

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. **CV 10-7416 RGK (SSx)** Date **March 1, 2012**

Title **IMAGINAL SYSTEMATIC, LLA v. LEGGETT & PLATT, INC., et al**

Present: The Honorable **R. GARY KLAUSNER, U.S. DISTRICT JUDGE**

**Sharon L. Williams**

**Not Reported**

**N/A**

**Deputy Clerk**

**Court Reporter / Recorder**

**Tape No.**

**Attorneys Present for Plaintiffs:**

**Attorneys Present for Defendants:**

**Not Present**

**Not Present**

**Proceedings: (IN CHAMBERS) Order and Judgment Re Court Trial**

**I. INTRODUCTION**

On October 4, 2010, Imaginal Systematic, LLC (“Plaintiff”) filed an action for willful patent infringement against Leggett & Platt, Inc. (“Leggett”) and Simmons Bedding Company (“Simmons”) (collectively, “Defendants”). Subsequently, Defendants filed counterclaims for declaratory judgment of non-infringement and invalidity. The Court denied Defendants’ counterclaims. Furthermore, the Court, on summary judgment, found that Defendants have directly infringed all patents at issue.

After finding that Defendants directly infringed Plaintiff’s patents, the Court conducted a bench trial on the issues of willfulness and Defendants’ equitable defenses. The bench trial commenced on January 18, 2012. The following constitutes the Court’s findings of fact and conclusions of law.

**II. FINDINGS OF FACT AND CONCLUSIONS OF LAW**

This order serves as the findings of fact and conclusions of law as required by the Federal Rule of Civil Procedure 52. Any finding of fact that constitutes a conclusion of law is adopted as such, and the converse is true as well.

**A. Findings of Fact**

1. Larry G. Durkos is a named inventor on the following patents:
  - a. U.S. Patent No. 5,904,789 (“Durkos ‘789”) issued on May 18, 1999.
  - b. U.S. Patent No. 6,935,546 (“‘546 patent”) issued on August 30, 2005.
  - c. U.S. Patent No. 7,222,402 (“‘402 patent”) issued on May 29, 2007.

- d. U.S. Patent No. 7,467,454 (“454 patent”) issued on December 23, 2008.
2. Plaintiff is the owner by assignment of the ‘546, ‘402, and ‘454 patents (collectively, “Patents-in-Suit”). Plaintiff also owns the Durkos ‘789.
3. The Patents-in-Suit, entitled “Box Spring Stapler Apparatus,” relate to an apparatus that uses a fastener to automatically secure a module to a frame, using a mechanical guide.
4. Plaintiff demonstrated its first-generation automatic box spring stapling machine, AutoStapler2000, at the International Sleep Products Association (“ISPA”) annual trade show in 2002. AutoStapler2000 was a vision-guided stapling machine.
5. Niels Mossbeck, Leggett’s Bedding Group Vice President of International Product Development at the time, saw the AutoStapler2000 at the ISPA show in 2002 and envisioned a refinement. A few days after the ISPA show, Mr. Mossbeck began working on his own positioning device for an automatic stapling machine.
6. After the ISPA trade show, Leggett and Plaintiff began discussing a potential business deal regarding commercializing Plaintiff’s AutoStapler2000. These discussions, however, proved futile.
7. Larry Durkos attempted to improve his device. As a result, Larry Durkos invented a mechanically-guided stapling machine that worked particularly well with a specific type of box spring module, the Semi-Flex box spring module manufactured by Leggett.
8. Eventually, in 2005, Leggett manufactured and released its own automatic box spring stapling machine, the TopOff Automatic Stapling Machine (“TopOff1”).
9. Leggett installed the TopOff1 at Parkersburg Bedding plant, in Parkersburg, West Virginia (“Parkersburg Plant”).
10. In July 2005, Duane M. Durkos, an executive officer of Plaintiff, saw and videotaped the TopOff1 at Parkersburg Plant.
11. On August 30, 2005, the USPTO issued the ‘546 patent.
12. Duane M. Durkos reviewed the video of TopOff1 and suspected that the device infringed on one or more of Plaintiff’s patents. To confirm his suspicions, he consulted with Tim Niednagel, Plaintiff’s patent attorney.
13. On November 1, 2005, Anthony Garrett, Vice President of Leggett, had a phone conversation with Duane and Larry Durkos, during which they discussed whether TopOff1 was infringing on the ‘546 patent.
14. In light of the issuance of Plaintiff’s ‘546 patent, Leggett began modifying and redesigning the TopOff1. The result was the second version of TopOff, the TopOff2.
15. On August 11, 2006, Plaintiff sent a letter to Leggett requesting information regarding the TopOff2, so that it could review Leggett’s new design in light of the ‘546 patent. Leggett refused to provide this information.

