BASS, BERRY & SIMS PLC
A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

ROSS BOOHER
TEL: (615) 742-7764
FAX: (615) 742-0450
rbooher@bassberry.com

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES

NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

March 22, 2007

VIA HAND-DELIVERY
Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Petition Of Tennessee American Water Company To Change And Increase Certain Rates And Charges So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its Property Used And Useful In Furnishing Water Service To Its Customers; Docket No. 06-00290

Dear Chairman Kyle:

Enclosed please find an original and sixteen (16) copies of Tennessee American Water Company's Reply to Consumer Advocate's Response to the Company's Motion to Stay the Order Compelling Discovery.

Please return three copies of the Reply, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

Sincerely,

Ross Booher

RB/cw
Enclosures

cc: Hon. Pat Miller (*w/o enclosure*)
Hon. Ron Jones (*w/o enclosure*)
Hon. Eddie Roberson (*w/o enclosure*)
Ms. Darlene Standley, Chief of Utilities Division (*w/o enclosure*)
Richard Collier, Esq. (*w/o enclosure*)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division *(w/o enclosure*)
Ms. Pat Murphy (*w/o enclosure*)
Michael A. McMahon, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq. (*w/enclosure*)
Vance Broemel, Esq. (*w/enclosure*)
Henry Walker, Esq. (*w/enclosure*)
David Higney, Esq. (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS	)	**Docket No. 06-00290**

TENNESSEE AMERICAN WATER COMPANY'S REPLY TO CONSUMER ADVOCATE'S RESPONSE TO THE COMPANY'S MOTION TO STAY THE ORDER COMPELLING DISCOVERY

Tennessee American Water Company ("TAWC"), for its Reply to Consumer Advocate's Response to the Company's Motion to Stay the Order Compelling Discovery (the "Response"), states as follows:

The Consumer Advocate's ("CAPD") claim that the Hearing Officer does not have the discretion to provide varying levels of protection for the parties' sensitive documents is incorrect. First, the CAPD's suggestion that the Hearing Officer's use of varying levels of protection and categories such as "confidential" and "highly confidential" is somehow novel or extrajudicial ignores the fact that the use of different categories to differentiate between the sensitivity of documents is a routine practice in the courts and in the TRA. *See In re Chattanooga Gas Co.*, Docket No. 06-00175, Agreed Protective Order (Aug. 24, 2006) (creating a two-tiered classification of sensitive documents, including "confidential information" and "protected security materials," with different levels of protection for the two classifications and an affidavit requirement) (Attached as Exhibit A); *Cincinnati Gas and Elec. Co. v. Gen. Elec. Co.*, 854 F.2d

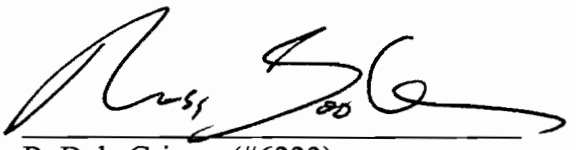
900, 901 (6th Cir. 1988) (noting with approval a protective order affording "varying degrees of protection for documents classified as "Confidential" or "Highly Confidential" by the party producing them."); *PHG Techs., LLC v. TimeMed Labeling Sys., Inc.*, 2006 U.S. Dist. LEXIS 66828, at *20 n.4 (M.D. Tenn. Sept. 18, 2006) (noting that because a relevant portion of a witness' testimony was filed "under seal as 'highly confidential' under the Protective Order entered in this case, the Court will not state in its opinion the specifics concerning" certain business information) (Attached as Exhibit B). In fact, the CAPD expressly agreed to varying degrees of protection for two different categories of sensitive documents in the Protective Order issued by the Hearing Officer on January 19, 2007. *See In re Tenn. Am. Water Co.*, Docket No. 06-00290, Protective Order (Jan. 19, 2007) (establishing different levels of protection for "confidential information" and "protected security materials").

Second, the Hearing Officer is entirely within his discretion to provide varying levels of protection to TAWC's sensitive information under the circumstances of the present case, and the CAPD has failed to state any reason, based on precedent or logic, why the use of more than one classification is incorrect. *See Ballard v. Herzke*, 924 S.W.2d 652, 659 (Tenn. 1996) ("The ultimate decision as to whether or not a protective order should issue is entrusted to the sound discretion of the trial court and it will not be reversed on appeal, absent a showing of abuse of discretion."); *see also Benton v. Snyder*, 825 S.W.2d 409, 416 (Tenn. 1992) ("It is well settled that decisions with regard to pre-trial discovery matters rest within the sound discretion of the trial court.").

As to the Consumer Advocate's contention that the Supplemental Protective Order ("SPO") is unnecessary and flawed, TAWC reiterates its position, previously asserted in other filings in this docket, that the SPO should not be disturbed.[1]

In sum, the distinctions and judgments reflected in the SPO are necessary, reasonable, and well within the sound discretion of the Hearing Officer, and there is no reason to disturb the protections afforded by the SPO. In the event, however, that the Hearing Officer or TRA alters the protections afforded by the SPO, TAWC respectfully requests the effect of the IPO Order be stayed immediately so that TAWC has the opportunity to seek review of the IPO Order.

Respectfully submitted,



R. Dale Grimes (#6223)
J. Davidson French (#15442)
Ross I. Booher (#019304)
BASS, BERRY & SIMS PLC
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
(615) 742-6200

Counsel for Petitioner
Tennessee American Water Company

[1] CAPD's Response references the CAPD's arguments against the SPO contained in "other filings in this docket," which presumably would include its Reply to the Company's Response to the Motion to Reconsider the Supplemental Protective Order, or in the Alternative, for Interlocutory Review by the TRA (the "Reply"). (Resp., 1.) The CAPD's Reply contains new claims about the alleged infirmity of the SPO. TAWC requests the opportunity to refute these new CAPD arguments at the status conference scheduled for March 23, 2007 in lieu of seeking leave to file a sur-reply.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 22nd day of March, 2007, upon the following:

[ ] Hand	Michael A. McMahan
[ ] Mail	Special Counsel
[ ] Facsimile	City of Chattanooga (Hamilton County)
[x] Overnight	Office of the City Attorney
[x] Email	Suite 400
	801 Broad Street
	Chattanooga, TN 37402

[x] Hand	Timothy C. Phillips, Esq.
[ ] Mail	Vance L. Broemel, Esq.
[ ] Facsimile	Office of the Attorney General
[ ] Overnight	Consumer Advocate and Protection Division
[x] Email	425 5th Avenue North, 2nd Floor
	Nashville, TN 37243

[x] Hand	Henry M. Walker, Esq.
[ ] Mail	Boult, Cummings, Conners & Berry, PLC
[ ] Facsimile	Suite 700
[ ] Overnight	1600 Division Street
[x] Email	Nashville, TN 37203

[ ] Hand	David C. Higney, Esq.
[ ] Mail	Grant, Konvalinka & Harrison, P.C.
[ ] Facsimile	633 Chestnut Street, 9th Floor
[x] Overnight	Chattanooga, TN 37450
[x] Email	

[ ] Hand	Frederick L. Hitchcock, Esq.
[ ] Mail	Chambliss, Bahner & Stophel, P.C.
[ ] Facsimile	1000 Tallan Building
[x] Overnight	Two Union Square
[x] Email	Chattanooga, TN 37402

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

August 24, 2006

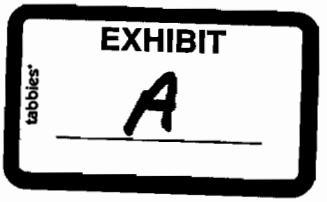
IN RE:

PETITION OF CHATTANOOGA GAS COMPANY FOR APPROVAL OF ADJUSTMENT OF ITS RATES AND CHARGES, COMPREHENSIVE RATE DESIGN PROPOSAL, AND REVISED TARIFF	)))))	**Docket No. 06-00175**

AGREED PROTECTIVE ORDER

To expedite the flow of filings, discovery, exhibits and other materials, and to facilitate the prompt resolution of disputes regarding confidentiality of the material, adequately protect material entitled to be kept confidential and to ensure that protection is afforded only to material so entitled, and the parties being in agreement as to the entry of this Protective Order, the Hearing Officer, as appointed by the Tennessee Regulatory Authority ("TRA"), hereby orders the following:

1. For the purpose of this Protective Order (the "Order"), proprietary or confidential information, hereinafter referred to as "CONFIDENTIAL INFORMATION" shall mean documents and information in whatever form which the producing party, in good faith, deems to contain or constitute trade secrets, confidential commercial information, confidential research, development, financial statements, confidential data of third parties, or other commercially sensitive information, and which has been specifically designated by the producing party. A "Producing Party" is defined as the party creating the confidential information as well as the party having actual physical possession of information produced pursuant to this Order. All summaries, notes,



extracts, compilations or other direct or indirect reproduction from or of any protected materials, shall be entitled to protection under this Order. Documents containing CONFIDENTIAL INFORMATION shall be specifically marked as confidential on the cover. Any document so designated shall be handled in accordance with this Order. The provisions of any document containing CONFIDENTIAL INFORMATION may be challenged under Paragraph 11 of this Order.

2. Any individual or company subject to this Order, including producing parties or persons reviewing CONFIDENTIAL INFORMATION, shall act in good faith in discharging their obligations hereunder. Parties or nonparties subject to this Order shall include parties who are allowed by the TRA to intervene subsequent to the date of entry of this Protective Order.

3. CONFIDENTIAL INFORMATION shall be used only for the purposes of this proceeding, and shall be expressly limited and disclosed only to the following persons:

(a) Counsel of record for the parties and other legal counsel for the parties in this case and associates, secretaries and paralegals actively engaged in assisting counsel of record in this proceeding;

(b) TRA Directors and members of the staff of the TRA;

(c) officers, directors, or employees of the parties, including employees of the Office of Tennessee Attorney General; provided, however, that CONFIDENTIAL INFORMATION shall be shown only to those persons having a need to know;

(d) Representatives of the parties who need to know because they are actively engaged in assisting counsel of record in preparing for this proceeding; and

(e) Outside consultants and expert witnesses employed or retained by the parties of their counsel, who need access to CONFIDENTIAL INFORMATION solely for evaluation, testing, testimony,

preparation for trial or other services related to this docket, provided that to the extent that any party seeks to disclose CONFIDENTIAL INFORMATION to any outside consultant or expert witness who is expected to testify on that party's behalf, the party shall give five (5) days written notice to the Producing Party of intention to disclose CONFIDENTIAL INFORMATION. During such notice period, the Producing Party may move to prevent or limit disclosure for cause, in which case no disclosure shall be made until the TRA, the Hearing Officer, the Administrative Law Judge or court rules on the motion. Any such motion shall be filed within three (3) days after service of the notice. Any response shall be filed within three (3) days after service of the Motion. A Pre-hearing conference may be called to confer with the parties on the Motions to Limit Disclosure. All service shall be by hand delivery or by facsimile.

Under no circumstances shall any CONFIDENTIAL INFORMATION be disclosed to or discussed with anyone associated with the marketing of products, goods or services that may be in competition with the products, goods or services of the Producing Party. Counsel for the parties are expressly prohibited from disclosing CONFIDENTIAL INFORMATION produced by another party to their respective clients, except for in-house counsel and persons who need to know in order to assist counsel of record with preparation of the case.

4. Prior to disclosure of CONFIDENTIAL INFORMATION to any employee or associate counsel for a party, TRA Director, or TRA staff member, the counsel representing the party who is to receive the CONFIDENTIAL INFORMATION shall provide a copy of this Order to the recipient employee, associate counsel, TRA Director or staff member, who shall be bound by the terms of this Order. Prior to disclosure of CONFIDENTIAL INFORMATION to any outside consultant or expert witness employed or retained by a party, counsel shall provide a copy of this Order to such outside consultant or expert witness, who shall sign an Affidavit in the form of that

attached to this Order attesting that he or she has read a copy of this Order, that he or she understands and agrees to be bound by the terms of this Order, and that he or she understands that unauthorized disclosure of the documents labeled "CONFIDENTIAL" constitutes a violation of this Order. This Affidavit shall be signed in the presence of and be notarized by a notary public. Counsel of record for each party shall provide the Producing Party a copy of each such Affidavit and shall keep the Affidavits executed by the parties' experts or consultants on file in their respective offices.

5. If any party or non-party subject to this Order inadvertently fails to designate documents as CONFIDENTIAL in accordance with the provisions of this Order when producing the documents this failure shall not constitute a waiver of confidentiality, provided the party or non-party who has produced the document shall notify the recipient of the document in writing within five (5) days of discovery of such inadvertent failure to designate the document as CONFIDENTIAL. At that time, the recipients will immediately treat the subject document as CONFIDENTIAL. In no event shall the TRA, or any other party to this Order, be liable for any claims or damages resulting from the disclosure of a document provided while not so labeled as "CONFIDENTIAL." An inadvertent failure to designate a document as CONFIDENTIAL, shall not, in any way, affect the TRA's determination as to whether the document is entitled to CONFIDENTIAL status.

