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## Something Old, Something New: Recent Inventorship Cases Reaffirm Some Age-Old Concepts on Application of *Laches*, but Depart From Established Precedents on Others

By Julie A. Shepard and Sanjesh P. Sharma

In 1893, the Supreme Court held that an omitted inventor's unreasonable delay in asserting his inventorship claim barred the action under the equitable doctrine of *laches*.<sup>1</sup> Yet for years afterwards, few courts applied *laches* to bar claims brought under 35 U.S.C. § 256, the statute for correcting inventorship of issued patents. Indeed, the Federal Circuit held in *Stark v. Advanced Magnetics, Inc.*, that § 256 imposes neither time limitations nor any duty of diligence to seek correction and cautioned that any *laches* analysis should be made against the backdrop of the presumption against forfeiture of property rights under § 256.<sup>2</sup>

Recognizing this, courts shied away from applying the defense to prevent patents from being rendered invalid for incorrect inventorship. Some courts fashioned remedies for the delay, such as allowing additional time for discovery. Others suggested that, after the elements of *laches* were established, the defense need not bar relief for correction, but instead limit pre-filing damages. Still others held that the defense should not apply at all if there was evidence of defendant's unclean hands in preventing

plaintiff from finding out that patents had been filed and/or issued without naming him/her as an inventor.

More recently, however, at least three district courts have applied the defense of *laches* to bar all claim of relief under § 256. A common thread among these decisions appears to be the courts' focus on facts indicating plaintiff's tactical manipulation, a term that the courts did not expressly use but which the Federal Circuit foreshadowed in *Advanced Cardiovascular Sys. v. Scimed Life Sys., Inc.*, was a ground for barring an inventorship action.<sup>3</sup> Moreover, in two of these three cases, the reason the courts concluded that the rebuttable presumption of *laches* applied is because they measured the delay period from the time of plaintiff's knowledge of the filing of the patent application, not the issuance of the patent. This is inconsistent with what seemed to be settled law on the issue.

These developments and their import to those advising clients on or analyzing the application of *laches* are discussed in this article.

### ***Laches* Is an Affirmative Defense to Correction of Inventorship Actions Under § 256 Even Though There Is No Time Limit for Such Correction**

Section 256 allows correction of inventorship of issued patents. There is no statute of limitations and no

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diligence requirement for such correction.<sup>4</sup> The Federal Circuit has explained that this statute serves the public policy of preserving property rights from forfeiture<sup>5</sup> and has held that, if an omitted inventor demonstrates that inventorship can be corrected as provided for in § 256, a district court must order correction of the patent to save it from being rendered invalid.<sup>6</sup> Therefore, correction is allowed liberally.<sup>7</sup>

Notwithstanding the public policy against forfeiture of inventorship rights, the equitable defense of *laches* is available, and often pleaded, as an affirmative defense to actions brought under this provision. Mere lapse of time alone does not constitute *laches*.<sup>8</sup> Rather, to prevail on its *laches* defense, a defendant must establish that the alleged omitted inventor's delay in bringing his/her inventorship claim was unreasonable and inexcusable and that defendant was materially prejudiced as a result of the delay.<sup>9</sup> Such prejudice may be evidentiary or economic. Examples of what factors courts look at in considering evidentiary prejudice include whether witnesses have died, memories have dimmed, and/or documents were lost or destroyed during the period of delay. In addition, the defendant must show that the loss of evidence prevents it from establishing a full and fair defense.<sup>10</sup> Examples of economic prejudice include that the defendant incurred costs from its investments in the patented technology and market as a result of the delay.<sup>11</sup> In weighing the reasonableness of the delay and unfair prejudice, courts are mindful of the public policy against forfeitures of property rights under § 256.<sup>12</sup>

Significantly, even though there is no diligence requirement under § 256, a rebuttable presumption of *laches* applies if defendant can show that plaintiff brought suit more than six years after he/she knew or should have known that he/she had a claim for inventorship.<sup>13</sup> This presumption operates by shifting the burden of production to plaintiff to come forth with exculpatory evidence. The presumption may be overcome by a plaintiff's coming forth with evidence that raises a genuine issue that its delay was not unreasonable or that defendant suffered no prejudice as a result of the delay.<sup>14</sup> Regardless of whether the presumption arises or not, the ultimate burden of proof for *laches* does not change. Defendant always has the burden of persuasion for his/her affirmative defense.

