Appellant's Brief

CORRECTED
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BRIEF FOR APPELLANT A. C. AUKERMAN COMPANY

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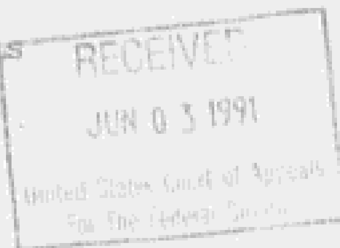

90-1137

A. C. AUKERMAN COMPANY,

Plaintiff-Appellant,

v.

R. L. CHAIDES CONSTRUCTION CO.,

Defendant-Appellee.

APPEAL FROM A DECISION OF THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
JUDGE SPENCER WILLIAMS

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iv

CERTIFICATE OF INTEREST vii

STATEMENT OF RELATED CASES viii

STATEMENT OF JURISDICTION ix

I. STATEMENT OF THE ISSUES PRESENTED FOR REVIEW 1

II. STATEMENT OF THE CASE 1

A. Introduction 1

B. The Plaintiff/Appellant And The Patented Invention 2

C. The Defendants/Appellees 3

D. Early Acceptance Of The Invention 4

E. Chaides' Infringement 5

1. Initial Notice To Chaides: Aukerman's Letter Of February 13, 1979 6

2. Aukerman's Letter of March 16, 1979 6

3. Aukerman's Letter of April 12, 1979 7

4. Chaides' Telephone Message To Aukerman On April 17, 1979 7

5. Aukerman's Letter of April 24, 1979 7

6. Chaides' Handwritten Note (Circa April 26, 1979) 8

F. Aukerman Has Been Continuously Engaged In Litigating Its Patents Against Others Since 1979 . 9

G. Aukerman's Discovery Of Chaides' Misrepresentations And Substantial Infringing Activity In 1988 10

III. SUMMARY OF ARGUMENT 11

A. Laches 11

B. Estoppel 14

C. Genuine Issues Of Material Fact 15

IV. ARGUMENT 15

A. Summary Judgment is Inappropriate Where Genuine Issues of Material Fact Exist 15

B. Aukerman's Claim Is Not Barred by Laches 17

1. Laches: The General Rules Of Law 17

2. Chaides' Conduct in Substantially Increasing Infringing Activity and Making an Illicit Copy of Aukerman's Mold Constitute Infringing Acts Entitling Aukerman to Relief . 18

3. Chaides May Not Rely Upon Alleged Delay In Bringing Suit, Since His Own Misrepresentations Caused The Delay 21

4. Chaides' Egregious Conduct Tips The Balance Of Equities Against Him 24

5. Aukerman's Ongoing Patent Litigation Excuses The Alleged Delay. Chaides Had No Reasonable Basis For Any Belief That Aukerman Acquiesced In His Infringement. Moreover, Whether Chaides Actually Held Such A Belief Is, At Best, An Unresolved Issue Of Material Fact . . 27

6. Chaides' Alleged Prejudice Is Of His Own Making And False 33

a. It Is Reasonable To Infer That Chaides Would Have Purchased The Commander III Machine 34

b. It Is Reasonable To Infer That Chaides Would Not Have Gone Into Bankruptcy . . . 35

c. It Is Reasonable To Infer That Chaides Would Have Bid Low On The Projects . . . 36

d. It Is Reasonable To Infer That Chaides Is Not Prejudiced By Any Loss Of Documents Or Memories 37

C. Aukerman's Claim Is Not Barred by Estoppel 38

1. The Law of Estoppel Defeats Chaides' Defense . 38

2. The District Court Erred in finding that Chaides Had Met His Burden Of Proof For Estoppel 41

V. CONCLUSION 44

VI. ATTACHMENT 1 - JUDGMENT, ORDER GRANTING DEFENDANT'S MOTION FOR SUMMARY JUDGMENT, AND ORDER DENYING PLAINTIFF'S MOTION FOR REHEARING

TABLE OF AUTHORITIES

CASES — Page

Decisions--Federal

A. C. Aukerman Co. v. Aparicio Cement Contractor, Inc., U.S. District Court, Northern District of California, Civil Action No. C88 20705 WAI viii

A.B. Chance Co. v. RTE Corp., 854 F.2d 1307 (Fed. Cir. 1988) 15, 16, 34, 43

A.C. Aukerman Co. v. Jasper Const. Co., 795 F.2d 1015 (Fed. Cir. 1986) 39

A.C. Aukerman Co. v. Miller Formless Co., 693 F.2d 697 (7th Cir. 1982) 18, 39

Albert v. Kevex Corp., 729 F.2d 757, reh'g denied, 741 F.2d 396 (Fed. Cir. 1984) . . . 17

American Home Products Corp. v. Lockwood Manufacturing Co., 483 F.2d 1120 (2d Cir. 1973) 28

Anaconda Co. v. Metric Tool & Die Co., 485 F. Supp. 410 (E.D. Pa. 1980) 24

Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986) . 16, 19

Autoclave Engineers, Inc. v. Duriron Co., 190 U.S.P.Q. 125 (E.D. Pa. 1976) 20

Bott v. Four Star Corp., 807 F.2d 1567 (Fed. Cir. 1986) 17, 24, 27

Broomall Industries v. Data Design Logic Systems, 786 F.2d 401 (Fed. Cir. 1986) 40

Burlington Indus. v. Dayco Corp., 849 F.2d 1418 (Fed. Cir. 1988) 16

Caterpillar Tractor Co. v. International Harvester Co., 32 F. Supp. 304 (D.N.J. 1940) 39

Cooper v. Ford Motor Co., 748 F.2d 677 (Fed. Cir. 1984) 16

Finish Engineering Co. v. Zerpa Industries, Inc., 806 F.2d 1041 (Fed. Cir. 1986) 16

Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568 (Fed. Cir. 1988) 23

Holmberg v. Armbrecht,
327 U.S. 392, 90 L. Ed. 743, 66 S. Ct. 582 (1946) 21

Hottel Corp. v. Seaman Corp.,
833 F.2d 1570, 1573 (Fed. Cir. 1987) 40, 41

Jamesbury Corp. v. Litton Industrial Products Inc.,
839 F.2d 1544 (Fed. Cir. 1988) 17, 27-33, 39, 40

