

## United States Court of Appeals for the Federal Circuit

99-1580, -1603

TROY SHOCKLEY,

II.

This court reviews the district court's grant of a motion for summary judgment without deference. Conroy v. Reebok Int'l, Ltd., 14 F.3d 1570, 1575, 29 USPQ2d 1373, 1377 (Fed. Cir. 1994). A summary judgment stands when the record shows no genuine issues of material fact and entitlement to judgment as a matter of law. See Fed. R. Civ. P. 56(c). This court also reviews the district court's interpretation of statutes and regulations, such as 35 U.S.C. § 251 and 37 C.F.R. § 1.175(a), without deference. In re Clement, 131 F.3d 1464, 1468, 45 USPQ2d 1161, 1163 (Fed. Cir. 1997). If the district court applies legal standards based on underlying findings of fact, this court sustains the district court's legal conclusions unless clearly erroneous. Id.

This court reviews the district court's JMOL rulings after a jury verdict by reapplying the district court's own standard. Applied Med. Res. Corp. v. United States Surgical Corp., 147 F.3d 1374, 1376, 47 USPQ2d 1289, 1290 (Fed. Cir. 1998). A district court may overturn a jury's verdict on a motion for JMOL only if, upon the record before the jury, reasonable persons could not reach the jury's verdict. Perkin-Elmer Corp. v. Computervision Corp., 732 F.2d 888, 893, 221 USPQ 669, 673 (Fed. Cir. 1984). Thus, to prevail on appeal, defendants must show that substantial evidence does not support the jury's factual findings or that the district court erred in applying the law on JMOL motions. See id.

This court reviews a jury's factual findings, such as those relevant to intervening rights, for substantial evidence. Oiness v. Walgreen Co., 88 F.3d 1025, 1029, 39 USPQ2d 1304, 1306 (Fed. Cir. 1996). This court also reviews a district court's denial of equitable intervening rights for an abuse of discretion. Westvaco Corp. v. Int'l Paper Co., 991 F.2d 735, 743, 26 USPQ2d 1353, 1360 (Fed. Cir. 1993). In addition, this court reviews a denial of a new trial based upon an alleged excessive jury damage award for an abuse of discretion. See Gasparini v. Center for Humanities, Inc., 518 U.S. 415, 438-39 (1996); Oiness, 88 F.3d at 1028-29.

In reviewing district court judgments, this court applies its own law to patent law issues, but defers to regional circuit law on procedural issues. Midwest Indus., Inc. v. Karavan Trailers, Inc., 175 F.3d 1356, 1359, 50 USPQ2d 1672, 1675 (Fed. Cir. 1999) (en banc). The requirement of Federal Rule of Civil Procedure 50 for renewing a JMOL motion is a procedural issue. Likewise, a district court's duty to remit excessive damages is a procedural issue. This court, therefore, applies the law of the United States Court of Appeals for the Fourth Circuit for these issues in the present case.

### III.

To reissue original claims, a patentee must show that the changes will remedy errors that occurred without deceptive intent. 35 U.S.C. § 251 (1994). Section 1.175 of title 37 of the Code of Federal Regulations governs the examination of reissue applications. Old Rule 1.175 required the patentee to declare in detail the nature and origin of each error. 37 C.F.R. § 1.175(a) (1994). The new rule, effective December 1, 1997, requires the patentee to disclose only a single error for correction and to include only a general statement that the errors involved no deceptive intent. 37 C.F.R. § 1.175(a) (1997).

The USPTO examined the '732 reissue patent under old Rule 1.175. While the old rule was in effect, the USPTO issued a Notice of Allowability and closed the reissue examination. With the

old rule still in effect, Mr. Shockley paid the issue fee for the '732 reissue patent. The '732 reissue patent issued, however, two months after the new rule became effective.

