of infringement of the Neville patents. Accordingly, we vacate the infringement damages award and the permanent injunction; we also vacate the trial court's judgment with respect to willfulness and attorney fees.

We reverse the trial court's judgment of invalidity with respect to the unasserted claims of the '897 patent and '131 patent. We vacate the trial court's judgment that claim 46 of the '868 patent and claim 10 of the '810 patent are invalid and remand for a new trial on the validity of those claims. We affirm the invalidity judgment with respect to the remaining patent claims

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asserted by Targus against Adept.

We reverse the trial court's judgment on Adept's tortious interference claim and vacate the accompanying award of compensatory and punitive damages.

AFFIRMED-IN-PART, REVERSED-IN-PART,
VACATED-IN-PART, and REMANDED

DYK, Circuit Judge, concurs in the result.



Trank S

Leev

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

SA ✓
Xref N/A

d-note

1/P1

gen cat

1. **AN ACT** ...; relating to: bad faith claims of patent infringement.

Analysis by the Legislative Reference Bureau

✓ This is a preliminary draft. An analysis will be provided in a subsequent version of this draft.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

2. **SECTION 1.** 100.197 of the statutes is created to read:

3. **100.197 Unfair assertion of patent rights. (1) DEFINITIONS.** In this section:

4. (a) "Infringement notification" means a letter, e-mail, or other communication
5. asserting that a person has committed patent infringement.

****NOTE: Is the intent to include only written notifications or is the intent to include oral notifications as well? Either way, we should clarify this definition to more effectively achieve your intent.

6. (b) "Patent infringement" means a violation of the rights secured by a patent
7. or of the claims established in a patent application that is pending with the U.S.
8. patent and trademark office.

1 (c) “Target” means a person who is domiciled in this state and satisfies at least
2 one of the following:

3 1. The person has received an infringement notification alleging that the
4 person has committed patent infringement.

5 2. The person has been threatened with a lawsuit for patent infringement or
6 a lawsuit has been initiated against the person alleging patent infringement.

√ ****NOTE: It appears that any threat or filing of a lawsuit would be included under
subd. 1., because the person has received an infringement notification. Also, given the
broad definition of “infringement notification,” a complaint initiating a lawsuit would
likely be considered an infringement notification. We could include a complaint under
the definition of “infringement notification” to remove any doubt. Do you still want to
include subd. 2., above?

7 3. One or more of the person’s customers has received an infringement
8 notification asserting that the person has committed patent infringement.

9 **(2) BAD FAITH ASSERTION OF PATENT INFRINGEMENT.**

10 (a) No person may make a bad faith infringement notification.

11 (b) A court may consider one or more of the following as evidence that a person
12 has made a bad faith infringement notification:

13 1. The infringement notification does not contain all of the following:

14 a. The number of each patent or patent application that is the subject of the
15 infringement notification.

16 b. A physical or electronic copy of each patent or pending patent.

17 c. The name and address of the owner, assignee, or licensee, if any, of each
18 patent or pending patent. The address given shall be the physical address of the
19 owner, assignee, or licensee.

****NOTE: Is the intent that the infringement notification include the information
for each licensee authorized under a license to use the patent? If not, what is meant by
“licensee” in this context?

1 d. Factual allegations and an analysis setting forth in detail the person's theory
2 of patent infringement.

3 2. The infringement notification lacks information required under subd. 1., and
4 the person fails to provide that information within a reasonable time after the target
5 requests that information.

6 3. The infringement notification demands the payment of a license fee or other
7 response to the infringement notification within an unreasonable time.

8 4. The person offers to provide a license for the patent to the target for a fee that
9 is not based on a reasonable estimate of the value of the license.

10 5. The assertion of patent infringement in the infringement notification is
11 meritless, and the person knew or should have known that the assertion of patent
12 infringement is meritless.

13 6. The infringement notification is ^{false,} ~~deceptive~~ ^{or misleading}

14 7. The person, or a subsidiary or other affiliate of the person, has previously
15 filed or threatened to file one or more lawsuits based on the same or similar assertion
16 of patent infringement contained in the infringement notification and those threats
17 or lawsuits lacked the information described in subd. 1. or a court found the assertion
18 of patent infringement to be meritless.