Jenn-Air Corp. v. Penn Ventilator Co.,
464 F.2d 48 (3d Cir. 1972) 28, 33

Johnson & Johnson v. W.L. Gore & Associates, Inc.,
436 F. Supp. 704 (D.Del. 1977) 20

KangaROOS U.S.A., Inc. v. Caldor, Inc.,
778 F.2d 1571(Fed. Cir. 1985) 17, 34

Keiser v. J. Wiss & Sons Co.,
173 U.S.P.Q. 594 (D. N.J. 1972) 19

Leinoff v. Louis Milona & Sons, Inc.,
726 F.2d 734 (Fed. Cir. 1984) 18, 27

Lemelson v. TRW, Inc.,
760 F.2d 1254 (Fed. Cir. 1985) 15

Lever Brothers Co. v. Procter & Gamble Co.,
668 F. Supp. 924 (D.N.J. 1987) 20

Mainland Industries, Inc. v. Standal's Patents Ltd.,
799 F.2d 746 (Fed. Cir. 1986) 18, 29, 30, 38

Menendez v. Holt,
128 U.S. 514, 32 L. Ed. 526, 9 S. Ct. 143 (1888) 38; 39

MGA Inc. v. Centri-Spray Corp.,
639 F. Supp. 1238 (E.D. Mich. 1986) 20

Perry v. Reeves Steel & Manufacturing Co.,
8 F.R.D. 318 (N.D. Ohio 1948) 39

Pierce v. International Telephone & Telegraph Corp.,
147 F. Supp. 934 (D.N.J. 1957) 39

Poller v. Columbia Broadcasting System, Inc.,
368 U.S. 464, 82 S.Ct. 486, 7 L.Ed.2d 458 (1962) 17

Potash Co. of America v. International Min. &
C. Corp., 213 F.2d 153 (10th Cir. 1954) 21

SRI Int'l v. Matsushita Elec. Corp.,
775 F.2d 1107 (Fed. Cir. 1986) 16

Stickle v. Heublein, Inc., 716 F.2d 1550, 219 U.S.P.Q. 377 (Fed. Cir. 1983) 40

Studiengesellschaft Kohle v. Dart Industries, 726 F.2d 724 (Fed. Cir. 1984) 40

Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d 1315 (5th Cir. 1980) cert. denied, 449 U.S. 1014 (1980) 17, 18, 28

Tripp v. United States, 406 F.2d 1066 (Ct. Cl. 1969) 20

TWM Manufacturing Co. v. Dura Corp., 592 F.2d 346 (6th Cir. 1979) 18, 24, 40

Underwater Devices, Inc. v. Morrison-Knudsen Co., 717 F.2d 1380 (Fed. Cir. 1983) 27

United States v. Diebold, Inc., 369 U.S. 654, 82 S. Ct. 993, 8 L. Ed. 2d 176 (1962) 16

Watkins v. Northwestern Ohio Tractor Pullers Association, 630 F.2d 1155 (6th Cir. 1980) 18, 29, 32

STATUTES

28 U.S.C. § 1295 ix

28 U.S.C. § 1338 ix

28 U.S.C. § 2107 ix

35 U.S.C. § 100 ix

RULES

Fed. R. Civ. P. 56(c) 16

Rule 4(a) of the Rules of Appellate Procedure ix

OTHER

4 D. Chisum, Patents, § 19.05[2] (1988) 29

D. Chisum, Patents § 19.05(2)(ii) (1989) 20

CERTIFICATE OF INTEREST

The undersigned counsel of record for Plaintiff-Appellant A.C. Aukerman furnishes the following in compliance with Rule 47.4.

(1) The full name of every party and amicus represented by the attorney in the case. **A. C. Aukerman Company.**

(2) The name of the real party in interest if the party named in the caption is not the real party in interest. **A. C. Aukerman Company.**

(3) Any publicly held affiliates if a party or amicus curiae is a corporation. **None.**

(4) The names of all law firms whose partners or associates have appeared for the party in the lower tribunal or are expected to appear for the party in this court. **Townsend and Townsend.**

STATEMENT OF RELATED CASES

1. There have been no other appeals in or from this civil action in the district court.

2. There is no other case known to Aukerman that would directly affect or be directly affected by this court's decision in the pending appeal. The court's decision may have an indirect affect on A. C. Aukerman Co. v. Aparicio Cement Contractor, Inc., Civil Action No. C88 20705 WAI, Northern District of California.

STATEMENT OF JURISDICTION

(a) The statutory basis for the jurisdiction of the District Court is the Patent Laws of the United States, Title 35 U.S.C. §§ 100 et seq. and 28 U.S.C. § 1338 (1970).

(b) The statutory basis for jurisdiction of this court to hear the appeal is 28 U.S.C. § 1295 (1989).

(c) The appeal is timely under 28 U.S.C. § 2107 (1978) and Rule 4(a) of the Rules of Appellate Procedure.

I. STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the district court err in resolving all genuine issues of material fact including issues of intent and state of mind in favor of the moving party in a summary judgment proceeding?

2. Did the district court err in deciding that the patentee's claim is barred by laches, when the patentee's delay in filing suit was reasonable and excusable under the circumstances?

3. Did the district court err in deciding that the patentee's claim was barred by equitable estoppel when the patentee was not guilty of any misrepresentation, affirmative act of misconduct or intentionally misleading silence?

II. STATEMENT OF THE CASE

A. Introduction

This is an appeal from a judgment of the U.S. District Court for the Northern District of California barring Aukerman's suit for patent infringement against Chaides because of laches and estoppel.

In the court below, Chaides moved for summary judgment, arguing that Aukerman's action for patent infringement was barred by laches and estoppel. Despite evidence that: (a) Chaides had engaged in substantial infringement activity after advising Aukerman that his use was _de minimis_; (b) Chaides had deliberately copied Aukerman's patented invention (c) Chaides misled Aukerman by misrepresenting infringing use thereby causing the delay; and (d) Aukerman was involved in other litigation to

enforce the patents throughout the period of the alleged delay, the district court entered summary judgment in Chaides favor on both laches and estoppel grounds. The effect of the district court judgment is to bar any claim against Chaides for past or future infringement.

On appeal this Court must determine for itself whether the standards for summary judgment have been met; it is not bound by the district court's ruling that there were no material factual disputes requiring resolution.

