
No. 10-1971

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

HERSHLEY FLOW CONTROLLERS

Defendant-Appellant

v.

BILLY BONKA'S CANDY EMPORIUM

Plaintiff-Appellee

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT
OF NORTH TAKOMA

BRIEF FOR THE PLAINTIFF-APPELLEE BILLY BONKA'S CANDY EMPORIUM

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STATEMENT OF JURISDICTION

This is an appeal from the final judgment of the United States District Court for the District of North Dakota entering judgment for Billy Bonka's Candy Emporium. The District Court properly exercised jurisdiction pursuant to 28 U.S.C. § 1338(a). This Court has exclusive jurisdiction over this appeal pursuant to 28 U.S.C. § 1295(a)(1).

STATEMENT OF THE ISSUES

- I. WHETHER CLAIM 1 OF THE '645 PATENT IS PATENT-ELIGIBLE SUBJECT MATTER UNDER 35 U.S.C. § 101.
- II. WHETHER THE '645 PATENT IS UNENFORCEABLE DUE TO INEQUITABLE CONDUCT.

STATEMENT OF THE CASE

Billy Bonka's Candy Emporium [hereinafter "Bonka"] is the owner by assignment of U.S. Patent No. 9,428,645 [hereinafter "'645 patent"], titled "Method for Plugging Pipeline Leaks." Claim 1 of the '645 patent claims a computer-implemented method for notifying a user of a leak in a pipeline that calculates an approximate effective amount of a chicle-starch mixture to plug the leak. In 2008, Hershley Flow Controllers [hereinafter "Hershley"] began installing the computer flow control systems stipulated to infringe the '645 patent.

Bonka timely filed suit in 2008 alleging infringement of claim 1 of the '645 patent. At trial, the United States District Court for the District of North Dakota [hereinafter

"District Court"] found claim 1 valid as patent-eligible subject matter and not unenforceable due to inequitable conduct.

Hershley now appeals the judgment on both grounds.

STATEMENT OF THE FACTS

Bonka is a family owned company producing candy products and is the primary employer in North Takoma. (R. at 1). Dr. Barnaby Parry [hereinafter "Parry"] was an employee of Bonka whose main duty was to determine means of improving the transport of milk chocolate used in the manufacturing process. (R. at 2). Bonka needed a new system for the transport of chocolate and charged Parry with its development. (R. at 3-4). During the subsequent operation of this new system, leaks developed and Parry was assigned the task of developing a method to seal these leaks. (R. at 6,9). It was necessary that this method developed by Parry be able to detect and seal leaks that could not be seen or easily accessed. (R. at 9). In addition, the problem required that the sealant be non-toxic. (R. at 10).

Parry's research led to the development of a chicle-starch mixture, a similar mixture coincidentally having been used in an episode of the fictional television show MacGalver that Parry had viewed. (R. at 11,14,16). In that episode, MacGalver dissolved large quantities of bubble gum into a mixture of starch and a quick drying solvent to strengthen a pipe long enough to carry away toxic discharge from a nuclear power

facility. (R. at 12). Parry ultimately developed a highly effective sealant that could be used while production was ongoing and was also non-toxic. (R. at 16-17). He then continued his research to develop a method for detecting leaks remotely. (R. at 18,24-25). This method is the subject matter of the '645 patent. (R. at 24).

Claim 1 of the '645 patent claims a computer implemented method of notifying a user of a leak in a pipeline. (R. at 24). This method includes such steps as receiving flow-rate data from two flow-rate sensors coupled to the pipeline and then analyzing these data to determine the presence and location of a leak. (R. at 24). In addition, the method includes the further step of calculating an approximate effective amount of the chicle-starch mixture necessary to plug the leak. (R. at 24). A step is also included to automatically send the results of the foregoing calculation to a user. (R. at 24).

In prosecuting the patent, Parry met with attorney Jim Que [hereinafter "Que"] to discuss his invention and mentioned U.S. Patent No. 8,064,578. (R. at 19). He did not however, disclose the MacGalver episode because he believed it was fictitious television entertainment that depicted events that never happened. (R. at 19,32-33). Like Parry, Que was aware of the episode, but also believed it was fictitious television entertainment. (R. at 21,36).

Parry implemented the invention embodied in the '645 patent and it not only functioned as intended but became a commercial success in the food industry. (R. at 26). The effectiveness of the invention was such that Bonka licensed it to other companies and earned \$9 million per year in licensing fees. (R. at 28).