6. If any party or non-party subject to this Order inadvertently fails to designate documents as CONFIDENTIAL in accordance with the provisions of this Order when producing such documents and the failure is not discovered in time to provide a five (5) day notification to the recipient of the confidential nature of the

documents referenced in the paragraph above, the failure shall not constitute a waiver of confidentiality and a party by written motion or by oral motion at a Pre-Hearing Conference or at the Hearing on the merits may request designation of the documents as CONFIDENTIAL, and if the motion is granted by the Hearing Officer, Administrative Law Judge or the Authority, the recipients shall immediately treat the subject documents as CONFIDENTIAL. The Tennessee Regulatory Authority, the Hearing Officer or Administrative Law Judge may also, at his or her discretion, either before or during the Pre-Hearing Conference or Hearing on the Merits of the case, allow information to be designated CONFIDENTIAL and treated as such in accordance with the terms of this Order.

7. Any papers filed in this proceeding that contain, quote, paraphrase, compile or otherwise disclose documents covered by the terms of this Order, or any information contained therein, shall be filed and maintained in the TRA Docket Room in sealed envelopes marked CONFIDENTIAL and labeled to reflect the style of this proceeding, the docket number, the contents of the envelope sufficient to identify its subject matter and this Protective Order. The envelopes shall be maintained in a locked filing cabinet. The envelopes shall not be opened or their contents reviewed by anyone except upon order of the TRA, Hearing Officer, or Administrative Law Judge after due notice to counsel of record. Notwithstanding the foregoing, the Directors and the Staff of the TRA may review any paper filed as CONFIDENTIAL without obtaining an order of the TRA, Hearing Officer or Administrative Law Judge, provided the Directors and Staff maintain the confidentiality of the paper in accordance with the terms of this Order.

8. Documents, information and testimony designated as CONFIDENTIAL or PROTECTED SECURITY MATERIALS (as defined in Paragraph 19) in accordance with this Order, may be used in testimony at the Hearing of this proceeding and offered into evidence used in any hearing related to this action in a manner that protects the confidentiality of the information, subject to the Tennessee Rules of Evidence and to such future orders as the TRA, the Hearing Officer, or the Administrative Law Judge may enter. Any party intending to use documents, information, or testimony designated CONFIDENTIAL or PROTECTED SECURITY MATERIALS shall inform the Producing Party and the TRA, the Hearing Officer, or the Administrative Law Judge, prior to the Hearing on the Merits of the case, of the proposed use; and shall advise the TRA, the Hearing Officer, or the Administrative Law Judge, and the Producing Party before use of the information during witness examinations so that appropriate measures can be taken by the TRA, the Hearing Officer, or the Administrative Law Judge to protect the confidential nature of the information.

9. Except for documents filed in the TRA Docket Room, all documents covered by the terms of this Order that are disclosed to the requesting party shall be maintained separately in files marked CONFIDENTIAL and labeled with reference to this Order at the offices of the requesting party's counsel of record, kept in a secure place and returned to the Producing Party pursuant to Paragraph 16 of this Order.

10. Nothing herein shall be construed as preventing any party from continuing to use and disclose any information (a) that is in the public domain, or (b) that subsequently becomes part of the public domain through no act of the party, or (c) that is disclosed to it by a third party, where said disclosure does not itself violate any

contractual or legal obligation, or (d) that is independently developed by a party, or (e) that is known or used by it prior to this proceeding. The burden of establishing the existence of (a) through (e) shall be upon the party attempting to use or disclose the information.

11. Any party may contest the designation of any document or information as CONFIDENTIAL or PROTECTED SECURITY MATERIALS by filing a Motion with the TRA, Hearing Officer, Administrative Law Judge or the courts, as appropriate, for a ruling that the documents, information or testimony should not be so treated. All documents, information and testimony designated as CONFIDENTIAL or PROTECTED SECURITY MATERIALS, however, shall be maintained as such until the TRA, the Hearing Officer, the Administrative Law Judge or a court orders otherwise. A Motion to contest must be filed not later than fifteen (15) days prior to the Hearing on the Merits. Any Reply from the Company seeking to protect the status of their CONFIDENTIAL INFORMATION or PROTECTED SECURITY MATERIALS must be received not later than ten (10) days prior to the Hearing on the Merits and shall be presented to the Authority at the Hearing on the Merits for a ruling.

12. Nothing in this Order shall prevent any party from asserting any objection to discovery other than an objection based upon grounds of confidentiality.

13. Non-party witnesses shall be entitled to invoke the provisions of this Order by designating information disclosed or documents produced for use in this action as CONFIDENTIAL, in which event the provisions of this Order shall govern the disclosure of information or documents provided by the non-party witness. A non-party

witness' designation of information as CONFIDENTIAL may be challenged under Paragraph 11 of this Order.

14. No person authorized under the terms herein to receive access to documents, information, or testimony designated as CONFIDENTIAL shall be granted access until such person has complied with the requirements set forth in Paragraph 4 of this Order.

15. Any person to whom disclosure or inspection is made in violation of this Order shall be bound by the terms of this Order.

16. Upon an order becoming final in this proceeding or any appeals resulting from such an order, all the filings, exhibits and other materials and information designated CONFIDENTIAL or PROTECTED SECURITY MATERIALS and all copies thereof shall be returned to counsel for the party who produced (or originally created) the filings, exhibits and other materials, within fifteen (15) days. Subject to the requirements of Paragraph 7 above, the TRA shall retain copies of information designated as CONFIDENTIAL or PROTECTED SECURITY MATERIALS as may be necessary to maintain the record of this case intact. Counsel who received the filings, exhibits and other materials, designated as CONFIDENTIAL or PROTECTED SECURITY MATERIALS shall certify to counsel for the Producing Party that all the filings, exhibits and other materials, plus all copies or extracts, notes or memorandums from the filings, exhibits and other materials, and all copies of the extracts from the filings, exhibits and other materials thereof have been delivered to counsel for the Producing Party or destroyed and that any electronic copies of CONFIDENTIAL INFORMATION or

PROTECTED SECURITY MATERIALS received or mentioned by the receiving party have been eliminated.

17. After termination of this proceeding, the provisions of this Order relating to the confidential nature of CONFIDENTIAL DOCUMENTS or PROTECTED SECURITY MATERIALS, information and testimony shall continue to be binding upon parties herein and their officers, employers, employees, agents, and/or others unless this Order is vacated or modified.

18. Nothing herein shall prevent entry of a subsequent order, upon an appropriate showing, requiring that any documents, information or testimony designated as CONFIDENTIAL shall receive protection other than that provided herein.

19. In addition to the other provisions of this Order, Chattanooga Gas Company ("the Company") may designate and label as "PROTECTED SECURITY MATERIALS" documents and information related to security measures undertaken to protect public health and safety. The Company shall provide access to PROTECTED SECURITY MATERIALS to TRA Directors and members of the staff of the TRA and further only to authorized representatives of the Intervenors in this docket. Authorized representatives shall be limited to the following: in the event that TRA staff becomes a party, one counsel of record and one other staff member or person under contract to the staff, each authorized in writing by a senior official of the TRA to have such access; and with respect to any other party, two counsel of record and a single other person, employed by or under contract to the party, authorized by that party in a written certification mutually agreeable to the parties.

20. The Company shall provide access to an authorized representative to PROTECTED SECURITY MATERIALS only after such authorized representative has executed an Affidavit in the form of that attached to this Order and provided a copy to the Company. Except with consent of the Company: (i) access shall be at the offices of the Company or its counsel of record and under supervision of the Company; (ii) PROTECTED SECURITY MATERIALS shall not be removed from the offices of the Company or its counsel; (iii) no copies shall be provided to an authorized representative except as provided herein. Authorized representatives may make notes or memoranda from a review of the PROTECTED SECURITY MATERIALS and may remove such notes and memoranda. In all other respects such notes and memoranda shall remain PROTECTED SECURITY MATERIALS and subject to the provisions hereof. PROTECTED SECURITY MATERIALS shall be used only to assist TRA staff or any other party to prepare for and to try this proceeding and shall not be used for any other purpose in this or any other jurisdiction.

21. Except as provided in this Order, the contents of PROTECTED SECURITY MATERIALS to which the TRA staff or other party is given access, and any notes, memoranda, or any form or information or opinions regarding or derived from the PROTECTED SECURITY MATERIALS shall not be disclosed to anyone other than an authorized representative in accordance with the Order, except that an authorized representative may disclose his or her conclusions or findings solely within, and for the purposes of, this proceeding and in accordance with this Order. PROTECTED SECURITY MATERIALS shall not otherwise be published, disclosed or divulged except as expressly provided herein. The TRA Directors, TRA staff and any other party shall

treat all notes memoranda or opinions regarding or derived from the PROTECTED SECURITY MATERIALS as highly confidential and shall keep them in a secure location with access limited to an authorized representative, and the contents of PROTECTED SECURITY MATERIALS and any information derived from them shall be considered highly confidential, and shall not be deemed public records. The TRA staff, any party, Hearing Officer, or the TRA Directors may discuss any position or conclusion regarding security expenditures and testimony in briefs, orders, pleadings, or hearings in this proceeding without disclosing protected information to the public in accordance with this Order.

22. The Attorney General and his staff have authority to enter into Nondisclosure Agreements pursuant to Tenn. Code Ann. § 65-4-118 which are consistent with state and federal law, regulations and rules.

23. The Attorney General and his staff agree to keep confidential commercial information and/or trade secrets in a secure place and will not permit them to be seen by any person who is not an employee of the State of Tennessee, the Office of Attorney General and Reporter, or a person who has signed a Nondisclosure Agreement.

24. The Attorney General and his staff may make copies of confidential commercial information or trade secrets or any portion thereof. To the extent permitted by state and federal law, regulations and rules, all notes utilizing supporting information shall be subject to the terms of this Order to the extent factual assertions are derived from the supporting information.

25. To the extent permitted by state law, the Attorney General will provide timely notice of filing or disclosure in the discharge of the duties of the Office of the

Attorney General and Reporter, pursuant to Tenn. Code Ann. § 10-7-504(a)(5)(C) or any other law, regulation or rule, so that the Company may take action relating to disclosure.

26. The obligations of the Attorney General and his staff under this Order are further subject to the state's Public Records Act and other open records statutes. Nothing in this Order is intended to violate or alter the state's Public Records Act or Freedom of Information Act ("FOIA"). In the event that the Attorney General or member of his staff is served with a subpoena, public records request, FOIA request, or other request that calls for the production of confidential commercial information labeled as "CONFIDENTIAL" by the Company, the Attorney General will notify the Company by notifying the undersigned of the existence of the subpoena, public records request, FOIA request, or other request, at least five (5) business days before responding to the request to the extent permitted by state law and orders of the court as long as the Attorney General or his staff is able to respond to the request within a reasonable time. Following the five (5) day notice period, the Attorney General or his staff may elect to wait to produce such information as allowed by state law in order to provide the Company an opportunity to challenge said subpoena or request or to make arrangements to preserve the confidentiality of the confidential commercial information labeled as "CONFIDENTIAL" by the Company that is subject to such request.

27. The designation of any information, documents or things in accordance with this Order as constituting or containing confidential or proprietary information and the Attorney General's or his staff's treatment of such material as confidential or proprietary in compliance with this Order is not an admission or agreement by the Attorney General or his staff that the material constitutes or contains confidential

commercial information or trade secret information and shall not be deemed to be either a waiver of the state's right to challenge such designation or an acceptance of such designation. The Company agrees to designate information, documents or things provided to the Attorney General as confidential commercial information or trade secret if it has a good faith basis for the claim. The Company will upon request of the Attorney General or his staff provide a written explanation of the details, including statutory authority, that support its confidential commercial information or trade secret claim within five (5) days of a written request. The Company also specifically agrees that it will not designate any documents as CONFIDENTIAL INFORMATION or label such documents as "CONFIDENTIAL" if the documents:

(a) have been distributed to the public, consumers or others, provided that proprietary customer information provided by the Company to its customers or their marketers may be designated as CONFIDENTIAL INFORMATION; or

(b) are not maintained by the Company as confidential commercial information or trade secrets or are not maintained by the Company as proprietary customer information.

28. Nothing in this Order shall prevent the Attorney General from using the CONFIDENTIAL INFORMATION received for investigative purposes in the discharge of the duties of the Office of the Attorney General and Reporter. Additionally, nothing in this Order shall prevent the Attorney General from informing state officials and third parties of the fact of an investigation, as needed, to conduct the investigation. Without limiting the scope of this paragraph, nothing in this Order shall prevent the Attorney

General from contacting consumers whose names were provided by the Company or from discussing with any consumer any materials that he or she allegedly received from the Company or confirming that a consumer actually received the materials, to the extent that the Attorney General or his staff does so in a manner that complies with the provisions of this Order.

29. The terms of the foregoing paragraphs 22 through 28 do not apply to PROTECTED SECURITY MATERIALS as set forth in paragraphs 19-21 of this Order. PROTECTED SECURITY MATERIALS shall be treated in accordance with paragraphs 19-21.

30. All information, documents and things designated as CONFIDENTIAL INFORMATION or PROTECTED SECURITY MATERIALS and produced in accordance with this Order may be disclosed in testimony or offered into evidence at any TRA or court hearing, trial, motion or proceeding of this matter, subject to the provisions of this Order and the applicable Rules of Evidence. The party who produced the information, documents and things designated as CONFIDENTIAL INFORMATION or PROTECTED SECURITY MATERIALS agrees to stipulate to the authentication of such information, documents and things in any such proceeding.