B. <u>The Plaintiff/Appellant And The Patented Invention</u>

Plaintiff A.C. Aukerman Co., a highway construction company ("Aukerman"), is the owner of U.S. Patent Nos. 3,792,133 and 4,014,633 (the '133 and '633 patents). The inventor of each patent is Roy R. Goughnour of Mason, Michigan. At the time of the invention, Mr. Goughnour was an employee of Aukerman. He has assigned the patents to Aukerman. These patents relate to concrete barrier walls, commonly used to divide opposed lanes of oncoming traffic on freeways and highways across the nation.

There are two structural types of concrete barrier wall relevant to the present litigation: "symmetric" wall, used to divide lanes of traffic at the same elevation; and "asymmetric" wall, used to divide lanes of traffic at different elevations (also referred to as "step" wall or "variable wall").

Prior to the invention, highway contractors had been able to slip form symmetric wall; however, step wall had to be hand formed. "Slip forming" is a construction technique in which concrete barrier wall is extruded from a mold as the mold is moved down the highway. (App. 118). "Hand forming" is a construction technique in which concrete barrier wall is either pre-cast at another site, or cast-in-place at the site, with fixed molds. (App. 118, 274).

Hand forming is far more costly than slip forming. (Id.). At the time of the invention, symmetric wall could be slip formed for $15-20/foot; whereas step wall cost on the order of $65-70/foot to hand form, due to the extra time and difficulty of hand forming and because it is so labor intensive.

By discovering how to slip form step wall, Goughnour's invention allowed contractors to pour step wall for roughly the same price as symmetric wall...saving about $50 per foot. Moreover, with Goughnour's mold, contractors could pour symmetric wall and step wall with the same mold.

The '133 patent, issued February 12, 1974, is for a method of slip-forming step wall; and the '633 patent, issued March 29, 1977, is for slip-form apparatus (a mold) which can be used to slip form both step wall and symmetric.

C. The Defendants/Appellees

Defendant/Appellee Rudy L. Chaides is president, founder, majority owner, and director of Defendants/Appellees R.L. Chaides Construction Co. and Chaides Equipment Company,

California corporations, with principal places of business in Fremont, California. Defendant/Appellee R.L. Chaides Construction Company pours slip formed concrete barrier wall. Defendant Chaides Equipment Company is owner of some or all of the equipment used by Chaides Construction Co. Collectively, these three entities are referred to as "Chaides."

D. Early Acceptance Of The Invention

The first use of Aukerman's inventions was in Michigan in September 1971, when Arlie Aukerman, a highway construction contractor, used Goughnour's revolutionary adjustable mold to pour variable concrete highway barrier wall. (App. 118, ¶ 3). "This type of barrier construction was new to the [State of Michigan Department of Transportation] at the time." (App. 152-53, ¶ 2). It was also new to other contractors. One highway construction contractor traveled from California to visit the Michigan construction site and to view slip forming of concrete highway barrier wall. (Id. at ¶¶ 4-5). Moreover, technical trade magazines published articles describing the new slip form method. (App. 284-86).

Aukerman's method, by lowering the cost of concrete barrier wall, helped allow communities across the nation to afford this important highway safety device. (App. 118, ¶ 5). The "concrete median barrier ... is by far the most common rigid traffic barrier in use today." (App. 272). These concrete barriers have saved thousands of lives. (App. 250-62). In California, it is estimated that these median barriers "prevent more than 6000 cross-median errant vehicle excursions every year,

each of which could result in a fatal, head-on collision with an unsuspecting motorist in the opposing lane of traffic." (App. 165, ¶ 13).

E. Chaides' Infringement

One of Aukerman's first licensing agreements, to settle litigation initiated in 1977, was with Gomaco Corporation, a manufacturer of highway construction equipment. The parties agreed that Gomaco would pay Aukerman a royalty of $300 for each adjustable mold they manufactured and sold. More importantly, Gomaco would report the identity of each customer purchasing a mold so that Aukerman could pursue licensing agreements with these customers for use of the mold to pour step wall. The Gomaco license allowed contractors to buy a mold from Gomaco and to use that mold to form symmetrical wall without paying a royalty to Aukerman; however, such contractors were obliged to pay Aukerman a royalty if they used the mold to pour step wall. Once learning the identity of a person who purchased a Gomaco mold, it was Aukerman's practice to send notice of its patent rights and offer to license use of the adjustable mold to pour step wall. (App. 118, ¶ 6). To induce contractors to take licenses without litigation, Aukerman offered licenses at a nominal rate of $.25 for step wall 12 inches or less above standard wall height, and $.75 per foot for step wall greater than 12 inches above standard wall height. (App. 121, 199).

1. Initial Notice To Chaides: Aukerman's Letter Of February 13, 1979

When Aukerman learned from Gomaco of Chaides' purchase of a Gomaco mold, Aukerman sent Chaides the original licensing letter, by certified mail, on February 13, 1979. The letter included copies of the patents-in-suit,[1] and stated that, since Chaides owned a Gomaco slip form, Chaides' "use of [the form] raises a question of infringement with respect to one or more of these patents (e.g., if he used the mold to pour step wall)." The letter further notified Chaides of the litigation with Gomaco and one of its slip form customers, and the fact that the litigation had been settled by Gomaco and its customer purchasing licenses under the patents. The letter further stated that Chaides could have a license under the patents at the aforementioned $.25/0.75 per-foot rate, and enclosed a proposed form of license agreement. (App. 199). Chaides ignored this letter.

2. Aukerman's Letter of March 16, 1979

On March 16, 1979, Aukerman sent Chaides a second letter, noting that Chaides had not responded to the earlier letter, and stating (a) that all barrier wall contractors in the U.S. and Canada, of whom Aukerman was aware, were being notified of the patents and offered licenses, and (b) that if Chaides would "promptly enter into good faith negotiations" for a license, Aukerman would "waive liability for past infringement"

[1] The letter also referred to a third patent, pertaining to a gate structure on the slip form. Chaides does not appear to use the invention of this patent and, therefore, it is no longer in issue in the present suit.

and "give consideration to current contracts." (App. 200). Chaides ignored this letter, too.

3. Aukerman's Letter of April 12, 1979

On April 12, 1979, Aukerman sent a third letter to Chaides, stating that the offer to "waive liability for past infringement and infringement arising from the performance of existing contacts" would expire unless negotiations were commenced by June 1, 1979. (App. 201). The letter further said that "On that date, sufficient time will have elapsed to permit the license offer to be evaluated and legal action will be instituted against infringers. We await your position." (App. 201).

