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## Patents

### **Therasense Inequitable Conduct Standards Clarified in Patent Contest Against Honda**

- **Case Summary:** *American Calcar's ability to enforce its 15 patents on automobile computer systems against Honda is dealt a severe blow as the basis for a \$24 million verdict in its favor is reduced to a single patent that the lower court may well find unenforceable on remand.*
- **Key Takeaway:** *The appeals court clarifies that the but-for materiality standard applied in an inequitable conduct analysis is lower than that applied for a validity challenge, and that the intent prong requires a finding that the patent applicants made a deliberate decision to withhold information from the Patent and Trademark Office.*

In its first precedential decision on inequitable conduct since the en banc *Therasense* decision, the U.S. Court of Appeals for the Federal Circuit on June 27 vacated a ruling that three patents asserted against American Honda Motor Co. were unenforceable based on the patent holder's inequitable conduct, but it gave remand instructions that conceivably could yield the same result (*American Calcar Inc. v. American Honda Motor Co.*, Fed. Cir., No. 2009-1503, 6/27/11).

However, the court made clear that a mere finding that an inventor's testimony lacked credibility was insufficient to show the intent required for an inequitable conduct finding. **When nondisclosure is the issue, the court said, the challenger must prove there was a deliberate decision to withhold the information.**

The court's additional claim construction, infringement, and validity decisions ultimately left the plaintiff with only one chance to hang on to a \$24 million verdict in its favor, as it must sway the lower court with arguments on either the materiality or intent prong of the new inequitable conduct standards.

### **Portfolio of Vehicle Computer System Patents**

American Calcar Inc. (ACI) owns 15 patents, including nine appealed in the instant case (6,275,231; 6,330,497; 6,438,465; 6,524,794; 6,542,795; 6,577,928; 6,587,759; 6,754,485; and 6,987,964), on various aspects of vehicle computer systems:

- The '231 "Radio" patent facilitates a user's control of entertainment program selection.
- The '497 "Three-Status" patent allows the user to select an option associated with the function of the vehicle from a list, be shown information about the option, and then activate it.
- The '465 "Main Menu" patent allows the user to control the various features of the system.
- That patent and the '795 patent contain "Search" claims relating to performing searches on any of the vehicle's systems.
- The '794 and '928 "Service Provider" patents are directed to identifying a service provider when the car needs service.
- The '759 "Notable Condition" patent also provides notifications to the driver but also gives corrective information.
- The '485 and '964 "Car-Mail" patents describe notifications to the driver about faulty conditions.

The Main Menu, Search, Three-Status, and Service Provider patents were continuations of a patent (6,009,355) originally filed in 1997. The inventors on the '355 patent each inspected and drove a Honda Acura 96RL prior to filing for the patent. They listed the 96RL navigation system in the background section of the '355 patent application, but did not disclose to the Patent and Trademark Office aspects of the car's user interface, including its similar Three-Status and Search features.

ACI sued American Honda Motor Co. and Honda of America Manufacturing Inc. for patent infringement in the U.S. District Court for the Southern District of California.

After claim construction decisions generally in favor of Honda, Judge Dana M. Sabraw found noninfringement of the Car-Mail, Service Provider, and Radio patents, but he granted summary judgment of infringement of the '759 Notable Condition patent.

A jury ultimately found the Main Menu and Notable Condition patents not invalid and infringed and awarded \$24 million in damages to ACI. In what was termed an advisory finding, the jury also found that it was not "highly probable that one or more persons having a duty of candor committed inequitable conduct" as to the Three-Status, Main Menu and Search patents.

After trial, Sabraw denied Honda's motion for judgment as a matter of law as to the validity of the Notable Condition patent. However, he rejected the jury's advisory finding and ruled that the three patents at issue were unenforceable due to inequitable conduct.

ACI appealed the inequitable conduct and noninfringement decisions. Honda appealed the Notable Condition patent validity decision.

### ***Therasense* Rules Reaffirmed**

Judge Alan D. Lourie first disposed of ACI's argument of Seventh Amendment prejudice in the judge's contrary decision after the jury's advisory finding.

"Inequitable conduct is equitable in nature, with no right to a jury, and the trial court has the obligation to resolve the underlying facts of materiality and intent," he said. "Where a court submits the question to a jury, and both parties agree that the jury findings will be advisory, the court shall treat them as such. ... That is the universal rule."

Lourie then reaffirmed the en banc court's recent holdings in *Therasense Inc. v. Becton Dickinson & Co.*, No. 08-1151 (Fed. Cir. May 25, 2011) (102 PTD, 5/26/11) on the materiality and intent prongs of an inequitable conduct charge.

Lourie said, "the materiality required to establish inequitable conduct is, in general, but-for materiality. ... When an applicant fails to disclose prior art to the PTO, that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art."

As to the deceptive intent prong that must be met for an inequitable conduct finding, the *Therasense* court allowed an inference from indirect and circumstantial evidence, but, quoting from the case, Lourie added, "In a case involving nondisclosure of information, clear and convincing evidence must show that the applicant made a deliberate decision to withhold a known material reference."

