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Equity In Broad and Flexible Fashion

Federal Circuit Wasn't Chicken to Grant Equitable Intervening Right in Poultry Processing Equipment Case

A dispute between the two titans in the poultry processing equipment market led the U.S. Court of Appeals for the Federal Circuit to construe the term “protection of investments” in 35 U.S.C. §252.

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APRIL 2021

A dispute between the two titans in the poultry processing equipment market led the U.S. Court of Appeals for the Federal Circuit to construe the term “protection of investments” in 35 U.S.C. §252. *John Bean Techs. Corp. v. Morris & Assocs., Inc.*, No. 2020-1090, 2021 WL 641987 (Fed. Cir. Feb. 19, 2021). This section outlines the boundaries of the court’s equitable powers to absolve liability from infringement for substantively altered patents. The court affirmed the summary judgment decision by the District Court for the Eastern District of Arkansas that granted equitable intervening rights to Morris & Associate Inc.’s (Morris) against John Bean Technologies Corporation’s (John Bean) infringement claims based on its reissued patent. Rejecting John Bean’s argument that “protection of investment” is limited to monetary investments made and recouped *before* the reissue certificate, the Federal Circuit determined that the lower court did not abuse its discretion by considering factors other than money invested before the reissue and granting Morris the defense of equitable intervening rights.

Two Poultry Chilling Equipment Manufacturing Giants

This case is about two bitter rivals. John Bean is an equipment manufacturer that makes poultry and seafood processing machines. At the core of the controversy is the auger-type poultry chiller, a formidable machine that processes poultry in large scale. John Bean’s U.S. Patent No.

6,397,622 (the '622 patent) covers this particular invention. Morris is John Bean's only U.S. competition in the industrial poultry chiller market.

A demand letter in the summer of 2002 was the seed of this near-decade long battle — leading to two trips to the Federal Circuit. In that letter, Morris asserted that John Bean's '622 patent was invalid in view of prior art. John Bean did not respond. Morris thereafter developed poultry chillers that incorporate features of the '622 patent and has been selling them since, with success.

Reexamination Certificate and a Subsequent Patent Infringement Suit

More than a decade later, on Dec. 18, 2013, John Bean filed a request for *ex parte* reexamination of the '622 patent at the U.S. Patent and Trademark Office (USPTO). The USPTO issued a reexamination certificate on May 9, 2014. Importantly, the reexamination allowed John Bean to amend claims 1 and 2 and add six more claims, thus changing the scope of the patent.

Within six weeks of a fresh reexamination certificate, John Bean filed a complaint against Morris in the district court. John Bean alleged Morris infringed the reissued '622 patent. And later, John Bean amended the complaint to include willful infringement.

John Bean's First Appeal to the Federal Circuit

Morris moved for summary judgment arguing the affirmative defense of laches and equitable estoppel. On Dec. 14, 2016, the district court granted this motion. John Bean appealed and the Federal Circuit reversed the grant of summary judgment and remanded. *John Bean Tech. Corp. v. Morris & Associates, Inc.*, 887 F.3d 1322 (Fed. Cir. 2018).

John Bean's Second Climb Up the Federal Circuit Stalk

Back in district court, Morris filed another summary judgment motion arguing that John Bean could not assert its patent infringement claims due to equitable intervening rights and prosecution laches because of John Bean's actions after the '622 patent issued. If granted equitable intervening rights, an accused infringer may continue using, selling or offering to sell additional infringing products made after the reissue or reexamination. The district court denied-in-part Morris' summary judgment motion for prosecution laches because such defense

only applies to conduct of the applicant *before* the patents' issuance and not to its conduct *after* the issuance. But the district court granted-in-part Morris' motion for equitable intervening rights. John Bean appealed again and asked the Federal Circuit to clarify the scope of the following question: *When can a defendant — accused of infringing a reissued patent — raise the affirmative defense of equitable intervening rights?*

Statutory Basis of Equitable Intervening Rights

Under 35 U.S.C. §252, an alleged infringer may raise an absolute defense of equitable intervening rights and avoid infringement liability for substantively altered patent claims. This defense of equitable intervening rights extends to reexamined patents under 35 U.S.C. §307(b).