4. Chaides' Telephone Message To Aukerman On April 17, 1979

On April 17, 1979, Chaides telephoned Aukerman, and left a message that Aukerman should leave him alone because his use of the mold to pour asymmetrical (variable) wall was *de minimis*.[2]

5. Aukerman's Letter of April 24, 1979

On April 24, 1979, Aukerman wrote Chaides advising him that "the fact that you do not pour much asymmetrical wall does not relieve you of liability for patent infringement." (App. 202). Aukerman's letter went on to urge Chaides to take a

[2] There is no record of the April 17 message; however, it is reasonable to infer the content of that message from Aukerman's letter to Chaides of April 24, 1979, in which Aukerman apologized "for being out of the office when you called on April 17," and advising Chaides that "the fact that you do not pour much asymmetrical wall does not relieve you of liability for patent infringement." (App. 202).

license, despite his alleged small usage, since "there is no cost involved unless you are ... pouring asymmetrical highway barrier wall," and "if you are only pouring 300 to 400 feet at a time, the cost of the license is reasonable, and the inclusion of the royalty in your bid price is a bona fide cost." The April 24 letter also notified Chaides that "Mr. Aukerman is enforcing his patent rights against infringers and even though you may be among the smaller contractors you have the same need for a license as the large firms." (App. 202).

The April 24, 1979 letter concluded with the suggestion that Chaides take a license before the June 1, 1979 deadline (for waiver of past infringement and infringement arising from the performance of existing contracts).

6. Chaides' Handwritten Note (Circa April 26, 1979)

On April 30, 1979, Aukerman received from Chaides a copy of the April 24 letter, with Mr. Chaides' handwritten note of reply at the bottom. In this note, Mr. Chaides again represented that his use was de minimis: "Please be advised, I bought my mule through Gomaco and I feel any responsibility is theirs. If you would like to sue me for $200 - $300 a year, please feel free to do so."[3] (Emphasis added). (App. 203). According to Chaides, his attitude was that "the liability was so small, $200 or $300 a year, ... it just didn't make any difference even if (he) lost a lawsuit..." (App. 236). On that basis, Chaides said he "felt it was reasonable to keep doing what

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[3] The use of the term "mule" is Chaides' reference to the a slip form or mold. (App. 209, lines 14-16).

he was doing and see what happened" (Id.), and that his state of mind in this respect never changed. (App. 239). Chaides apparently felt that his professed level of use was small enough that it would not result in a suit from Aukerman. Chaides made these statements and formed this state of mind on his own, without advice of counsel and without reading the patents. Indeed, Chaides neither consulted an attorney nor read the patent until after he was sued in 1988. (App. 232).

F. Aukerman Has Been Continuously Engaged In Litigating Its Patents Against Others Since 1979

Confronted with this threat of additional litigation over an apparently de minimis claim, Aukerman sued more substantial infringers first. Aukerman was faced with widespread infringement that has required a substantial commitment of funds for continued enforcement. (App. 119, 122-24, 154-63). Aukerman's other litigation also included a contested reissue proceeding before the U.S. Patent Office, which lasted for four years and resulted in a decision upholding the validity of the patents in the face of allegedly invalidating prior art submitted by a protestor. (App. 119, 287-322).

Over the past ten years, Aukerman has been engaged in patent litigation, primarily federal court actions to enforce its patent rights against infringers. (App. 122-124, ¶ 2). All enforcement actions resolved to date have ultimately resulted in: 1) licensing agreements in Aukerman's favor; or 2) the infringing company no longer pouring barrier wall. (App. 124, ¶ 3).

G. Aukerman's Discovery Of Chaides' Misrepresentations And Substantial Infringing Activity In 1988

In 1987, one of Aukerman's licensees (Michael Baumgartner, Inc.) reported that Chaides had been pouring a significant amount of infringing barrier wall. Aukerman again wrote Chaides and offered a license. (App. 120, ¶ 10; App. 204-205). When Chaides again ignored Aukerman's offer to license, Aukerman filed the present suit.

During discovery, Aukerman further learned that Chaides owns a second variable mold for pouring step wall, and that Chaides built this mold himself, by copying the Gomaco mold. (App. 224-226, 334-35, 243-49). Aukerman learned that Chaides copied the mold to avoid paying the price charged by Gomaco, a licensed manufacturer. (App. 245-46). Aukerman learned that Chaides copied the Gomaco mold by using the original Gomaco mold Chaides purchased in 1978 as a model. Moreover, Chaides even attempted to illegally induce a Gomaco distributor to give him a set of Gomaco mold blueprints. (App. 334-5, 243-49).

In addition, Aukerman has further learned through discovery that Chaides' use of the adjustable mold greatly exceeded his 1979 representations. Records show that in 1980, during Chaides' first full year of use of Aukerman's adjustable mold, Chaides poured over 3100 feet of variable concrete barrier wall, which is roughly ten times more wall than Chaides said he would be pouring. (App. 174). Moreover, on just <u>one</u> job in 1981, Chaides poured 13,000 feet of variable wall; this was 30 to 40 times more wall than Chaides said he would be pouring <u>annually</u>. (App. 330-33). Chaides' records, gathered during

discovery, indicate that he has been a substantial vendor of barrier wall.

III. SUMMARY OF ARGUMENT

A. Laches

The district court's grant of Chaides' motion for laches must be reversed for several reasons:

(1) Chaides may not rely upon Aukerman's failure to sue him in 1979 to excuse his later infringement, since the later infringement was a separate infringement from the infringements which may be barred by laches. In 1979, Chaides represented that he was using only an otherwise licensed Gomaco mold; and that his only infringing (step wall) usage of that mold would be _de minimis_. These representations led Aukerman to pursue other infringers. Yet, by the mid 1980's, Chaides constructed and began using an unlicensed copy of the Gomaco mold, and engaged in substantial infringement. Because the nature and extent of Chaides' infringing activity changed, they must be regarded as infringement separate and apart from the 1979 activities which gave rise to the delay. Thus, Aukerman may be barred by laches from suing Chaides for any of his _de minimis_ usage of the Gomaco mold, but not for later significant and substantial infringement with the Gomaco mold and Chaides' copy of it.

