

# The Day the Music Died — for Patent Owners

## THE INTERPLAY BETWEEN *FESTO* AND *GRAIN PROCESSING*



BY ROBERT C. KAIN, JR.  
OF FLEIT, KAIN, GIBBONS,  
GUTMAN & BONGINI

Recently, the Federal Circuit Court of Appeals (the “Federal Circuit”) issued two rulings, one of which was an *en banc* decision, that significantly restrict a patent owner’s rights in enforcing its patent and expand a patent infringer’s ability to defeat an assertion of lost profits by the patent owner. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co. a/k/a/ SMC Corp., et al.*, 234 F.3d 558, 56 U.S.P.Q.2d 1865 (Fed. Cir. 2000) and *Grain Processing Corp. v. American Maize-Products Co.*, 185 F.3d 1341, 51 U.S. P.Q.2d 1556 (Fed. Cir. 1999). An astute spectator at the American Intellectual Property Law Association (AIPLA) 2001 Mid-Winter Institute linked these two apparently different cases, one addressing patent infringement liability and the other focusing primarily on damage issues, into a scheme that seriously effects the scope of a patent and gives an alleged patent infringer significant new grounds to defeat a patent owner’s assertion of lost profits due to infringement.

In *Festo*, an *en banc* decision,<sup>1</sup> the Federal Circuit held:

[1] an amendment that narrows the scope of a claim for any reason related to the statutory requirements for a patent will give rise to prosecution history estoppel with respect to the amended claim element [and] that “a substantial reason related to patentability” is not limited to overcoming prior art, but includes other reasons related to the statutory requirements for a patent...

[2] that “voluntary” claim amendments are treated the same as other claim amendments; therefore, any voluntary amendment that narrows

the scope of a claim for a reason related to the statutory requirements for a patent will give rise to prosecution history estoppel with respect to the amended claim element...

[3] that when a claim amendment creates prosecution history estoppel, no range of equivalents is available for the amended claim element[; and]

[4] that “unexplained” amendments are not entitled to any range of equivalents.<sup>2</sup>

Accordingly, “a narrowing amendment made for any reason related to the statutory requirements for a patent will give rise to prosecution history estoppel with respect to the amended claim element.”<sup>3</sup> Amending the claim to comply with the statutory requirement of: (a) claiming patentable subject matter, 35 U.S.C. §101;<sup>4</sup> (b) satisfying the utility requirement;<sup>5</sup> (c) complying with the written description requirement;<sup>6</sup> (d) complying with the enablement requirement;<sup>7</sup> and (e) satisfying the definiteness requirement<sup>8</sup> gives rise to prosecution history estoppel.

The Federal Circuit also made clear that prosecution history estoppel is a complete bar to the patent owner’s assertion of infringement under the doctrine of equivalents for the amended element or amended claim language. The *en banc* decision explicitly overruled twenty (20) years of Federal Circuit case law which approved a flexible approach to the application of the doctrine of equivalents as it applies to claim language added by the patentee to obtain a patent.<sup>9</sup> The Federal Circuit’s cryptic statement that “if a patent holder can show from the prosecution history that a claim amendment was not motivated by patentability concerns, the amendment will not give rise to prosecution history estoppel,”<sup>10</sup> does not seem to provide claim drafting prosecuting attorneys, agents and their patent-owner clients any escape from the harsh rule of *Festo*. Why would prosecuting attorneys or agents amend a claim if those attorneys or agents believed the claim complied with all the statutory requirements? The only “safe harbor” available to the prosecuting attorneys and agents seems to be either broadening the claim or combining an independent claim with one or

more dependent claims that the patent examiner approves as being patentable.<sup>11</sup>

The Federal Circuit’s rationale for its holding is as follows:

With a complete bar, both the public and the patentee know that once an element of a claim is narrowed by amendment for a reason related to patentability, that element’s scope of coverage will not extend beyond its literal terms. There is no speculation or uncertainty as to the exact range of equivalents that might be available...