31. Nothing in this Order is intended to restrict or alter federal or state laws, regulations or rules.

32. Any person who has signed a Nondisclosure Statement or is otherwise bound by the terms of this Order shall continue to be bound by this Order and/or Nondisclosure Statement even if no longer engaged by the TRA or Intervenors.

J. Richard Collier
Hearing Officer with agreed language added to ¶5 per 8/23/06 Status Conf.

APPROVED FOR ENTRY:

By: _____

J.W. Luna, Esq. (BPR #5780)
Jennifer L. Brundige, Esq. (BPR # 20673)
FARMER & LUNA, PLLC
333 Union Street, Suite 300
Nashville, TN 37201
(615) 254-9146

Attorneys for Chattanooga Gas Company

By: _____ w/permission JB

Timothy Phillips
Vance Bromel
Consumer Advocate and Protection Division
Office of Attorney General
2nd Floor
425 5th Avenue North
Nashville, TN 37243-0491

Attorneys for the Consumer Advocate and Protection Division

By: _____ w/permission JB

David C. Higney
Catharine H. Giannasi
Grant, Konvalinka & Harrison, P.C.
Ninth Floor, Republic Center
633 Chestnut Street
Chattanooga, TN 37450-0900

And

Henry M. Walker
Boult, Cummings, Conners, & Berry
1600 Division Street, Suite 700
Nashville, TN 37203

Attorneys for the Chattanooga Manufacturers Association

CERTIFICATE OF SERVICE

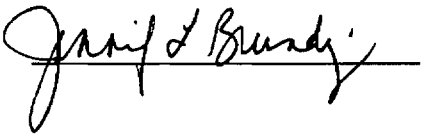
I hereby certify that on this 16th day of August 2006, a true and correct copy of the foregoing Petition was served on the persons below by hand delivery:

Richard Collier
General Counsel
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-00505

Cynthia Kinser, Deputy
Timothy Phillips
Vance Bromel
Consumer Advocate and Protection Division
Office of Attorney General
2nd Floor
425 5th Avenue North
Nashville, TN 37243-0491

David C. Higney
Catharine H. Giannasi
Grant, Konvalinka & Harrison, P.C.
Ninth Floor, Republic Center
633 Chestnut Street
Chattanooga, TN 37450-0900

Henry M. Walker
Boult, Cummings, Conners, & Berry, PLC
1600 Division Street, Suite 700
Nashville, TN 37203



BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF CHATTANOOGA GAS	)	
COMPANY FOR APPROVAL OF	)	
ADJUSTMENT OF ITS RATES AND	)	**Docket No. 06-00175**
CHARGES, COMPREHENSIVE RATE	)	
DESIGN PROPOSAL, AND REVISED TARIFF	)	

NONDISCLOSURE STATEMENT

I have reviewed the Protective Order entered in the above-captioned matter and agree to abide and be bound by its terms. I understand that unauthorized disclosure of documents labeled "CONFIDENTIAL" or "PROTECTED SECURITY MATERIALS" will be a violation of the Order.

_____ _____
DATE NAME

STATE OF _____)

COUNTY OF _____)

Personally appeared before me, _____, a Notary Public, _____, with whom I am personally acquired, who acknowledged that he executed the within instrument for the purposes therein contained.

WITNESS my hand, at office, this _____day of _____, 2006.

_____
NOTARY PUBLIC

My Commission Expires:

2 of 4 DOCUMENTS

Analysis
As of: Mar 21, 2007

PHG TECHNOLOGIES, LLC, Plaintiff v. TIMEMED LABELING SYSTEMS, INC., LASERBAND LLC, and HOLDEN GRAPHIC SERVICES, Defendants

No. 3:05-1091

UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF TENNESSEE, NASHVILLE DIVISION

2006 U.S. Dist. LEXIS 66828

September 18, 2006, Decided
September 18, 2006, Filed

PRIOR HISTORY: PHG Techs., LLC v. Timemed Labeling Sys., 2006 U.S. Dist. LEXIS 50447 (M.D. Tenn., July 21, 2006)

CASE SUMMARY:

PROCEDURAL POSTURE: Plaintiff patent holder filed a motion for preliminary injunction, and defendants, the alleged infringers, filed a motion for summary judgment in the holder's action that sought to enforce design patents on medical label sheets, and to protect the holder's trademark. The complaint included claims against all defendants for patent infringement under 35 U.S.C.S. §§ 284 and 285, as well as other claims.

OVERVIEW: The holder contended that it was a small company that depended on a sales force of only two or three people to increase business, and it suffered and would continue to suffer irreparable harm because of the alleged infringers' sales of their competing products. The holder's principals testified that the holder had lost sales and profits that would have been made from those sales, and that the marketplace for the holder's patented product had eroded severely. Addressing the holder's motion for a preliminary injunction, the court held that an injunction was warranted because the alleged infringers failed to carry their burden to establish a substantial question concerning the invalidity or unenforceability of the holder's design patents. The holder also established a reasonable likelihood that it would prevail on the issues of patent validity and infringement, as well as irreparable harm, and the balance of hardships and the public interest weighed in the holder's favor. The alleged infringers did not carry their burden on summary judgment to show by clear and convincing evidence that the holder's patents were invalid due to an on-sale bar.

OUTCOME: The court granted the holder's motion for a preliminary injunction, and denied the alleged infringer's motion for summary judgment. The court required that the holder post a surety bond in favor of the alleged infringer's in compliance with Fed. R. Civ. P. 65(c).

CORE TERMS: label, patent, sheet, patented, preliminary injunction, quotation, customer, invention, corner, manufacture, infringement, on-sale, irreparable harm, summary judgment, ornamental, selling, bottom, injunctive relief, test run, inventor, invalidity, infringing, container, observer, box, die cut, experimental, quantity, novelty, testing

LexisNexis(R) Headnotes

Evidence > Procedural Considerations > Burdens of Proof > Initial Burden of Persuasion
Patent Law > Remedies > Equitable Relief > Injunctions

[HN1] Whether to grant a preliminary injunction under 35 U.S.C.S. § 283 is within a court's discretion. In determining whether a movant has established a right to preliminary injunctive relief, the court must consider

four factors: (1) whether the movant has sufficiently established a reasonable likelihood of success on the merits; (2) whether the movant would suffer irreparable harm if the injunction were not granted; (3) whether the balance of hardships tips in the movant's favor; and (4) the impact, if any, of the injunction on the public interest. The court must weigh and assess each factor against the others and against the form and magnitude of the relief requested. Although the Federal Circuit has cautioned that a preliminary injunction is a drastic and extraordinary remedy that should not be routinely granted, the court subsequently explained that injunctive relief is not meant to be rare or practically unattainable. Rather, injunctive relief must be thoroughly justified, and it cannot be granted as a matter of right.

Evidence > Procedural Considerations > Burdens of Proof > General Overview
Patent Law > Remedies > Equitable Relief > Injunctions

[HN2] A non-movant on a motion to preliminary injunction may succeed in defeating the motion for a preliminary injunction if each raises a substantial question of patent invalidity. The non-movant need not produce the clear and convincing evidence of patent invalidity that would be required at trial. Instead, they must show only that the movant's design patents are vulnerable to a validity challenge.

Patent Law > Infringement Actions > Summary Judgment > General Overview

[HN3] To prevail on the motion for summary judgment on the ground of patent invalidity, a movant must demonstrate a lack of genuine dispute about material facts and show that the facts not in dispute are clear and convincing in demonstrating invalidity. On summary judgment, a court must take the facts in the light most favorable to the non-movant and determine whether the movant us entitled to judgment on patent invalidity as a matter of law.

Patent Law > Statutory Bars > On Sale Bar > Fact & Law Issues

[HN4] 35 U.S.C.S. § 102(b) provides that a person shall be entitled to a patent unless the invention was on sale in this country, more than one year prior to the date of the application for patent in the United States. Whether a particular activity raises the on-sale bar is a question of law based on the underlying factual considerations.

Patent Law > Statutory Bars > On Sale Bar > Elements

[HN5] The on-sale bar applies when two conditions are satisfied before the critical date: (1) the product is the subject of a commercial offer for sale and (2) the invention is ready for patenting either by having the invention reduced to practice or by preparing drawings or other descriptions of the invention that would enable one skilled in the art to practice the invention. The purpose of the on-sale bar is to encourage inventors to seek a patent promptly so as not to prolong the statutory right of exclusivity given to a patentee, and a single sale or offer to sell is enough to trigger the on-sale bar. Sales by suppliers and other third parties to the patentee qualify as sales under the first prong of the Pfaff test when the transaction is between separate entities. In other words, 35 U.S.C.S. § 102(b) does not require the patentee to make a sale to a consumer to satisfy the first prong of the Pfaff test. It only matters that someone -- inventor, supplier or third party -- placed it on sale.

Patent Law > Infringement Actions > Defenses > General Overview
Patent Law > Statutory Bars > On Sale Bar > General Overview

[HN6] Because a patent is presumptively valid, 35 U.S.C.S. § 282, an accused infringer must demonstrate by clear and convincing evidence that there was a definite sale or offer to sell more than one year before application for the patent and that the subject matter of the sale or offer to sell fully anticipated the claimed invention.

Patent Law > Statutory Bars > On Sale Bar > General Overview

[HN7] Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under 35 U.S.C.S. § 102(b). An offer is the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it. In any situation, determining who is the offeror and what constitutes a definite offer, requires examination of the language of the proposal itself. Language suggesting a legal offer, such as "I offer" or "I promise" can be contrasted with language suggesting more preliminary negotiations, such as "I quote" or "are you interested." Put another way, a commercial sale occurs when the parties offer or agree to reach a contract to give and pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold.

Patent Law > Statutory Bars > On Sale Bar > General Overview

[HN8] A question a court must address is whether the Brasseler exception applies where a design patent is at issue. In Pfaff, which involved a utility patent, the inventor accepted a purchase order for the product more than one year before the critical date, and there was no question that the sale was commercial rather than experimental in character. Thus, where the invention was also ready for patenting at that time, the issued patent was held invalid. In explaining its reasoning, the United States Supreme Court stated: An inventor who seeks to perfect his discovery may conduct extensive testing without losing his right to obtain a patent for his invention -- even if such testing occurs in the public eye. The law has long recognized the distinction between inventions put to experimental use and products sold commercially. An inventor is deprived of his right to a patent if he attempts to use his invention for profit for any longer period than one year before his patent application. When, however, delay in obtaining a patent is caused by a bona fide effort to bring the invention to perfection, or to ascertain whether it will answer the purpose intended, a patent may issue.

Patent Law > Infringement Actions > Defenses > Experimental Use & Testing

[HN9] Experimental use negation applies, in utility patent cases, if there is genuine experimentation directed to perfecting the features of the claimed invention. Experimental use cannot occur after a reduction of the invention to practice, and since design inventions are reduced to practice as soon as an embodiment is constructed, experimental use negation is virtually inapplicable in the design patent context. Applying experimental use negation in the design patent context would allow entities to increase the life of their design patents merely by tarrying over the production of the article of manufacture.

Patent Law > Statutory Bars > On Sale Bar > General Overview

[HN10] Where the communication between the parties lacks definite terms, including quantity, time of delivery, or place of delivery, there is no offer for sale.

Patent Law > Infringement Actions > Design Patents

[HN11] Whether a design patent is infringed is determined by first construing the claim to the design and then comparing it to the accused design. A court must determine whether the patented design as a whole is substantially similar in appearance to the accused design. The patented and accused designs are compared for overall visual similarity. Comparison of the patented design to the accused design involves two distinct tests, both of which must be satisfied in order to find infringement: (1) the "ordinary observer" test and (2) the "point of novelty" test.

Patent Law > Infringement Actions > General Overview

[HN12] The "ordinary observer" test originated in Gorham Co. v. White: If, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other. Under Gorham the focus is on the overall ornamental appearance of the claimed design, not selected ornamental features. Proper application of the Gorham test requires that an accused design be compared to the claimed design, not to a commercial embodiment.

Patent Law > Infringement Actions > General Overview

[HN13] The "point of novelty" test requires proof that the accused design appropriates the novelty which distinguishes the patented design from the prior art. Although application of the two tests may sometimes lead to the same result, it is legal error to merge the two tests, for example, by relying on the claimed overall design as the point of novelty. The focus of the "point of novelty" test is on those aspects of the patented design that make it different from prior art. The ultimate question is whether the effect of the accused design viewed as a whole is substantially the same as the patented design.

Patent Law > Infringement Actions > General Overview

[HN14] Slight variations between the claimed design and the accused design do not prevent a finding of infringement where the overall effect of the design is substantially the same. Minor differences between a patented design and an accused article's design cannot, and shall not, prevent a finding of infringement.

Patent Law > Date of Invention & Priority > General Overview

Patent Law > Inequitable Conduct > Effect, Materiality & Scienter > Cumulative Information

[HN15] A party alleging inequitable conduct arising from a failure to disclose prior art must offer clear and convincing proof of the materiality of the prior art,

knowledge chargeable to the applicant of that prior art and of its materiality, and the applicant's failure to disclose the prior art, coupled with an intent to mislead the Patent and Trademark Office. Materiality does not presume intent, which is a separate and essential component of inequitable conduct.

Patent Law > Remedies > Equitable Relief > Injunctions

[HN16] Having established the first factor of likelihood of success on the merits through a clear showing of both patent validity and infringement, a movant for a preliminary injunction is entitled to a rebuttable presumption of irreparable harm. This presumption acts as a procedural device which places the ultimate burden of production on the question of irreparable harm onto the alleged infringer.