Subsequently, Bonka learned that Hershey had implemented the technology embodied in the '645 patent and filed suit for infringement. (R. at 30). At trial, both Parry and Que testified that they were convinced that the show was fictitious. (R. at 33,36). As such, they did not disclose the episode to the United States Patent and Trademark Office [hereinafter "PTO"] during prosecution of the patent. (R. at 20,33-36).

SUMMARY OF THE ARGUMENT

The District Court correctly held that claim 1 of the '645 patent is patent-eligible subject matter under 35 U.S.C. § 101 because the Court properly applied multiple tests for patent-eligibility. The Court's holding was proper because the method of claim 1 applies a mathematical relationship to an otherwise patent-eligible process and therefore does not preempt substantially all uses of that relationship. This holding is in accordance with well-established Supreme Court precedent.

Although the District Court properly held claim 1 is patent-eligible subject matter, the Court erroneously concluded that claim 1 failed the machine-or-transformation test. This

conclusion was improper because the method of claim 1 is sufficiently tied to a particular machine or apparatus and the generated data undergoes a meaningful transformation.

In addition to the District Court correctly holding that claim 1 is patent-eligible subject matter, the Court also correctly held that the '645 patent is not unenforceable due to inequitable conduct. The District Court properly evaluated the entirety of the applicants' actions and reasonably concluded that there was an absence of inequitable conduct. Although the applicants did not disclose what was later determined to be a material reference, there was no intent to deceive the PTO because the reference was believed to be fictitious. Because the District Court fulfilled its investigative duties and arrived at a reasonable conclusion, the Court did not abuse its discretion. Therefore, this Court should not disturb the findings of the District Court.

Bonka therefore respectfully requests that this Court affirm the District Court and find that claim 1 of the '645 patent is patent-eligible subject matter, and not unenforceable due to inequitable conduct.

ARGUMENT

I. THE DISTRICT COURT PROPERLY HELD THAT CLAIM 1 OF THE '645 PATENT IS PATENT-ELIGIBLE SUBJECT MATTER

Whether a claim is drawn to patent-eligible subject matter under § 101 is an issue of law reviewed de novo by an appellate

court. *In re Bilski*, 545 F.3d 943, 951 (Fed. Cir. 2008), *aff'd*, 130 S. Ct. 3218 (2010). Section 101 of the Patent Act sets forth the categories of patent-eligible subject matter: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor” 35 U.S.C. § 101 (2006). The Supreme Court, relying on the plain meaning of the statute, has emphasized the broad scope of patent-eligible subject matter that these statutory categories encompass. *Bilski v. Kappos*, 130 S. Ct. 3218, 3225–26 (2010); *Diamond v. Chakrabarty*, 447 U.S. 303, 307–10 (1980). See also *Research Corp. Tech. v. Microsoft Corp.*, 627 F.3d 859, 867 (Fed. Cir. 2010) (stating “‘any’ subject matter” in these categories qualifies for patent protection). However, § 101 is not without limits and fundamental principles¹ are per se ineligible. *Bilski v. Kappos*, 130 S. Ct. at 3225; *Chakrabarty*, 447 U.S. at 309.

This Court has proposed a machine-or-transformation test as the definitive test for determining whether a process is patent-eligible under § 101. See *In re Ferguson*, 558 F.3d 1359, 1363 (Fed. Cir. 2009), *cert. denied*, 130 S. Ct. 3451 (2010); *In re Bilski*, 545 F.3d at 954. However, the Supreme Court has rejected the exclusivity of this test, holding instead that it

¹ See *In re Bilski*, 545 F.3d 943, 952 n.5 (Fed. Cir. 2008) (“fundamental principles means laws of nature, physical phenomena, and abstract ideas”) (internal quotations omitted).

provides a “useful and important clue” in the patent-eligible subject matter determination. *Bilski v. Kappos*, 130 S. Ct. at 3227. Therefore, while the machine-or-transformation test is no longer the sole test, it continues to have a role in assessing the patent-eligibility of process claims.

Although the District Court erred by finding that claim 1 of the '645 patent did not satisfy the machine-or-transformation test, the Court correctly ruled that it was directed at a patent-eligible “process” within the meaning of § 101. For the reasons outlined below, this Court should affirm the District Court’s judgment.

A. Claim 1, Taken As A Whole, Claims A Specific Application Of A Mathematical Relationship And Does Not Preempt All Uses Of That Relationship

The District Court correctly concluded that claim 1 met the standard for patent-eligible subject matter, as guided by *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), because claim 1 does much more than merely present an equation and provide a solution; it *applies* a mathematical principle in a specific way to improve the method for notifying a user of a leak in a pipeline.

