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**JUDICIAL CONFERENCE-FEDERAL CIRCUIT**

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**Morning Plenary Session**

forward document to: "The Year in Review: Patent and Trademark Related Decisions of the Court of Appeals for the Federal Circuit," The Ninth Annual Judicial Conference of the United States Court of Appeals for the Federal Circuit, Washington, D.C., May 9, 1991, published at 140 F.R.D. 57 at 113.

We begin our program, as we do each year, with our year-end review, and once again Professor

Chisum is here to give us his words about what's been happening in the Federal Circuit for the past year.

Professor Chisum, (Applause.)

MR. CHISUM: It is an honor and a pleasure to address this Court and so many distinguished and able members of its bar, and perhaps former \*114 members of its bar if we're to believe Judge Plager, at this, the Ninth Judicial Conference.

My task is to review the Court's patent and trademark law-related decisions over the past year or so. In your materials you should have two outlines; one on trademarks and one on patents. The year, more than most, was full of significant decisions, and so the task of getting through them in a half-hour or so is a daunting one, and I was tempted to suggest that we should adjourn the breakout session and you could all diligently study the outline and then we could reassemble next week and I would give you an examination, multiple choice, PTO style.

I'll give you a sample question. In [\*Amgen \(Amgen v. Chugai\)\*, 927 F.2d 1200, 18 USPQ 2d 1016 \(Fed.Cir.1991\)](#)). The Federal Circuit applied the simultaneous conception, reduction to practice doctrine to uphold a patent on (a), a wind-powered goose hunting decoy-

(b), a patient-shifting plastic slab, (c), isolated and purified DNA sequences in coding genetics, (d), gel foaming shave cream, or (e), an ornamental groove femoral hip stem design. It gives you some idea of the variety of technologies that come before the Court in the patent cases.

Let me start mentioning a few of the trademark decisions, and I'll try to refer you to the page on the outline. If you look on page 11, there's the [\*Midwest Plastic \(Midwest Plastic v. Underwriters Laboratories\)\*, 906 F.2d 1568 \(Fed.Cir.1990\)](#) decision, in which the Court confirmed that Underwriters Laboratories' famous certification mark, UL, should not be cancelled for either non-certification use or failure to control. The Court reasoned that "control" does not mean absolute control, and the rule of reasonableness applies. The certifier must take just reasonable steps to prevent the public from being misled.

In the *Towers* case ([\*Towers v. Advent Software\*, 913 F.2d 942, 16 USPQ2d 1039 \(Fed.Cir.1990\)](#)), on page 18, the Court returned to the problem of whether a party opposing or seeking cancellation of a trademark on likelihood of confusion grounds must show that his own previously-used mark or trade name is distinctive. After discussing some prior decisions on the use of marks registered on the supplemental register to oppose, the Court held that indeed a party must show the distinctiveness of his own mark in order to have standing to bring an opposition. Hence, this petitioner's mark, quote, "The Professional Portfolio System for Financial Management Systems," was descriptive, not distinctive, and didn't allow petitioner to challenge the registered mark, the professional portfolio.

On page 21 you see [\*Mother Tuckers \(In re Mother Tucker's Food Experience\)\*, 925 F.2d 1402, 17 USPQ2d 1795 \(Fed.Cir.1991\)](#), in which the Court held that a Section 8 Continued Use Affidavit, which a registrant must file within one year preceding the expiration of six years after a trade marks registration was deficient, because it averred use of the mark, but not use in commerce. So omission of those two words, "in commerce," as a formality, meant that the registration lapsed, and put the registrant to the expense of re-registering the mark.

\*115 The Court's trademark decisions tend to show that kind of emphasis on formality compliance, and one wonders, at some point, are we squandering resources by requiring ever so

strict a compliance.

The *Houlihan* case ([Houlihan v. Parliament Import, 921 F.2d 1258, 17 USPQ2d 1208 \(Fed.Cir.1990\)](#)), on page 24 held, for perhaps the first time, that Concurrent Use Registrations, which, of course, are commonplace when you have separate, good-faith use of a mark in discreet geographic areas, can also issue when you have two or more entities deriving their rights by assignment from a single source.

The *Mumms* case ([G.H. Mumm and Cie v. Desnoes and Geddes, 917 F.2d 1292, 16 USPQ2d 1635 \(Fed.Cir.1990\)](#)), on page 27, the Court rejected an argument that the registrant, the famous French champagne maker, committed inequitable conduct by submitting incomplete specimens in support of its Trademark Registration Renewal Application. Inequitable conduct seems to be infecting almost all areas of intellectual property law today and the copyright people are concerned about it as a defense. Those interested in the patent system have long struggled with it, and there is an equal doctrine in the trademark area.