In proposing changes to Rule 1.175, the USPTO informed the public that it was "particularly interested in comments as to whether the proposed rules if adopted should be applied to already pending reissue oaths or declarations under the new proposed standards of Sec. 1.175." 61 Fed. Reg. 49,819, 49,820 (Sept. 23, 1996). The few public comments addressing the effective date responded favorably to applying new Rule 1.175 to pending applications. E.g., Intellectual Prop. Owners, Comment 42 (December 5, 1996), available at <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/prop1996>; Am. Intellectual Prop. Law Ass'n, Comment 2 (November 6, 1999), available at <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/prop1996>. When the final rule issued, the USPTO did not explicitly state that new Rule 1.175 applied to pending reissue applications. However, the USPTO training materials for new Rule 1.175 state: "All pending reissue applications (even if filed under old rules) are only subject to requirements of new rules." USPTO, Training Book Slides on the Changes to Patent Practice and Procedure – Final Rule, p. 48 (February 12, 1998), available at <http://www.uspto.gov/web/offices/pac/dapp/opla/frule/index.html>.

Indeed, an effective date, unless expressly conditioned on other events, governs the application of a new rule. Bowen v. Georgetown Univ. Hosp., 488 U.S. 204, 208 (1988). This court declines to alter on a case-by-case basis the governing effective date of this administrative rule. Because the application which led to the '732 reissue patent was pending when the new rule took effect, the new rule applies in this case.

Molins PLC v. Textron, Inc., 48 F.3d 1172, 1179 n.8, 33 USPQ2d 1823, 1827 n.8 (Fed. Cir. 1996) does not require application of the old rule in this case. In Molins, the patent in question had issued before the effective date of a rule change. Therefore, this court properly applied the rule used to evaluate the patent because that same rule remained in effect at the time of issuance.

See Bowen, 488 U.S. at 208 ("[A]dministrative rules will not be construed to have retroactive effect unless their language requires this result."). In the present case, this court, as in Molins, declines to apply a rule change retroactively, but rather applies the rule in effect upon the date of issuance of the patent.

Defendants' questions regarding the validity of the '732 reissue rely exclusively on application of old Rule 1.175 to the '732 reissue patent. Defendants raise no questions about validity of the '732 reissue patent under new Rule 1.175. The reissue declaration for the '732 patent fully complies with new Rule 1.175. The declaration identifies several errors and includes statements of lack of deceptive intent for each error.

Likewise, defendant's arguments regarding the ineffectiveness of Mr. Shockley's Certificate of Correction to add the "plurality of castors" limitation to the '732 reissue patent are moot under new Rule 1.175. Even in the unlikely event that this court determined that a Certificate of Correction would not suffice to add the "plurality of castors" limitation to the '732 reissue, the resulting broader claim 14 would still be valid under the less restrictive declaration requirements of new Rule 1.175. This court, therefore, affirms the district court's grant of summary judgment that the '732 reissue patent is not invalid for failure to comply with 37 C.F.R. § 1.175.

#### IV.

The second paragraph of 35 U.S.C. § 252 (1994) provides for two separate and distinct defenses to patent infringement under the doctrine of intervening rights: "absolute" intervening rights and "equitable" intervening rights. BIC Leisure Prods., Inc., v. Windsurfing Int'l, Inc., 1 F.3d 1214, 1220, 27 USPQ2d 1671, 1675 (Fed. Cir. 1993). The first sentence of the paragraph defines absolute intervening rights.

A reissued patent shall not abridge or affect the right of any person or that person's successors in business who, prior to the grant of a reissue, made, purchased, offered to

sell, or used within the United States, or imported into the United States, anything patented by the reissued patent, to continue the use of, to offer to sell, or to sell to others to be used, offered for sale, or sold, the specific thing so made, purchased, offered for sale, used, or imported unless the making, using, offering for sale, or selling of such thing infringes a valid claim of the reissued patent which was in the original patent.

35 U.S.C. § 252 (emphasis added).

The "offered to sell" language became part of § 252 in 1994 as one of several changes made to bring title 35 of the United States Code into compliance with the General Agreement on Tariffs and Trade. Before addition of the "offered to sell" language, this court's case law under § 252 permitted an accused infringer to continue to use or sell a product that was already made by the issue date of a reissued patent. BIC Leisure, 1 F.3d at 1221; P. J. Federico, Intervening Rights in Patent Reissues, 30 Geo. Wash. L. Rev. 603, 632 (1961-62). Absent a clear showing, this court will not assume that the 1994 amendments changed this aspect of § 252.