The District Court's Analysis

Granting such an equitable defense is a matter of judicial discretion. And once a court exercises its equitable powers to grant this defense, the alleged infringer may exercise a continued right to manufacture, sell or use the accused product after the reexamination certificate issues — if the defendant made, purchased or used identical products; or made substantial preparations to make, use or sell identical products, *before* the reissue date. Section 252 reads:

The court ... may provide for the continued manufacture, use, offer for sale, or sale of the thing made ... 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).

The Federal Circuit, citing *Seattle Box Co. v. Indus. Crating & Packing, Inc.*, 756 F.2d 1574, 1579 (Fed. Cir. 1985), noted that the rationale behind this codification of equitable rights is so that the public has the right to use what was not in the original patent.

The district court granted Morris's summary judgment motion for equitable intervening rights based on weighing six factors:

1. Whether substantial preparation was made by the infringer before the reissue;

2. Whether the infringer continued manufacturing before reissue on advice of its patent counsel;
3. Whether there were existing orders or contracts;
4. Whether non-infringing goods can be manufactured from the inventory used to manufacture the infringing product and the cost of conversion;
5. Whether there is a long period of sales and operations before the patent reissued from which no damages can be assessed; and
6. Whether the infringer made profits sufficient to recoup its investment.

The district court found the following: 1) Morris made substantial preparation to sell its auger-type poultry chiller before the '622 patent reexamination certificate issued, in research, development, investment, improvement, promotion, and good-will associated with the accused product; 2) Morris's alleged infringing product is nearly two-thirds of the business and eliminating it is inequitable — although it recouped a significant monetary investment through years of profit; 3) the relative degrees of bad faith tipped against John Bean because it deliberately did not respond to the initial demand letter; and 4) the remaining factors favored Morris. Thus, after balancing these factors, the district court granted Morris's summary judgment motion granting equitable intervening rights.

Federal Circuit's 'Reexamination' of Granting Equitable Intervening Rights

On appeal, John Bean argued that the district court abused its discretion in granting equitable intervening rights because it gave improper weight to certain factors in its decision. John Bean argued the district court gave insufficient weight to the fact that Morris had recouped its investment and refused to quantify its profits. John Bean also argued that a genuine issue of material fact remains as to Morris's *willful* infringement — a claim in which equitable defenses are unavailable.

The Federal Circuit first noted that courts may make decisions that are flexible, intuitive and tailored to the particular facts of the case when deciding the availability of equitable remedies

and defenses. In essence, judges may wield discretion to remedy the imperfect fit between the law and facts. Thus, the court disagreed with John Bean's use of *Plastic Container Corp. v. Continental Plastics of Oklahoma, Inc.*, 607 F.2d 885 (10th Cir. 1979), that held that if the alleged infringer made monetary recoupment of investments before to the reissue, it must be denied equitable remedy.

The Federal Circuit found *Plastic Container* inapplicable to this case. First, in *Plastic Container*, even without applying equitable intervening rights, the Tenth Circuit found that equity required the alleged infringer to recoup its investment against any infringement damages and reasonable costs to convert into noninfringing goods. Second, the Federal Circuit noted that the patentee-plaintiff in that case did not delay suing the alleged infringer. John Bean, on the other hand, waited more than a decade before suing Morris.

'Protection of Investments'

The Federal Circuit acknowledged that resolving the dispute required answering a question of first impression: *Is the phrase "protection of investments" in § 252 limited to investments made or business started before the reissued claims alterations?*

The court said no. The Federal Circuit did not see any part of the statute that confined the term "protection of investments" to the recoupment to *before* the reissue. The court also held that determining entitlement to equitable intervening rights is broader than simply deciding whether a party claiming it has fully recouped its monetary investment. So the Federal Circuit concluded courts may consider other factors when applying this phrase. As to the district court's analysis, the Federal Circuit found that the district court was well within its broad equitable powers to consider: 1) that John Bean engaged in bad faith; and 2) Morris's investment was not just its financial investment, but also included other factors like *post-reissue* sales and business goodwill. Thus, the Federal Circuit held that the district court did not abuse its discretion in granting equitable intervening rights to Morris.

The court also brushed off John Bean's argument that a genuine issue of material fact remains as to willful infringement. The Federal Circuit concisely observed that without infringement,

there is no willful infringement. And given that Morris was granted equitable intervening rights, there is no basis to assert an infringement claim and a subsequent willful infringement claim.

Takeaways

- Courts maintain broad equitable powers in granting equitable intervening rights under 35 U.S.C. §252.
- A fact-intensive analysis can make the difference when a party invokes equitable remedies and defenses.

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