Thus, under the complete bar approach, technological advances that would have lain in the unknown, undefined zone around the literal terms of a narrowed claim under the flexible bar approach will not go wasted and undeveloped due to fear of litigation. The public will be free to improve on the patented technology and design around it... This certainty will stimulate investment in improvements and design-arounds because the risk of infringement will be easier to determine.<sup>12</sup>

The *Festo* Court’s rationale, the freedom to “design-around” and “improve on the patented technology,” directly impacts the formulation of a “hypothetical ‘non-infringing’ product” in a lost profits analysis in a patent infringement lawsuit. The Federal Circuit in the *Grain Processing* case established that the existence of a hypothetical “non-infringing” product bars a patentee from recovering lost profits.

[O]nly by comparing the patented invention to its next-best available alternative(s) - regardless of whether the alternative(s) were actually produced and sold during the infringement - can the court discern the market value of the patent owner’s exclusive right, and therefore his expected profit or reward...<sup>13</sup>

In light of the *Festo* decision, the next, best alternative product or process - regardless of whether the alternative was produced or sold - may be found in the very alternative structures, processes or elements that might have been found to be an infringement under the pre-*Festo* doctrine of equivalents. But now, the next, best alternative product or process is not an infringing product or process due to the presence of prosecution history estoppel and the complete bar to the application of the doctrine of equivalents.

*Grain Processing* instructs the trial court to reconstruct the market with “sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture.”<sup>14</sup> A patent



owner may seek the patent infringer's profits but "the patent owner must show 'causation in fact,' establishing that 'but for' the infringement, he would have made additional profits."<sup>15</sup>

An accurate reconstruction of the hypothetical "but for" market takes into account any alternatives available to the infringer.<sup>16</sup> "Without the infringing product, a rational would-be infringer is likely to offer an acceptable noninfringing alternative, if available, to compete with the patent owner rather than leave the market altogether."<sup>17</sup> The Federal Circuit in *Grain Processing* further explained:

an alleged substitute not "on the market" or "for sale" during the infringement can figure prominently in determining whether a patentee would have made additional profits "but for" the infringement. As this court stated in *Grain Processing VII* [*Grain Processing Corp. v. American Maize-Products Co.*, 108 F.3d 1392, 1997 WL 71726 (Fed. Cir. 1997) (nonprecedential)] "to be an acceptable non-infringing substitute, the product or process must have been available or on the market at the time of infringement."<sup>18</sup>

Therefore, a patent infringer must identify a non-infringing alternative in order to establish that the patent owner is not entitled to lost profits. Since a hypothetical non-infringing product or process may be sufficient and there is no infringement under the doctrine of equivalents for items or elements similar to, but not identical to, elements added to patent claims in order to obtain the patent, and these similar but not identical elements are easily identified in the prosecution history of the patent, an infringer need only look to the prosecution history to find such a non-infringing alternative.

The combined effect of *Festo* and *Grain Processing* represents an erosion of a patent owner's right to enforce its patent and to collect lost profits once it establishes infringement. A defendant in a patent infringement action most likely will argue the absence of literal infringement, non-infringement under the doctrine of equivalents and argue against an assessment of lost profits by selecting a non-infringing, hypothetical alternative pointed out by the prosecution history of the patent in suit. Such a hypothetical non-infringing alternative, established by the prosecution history estoppel, need not be "on sale" nor be "on the market" but must have been available at the time of infringement.