****NOTE: Do you want to include previous infringement notifications in addition
to previous lawsuits and threats of lawsuits?

19 8. Any other evidence the court finds relevant.

20 (c) A court may consider one or more of the following as evidence that an
21 infringement notification was not made in bad faith:

22 1. The infringement notification contains the information described in par. (b)

23 1.

1 2. If the infringement notification lacks information required under subd. 1.,
2 the person provides that information within a reasonable time after the target
3 requests that information.

 ****NOTE: Is it necessary to include subds. 1. and 2., above, which represent the
reverse of par. (b) 1. and 2.? Presumably, if the person asserting patent infringement
satisfies par. (b) 1. and 2., the court would consider that as evidence that there was no bad
faith, without the need to say so in the statute.

4 3. The person makes a good faith effort to establish that the target has engaged
5 in patent infringement and to negotiate an appropriate remedy with the target.

6 4. The person makes a substantial investment in the production or sale of a
7 product, service, or technology covered by the patent or pending patent.

8 5. The person is an inventor, owner, or assignee of the patent, or the person is
9 an institution of higher education or a technology transfer organization owned or
10 affiliated with an institution of higher education.

11 6. The person has demonstrated good faith business practices in previous
12 efforts to enforce the patent or pending patent, or a substantially similar patent or
13 pending patent, or the person has successfully enforced the patent or pending patent,
14 or a substantially similar patent or pending patent, in court.

15 7 → 8. Any other evidence the court finds relevant.

16 (3) BOND. (a) Upon motion by a target and a finding by the court that a target
17 has established a reasonable likelihood that a person has made a bad faith
18 infringement notification in violation of this section, the court shall require the
19 person to post a bond in an amount equal to a reasonable estimate of all amounts the
20 target is likely to recover under sub. (4) (b), conditioned upon payment of all actual
21 amounts finally determined to be due to the target. The bond may not exceed
22 \$250,000.00, and the court shall hold a hearing if any party requests a hearing.

par. (a)

1

(b) The court may waive the bond requirement under subd. 1. if the court finds the person alleged to have committed the violation of this section has available assets equal to the amount of the proposed bond or for other good cause shown.

4

(4) ENFORCEMENT AND REMEDIES. (a) 1. The department or the attorney general may investigate an alleged violation of this section.

5

****NOTE: The above provision authorizes both DATCP and the Attorney General to investigate a violation of the patent trolling law. Do you want to include any further role for DATCP under the bill? Also, do you want DATCP or DOJ to promulgate rules to enforce the patent trolling law?

6

2. The attorney general may commence an action in the name of the state to restrain by temporary or permanent injunction a violation of this section. Before entry of final judgment in an action commenced under this subdivision, the court may make any necessary orders to restore to any person any pecuniary loss the person has suffered because of the violation.

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3. The attorney general may commence an action in the name of the state to recover a forfeiture to the state of not more than \$50,000 for each violation of this section.

12

13

****NOTE: I used the punitive damages amount in the drafting instructions, \$50,000, as the forfeiture amount. Is that consistent with your intent?

14

(b) A target or other person aggrieved because of a violation of this section may commence an action for any of the following:

15

16

1. A temporary or permanent injunction restraining a violation of this section.

17

2. An appropriate award of damages.

18

3. The person's costs and reasonable attorney fees.

19

4. An award of punitive damages not to exceed \$50,000 for each violation or

20

three times the total amount awarded under subds. 2. and 3., whichever is greater.

3

****NOTE: Do you want to specify that each infringement notification is a separate violation?

aggregate

for all violations

1 **(5)** NO LIMITATION OF RIGHTS AND REMEDIES UNDER OTHER LAW. Nothing in this
2 section may be construed to limit rights and remedies available to the state or any
3 person under any other law.

 ***NOTE: Do you want to include an initial applicability provision applying the new
law to infringement notifications made on or after the effective date of the proposal?

4

(END)

note