### **Establishing the Elements of *Laches* Will Not Necessarily Bar § 256 Correction**

The presence of undue delay and prejudice, whether by proof or presumption, does not mandate granting of a *laches* defense.<sup>15</sup> Rather, the presence of these factors lays the foundation for a court to exercise its

discretion in applying *laches*. To determine if and how the defense should apply, the court looks at all the facts and circumstances and weigh the equities. A court may deny the defense even after undue delay and prejudice are established if other factors make it inequitable to recognize it. For example, in some cases, courts refused to apply *laches* under the doctrine of unclean hands because there was evidence that defendant had prevented plaintiff from finding out that he had filed for patent applications without naming plaintiff as a co-inventor.<sup>16</sup> In another case, when there were claims of prejudice due to insufficient discovery stemming from delay to seek § 256 correction, the court allowed additional discovery, which it held was more preferable than invalidating the patent for incorrect inventorship.<sup>17</sup> In yet another case, the court implied that *laches* need not foreclose relief for correction, but rather, limit pre-filing damages as it does in patent infringement actions.<sup>18</sup>

Indeed, because it results in forfeiture, most courts have appeared reluctant to apply *laches* to bar § 256 inventorship actions.<sup>19</sup> Recently, however, three different courts have done just that.

### **Three Recent Cases Applied *Laches* to Completely Bar the Inventorship Claim**

More than 100 years ago, the Supreme Court held that *laches* barred a plaintiff's inventorship claim when the inventor had waited eight years after the issuance of the patent to bring suit because he wanted to continue receiving salary from the defendants during the delay period and did not want to upset their "amicable relations" during that time.<sup>20</sup> The salary was a larger sum than the royalties that he would have been entitled to had he received royalties for his inventorship rights. Plaintiff waited until he was no longer employed by defendant to assert his inventorship claim. The Supreme Court held that plaintiff's excuse that he preferred for prudential reasons to receive a salary than a demand a royalty should be viewed less favorably than if his conduct had been of mere inaction.<sup>21</sup>

Despite this precedent, courts for years did not bar inventorship claims for *laches*. Yet, there were indications in dicta from the Federal Circuit in *Advanced Cardiovascular* that inventorship claims could be barred if there was evidence that plaintiff had tactically manipulated the legal process (e.g., in timing).<sup>22</sup> Recent cases have shed some light on this principle.

In the last four years, at least three district courts have barred § 256 actions under the doctrine of *laches*. Two of these cases involved plaintiffs who either attempted to license away their inventorship rights in the patents

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during the delay period or who brought suit only upon urging and payment of an accused infringer. The third case involved a plaintiff who conspired in a scheme with the named inventor to allow the named inventor to pursue the patent as a sole inventor so that his company would pay for the patent prosecution expenses, and brought suit after his side agreement with the named inventor fell through. These cases bear similarities to *Lane & Bodely* as well as to each other in that they involve facts in which the party seeking correction engaged in some form of tactical manipulation in his/her inventorship action. While none of these cases expressly articulated that this principle of tactical manipulation guided their application of *laches*, it appeared to be an underlying concern based on the courts' findings.

### **Reaffirmation of the Old: Plaintiff's Tactical Manipulation as Basis for Barring Inventorship Actions Under *Laches***

In 2004, the District Court of Arizona barred plaintiff's § 256 action in *Frugoli v. Fougnes*, noting that the unreasonableness of plaintiff's delay in seeking correction was underscored by the opportunism that he had displayed in the period preceding his lawsuit in that an accused infringer's payment to him was the only basis for the timing of his lawsuit.<sup>23</sup> There, defendants Fougnes and Harned filed a patent application on December 23, 1994, for an invention covering a telecommunications system. The patent issued on February 24, 1998, and a related CIP patent issued on December 5, 2000. Plaintiff Frugoli brought his § 256 action on May 22, 2002, within two to four years since the patents issued but more than seven years after the first patent application was filed.

Evidence presented at trial established that in October 1994 Frugoli had met with the named inventors and a patent attorney to explore whether a patent application could be filed, and that by 1995, he knew that the named inventors were exploiting the invention as they were advertising and selling prepaid air time. Frugoli testified that, in early to mid-1995, Fougnes asked him to sign a document that purported to assign to defendants any rights he had acquired in the patented invention, but he refused to do so based on his counsel's advice. He subsequently moved to another city, maintained only limited sporadic contact with the named inventors, and neither inquired about the patent applications nor asked if he had been named as an inventor on any of them.<sup>24</sup>

In 2002, Frugoli was subpoenaed to testify in a related lawsuit by counsel for an accused infringer, Verizon