Section 101 has been broadly construed to ensure that ingenuity receives liberal encouragement. *Id.* at 3225. However, there remain three well-established “exceptions to § 101’s broad patent eligibility principles: ‘laws of nature, physical phenomena, and abstract ideas.’” *Id.* (quoting

Chakrabarty, 447 U.S. at 309). These are the only limitations to § 101 and a court “should not read into the patent laws limitations and conditions which the legislature has not expressed.” *Id.* at 3226 (quoting *Chakrabarty*, 447 U.S. at 308). Accordingly, the Supreme Court rejected the machine-or-transformation test as the dispositive inquiry into patent-eligible subject matter. *Id.* at 3227. Rather, whether subject matter is patent-eligible under § 101 is “only a threshold test” and the substantive patentability tests are found elsewhere in the Patent Act. *Id.* at 3225. See also *Research Corp.*, 627 F.3d at 869 (characterizing § 101 as a “coarse eligibility filter”).

Although it is well settled that laws of nature, natural phenomena, and abstract ideas cannot be patented, “an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.” *Bilski v. Kappos*, 130 S. Ct. at 3230 (quoting *Diamond v. Diehr*, 450 U.S. 175, 188 (1981)). Therefore, the patent-eligibility inquiry focuses on the scope of exclusion of the claims and distinguishes claims that seek to preempt the use of a fundamental principle from claims that seek only to foreclose a particular application of that principle. *Diehr*, 450 U.S. at 187; *In re Bilski*, 545 F.3d at 953. See also *Arrhythmia Research Tech. v. Corazonix Corp.*, 958 F.2d 1053, 1057 (Fed. Cir. 1992) (“[C]laims to a specific process or

apparatus that is implemented in accordance with a mathematical algorithm will generally satisfy section 101.”)²; *In re Abele*, 684 F.2d 902, 907 (C.C.P.A. 1982) (if there are sufficient process steps to make a claim patent-eligible without a fundamental principle, it remains patent-eligible when that principle is included).³ In making this distinction, claims must be considered as a whole; it is “inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis.” *Bilski v. Kappos*, 130 S. Ct. at 3230 (quoting *Diehr*, 450 U.S. at 188).

In *Diehr*, the Supreme Court held the claims at issue patent-eligible under § 101 because those claims were not directed to an equation in and of itself, but to an industrial process for curing rubber that incorporated a more efficient solution of that equation. 450 U.S. at 191-93. Similarly, claim 1 of the ‘645 patent, taken as a whole, is not directed to an equation in and of itself, but to a computer-implemented method for notifying a user of a leak in a pipeline that further incorporates an equation to provide a user with information used to easily seal the leak. In addition to the equation, claim 1

² Although the Freeman-Walter-Abele test was abrogated by *In re Bilski*, 545 F.3d 943 (2008), this abrogation has been called into question by *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), and the rationale in *Abele* and *Arrhythmia* is still good law.

³ See *South Corp. v. United States*, 690 F.2d 1368, 1370-71 (Fed. Cir. 1982) (adopting C.C.P.A. decisions as precedent).

recites physical process steps⁴ and structural limitations⁵ that “place[] the algorithm in a particular relationship to a series of steps in a particular type of process.” *Abele*, 684 F.2d at 908. Like *Diehr*, the equation is merely a part of the overall process and what has been claimed is an “application of an algorithm to process steps which are themselves part of an overall process which is statutory.”⁶ *Abele*, 684 F.2d at 909.

Furthermore, this Court has recently addressed claims relating to allegedly abstract subject matter in *Research Corp. Tech. v. Microsoft Corp.*, 627 F.3d 859. In *Research Corp.*, this Court recognized that the abstractness of a claim “should exhibit itself so manifestly as to override the broad categories of eligible subject matter” that it renders the claim patent-ineligible. *Id.* at 868. This Court further found that “inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract” that they override the eligibility authorized by Congress through § 101. *Id.* Finally, this Court held that the

⁴ See *Arrhythmia*, 958 F.2d at 1059 (The “claimed steps of converting, applying, determining, and comparing are physical process steps that transform one physical, electrical signal into another.”) (internal quotations omitted).

⁵ *E.g.*, computer, flow rate sensors, processor, pipeline

⁶ See *Diehr*, 450 U.S. at 192 (“When a claim containing a mathematical formula implements or applies that formula in a structure or process which, when considered as a whole, is performing a function which the patent laws were designed to protect, then the claim satisfies the requirements of § 101.”) (internal punctuation omitted).

claims were patent-eligible because they presented “functional and palpable applications in the field of computer technology.” *Id.*

Claim 1 meets the *Research Corp.* patent-eligibility threshold as it certainly presents “functional and palpable applications” in the field of remote leak detection and pipeline repair. The method of claim 1 is designed to address a specific problem in the art (R. at 6-7) and it successfully solves that problem (R. at 26,28-29). Furthermore, nothing about claim 1 is so manifestly abstract that it would override the broad subject matter eligibility of § 101.

