

Proving Inequitable Conduct under Therasense Standard—Analysis of Federal Circuit’s Decision in American Calcar, Inc. v. American Honda Motor Co.

Dmitry Zuev, PhD

Dmitry Zuev is an associate attorney at Cantor Colburn LLP in Hartford, CT. He has drafted and prosecuted patents and prepared opinions in the areas of chemistry, crystallography, chemical processes, metallurgy, nanotechnology, polymer and material science, pharmaceuticals, and biotechnology and supports large and small clients in the development of their patent portfolios. He has developed in-depth expertise and provides consultations to large and small business groups on a broad range of IP issues. Dr. Zuev received his Bachelor of Science degree at St. Petersburg State University, Russia, PhD degree in Chemistry at The Ohio State University, and JD degree from University of Connecticut School of Law. Prior to practicing law, Dr. Zuev worked as a drug discovery chemist at Bristol-Myers Squibb Company.

Four years ago, in the famous opinion *Therasense, Inc. v. Becton Dickinson & Co.*,¹ the Court of Appeals for the Federal Circuit set a high bar for challenging patent validity on the basis of inequitable conduct. After that decision, many legal commentators suggested that inequitable conduct would be nearly impossible to prove under the new standard. In the case of *American Calcar Inc. v. American Honda Motor Co.*,² the Federal Circuit upheld the district court’s holding of invalidity based on prosecution misconduct for the first time since setting up the *Therasense* standard.

Background Facts

The plaintiff in this case, American Calcar, was involved in the automobile business. When a new car model went on the market, the company would test drive the car, review the car owner’s manual, and compare the manual to the car’s features. Based on the information from the

test drive, the company would create a “Quick Tips” manual that was a short version of the car owner’s manual with “everything you need to know about your new car in ten seconds or less.” The plaintiff would sell these booklets back to the car manufacturers who would include them in the glove boxes of their vehicles.

In 1996, the defendant American Honda released the Acura 96RL, which was equipped with the first car navigation system in North America. At that time, a GPS was not a part of our everyday driving, so Calcar’s president and founder Michael Obradovich was motivated to personally test drive the car to get familiar with the navigation system. His employees were standing nearby, taking pictures of the GPS in use.

Shortly thereafter, inspired by Acura’s GPS, Mr. Obradovich conceived his own idea of an interactive system. While Acura’s navigation system was designed to determine a geographical position of the car and to assist a driver with directions to reach a desired destination, the idea of the system Mr. Obradovich conceived would help the driver obtain useful information about certain aspects (or functional features) of the car (such as temperature control and service information) through a display screen and interface.

Inspired by his idea, Mr. Obradovich drafted a patent application “Multimedia Information and Control System for Automobiles.” Certain portions of the application were copied almost word for word from Acura’s manual and the drawings essentially were identical to the figures in the manual. The application merely referenced the prior art system, yet it failed to provide any details of the system in use, such as the search function of the user interface, the display changes resulting from the user’s selections, and other important details that could be found in Acura’s manual. The application did not have pictures of the user interface that Calcar had taken when the system was in use. The appearance and the principles of operation of Calcar’s invention were strikingly similar

to those of the Acura 96RL—even the search and select option colors matched the colors of Acura’s GPS.

Mr. Obradovich asked his attorney to file the application, but he never disclosed the relevance of the Acura system to him. Nor did the inventor provide his attorney with a copy of Acura’s manual and the photographs taken by Calcar’s employees. That prior art was never submitted to the US Patent and Trademark Office (PTO) during the prosecution of the application.

District Court Case

The application issued as a patent.³ Calcar subsequently filed three continuations directed to specific features of the user system, which also issued as patents.⁴ At that time, Calcar realized that its claims read on Acura’s GPS, so ironically, it turned around and sued its former business partner for infringement. During the district court hearing, Calcar’s president testified that he had provided his patent attorney all known information that was material to patentability. However, Honda alleged that Mr. Obradovich knew important details about its navigation system, took the pictures of the system in use, and deliberately failed to disclose that information to the PTO.

Prior to this litigation, Calcar sued another car manufacturer, BMW, for infringement. During that case, Calcar produced photocopies of several photographs depicting the dashboard of an Acura vehicle with a navigation system. In response, BMW initiated reexamination of Calcar’s patents. During the reexamination, Calcar submitted a copy of the car driver’s manual and Honda’s preliminary invalidity contentions from the case at issue. In view of this new submission, the PTO found that both pieces of prior art were not material to patentability and confirmed the validity of the patents.