Wireless. After he testified at his deposition about his contributions to the asserted patent claims, Verizon paid him \$200,000 for his inventorship rights and further agreed to pay him the greater of \$50,000 annually (for 10 years) or 12 percent of the annual licensing royalties in exchange for his agreement to seek correction of inventorship under § 256. Frugoli brought suit, which was financed and controlled by Verizon.<sup>25</sup>

The court held that the *laches* presumption applied, measuring the delay period starting as early as October 1994, when Frugoli knew that defendants were seeking a patent, or as late as mid-1995, when Frugoli knew that defendants were exploiting the patented technology and asked him to relinquish his rights in the inventions.<sup>26</sup> It recognized that Frugoli had never asserted his inventorship rights in all the years that he knew that defendants had obtained patents and that, but for the substantial payment from Verizon, which was being sued by defendant for infringement, he would have never sought correction of inventorship at that time. The court noted that "it is altogether clear that Verizon is Frugoli's master in the present litigation" with control over his counsel and litigation strategy. The court further found that Verizon's very presence in the lawsuit was indicative of the economic prejudice resulting from the delay in that, if inventorship were corrected, Verizon would gain access to the patents and license them to other accused infringers. The court therefore barred Frugoli's inventorship action, holding that his pure "opportunism" defeated any attempt in equity to rebut that the presumption of *laches* applied.<sup>27</sup>

In *Serdarevic v. Advanced Medical Optics, Inc.*, the Southern District of New York granted summary judgment barring an inventorship action when evidentiary prejudice was established as a result of plaintiff's eight year delay and plaintiff could not excuse her delay because, instead of providing proof of her inventorship to defendant as requested during pre-suit negotiations, she spent the delay period attempting to license her co-inventorship rights to the defendant's competitors.<sup>28</sup>

There, plaintiff brought suit in 2006, eight years after she learned that the patents had issued.<sup>29</sup> Initially, in 1998, within months of learning about the patents, Serdarevic had approached the patents' assignee, VISX, and demanded correction of inventorship and royalties from the patents. VISX repeatedly requested documentation of Serdarevic's claim of inventorship, but she neither provided any documents nor identified any witnesses to corroborate her claim. Instead, she offered that, if added as an inventor to the patents, she would assist VISX in an ongoing reexamination

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proceeding. She further threatened that, if the matter was not resolved in a “mutually beneficial manner,” she would join forces with VISX’s competitors. She did not contact VISX again until filing her suit for § 256 correction in 2006.<sup>30</sup>

In the intervening years, she approached six different competitors of VISX to license her rights in the patents as an omitted co-inventor similar to what the plaintiff had done in *Ethicon* without adverse consequences, but none agreed to work with her.<sup>31</sup> During this time, three witnesses whom Serdarevic contended had knowledge of her inventorship died, and VISX succeeded in defending the patents in a lengthy reexamination proceeding. The court found that *laches* applied as a bar to Serdarevic’s inventorship claim because she was unable to excuse her delay or rebut the evidentiary prejudice.<sup>32</sup>

The other recent inventorship case, *Moore v. Broadcom, Inc.*, in which the Northern District of California granted summary judgment to defendants on grounds of *laches*, did not involve attempts to license away inventorship rights. Rather, the evidence there showed that the purported omitted inventor, Moore, knew that named inventor Beard had filed a provisional patent application in 1997. He also knew that the patent issued in 2001, but did not bring suit to correct inventorship until 2006 because of a side agreement he had with Beard.<sup>33</sup>

Moore testified that he and Beard together decided that Beard should pursue the patent as the sole inventor so that his employer/original assignee would pay for the prosecution expenses and that they planned to buy back or license the patent from the assignee. Later, however, Beard refused to pursue a license or purchase of the patent with Moore. The court held that this scheme had more to do with the issue of licensing or purchasing the patent and less to do with inventorship itself, and there was no reason why Moore could not have asserted his inventorship rights at an earlier date. It further held that Moore was a party to this scheme against the original assignee and the Patent Office and had not offered any reason why the delay resulting from his own scheme was reasonable.<sup>34</sup>

The courts’ decisions to bar the inventorship claims in *Frugoli*, *Serdarevic*, and *Moore* are not departures from the principles expressed by the Supreme Court in *Lane & Bodely* and by the Federal Circuit in *Advanced Cardiovascular*. Although they did not articulate so, in applying the equitable doctrine of *laches*, these courts appeared concerned with the plaintiffs’ tactical manipulation of the system. In *Lane & Bodely*, the purported inventor chose to receive a salary instead of asserting a timely claim for correction of inventorship. Likewise,

in *Frugoli*, plaintiff failed to assert his claim until he was paid to do so by an accused infringer. Along the same vein, in *Serdarevic*, plaintiff attempted to license away her purported inventorship rights instead of providing documentation of her inventorship claims to defendants in efforts to resolve the dispute as to inventorship. In *Moore*, plaintiff agreed to have the named inventor pursue the application as a sole inventor so that someone else (the original assignee) would have to bear the costs of patent prosecution.

