

# IDEAS ON INTELLECTUAL PROPERTY LAW

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## **Inequitable conduct crashes patent for car computer**

### **Means-plus-function to an unfortunate end**

How one patent failed the definiteness requirement

### **How long is too long?**

Delayed lawsuit filing preempts infringement claim

### **Sunk costs: Attorneys' fees in Lanham Act cases**

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# Inequitable conduct crashes patent for car computer

When it comes to patent applications, full disclosure is always best. Submitting an application that withholds critical information can kill a patent issued from that application. One company learned this the hard way in *American Calcar, Inc. v. American Honda Motor Co., Inc.*

## Running down a patent

American Calcar Inc. (ACI) received several patents related to various aspects of a multimedia system for use in a car. At the time of patent filing in 1997, the inventors worked for Calcar, ACI's predecessor.

Before the patent application, Calcar developed and sold "Quick Tip" vehicle guides that were included in glove compartments of some vehicles, including Honda's Acura 96RL, which included an optional navigation system. During the course of developing the QuickTip Guide for the 96RL, Calcar's inventors were given access to a 96RL. The Calcar inventors drove the car and took photographs of the navigation system and owner's manual.

Shortly thereafter, the first inventor filed the patent application. It listed Acura's 96RL navigation system in the application background section as a commercially available system, and the application included



system drawings similar to those of a manual for the 96RL. But the inventor never disclosed the 96RL manual itself to the U.S. Patent and Trademark Office (USPTO).

Subsequently, the USPTO issued the patent, and then ACI sued Honda, asserting that Honda's computer navigation systems infringed ACI's patents. Honda contended that the patents were unenforceable because the inventor committed inequitable conduct by, essentially, withholding from the USPTO the 96RL manual — prior art that was material to patentability.

Agreeing with Honda, the trial court applied the *Therasense* test for inequitable conduct. This test requires proof that the patent holder misrepresented or omitted information material to patentability with the specific intent to mislead or deceive the USPTO. The plaintiff appealed.

## Declining to reverse re: "materiality"

The U.S. Court of Appeals for the Federal Circuit explained that undisclosed prior art is *material* if the USPTO wouldn't have allowed a patent claim had it been aware of the prior art. ACI argued that the trial court had erred in deeming the undisclosed prior art to be material, because the court failed to account for several inventive differences between Acura's 96RL system and ACI's patents — including the ability to use a search function to retrieve features for vehicle climate control, radio, and engine.

The appellate court, however, affirmed the trial court's determination that the undisclosed prior art was material to patentability. The trial court had found that the only difference between Acura's 96RL system and ACI's system was the nature of the information contained in the systems. Acura's 96RL included navigational details, while ACI's also included information about the vehicle.

## Jury’s “advisory” verdict deemed irrelevant

The trial court in *American Calcar, Inc. v. American Honda Motor Co., Inc.* (see main article) held a jury trial on several issues — including inequitable conduct. The parties agreed that the inequitable conduct verdict would be advisory only and not binding.

On appeal, the patent holder pointed to the jury’s unanimous verdict of no inequitable conduct by the inventors in support of its argument against the trial court’s finding of inequitable conduct. The appellate court (U.S. Court of Appeals for the Federal Circuit) pointed out that the advisory verdict wasn’t binding on the trial court and upheld the trial court’s findings.

The trial court had requested thousands of pages of testimony from previous Calcar litigation after the jury had submitted its advisory verdict. The testimony included assertions by one of the inventors that contradicted those he made in the proceedings for this case, which, according to the appellate court, led to the trial court’s determination that he lacked credibility. Because the jury didn’t see that evidence, the appellate court saw no reason why the jury’s advisory verdict would suggest a reasonable alternative to the lower court’s inference.



The trial court held that the USPTO wouldn’t have allowed ACI’s patents in light of the 96RL manual because it would have been obvious to include different information (such as vehicle data) in the 96RL system. The appellate court concurred.