Claim 1 is patent-eligible under § 101 because it applies a mathematical equation to a useful industrial process rather than preempting all uses of the equation. Similar to *Diehr*, Bonka “seek[s] only to foreclose from others the use of that equation in conjunction with all of the other steps in the[] claimed process.” *Diehr*, 450 U.S. at 187. The specific, limited method of claim 1 therefore looks nothing like the abstract, sweeping claims rejected in *Gottschalk v. Benson*, 409 U.S. 63, 68 (1972) (The “claim is so abstract and sweeping as to cover both known and unknown uses.”) and *Parker v. Flook*, 437 U.S. 584, 586 (1978) (“[C]laims cover a broad range of potential uses of the method.”). Given the broad scope of § 101, claim 1 readily passes through this “coarse eligibility filter.” *Research Corp.*,

627 F.3d at 869. This Court should therefore affirm that claim 1 is directed toward patent-eligible subject matter.

B. Claim 1 Satisfies § 101 As Construed In *Chakrabarty* And The District Court Correctly Followed *Bilski* By Not Relying Exclusively On The Machine-Or-Transformation Test

In light of the above, the District Court correctly relied on *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), in ruling that claim 1 is directed at patent-eligible subject matter.

Chakrabarty is consistent with *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), and provides a broad construction of § 101 under which claim 1 is patent-eligible.

In *Chakrabarty*, the Supreme Court broadly construed the § 101 categories of patent-eligible subject matter according to “their ordinary, contemporary common meaning.” 447 U.S. at 308-09. The Court’s interpretation was that anything that can be classified as a process, machine, manufacture, or composition of matter is patent-eligible, except for laws of nature, physical phenomena, and abstract ideas. *Id.* Although *Chakrabarty* did not involve process claims, the Supreme Court’s broad interpretation of § 101 has been cited with approval in subsequent controlling decisions addressing the patent-eligibility of processes. *See, e.g., Bilski v. Kappos*, 130 S. Ct. at 3225; *Diehr*, 450 U.S. at 182; *Research Corp.*, 627 F.3d at 867-68; *Prometheus Labs. v. Mayo Collaborative Servs.*, 97 U.S.P.Q.2d (BNA) 1097, 1102 (Fed. Cir. 2010).

Under *Chakrabarty*, the process of claim 1 is patent-eligible as long as it can be considered a “process” according to that term’s ordinary, common meaning and it is not a law of nature, natural phenomenon, or abstract idea. 447 U.S. at 308-09. Section 100(b) of the Patent Act defines “process” as a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” 35 U.S.C. § 100(b) (2006). Further, the ordinary, common meaning of “process,” as evidenced by its dictionary definition, is “a series of actions or steps taken in order to achieve a particular end.” *New Oxford American Dictionary* 1392 (3d ed. 2010). Claim 1 does not claim a fundamental principle in and of itself. Rather, claim 1 recites “a series of actions or steps taken in order to achieve a particular end”; notifying a user of a leak in a pipeline and providing information useful to seal the leak. *Id.* For this reason, claim 1 is a patent-eligible process under the expansive interpretation set forth in *Chakrabarty* and the District Court’s reliance thereon was proper, especially in light of *Bilski v. Kappos*.

C. The District Court Improperly Held That Claim 1 Failed The Machine-Or-Transformation Test Because The Process Necessarily Incorporates A Machine In A Way That Limits The Scope Of The Claim And The Generated Data Undergoes A Meaningful Transformation

In *Bilski v. Kappos*, the Supreme Court rejected the exclusivity of this Court’s machine-or-transformation test.

Although it is no longer exclusive, it remains a “useful and important clue, an investigative tool,” for assessing the § 101 subject matter eligibility of process claims. *Bilski v. Kappos*, 130 S. Ct. at 3227. Furthermore, this court has continued to utilize the machine-or-transformation test following *Bilski v. Kappos*. See *Prometheus*, 97 U.S.P.Q.2d at 1103. Accordingly, it remains important to address the machine-or-transformation test even though it is too restrictive and is no longer the sole test. *Bilski v. Kappos*, 130 S. Ct. at 3227,3231.