These plaintiffs only brought suit after their original arrangement ended or failed or after they entered into an opportunistic arrangement with a third party. In *Lane & Bodely*, the inventor waited until he was no longer receiving a salary so that he could sue for royalties under the patent. In *Frugoli*, the court mentioned more than once that Verizon controlled the litigation and was Frugoli’s master.<sup>35</sup> In a sense, the court seemed to view Verizon, Frugoli’s “master,” as manipulating the process by finding Frugoli and paying him to assert his claim.<sup>36</sup> Serdarevic brought suit after her efforts to license her purported co-inventorship rights had failed, and Moore sued only because the named inventor refused to honor the side agreement he had with him.

### **New Questions Raised on When the *Laches* Period Begins**

While reaffirming recognized principles in their treatment of plaintiffs’ tactical manipulation, the *Frugoli* and *Moore* decisions have raised questions about what had seemed to be established precedence on what triggers the *laches* period. These courts concluded that the presumption of *laches* applied because they measured the delay period from the time that plaintiff learned of the filing of the patent application, not its issuance. In *Advanced Cardiovascular*, the Federal Circuit held that a rebuttable presumption of *laches* applies if there is evidence that the omitted inventor delayed bringing suit more than six years after actual or inquiry notice of the *issuance* of the patent.<sup>37</sup> It explained that the delay period cannot start while the potential claimant is ignorant that a cause of action has arisen, implying that a § 256 action arises after the *issuance* of a patent.<sup>38</sup> Subsequently, in *Stark*, the Federal Circuit held that, in inventorship actions involving multiple interrelated patents, the delay period for *laches* does not accrue until each patent has *issued*.<sup>39</sup> For years, and as recently as 2007, courts spoke of the *laches* delay as the intervening time period between a plaintiff’s knowledge that a patent omitting him as an inventor had issued and the filing of a § 256 action.<sup>40</sup>

In its *laches* analysis, the *Frugoli* court did not acknowledge the seeming inconsistency with its

holding and those of *Advanced Cardiovascular* or *Stark*. In *Moore*, however, the Northern District of California reasoned that, in *Advanced Cardiovascular*, the period of delay occurred *after* the issuance of the patent, so the Federal Circuit has not explicitly ruled on whether the period of delay may begin *prior* to the issuance of the patent.<sup>41</sup> It also recognized that, prior to issuance of a patent, a plaintiff can seek correction of inventorship only through an interference proceeding pursuant to 35 U.S.C. § 116. It then rationalized that, because § 116 imposes a diligence requirement upon a patent applicant, an omitted inventor's failure to diligently pursue its inventorship claim under § 116 supports an inference of undue delay for purposes of establishing laches for his § 256 action.<sup>42</sup> This holding contradicts the Federal Circuit's holding in *Stark* that § 256 requires no diligence.<sup>43</sup> Time will tell whether *Moore* will be limited to its facts or if other courts will follow *Moore's* holding to superimpose § 116 diligence requirements in § 256 inventorship actions and, if so, under what circumstances.

## Conclusion

Rather than serve as bellwether that laches in general will apply more frequently, the recent willingness of courts to bar inventorship claims due to laches appears to hearken back to the principles applied by the Supreme Court more than 100 years ago, which the Federal Circuit's dicta in *Advanced Cardiovascular* echoed in 1993. The new development these cases herald is some courts' willingness to find that the laches period may be triggered prior to the issuance of the patent, contradicting the Federal Circuit's holding. Should this trend continue, it could have significant ramifications on the frequency with which laches is established in inventorship actions because adding on the pre-patent issuance period raises the likelihood that the rebuttable presumption of laches applies.