Patent Law > Ownership > General Overview

[HN17] The right to exclude others from using a design without permission is a valuable property right, and inventors with small markets are entitled to exclusivity under the patent statute as are those with large markets.

Patent Law > Ownership > General Overview
Patent Law > Remedies > Equitable Relief > Injunctions

[HN18] Experience teaches that competitors change the marketplace. Years after infringement has begun, it may be impossible to restore a patentee's exclusive position by an award of damages and a permanent injunction, because customers may have established relationships with infringers.

Patent Law > Infringement Actions > General Overview

[HN19] A defendant's private interest in selling a lower-priced product does not justify infringing a patent. Were that to be a justification for patent infringement, most injunctions would be denied because copiers universally price their products lower than innovators.

COUNSEL: [*1] For PHG Technologies, LLC, Plaintiff: Lea H. Speed, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, Memphis, TN; Wayne Edward Ramage, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, Nashville, TN.

For TimeMed Labeling Systems, Inc., Defendant: James Edward Griffith, McDermott, Will & Emery, Chicago, IL; John G. Bisbikis, McDermott, Will & Emery, Chicago, IL; Kenneth J. Jurek, McDermott, Will & Emery, Chicago, IL; Robb S. Harvey, Waller, Lansden, Dortch & Davis, Nashville, TN.

For Holden Graphic Services, Defendant: Calvin L. Litsey, Faegre & Benson LLP, Minneapolis, MN, US; Chad Drown, Faegre & Benson LLP, Minneapolis, MN, US; John R. Wingo, Frost, Brown & Todd, LLC, Nashville, TN; Lee M. Pulju, Faegre & Benson LLP, Minneapolis, MN, US.

For LaserBand LLC, Defendant: H. Buckley Cole, Greenebaum, Doll & McDonald PLLC, Nashville, TN; Jacob Steven Wharton, Thompson Coburn, St. Louis, MO.

For LaserBand LLC, Counter Plaintiff: H. Buckley Cole, Greenebaum, Doll & McDonald PLLC, Nashville, TN; Jacob Steven Wharton, Thompson Coburn, St. Louis, MO.

For PHG Technologies, LLC, Counter Defendant: Lea H. Speed, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, Memphis, [*2] TN; Wayne Edward Ramage, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, Nashville, TN.

For TimeMed Labeling Systems, Inc., Counter Plaintiff: James Edward Griffith, McDermott, Will & Emery, Chicago, IL; John G. Bisbikis, McDermott, Will & Emery, Chicago, IL; Kenneth J. Jurek, McDermott, Will & Emery, Chicago, IL; Robb S. Harvey, Waller, Lansden, Dortch & Davis, Nashville, TN.

JUDGES: ROBERT L. ECHOLS, UNITED STATES DISTRICT JUDGE.

OPINION BY: ROBERT L. ECHOLS

OPINION:

MEMORANDUM

Pending before the Court are Plaintiff PHG Technologies, LLC's ("PHG's") Motion for Preliminary Injunction (Docket Entry No. 35) and Defendant TimeMed Labeling Systems, Inc.'s ("TimeMed's") Motion for Summary Judgment of Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 87), to which the parties have responded in opposition. n1

n1 Defendant LaserBand LLC's ("LaserBand's") Motion to Join TimeMed's Motion for Summary Judgment of Patent Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 118) will be GRANTED.

[*3]

PHG brings this action against TimeMed, LaserBand and Holden Graphic Services seeking to enforce design patents on medical label sheets, U.S. Patent Des. No. 496,405 S ("the '405 patent")(Plaintiff's Ex. 3), and U.S. Patent Des. No. 503,197 S ("the '197 patent")(Plaintiff's Ex. 5), and to protect its "EasyID" trademark. The design patents differ in that the margins which are part of the design shown in the '405 patent are not part of the design shown in the '197 patent. PHG's Complaint includes claims against all Defendants for patent infringement under 35 U.S.C. §§ 284 & 285 (Counts I & II); false description and false designation of origin under 15 U.S.C. § 1125 (Count III); unfair or deceptive practices under the Tennessee Consumer Protection Act ("TCPA"), Tenn. Code Ann. §§ 47-18-104 & 47-18-109 (Count IV); and trademark infringement and unfair competition under Tennessee common law (Counts V & VI). The Complaint also includes claims against Holden Graphic Services; however, Holden is not participating in the litigation because it agreed to stop selling its allegedly infringing product. [*4]

On July 25 and 26, 2006, the Court held a hearing on Plaintiff's Motion for Preliminary Injunction. Shortly before the hearing, Defendant TimeMed filed its Motion for Summary Judgment of Invalidity Under 35 U.S.C. § 102(b), in which LaserBand joined. The Defendants contend that PHG's design patents are invalid in view of the sale of medical label sheets containing the label configuration shown in the '405 and '197 patents more than one year prior to the critical date, September 14, 2001.

I. FACTS

The following facts are undisputed or, for purposes of the summary judgment motion, are taken in the light most favorable to PHG, the non-moving party. Unless otherwise stated, all exhibit numbers are those attached to the exhibits admitted into evidence at the July 25 and 26, 2006 preliminary injunction hearing, even though the same exhibits may have been attached with different numbers to TimeMed's motion for summary judgment.

Thomas R. Stewart ("Stewart") and Brian D. Moyer ("Moyer") are principals of PHG. On September 14, 2001, Stewart and Moyer, as named inventors and through their counsel, filed a utility patent application for a "Medical Patient [*5] Labeling System and Method" which was assigned application no. 09/952, 425 ("the '425 patent application"). (TimeMed Collective Ex. 5.) The utility patent application includes multiple embodiments, but does not specify a particular layout of medical labels on a sheet. The utility patent application is pending.

The '405 design patent, which was issued on September 21, 2004, and the '197 design patent, which was issued on March 22, 2005, claim priority from the '425 patent application. Moyer and Stewart assigned all right, title and interest in the two design patents to PHG. Patent application no. 10/899, 283 ("the '283 patent application") claims to be a division of the '425 patent application. The '283 patent application claims subject matter disclosed in the '425 patent application.

On January 17, 2006, in connection with the prosecution of the '283 patent application, Stewart and Moyer each filed through counsel a Declaration Under 37 C.F.R. § 1.131, dated January 6, 2006, to establish dates they conceived and reduced to practice their invention and subject matter claimed in the '283 patent application. On February 27, 2006, in connection with prosecution [*6] of the '425 patent application, Stewart and Moyer each filed through counsel a Declaration Under 37 C.F.R. § 1.131, dated February 14, 2006, to establish dates that they conceived and reduced to practice their invention and subject matter claimed in the '425 application. The Stewart and Moyer declarations filed in the '283 patent application are identical in substance. The Stewart and Moyer declarations filed in the '425 patent application are identical in substance to their declarations in the '283 patent application.

Prior to June 30, 2000, Moyer and Stewart conceived the design of a medical label sheet containing wristband labels of different sizes for application to medical identification wristbands. To incorporate their idea, Moyer and Stewart developed a label sheet which they referenced as the 20-101 label sheet. (Pl. Ex. 4.)

All 20-101 label sheets designed and sold by PHG embody, fall within the scope of, or are made in accordance with, each claimed design of the '405 and '197 patents. The 20-101 label sheet is shown in Figures 1 and 5 of the '425 patent application and the '283 patent application. The 20-101 label sheet is also shown in Figure 1 [*7] of the '405 patent and in Figures 1 and 2 of the '197 design patent.

In 2000, PHG was a small company with approximately five employees. PHG did not have the capability to manufacture laser label sheets. The design shown in the '405 and '197 patents and reduced to practice in the 20-101 label sheet originated from Moyer's attempts to arrange for the manufacture of a different medical label sheet.

On June 13, 2000, Moyer sent a letter to Dennis Shelton of Ward/Kraft, Inc., enclosing "a sample of the label stock we are interested in you manufacturing for us." (Pl. Ex. 14.) The label stock that Moyer enclosed was LaserBand's PLS-103, which PHG had been purchasing from LaserBand and re-selling to PHG's custom-

ers. (Pl. Ex. 2.) The PLS-103 was itself derived from Continental Data's 2610. (Pl. Ex. 1.) With regard to the PLS-103, Moyer explained to Shelton that "[w]e want to change the last row of labels to measure .75" x 3.75". You will notice that a pattern adhesive is currently being used around all edges and holes." A rough outline of the design Moyer requested is shown in Plaintiff's Exhibit 17. On June 20, 2000, Moyer sent a nearly identical letter to Nicole Martin of Avery Dennison. [*8] (Pl. Ex. 15.) In both of the letters sent to Ward/Kraft and Avery Dennison, Moyer stated: "I am interested in pricing and lead-time for samples and production runs." On June 21, 2000, Ward/Kraft responded with Quotation No. LR 22966. (Pl. Ex. 18.)

In the meantime, Moyer and Stewart changed their design to the one ultimately shown in the '405 and '197 design patents. On June 20, 2000, Moyer sent a second letter to Martin at Avery Dennison attaching "a new layout for the custom labels we are looking for. The top and bottom margins are both smaller than the previous sample I sent." (Pl. Ex. 19.) Avery Dennison responded with Quote Number B8N0683, on June 26, 2000. (Pl. Ex. 16.)

On June 30, 2000, Moyer sent a similar second letter to Shelton at Ward/Kraft, and asked Shelton to let Moyer "know if there is any change to your previous quote." (Pl. Ex. 20.) After Moyer sent the June 30th letter, he had telephone calls with representatives of Ward/Kraft. Moyer received an oral, not a written, quotation for the manufacture of 4,000 label sheets (four boxes of 1,000 sheets each), using the 20-101 design, at a specified price per box. According to PHG, many terms were not discussed.

Thus, by [*9] June 30, 2000, Moyer had disclosed to Ward/Kraft and Avery Dennison the 20-101 label sheet configuration with hole punches on the top and left margins, which is the design shown in the '405 patent. Moyer was acting for PHG when he made the disclosures. Since June 30, 2000, the 20-101 label design has not changed. According to PHG, Moyer made the disclosures to Ward/Kraft and Avery Dennison with the expectation of confidentiality for the purpose of fabricating samples of the label sheet for testing by PHG. (Docket Entry No. 124, Ex. A, Moyer Depo. at 52 (under seal).)

On June 30, 2000, PHG ordered a die cut of the 20-101 design from Ward/Kraft. By ordering the die cut, PHG authorized Ward/Kraft to have the tool made which would produce label sheets in accordance with the design shown in the '405 and '197 patents. Again, according to PHG, the die cut was ordered for the purpose of fabricating samples of the label sheet for testing by PHG. Pricing for the test product run "was a whole different pricing structure" because of the small quantity desired. (Docket Entry No. 125, Ex. B, Moyer Depo. at 26.)

On July 10, 2000, Ward/Kraft sent PHG an invoice for the 4,000 label sheets (referencing [*10] Order Number LR-626303-01), which were scheduled for shipping on August 24, 2000. (Pl. Ex. 21.) The design of the label sheets is identical to the design claimed in the '405 patent. The price Ward/Kraft charged per box was much higher than what PHG would expect to pay for product marketed to customers, and the 4,000 quantity was lower than an expected production run of 100,000 sheets or more. PHG received the 4,000 label sheets in the week preceding August 24, 2000.

At its office, PHG tested the label sheets by running approximately 800 of them at high speed through four different laser printers ordinarily used by PHG's customers. PHG identified several problems with the label sheets. Moyer listed his concerns in a memorandum to Roger Davis at Ward/Kraft on August 24, 2000. (Pl. Ex. 22.) These concerns included such things as hole punch residue, sheets that were not punched through, wrinkling around hole punches, adhesive at the edge of hole punches which endangered the proper operation of the laser printers, toner smudging, and paper jams. Mover admitted that all of his concerns related to the function of the 20-101. PHG did not make any comments or complaints about the layout or [*11] design of the 20-101 label sheet; PHG did not test consumer acceptance of the design, but rather whether the product would run well in laser printers. No one outside PHG saw the sample labels. (Docket Entry No. 125, Ex. B, Moyer Depo. at 32.) The design of the label sheets did not change as a result of the testing. PHG paid Ward/Kraft a portion of the amount invoiced for the 4,000 label sheets, (Pl. Ex. 23), and destroyed the remainder of the label sheets.

On August 25, 2000, Ward/Kraft provided PHG with Quotation No. LR23229 for 1,000 to 2,000 boxes of a label sheet containing "30 cavities." (Pl. Ex. 24.) The quotation stated in part: "Price is based on producing, shipping & billing in one release . . . This is a reorder of LR626303 with a change of facestock. Price includes a change to slightly wider paper which should address concern # 3 of your memo." The quotation also provided: "Any changes in specifications will alter these 'net' prices. All quotes are good for 60 days and subject to credit approval at time of order."

On August 28, 2000, Moyer sent a letter to Shelton at Ward/Kraft which began: "The purpose of this letter is to state the intention of phgtechnologies to purchase [*12] at least 1000 cases of labels at the price specified in your quotation No. LR23229. This purchase is contingent upon a successful manufacturing run resulting in labels that address the deficiencies outlined in my memo dated 8/28/00." n2 (Pl. Ex. 25.) The letter further stated:

> We are completely committed to this new label design, and have been for several months. We have a new software product designed specifically for this label, an existing customer base ready to start using them and new distributors and customers waiting for the labels to arrive.
>
> Please keep me posted with the status of the next test run. . . . I believe this can be a profitable venture for both companies, but it is imperative that we get a sellable product as soon as possible.