Section 252 states that a reissue patent "shall not abridge the right of any person who . . . offered to sell . . . anything patented by the reissued patent, to continue to . . . offer to sell . . . the specific thing . . . offered for sale" (emphasis added). These rights are absolute. BIC Leisure 1 F.3d at 1221. The statute uses the term "the specific thing" to refer to the tangible article which qualifies for absolute intervening rights. This "specific thing" terminology suggests that the tangible article was in existence before the reissue date.

By comparison, the equitable intervening rights provisions of § 252 state:

The court before which such matter is in question may provide for the continued

manufacture, use, offer for sale, or sale of the thing made, purchased, offered for sale, used, or imported as specified, or for the manufacture, use, offer for sale, or sale in the United States of which substantial preparation was made before the grant of the reissue, and the court may also provide for the continued practice of any process patented by the reissue that is practiced, or for the practice of which substantial preparation was made, before the grant of the reissue, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the grant of the reissue.

35 U.S.C. § 252 (emphasis added). This equitable intervening rights language uses the broader term "the thing" to refer to the subject merchandise. Equitable intervening rights also explicitly extend protections for continued manufacture, thus extending protection to articles not yet in existence at the time of the reissue. The use of "specific thing" in the absolute intervening rights section thus underscores a distinction in the status of the article at the time of reissue. Specifically, a "specific thing" qualifies for absolute intervening rights only if in existence at the time of reissue. BIC Leisure, 1 F.3d at 1221 ("The specific things made before the date of reissue, which infringe the new reissue claims, are absolutely free of the reissued patent and may be used or sold after the date of reissue without regard to the patent."). Thus, after the 1994 amendments, § 252 continues to distinguish between "specific things" and "things," between the status of articles subject to absolute or equitable intervening rights.

Arcan asserts that its December 1997 negotiation with Sam's resulted in an offer for sale qualifying for absolute intervening rights under § 252. Arcan further argues that an offer for sale should encompass price quote letters that contain a description of the infringing materials without regard to whether those offers covered products already manufactured. See 3D Sys., Inc. v. Aarotech Lab., Inc., 160 F.3d 1373, 1378-79, 48 USPQ2d 1773, 1777 (Fed. Cir. 1998) (defining

"offer to sell" under 35 U.S.C. § 271). However, regardless of whether Arcan's December 1997 price quote was an offer for sale to Sam's, the 10,000 Z-Creepers at issue had not been manufactured before the '732 reissuance. Absolute intervening rights therefore do not protect Arcan's importation and sale of its Z-Creepers. The district court correctly determined that importation and sale of these articles constitutes infringement.

Under the equitable intervening rights of § 252, a district court has discretion to grant broader rights for an accused infringer to: (1) continue the manufacture, use, offer for sale, and sale of additional articles made before the reissue; and (2) continue to manufacture, use, offer to sell, or sell articles for which substantial preparations for manufacture or use was made before the grant of the reissue. BIC Leisure, 1 F.3d at 1221. Arcan charges the district court with error for not making findings about whether Arcan had made substantial preparations before the reissue date.

Although the district court did not make findings about Arcan's preparations, the record amply supports the district court's denial of equitable intervening rights. The jury found that Arcan's infringement of the '732 reissue was willful. Because Arcan did not have clean hands, the district court did not abuse its discretion in declining to exercise its equitable powers on Arcan's behalf. Equity's "unclean hands" doctrine demands that "[one] who seeks equity must do equity." Mfr.'s Fin. Co. v. McKey, 294 U.S. 442, 449 (1935). The record, with its finding of willful infringement, amply supports the district court's discretion to deny Arcan access to equity.