### **Materiality Analysis on Remand Distinguished**

Addressing materiality first in the instant case, the court affirmed that the undisclosed 96RL information was material to the Three-Status patent, because the claims were found to be anticipated by the 96RL system.

On the other hand, the same was not true of the Search patents. The jury found the two patents not anticipated and nonobvious, and the district court did not overturn those findings. The appeals court vacated the lower court's materiality findings as to those two patents accordingly.

"On remand, the district court should determine whether the PTO would not have granted the Search patents but for Calcar's failure to disclose the 96RL information," the court said, noting that the PTO would apply a preponderance of the evidence standard, giving the claims their broadest reasonable construction. That is, the lower court would be required to apply lower standards in its inequitable conduct determination than was

applicable to the invalidity challenge at trial—clear and convincing evidence under narrower claim construction rules.

### **'Deliberate Decision' Required for Intent Finding**

In any case, the court concluded that the district court applied the wrong intent standard.

“Although the court performed a detailed analysis of the facts withheld, it made no holding that any of the inventors knew that the withheld information was in fact material and made a deliberate decision to withhold it,” the court explained. “Instead, it relied on the sliding scale standard that we have rejected en banc in *Therasense, id.*, basing its finding of intent significantly on the materiality of the 96RL system to the claimed invention.”

Lourie acknowledged that the district court's finding was in part also based on the additional finding that testimony by one of the inventors lacked credibility. However, “that alone is insufficient to find specific intent to deceive under the knowing and deliberate standard” defined in *Therasense*, he said. “On remand the court should make a specific finding on whether any of the three inventors knew that withheld information was material and whether they made a deliberate decision to withhold it.”

The court thus vacated the inequitable conduct judgments as to all three patents.

### **Claim Construction Decisions Upheld**

The court's noninfringement rulings were mostly specific to the facts of the case, each depending on first affirming claim constructions made by the lower court:

- The term “messages” was at issue as to the Car-Mail patents. The court rejected ACI's argument that the term is equivalent to “communications,” because the messages were described in the specification to be in a specific format. There was no dispute that Honda did not use the claimed format.
- As for the Radio patent, ACI contested the lower court's construction of the word “source” as it applied to how broadcasts were communicated to the car's computing system. The appeals court concluded that Honda's single source of delivery using the XM satellite system did not literally infringe claims directed to receiving radio broadcasts from a “plurality of sources.”

The court also rejected ACI's argument based on the doctrine of equivalents, which relied on a declaration from the same inventor found to lack credibility. Further, the court said, “we agree with Honda that finding a signal from one source to be equivalent to ‘signals from a plurality of sources’ would vitiate that claim limitation by rendering it meaningless.”

- ACI's challenge as to the Service Provider patents was on construction of the terms “in response to” and “when,” as to whether there could be any intervening action from the car's identification of a service need to the identification of a service provider. The Honda system requires intervening steps; the court affirmed that the claims did not allow for such steps.

Another doctrine of equivalents argument by ACI failed as well. The court looked at the prosecution history and concluded that ACI made a narrowing amendment that “clearly and unmistakably surrendered subject matter that ACI now seeks to claim.”

Accordingly, the court affirmed noninfringement on the five patents associated with those three claim construction decisions.

### **Notable Condition Patent Validity Overturned**

Finally, the court turned to Honda's cross-appeal as to the validity of the Notable Condition patent and again ruled in Honda's favor, overturning the district court's ruling that the patent was not invalid..

The parties contested whether the patent was anticipated by a prior Japanese patent that disclosed a system for detecting a problem in a vehicle and helped the driver cope with it. The anticipation question turned on whether ACI's claim term “prompting a user to select the option” merely means a display of the one option that would lead to the coping information, among other options on the screen. ACI contended that it claimed that the “prompt” must be for the specific coping option.

The court rejected the lower court's construction that supported ACI's view. "The district court mistakenly read the word 'the' in the phrase 'prompting ... to select *the* option' to mean 'only that' option, whereas that word simply refers back to the prior phrase '*an* option ... is provided.' "

With the correct claim construction, the court concluded, the Japanese patent met the disputed limitation and thus anticipated the Notable Condition patent. The lower court accordingly gave an erroneous instruction to the jury, which reached an erroneous result, the court said.

Accordingly, the court reversed the denial of Honda's JMOL motion and held the patent invalid for anticipation. The court further awarded costs to Honda.

Thus, on remand, the district court will revisit the inequitable conduct judgment on three patents, but only the Main Menu patent among them was a basis for the jury's decision to award \$24 million to ACI.

Judges William C. Bryson and Arthur J. Gajarsa joined the opinion.

Gary M. Butter of Baker Botts, New York, represented ACI. Robert E. Hillman of Fish & Richardson, Boston represented Honda.

*By Tony Dutra*

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*Opinion at <http://pub.bna.com/ptcj/091503Jun27.pdf>*

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