(Id.) In reliance on this letter, Ward/Kraft invested thousands of dollars to purchase new equipment needed to produce the 20-101 to PHG's specifications. (Docket Entry No. 125, Ex. B, Moyer Depo. at 38.)

> n2 Moyer testified this date should have read 8/24/00.

[*13]

On September 5, 2000, Ward/Kraft acknowledged a rush order from PHG for 4,000 of the 20-101 label sheets, with a scheduled ship date of September 20, 2000. (Order Number LR-627705-01). (Pl. Ex. 26.) This order acknowledgment was not based on any previous written quotation, but was drawn from oral discussion of the fabrication. According to PHG, this order was also placed to fabricate samples for PHG to test. Ward/Kraft's acknowledgment specifically stated: "THIS IS A 2nd TEST RUN WITH VACUUM DIE." The price per box was the same as that PHG paid previously.

In an e-mail dated September 13, 2000, Davis of Ward/Kraft told Moyer: "I got your message. We have ordered the special die for the hole-punching and it is supposed to ship on Friday[.]" (Pl. Ex. 36.) Davis promised to keep Moyer posted and to firm up a ship date for the 20-101 label sheets. Moyer wrote in a reply e-mail: "I have a meeting scheduled on the 26th in Nashville with several of our largest customers to talk about the new product. I selected the 26th because I thought we would have the next test run to show. Can you meet that deadline?" (Id.) Davis assured Moyer that Ward/Kraft would do its best to meet the deadline [*14] and "we should at the very least be able to ship 1 or 2 cartons on Monday, September 25th NDA." (Id.) At the preliminary injunction hearing, Moyer admitted that he did not have a meeting of his largest customers set up for September 26; rather, he had a meeting with a customer to explain the use and installation of software. Moyer hoped to have the second test run samples in hand and tested by that time. (Moyer Aff. PP 4-8.) Moyer stated he made the statement about the September 26 meeting in an attempt to induce Ward/Kraft to speed up the manufacturing process of the 20-101 labels. According to PHG, the second order for 4,000 labels also constituted fabrication of samples for a test run. PHG did not intend to sell the samples to any customer, and PHG did not sell or show the samples to any customer. (Moyer Aff. PP 4-8; Pl. Ex. 27.)

PHG did not receive the second run of 4,000 labels under Order Number LR-627705-01 until October 10, 2000. Ward/Kraft sent PHG an invoice for the second run. (Pl. Ex. 37.) PHG paid Ward/Kraft the full price billed for the second run. (Pl. Ex. 33.)

PHG tested the second run of 20-101 label sheets and did not identify any problems with their manufacture. [*15] PHG placed a production order with Ward/Kraft for 100,000 label sheets on October 18, 2000. (Pl. Ex. 28; Docket Entry No. 125, Ex. B, Moyer Depo. at 54.) The same day, PHG ordered an additional 20,000 20-101 label sheets with a higher quality face stock, to be used for marketing purposes. (Pl. Exs. 29, 34.) Ward/Kraft did not issue a quotation for the production and marketing runs; instead, Ward/Kraft issued an Order Acknowledgment on or about October 18, 2000.

PHG first sold 20-101 label sheets to a customer, Russell County Medical Center, on November 8, 2000. (Pl. Ex. 31.) Also on November 8, 2000, PHG purchased quantities of the TabBand wristband, which is used in conjunction with the 20-101 labels. (Pl. Ex. 32.) With a minor price adjustment due to calculation error, PHG paid Ward/Kraft for the 100,000 and 20,000 label runs. (Pl. Exs. 33, 35, 38, 39, 40.) Despite e-mail communications in October 2000 about selling the 20-101 to Province Healthcare, (Pl. Ex. 30), PHG did not sell any label sheets embodying the patented design to Province Healthcare until January 2001.

PHG asserts that it spent a significant amount of money to create and promote the 20-101 label sheet and associated [*16] products in the United States and thereby achieved substantial sales of the products. PHG claims that the 20-101 has achieved widespread and favorable public acceptance, recognition and goodwill and has become distinctive in the industry.

At the bottom of the 20-101, the following is printed: "U.S. Patent D496,405: D503,197; Other Patents Pending EasyID[.]" (Pl. Ex. 4.) Stewart testified this information gives the public notice of PHG's patent rights. Moreover, PHG took steps to keep manufacturers like Ward/Kraft and Avery Dennison from copying the 20-101.

In June 2001, Gary Duffett, an Avery Dennison representative, assured PHG in a letter that "[i]n consideration of Avery Dennison becoming your Primary Laser Label Vendor, we agree to "Protect" your Patent Pending product design for this product [the 20-101] from being used by us for any other customer unless we have received specific written authorization to do so from you." (Pl. Ex. 8.) According to Stewart, Duffett failed to abide by the confidentiality agreement, and Avery Dennison produced similar product for LaserBand without asking PHG's permission to do so.

According to the testimony given at the preliminary injunction [*17] hearing by TimeMed Chief Operating Officer and Executive Vice President, Michael Casale, TimeMed began manufacturing and selling its accused product, TM-ADMIT-EID (Pl. Exs. 6 & 42) in 2003, unaware that PHG had any patents pending on the design embodied in the 20-101. TimeMed's accused product is very similar to PHG's 20-101 (Pl. Ex. 4), except that TimeMed's label sheet has four slightly rounded corners (while the 20-101 has square corners) and there is a die cut around the perimeter of TimeMed's 8 1/2 x 11"-inch sheet that is not present on the 20-101. These two features of TimeMed's accused product are not shown in PHG's '405 and '197 design patents. Casale frankly admitted that TimeMed willfully copied the distinctive features of PHG's 20-101 label sheet design, and that TimeMed markets its competing product at hospitals which have installed PHG's patient identification software, fully intending that the hospital will use TimeMed's label product rather than PHG's. (Pl. Ex. 43.)

On August 29, 2003, PHG's counsel sent a letter to TimeMed notifying it of PHG's pending patent applications and requesting that TimeMed immediately cease and desist from manufacturing, using, selling, [*18] or offering to sell TimeMed's accused product. (Pl. Ex. 9.) TimeMed referred the letter to counsel, who sent a reply to PHG's counsel and requested certain information from PHG. (Pl. Ex. 10.) When no information was forthcoming, TimeMed continued to sell its accused product.

On April 26, 2004, PHG's counsel wrote to TimeMed's counsel to give notice that the U.S. Patent and Trademark Office had issued a "notice of allowance" with regard to PHG's design patent application. (Pl. Ex. 11.) The letter encouraged counsel to make contact to discuss any interest TimeMed might have in obtaining a license to make and/or distribute PHG's medical label sheets. According to Casale, by 2004 TimeMed had established a market for its accused product, TimeMed felt PHG's design patents could not be defended, and thus, TimeMed willfully continued selling its accused product.

On December 30, 2005, PHG's counsel sent another cease-and-desist letter to TimeMed informing it of PHG's patent rights and of this Court's entry of a preliminary injunction against another alleged infringer. (Pl. Ex. 12.) The letter did not include any reference to TimeMed obtaining a license. n3 TimeMed continued to sell its allegedly [*19] infringing product.

> n3 The Court notes that PHG was represented by a different law firm on each occasion when a letter was sent to TimeMed or its counsel. PHG claims that at least some of the delay in bringing this action and seeking injunctive relief can be attributed to necessary changes in representation by counsel.

Casale testified TimeMed, which conducts business with numerous hospitals in the United States, has been selling its competing product for three years and TimeMed has attained substantial sales of its product which has in turn generated substantial revenue. n4 The average sale price per box of TimeMed's accused product is substantially lower than PHG's price. Casale testified that the imposition of an injunction would cause hardship for TimeMed and damage to its integrity in the marketplace because TimeMed does not harbor any intent to commit an illegal act -- that is, infringement of PHG's design patents. Although it appears there is some business relationship between TimeMed and LaserBand, TimeMed [*20] does not purchase any of its accused product from LaserBand, but rather manufactures the product in-house.

> n4 Because the relevant portion of Casale's testimony is under seal as "highly confidential" under the Protective Order entered in this case, the Court will not state in its opinion the specifics concerning TimeMed's sales of, and revenues from, its accused product.

LaserBand's accused product, the PLS-303X (Pl. Ex. 7), was designed in May 2005 and manufactured shortly thereafter by Avery Dennison for LaserBand and its related company, Riley, Barnard and O'Connell ("RB&O"). n5 (Pl. Exs. 44, 45 & 46.) One of RB&O's largest customers, St. Louis University Hospital, utilized PHG's EasyID software and approached RB&O with samples of Holden Graphic's product and PHG's patent-pending product and asked if a similar label sheet could be produced. LaserBand sent the matter to patent counsel for advice. LaserBand then devised a different label sheet, the PLS-303X, which, according to Sanjay Jain, is not ornamentally [*21] the same as the 20-101. LaserBand's accused product is similar to PHG's 20-101, except that the PLS-303X has rounded corners on the outer

edges of the top 27 labels (three columns of nine rows), as well as rounded corners at the outer edges of the bottom two rows of labels. The PLS-303X also omits a die cut which would form another small label at the bottom left-hand corner of the sheet, as appears on the 20-101. n6 LaserBand's accused product is imprinted with "PLS-303X" in blue ink at the bottom right-hand corner and the art date at the upper right-hand corner; these features are, according to Jain, part of LaserBand's distinctive trade dress. Thomas Stewart testified that, in his opinion, an ordinary consumer of the 20-101 would be confused by the PLS-303X.

N5 James M. Riley is founder, principal owner, and Chairman of LaserBand, a limited liability company located in Missouri. His partner, Sanjay Jain, is LaserBand's President and Chief Executive Officer.

Riley is also founder, principal owner, and President of RB&O, an established St. Louis, Missouri company which designs and distributes business forms and labels.

[*22]

n6 At the preliminary injunction hearing held in PHG Technologies v. The St. John Companies, Civ. No. 05-0630, on November 22, 2005, Moyer testified that the design depicted in the '405 and '197 patents would be altered, and in fact, destroyed if one "were to erase some of those labels that are depicted in [the] design[.]" (Def. Ex. 4.)

Although LaserBand posted the PLS-303X on its Internet website for three months in 2005, no one contacted LaserBand about purchasing the product as a result of the Internet posting, and LaserBand removed the product from its website after receiving notification of potential infringement from PHG's counsel. LaserBand's sales of the PLS-303X constitute a very small portion of LaserBand's total sales revenue. LaserBand's total sales revenue for all products it sells is higher than PHG's total sales revenue, but lower than RB&O's, which is lower than TimeMed's. n7

n7 Again, in view of the Protective Order, the Court will not include in its opinion any detail about LaserBand's gross sales revenue.

[*23]

According to Jain, LaserBand offered employment to Gary Duffett, a former Avery Dennison employee, in January 2006 and he started work with LaserBand in March 2006. LaserBand had long before finished its design of the PLS-303X. While still employed at Avery Dennison, Duffett accepted an order from LaserBand for the manufacture of the PLS-303X, but Duffett was not involved in the design of the PLS-303X while he was employed at Avery Dennison and selling the 20-101 to PHG. Avery Dennison filled three or four orders for the PLS-303X for LaserBand and then, because of production backlog at Avery Dennison, LaserBand moved its business for the PLS-303X to Ward/Kraft.

Jim Riley testified that, based on his lengthy and extensive experience in the industry, Ward/Kraft's quotations to PHG constituted an offer to sell the 20-101, the parties could base their sales price on the quotation, and further negotiation was not needed to consummate an agreement. According to Riley, Ward/Kraft determined the materials and dies needed to manufacture the labels, it calculated necessary equipment time, and it produced a cost estimate set forth in the quotation to which it would consider itself bound and [*24] upon which PHG could rely.

Riley also testified that, even though hole punches were part of the prior art before he designed the PLS-103 in 1996 or 1997, (Pl. Exs. 47-53), none of the hole punches seen in the prior art were in the same configuration as the five- and seven-hole punches used in the PLS-103, which was novel at the time he created it.

PHG initially sued The St. John Companies in a related case before this Court, No. 3:05-0630, believing that St. John was causing the most serious infringement of PHG's design patents. Stewart testified that PHG delayed in filing that complaint and seeking preliminary injunctive relief due to a change in counsel and for the period of time needed to research the cost of litigation. After this Court entered a preliminary injunction in PHG's favor against The St. John Companies on December 5, 2005, PHG learned TimeMed was a more serious infringer, and PHG then filed this case against TimeMed, LaserBand and Holden Graphics on December 30, 2005. When settlement negotiations broke down between April and June 2006, PHG filed the instant motion for a preliminary injunction against TimeMed and LaserBand on May 5, 2006.

According to Stewart and [*25] Moyer, PHG is a small company, it depends on a sales force of only two or three people to increase business, and PHG has suffered and will continue to suffer irreparable harm because of TimeMed's and LaserBand's sales of their competing products. Stewart and Moyer testified that PHG has lost sales and profits that would be made from those sales; the marketplace for PHG's patented product has eroded severely, impacting the price PHG can command

for its patented product; PHG's business relationships with customers and potential customers have been detrimentally affected; and PHG has lost the opportunity to expand its sales lines. Without going into detail in this opinion about highly confidential business information disclosed at the hearing, Stewart and Moyer testified that PHG's marketing strategy and long-term business planning have been seriously impacted by the sales of TimeMed's and LaserBand's competing products. PHG did not present any direct evidence that TimeMed's and LaserBand's products have confused PHG customers.