16. In 2006, Simmons, a customer of Leggett, was operating one TopOff2 machine. However, in the next few years Leggett and Simmons expanded their business relationship and by 2008 Simmons had installed nine additional TopOff2 machines in its facilities.
17. On June 23, 2006, Plaintiff sent Simmons' general counsel a letter, offering to license the '546 and Imaginal's other then-pending patents to Simmons. On July 12, 2006, Simmons refused Plaintiff's offer, explaining that Leggett had advised Simmons against obtaining a license from Plaintiff. Instead, Simmons requested additional information regarding Plaintiff's claims of infringement.
18. On October 8, 2007, Plaintiff informed Leggett of the issuance of the '402 patent and again offered to license Plaintiff's patents to Leggett. Leggett refused to obtain a license from Plaintiff.
19. On October 4, 2010, Plaintiff filed the current action for patent infringement against Defendants.
20. In February 2011, Defendants filed three requests for *inter partes* reexamination of the Patents-in-Suit with the USPTO. These requests set forth why the USPTO should reject the claims of these patents as invalid in light of prior art not considered by the USPTO in the initial prosecution of the Patents-in-Suit, including U.S. Patent No. 4,280,312 ("Landrus '312"), U.S. Patent No. 5,052,064 ("Hagemeister"), and U.S. Patent No. 5,660,315 ("Beavers Guide").
21. On reexamination, the USPTO affirmed all claims of the '454 patent, but rejected claims 1, 2, 4-10, 12-20, 22-45, 47-60, 62-63 of the '546 patent, and each asserted claim of the '402 patent.<sup>1</sup>

## **B. Conclusions of Law**

Plaintiff claims that Defendants' infringement was willful under 35 U.S.C. § 284. Defendants disagree and argue that, in addition to reasonably believing that they did not infringe on the Patents-in-Suit, they reasonably relied on a number of defenses to Plaintiff's infringement claims. Additionally, Defendants argue that laches and equitable estoppel provide a defense to the Court's finding of infringement in this case. The Court first addresses the issue of willfulness. Next, the Court examines each of Defendants' equitable defenses.

### 1. Willful Infringement

#### a. *The Court Must Determine the Objective Prong of Seagate as to the Defense of Invalidity*

During the bench trial, the parties disagreed as to whether the jury is the sole decider of the objective prong of the willful infringement inquiry. The Court will address this preliminary question first.

To establish willful infringement, a patentee must satisfy a two-pronged test. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). First, the patentee must "show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* In analyzing this prong, "[t]he state of mind of the

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<sup>1</sup> The USPTO had not yet issued a final determination regarding any of the Patents-in-Suit as of December 19, 2011.

accused infringer is not relevant.” *Id.* Second, and only after “[the objective prong] is satisfied, the patentee must demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.” *Id.*

Generally, the objective prong is not satisfied when the accused infringer relies on a reasonable defense to a charge of infringement. *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011). The decision of whether the court or the jury should determine the reasonableness of the infringer’s defense, and ultimately the objective prong of *Seagate*, largely depends on the nature of the defense.

If the resolution of a particular defense is a matter of law, the court must decide the reasonableness of that defense and, hence, the objective prong of *Seagate*. *Id.* “Should the court determine that the infringer’s reliance on a defense was not objectively reckless, it cannot send the question of willfulness to the jury.” *Id.* Alternatively, when the resolution of a particular defense is a factual matter, the jury must decide the reasonableness of that defense and, thus, the objective prong of *Seagate*. *Id.* at 1236-1237. Therefore, in certain circumstances, where the accused infringer presents separate issues of fact and law as defenses to infringement, the objective prong may require analysis by both the court and the jury. *Id.* at 1237. However, “[t]he objective and subjective willfulness questions should be sent to the jury only when the patentee proves by clear and convincing evidence that the objective prong of *Seagate* is met *as to the legal issues that have been decided by the court.*” *Id.* n.1 (emphasis added).