(2) Viewed alternatively, Chaides' 1979 representation (that his only infringement would be _de minimis_ use of the licensed Gomaco mold) has proven to be demonstrably false. Later infringement was substantial, and expanded to include use of a wholly unlicensed mold. It is also a reasonable inference from

the evidence that this false representation was what caused Aukerman to delay bringing suit (He sued as soon as he learned that Chaides was engaged in substantial infringement). Thus, because it is reasonable to infer that Chaides' false representation caused the very delay he now relies upon as laches, the district court erred in using that delay as the basis for granting Chaides' laches motion for summary judgment.

(3) In addition, there is a genuine factual dispute as to whether Chaides engaged in "egregious conduct" so as to balance the equities against him and deprive him of these equitable defenses. Shortly after he learned about the patent, Chaides built a copy of Aukerman's patented product using a licensed product as a model. Prior to this, Chaides unsuccessfully tried to induce the licensee's distributor to give him illicit blueprints of the licensed product. The district court erred in refusing to consider this conduct as an offset against the laches defense, because the district court determined that Aukerman had failed to prove Chaides' copy was an infringement. Yet, there is at least a genuine issue of fact on this point. Chaides introduced no evidence of non-infringement, whereas Aukerman introduced substantial evidence of infringement including an unchallenged patent expert's opinion of infringement and Chaides' own admissions that he could not think of any material differences between his unlicensed copy and the licensed Gomaco mold.

(4) There is also a genuine factual dispute as to whether Chaides believed that Aukerman had acquiesced in Chaides'

unlicensed use of the invention. Aukerman has been engaged in patent litigation against others throughout the period of alleged delay. Such litigation excused Aukerman from not bringing suit earlier against Chaides. Given the communication between the parties and Chaides' testimony, it is reasonable to infer that Chaides had no reasonable basis for believing that Aukerman had acquiesced in Chaides' unlicensed use of the invention. Thus, the district court erred in deciding that Aukerman's delay in bringing suit was unreasonable and unexcused.

(4) The district court also erred in deciding that Aukerman's delay in bringing suit was prejudicial to Chaides, since it is reasonable to infer that Chaides' assertions of prejudice are false. Chaides complains that documents and memories from 1971 have been lost because he wasn't sued in 1979 (or at least by 1985); however, there is no evidence that such memories and/or documents still existed by 1979 (let alone 1985). Besides, whatever memories and documents did exist at that time have been recorded in Aukerman's prior litigation, and all such records (not privileged) have been turned over to Chaides. Similarly, Chaides' claim that he would not have stayed out of bankruptcy if he had believed he owed liability to Aukerman asks this Court to believe this was Chaides' state of mind (inherently a factual issue) in a matter that is inherently suspect: Chaides' debts at the time he decided to forego bankruptcy (non-payment of $200,000 employee withholding taxes) were not dischargeable by bankruptcy, and their continued non-payment would have subjected Chaides to personal fines of 100% (also not

dischargeable). Likewise, Chaides' assertion that he would not have purchased his Commander III paving machine if he had believed he had liability to Aukerman again asks the Court to believe Chaides' version of his own state of mind (a question of fact), where that version is impossible to believe: According to Chaides, the Commander III's primary value was in non-infringing work (curbs, gutters, sidewalks), so that it is reasonable to infer that he would have bought it regardless of his infringement. Similarly, Chaides contention that he would have included a royalty fee in contracts is belied by his own testimony. Chaides has said he believed his liability to Aukerman was so small that he just didn't care. Thus, it is reasonable to infer that he would not have charged any more for his work even if he had known that he would owe Aukerman a royalty.

B. Estoppel

The district court's ruling on estoppel must be reversed for each of the above reasons and also because there is at least a genuine issue of material fact as to whether (1) there was any intentional bad faith conduct by Aukerman, inducing Chaides to believe that Aukerman had abandoned its claims against Chaides; and (2) Chaides acted in detrimental reliance upon anything Aukerman did or did not do, or only in the belief that whatever liability he had, it was minor. Chaides admits that his conduct was not affected by Aukerman's conduct. Thus, it was error for the district court to have found that Chaides acted in detrimental reliance upon any affirmative conduct by Aukerman. Moreover, Chaides has offered absolutely no evidence that

Aukerman acted in bad faith or intentionally misled Chaides. Finally, regardless of the delay in bringing suit, Chaides should not have a continuing right to take Aukerman's property without consent.

C. Genuine Issues Of Material Fact

The district court's judgment as to both laches and estoppel must be reversed because, in order to affirm it, the Court would need to decide several genuine issues of material fact including ones involving intent and state of mind. In addition, the Court would need to resolve numerous inferences in Chaides' favor which it was not permitted to do in a summary judgment proceeding.

IV. ARGUMENT

A. Summary Judgment is Inappropriate Where Genuine Issues of Material Fact Exist

To affirm a grant of summary judgment, this Court must determine that the record demonstrates an absence of any actual dispute as to factual inferences which would have a material impact on the entitlement of the summary judgment movant to judgment as a matter of law. As a district court has no genuine discretion in determining whether to grant summary judgment, a reviewing court must determine de novo that the strict standard to be applied by the district court has been met. Lemelson v. TRW, Inc., 760 F.2d 1254 (Fed. Cir. 1985). This court is not bound by the district court's ruling that there were no material factual disputes requiring resolution. A.B. Chance Co. v. RTE Corp., 854 F.2d 1307 (Fed. Cir. 1988). Nor is this Court bound by the "clearly erroneous" standard of review, because proper

summary judgment is not based upon debatable findings of fact. Burlington Indus. v. Dayco Corp., 849 F.2d 1418 (Fed. Cir. 1988).

Fed. R. Civ. P. 56(c) provides that summary judgment shall be granted only "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact" (emphasis added). As moving party, Chaides bears the burden of proof, i.e., of demonstrating the absence of any genuine issue of material fact. A.B. Chance Co., 854 F.2d at 1311; SRI Int'l v. Matsushita Elec. Corp., 775 F.2d 1107, 1116 (Fed. Cir. 1986). Summary judgment will not lie under Rule 56(c) if the dispute about a material fact is "genuine", that is, if the evidence is such that a reasonable jury could return a verdict for the nonmoving party. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202, 212 (1986).