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#### ENDNOTES

1. The patent owner in *Festo* has publicly announced that the company will file an appeal to the U.S. Supreme Court. This article is subject to any pronouncements made by the Court.
2. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., et al.*, 234 F.3d 558, 563-64, 56 U.S.P.Q.2d 1865 (Fed. Cir. 2000).
3. *Id.* at 566.
4. *Id.* at 567 (citing *Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 47 U.S.P.Q.2d 1596 (Fed. Cir. 1998) (discussing the patentable subject matter requirement of 35 U.S.C. § 101)).
5. *Id.* at 567 (citing *Process Control Corp. v. HydReclaim Corp.*, 190 F.3d 1350, 52 U.S.P.Q.2d 1029 (Fed. Cir. 1999) (holding a patent invalid because the claims were inoperative and therefore failed to satisfy the utility requirement of 35 U.S.C. § 101)).
6. *Id.* at 567 (citing *Johnson Worldwide Assoc., Inc. v. Zebco Corp.*, 175 F.3d 985, 50 U.S.P.Q.2d 1607 (Fed. Cir. 1999) (considering whether a patent claim was invalid under the written description requirement of § 112, P 1), and *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473, 45 U.S.P.Q.2d 1498 (Fed. Cir. 1998) (holding claims of a patent invalid for failing to comply with the written description requirement of § 112, P 1)).
7. *Id.* at 567 (citing *Enzo Biochem, Inc. v. Calgene, Inc.*, 188 F.3d 1362, 52 U.S.P.Q.2d 1129 (Fed. Cir. 1999) (holding a patent invalid because the claims were not enabled as required by 35 U.S.C. § 112, P 1)).
8. *Id.* at 567 (citing *Morton Int'l, Inc. v. Cardinal Chem. Co.*, 5 F.3d 1464, 28 U.S.P.Q.2d 1190 (Fed. Cir. 1993) (holding a patent invalid because the claims failed to satisfy the definiteness requirement of 35 U.S.C. § 112, P 2)).
9. *Id.* at 573-74. The Federal Circuit specifically abrogated the flexible application of the doctrine of equivalents espoused in *Hughes Aircraft Co. v. United States*, 717 F.2d 1351, 219 U.S.P.Q. 473 (Fed. Cir. 1983) ("Hughes I"); *LaBounty Manufacturing, Inc.*

- United States Int'l Trade Comm'n*, 867 F.2d 1572, 9 U.S.P.Q.2d 1995 (Fed. Cir. 1989); *Black & Decker, Inc. v. Hoover Serv. Ctr.*, 886 F.2d 1285, 1295, 12 U.S.P.Q.2d 1250, 1258-59 (Fed. Cir. 1989); *Dixie USA, Inc. v. Infab Corp.*, 927 F.2d 584, 588, 17 U.S.P.Q.2d 1968, 1970-71 (Fed. Cir. 1991) (noting that prosecution history estoppel should not cause "a total preclusion of equivalence"); *Modine Mfg. Co. v. United States Int'l Trade Comm'n*, 75 F.3d 1545, 1555-56, 37 U.S.P.Q.2d 1609, 1616 (Fed. Cir. 1996); *Litton Systems, Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1455-57, 46 U.S.P.Q.2d 1321, 1325 (Fed. Cir. 1998); and *Hughes Aircraft Co. v. United States*, 140 F.3d 1470, 1476-77, 46 U.S.P.Q.2d 1285, 1289-90 (Fed. Cir. 1998) ("Hughes II").
10. *Id.* at 567-78.
11. Other commentators at the AIPLA 2001 Mid-Winter meeting indicated that changes to correct grammatical, spelling and typographic errors would not trigger prosecution history estoppel and thus not bar application of the doctrine of equivalents. Others also indicated that efforts to correct antecedent basis problems would not give rise to prosecution history estoppel and thus not bar recovery under the doctrine of equivalents. However, arguably, grammatical and antecedent basis corrections are demanded under the 35 U.S.C. §112 definiteness requirement.
12. *Id.* at 577.
13. *Grain Processing Corp. v. American Maize-Products Co.*, 185 F.3d 1341, 1351, 51 U.S.P.Q.2d 1556 (Fed. Cir. 1999).
14. *Id.* at 1350.
15. *Id.* at 1349. The patent statute provides that "the court shall award [the patent owner] damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284 (1998).
16. *Id.* at 1351.
17. *Id.* at 1351 (citation omitted).
18. *Id.* at 1349.



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## The Building Blocks of Patents

by *A. James Nelson, Ph.D.*  
*of Schwegman, Lundberg,*  
*Woessner & Kluth*

\*\*\*\*\*AUTO\*\* 3-DIGIT 333  
IP06 S0156  
ROBERT C. KAIN  
750 SE 3RD AVE. #100  
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