II. STANDARDS OF REVIEW

[HN1] Whether to grant a preliminary injunction under 35 U.S.C. §§ 283 is within the Court's discretion. Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1579 (Fed. Cir. 1983). [*26] In determining whether PHG has established a right to preliminary injunctive relief, the Court must consider four factors: (1) whether PHG has sufficiently established a reasonable likelihood of success on the merits; (2) whether PHG would suffer irreparable harm if the injunction were not granted; (3) whether the balance of hardships tips in PHG's favor; and (4) the impact, if any, of the injunction on the public interest. See Hybritech Inc. v. Abbott Lab., 849 F.2d 1446, 1451 (Fed. Cir. 1988). The Court must weigh and assess each factor against the others and against the form and magnitude of the relief requested. Id. Although the Federal Circuit has cautioned that a preliminary injunction is a drastic and extraordinary remedy that should not be routinely granted, Nutrition 21 v. United States, 930 F.2d 867, 869 (Fed. Cir. 1991), the court subsequently explained that injunctive relief is not meant to be rare or practically unattainable. Rather, injunctive relief "must be thoroughly justified[,]" and it cannot be granted as a matter of right. Polymer Technologies, Inc. v. Bridwell, 103 F.3d 970, 977 (Fed. Cir. 1996).

[HN2] TimeMed [*27] and LaserBand may succeed in defeating the motion for a preliminary injunction if each raises a substantial question of patent invalidity. See Amazon.com, Inc. v. BarnesandNoble.com, Inc., 239 F.3d 1343, 1358 (Fed. Cir. 2001). The Defendants need not produce the clear and convincing evidence of patent invalidity that would be required at trial. Id. at 1359. Instead, they must show only that PHG's design patents are vulnerable to a validity challenge. Id.

[HN3] To prevail on the motion for summary judgment on the ground of patent invalidity, however, TimeMed and LaserBand "must demonstrate a lack of genuine dispute about material facts and show that the facts not in dispute are clear and convincing in demonstrating invalidity." Id. On summary judgment, the Court must take the facts in the light most favorable to PHG and determine whether TimeMed and LaserBand are entitled to judgment on patent invalidity as a matter of law. See Anderson v. Liberty Lobby, 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986); Continental Plastic Containers v. Owens Brockway Plastic Prods., Inc., 141 F.3d 1073, 1076-1077 (Fed. Cir. 1998).

III. ANALYSIS [*28]

A. The motion for summary judgment

[HN4] Title 35 U.S.C. § 102(b) provides: "A person shall be entitled to a patent unless . . . the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States[.]" Whether a particular activity raises the on-sale bar is a question of law based on the underlying factual considerations. Dana Corp. v. American Axle & Mfg., Inc., 279 F.3d 1372, 1375 (Fed. Cir. 2002).

Under Pfaff v. Wells Elecs., 525 U.S. 55, 67, 119 S. Ct. 304, 142 L. Ed. 2d 261 (1998), [HN5] the on-sale bar applies when two conditions are satisfied before the critical date: (1) the product is "the subject of a commercial offer for sale" and (2) the invention is ready for patenting either by having the invention reduced to practice or by preparing drawings or other descriptions of the invention that would enable one skilled in the art to practice the invention. The purpose of the on-sale bar is to encourage inventors to seek a patent promptly so as not to prolong the statutory right of exclusivity given to a patentee, Woodland Trust v. Flowertree Nursery, Inc., 148 F.3d 1368, 1370 (Fed. Cir. 1998), [*29] and a single sale or offer to sell is enough to trigger the on-sale bar. Intel Corp. v. United States Int'l Trade Comm'n, 946 F.2d 821, 830 (Fed. Cir. 1991).

Sales by suppliers and other third parties to the patentee qualify as sales under the first prong of the Pfaff test when the transaction is between separate entities. Special Devices, Inc. v. OEA, Inc., 270 F.3d 1353, 1355 (Fed. Cir. 2001)(holding "neither the statutory text, nor precedent nor the primary purpose of the on-sale bar allows" grant of patentee's request to adopt an exception to the on-sale bar for patentee-supplier, sales). In other words, section 102(b) does not require the patentee to make a sale to a consumer to satisfy the first prong of the Pfaff test. "[I]t only matters that someone -- inventor, supplier or third party -- placed it on sale." Id.

[HN6] Because a patent is presumptively valid, see 35 U.S.C. § 282, an accused infringer must demonstrate by clear and convincing evidence that there was a definite sale or offer to sell more than one year before application for the patent and that the subject matter of the sale or offer to sell [*30] fully anticipated the claimed invention. Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1045-1046 (Fed. Cir. 2001).

1. "The subject of a commercial offer for sale"

[HN7] "Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." Group One, Ltd., 254 F.3d at 1048. See also Linear Technology Corp. v. Micrel, Inc., 275 F.3d 1040, 1050 (Fed. Cir. 2002)("An offer is the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it."). In any situation, determining who is the offeror and what constitutes a definite offer, requires examination of the language of the proposal itself. Id. "Language suggesting a legal offer, such as 'I offer' or 'I promise' can be contrasted with language suggesting more preliminary negotiations, such as 'I quote' or 'are you interested.'" Id. Put another way, a commercial "sale" occurs when the parties offer or agree [*31] to reach a contract to give and pass rights of property for consideration which the buyer pays or promises to pay the seller for the thing bought or sold. Special Devices, Inc., 270 F.3d at 1355.

Defendants first contend that the patented design was "on sale" as of June 30, 2000, when Ward/Kraft offered to manufacture for PHG an initial quantity of 4,000 label sheets which embodied the 20-101 design. This is the same design which later became the subject of the '405 and '197 patents.

In response, PHG points out that Moyer did not receive a written quotation from Ward/Kraft on that date and notes that Moyer testified about the June 30 price quote as follows:

> [W]e started talking about some test product run, and that was a whole different pricing structure because we were talking very small quantities. And that was a requirement of ours to be able to get some test product in and make sure they were able to produce this and that it met our specifications.

(Moyer Depo. II at 26:10-19.) TimeMed has not identified any other evidence to establish that the quotation was a commercial offer for sale.

The Court concludes that, as of June 30, 2000, Ward/Kraft [*32] and PHG were in preliminary negotiations about the prospect of manufacturing one or more test runs of the 20-101 to allow PHG to determine if Ward/Kraft could produce the product to PHG's specifications. Earlier, on June 13, 2000, Moyer sent a letter to Ward/Kraft enclosing "a sample of the label stock we are interested in you manufacturing for us." (Pl. Ex. 14.) Moyer also stated: "I am interested in pricing and lead-time for samples and production runs." This letter was a request for information.

On June 21, 2000, Ward/Kraft responded with a written quotation, No. LR 22966, proposing to manufacture quantities of 100,000 and higher. (Pl. Ex. 18.) However, Moyer did not act on that quotation because, in the meantime, PHG arrived at a different label design -- the one eventually patented. On June 30, 2000, Moyer provided the new design to Ward/Kraft and asked whether "there is any change to your previous quote." (Pl. Ex. 20.) Thereafter, Moyer talked with Ward/Kraft representatives by telephone and received an oral quotation for the manufacture of four boxes (4,000 label sheets) at a specific price per box. The same day, Moyer authorized Ward/Kraft to obtain the die cut for the 20-101 design. [*33] But there is no other evidence before the Court confirming that PHG and Ward/Kraft reached a contract for the manufacture of 4,000 label sheets at a set price per box on June 30, 2000. See Special Devices, Inc., 270 F.3d at 1355; Linear Technology Corp., 275 F.3d at 1040 (communications cannot be considered offers because they do not indicate party's intent to be bound, as required for valid offer).

Defendants next contend the patented design was on sale by July 10, 2000, when Ward/Kraft accepted PHG's order for the manufacture of 4,000 label sheets embodying the 20-101 design at the set price the parties discussed previously. (Pl. Ex. 21.) PHG does not directly address TimeMed's argument that a contract for sale was formed on July 10, 2000. (Docket Entry No. 134-2, Memorandum at 10 n.2.) PHG responds that "the analysis of this fact" should be addressed under the Brasseler "small inventor" exception.

In Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 182 F.3d 888, 891-892 (Fed. Cir. 1999), the Federal Circuit affirmed a judgment of patent invalidity where the inventors commercially exploited the invention before the critical [*34] date through the sale of over 3,000 surgical saw blades embodying the invention set forth in the claims of a utility patent. In so holding, the court stated:

> This is not a case in which an individual inventor takes a design to a fabricator and pays the fabricator for its services in fabricating a few sample products. Here DS Manufacturing made a large number of the agreed-upon product for general marketing by Brasseler. The transaction was

> invoiced as a sale of product, and the parties understood the transaction to be such.

Id. at 891.

PHG contends that it falls within this Brasseler exception: it took the design to a fabricator, Ward/Kraft, and paid Ward/Kraft for its services in fabricating a reasonable number of sample label sheets. As shown by the PHG-Ward/Kraft documents, although larger production runs were discussed and contemplated in the summer of 2000, both PHG and Ward/Kraft understood that the first samples were fabricated as "test runs." (Pl. Ex. 21 at 2 ("THIS IS A TEST RUN"); Pl. Ex. 22 ("Please get back to me with your thoughts and a time frame for another test run."; Pl. Ex. 28 ("Please keep me posted with the status of the next [*35] test run."; Pl. Ex. 26 at 2 ("THIS IS A 2ND TEST RUN".) The evidence shows that PHG ran the sample label sheets Ward/Kraft manufactured through various laser printers to see how the product would perform before PHG contracted with Ward/Kraft in October 2000 to mass-produce the label sheets for commercial sale to customers.

[HN8] A question the Court must address is whether the Brasseler exception applies where a design patent is at issue. In Pfaff, 525 U.S. at 67, which involved a utility patent, the inventor accepted a purchase order for the product more than one year before the critical date, and there was "no question that the sale was commercial rather than experimental in character." Thus, where the invention was also ready for patenting at that time, the issued patent was held invalid. Id. at 68-69. In explaining its reasoning, the Supreme Court stated:

> [A]n inventor who seeks to perfect his discovery may conduct extensive testing without losing his right to obtain a patent for his invention -- even if such testing occurs in the public eye. The law has long recognized the distinction between inventions put to experimental use and products [*36] sold commercially.

Pfaff, 525 U.S. at 64. The Court observed that an inventor is deprived of his right to a patent if he attempts to use his invention for profit for any longer period than one year before his patent application. Id. (relying on City of Elizabeth v. American Nicholson Pavement Co., 97 U.S. 126, 137, 24 L. Ed. 1000 (1877)). When, however, delay in obtaining a patent is caused "'by a *bona fide* effort to bring [the] invention to perfection, or to ascertain whether it will answer the purpose intended[,]" a patent may issue. Id. at 64-65 (quoting Elizabeth).

Here, Defendants contend that the principles discussed in Pfaff, referred to as experimental use negation, are inapplicable where a design patent is concerned. Defendants rely on Continental Plastic Containers v. Owens Brockway Plastic Prods., Inc., 141 F.3d 1073, 1079 (Fed. Cir. 1998)(emphasis added), in which the Federal Circuit stated that [HN9] "[e]xperimental use negation applies, in utility patent cases, if there is genuine experimentation directed to perfecting the features of the claimed invention." Experimental use cannot occur after a reduction [*37] of the invention to practice, and

> [s]ince design inventions are reduced to practice as soon as an embodiment is constructed, experimental use negation is virtually inapplicable in the design patent context. Applying experimental use negation in the design patent context would allow entities to increase the life of their design patents merely by tarrying over the production of the article of manufacture.

Id. (emphasis added). Continental nonetheless contended that, regardless of whether the design was reduced to practice, Continental was merely perfecting the functional aspects of its design and under Tone Bros., Inc. v. Sysco Corp., 28 F.3d 1192, 1199 (Fed. Cir. 1994), the sale should be subject to experimental use negation.

Like Continental, PHG also relies on Tone Bros. n8 In that case, the Federal Circuit held that "experimentation directed to functional features of a product also containing an ornamental design may negate what otherwise would be considered a public use within the meaning of section 102(b)." In that case, the patentee Tone, which processes and packages bulk herbs and spices, conceived of a new clear, plastic spice [*38] container rather than the traditional tin spice package or opaque plastic container. Id. at 1196. Tone obtained a design patent on the ornamental design for a jar or similar article as shown. Id. at 1194. At about the same time the patent application was filed, Tone began selling herbs and spices in the container. Id. The alleged infringer, Sysco, began using a similar container when its private label arrangement with Tone ended. Id.

> n8 In the reply in support of the motion for preliminary injunction, PHG drops footnote 15 at page 34 of the brief suggesting the Court need not reach the issue of experimental use negation in connection with the preliminary injunction mo-

> tion, with the caveat that PHG does not waive any arguments based on Tone Bros. and Continental Plastic Containers.

