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IP Newsflash



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DISTRICT COURT CASES

Patent Misuse is Not a Stand-Alone Cause of Action

Plaintiffs Continental Automotive GmbH and Continental Automotive Systems, Inc. (collectively Continental) filed a complaint iBiquity Digital Corporation (iBiquity) asserting patent exhaustion (Count I), patent misuse (Count II), declaratory judgment of patent rights (Count III), unjust enrichment (Count IV), breach of covenant of good faith and fair dealing (Count V), breach of license agreement between Continental and iBiquity (Count VI), promissory estoppel (Count VII), breach of contract with the National Radio Systems Committee (Count VIII), and wrongful interference with a business relationship (Count IX). In response to iBiquity's motion to dismiss for failure to state a claim, the court dismissed Counts I and II because the doctrines of patent exhaustion and patent misuse are defenses and cannot be asserted as affirmative claims.

iBiquity had argued that patent exhaustion (Count I) and patent misuse (Count II) are defenses and not affirmative causes of action. Because Continental did not rebut that patent exhaustion could only be a defense, the court granted the motion to dismiss Count I. Regarding patent misuse, the court looked to the Federal Circuit's opinion in *B. Braun Med., Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir. 1997). In *Braun*, the Federal Circuit explained that the patent misuse is "an extension of the equitable doctrine of unclean hands, whereby a court of equity will not lend its support to enforcement of a patent that has been misused." *Id.* at 1427. "When used successfully, this defense results in rendering the patent unenforceable until the misuse is purged." *Id.* But "[i]t does not . . . result in an award of damages to the accused infringer." *Id.* The Federal Circuit further clarified that "the defense of patent misuse may not be converted to an affirmative claim for damages simply by restyling it as a declaratory judgment counterclaim." *Id.* at 1428. In other words, "monetary damages may not be awarded under a declaratory judgment counterclaim based on patent misuse, because patent misuse simply renders the patent unenforceable." *Id.* Accordingly, the court found that Continental could not use its patent misuse claim as a basis for compensatory damages and concluded that patent misuse cannot be brought as a stand-alone cause of action.

Continental Automotive GmbH et al v. iBiquity Digital Corporation, No. 1-14-cv-01799 (N.D. IL February 26, 2015, Order) (Lee, J.).

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PATENT TRIAL AND APPEAL BOARD

Section 318(a) Does Not Require a Final Written Decision for All Claims Challenged by Petitioner

The Patent Trial and Appeal Board (PTAB) denied petitioners' request for rehearing of the judgment and final written decision by finding that they were not required to issue a final written decision on claims that were challenged in the petition, but for which review was not instituted.

Compass Bank, Commerce Bancshares, Inc., and First National Bank of Omaha (petitioners) filed petitions to institute *inter partes* review (IPR) of several claims of the Intellectual Ventures' patent, but the PTAB only instituted review of a single patent claim. Intellectual Ventures filed a request for adverse judgment and disclaimer of the challenged patent claim, and the PTAB entered a final written judgment against that claim. Petitioners filed a rehearing request contending the PTAB violated 35 U.S.C. § 318(a), which provides that the PTAB "shall issue a final written decision with respect to patentability of any patent claim challenged by the petitioner," by interpreting "claim challenged" as only the claims for which IPR is instituted. The PTAB noted that the petitioners failed to consider 35 U.S.C. § 316, which allows the director of the PTO to prescribe regulations "setting forth the standards for showing of sufficient grounds to institute a review." For example, 37 C.F.R. § 42.108 provides that the PTAB may deny review on some or all grounds of unpatentability for some or all of the challenged claims, and such denial is a decision not to institute IPR on that ground. Other regulations provide instructions limiting adverse judgments and estoppel to claims or grounds that could have been raised during trial, which is "a contested case instituted by the board based upon a petition." 37 C.F.R. § 42.2; see also 37 C.F.R. §§ 42.73(b), (d). Therefore, the PTAB was not persuaded that § 318(a) requires issuance of a final written decision regarding patentability for all patent claims challenged by the petition, and denied petitioner's request for rehearing.

Compass Bank v. Intellectual Ventures II LLC, IPR2014-00719, Paper 22 (PTAB Mar. 9, 2015).

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In Separate Final Written Decisions, PTAB Invalidates Multiple Claims Under Vehicle Monitoring Patent

On March 3, 2015, the PTAB issued two final written decisions, finding that most of the claims of a vehicle monitoring patent challenged by Toyota Motor Corp. in an America Invents Act *inter partes* review are obvious in view of prior art. Of the 26 originally issued claims, only eight claims remain after the final written decisions. The patent at issue, U.S. Patent No. 8,532,867, generally relates to sensors that collect and analyze data during the operation of a vehicle. According to the specification, through a combination of multiple memories and a single processor, that data is later used to diagnose the cause of irregularities associated with operating the vehicle. In the underlying lawsuit filed in September 2013, inventor Leroy G. Hagenbuch sued Toyota in the Northern District of Illinois. The district court stayed the case pending the outcome of Toyota's IPR petitions.

Of the prior art considered when invalidating certain claims, the board highlighted two references, which in combination, describe onboard devices for recording particular conditions when operating a vehicle. In the first decision, IPR2014-00123, the PTAB determined that Toyota proved sufficiently that all but two of the challenged claims are invalid. According to the decision, "Toyota has established, by a preponderance of the evidence, that claims 15–20, 23, and 24 would have been obvious over" the prior art. In a separate final written decision issued that same day, IPR2014-00124, Toyota also proved that claims 1–7 and 10–12 of the '867 patent are obvious; the auto manufacturer could not establish the same for claims 8, 9, 13 and 14. In both decisions, for those claims that survived, the PTAB focused on particular environmental conditions that the prior art references did not account for as well as the absence of multiple memories to store the data. For all others, "on balance, the evidence of obviousness outweigh[ed] the evidence of nonobviousness."

Toyota Motor Corp. v. Leroy G. Hagenbuch, Nos. IPR2014-00123, IPR2014-00124 (P.T.A.B. March 3, 2015) (Lee, Kim, Plenzler, JJ.).

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