

LOS ANGELES

Daily Journal

— SINCE 1888 —

OFFICIAL NEWSPAPER OF THE CITY OF LOS ANGELES AND THE COUNTY OF LOS ANGELES

TUESDAY, SEPTEMBER 27, 2005

Forum

It's Likely Curtains for Lemelson's Abuse of Patent System

By George M. Sirilla

In its Sept. 9 decision, the U.S. Court of Appeals for the Federal Circuit affirmed the Jan. 23, 2004, decision of the lower court "holding that Lemelson's [14] asserted patents are unenforceable under the doctrine of prosecution laches." This decision may be a harbinger of the long-awaited end to the extraordinarily successful and lucrative exploitation of the Jerome Lemelson patent portfolio that has haunted American industry for the past decade plus.

The Lemelson partnership had asserted these patents against users of bar code and machine vision equipment and had succeeded in persuading 900 U.S. companies to take licenses under its patents and pay the partnership \$1.3 billion.

Bar code equipment has been employed in the retail industry for years, using scanners at, for example, checkout counters to read the bar codes on merchandise. Machine vision equipment is used by manufacturers of various products to inspect the products as they move along the production line, automatically determining whether each product meets certain pre-programmed quality standards. Subpar products are automatically ejected from the production line.

The Lemelson partnership strategy was to go after the users of this equipment, not the bar code and machine vision manufacturers. The purpose of that strategy was clear: The partnership, which did not manufacture anything (it just held and enforced the Lemelson patent portfolio), could only secure a one-time royalty payment on the bar code and machine vision equipment from their manufacturers, calculated as a percent of the price of the equipment; going after retailers and manufacturers of other products such as automobiles or tools, the partnership could secure running royalties on the use of that

equipment until the last patent expired (for example, through 2010).

Meanwhile, the manufacturers of bar code and machine vision equipment were receiving customer letters demanding indemnification against the Lemelson patents. Those manufacturers responded in 1998 and 1999 with lawsuits of their own against the Lemelson partnership, to have the Lemelson patents held unenforceable, not infringed and invalid. Symbol led the case on behalf of the bar code manufacturers, and Cognex on behalf of the machine vision manufacturers.

The partnership contested the jurisdiction of the court to hear those cases, arguing that those manufacturers had never been charged with infringing any Lemelson patents, the usual prerequisite to bringing a lawsuit against a patent owner. But the partnership lost that jurisdictional battle. The manufacturers' two lawsuits were consolidated and proceeded in Nevada before Judge Philip M. Pro.

Meanwhile, in 2000, the Lemelson partnership filed a series of lawsuits in Phoenix against 500 users of the bar code and machine vision equipment, including a hundred retailers. A number of those retailers, however, decided to form a defense group to fight the partnership's demands and hired as lead trial counsel Pillsbury Winthrop, which had been involved in fighting the Lemelson patents since the mid-1990s.

The defense of prosecution laches had been asserted by the Ford Motor Co. against the Lemelson patents in a 1992 lawsuit in Nevada against Lemelson. The trial court, however, first accepted, then rejected that defense and held it was no longer a viable defense against patents. Ford's counsel requested that the Federal Circuit take up that question as an interlocutory appeal — that is, before any

final judgment in the case. The Federal Circuit rarely takes interlocutory appeals, and it refused Ford's request. The Ford case settled without the issue's being addressed further at the appellate level.

Later, in the Symbol-Cognex case before Pro in the District Court, Symbol also pleaded the defense of prosecution laches. It was rejected by Pro as not a viable defense. Symbol petitioned the Federal Circuit to take up that question as an interlocutory appeal. In the interim, Pillsbury Winthrop was engaged by the National Retail Federation to file an amicus brief in support of Symbol's petition for an interlocutory appeal. Pillsbury Winthrop's amicus brief was the only one filed at that time. (The National Retail Federation is the world's largest trade association, having 50,000 members with annual sales of \$4 trillion.)