### **A trial court may infer intent from indirect and circumstantial evidence, as long as such intent is the single reasonable inference.**

#### **Turning to “intent”**

Regarding intent, the appellate court noted that ACI had provided the USPTO with only a limited disclosure of the 96RL system in the patent specification, along with a *New York Times* article on the system during patent prosecution. The trial court found these disclosures excluded material information about the 96RL system, such as the manner in which the system provided notifications to the user and displayed search results.

The appellate court found that partial disclosure of material prior art to the USPTO can’t absolve a patent

holder of deceptive intent if the disclosure was intentionally selective. Because direct evidence of deceptive intent is rare, it said, a trial court may infer intent from indirect and circumstantial evidence — as long as such intent is the single reasonable inference.

The trial court found that the single reasonable inference based on the inventor’s role in developing the patent application was that he had deliberately decided to withhold all of the details of the 96RL system. The trial court expressly rejected ACI’s suggestion that it would have been equally reasonable for the trial court to infer that the inventor’s actions were merely negligent or grossly negligent. The appellate court affirmed this aspect of the trial court’s decision, too.

#### **Signaling a reminder**

Interestingly, in a re-examination of another one of ACI’s patents that did include the undisclosed prior art, the USPTO confirmed the patentability of that ACI patent over the prior art. Nonetheless, the courts in this case found the nondisclosure of the manual to be material to the case — a pointed reminder for would-be patent holders to always provide full disclosure at the time of application. ○

# Means-plus-function to an unfortunate end

*How one patent failed the definiteness requirement*

Patent drafters sometimes turn to “means-plus-function” language to claim an invention based on its function rather than its underlying structure. The ruling by the U.S. Court of Appeals for the Federal Circuit in *Robert Bosch, LLC v. Snap-On, Inc.* serves as a good reminder that means-plus-function language, in and of itself, probably won’t satisfy the definiteness requirement.

## Indefinite “devices”

Robert Bosch LLC owns a patent for a diagnostic tester that determines whether a motor vehicle’s computerized control unit needs to be reprogrammed. The tester is made of a “program recognition device” and a “program loading device.”

Bosch sued Snap-On Inc., for infringement of the patent. The district court found that the terms “program recognition device” and “program loading device” were indefinite, making the patent itself invalid. Bosch appealed.

## Road to indefiniteness

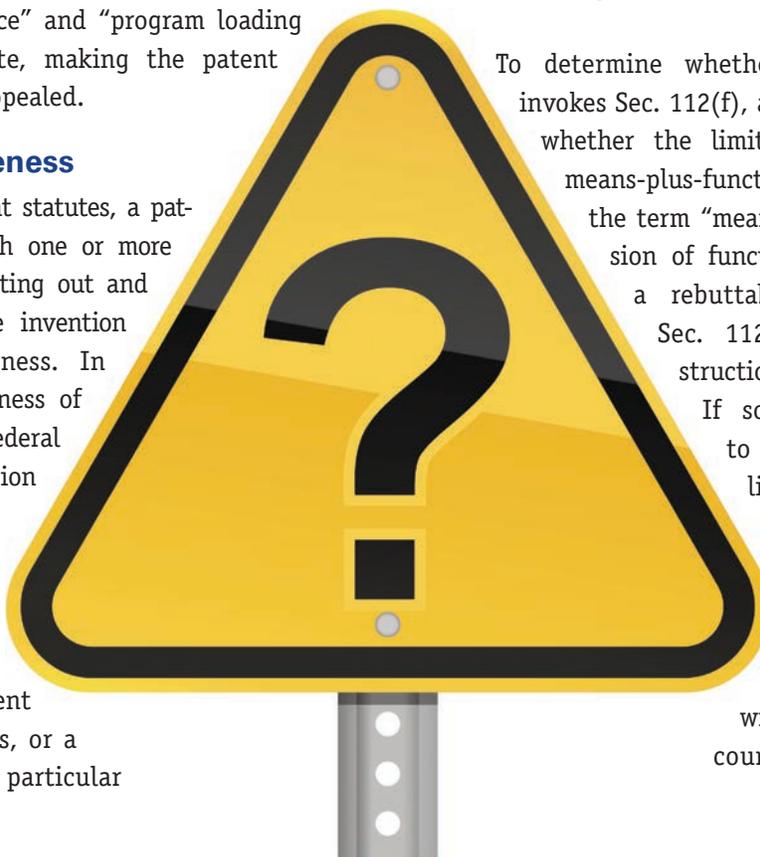
According to U.S. patent statutes, a patent must conclude with one or more claims specifically pointing out and distinctly claiming the invention at issue — definiteness. In assessing the definiteness of Bosch’s patent, the Federal Circuit focused on Section 112(f) of the statutes.

