

Federal Circuit Confirms It Will Not Vacate Judgments of Invalidity after Determining on Appeal that the Asserted Claims Were Not Infringed

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In *Lincoln Nat'l Life Ins. Co. v. Transamerica Life Ins. Co.*, the Federal Circuit reversed the denial of Transamerica's motion for summary judgment as a matter of law that they did not infringe Lincoln National's patent, made by the District Court for the Northern District of Iowa.

Lincoln National is the owner of U.S. Pat. No. 7,089,201, which relates to computerized methods for administering variable annuity plans, designed to provide individuals with long-term economic protection against the risk of outliving their assets. A variable annuity plan carries with it the risk that the monthly payments distributed from the annuity fund could decrease to zero with sufficiently poor fund performance, dissuading an annuitant from selecting such a plan even if it is in his best interest to do so. The claims of the '201 patent are directed to computerized methods for administering a variable annuity that includes a guaranteed minimum payment to the annuitant.

Transamerica sells and administers Guaranteed Minimum Withdrawal Benefit (GMWB) riders (an attachment to a base annuity contract) that guarantee its policy owners the right to receive a minimum payment regardless of market performance.

Transamerica initiated the suit, in the District Court for the Northern District of Iowa, by seeking a declaratory judgment that its method of administering GMWB riders does not infringe on any claim of the '201 patent. Additionally Transamerica sought a declaratory judgment that the '201 patent was invalid under § 102, § 103, and § 112. The Federal Court decided *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) and the district court ordered both parties to file statements addressing the impact of that decision on the case. Transamerica filed a motion to amend its complaint to assert a claim under 35 U.S.C. § 101. The district court denied Transamerica's motion, finding that by not diligently pursuing its claim under § 101 it lacked good cause for untimely asserting the claim.

The parties tried the case to a jury, which found that Transamerica infringed on Lincoln Life's '201 patent, and awarded Lincoln Life \$13 million in damages. In response, Transamerica filed motions judgment as a matter of law (JMOL), asserting that the evidence was insufficient to support the jury's finding of infringement and that the asserted claims were invalid under 35 U.S.C. §§ 103 & 112. The district court denied Transamerica's motions and entered a permanent injunction against them. Transamerica appealed, asserting that it was entitled to JMOL of non-infringement of the '201 patent, and also asserting that the court abused its discretion in denying leave to amend its complaint to include a claim under 35 U.S.C. § 101.

The Federal Circuit found that the undisputed evidence of record showed that Transamerica's computerized system did not perform every limitation of the '201 claims. The Federal Circuit concluded that the evidence showed the final step, as claimed in Lincoln Life's patent, as being performed manually by Transamerica's Distribution Services department. The Federal Circuit, therefore, found that the district court erred in not awarding Transamerica's JMOL of non-infringement.

The Federal Circuit refused to rule on whether the district court abused its discretion in not giving leave to Transamerica to amend its complaint to include its claim under 35 U.S.C. § 101, finding that there was no need in light of its finding that Transamerica did not infringe the '201 patent. In support of this stance, the Federal Circuit cited the United States Supreme Court's decision in *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83 (1993). In *Cardinal*, the

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Supreme Court rejected the Federal Circuit's practice of routinely vacating district court judgments of invalidity after determining on appeal that the asserted claims were not infringed. The Supreme Court reasoned that the practice created the "potential for relitigation [of the validity issues] and impose[d] ongoing burdens on competitors who are convinced that a patent has correctly been found invalid." *Id.* at 101. The Federal Circuit acknowledged that the present case was distinguishable from *Cardinal* in that the district court had not ruled on the validity of the claims of the '201 patent under 35 U.S.C. § 101. The Federal Circuit finally remanded the case to the district court for entry of judgment of non-infringement in favor of Transamerica.

In a concurring opinion, Judge Clevenger found that, "[b]y no stretch of anyone's imagination could it be said that the district court abused its discretion by denying Transamerica's motion for leave to add a section 101 claim."

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