The Court must view the evidence in the light most favorable to the respondent. Any doubt as to the existence of issues of material fact must be resolved against the moving party, Chaides; and all reasonable inferences must be drawn in Aukerman's favor. A.B. Chance Co. v. RTE Corp., 854 F.2d 1307 (Fed. Cir. 1988); Finish Engineering Co. v. Zerpa Industries, Inc., 806 F.2d 1041 (Fed. Cir. 1986); Cooper v. Ford Motor Co., 748 F.2d 677, 679 (Fed. Cir. 1984); United States v. Diebold, Inc., 369 U.S. 654, 655, 82 S. Ct. 993, 994, 8 L. Ed. 2d 176 (1962).

In addition, "[s]ummary procedures should be used sparingly ... where motive and intent play leading roles....," Poller v. Columbia Broadcasting System, Inc., 368 U.S. 464, 473, 82 S. Ct. 486, 491, 7 L. Ed. 2d 458 (1962). See also Albert v. Kevex Corp., 729 F.2d 757, 763, reh'g denied, 741 F.2d 396 (Fed. Cir. 1984) (intent is a factual matter rarely free from dispute); KangaROOS U.S.A., Inc. v. Caldor, Inc., 778 F.2d 1571, 1577 (Fed. Cir. 1985) ("...intent to deceive or mislead is a genuine issue of material fact, and ... the [lower] court erred in summarily drawing factual inferences adverse to [the nonmoving party], while denying [the nonmoving party] the opportunity to testify on the issue.").

As discussed in the context of the laches and estoppel arguments that follow, there is evidence of disputed, highly material issues of fact involving intent on both sides that require reversal of the district court judgment.

B. Aukerman's Claim Is Not Barred by Laches

1. Laches: The General Rules Of Law

Laches is an equitable defense which is determined from all of the facts of the particular case. Jamesbury Corp. v. Litton Industrial Products Inc., 839 F.2d 1544, 1551 (Fed. Cir. 1988); Bott v. Four Star Corp., 807 F.2d 1567, 1576 (Fed. Cir. 1986); Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d 1315 (5th Cir. 1980), cert. denied, 449 U.S. 1014 (1980).

Mere delay in bringing suit is not, of itself, sufficient to constitute laches. Instead, the moving party is required to prove: (1) unreasonable and inexcusable delay in the

assertion of the claim; and (2) material prejudice to Chaides resulting from this delay. Mainland Industries, Inc. v. Standal's Patents Ltd., 799 F.2d 746 (Fed. Cir. 1986); Leinoff v. Louis Milona & Sons, Inc., 726 F.2d 734 (Fed. Cir. 1984); A.C. Aukerman Co. v. Miller Formless Co., 693 F.2d 697 (7th Cir. 1982).

If the patentee has taken more than six years to file suit against an infringer, the burden shifts to the patent holder to prove the existence and reasonableness of the excuse or to rebut the presumption of prejudice. Mainland, 799 F.2d at 748; Leinoff, 726 F.2d at 741; Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d at 1326; TWM Manufacturing Co. v. Dura Corp., 592 F.2d 346 (6th Cir. 1979).

2. Chaides' Conduct in Substantially Increasing Infringing Activity and Making an Illicit Copy of Aukerman's Mold Constitute Infringing Acts Entitling Aukerman to Relief

Chaides' construction and use of an illicit mold (first revealed during discovery) and Chaides' substantial infringing activity following representation of de minimis use to Aukerman are infringing acts entitling Aukerman to maintain suit for damages for past infringement. See pp. 11-13 supra. Thus, the district court erred in treating Chaides' activities from 1979 to the present as a single act of infringement. See Watkins v. Northwestern Ohio Tractor Pullers Association, 630 F.2d 1155, 1159 (6th Cir. 1980) (improper to grant summary judgment because "There were circumstances in dispute --notably ... whether or not Heartbreaker II [built in 1974] is sufficiently different to be a

separate infringing act from Heartbreaker I [built in 1967]"); cf. Anderson v. Liberty Lobby, Inc., 477 U.S. at 249 ("[A]t the summary judgment stage the judge's function is not himself to weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial").

When Chaides told Aukerman that his use would only amount to $200-300 per year it was reasonable for Chaides to believe that Aukerman would not sue for such a small amount. Indeed, it was reasonable for Aukerman not to undertake the expense of a federal suit and the time of a federal court for such a small amount. When Chaides thereafter engaged in substantial infringing activity and constructed a copy of Aukerman's mold it was no longer reasonable for him to believe that Aukerman would let him alone if Aukerman discovered his altered infringing conduct. At the summary judgment stage this court is bound by these factual inferences since all reasonable inferences must be drawn in Aukerman's favor. A.B. Chance Co., 854 F.2d at 1311.

In fact, once Aukerman learned of Chaides' greater infringing activity it quickly brought suit. (App. 120). As a consequence, the nine year delay relied upon by the district court in determining that Aukerman's suit was barred by laches should apply only to Chaides' de minimis infringing use amounting to $200-$300 per year. (App. 203). See Keiser v. J. Wiss & Sons Co., 340 F. Supp. 41 (D.N.J. 1972) ("The four year delay stressed by defendant applied only to the P-7 shears and not the P-8 shears, since the latter did not appear on the market until 1965.

As soon as plaintiff learned about the P-8 shears. suit was commenced."); _MGA Inc. v. Centri-Spray Corp._, 639 F. Supp. 1238, 1244 (E.D. Mich. 1986) ("where the defendant alters the nature of its infringing activity, a new period of delay begins as to the altered conduct"); _see also_ D. Chisum, _Patents_ § 19.05(2)(ii) (1989).