Under that statutory section, a patentee can recite a portion of a claim in a patent application as a means, or a step, for performing a particular

function (for example, a means for fastening), but without reciting any structure corresponding to the recited means. These “means for” claims, however, are sufficiently definite only if the patent specification describes some corresponding structure for performing the recited function (for example, a nut and bolt) — in which case the patent is deemed to cover that structure and its equivalents.

**A patent must conclude with one or more claims specifically pointing out and distinctly claiming the invention at issue (definiteness).**

To determine whether a claim limitation invokes Sec. 112(f), a court must first decide whether the limitation is drafted in a means-plus-function format. The use of the term “means” or “step” and inclusion of functional language triggers a rebuttable presumption that Sec. 112(f) governs the construction of the claim term. If so, the court attempts to interpret the claim limitation by identifying corresponding structures, material or acts in the patent specification to which the claim term will be limited. If the court can’t identify any



such structures, the court deems the claim indefinite and the patent invalid.

### All function, no structure

The appellate court found that the trial court had erred in presuming that “program recognition device” is a means-plus-function recitation based solely on the use of the phrase “by means of” in the relevant patent claim. But the appellate court concluded the error was harmless because the term invoked Sec. 112(f) without the presumption. Likewise, the court found that “program loading device” invoked 112(f).

Both terms, the court said, invoked Sec. 112(f) because they only described functions and, even when construed in light of the patent specification, failed to provide sufficiently definite structure to someone skilled in the relevant art. The specification’s lack of structure corresponding to the claimed functions, however, also led the court to conclude the claim phrases were indefinite.



### More than words

When looking to satisfy the definiteness requirement under Sec. 112(f), patentees must not focus solely on whether a claim limitation is expressed as means-plus-function. Without reference to a corresponding *structure* in the specification, such claims will likely fail. ○

## How long is too long?

### *Delayed lawsuit filing preempts infringement claim*

If you think you’ve been the victim of patent infringement, you probably shouldn’t delay filing your claim. By waiting too long, you could allow the accused infringer to build a defense called “laches” — which may lead to the dismissal of your case. That’s what happened in *SCA Hygiene Products AB v. First Quality Baby Products*, a decision recently handed down by the U.S. Court of Appeals for the Federal Circuit.

### Years go by

SCA Hygiene Products and First Quality Baby Products compete in the market for adult incontinence products. On Oct. 31, 2003, SCA sent First Quality a letter asserting that certain First Quality products

might infringe one of SCA’s patents. First Quality responded with a letter to SCA stating that SCA’s patent was invalid and, therefore, not infringed.

On July 7, 2004, SCA sought a re-examination of its patent by the U.S. Patent and Trademark Office (USPTO). Three years later, the USPTO confirmed the patentability of SCA’s patent.

In 2006, while the patent was under re-examination, First Quality



expanded its line of adult incontinence products. In 2008, after SCA's re-examination concluded, First Quality acquired another company and that company's adult incontinence product lines. First Quality continued its expansion in 2009 at a cost of more than \$10 million.

## Delays exceeding six years give rise to a rebuttable presumption that the delay was unreasonable, inexcusable and prejudicial.

In August 2010, over three years after SCA's re-examination concluded and nearly seven years after SCA first asserted its patent against First Quality, SCA filed a patent infringement suit against First Quality in a federal trial court. But the trial court dismissed the case based on First Quality's defense of laches. SCA appealed the dismissal.