In this case, the registrant had submitted in support of a renewal application, its stripe mark, without showing the words “Cordon Rouge,” which, in fact, it used on its labels. The Court said, “Well, that's not a model of technical nicety which we would wish emulated,” but didn't rise to the level of inequitable conduct. We also learn in this case that there are, indeed, substantial pricing differences between champagne and beer.

Now, turning to the patent cases, I learned some interesting things, not involving legal doctrine. For example, in the *New Idea Farm Equipment* case ([New Idea Farm Equipment v. Sperry Corp., 916 F.2d 1561, 16 USPQ2d 1424 \(Fed.Cir.1990\)](#)), I learned about the facts of life. The Court said, “People conceive, not companies.”

In [Gillette \(Gillette Co. v. S.C. Johnson and Son, 919 F.2d 720, 16 USPQ2d 1923 \(Fed.Cir.1990\)\)](#), on page 22, I learned about literature, specifically, Milton's Paradise Lost is the true source of the rule of patent law that you shouldn't use hindsight to determine obviousness. Many cases, many cases. Paring them down to a “Top Ten Hits” was difficult. I considered, and indeed announced, formation of an advisory committee, but had to abandon the idea when a group of investment bankers demanded 51 percent representation. It seems Wall Street watches Federal Circuit patent decisions more closely than does the intellectual property. And well it should. Patent matters are serious business, affecting the progress of technology and the allocation of resources to research and development, and it can profoundly impact the structure of global markets and the health, safety and well-being of all humankind.

But I did my best to come down to 10 decisions that presented new issues or significant new interpretations of existing rules and standards, but I couldn't quite get there. So I have some honorable mentions, cases not making the top 10, but deserving your special attention. One is the *Hewlett-Packard* decision ([Hewlett-Packard v. Bausch and Lomb, 909 F.2d 1464, 15 USPQ2d 1525 \(Fed.Cir.1990\)](#)), on page 99, which discusses \*116 the important question of the potential liability as an active inducer of infringement of a company that has sold a division, and its liability for the continuing acts of infringement by the division.

The *Bartfeld* case ([In re Bartfeld, 925 F.2d 1450, 17 USPQ2d 1885 \(Fed.Cir.1991\)](#)), on page 18, confirms that Patent Act Section 102(e) may create prior art problems when a common assignee of several inventions by different inventors, files applications on different dates. If the earliest-filed

application issues as a patent, all its disclosures are potentially prior art to the later-filed applications, even though there may be common ownership and even though the assignee offers that dreadful instrument the Chief Justice referred us to, a terminal disclaimer.

The stream of Section 102(b), Public Use and On Sale Bar Experimental Use Cases continue, and the cases are fact dependent and policy driven. But the Court's overall jurisprudence on these prejudicial pre-filing-date activities must be constantly monitored. So I urge that you read carefully the [\*Envirotech \(Envirotech v. Westech Engineering, 904 F.2d 1571, 15 USPQ2d 1230 \(Fed.Cir.1990\)\)\*](#) decision on page nine, the [\*Manville Sales \(Manville Sales v. Paramount Systems, 917 F.2d 544, 16 USPQ2d 1587 \(Fed.Cir.1990\)\)\*](#) decision on page 14, and the [\*U.S. Environmental Products \(U.S. Environmental Products v. Westall, 911 F.2d 713, 15 USPQ2d 1898 \(Fed.Cir.1990\)\)\*](#) decision on page 13.

But let's look at the top 10, starting with the bottom of the list. Number 10 is [\*SmithKline Diagnostics \(SmithKline Diagnostics v. Helena Laboratories, 926 F.2d 1161, 17 USPQ2d 1922 \(Fed.Cir.1991\)\)\*](#), which is several places in the outline: page 152, 156, 157. It deals with damages, patent infringement damages, lost profits, reasonable royalties. It's probably a sign of how valuable patents have become today that the patentee, though receiving an award, a reasonable royalty of 25 percent, appealed, seeking a higher award, 48 percent.

There are two or three significant holdings in the case. One was that a District Court's not put to baseball style arbitration. It need not simply pick between two specific figures the parties come up with; in this case, three percent on the one hand, 48 percent on the other hand. You have a good idea where that 25 percent came from.