The District Court improperly held that claim 1 failed the machine-or-transformation test by finding that (1) the use of a computer was insufficient to tie the claim to a particular machine or apparatus and (2) the subject matter of the claim (data) did not undergo a sufficient transformation. The District Court erred in its determination by focusing on the non-physical computer implementation and failed to consider the other physical structural elements and process steps present in claim 1. Furthermore, the District Court erred by failing to recognize that the data undergoing transformation is representative of physical, tangible things.

The machine-or-transformation test, as modified by the Supreme Court, holds that a claimed process is likely to be patent-eligible if it (1) is tied to a particular machine or apparatus or (2) transforms a particular article into a

different state or thing. *In re Bilski*, 545 F.3d at 954 (emphasis added) (*citing Diehr*, 450 U.S. at 192; *Flook*, 437 U.S. at 589 n.9; *Benson*, 409 U.S. at 70). See also *Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of Bilski v. Kappos*, 75 Fed. Reg. 43922-01, 43924 (United States Patent and Trademark Office July 27, 2010). A process claim that satisfies the test is likely to be narrowly tailored enough to avoid preempting the use of a fundamental principle, thereby making it patent-eligible under § 101. *In re Bilski*, 545 F.3d at 954. Accordingly, the use of a particular machine or transformation of a particular article must impose meaningful limits on the claim's scope and the involvement of the machine or transformation must constitute more than merely insignificant extra-solution activity or a field-of-use limitation. *Id.* at 957,961-62 (*citing Diehr*, 450 U.S. at 191-92; *Flook*, 437 U.S. at 590; *Benson*, 409 U.S. at 71-72). This Court has not definitively decided whether recitation of a computer is sufficient to tie a process claim to a particular machine. *Id.* at 962. This Court has, however, recognized that when data are the article undergoing transformation, it is important that the data are representative of physical, tangible things. *Id.* at 962-63; *Arrhythmia*, 958 F.2d at 1059; *Abele*, 684 F.2d at 908-09.

1. Claim 1 Satisfies The First Prong Of The Machine-Or-Transformation Test Because It Is Sufficiently Tied To A Particular Machine Or Apparatus; The Claim Recites Multiple Physical Components That Operate With The Process Steps

The District Court erred in its application of the machine-or-transformation test to claim 1 of the '645 patent and misapplied *Ex parte Cornea-Hasegan*, 89 U.S.P.Q.2d (BNA) 1557 (B.P.A.I. 2009). In *Cornea-Hasegan*, the Board of Patent Appeals and Interferences held that a claim drawn to a method of predicting and calculating the results of a floating point mathematical operation failed the machine-or-transformation test because the recitation of a processor in combination with purely functional method steps did not impose any meaningful limit on the claim's scope. *Id.* at 1560-61.

In contrast to the claim at issue in *Cornea-Hasegan*, claim 1 of the '645 patent recites sufficient physical structure that imposes meaningful limits on the breadth of the claim. This court has defined a "machine" as "a concrete thing, consisting of parts, or of certain devices and combination of devices. This includes every mechanical device or combination of mechanical powers and devices to perform some function and produce a certain effect or result." *Ferguson*, 558 F.3d at 1364 (quoting *In re Nuijten*, 500 F.3d 1346, 1355 (Fed. Cir. 2007)) (internal quotations omitted). Unlike the disembodied "processor" in *Cornea-Hasegan*, claim 1 requires physical

structural elements such as flow-rate sensors, a pipeline, and a non-transitory computer-readable medium. Each of these elements alone would qualify under this Court's definition of "machine." Taken as a whole, claim 1 is more akin to a complete remote pipeline monitoring system rather than, as in *Cornea-Hasegan*, simply a method of calculating a number using a processor. Accordingly, claim 1 would not preempt all uses of the method, but only those uses which utilize all of the recited structural elements and process steps. Thus, there is sufficient scope-limiting structure to render claim 1 patent-eligible as it is sufficiently tied to a particular machine or apparatus.

2. Claim 1 Satisfies The Second Prong Of The Machine-Or-Transformation Test Because The Method Transforms Data Representative Of Physical Objects

Where data is the article undergoing transformation, a distinction must be made between data that is representative of physical objects and data that is merely an abstract number. See *In re Bilski*, 545 F.3d at 962-63 (explaining the difference between the claims in *Abele*, 684 F.2d at 902). See also *In re Bradley*, 600 F.2d 807, 811-12 (C.C.P.A. 1979) (important is what the data represents in the real world, rather than the manner in which it is represented on a computer). A claim limited to the transformation of specific data representative of physical objects will satisfy the machine-or-transformation test, indicating that the claim is likely patent-eligible. *Bilski* 545

F.3d at 963. This Court has previously held such transformative claims patent-eligible. See, e.g. *Arrhythmia*, 958 F.2d at 1059-60.