Indeed, it was perfectly reasonable for Aukerman to delay suit against Chaides until he learned that his claim was monetarily ripe. (App. 118-120, ¶ 10). In _Tripp v. United States_, 406 F.2d 1066, 1071 (Ct. Cl. 1969), the patent owner waited almost five years after issuance of the patent to file suit against the United States for reasonable compensation. The Court said that the patent owner could reasonably delay bringing suit until he "could determine that the extent of possible infringement made litigation monetarily ripe." _See also_ _Autoclave Engineers, Inc. v. Duriron Co._, 190 U.S.P.Q. 125, 132 (E.D. Pa. 1976) (delay excused until suit "became economically justified"); _Lever Brothers Co. v. Procter & Gamble Co._, 668 F. Supp. 924, 943 (D.N.J. 1987) (motion for summary judgment denied: "a patent holder should not be charged with constructive knowledge of potential patent infringement until the infringement becomes, in some sense significant"); _Johnson & Johnson v. W.L. Gore & Associates, Inc._, 436 F. Supp. 704, 734 (D.Del. 1977) (court rejected laches defense despite indication that the alleged infringement had been occurring for many years prior to the institution of suit. According to the court, sales of the infringing product were "minimal" early on, and the patent holder

"acted promptly" when it "learned of [the infringer's] plans to begin to market the [infringing product] widely ....");

Therefore, since Aukerman did not wait more than six years to file suit for this separate infringing activity, the burden does not shift to Aukerman to show that any delay was unreasonable or rebut a presumption of prejudice. Aukerman should be able to maintain suit against Chaides for infringement from the time when Chaides built the illicit mold and its infringing activity soared.

3. Chaides May Not Rely Upon Alleged Delay In Bringing Suit, Since His Own Misrepresentations Caused The Delay

There is at least a genuine issue of material fact as to whether Aukerman's delay in bringing suit is excused because Chaides' misrepresentations contributed substantially to that delay. In Holmberg v. Armbrecht, 327 U.S. 392, 90 L. Ed. 743, 66 S. Ct. 582 (1946), Justice Frankfurter said:

> If want of due diligence by the plaintiff may make it unfair to pursue the defendant, fraudulent conduct on the part of the defendant may have prevented the plaintiff from being diligent and may make it unfair to bar appeal to equity because of mere lapse of time.

Similarly, in Potash Co. of America v. International Min. & C. Corp., 213 F.2d 153 (10th Cir. 1954), the Court said:

> If the party which advances the defense of laches is responsible for the delay or contributes substantially to it he cannot take advantage of it. Then, too, if material facts are concealed or misrepresented by a suspected wrongdoer, and if in reliance thereon the person wronged is deceived and his suspicions are allayed for awhile, a court of equity will not grant the wrongdoer

any advantage resulting from the lapse of time.

It is reasonable to infer that Chaides intended to prevent or delay litigation by saying that his use of Aukerman's inventions was de minimis ie. that such use would only amount to royalties of $200-$300 (300-400 feet) per year. (App. 203). It is equally reasonable to infer that Chaides' representation was what caused Aukerman to delay suing Chaides. (Aukerman sued promptly when he later learned that Chaides was engaged in substantial infringement). And it is undisputed that Chaides has in fact been pouring at 50-60 times this rate; and that this has been with Chaides' constructed copy of the Gomaco mold.[4] Thus, it is a reasonable inference that Chaides' representations of fact were not only wrong, but that they caused the very delay upon which Chaides now relies as the basis for laches.

The district court erroneously stated that "... Aukerman does not dispute the fact that Chaides' 1979 representations were correct. Aukerman would have Chaides send Aukerman yearly updates on the volume of Chaides' business." (App. 7). To the contrary, Aukerman just does not want to be barred from suit for significantly greater infringement because it believed Chaides' false representations in 1979. (App. 119,

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[4] Records indicate that, in 1980, Chaides poured 3125 feet of Type 50C (variable) concrete highway barrier. (App. 174, ¶¶ 4, 5). This was 10 times more wall than Chaides said he would pour. In 1981, on just one job, Chaides poured 13,000 feet of 50C wall...nearly 40 times what he said he would pour. (Exh. O). Chaides has poured at least 131,392 linear feet (24.9 miles) of asymmetrical barrier wall since 1983. (App. 188-190). This is an annual average of 50-60 times more wall than Chaides said he would pour.

151). Indeed, Aukerman did in fact dispute the truthfulness of Chaides' 1979 representations before the district court. As Aukerman has pointed out, Chaides falsely represented that his infringing use would only amount to $200-300 per year.

It is reasonable to infer that Chaides contributed substantially to Aukerman's delay in bringing suit by deceiving Aukerman about the level of his use of Aukerman's inventions. (App. 151, ¶¶ 5-6, App. 119, ¶¶ 8-10). In reliance upon Chaides' statements of de minimis infringing use, Aukerman sued other infringers first. (App. 119, ¶ 9; App. 151, ¶ 6, App. 122-124, ¶ 2).

It is also reasonable to infer that Chaides' representations of de minimis use were knowingly false because Chaides expected and planned that his use would greatly exceed what he told Aukerman. (App. 211-212, lines 19-20). In his deposition, Chaides admitted that he "bought the adjustable mold because [he] figured there would be more [jobs] down the line." (App. 220, lines 19-20). Chaides admitted that he had to purchase the adjustable mold just to stay competitive. (App. 209).

The district court suggests that the volume of Chaides' business is a matter of public record adding that it would have been a simple matter for Aukerman at the end of 1980 to verify Chaides' representations. (App. 7). If this were the rule, a patentee would always be required to disregard an infringer's statements of infringing use and determine the level of infringing use independently. See Fromson v. Western Litho Plate

& Supply Co., 853 F.2d 1568, 1571 (Fed. Cir. 1988) (the district court did not err in rejecting a laches defense because of the patentee's delay in filing suit in view of its findings that the infringer deliberately concealed its process, and the patentee engaged in suit against other infringers).

4. Chaides' Egregious Conduct Tips The Balance Of Equities Against Him

There is at least a genuine issue of material fact as to whether Chaides engaged in "egregious conduct" which tips the equities in Aukerman's favor to defeat Chaides' defense of laches. Indeed, Chaides' deliberate calculated copying of Aukerman's patented invention, by itself, ought to excuse any delay on Aukerman's part.

In Bott, the Court said that laches is an equitable defense and is "defeated by ... egregious conduct." Bott, 807 F.2d at 1576. In Bott, the infringer had knowingly plagiarized the patent owner's design of an automobile rack and accelerated sales after the Court had affirmed liability. Bott, 807 F.2d 1576. In denying the laches defense, the Bott court cited with approval TWM Manufacturing Co. v. Dura Corp., 592 F.2d 346 (6th Cir. 1979), where the Court ruled that, although the plaintiff's delay in filing suit for more than six years raised a presumption of laches, the patent owner could defeat the bar by showing that the defendant was guilty of egregious conduct. The TWM court stated that "deliberate, calculated plagiarism" amounted to egregious conduct, which tipped the equities in the patent owner's favor. 592 F.2d at 349. In a similar case, Anaconda Co. v. Metric Tool & Die Co., 485 F. Supp. 410, 429 (E.D. Pa. 1980),

the Court held that a deliberate construction of a duplicate machine covered by the patent was, by itself, egregious conduct which strongly overbalanced the equities against the infringer.