It also rejected the patentee's claim for lost profits. Now a fair number of the Court's decision focus on this question: "What is an acceptable, non-infringing, alternative or substitute, such that we can say that if such existed, the patentee did not necessarily lose sales to the infringing sales?" And the Court emphasizes that it is indeed proper to consider the realities of the marketplace, and that the alternative need not necessarily have all the claimed invention's features.

The Court also does an admirable job of trying to clarify some of the Court's prior precedents, which state things like the methodology of computing patent damages is submitted to the Trial Court's judicial discretion. And the Court candidly admitted that there were some confusing, if not directly conflicting, statements about that. But whatever that discretion means, it does not mean that the judge may simply choose between a lost profits award and a reasonable royalty award if the evidence clearly indicates entitlement to one or the other.

\*117 The ninth case is [\*Bond \(In re Bond, 910 F.2d 831, 15 USPQ2d 1566 \(Fed.Cir.1990\)\)\*](#), which is on page four, in which the Court held that Section 112, last paragraph, "Means Plus Function Limitation Interpretation Rule applies during PTO examination." Despite the general rule, the claims under examination are given their broadest reasonable interpretation. So, in this instance, if the claims were rejected, they had a certain means limitation, the prior art had something to perform that function, the examiner rejected the claims without making a finding or determination about the equivalency question. The Court held that that was there.

The PTO has since made clear its distaste for Bond, and busy examiners cannot be expected to read specifications and determine equivalency between specification means and prior art means. Is there a reasonable compromise to this impasse? I suggest perhaps there is. Let the PTO examiner make a *prima facie* case by identifying prior art showing any means performing the function, then

shift the burden of proof to the applicant to explain, make a specific showing that the means is not equivalent-the means and the prior art is not equivalent to the specification means.

The number eight decision is the [\*Meyers \(Meyers v. Brooks Shoe, 912 F.2d 1459, 16 USPQ2d 1055 \(Fed.Cir.1990\)\)\*](#) decision on laches, the doctrine that you cannot recover damages for pre-lawsuit filing date infringing activity.

*Meyers* addresses a number of interesting issues, for example, whether if you have one patent issued that's apparently being infringed, and you have another application pending in the PTO, say on an improvement, can you wait for issuance of the second patent? Is that a reasonable excuse for delaying filing suit? And the Court suggests that it may be.

Laches is a very interesting subject, and it's addressed in a case which unfortunately just came down a couple of weeks ago which you will definitely want to look at, and so it's not in the outline. The decision is *A.C. Ackerman Company*, dated April 25th, 1991, opinion written by Judge Plager, in which this panel anyway suggests that the traditional six-year rule, the rule that if the patentee waits more than six years to file suit after learning or ought to have learned infringing activity, that it is presumed that delay was unreasonable, and it is presumed that the defendant suffered prejudice. The panel seems to suggest that presumption doesn't apply.

In addition to that interesting concept, there's a moral to the *A.C. Ackerman* case. The Court relies heavily on a prior en banc decision of this Court involving military pay matters. So those of us who focus heavily on intellectual property matters cannot ignore the Court's evolving jurisprudence in other subject matter areas.

The number seven decision is [\*Gerber Garment Technology \(Gerber Garment Technology v. Lectra Systems, 916 F.2d 683, 16 USPQ2d 1436 \(Fed.Cir.1990\)\)\*](#), on page 49. This one, I was really tempted to leave to the Chief Justice for discussion, because indeed it involves double patenting, obviousness-style double patenting. It specifically involves Section \*118 121 of the Patent Act, which provides protection from a double patenting invalidation of a patent issuing on a divisional or continuing application filed as the result of a PTO examiner restriction requirement. The Court held that Section 121's protection is not absolute and that a second patent is not going to be shielded from double patenting invalidation if the claims that are in it are not consonant. The key concept is consonance, with the claims not elected by the inventor in response to the restriction requirement.

So there is judicial scrutiny about the claims in the second patent and whether they really maintain the line of division that was stated in the restriction requirement that resulted in multiple patents.

The number six case is [\*Wilson Sporting Goods \(Wilson Sporting Goods v. David Geoffrey and Associates, 904 F.2d 677, 14 USPQ2d 1942 \(Fed.Cir.1990\)\)\*](#), on page 128. It's a great case. I'm not going to say anything about it because we've got a bevy of good speakers coming up who will ventilate the golf ball case for us.