The district court adopted Sysco's argument that the patented design was in public use within the meaning of § 102(b) more than a year before the patent application because Tone showed [*39] the design, embodied in a prototype container, to a group of ten college students. The prototype and two other spice containers were shown to the students to evaluate the "feel, hold and handling" of the container. Id. at 1197. In other words, "the new container was given to the students to see if it worked properly. . . . They were asked to test the functional features of the container." Id. The Federal Circuit reversed the finding of patent invalidity based on public use on the ground that the testing was not for commercial exploitation, but for the *bona fide* purpose of testing the functional features of the design. Id. at 1199.

PHG suggests the same analysis should apply in this case because PHG purchased sample label sheets from Ward/Kraft for the *bona fide* purpose of testing the functional features of the design.

In Continental Plastic Containers, 141 F.3d at 1079-1080, the Federal Circuit stated that, even if it extended Tone Bros., a "public use" case, to the "on-sale" context, there was no nexus in that case between the alleged experimentation and the sale. Continental did not sell bottles for any purpose [*40] other than commercial exploitation. Id. at 1080. The court stated:

> This is not a case in which Continental sold a discrete number of the bottles to L & A Juice so that L & A Juice might experiment on them to ascertain whether they were suitable for a particular purpose. In fact, under the terms of its supply agreement with L & A Juice, Continental was to provide as many bottles of the patented design as L & A Juice required for its retail sales. This is a clear commercial exploitation unaccompanied by any of the indicia of experimentation.

Id.

Here, by contrast, taking the facts in a light most favorable to PHG, PHG purchased a discrete number of label sheets from Ward/Kraft in July 2000, which were received in late August 2000 and were used for the sole purpose of experimentation to ascertain whether the functional aspects of the patented designs were suitable for a particular purpose. See EZ Dock, Inc. v. Schafer Sys., Inc., 276 F.3d 1347, 1352 (Fed. Cir. 2002)(noting that experimentation evidence includes tests needed to convince the inventor that the invention is capable of performing its intended purpose in its intended environment). [*41] Moyer's memorandum to Ward/Kraft dated August 24, 2000 listed the problems with the label sheets and why they were not suitable for production printing in hospitals' laser printers. PHG destroyed the remainder of the sample label sheets and did not sell them commercially to customers. Thus, TimeMed has not shown that it is entitled to summary judgment on the July 10, 2000 order for label sheets.

Next, TimeMed argues that the design was "on sale" because Ward/Kraft sent a written quotation to PHG on August 25, 2000 offering to sell PHG thousands of 20-101 labels for commercial resale to PHG's customers (Pl. Ex. 24), and PHG expressed its intent to accept that offer on August 28, 2000. (Pl. Ex. 25.) As PHG correctly points out, it is clear from Ward/Kraft's quotation that more than "simply acceptance" was required to conclude any agreement. See Group One, Ltd., 254 F.3d at 1048. The document itself was a "Quotation," and such language suggests preliminary negotiation, rather than legal offer. Id. Additionally, no specific method of payment was discussed. The quotation itself stated that it was "subject to credit approval at time of order." The method and specific [*42] time of delivery were not explicitly stated in the quotation. While the quote included two quantity and price figures, PHG did not order either quantity; rather, PHG ordered a second test run of 4,000 labels on September 5, 2000. (Pl. Ex. 26.) The quotation stated that the "price is based on producing, shipping & billing in one release," but these details were not yet negotiated. The quotation expressly stated that any changes in specifications would affect pricing and the quote was good for only sixty days. [HN10] Where the communication between the parties lacks definite terms, including quantity, time of delivery, or place of delivery, there is no offer for sale. Gemmy Indus. Corp. v. Chrisha Creations Limited, 452 F.3d 1353, 2006 WL 1703492 at * 6 (Fed. Cir. June 22, 2006); Elan Corp., PLC v. Andrx Pharms., Inc., 366 F.3d 1336, 1340-1341 (Fed. Cir. 2004).

Moreover, Moyer's August 28, 2000 letter to Ward/Kraft cannot be read as an acceptance of an offer. Moyer set forth PHG's intent at some time in the future to purchase at least 1,000 cases of labels at the price stated in the August 25 quotation, but he also made abundantly clear that "[t]his purchase [*43] is contingent upon a successful manufacturing run resulting in labels that address the deficiencies outlined in my memo dated" August 24, 2000. (Pl. Ex. 25.) He asked to be kept posted on the "next test run" and closed with the following: "I

believe this can be a profitable venture for both companies, but it is imperative that we get a sellable product as soon as possible." Because Ward/Kraft had not met the contingency to produce a sellable product, it cannot be said that Moyer's letter objectively manifested assent to an offer from Ward/Kraft to manufacture a production run of labels for commercial exploitation. See Linear Technology Corp., 275 F.3d at 1052-1053.

Finally, Defendants contend that PHG's order for 4,000 more labels for the second test run on September 5, 2000 raises the "on-sale" bar. For the same reasons stated above with regard to the first test run, the Court holds that it did not. As in Brasseler, 182 F.3d at 891, PHG took its design to a fabricator and paid the fabricator for its services in fabricating sample products. TimeMed has not produced any evidence that PHG ordered the labels for commercial exploitation.

Because TimeMed [*44] has not shown its entitlement to summary judgment by clear and convincing evidence that the patented design was the subject of a commercial offer for sale more than one year before the critical date, the Court need not address the second prong of the Pfaff test: whether the invention was ready for patenting at the time it was offered for sale. On the evidence presented, the Court concludes that TimeMed and LaserBand are not entitled to summary judgment as a matter of law, and therefore, their motions for summary judgment will be DENIED.

B. The motion for a preliminary injunction

1. PHG's likelihood of success on the merits

a. Validity of the patents

LaserBand and TimeMed first contend that PHG cannot show a reasonable likelihood of success on the merits because the '405 and '197 design patents are invalid due to the on-sale bar, as argued in their motion for summary judgment. Defendants need not produce the clear and convincing evidence of patent invalidity that would be required at trial. Amazon.com, Inc., 239 F.3d at 1359. Instead, Defendants must show only that PHG's design patents are vulnerable to a validity challenge. Id.

The [*45] Court incorporates by reference its previous analysis in this opinion concerning Defendants' motion for summary judgment. For the same reasons stated above, the Court concludes that LaserBand and TimeMed have not shown PHG's design patents are vulnerable to a validity challenge on the ground of an on-sale bar. Thus, the on-sale bar defense does not prevent PHG from obtaining injunctive relief.

Defendants next contend that PHG cannot show a reasonable likelihood of success on the merits because its design patents have not been infringed. [HN11] Whether a design patent is infringed is determined by first construing the claim to the design and then comparing it to the accused design. Elmer v. ICC Fabricating, Inc., 67 F.3d 1571, 1577 (Fed. Cir. 1995); OddzOn Prods. v. Just Toys 122 F.3d 1396, 1404 (Fed. Cir. 1997). The Court must determine whether the patented design as a whole is substantially similar in appearance to the accused design. OddzOn Prods., 122 F.3d at 1405. The patented and accused designs are compared for overall visual similarity. Elmer, 67 F.3d at 1577; Contessa Food Prods., Inc. v. Conagra, Inc., 282 F.3d 1370, 1376 (Fed. Cir. 2002). [*46]

Comparison of the patented design to the accused design involves two distinct tests, both of which must be satisfied in order to find infringement: (1) the "ordinary observer" test and (2) the "point of novelty" test. Contessa Food Prods., Inc., 282 F.3d at 1376; Payless Shoesource, Inc. v. Reebok Int'l Ltd., 998 F.2d 985, 990 (Fed. Cir. 1993); Unidynamics Corp. v. Automatic Prods. Int'l Ltd., 157 F.3d 1311, 1323 (Fed. Cir. 1998).

[HN12] The "ordinary observer" test originated in Gorham Co. v. White, 81 U.S. (14 Wall.) 511, 528, 20 L. Ed. 731 (1871):

> [I]f, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Under Gorham the focus is on the overall ornamental appearance of the claimed design, not selected ornamental features. Elmer, 67 F.3d at 1578. Proper application of the Gorham test requires that an accused design be compared to the claimed design, not [*47] to a commercial embodiment. Payless Shoesource, Inc., 998 F.2d at 990.

[HN13] The "point of novelty" test requires proof that the accused design appropriates the novelty which distinguishes the patented design from the prior art. Contessa Food Prods., Inc., 282 F.3d at 1377. Although application of the two tests may sometimes lead to the same result, it is legal error to merge the two tests, for example, by relying on the claimed overall design as the point of novelty. Contessa Food Prods., Inc., 282 F.3d at 1377. The focus of the "point of novelty" test is on those aspects of the patented design that make it different from prior art. Id. The ultimate question is whether the effect of the accused design viewed as a whole is substantially

the same as the patented design. Payless Shoesource, Inc., 998 F.2d at 991.

PHG's claim in the '405 patent is the "ornamental design for the medical label sheet, as shown." (Pl. Ex. 3.) Figures 1 and 2 show the front view and front perspective view of the Medical Label Sheet. Figures 3, 5 and 6 show three alternative embodiments of the Medical Label Sheet. PHG's claim in the '197 patent [*48] is the "ornamental design for a label pattern for a medical label sheet, as shown." (Pl. Ex. 5.) Figures 1 and 2 show the front view and front perspective view of the label pattern for a medical label sheet. As to both patents, PHG identifies the ornamental features of its design as the size and the placement of labels on the medical label sheet.

The Court must compare the overall design of LaserBand's and TimeMed's medical label sheets to the ornamental depiction claimed in PHG's design patents. When compared, TimeMed's accused design (Pl. Ex. 6) is nearly identical to PHG's patented design. The only differences in TimeMed's design are that the outer four label corners are round, not square, and in the embodiment of the design, there is a die cut around the perimeter of the label sheet that is not present in PHG's 20-101. An ordinary observer would be required to look very closely at TimeMed's design to spot the four rounded corners. Other than the four rounded corners, an ordinary observer would be unable to identify any other differences in TimeMed's design and PHG's patented design. The Court is to compare the accused design to the claimed design; the Court is not to compare the [*49] claimed design to TimeMed's commercial embodiment, which includes the perimeter die cut. The same configuration of hole punches as shown in the '405 patent at the top and left side of the patented label sheet is found in TimeMed's design as well. TimeMed's design also appropriates the novelty of PHG's patented design which distinguishes it from the prior art, that is, the different sizes of labels in the bottom two rows and their placement on the sheet. See Contessa Food Prods., Inc., 282 F.3d at 1377. Thus, PHG likely will be able to show that TimeMed's design infringes on PHG's patented design.

The Court next compares LaserBand's overall design to the ornamental depiction claimed in PHG's design patents. LaserBand's accused design (Pl. Ex. 7) is very similar to PHG's patented design, except that LaserBand's has rounded upper right and left corners, as well as rounded corners at the outer edges of the bottom two rows of labels. LaserBand's design omits a small cavity at the bottom left-hand corner of the design, which is claimed in PHG's patented design.

LaserBand contends Moyer admitted under oath that the removal of a label cavity claimed in the '405 and '197 patents [*50] would alter and, in fact, destroy the patented design. (Civ. No. 05-0630, Nov. 22, 2005 Prelim. Inj. Hr'g Tr. at 76.) The Court finds, however, that Moyer was asked if his design would be altered or destroyed "if you were to erase some of those labels that are depicted in your design, would that change your design?" To this question, Moyer answered "Yes, it would." (Id.)

LaserBand's design "erases" only one small label at the lower left corner of the design, and this distinction could be readily missed by an ordinary observer. [HN14] Slight variations between the claimed design and the accused design do not prevent a finding of infringement where the overall effect of the design is substantially the same. Payless Shoesource Inc., 998 F.2d at 991; Litton Sys., Inc. v. Whirlpool Corp., 728 F.2d 1423, 1444 (Fed. Cir. 1984)("Minor differences between a patented design and an accused article's design cannot, and shall not, prevent a finding of infringement."); American Standard, Inc. v. Lyons Indus., Inc., 1998 U.S. Dist. LEXIS 22882 at *27 (D. N.J. 1998)("That Lyons' sinks do not also contain several other purported points of novelty [*51] is irrelevant."). Making an overall comparison of the designs, the Court concludes that LaserBand's and PHG's designs are substantially the same and the resemblance is such as to deceive an ordinary observer who gives such attention as a purchaser usually gives. See Gorham Co., 81 U.S. at 528.

LaserBand relies on this Court's previous notation in a prior opinion that Avery Dennison, one of the largest label sheet manufacturers in North America, agreed to manufacture the PLS-303X for LaserBand because it was materially different from PHG's 20-101. In its prior opinion, the Court did not make a finding that the PLS-303X was materially different from PHG's 20-101. The Court merely stated the fact that Avery Dennison agreed to manufacture the PLS-303X because *it believed* the PLS-303X was materially different from PHG's 20-101. As a large manufacturer of label sheets, Avery Dennison would be expected to discern small differences between label sheets submitted to it for manufacture. An ordinary observer, however, giving such attention as a purchaser usually gives, could understandably confuse LaserBand's design for PHG's patented design. In addition, Avery Dennison [*52] may have recognized a self-interest in not admitting that it knowingly manufactured a patented label product for a competitor of the patent owner without obtaining consent to do so.