In *Arrhythmia*, this Court held that claims drawn to a method for analyzing electrocardiograph signals with a series of mathematical procedures in order to determine certain characteristics of heart function were patent-eligible. 958 F.2d at 1054-55. This Court reasoned that it was immaterial that the inputs and outputs of the claimed method were numerical data. These data were held to be representative of a patient's heart activity and were thus particular enough to avoid preempting the mathematical procedures in and of themselves. *Id.* at 1059-60. See also *Abele*, 684 F.2d at 908-09 (holding that X-ray attenuation data is specific and limits the claim to an application of an algorithm).

Similar to the electrocardiograph signals in *Arrhythmia* and the X-ray attenuation data in *Abele*, the method of claim 1 transforms input data and displays output data that are representative of physical, tangible objects. The method receives specific data representative of a physical object (fluid flow rate) and transforms it into specific data representative of a new and different physical object (the amount of chicle, by weight, to be used in a 1:1 chicle-starch mixture). This output data is then useful for the manufacture

of a tangible, practical composition useful for sealing pipeline leaks. Unlike *Cornea-Hasegan*, 89 U.S.P.Q.2d at 1560, claim 1 is limited to the transformation of a *particular* article, thereby satisfying the second prong of the machine-or-transformation test, and the District Court erred in holding otherwise.

II. THE DISTRICT COURT PROPERLY HELD THAT CLAIM 1 OF THE '645 PATENT IS NOT UNENFORCEABLE DUE TO INEQUITABLE CONDUCT

A finding of inequitable conduct before the PTO requires proof of an intent to deceive. *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1368 (Fed. Cir. 2003). See also *FMC Corp. v. Manitowoc Co., Inc.*, 835 F.2d 1411, 1415 (Fed. Cir. 1987) ("To be guilty of inequitable conduct, one must have intended to act inequitably."). Intent is determined by inferences drawn from the facts. *McKesson Info. Solutions, Inc. v. Bridge Med., Inc.*, 487 F.3d 897, 902 (Fed. Cir. 2007); *Akron Polymer Container Corp. v. Exxel Container*, 148 F.3d 1380, 1384 (Fed. Cir. 1998). Inequitable conduct requires (1) misrepresentation of a material fact, failure to disclose material information, or submission of false material information coupled with (2) an intent to deceive. *J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984).

To properly reach a finding of inequitable conduct, the withholding of information must meet both the thresholds of materiality and intent. *Molins PLC v. Textron*, 48 F.3d 1172, 1178 (Fed. Cir. 1995). The determination of materiality and

intent are fact-based inquiries properly left to the discretion of the trial court. *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1998). Further, findings of materiality and intent are subject to the clearly erroneous standard of Fed. R. Civ. P. 52(a)(6) and are not be disturbed unless the appellate court has a definite and firm conviction that a mistake has been committed. *Molins*, 48 F.3d at 1178. See also *Premium Serv. Corp. v. Sperry & Hutchinson Co.*, 511 F.2d 225, 229 (Fed. Cir. 1975) ("Such abuses must be unusual and exceptional; we will not merely substitute our judgment for that of the trial judge."). Finally, "when a trial judge's finding is based on his decision to credit the testimony of one of two or more witnesses, each of whom has told a . . . facially plausible story, . . . that finding, if not internally inconsistent, can virtually never be clear error." *Anderson v. City of Bessemer City, North Carolina*, 470 U.S. 564, 575 (1985).

The District Court evaluated Parry's testimony and found there was intent not to disclose material information, however, the Court also found no evidence of intent to defraud. (R. at 44,46). Parry testified that he did not disclose MacGalver as he thought it was fictitious and the information it disclosed was different than his invention. (R. at 33). Similarly, Que testified that he did not disclose MacGalver because he also believed it was fictional. (R. at 36).

The District Court found the testimony of Parry and Que to be credible and held that their behavior did not constitute intentional deceit or fraud. While a converse finding was possible, the District Court's holding was a fact-based inquiry performed according to *Kingsdown, Anderson* and Fed. R. Civ. P. 52(a). Therefore, it would be improper for this Court to substitute its judgment for that of the trial court.