The number five case is [\*Consolidated Aluminum \(Consolidated Aluminum v. Fosco International, 910 F.2d 804, 15 USPQ2d 1481 \(Fed.Cir.1990\)\)\*](#), on page 95, which addresses inequitable conduct, and particularly the consequences of inequitable conduct committed with respect to one patent on the enforceability of related patents. The Court held that indeed, under the facts of this case, several related patents were unenforceable because of the patentee's inequitable conduct consisting of the intentional substitution of a fictitious, inoperable mode for

the patentee's contemplated best mode of carrying out that invention in just one of the patents.

The fourth case on the list-I might mention in that respect that there were several other inequitable conduct cases that you should pay close attention to during the year. For example, the *Halliburton* case ([Halliburton v. Schlumberger, 925 F.2d 1435, 17 USPQ2d 1834 \(Fed.Cir.1991\)](#)), on page 82, is the Court's most extensive discussion of the materiality standard and the exception to it about cumulative information. The Court stressed that cumulative references or information that was expressly considered by the examiner is not material to patentability. The Court held that the District Court committed clear error in finding the undisclosed patents material. They were indeed, in the Court's view, cumulative to those that were considered by the examiner.

Another inequitable conduct case you should pay close attention to is the [Fox Industries \(Fox Industries v. Structural Preservation Systems, 922 F.2d 801, 17 USPQ2d 1579 \(Fed.Cir.1990\)\)](#), in which a patent indeed was held unenforceable because of inequitable conduct. In this instance, the inventor had given the patent attorney, its patent attorney, a sales brochure and said, "Use this to draft this continuation in patent-part application."

The sales brochure had been used more than a year before the filing date and, therefore, was clearly prior art, but was not disclosed as such to the examiner.

The number four decision is the [V.E. Holding \(V.E. Holding Corp. v. Johnson Gas Appliance, 917 F.2d 1574, 16 USPQ2d 1614 \(Fed.Cir.1990\)\)](#) \*119 venue decision on page 171, truly a revolution in patent venue matters. The Court held that a 1988 amendment to the Judicial Code's definition of corporate residence means that a corporation may be sued for patent infringement in any district in which it is subject to personal jurisdiction, altering the century-old rule that accused infringers could be sued only in their actual residence, or-residence meaning state of incorporation, for example, or a district in which they have both a regular and established place of business and create an infringement act.

Number three on my list is the [Chemcast \(Chemcast Corp. v. Arco Industries, 913 F.2d 923, 16 USPQ2d 1033 \(Fed.Cir.1990\)\)](#) decision on page 63, a significant decision on the Best Mode Requirement. Section 112's Best Mode Requirement is deceptively simple in its wording. An inventor must disclose the best mode contemplated for carrying out the invention. But what is a mode? What does "carrying out" mean? *Chemcast* attempted to analyze some of these issues. It attempted to clarify prior statements about the use of prior art in determining best mode compliance. And it stressed that the level of skill in the art can be considered in determining the adequacy of disclosure, as opposed to its necessity.

So we really have a two-component test. The first component asks whether the inventor, at the time he filed his patent application, knew of a mode better than any other. And the second component is whether or not the inventor adequately disclosed it in the specification and then properly considered the prior art in determining that second component.

The Court also included some ominous language about trade secrets. Under the facts of the case, the preferred material that the inventor used in its patent invention, a certain grommet structure, was a kind of plastic or whatever, supplied by a third party, that claimed trade secret rights in the nature of material, and the Court indicated that the fact that something may be a trade secret is no excuse for nondisclosure. If the inventor knows of it and prefers it as the best mode, it must be

indeed disclosed.

Up in the number two position is an old friend that was mentioned last year, the *Dillon* case ([\*In re Dillon\*, 919 F.2d 688, 16 USPQ2d 1897 \(Fed.Cir.1990\)](#) (en banc)). Of course, much has been said about *Dillon*. It's on page 37 and many other places in the outline. It deals with these concepts of prima facie obviousness when the applicant's claimed subject matter, a composition of matter in this instance, is structurally similar to a known prior art composition; the inventor has discovered an unexpected, new, useful property that turns out to be present, not only in the claimed invention, but also in the prior art composition, but was not known to be so present in the prior art. The Court overruled the panel decision, which said that the inventor's purpose and objective was part of consideration of whether a *prima facie* case of obviousness had been created, and it disapproved of language in one of my favorite teaching cases. *In re Wright*, the carpenter level's case. So all those JPTOS articles you see about was Wright right or Wright wrong are now-we've now settled that debate. Wright was wrong.