The district court held a jury trial on numerous issues, including invalidity, infringement, damages, and inequitable conduct.⁵ The jury found one of the continuation patents (the three status patent) invalid as being anticipated by the 96 RL, but also found that the other two patents (the search patents) were valid and infringed upon. Concluding the trial, the jury rendered advisory findings of no equitable conduct to all three patents. Following the verdict, the district court granted Honda’s inequitable conduct motion and held all three patents unenforceable.

While the appeal was pending, the Federal Circuit established a revised and narrower test for inequitable conduct in *Therasense*. According to the test, to prove inequitable conduct, the defendant must show “by clear and convincing evidence that the applicant (1) misrepresented or omitted information material to patentability, and (2) did so with specific intent to mislead or deceive the PTO.”⁶ In light of *Therasense*, the Federal Circuit

had reversed the district court’s finding of inequitable conduct on several grounds, including judicial error in relying on jury findings of inequitable rather than ruling from the bench on equitable grounds, applying the “reasonable examiner” standard instead of the “but for” *Therasense* standard to resolve materiality, and use of a “sliding scale” to find intent based on a strong showing of materiality.⁷ The case was remanded to the district court with specific instructions to determine (1) whether the continuation patents were granted “but for” the information that Calcar did not disclose, and (2) whether any of the three inventors knew that the withheld information was material and nonetheless made a deliberate decision to withhold it.⁸

District Court on Remand in Light of *Therasense*

Applying the new standard, the district court found that “but for” the information in the prior art withheld by Calcar’s president, the PTO would not have granted any of the patents.⁹ The district court determined that the claims of the three status patents would have been rejected by the PTO as anticipated by Acura’s manual, while the only limitation that Calcar claimed as novel in the search patents was that the object of the user’s search had to be “an aspect of the vehicle” (versus the driving directions in the car manual). The district court consequently determined that the search patents would have been held obvious by the PTO.¹⁰

The district court also found that Mr. Obradovich had a specific intent to conceal the reference that he knew was material to patentability, and that his deliberate decision to do so was the single reasonable inference drawn from the evidence. In light of this finding, the district court held that all three patents were invalid due to inequitable conduct. Calcar appealed that decision.¹¹

Appeal to Federal Circuit

On appeal, Calcar contended that the district court failed to account for the inventive differences between Acura’s navigation system and the claims of the search patents. The Appellant pointed to the ability of its system to retrieve certain features such as climate control functions, “the radio, the engine, and other aspects of the vehicle.” Calcar argued that the search for information regarding these aspects is a non-obvious invention that merely was based on the 96RL system.

The Federal Circuit acknowledged the existence of functional differences between the two inventions. However, the Court noted that the Calcar system performed the same function as Acura’s GPS (delivery of

the information) in the same way (through an interactive display system) to achieve the same result (providing information to the user of the vehicle). The Federal Circuit explained that mere substitution of one kind of information as the object of the search with another kind of information (which under the broadest reasonable interpretation could be anything about the car) was an obvious and unpatentable invention.¹²

Considering the intent prong of the *Therasense* test, the Federal Circuit noted that Calcar's disclosure excluded certain material information about Acura's system, such as the manner in which the prior art provided notifications to the user and displayed search results. The Court pointed out that Mr. Obradovich possessed material information based on his own testimony about his personal knowledge of the 96RL system, test drives of the 96RL with the system, and use of figures from the 96RL owner's manual in the patent application he drafted. The Court agreed that Mr. Obradovich knew the information was material because Mr. Obradovich himself acknowledged the importance of the information he possessed concerning how the 96RL system was used to access information and present it to the user. The Court thus concluded that the single reasonable inference based on the facts regarding Mr. Obradovich's role in developing the patent application was that Mr. Obradovich deliberately decided to withhold the information from the PTO was not a clear error.¹³