A. The District Court's Finding Of A Lack Of Inequitable Conduct Should Only Be Disturbed Under An Abuse Of Discretion Standard Based On The Findings Of Fact

Inequitable conduct is an equitable issue that is properly left to the discretion of the trial court as the finder of fact. *Kingsdown*, 863 F.2d at 876. An appellate court can reverse the trial court only if the moving party establishes that the trial court misunderstood or misapplied the applicable law or made clearly erroneous factual findings. *Id.* However, an appellate court may not simply substitute its judicial discretion (findings of facts) for that of the trial court unless it has first determined the trial court has abused its discretion. *Brown v. Thompson*, 430 F.2d 1214, 1216 (5th. Cir. 1970). An abuse of discretion occurs when the trial court's decision is based on a clearly erroneous conclusion of law or the record contains no evidence on which the trial court could rationally have based its decision. *Premium*, 511 F.2d at 229. *See also Anderson*, 470 U.S. at 575 ("When findings are based on

determinations regarding the credibility of witnesses, Rule 52(a) demands even greater deference to the trial court's findings.").

In light of the above, the standard of review for inequitable conduct is an abuse of discretion. Fed. R. Civ. P. 52(a)(6). In reviewing a trial court's judgment on factual issues, an appellate court begins with an assumption that the trial court properly applied the facts to the applicable law to reach a sustainable conclusion. *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565, 1572 (Fed. Cir. 1988).

As the finder of fact, the District Court was in the best position to evaluate the credibility of the witnesses before it in accordance with *Anderson* and Rule 52(a). The Court could have reasonably found the testimony of Parry or Que to be either truthful or untruthful and reached corresponding findings related to inequitable conduct. These findings are documented in the record and indicate that the trial court properly applied the facts to the applicable law to reach a sustainable conclusion. Therefore, the Court did not abuse its discretion. Accordingly, that Hershley or this Court disagrees with these findings is insufficient to warrant reversal based on *Kingsdown, Brown, Premium*, and Rule 52(a).

1. Although The District Court Found An Intent Not To Disclose On The Part Of The Applicants, The Court's Findings Of Law Are Not Sufficiently Erroneous To Support Being Disturbed On Appeal

A court may find an absence of inequitable conduct if it determines from the evidence that an applicant's failure to disclose material information did not result from an intent to mislead the PTO. *Elk Corp. of Dallas v. GAF Bldg. Materials Corp.*, 168 F.3d 28, 30 (Fed. Cir. 1999).

In *Elk Corp.*, the Court found inequitable conduct based on its determination that the applicants failed to disclose a material prior art reference with an intent to mislead the PTO. 168 F.3d at 29. Unlike *Elk Corp.*, the District Court found that Parry and Que did not intend to mislead the PTO. (R. at 36,44,46). As the finder of fact, the trial court determined that Parry knew of MacGalver and that he intentionally did not disclose the episode. (R. at 32,34,44). The Court heard testimony from Parry that he did not disclose this episode because he believed it depicted fictitious events that never really happened. (R. at 33). Similarly, the Court heard and evaluated testimony from Que that he did not disclose MacGalver because "'no one in their right mind would submit a fictional television episode as prior art to the United States Patent and Trademark Office.'" (R. at 36).

A finding of inequitable conduct requires that a threshold level of materiality and intent be proven by clear and

convincing evidence. *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006). It is then left to the judgment of the trial court whether these threshold levels of materiality and intent have been met. *Id.* If these thresholds have been met, then a finding of inequitable conduct is within the discretion of the trial court. *Kingsdown*, 863 F.2d at 876.

As noted in *Kingsdown* and *Anderson*, the trial court is in the best position to evaluate the credibility of the witnesses before it. The District Court investigated the knowledge and intent of both Parry and Que and determined that although there was intent not to disclose, there was no intent to mislead the PTO. As noted in *Brown*, if the trial court based its findings on reasonable inferences and conclusions, it is improper for an appellate court to substitute its findings for that of the trial court. 430 F.2d at 1216. Given that the District Court reached a finding that is within the realm of reasonable choices available to it based on the evidence, that finding should not be disturbed by this Court on appeal, regardless of whether or not this Court agrees.

2. The District Court Properly Evaluated Attorney Que's Investigation And Disclosure Of The Prior Art And Correctly Determined That Such Investigation And Disclosure Was Adequate

A finding of inequitable conduct may be reached when persons prosecuting the patent have failed to disclose material

information. *Digital*, 437 F.3d at 1318. Further, an allegation of inequitable conduct requires clear and convincing evidence that an applicant made a decision to withhold a known material reference. *Molins*, 48 F.3d at 1181. In evaluating an applicant's conduct, the trial court must consider the totality of the applicant's actions and then weigh this evidence to reach its findings of fact. *Id.*

In reviewing Que's conduct related to his investigation of MacGalver, the District Court determined that he remembered the MacGalver episode. (R. at 36). The Court also determined that Que was a fan of the show, that he travelled to fan conventions, and that he owned a copy of the episode in question. (R. at 21,35). Finally, included in the trial court's factual determinations was Que's admission that he did not disclose the episode and that he believed the show was fictitious. (R. at 35-36).