### Surveillance vs. action

As the appellate court explained, laches is an equitable defense to patent infringement that may arise only when the accused infringer proves that the patentee unreasonably and inexcusably delayed filing the infringement suit to the "material prejudice" (meaning either evidentiary or economic harm) of the accused infringer. Laches bars *retrospective* relief for damages incurred before the suit was filed but not *prospective* relief.

Delays exceeding six years give rise to a rebuttable presumption that the delay was unreasonable, inexcusable and prejudicial. The Federal Circuit acknowledged that reasonable explanations for delay include attempts to enforce

the patent, such as filing suit against another infringer. SCA argued that the re-examination period should be excluded from the total delay, and that the re-examination proceeding provided a reasonable excuse for the delay. The district court rejected these arguments.

SCA admitted that it had continuously tracked First Quality's activity since 2003 and had an entire department dedicated to competitive intelligence. SCA continued to evaluate First Quality's products during the re-examination period. It was also represented by patent counsel when it sent letters to First Quality and during the re-examination proceedings. Given the circumstances, the court said, SCA should have been prepared to reassert its rights against First Quality shortly after the patent emerged from re-examination.

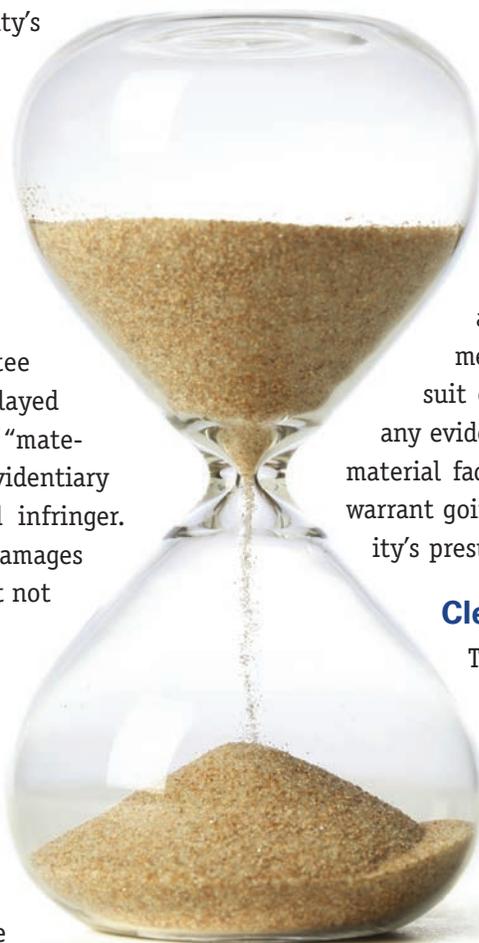
### Failure to refute

The Federal Circuit also found that SCA had failed to rebut the presumption that First Quality suffered prejudice in the form of economic harm. First Quality made a number of capital expenditures to expand its relevant product lines and increase its production capacity.

According to the court, evidence suggested that First Quality would have restructured its activities to minimize infringement liability if SCA had brought suit earlier. And SCA failed to identify any evidence that raised a genuine issue of material fact — that is, an issue that would warrant going to trial — regarding First Quality's presumed economic prejudice.

### Clear lesson

The lesson of this case is clear: When it comes to patent infringement litigation, delays can kill a patent. A patentee that waits too long to file its lawsuit risks having it dismissed for laches before it ever reaches a courtroom. ○



# Sunk costs: Attorneys' fees in Lanham Act cases

In *Fair Wind Sailing, Inc. v. Dempster*, the U.S. Court of Appeals for the Third Circuit delivered some important news for any party that might contest attorneys' fee claims in trademark infringement and other similar cases. That is, the U.S. Supreme Court's recently articulated standard for awarding attorneys' fees in patent infringement decisions also applies to Lanham Act cases.

## Competing interests

Fair Wind Sailing owns a sailing school in St. Thomas, Virgin Islands, that exclusively uses catamarans. In 2007, it hired a new sailing instructor. In 2010, the sailing instructor and another former Fair Wind employee opened Virgin Island Sailing School (VISS), also in St. Thomas.