## V.

Under the Federal Rules of Civil Procedure, a party may make a Rule 50(b) renewed motion for JMOL after a jury verdict only if the party made a motion for JMOL at the close of evidence under Rule 50(a). Price v. City of Charlotte, 93 F.3d 1241, 1248-49 (4th Cir. 1996); Fed. Sav. & Loan Ins. Co. v. Reeves, 816 F.2d 130, 137 (4th Cir. 1987). Arcan did not make a Rule 50(a) motion before jury deliberation. Therefore, the district court correctly denied Arcan's post-verdict Rule 50(b)

motion.

The Fourth Circuit, in a rarely utilized exception, allows a party to make a Rule 50(b) motion despite failure to file a Rule 50(a) motion where: (1) the basis for the Rule 50(b) motion is a purely legal issue; and (2) the opposing party had notice of the defect and an opportunity to correct the error. Singer v. Dungan, 45 F.3d 823, 829 (4th Cir. 1995); Federal Savings, 816 F.2d at 138. In Federal Savings, the Fourth Circuit reached the purely legal issue of whether a civil cause of action arises from a federal criminal statute even though the defendant did not raise the issue in a Rule 50(a) motion. 816 F.2d at 137. The present case's issue of damages, often a very factual inquiry, is not a purely legal issue to which the Fourth Circuit exception applies.

In Singer, the Fourth Circuit did reach a factual issue even though the defendant did not move for JMOL at the close of all evidence. 45 F.3d at 829. The defendant in Singer, however, moved for JMOL under Rule 50(a) at the close of plaintiff's case in chief. Furthermore, the Fourth Circuit found no evidence in support of the factual question at issue. Balancing the equities of the specific circumstances in Singer, the Fourth Circuit decided to reach defendant's Rule 50(b) motion. In the present case, defendants did not make any Rule 50(a) motion during trial. Furthermore, plaintiffs presented expert testimony in support of their future lost profits request. Arcan's argument that this evidence is legally insufficient does not equate plaintiffs' expert's testimony to the absence of supportive evidence in the Singer case. Therefore, Singer also does not rescue Arcan from its failure to properly follow Rule 50.

Although the district court correctly denied Arcan's Rule 50(b) motion on damages, this court follows Fourth Circuit law in determining that the jury's damage award is excessive and must be remitted. Under Fourth Circuit law, "[t]he power and duty of the trial judge to set aside [an excessive] verdict . . . is well-established, the exercise of the power being regarded as not in derogation of the right of trial by jury but one of the historic safeguards of that right." Virginian Ry. Co. v. Armentrout, 166 F.2d 400, 408 (4th Cir. 1948) (citations omitted). The Fourth Circuit,



relying on Supreme Court precedent, has extended this obligation to the appellate level. Cline v. Wal-Mart Stores, Inc., 144 F.3d 294, 304 (4th Cir. 1998) (citing Gasperini, 518 U.S. 415). Because the excessiveness of jury damages verdicts is a question of law in the Fourth Circuit, Fourth Circuit law permits orders of a new trial nisi remittitur by an appellate court. Id. at 305; see also Charles Alan Wright et al., 11 Federal Practice and Procedure, Civil 2d § 2820 (1995).

This court, like the Fourth Circuit, has a "maximum recovery rule" which remits an excessive jury award to the highest amount the jury could "properly have awarded based on the relevant evidence." Unisplay, S.A. v. Am. Elec. Sign Co., 69 F.3d 512, 519, 36 USPQ2d 1540, 1544 (Fed. Cir. 1995). This court then allows a plaintiff the option of a new trial on damages or the remitted damages award. Oiness, 88 F.3d at 1030. Further according to both Fourth Circuit law and the law of this court, a damages verdict must be set aside if the verdict is against "the clear or great weight of the evidence." Unisplay, 69 F.3d at 517; Aetna Cas. & Sur. Co. v. Yeatts, 122 F.2d 350, 352-53 (4th Cir. 1941).

In the present case, defendants requested remittitur of damages and a new trial under Federal Rule of Civil Procedure 59. Despite defendants' Rule 50(b) oversight, a request for remittitur in combination with a Rule 59 motion for a new trial is equivalent to a request for a new trial nisi remittitur. Because the future lost profit jury verdict was grossly excessive, the district court abused its discretion in not offering plaintiffs a remitted damages amount or a new trial in the alternative.