According to *Kingsdown*, it is properly left to the trial court's discretion to choose from a range of reasonable factual conclusions, provided that it adequately investigated the facts. While the District Court evaluated testimony that supported a lack of inequitable conduct, that testimony could also be reasonably construed to support a converse finding. In other words, the trial court was sufficiently diligent to develop facts that were both harmful as well as supportive to Que's case

and, based on these facts, chose one of two reasonably plausible findings. Therefore, given the adequacy of the investigation by the District Court, reversal by this Court would be improper.

B. The District Court Did Not Err In Determining That Gross Negligence Alone Was Insufficient To Support A Holding Of Inequitable Conduct

A court may find inequitable conduct based on evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, submitted false material information and, (2) intended to deceive the PTO. *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008); *Digital*, 437 F.3d at 1313; *Molins*, 48 F.3d at 1178; *Stevens*, 747 F.2d at 1559. See also *Impax Labs., Inc. v. Aventis Pharms., Inc.*, 468 F.3d 1366, 1374 (Fed. Cir. 2006) ("To prove that a patent is unenforceable due to inequitable conduct, the alleged infringer must provide clear and convincing evidence of . . . failure to disclose material information . . . and . . . an intent to deceive."). Inequitable conduct thus requires not just an intent to withhold, but an intent to deceive. *Dayco*, 329 F.3d at 1367.

A conclusion by a trial court that particular conduct amounts to gross negligence is insufficient on its own to justify a holding of inequitable conduct. *Kingsdown*, 863 F.2d at 876. To sustain such a finding, all evidence of good and bad

faith must indicate sufficient culpability that inequitable conduct is the only reasonable conclusion. *Id.*

According to *Kingsdown*, the District Court evaluated the conduct of Parry and Que and determined that gross negligence was insufficient to support a finding of inequitable conduct. The Court properly evaluated both the good and bad faith conduct of Parry and Que and reached a reasonable conclusion that there was no inequitable conduct. *Id.* Specifically, the District Court, in its discretion and based on the evidence, determined that the intent element of inequitable conduct had not been satisfactorily proven. Therefore, because the District Court properly followed *Kingsdown*, this Court should not disturb those findings.

C. The District Court Acted Within Its Discretion And Properly Found Insufficient Culpability To Support A Holding Of Inequitable Conduct

Even if the thresholds of proof for inequitable conduct are met, the trial court may nevertheless, within its discretion, decline to find the patent unenforceable. *Star*, 537 F.3d at 1365. Given the severity of a finding of inequitable conduct (i.e., the loss of the entire patent), the trial court must evaluate the equities involved to determine if the behavior of the parties was sufficiently egregious to warrant such an extreme sanction. *Id.*; *Molins*, 48 F.3d at 1178. While it is inequitable for a court to enforce a patent that has been

obtained through deliberate acts of fraud, it is similarly inequitable to strike down an entire patent where those prosecuting the patent are merely guilty of minor errors or acted with little or no culpability. *Star*, 537 F.3d at 1366.

The District Court concluded that MacGalver was a material reference and should have been disclosed. (R. at 43). The Court also evaluated testimony that the underlying basis for the failure to disclose MacGalver was a belief that the show was fictional entertainment and not an embodiment of art related to a patentable invention. The District Court recognized that while the MacGalver episode should have been disclosed, the applicants did not act in bad faith in failing to make this disclosure.

A trial court is in the best position to balance the equities and penalties associated with a finding of inequitable conduct. *Star*, 537 F.3d at 1365. Therefore, the District Court was within its discretion to refuse to reach such a determination, even if the associated burdens of proof had been met. Accordingly, the District Court's findings should not be disturbed by this Court.

CONCLUSION

For the foregoing reasons, Bonka respectfully requests that this Court affirm the District Court's holdings that claim 1 of the '645 patent is (1) patent-eligible subject matter, and (2) not unenforceable due to inequitable conduct.

Respectfully submitted,

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CERTIFICATE OF SERVICE

We hereby certify that the required copies of the BRIEF OF PLAINTIFF – APPELLEE BILLY BONKA'S CANDY EMPORIUM, have been served on this twenty-eighth day of January, 2011, on the opposing counsel via FEDERAL EXPRESS, overnight courier service with proof of delivery signature.

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