

Keywords: design patent; ornamentality requirement; functionality; preliminary injunction; irreparable harm; likelihood of success; balance of hardships; public interest; infringement

General: To defeat a motion for a preliminary injunction on the issue of potential invalidity in an infringement action, the accused infringing party must present evidence sufficient to raise a substantial question of invalidity. Regarding a design patent, such evidence includes evidence of the overall functionality of the design.

Furthermore, in order to consider the availability of alternative designs as a factor that proves the validity of a design patent, an affirmative finding that the alternative designs will not affect the utility of the article must be explicitly made if the accused infringing party has presented evidence to the contrary.

PHG Technologies, LLC v. St. John Companies, Inc.

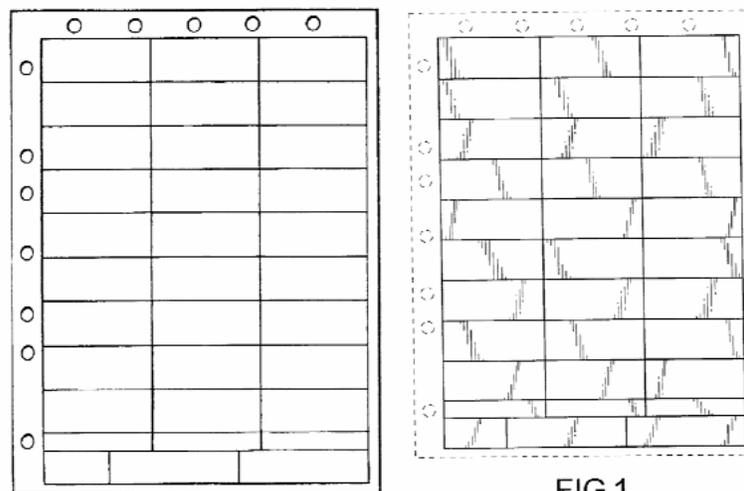
81 U.S.P.Q.2D 1088 (Fed. Cir. 2006)

Decided November, 2006

I. Facts

Both PHG Technologies, LLC (PHG) and St. John Companies, Inc. (St. John) sell medical patient identification labels. PHG owns the two design patents at issue in the instant case, U.S. Patent No. D496,405 (the '405 patent), which claims "[t]he ornamental design for the medical label sheet, as shown" (see Fig 1., below left), and U.S. Patent No. D503,197 (the '197 patent) which claims "[t]he ornamental design for a label pattern for a medical label sheet, as shown." (see Fig. 1, below right).

FIG. 1



The first nine rows of equally sized labels are standard medical chart labels, and the bottom two rows correspond to the size of pediatric and adult patient wristbands respectively. The '405 patent includes the hole-punched boarder, where the '197 patent only includes the label design. Both patents depend from a still pending utility patent, U.S. Patent No. 09/952,425 (the '425 patent).

St. John operates with a business model in which they secure a contract with a large purchasing organization, copy all of the labels used by the hospitals within the organization, and supply the copied labels at reduced prices.

Prior to the issuance of the design patents, PHG informed St. John that they believed St. John's labels infringed their pending design patents, to which St. John did not reply. After the patents issued, PHG filed suit alleging infringement.

PHG moved for a preliminary injunction. For a district court to grant a preliminary injunction, the court needs to make findings that: 1) there is a reasonable likelihood of success, 2) there will be irreparable harm without an injunction, 3) that the balance of hardships of the parties weighs in favor of the injunction, 4) and that the public interest weigh in favor of the injunction.

Regarding the first factor, St. John argued that the design patents are not valid because they are primarily functional. St. John presented evidence of statements made by PHG during the parent utility patent application and an affidavit submitted by the CEO of St. John regarding the functional nature of the designs. PHG presented testimony of one of the inventors that the designs were chosen because they were the "most aesthetically pleasing."

Regarding the design patents' validity, the district court made the following findings:

- 1) the design claimed is not dictated by its function
- 2) the different sizes/arrangements of labels are primarily ornamental because there are other ways to arrange the labels
- 3) the inventors had considered other alternatives and chose the design because it had the "best flow and look"
- 4) the novel features distinguish the labels from prior art

Regarding the issue of infringement, the district court found that the St. John label sheets were identical, and St. John appropriated the novelty of the design. Thus, the district court found that there was a reasonable likelihood of success regarding the infringement action.

The district court also found that PHG was entitled to a rebuttable presumption of irreparable harm, and that the balance of hardships and public interest weighed in favor of the injunction. Therefore, the district court granted PHG's motion for a preliminary injunction.