## Notes

1. Lane & Bodely v. Locke, 150 U.S. 193 (1893).
2. Stark v. Advanced Magnetics, Inc., 29 F.3d 1570, 1573, 1575 (Fed. Cir. 1994).
3. Advanced Cardiovascular Sys. v. Scimed Life Sys., Inc., 988 F.2d 1157, 1163-64 (Fed. Cir. 1993).
4. 35 U.S.C. § 256; Stark, 29 F.3d at 1573, 1575.
5. Stark, 29 F.3d at 1573.
6. See Pannu v. Iolab Corp., 155 F.3d 1344, 1350 (Fed. Cir. 1998).
7. Applied Medical Resources v. U.S. Surgical Corp., 967 F. Supp. 867, 871 (E.D.Va. 1997).
8. Advanced Cardiovascular, 988 F.2d at 1161.
9. *Id.*, citing A.C. Aukerman v. R.L. Chaides Construction Co., 960 F.2d 1020, 1032 (Fed. Cir. 1992).
10. See Serdarevic v. Advanced Medical Optics, Inc., 2007 WL 2774177, \*7-8 (S.D.N.Y. 2007); see also Frugoli v. Fougnyes, 74 U.S.P.Q. 2d 1716, 1721 (D. Ariz. 2004).
11. See Moore v. Broadcom Corp., 2008 WL 425932, \*7 (N.D. Cal. 2008).
12. Sim Kar Lighting Fixture Co. v. Genlyte, Inc., 906 F. Supp. 967, 972 (D.N.J. 1995), 906 F. Supp. at 972; see also Stark, 29 F.3d at 1573; U.S. Industries, Inc. v. Norton Co., 184 U.S.P.Q. 187, 190 (N.D.N.Y. 1974); Stark, 29 F.3d at 1573.
13. Advanced Cardiovascular, 988 F.2d at 1163.
14. *Id.* at 1161.
15. Aukerman, 960 F.2d at 1036.
16. See Univ. of Col. Fndn., Inc. v. Amer. Cyanamid Co., 974 F. Supp. 1339, 1355 (D. Col. 1997), vacated on other grounds by Univ. of Col. Fndn., 196 F.3d 1366 (Fed. Cir. 1999), certiorari denied by Univ. of Col., 529 U.S. 1130; see also Yeda Research and Develop. Co. v. ImClone Systems, Inc., 443 F. Supp. 2d 570, 629-630 (S.D.N.Y. 2006).
17. U.S. Industries, Inc., 184 U.S.P.Q. at 190.
18. Ethicon, Inc. v. U.S. Surgical Corp., 937 F. Supp. at 1038, citing Aukerman, 960 F.2d at 1036.
19. See n.11.
20. Lane & Bodely v. Locke, 150 U.S. 193, 200-201 (1893).
21. *Id.* at 201.
22. 988 F.2d at 1163-1164.
23. 74 U.S.P.Q. 2d 1716, 1722 (D. Ariz. Aug. 25, 2004).
24. *Id.* at 1719-1720.
25. *Id.*
26. *Id.* at 1719-1721.
27. *Id.* at 1721.
28. Serdarevic v. Advanced Medical Optics, Inc., 2007 WL 2774177, at \*7-8.
29. *Id.* at \*2.
30. *Id.* at \*2-3, \*7.
31. See Ethicon, Inc. v. U.S. Surgical Corp., 135 F.3d 1456, 1466 (Fed. Cir. 1998) (holding that wrongfully omitted co-inventor could license patents to third party absent an agreement to the contrary among co-inventors).
32. 2007 WL 2774177, at \*7-8.
33. Moore v. Broadcom, Inc., 2008 WL 425932.
34. *Id.* at \*6.
35. 74 U.S.P.Q. at 1720.
36. *Id.* at 1722 (stating that “[b]ut for [named inventors’] decision to pursue Verizon for infringement, Verizon would not have deposed Frugoli and Frugoli would not have been paid to bring this lawsuit.”).
37. Advanced Cardiovascular, 988 F.2d at 1163.
38. *Id.* at 1162; see also, e.g., Display Res. Labs, Inc. v. Telegen Corp., 133 F. Supp. 2d 1170, 1174-1175 (N.D. Cal. 2001) (dismissing declaratory judgment action seeking correction of inventorship for patent applications that had not issued on grounds that the § 256 action was not ripe).
39. 29 F.3d at 1576.
40. See Small Parts, Inc. v. WDP Ltd., 2004 WL 1900411, \*11 (D. Ore. Aug. 23, 2004) (holding that the presumption of laches

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discussed in *Advanced Cardiovascular* is stated in terms of six years from knowledge of the patent's issuance, not six years from knowledge of the filing of applications.); *see also Serdarevic*, 2007 WL 2774177, \*5 (S.D.N.Y. 2007) (measuring laches from plaintiff's knowledge of the patents' issuance, and holding that

the six-year clock begins to run from the date when plaintiff has notice of the act giving rise to the legal claim).

41 2008 WL 425932, \*4 (N.D. Cal. Feb 14, 2008).

42. *Id.* at \*4, citing 37 CFR § 1.48, and *Stark*, 29 F.3d at 1574.

43. *Stark*, 29 F.3d at 1573-1574.

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