Upon a finding of infringement, title 35 permits an award of damages adequate to compensate the patentee for infringement, but in no event less than a reasonable royalty. 35 U.S.C. § 284 (1994). To recover lost profits, "a patent owner must prove a causal relation between the infringement and its loss of profits." BIC Leisure, 1 F.3d at 1218. In other words, the burden rests on the patentee to show a reasonable probability that "but for" the infringing activity, the patentee would have made the infringer's sales. Water Tech. Corp. v. Calco Ltd., 850 F.2d 660, 671, 7

USPQ2d 1097, 1106 (Fed. Cir. 1988). To show causation and entitlement to lost profits, a patentee must reconstruct the market to show "likely outcomes with infringement factored out of the economic picture." Grain Processing Corp. v. Am. Maize-Prods., 185 F.3d 1341, 1350, 51 USPQ2d 1556, 1562 (Fed. Cir. 1999). Such market reconstruction, though hypothetical, requires "sound economic proof of the nature of the market." Id.

This court acknowledges that a patentee may be able to produce sufficient evidence to recover projected future losses. In fact, this court has affirmed future lost profit awards where the patentee has presented reliable economic evidence of "but for" causation. Although future lost profit calculations necessarily contain some speculative elements, a patentee may supply adequate evidence to enable the fact-finder to responsibly estimate future losses based on sound economic models and evidence, not pure guesswork. Oiness, 88 F.3d at 1031.

For example, in Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1068, 219 USPQ 670, 678 (Fed. Cir. 1983), this court affirmed a district court award of projected lost profits, finding that in a two supplier market, "an award based on projected lost sales is neither remote nor speculative when there is evidence of actual pre-infringement and post-infringement growth rates . . . . These damages were not picked out by mere speculation or guess, but rather, found by the district court as the result of an extrapolation of actual data."

In Oiness, however, this court rejected extrapolated lost profit calculations when the damages rested on unsupported assumptions "fraught with speculation." Oiness, 88 F.3d at 1029-30. Oiness' expert testified to an extrapolated demand curve for the patentee's product based on figures from the product's first few months in the marketplace. The expert admitted that he found very little sales history to support his projection. This court held that Oiness' expert "offered no sound economic reasoning to support his assumption," that his "projections lacked evidentiary support" and that the record, therefore, did not support the jury's future lost profit award. Id. at 1032. Similarly, in the present case, the jury award of future lost profits assumes continued

demand and growth rates, profit margins, and other market factors against the clear weight of the evidence.

To establish future lost profits, plaintiffs put forth the testimony of an accounting expert, Mr. Gordon. Mr. Gordon's calculation assumed that, without infringement, "Excalibur would [have sold] eighty thousand [creepers to Sam's] per year for the next fifteen years throughout the life of the patent." Mr. Gordon then multiplied the eighty thousand creepers per year by fifteen years to arrive at 2,200,000 lost future sales to Sam's. Mr. Gordon further assumed that the profit for each lost sale would remain at \$15 over the entire fifteen year period. He multiplied this assumed profit per creeper by the number of assumed lost creeper sales to arrive at an \$18,000,000 future lost profits calculation.<sup>[1]</sup>

Mr. Gordon next discounted the projected \$18,000,000 to present value taking into account "risks involved" such as the possibility that "Sam's may cancel the contract," that Mr. Shockley might not "want to be in this business any more," and that "we might have a war or tax laws might change." His discount rate was twenty-five percent, resulting in an estimated future lost profit total of about four and a half million dollars.

Mr. Gordon further testified that his determination that Excalibur would have sold 80,000 units per year to Sam's was an assumption without factual underpinnings. Rather, Mr. Gordon testified that he based his opinion on the number of sales that Excalibur told him to assume it would have made. Thus, Mr. Gordon used a benchmark without any basis in economic reality.

Plaintiffs further put forth the testimony of Excalibur's salesperson, Mr. Tuck. He testified that Excalibur had been trying to sell various products to Sam's, including the Creep-or-Seat, since the mid-1990s with no success. Mr. Shockley's own testimony corroborated that Excalibur had not sold any articles to Sam's despite many attempts. Mr. Tuck also testified that Excalibur was unable to sell to Sam's in 1998 "because the buyer quit . . . Ruined the whole deal."