Defendants argue that, in addition to reasonably believing they did not infringe on the Patents-in-Suit, they reasonably relied on a number of defenses to Plaintiff’s infringement claims, including invalidity, laches, and equitable estoppel. To decide the narrow question of whether the issue of willfulness should be sent to the jury, the Court will focus on invalidity. Defendants contend that it was reasonable for them to conclude that Plaintiff’s patented claims were obvious, and therefore invalid, based on prior art. It is established law that “[t]he ultimate judgment of obviousness is a legal determination.” *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007); *see also Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 17 (1966) (holding that although the requirements of patentability, including the non-obviousness requirement, lend themselves to several basic factual inquiries, the ultimate question of patent validity is one of law). Therefore, so long as the basic underlying factual inquiries do not raise a triable issue of fact, the court should decide the reasonableness of defendant’s reliance on obviousness as a defense to an infringement claim.

Here, since the issue of obviousness presents no basic factual inquiries that require a jury to resolve, the Court must decide the reasonableness of Defendants’ reliance on obviousness as a defense to Plaintiff’s infringement claims. That is, the Court must decide whether the objective prong of *Seagate* is met.

b. *Plaintiff Fails to Satisfy the Objective Prong of Seagate*

Plaintiff argues that Defendants’ reliance on invalidity was objectively reckless. Defendants argue that, in light of the teachings of prior art such as Durkos ‘789, Landrus ‘312, and the Beavers guide, it was not unreasonable for them to conclude that the Patents-in-Suit were obvious and therefore invalid. The Court finds that Plaintiff does not meet the required burden of proof to establish the objective prong of *Seagate*.

As previously mentioned, in order to establish willful infringement, the patentee must first

“show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Tech., LLC*, 497 F.3d at 1371.

During the bench trial, both parties presented extensive evidence concerning obviousness of claims 1-3, 6-12, 14, 16-17, 20 and 23 of the ‘546 patent; claims 1-3, 6-9, 11-15, 18, 19, and 22 of the ‘402 patent; and claims 1-4, 6-10, 12, 14, 17-20 of the ‘454 patent. Defendants’ expert witness, Dr. Robert Sturges, testified that, in his opinion, the Patents-in-Suit were obvious based on prior art. According to Dr. Sturges, the only difference between the Patents-in-Suit and the Durkos ‘789 is a guide and a sensor. Dr. Sturges believed that an ordinary person skilled in the art would have thought of combining the various elements of the Durkos ‘789, the Landrus ‘312, and the Beavers guide to construct Plaintiff’s patented devices. Moreover, Defendants presented evidence that the USPTO, on reexamination, has questioned the validity of and rejected some of the claims of the Patents-in-Suit.

Plaintiff’s expert witness, Dr. John D. Pratt, had a different perspective. He testified that, in his opinion, the Patents-in-Suit were not obvious based on prior art. In fact, contrary to the Defendants’ expert witness, he argued that a combination of the Durkos ‘789 and the Beavers guide would not be operable. However, when Defendants’ counsel asked Dr. Pratt about his opinion regarding the USPTO’s decision invalidating some claims of the Patents-in-Suit, Dr. Pratt conceded that there was disagreement between experts as to whether the disputed claims were obvious based on prior art. In light of this evidence, the Court cannot hold as a matter of law that Defendants’ reliance on obviousness was objectively reckless.

In light of the foregoing, the Court finds Plaintiff falls far short of showing by clear and convincing evidence that Defendants acted despite an objectively high likelihood that their actions constituted infringement of a valid patent.<sup>2</sup> Since Plaintiff fails to establish the first prong of *Seagate*, the inquiry ends, and the Court does not send the issue of willfulness to the jury.

## 2. Defendants’ Equitable Defenses

### a. *Defendants Fail to Establish the Defense of Laches*

Defendants argue that Plaintiff’s claim for damages incurred prior to filing the lawsuit is barred by laches. The Court disagrees.

