

**The "Chutzpah" Award: A New Trend?
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by Mark T. Banner

Hollywood has the Oscar, literature has the Pulitzer . . . and now patent law has the "Chutzpah" award.

Judge Lourie, writing for the Court of Appeals for the Federal Circuit, has, for the third time in four years, awarded a "chutzpah" award, this time in the decision of *Dainippon Screen v. CFMT*. A parent company (CFM) that incorporated a wholly owned subsidiary (CFMT) to hold the parent's intellectual property, including its patents. The subsidiary then granted exclusive licenses to the parent. The issue arose when a district court in California dismissed a declaratory judgment action brought against CFM and CFMT because, the court said, the action lacked personal jurisdiction over CFMT, which was a Delaware corporation and not incorporated in California or registered to conduct business there.

The Federal Circuit repeated the law of personal jurisdiction for an out-of-state defendant: whether a forum state's long-arm statute permits service of process and whether the assertion of personal jurisdiction would violate due process. California has adopted long-arm statutes that are coextensive with the limits of due process, so the inquiry in the case focused on due process.

CFMT, through its agents, issued threats of infringement in California. Additionally, CFMT licensed CFM to make, use, and sell products covered by the patent throughout the United States, including California, and CFM maintained sales agents in California "to fulfill this purpose," said the court. Thus, CFMT derived substantial licensing revenues from CFM's California-based sales under the patent. Moreover, CFMT's attempts to negotiate a sublicense with Dainippon (the plaintiff) in California further strengthened CFMT's contacts with the state. The Federal Circuit concluded that the imposition of personal jurisdiction over CFMT would be "reasonable and fair," one of the due process factors cited in prior case law.

The court also bestowed its Chutzpah award:

Stripped to its essentials, CFM contends that a parent company can incorporate a holding company in another state, transfer its patents to the holding company, arrange to have those patents licensed back to itself by virtue of its complete control over the holding company, and threaten its competitors with infringement without fear of being a declaratory judgment defendant, save perhaps in the state of incorporation of the holding company. This argument qualifies for one of our "chutzpah" awards (noting that "chutzpah" describes "the behavior of a person who kills his parents and pleads for the court's mercy on the ground of being an orphan").

The court reversed the conclusion that there had been no personal jurisdiction over CFMT and reversed the conclusion that the case had to be dismissed for failure to join an indispensable party.

The decision also revealed the prior award of two other "chutzpah" awards in opinions authored by Judge Lourie.

The first such award came in the *Checkpoint Systems* case, an appeal from an ITC determination that certain patents were invalid and not infringed. The patent flowed from work the inventor did within a corporation and was invalidated on the prior work of another worker in the same corporation. The other worker had an earlier invention date, but no patent application was ever filed in his name even though he brought it to his superiors' attention. Thus, it became prior art and invalidated the asserted patents.

Checkpoint argued on appeal that the equities weighed against invalidation of its patents because the inventor actively pursued patent protection while the other inventor "slept" on his rights. Not so, said the Federal Circuit:

We fail to see what equities lie with a corporation that, rather than making a good faith judgment concerning conflicting claims of inventorship among its employees, puts off the prior inventor while continuing to develop the invention with his help. Checkpoint's assertion now that the prior inventor "slept" on his invention may qualify as a new definition of "chutzpah."

Another "chutzpah" award came in the *Refac* case, an appeal from a bench trial in which the patent in suit was held to be unenforceable for inequitable conduct. The patent concerned a method of converting a software source code program to object code. The examiner initially rejected the application, saying the disclosure was inadequate.

Three affidavits asserting the sufficiency of the disclosure were filed, including one from Mr. Jones, a computer scientist or compiler writer, and the case was allowed.

With the Jones affidavit, the district court found that the circumstances of its presentment, and its content, were intended to have the PTO examiner conclude that the affiants were from "disinterested witnesses" with no knowledge of the patented process. The lower court concluded that the examiner would, when evaluating the affidavits, consider it important to know whether the disinterested affiants had prior exposure to the patent process or its commercial program.

In appealing the finding of inequitable conduct, *Refac* asserted that Jones's affidavit contained only opinion, not factual statements, and the affidavit could not be used to infer an intent to mislead. "We do not agree," said the Federal Circuit, in an opinion again authored by Judge Lourie bestowing the "chutzpah" award: An affidavit submitted to overcome a rejection is intended to be relied upon. While an affiant may insist that his sworn statements were truthful or that any omissions were not material or not made with intent to deceive, these are matters of proof and credibility, on which the decision here has gone against *Refac*. But arguing that an affidavit submitted to persuade was defective as presenting only opinion, not fact, and that it should be discounted, qualifies only for a chutzpah award . . . not a reversal. There is no hint as to how frequent the award will be made, nor how coveted it is by the recipients. One can only imagine that the recipients were soothed by the blessing attributed to Jonathan Swift: "Blessed are those who expect nothing, for they shall not be disappointed."

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