But I see aspects of the opinion. It was an en banc decision of the Court, so it's clearly of a high level of importance. But there are a \*120 number of aspects of the opinion that suggest to me a back-to-basics approach to obviousness, looking at the prior art disclosures in terms of structure and the known expected properties. Was there really a suggestion or motivation to a person of ordinary skill of the art to produce what's now claimed, produce it for any reason, any purpose? And if the prior art structure was not particularly important or its properties and advantages not highly significant, there may indeed be very little suggestion or motivation for persons of skill in the art to vary it.

There's also interesting language in the *Dillon* opinion, which is not necessarily joined by all the judges, relating to the problem, which in turn was also dealt with by the Court this year in *Pleuddemann*, which I think is discussed on page 30 ([\*In re Pleuddemann\*, 910 F.2d 823, 15 USPQ2d 1738 \(Fed.Cir.1990\)](#)). It's this problem of the relationship between the obviousness of materials on the one hand, and processes of making and using those materials. Somehow, I think that we have not heard the last of that subject. Whether it's going to come from Congress or this Court, remains to be seen.

The number one case was easy this year. It may be a personal bias, but the [\*Amgen v. Chugai\* \(927 F.2d 1200, 18 USPQ2d 1016 \(Fed.Cir.1991\)\)](#) decision was—did I hear a hiss?—it's chock full of interesting issues. And, after all, if you had to characterize this year as a whole, you'd have to say it was one where the chemists and the bioteches of the patent world were jumping around with important new decisions like cats on a hot tin roof. I can't begin to describe all of the interesting issues that came up in *Amgen*. There were two patents at issue, each pertaining to EPO. *Amgen's* patent claimed purified and isolated DNA sequences in coding the DNA that were transformed with the sequence.

One question was obviousness. “Was it invalid?” The Court focused on whether the methods that were used to clone the gene, to isolate the gene, would have been viewed as having a reasonable expectation of success by the parties, and it found that the evidence indicated no reasonable expectation of success, either using the strategy that the actual inventor used, or its suggested alternative strategy.

The Court drops an interesting footnote saying, “Well, we're focusing on the obviousness or the unobviousness of the method of making, simply because that's what the parties did in suggesting

that maybe that is not the whole story.”

The Court rejected the best mode violation challenge. *Amgen* had used certain gene amplification techniques to develop a favorite high-yield homogenous cell line to produce EPO commercially. It did not make a public deposit of that cell line. The evidence suggested that gene amplification techniques were known and could be used to produce a similar cell line without having direct access to Amgen's cells, but it also seemed clear that without that access, no one could exactly duplicate that cell line.

Treating the issue as novel, the Court said that a patentee's best mode disclosure, to be adequate, need not enable exact duplication. But we will have to see further how close you have to come to enabling the best mode disclosure.

\*121 The Court also dealt with prior invention. Genetic Institutes scientists had conceived of, or alleged to have conceived of a cloning strategy before Amgen's scientist was successful in reducing the invention to practice by cloning the gene. The Court applied an old doctrine dating back to Professor Robinson's treatise about simultaneous conception and reduction to practice.

What it appears to me is that, because of the uncertainties of the methods here and the lack of information about say the amino acid sequence of the protein they were looking for, you could not have an adequate conception till you had it. You don't have it until you have it, and they didn't have it until they had it.

The Court also held that a broad claim that covered not only the genes in coding EPO, that is, the exact amino acid sequence, but all genes in coding polypeptides, quote, sufficiently duplicative of EPO's amino acid sequence, to possess the desirable property, red cell-blood cell production, the Court held that that broad claim was invalid for want of enablement, lack of support. There was a very large number of potential analogues or variations of EPO. The inventor simply did not show enough examples. So it's a significant holding on the question of support for generic claims.

Another set of issues in the case involved the other patent involved, Genetic Institute's patent to a homogenous protein of at least a specific activity level. Reversing your District Court, this Court held that the patent is invalid for want of enablement. The evidence disclosed that the patentee's disclosed purification process could not be used to obtain a protein of the prescribed and defined specific activity level. It's actually one of the few decisions by this Court on the enablement point holding patent simply invalid for providing insufficient information on how to make the claimed invention.

So that is my list in this limited amount of time. I wish I had more time to talk about these cases. It was truly an exciting year reading the intellectual property opinions of the Federal Circuit, and I commend not only the 10 or 12 or 15 I have discussed, but, indeed, all of them. Thank you very much for your attention. (Applause.)

MR. DAVIS: Thank you very much, Don.

If you have questions of Don Chisum, I invite you to write them and submit them up. We're not going to take questions and answers now. We'll take them at the end, if we have time.