To establish laches, a defendant must prove that: (1) the patentee’s delay in bringing suit was unreasonable and inexcusable, and (2) the infringer suffered material prejudice attributable to the delay. *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992). “A presumption of laches arises where a patentee delays bringing suit for more than six years after the date the patentee knew or should have known of the alleged infringer’s activity.” *Id.*

As to the first element, “[t]he length of time which may be deemed unreasonable has no fixed boundaries but rather depends on the circumstances.” *Id.* at 1032. Courts measure the period of delay

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<sup>2</sup>The Court’s finding here is not irreconcilable with its denial of Defendants’ Motion for Summary Judgment of invalidity. That summary judgment required Defendants to overcome the statutory presumption of validity by proving obviousness by clear and convincing evidence based on undisputed facts, and all factual inferences drawn in favor of Plaintiff. Defendants’ failure to do so, however, does not automatically lead to the conclusion that their reliance on invalidity was objectively unreasonable.

from the time the plaintiff knew or reasonably should have known of the defendant's alleged infringing activities to the date of suit. *Id.* Moreover, in making their ultimate decision, courts consider and weigh any justification offered by the plaintiff for its delay. *Id.* at 1033.

Defendants argue that Plaintiff's delay in bringing suit was unreasonable and caused them evidentiary and economic prejudice. However, Defendants' evidence is too sparse and insufficient to conclude that Plaintiff's delay in bringing suit was unreasonable. Plaintiff first became aware of the infringing device when Duane Durkos saw it in Parkersburg Plant in July 2005. After becoming aware of the infringing device, Plaintiff attempted to negotiate a business solution with Defendants and eventually sent them multiple offer-to-license letters. For example, on June 23, 2006, Plaintiff sent a letter to Simmons, offering to license the '546 and Imaginal's other then-pending patents to Simmons. Similarly, on October 8, 2007, Plaintiff informed Defendants of the issuance of the '402 patent and again offered to license this patent to Defendants.

Moreover, Plaintiff claims that it did not have accurate and sufficient information regarding Defendants' infringing devices until February 2010. At least for a while, Plaintiff believed that Leggett was modifying the TopOff to avoid infringing on Imaginal's patents. After business negotiations proved futile, Plaintiff filed a complaint against Defendants on October 4, 2010.

In light of the foregoing, the Court finds that (1) no presumption of laches arises because Plaintiff did not delay bringing suit for more than six years after learning of Defendants' infringing activity; and (2) Plaintiff's delay, if any, in bringing suit was not unreasonable and inexcusable.

Thus, since Defendants fail to establish that Plaintiff's delay in bringing suit was unreasonable and inexcusable, the defense of laches fails.

b. *Defendants Fail to Establish the Defense of Equitable Estoppel*

Defendants also argue that Plaintiff is estopped from asserting its infringement claims because it engaged in inequitable conduct. The Court disagrees.

To invoke equitable estoppel, a defendant must establish that: (1) the patentee, through misleading conduct, led the alleged infringer to reasonably infer that the patentee does not intend to enforce its patent against the alleged infringer; (2) the alleged infringer relied on that conduct; and (3) due to its reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its claim. *A.C. Aukerman Co.*, 960 F.2d at 1028.

Defendants fail to present any evidence tending to prove that Plaintiff engaged in misleading conduct. Defendants argue that Plaintiff's offer-to-license letters were misleading because they did not threaten Defendants with a lawsuit. Additionally, Defendants argue that they relied on Plaintiff's silence and expanded their business relationship after Defendants communicated to Plaintiff that they did not believe they needed a license for Plaintiff's technology. Specifically, Defendants contend that Plaintiff's failure to respond to a letter from Simmons requesting additional information regarding Plaintiff's infringement claims led them to believe that Plaintiff was not interested in protecting its patents.

After a careful review of Plaintiff's offer-to-license letters, the Court finds that these letters were not misleading as they explicitly illustrated Plaintiff's intention to fully protect and enforce its patents. Plaintiff's failure to respond to Simmons's request for additional information was also not misleading, as Plaintiff did not have an affirmative obligation to respond to such requests. Moreover, Plaintiff's failure to respond does not make it reasonable for Defendants to infer that Plaintiff would not enforce its

patents.

In sum, the Court finds that Defendants fail to show that Plaintiff, through misleading conduct, led them to reasonably infer that Plaintiff did not intend to enforce its patents. Therefore, Defendants' defense of equitable estoppel fails.

**III. CONCLUSION**

Based on the foregoing, the Court finds that:

1. Defendants' infringement of the Patents-in-Suit was not willful.
2. Defendants fail to establish laches.
3. Defendants fail to establish equitable estoppel.

**IT IS SO ORDERED.**

Initials of Preparer \_\_\_\_\_ : \_\_\_\_\_  
slw