LaserBand's design appropriates the. novelty of PHG's patented design which distinguishes it from the prior art, that is, all but one of the different sizes of labels in the. bottom two rows and their placement in the design. See Contessa Food Prods., Inc., 282 F.3d at 1377. Omission of the small label from the lower left corner is of minimal importance where LaserBand appropriated the same sizes of adult and pediatric wristband labels and

their placements within the overall design. See Payless Shoesource Inc., 998 F.2d at 991. The fact that LaserBand's accused product is imprinted with "PLS-303X" in blue ink at the bottom right-hand corner and the art date at the upper right-hand corner is not relevant to the Court's analysis in comparing the overall designs of the label sheets. Thus, PHG likely will be able to show that LaserBand's design infringes on PHG's patented design.

LaserBand and TimeMed next contend that the patents-in-suit are invalid because the design is [*53] functional; that is, the design functions only with PHG's EasyID(R) software having a particular print template. Defendants rely on Best Lock Corp. v. Ilco Unican Corp., 94 F.3d 1563, 1565-1566 (Fed. Cir. 1996), where the court held a design patent was invalid because Best Lock's key blade was not a matter of ornamental concern to the purchaser or user and because the shape of the blank key blade was dictated by its function.

Citing other cases, the court noted in Best Lock, however, that a "design is not dictated solely by its function when alternative designs for the article of manufacture are available." Id. at 1566. This Court previously held in granting a preliminary injunction in favor of PHG against The St. John Companies that PHG's design is not solely dictated by its function because there were alternative designs available for the article of manufacture. Moyer and Stewart testified that they arrived at this particular design because it had the "best flow and look." It seems reasonable to believe that PHG could change its software to print to a different design of medical label sheets if it wanted to do so. Also, the evidence shows that [*54] at least some of PHG's customers use the 20-101 label sheet without simultaneous use of PHG's protected software. Thus, the Court concludes that Best Lock does not control this case.

Finally, with regard to PHG's likelihood of success on the merits, Defendants contend the patents are unenforceable due to PHG's inequitable conduct in failing to submit to the U.S. Patent and Trademark Office ("PTO") the closest prior art to the patented designs, the PLS-103. See 37 C.F.R. § 1.56; Molins PLC v. Textron, Inc., 48 F.3d 1172, 1178 (Fed. Cir. 1995)("Inequitable conduct includes affirmative misrepresentation of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive.") [HN15] A party alleging inequitable conduct arising from a failure to disclose prior art must offer clear and convincing proof of the materiality of the prior art, knowledge chargeable to the applicant of that prior art and of its materiality, and the applicant's failure to disclose the prior art, coupled with an intent to mislead the PTO. FMC Corp. v. Manitowoc Co., 835 F.2d 1411, 1415 (Fed. Cir. 1987). [*55] "[M]ateriality does not presume intent, which is a separate and essential component of inequitable conduct." Allen Organ Co. v. Kimball Int'l, Inc., 839 F.2d 1556, 1567 (Fed. Cir. 1988).

Even if the Court assumes that the PLS-103 was material to PHG's design patent applications, at. this point in the litigation Defendants have not come forward with clear and convincing proof that PHG, acting through its principals, Moyer and Stewart, intended to deceive the PTO. Moyer testified at the recent hearing before the Court that he, Stewart, and patent counsel reviewed all label forms, including the PLS-102, the PLS-103, and the 2610, before filing PHG's patent applications, that he and Stewart relied on the advice of patent counsel, and that he did not recall what the three discussed concerning documents that should be submitted to the PTO. Defendants have not presented any contradictory evidence to show clearly and convincingly that PHG intended to deceive the PTO. n9

> n9 PHG contends the PLS-103 would have been cumulative to information already of record at the PTO, and PHG moves the Court to take judicial notice of the prior art references considered by the patent examiner. (Docket Entry No. 135.) The motion will be DENIED. The Court need not dwell on the materiality issue in light of its ruling that the present record lacks clear and convincing proof of PHG's intent to deceive the PTO. Further, PHG introduced some of the prior art references into evidence at the recent hearing and in the course of the lengthy hearing had ample opportunity to introduce into evidence any other prior art references it wished the Court to review.

[*56]

Accordingly, the Court concludes that the various defenses raised are not supported at this time and that PHG has shown a likelihood of success on the merits regarding infringement.

2. PHG's showing of irreparable harm

[HN16] Having established the first factor of likelihood of success on the merits through a "clear showing" of both patent validity and infringement, PHG is entitled to a rebuttable presumption of irreparable harm. See Oakley, Inc. v. Sunglass Hut Int'l, 316 F.3d 1331, 1345 (Fed. Cir. 2003); Amazon.com, Inc., 239 F.3d at 1350; Polymer Technologies, Inc., 103 F.3d at 973. This presumption acts as a procedural device "'which places the ultimate burden of production on the question of irreparable harm onto the alleged infringer.'" Id. (quoting Reebok Int'l Ltd. v. J. Baker, Inc., 32 F.3d 1552, 1556 (Fed. Cir. 1994)).

The design patents grant PHG the right to exclude others from using the design without permission. See Polymer Technologies, Inc., 103 F.3d at 975. [HN17] This is a valuable property right, and "[i]nventors with small markets are entitled to exclusivity under the patent statute [*57] as are those with large markets." Id. PHG has expended the time, effort and money required to obtain patents on its design, and those patents are entitled to protection and enforcement. [HN18] Experience teaches that "[c]ompetitors change the marketplace. Years after infringement has begun, it may be impossible to restore a patentee's . . . exclusive position by an award of damages and a permanent injunction[,]" because customers may have established relationships with infringers. Id.

Defendants have not rebutted the presumption of irreparable harm. To the contrary, PHG presented evidence which confirms that it has already suffered, and will continue to suffer, substantial damage in lost sales, lost customers, lost future business opportunities, and lost customer goodwill if TimeMed and LaserBand are not enjoined from continuing to market their accused label sheets. Although Defendants suggest PHG can be made whole solely through a monetary award, damages alone cannot rectify the past and impending destruction of PHG's relationships with its customers who may purchase Defendants' accused infringing medical label sheets because of their close appearance to PHG's patented design. [*58]

There is some appeal to TimeMed's claim that irreparable harm does not exist because PHG waited too long to seek injunctive relief. Although the '405 patent issued in September 2004, and the broader '197 patent issued in March 2005, PHG waited until December 2005 to file suit and until May 2006 to seek injunctive relief, a period of approximately 20 months. TimeMed argues PHG knew about TimeMed's accused product as early as August 2003 when PHG first sent TimeMed a cease and desist letter, but the patents had not issued at that time, and PHG did not have grounds upon which to sue.

PHG claims the delay was justified. Near the time PHG's patents issued, PHG's patent counsel left his law firm and PHG was temporarily without counsel. PGH then had to find appropriate counsel to undertake the litigation, it had to conduct due diligence and investigate the claims, and it had to determine whether it could afford the litigation financially. At the time PHG sued The St. John Companies for infringement in August 2005, PHG believed St. John represented the bulk of the sales of infringing label sheets. Promptly upon learning that Defendants actually represent a significant portion of the market [*59] for infringing label sheets, on December 30, 2005, PHG filed suit against these Defendants. PHG withheld service to explore the possibility of settlement, and finally filed the instant motion for a preliminary injunction when settlement efforts collapsed in May 2006.

While the Court believes PHG may have been able to move more quickly to protect its rights, the passage of time alone does not rebut the presumption of irreparable harm that arises in PHG's favor, nor does it rebut the evidence of irreparable harm PHG has and will continue to suffer if a preliminary injunction is not issued. Following entry of the preliminary injunction against St. John, PHG filed suit against TimeMed promptly upon learning that TimeMed had picked up a large share of St. John's infringing business. Moreover, PHG's decision to sue St. John first does not mitigate against a finding of irreparable harm. Polymer Technologies, Inc., 103 F.3d at 975 ("A patentee does not have to sue all infringers at once. Picking off one infringer at a time is not inconsistent with being irreparably harmed.") Finally, the Court concludes PHG acted reasonably in attempting to settle the case first before proceeding [*60] with a motion for injunctive relief. When those efforts failed, PHG immediately filed the instant motion. The Court concludes PHG has shown irreparable harm.

3. The balance of hardships

Defendants concede they are larger companies than PHG and that their sales of infringing products represent a relatively small portion of their overall sales. On the other hand, PHG depends heavily on sales of its 20-101 label sheet, which incorporates the patented designs, and is sold in tandem with PHG's software. As a smaller business entity, PHG has fewer resources at its disposal to devote to enforcement of its design patents and to counteract Defendants' infringing conduct in the marketplace. The evidence shows that the price for goods PHG previously obtained has eroded as a result of the marketing of Defendants' accused products. Continued infringement poses a greater threat to PHG than the entry of a preliminary injunction poses to the Defendants. Thus, the Court concludes the balance of hardships tips in favor of PHG.

4. The impact of an injunction on the public interest

Defendants contend that public policy precludes enforcement of invalid and unenforceable patents. But as the [*61] Court has previously explained, there does not exist clear and convincing evidence at this point that PHG's patents are invalid and unenforceable.

The Court recognizes the public interest in permitting free competition and allowing hospitals to lower their costs. However, [HN19] Defendants' private interest in selling a lower-priced product does not justify infringing a patent. Payless Shoesource, Inc., 998 F.2d at 991. "Were that to be a justification for patent infringement, most injunctions would be denied because copiers

universally price their products lower than innovators." Id. Thus, the Court concludes the public interest factor weighs in favor of PHG as well.

Because PHG has made a sufficient showing on each of the four factors, injunctive relief is warranted. See Amazon.com, Inc., 239 F.3d at 1350.

IV. CONCLUSION

In summary, a preliminary injunction against TimeMed and LaserBand is warranted because these Defendants failed to carry their burden to establish a substantial question concerning the invalidity or unenforceability of PHG's design patents, '405 and '197, PHG established a reasonable likelihood that it will prevail on [*62] the issues of patent validity and infringement, PHG established irreparable harm, and the balance of hardships and the public interest weigh in PHG's favor. Therefore, PHG's Motion for Preliminary Injunction will be GRANTED. The Court will require PHG to post a surety bond in the amount of $ 400,000.00 in favor of TimeMed and LaserBand, in compliance with Federal Rule of Civil Procedure 65(c).

Defendants did not carry their burden on summary judgment to show by clear and convincing evidence that PHG's patents are invalid due to an on-sale bar, and therefore, they are not entitled to summary judgment on that ground. The motion for summary judgment will be DENIED.

An appropriate Order shall be entered.

ROBERT L. ECHOLS

UNITED STATES DISTRICT JUDGE

ORDER

For the reasons explained in the Memorandum entered contemporaneously herewith, the Court rules as follows:

(1) Defendant LaserBand LLC's Motion to Join TimeMed's Motion for Summary Judgment of Patent Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 118) is hereby GRANTED.

(2) Plaintiff's Motion to File Amended Response in Opposition to First Motion for [*63] Summary Judgment of Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 134) is hereby GRANTED.

(3) The Motion for Leave to File Sur-Reply of PHG Technologies, LLC to TimeMed Labeling Systems, Inc.'s Reply Brief in Support of TimeMed Labeling Systems, Inc.'s Motion for Summary Judgment of Patent Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 153) is hereby GRANTED. The Clerk is directed to give the Sur-Reply attached to the Motion, and its attached exhibit, a separate Docket Entry number.

(4) Defendant TimeMed Labeling Systems, Inc.'s Motion for Summary Judgment of Invalidity Under 35 U.S.C. § 102(b)(Docket Entry No. 87), in which Defendant LaserBand LLC joined, is hereby DENIED.

(5) Plaintiff PHG Technologies, LLC's Motion for Leave to File Reply in Support of Request to Take Judicial Notice (Docket Entry No. 156) is hereby GRANTED.

(6) Plaintiff PHG Technologies, LLC's Request to Take Judicial Notice (Docket Entry No. 135) is hereby DENIED.

(7) Plaintiff PHG Technologies, LLC's Motion for Preliminary Injunction (Docket Entry No. 35) is hereby GRANTED.

(8) Pursuant to Federal Rule of Civil Procedure 65 [*64] , Defendants TimeMed Labeling Systems, Inc. and LaserBand LLC, and their officers, agents, servants, employees and attorneys are hereby preliminarily enjoined and restrained from making, using, offering to sell, selling or importing into the United States a medical label sheet with an appearance similar to the design claimed in Plaintiff PHG Technologies, LLC's design patents, U.S. Patent Des. No. 496, 405 S and U.S. Patent Des. No. 503, 197 S.

(9) This preliminary injunction applies to all persons, officers, agents, servants, employees, and attorneys acting in concert with or participating with Defendants TimeMed Labeling Systems, Inc. and LaserBand LLC, who receive actual notice of this Order by personal service or otherwise.

(10) Pursuant to Federal Rule of Civil Procedure 65(c), Plaintiff PHG Technologies, LLC, shall file with the Clerk of this Court, **no later than Monday, October 2, 2006,** a surety bond in the amount of $ 400,000.00 in favor of Defendants TimeMed Labeling Systems, Inc., and LaserBand LLC, in such form as is acceptable to the Clerk of Court.

(11) This Order shall remain in effect during the pendency of this action [*65] and until further Order of this Court unless Plaintiff fails to file the surety bond as required in paragraph (10) above.

It is so ORDERED.

ROBERT L. ECHOLS

UNITED STATES DISTRICT JUDGE

September 18, 2006, at 4:30 p.m.

Date and Time