In the absence of any direct evidence of intent to deceive, Calcar argued that it would have been equally reasonable to infer that Mr. Obradovich's actions merely were negligent or grossly negligent. However, the Federal Circuit explicitly rejected that argument as unsupported by the evidence. In the court's opinion, the facts clearly showed that Mr. Obradovich had "ample time and opportunity" for a comprehensive disclosure, and yet he only disclosed the mere existence of the 96RL system without providing its operational details. The Court of Appeals agreed with the district court that Mr. Obradovich's failure to disclose information that would have prevented his patent application from succeeding "demonstrates a deliberative process, not an accident or mistake," and that the circumstantial evidence weighed overwhelmingly in favor of finding of intent to deceive.¹⁴

The Federal Circuit further acknowledged the district court's findings that Calcar's positions throughout the litigation and Mr. Obradovich's testimony regarding his knowledge and possession of the documents lacked credibility. Particularly, there was uncertainty regarding the recollection about who in the Calcar study team took the photographs of Acura's navigation system. Calcar asserted that Mr. Obradovich did not take the photos, and Calcar's president disclaimed any knowledge of the photos until he found them in a filing cabinet in the Calcar office. However, the district court found this position incredible

because Calcar's employees routinely took photographs of the vehicles for which they were preparing "Quick Tips" and Mr. Obradovich's alleged ignorance about how his company performed its work was contrary to common sense. Further, Mr. Obradovich's recollection was vague regarding the extent to which he "played with" the Acura 96RL navigation system in 1996. Indeed, at a 2007 deposition, he did not remember whether he "operated" the Acura system, and at the trial in 2008, he said that he thought he "played with" it. The Court of Appeals gave considerable deference to the district court's conclusions that the inventor "would have been interested in learning about the 96RL system," had a significant amount of information about the 96RL," and "consider[ed] it as a base platform" for the invention. After weighing in the district court's findings, the Federal Circuit did not find any clear error in the district court's inference of Mr. Obradovich's specific intent to deceive the PTO.¹⁵

While the court's analysis focused solely on Mr. Obradovich's conduct, his attorney's actions were hardly at issue. However, careful reading of the court's opinion suggests that a timely routine action of Mr. Obradovich's attorney could have prevented the inequitable conduct allegations. The facts tell us that Mr. Obradovich constantly was feeding information to his attorney, but he never mentioned to the attorney about his personal experience with the 96RL, failed to provide a copy of the navigation system manual, and failed to provide photos of the 96RL system display screens. We also know that the application listed the 96 RL as a commercially available system, disclosed navigational aspects of the system, and explained how the system was able to receive satellite signals and visually communicate instructions to the user for reaching the desired destination. The specification also included a figure prepared by Calcar's art department to illustrate the 96 RL system. This disclosure of Acura's GPS should have at least alerted a reasonable patent attorney to ask the inventors for more information. After all, it is a common practice to list all sources of the prior art information disclosed in the specification in the Information Disclosure Statement (IDS) to be submitted to the PTO.

On appeal, Calcar also challenged the constitutionality of the district court's decision to disregard the jury's verdict on inequitable conduct. The company argued that the district court's decision prejudiced Calcar's Seventh Amendment interest in preserving the jury's verdict. In response, the Federal Circuit noted that 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. The Federal Circuit explained that when 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. The Court of Appeals further noted that after the jury submitted its advisory verdict, the district

court requested thousands of pages of testimony from Calcar's previous litigation. Mr. Obradovich's testimony included assertions that contradicted his assertions made in the present proceedings, which led the district court to its determination that Mr. Obradovich lacked credibility. This was evidence that the jury did not see. Accordingly, the Federal Circuit did not find a legitimate reason why the jury's advisory verdict suggested a reasonable alternative to the district court's inference.¹⁶

In sum, the Federal Circuit held that the district court did not clearly err in its underlying factual findings of materiality and intent, and that the district court's analysis was fully consistent with the standards and tests set forth in *Therasense*.

Dissent Opinion

Judge Pauline Newman wrote a strong dissent opinion criticizing the panel majority for distorting the *Therasense* standards, ignoring the PTO reexamination, casting the jury's advisory verdict aside, and generally disregarding the safeguards of the *Therasense* test.