Mr. Tuck's and Mr. Shockley's testimony cast significant doubts on Excalibur's ability to make 80,000 sales per year to Sam's as postulated by Mr. Gordon. Because the jury's \$3,000,000 future lost profit award was based on evidence derived from speculative assumptions, it runs counter to the great weight of record evidence and cannot stand.

Arcan has explicitly declined to challenge the \$600,000 in lost profits the district court awarded Excalibur for Sam's 1998 Christmas season. Defendants further do not question the \$191,070 in lost profits awarded to Excalibur for defendants' actual infringing sales. Thus, in keeping with Fourth Circuit Law, this court vacates the speculative damage award, remits the \$3,791,070 award to \$791,070, and remands to the district court to offer plaintiffs the option of the remitted damages award or a new damages trial.

## VI.

Telesis and Sunex argue that joint and several liability does not apply in the present case. They vigorously contend that the verdict form explicitly apportioned damages among the three defendants; that the jury explicitly found that Sunex did not infringe the '732 reissue; and that the jury found Telesis accountable for 2,841 creepers not sold to Arcan or Excalibur.

Notwithstanding these arguments, both Telesis and Sunex sold creepers to purchasers other than Arcan. The apportioned damages, and jury findings of non-infringement by Sunex and separate infringement by Telesis apply to Sunex's and Telesis' sales other than their creeper sales to Arcan. Thus, the damages apportionment and jury findings do not preclude joint and several liability for Arcan's liability.

Furthermore, other courts, including the Supreme Court, have held that parties that make and sell an infringing device are joint tort-feasors with parties that purchase an infringing device for use or resale. Birdsell v. Shaliol, 112 U.S. 485, 488-89 (1884); Dowagiac Mfg. Co. v. Deere &

Webber Co., 284 F. 331, 337 (8th Cir. 1922). Each joint tort-feasor is liable for the full amount of damages (up to a full single recovery) suffered by the patentee. Birdsell at 488-89; Dowagiac at 337. Entry of judgment against one infringer does not automatically release other related infringers. Sherman, Clay & Co. v. Searchlight Horn Co., 225 F. 497, 500 (9th Cir. 1915) ("There may be as many causes of action as there are joint tort-feasors, and as many recoveries, but there can only be one satisfaction."). This court agrees with and adopts this rule.

In the present case, the record shows that Sunex, Telesis, and Arcan benefited from a manufacturing, supply and distribution relationship. Each infringing Z-Creeper made by Sunex was imported by Telesis into the United States and resold to Arcan. Telesis, therefore, is a joint tort-feasor and is jointly and severally liable for damages assessed against Arcan.

Sunex, however, cannot be held jointly and severally liable. To be liable for infringement under 35 U.S.C. § 271, a party must make, use, offer to sell, or sell within the United States, or import into the United States, the patented invention. Although Sunex manufactured every Z-Creeper that Arcan sold in the United States, all of Sunex's activities took place in Shanghai. Sunex, therefore, cannot be liable for infringement under § 271 nor be jointly liable with Arcan and Telesis.

## CONCLUSION

This court affirms the district court's grant of summary judgment that the '732 reissue patent is not invalid. This court also affirms the district court's denial of both absolute and equitable intervening rights to Arcan. This court vacates the district court's judgment awarding damages to plaintiffs, remits the damages award to \$791,070, and remands to the district court to offer plaintiffs a choice of the remitted damage award or a new damages trial in the alternative. Finally, this court reverses the district court's denial of plaintiffs' motion to clarify, and remands to the district court to clarify its judgment to hold that Telesis is jointly and severally liable with Arcan.

## COSTS

Each party shall bear its own costs.

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

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[1] This court realizes that 2,200,000 multiplied by \$15 results in \$33,000,000, not the \$18,000,000 testified to by Mr. Gordon. Because neither party challenges Mr. Gordon's calculation, this court will discuss Mr. Gordon's future lost profits calculation.