II. Issues

1. What is the standard of review for a district court's granting of a preliminary injunction?
2. What is St. John's burden regarding the issue of validity as it relates to the reasonable likelihood of success factor in a motion for a preliminary injunction?
3. Did the district court err in granting a preliminary injunction based on their factual findings?

III. Discussion

1. What is the standard of review for a district court's granting of a preliminary injunction?

A district court's decision to grant a motion for preliminary injunction is reviewed for abuse of discretion. Thus, it is reviewed to determine if there was a clear error of judgment in weighing the relevant factors, or if there was an error in the use of discretion due to an error of law or clearly erroneous factual finding.

2. What is St. John's burden regarding the issue of validity as it relates to the reasonable likelihood of success factor in a motion for a preliminary injunction?

As mentioned above, the first factor for granting a preliminary injunction is whether the moving party has a reasonable likelihood of success. At trial, PHG's infringement action could be defeated if St. John proves invalidity of the design patents. Because St. John would bear the burden of proof at trial regarding potential invalidity, and because the burdens at the injunction stage track those at trial, to defeat the preliminary injunction, St. John must establish a substantial question of invalidity. (note: the opinion does not address arguments regarding infringement).

3. Did the district court err in granting a preliminary injunction based on their factual findings?

Yes. The Federal Circuit found that St John met their burden of establishing a substantial question of validity.

Design patents are directed to the appearance of an article of manufacture, and a design patent is invalid if it is merely a byproduct of functional considerations. In other words, a design patent is invalid if it is primarily functional instead of primarily ornamental. "Whether a patented design is functional or ornamental is a question of fact." Page 5.

Thus, for St. John to meet its burden of establishing a substantial question of validity, it has to make a clear and convincing showing that the design patent is primarily functional. A design patent is deemed functional if the appearance of the article is dictated by the purpose of the article, which rests on an analysis of the overall appearance. Factors to consider in the analysis of the overall appearance include a) whether the design represents the best design, b) whether alternative designs would adversely affect the utility of the specified article c) whether advertising emphasizes features of the design as having a utility, d) and whether elements in the design or overall appearance are not clearly dictated by function.

The presence of alternative designs only aids in determining that the design patent is primarily ornamental if there are several ways to achieve the same function. As noted above, this analysis needs to consider if alternative designs would adversely affect the utility of the article. If so, then they are not truly alternative designs as they do not achieve the same function. The Federal Circuit distinguished the instant case from *L.A. Gea, Inc. v. Thom McAn Shoe Co.* In the *L.A. Gear* case, the other designs achieved the same function.

St. John offered evidence which included an affidavit submitted by their CEO, and statements made by PHG during the prosecution of the parent utility patent, patent '425. In the affidavit, the CEO asserted that wristband labels are usually taken off first, and that it is easiest for a right handed user to take off a label at the bottom right corner because the label is flush against the edge, and there are no files or binder clips to get in the way. The affidavit also asserted that subsequent removal of other labels is also facilitated by the design. Furthermore, PHG made statements during the prosecution of the '425 patent that each of the other features of medical label

sheet, including the size of the labels, the size of the sheet, the holes around the edge, etc., were included for functional reasons.

The Federal Circuit rejected PHG's assertions that the St. John's analysis focused solely on individual features rather than the overall appearance. The Federal Circuit noted that even though the relevant inquiry is the functionality from the standpoint of the overall appearance, the court must consider whether the elements of the design are dictated by utility. The Federal Circuit also noted that even though a utility application may be drawn to different features of same product, the statements in PHG's utility patent are directed to the same features of the sheet design as in the design patents.

Thus, the Federal Circuit found that the district court made its finding that the design patent was primarily ornamental solely on the fact that there were alternatives. However, the Federal Circuit noted that the district court didn't make any findings with respect to whether the alternatives would adversely affect the utility, and therefore, whether they truly were alternatives for purposes of the analysis. Further, the Federal Circuit noted that the district court made no reference to St. John's evidence, and that PHG presented no evidence to rebut St. John's evidence. The Federal Circuit concluded that, even though the district court's findings are reviewed for clear error, because the district court never made explicit findings on whether the alleged alternatives are in fact functionally equivalent, St. John's evidence was sufficient to raise a substantial question of invalidity. Therefore, the district court erred in granting a preliminary injunction.

IV. Conclusion

The Federal Circuit found that the district court did not make an affirmative finding regarding the evidence presented by St. John that alternative designs would adversely affect the utility of the article. Thus, the Federal Circuit found that the district court erred in relying solely on the availability of alternative designs in its findings regarding the issue of validity. Subsequently, the Federal Circuit found that St. John had presented sufficient evidence regarding the overall functionality of the design, such that they raised a substantial question of invalidity. Therefore, the district court erred in granting a preliminary injunction, as the first factor had not been met.