Regarding materiality, Judge Newman pointed out that the Court had no reason to speculate about whether the PTO would have granted Calcar's patents "but for" the information in the car owner's manual because the PTO confirmed patentability during the properly conducted reexamination. Thus, the PTO's conclusion of patent validity should have by itself been dispositive of the issue of inequitable conduct.¹⁷

Judge Newman further criticized her colleagues for improperly segregating the independent claim into new and old elements, thus reducing Calcar's invention to a single isolated element. The judge pointed out that Calcar's invention is not merely the search for an aspect of the vehicle, but rather a computer-implemented system for searching and controlling aspects of the vehicle. Thus, the majority's obviousness analysis was inconsistent with the Supreme Court's approach in *KSR International Co. v. Teleflex, Inc.*¹⁸

Regarding intent, Judge Newman noted that the majority ignored the fact that the prior art navigation system was identified in the specification of all patents, that any omission was remedied with reexamination, and that the jury, who viewed the witnesses and heard the charges and arguments, found that the intent to deceive the PTO had not been shown by clear and convincing evidence. Judge Newman noted that the litigation lasted for almost eight years, that it was natural for the deposed to forget certain details of what had happened more than eight years ago, and that the majority had no reason to disturb the jury's finding of testimonial credibility of Calcar's president.^{19, 20}

Conclusion

Overall, although the case *American Calcar, Inc. v. American Honda Motor Co.* may be understood as creating a looser standard for finding inequitable conduct, it probably would be more appropriate to perceive this case as illustrating the significance of the level of detail contained in information submitted to the PTO.

With this in mind, the following practice points may be offered. First, when deciding what information to disclose to the Patent Office, one should thoroughly consider the level of detail requisite to sufficiently disclose the potential prior art. In this regard, it is recommended to disclose all prior art explicitly cited in the application unless the art is of general consideration or is only remotely related to the subject matter of the application. Second, the *American Calcar* decision should motivate an applicant to take advantage of the new America Invents Act (AIA) supplemental reexamination procedure to clear his/her patent of any suspicion. If information is known that might affect enforceability, an applicant should submit that patent for reexamination with the additional information before the patent is enforced through litigation. Finally, if an applicant negligently fails to disclose material prior art, and inequitable conduct is alleged against him/her as a result, candor before the court and consistent testimony throughout the trial are highly recommended.

1. *Therasense, Inc. v. Becton Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (*en banc*).
2. *American Calcar, Inc. v. American Honda Motor Co.*, 768 F.3d 1185 (Fed. Cir. 2014) (*Calcar IV*).
3. The original patent—U.S. Patent No. 6,009,355 was issued on December 28, 1999. The patent describes and claims aspects of a multimedia system for use in a car to access vehicle information and control vehicle functions.
4. The three patents resulting from the continuation applications are: U.S. Patent No. 6,330,497, claiming a system in which three different options are displayed to the user, and the display changes depend on the status of the option; and U.S. Patent Nos. 6,438,465 and 6,542,795 ("the three status patent"), claiming a system in which the user may enter a query to conduct a search or request information concerning an aspect of the vehicle (collectively, "the search patents").
5. *American Calcar, Inc. v. American Honda Motor Co.*, No. 06-cv-02433 (S.D. Cal. Nov. 3, 2008), ECF No. 577 (*Calcar I*).
6. *Ohio Willow Wood Co. v. Alps S., LLC*, 735 F.3d 1333, 1344 (Fed. Cir. 2013).
7. *American Calcar, Inc. v. American Honda Motor Co.*, 651 F.3d 1318 (Fed. Cir. 2011) (*Calcar II*).

8. *Calcar II* at 1335.
9. *American Calcar, Inc. v. American Honda Motor Co.*, No. 06-cv-2433, 2012 WL 1328640 (S.D. Cal. Apr. 17, 2012) (*Calcar III*).
10. *Calcar III* at * 9.
11. *Calcar III* at * 21.
12. *Calcar IV* at 1190.
13. *Calcar IV* at 1191.
14. *Calcar IV* at 1191.
15. *Id.*
16. *Calcar IV* at 1192.
17. *Calcar IV* at 1193.
18. *Calcar IV* at 1195.
19. *Calcar IV* at 1196.
20. In its bid for rehearing, *American Calcar* used Judge Newman's arguments as the basis for its *en banc* petition, arguing that the Federal Circuit should not be permitted to affirm an inequitable conduct finding where any one of the judges on the panel finds that intent to deceive is not the only reasonable inference. However, the Federal Circuit refused to reconsider its panel ruling.