The Federal Circuit, on Aug. 30, 2000, in an unusual decision, agreed to hear the interlocutory appeal, commenting, "Symbol and the amicus forcefully urge the court to grant Symbol's petition." Thereafter, the issue of whether prosecution laches is a viable defense to patent enforceability was briefed and argued to the Federal Circuit. Pillsbury Winthrop again filed an amicus brief on behalf of the National Retail Federation in support of the continued availability of this defense. On Jan. 24, 2002, the Federal Circuit held, in a split 2-1 decision, that it was, indeed, a viable defense. The Lemelson partnership thereafter failed in its efforts to have that decision overturned on rehearing at the Federal Circuit or by the Supreme Court and returned to the District Court. Hence, that defense was asserted and tried in the originating Nevada case.

Meanwhile, the partnership's infringement lawsuits in Phoenix were stayed pending the outcome of the Nevada case.

Because of its strategy concerning damages, Lemelson did not seek any monetary award against the bar code and machine vision manufacturers in Nevada because that would be a one-time amount that would limit the damages they could collect against the users of that equipment. As a result, neither side was entitled to a jury trial.

The Nevada case proceeded to trial before Pro. The trial lasted seven weeks, starting in late 2002 and ending in early 2003, with the final decision of Pro handed down Jan. 23, 2004, in favor of Symbol and the other defendants based on the defense of prosecution laches as well as noninfringement and invalidity. The Federal Circuit's opinion affirms the District Court's opinion only as to unenforceability for Lemelson's unreasonable and unexplained delays or laches during prosecution of his patents.

In its decision, holding all 14 asserted Lemelson patents unenforceable, the appellate court noted that "an 18- to 39-year time period had elapsed between the filing and issuance of the patents in suit." Indeed, Lemelson's first application was filed in 1954, and the last of the patents-in-suit would not expire until 2010 - 56 years after his first application was filed.

Notably, the Federal Circuit observed "that the Lemelson patents occupied the

'top [13] positions' for the longest prosecution [that is, Patent Office pendency] between 1914 and 2001." Further, in reaffirming the viability of the prosecution laches defense, the Federal Circuit said that it "should be applied only in egregious cases of misuse of the statutory patent system."

Pillsbury Winthrop had been advocating for years, most publicly through several amicus briefs that it filed on behalf of the National Retail Federation and in its defenses in Arizona, that these Lemelson patents were indeed "egregious cases" of misuse and abuse of our patent system. It was very gratifying to see that the Federal Circuit agreed.

The Lemelson partnership likely will petition for rehearing by the Federal Circuit and, if it loses on that score, will seek Supreme Court review as it did in 2002 when the Federal Circuit decided that prosecution laches was a viable defense.

Assuming the Supreme Court again refuses to hear the case, the Federal Circuit's Sept. 9 decision will become final and nonappealable, providing the basis for a dismissal with prejudice of all the pending-but-stayed Lemelson cases in Arizona; a decision that the 14 Lemelson patents are unenforceable operates as an adjudication, nullifying or rendering inoperative all of the Lemelson

patents ab initio - that is, from the very beginning.

In other words, those Lemelson patents would have absolutely no value, conferring absolutely no right that can be asserted against anybody. So all those patents, like Lemelson, who is dead, presumably would rest in peace.

What happens now to the 900 companies that paid \$1.3 billion to the Lemelson partnership on these patents? Presumably, they all had contracts that called for settlement payments that would not be affected by any subsequent court decision on the enforceability of the Lemelson patents. But, here, the terms of each settlement contract would have to be considered to determine whether there was any refund entitlement.

So, although the battle over the Lemelson patents and their impact on the retail industry and others is not quite over, there is reason to be optimistic that this lengthy abuse of our nation's patent system is about to be satisfactorily resolved.

George M. Sirilla is a partner in the McLean, Va., office of Pillsbury Winthrop Shaw Pittman LLP, where he practices intellectual property litigation. Sirilla was lead trial counsel for the retailers challenging claims of infringement of Lemelson patents.

Reprinted for web use with permission from the *Los Angeles Daily Journal*. ©2005 Daily Journal Corporation. All rights reserved.
Reprinted by Scoop ReprintSource 1-800-767-3263



Pillsbury
Winthrop
Shaw
Pittman_{LLP}