VISS copied Fair Wind's school in several respects. For example, VISS uses the same type of boats, teaching curriculum, itineraries and procedures for student feedback. The marketing content on the VISS website was also identical to Fair Wind's and contains a photo of a Fair Wind catamaran.

Fair Wind sued VISS for trade dress infringement under the Lanham Act — the same law that prohibits trademark infringement and false advertising. The district court dismissed the claims and awarded the defendant attorneys' fees. Fair Wind appealed.

## Dead in the water

On that appeal, the appellate court considered whether VISS could recover fees spent defending the trade dress claim. Section 35 of the Lanham Act permits the recovery of reasonable attorneys' fees only in "exceptional cases." Likewise, U.S. patent statutes allow attorneys' fees only in such instances.

Neither statute defines "exceptional case." But the appellate court noted that, for more than two



decades, it had required a showing of culpability on the opposing party's part before awarding attorneys' fees under the Lanham Act.

In 2014, however, the Supreme Court ruled in *Octane Fitness LLC v. Icon Health & Fitness Inc.* that an "exceptional case" is simply one that stands out with respect to the:

1. Strength of a party's litigation position in light of the relevant law and facts, or
2. Unreasonable manner in which the case was litigated.

*Octane Fitness* was a patent case, but the appellate court concluded that the ruling was equally applicable to trade dress cases.

## Choppy waters ahead?

This decision is a good example of how concepts pertaining to one area of intellectual property law (in this instance, patents) can eventually extend into others (trade dress cases). What's more, the appellate court's ruling here significantly reduces the burden for recovering attorneys' fees under the Lanham Act. So we could see more claims for attorneys' fees in the future. ○

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## Beware of Rights of Co-Owners in Joint Research Agreements

*By Kyle Peterson*

When entering into a joint research agreement with a prospective partner, it's tempting to agree that both parties will jointly own any patent rights arising from the collaboration. This approach can be quite problematic once valuable patent rights are acquired. Unless the rights of each party are clearly detailed in the agreement, several complications can arise which can affect the value of the respective patent rights.

In the United States, 35 USC 262 states that in the absence of an agreement to the contrary, each joint owner of a patent may make, use and sell the patented invention without the permission of or the need to account to the other joint owners. Case law has extended this provision so that each co-owner may also license the invention without recourse to the others. This effectively precludes the grant of an exclusive license in cases of joint ownership unless all the joint owners agree not to grant any further licenses or to practice the invention themselves. In addition, one co-owner has the right to impede the other co-owner's ability to sue infringers by refusing to voluntarily join in such a suit. As such, the refusal to join in suit against an infringer can result in the de facto grant of a license even without positive action.

### Minor contributions matter

It is important to note that under U.S. law, a co-inventor of a single patent claim is considered a co-owner of the entire patent unless that co-inventor has assigned his or her rights to someone else. Accordingly, inventors of seemingly minor aspects of the invention that later end up as claimed elements in a patent may be entitled to widespread rights to control how the patent is licensed.

### Be Aware of Community Property Laws

It should also be noted that in states such as California and Texas where community property laws apply, there may be joint ownership of an invention created during a marriage and any patent arising from—even if only one spouse is in fact an inventor. Where an inventor may be subject to such a law, it is a good idea to make sure that the non-inventing spouse agrees that the patent should not be regarded as community property or agrees to any transfer of rights that may occur.

### Co-ownership applies to the whole patent

It is not possible for one to divide ownership between different claims. Consequently if some subject matter of a patent is invented within the terms of a collaboration agreement but some is invented by only one party, in the absence of an agreement to the contrary, the entire patent will be jointly owned, even though the subject matter of some of the claims could have formed the subject matter of a separate patent to which one party was entitled to exclusive ownership.

In view of the strong rights that co-inventors have in the United States, it is important that parties to joint research agreements carefully consider what is desired before collaboration begins. Careful planning at the outset of the relationship can avoid problems once patent rights are established.

If you have questions or concerns about your company or institution's joint research agreements, contact Kyle Peterson at [peterson@ptslaw.com](mailto:peterson@ptslaw.com) or 612.252.1554.