Chaides' deliberate, calculated building of a copy of the Gomaco mold evidences that he is guilty of egregious conduct. According to Jon Langdon, Gomaco's distributor in California, Chaides seemingly approached him about buying a second adjustable mold. (App. 243). But, instead of purchasing another adjustable mold from Gomaco, Langdon said that Chaides wanted to build his own adjustable mold. Chaides asked for blueprints, "information on how to mount it ... dimensions to make it." Langdon refused to give him any, saying that "Gomaco or myself would not provide the drawings for him to do that." (App. 246). Nonetheless, as Chaides testified at his deposition, he proceeded to make his own homemade adjustable slip form in his shop (App. 222), using the Gomaco mold as a guide. (App. 334-35). This was long after Chaides knew of Aukerman's patents; and that the Gomaco mold was licensed under these patents. Chaides built the homemade adjustable slip form in the 1980's (App. 224), even though he had learned of Aukerman's patents in 1979. (App. 199). Chaides was not simply ignorant about patents. He knew enough to once consult a patent attorney about patenting a concrete curb device of his own design. (App. 232).

On summary judgment before the district court, Chaides argued that there was no evidence that his copy was an infringing copy, not a legitimate copy. Aukerman countered with Chaides' own admission that Chaides used the Gomaco mold as a model for

construction of his mold, after trying and failing to get blueprints for the Gomaco mold; and that, in testimony, Chaides could not think of any differences between his copy and the Gomaco mold. In dismissing Aukerman's case, the district court said that "[w]hat plaintiff fails to note is that Mr. Chaides did say that there were other differences [between the molds], but that he could not think of them at the time." (App. 12). The district court then erroneously drew the inference that "[t]hose differences could be such that the copy was not an infringement of plaintiff's patents." (App. 13). This is not an inference that the district court was permitted to draw. See A.B. Chance Co., 854 F.2d at 1311 (all reasonable inferences must be drawn in nonmoving party's favor).

The district court added that nowhere in its moving papers did Aukerman produce facts which demonstrated how the copy infringed the patents. (App. 13). Aukerman in fact produced facts which demonstrated that Chaides' copy infringed the patents. (App. 224-26, 335, 249). To remove any doubt, Aukerman produced additional facts in a petition for rehearing which demonstrated how the Chaides' copy infringed the patents. Aukerman's patent expert determined that "[no discernible differences were observed between the patented apparatus, as claimed, and the two accused Chaides apparatus used by Chaides Construction Co. and described herein." (App. 109).

Moreover, Chaides has been flagrant in his disregard for Aukerman's property rights. His cavalier attitude was that "the liability was so small, $200 or $300 a year, ... it just

didn't make any difference even if (he) lost a lawsuit..." (App. 236). On that basis, he "felt it was reasonable to keep doing what he was doing and see what happened." (Id. at lines 11-14). He did not change his behavior in any way based upon the letter or anything that happened. (App. 239). Chaides never consulted an attorney or read the patent until after he was sued. (App. 232, lines 13-15). Chaides' failure to consult an attorney or read the patent, once he was notified of Aukerman's patent rights in 1979, is presumptive bad faith as a matter of law: Where a potential infringer has actual notice of another's patent rights, he has an affirmative duty of due care that will normally entail the obtaining of competent legal advice before infringing or continuing to infringe. Bott, 807 F.2d at 1572; Underwater Devices, Inc. v. Morrison-Knudsen Co., 717 F.2d 1380 (Fed. Cir. 1983). It is thus reasonable to infer that Chaides' hands are too unclean to invoke an equitable defense. See Leinoff, 726 F.2d at 742. This is not conduct that the court should reward with an implied right to Aukerman's patent.

5. Aukerman's Ongoing Patent Litigation Excuses The Alleged Delay. Chaides Had No Reasonable Basis For Any Belief That Aukerman Acquiesced In His Infringement. Moreover, Whether Chaides Actually Held Such A Belief Is, At Best, An Unresolved Issue Of Material Fact

So long as the later-sued infringer is not misled into believing the patentee has acquiesced in his conduct, the patentee does not lose rights merely because he sues some infringers first and another later. In Jamesbury, the Court held that "a patentee's involvement in litigation against one or more

infringers may excuse delay in enforcing the patent against another infringer if the infringer understands that the patentee is not acquiescing in the infringement." Jamesbury, 839 F.2d at 1552.[5]

Here, Aukerman has been involved in litigation since 1977. In that year, Aukerman filed suit in Federal Court against Gomaco Corporation, a manufacturer of asymmetrical slip forms, and Pittman Highway Contracting Co., Inc., a contractor. These cases resulted in a consent decree in 1979 in Aukerman's favor against Gomaco Corporation and a licensing agreement with Pittman Highway Contracting Co. (App. 199, 122-124, ¶ 2). In 1980, Aukerman filed suit against Miller Formless, which led to a licensing agreement in Aukerman's favor in 1982. (App. 122-24, ¶ 2). In 1984, Aukerman filed an action against Jasper Construction Co., which, after an adverse lower court decision, led to a favorable Federal Circuit decision in 1986, and to Jasper Construction Co.'s no longer pouring variable concrete barrier wall. Aukerman also filed actions against McCarthy Improvement Co. and Harper Construction in 1988, which led to a licencing agreement with McCarthy. Harper is no longer pouring variable wall. Aukerman also participated in a contested reissue

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[5] The courts recognize that "patent litigation is often unusually complex, lengthy, and expensive." American Home Products Corp. v. Lockwood Manufacturing Co., 483 F.2d 1120, 1123 (2d Cir. 1973). Moreover, "forcing the patentee to litigate simultaneous challenges to the patent's validity could be inequitable." Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d at 1327; see Jenn-Air Corp. v. Penn Ventilator Co., 464 F.2d 48, 50 (3d Cir. 1972) ("it is sound law ... that [plaintiff] is not necessarily bound to take on more than one infringer at a time.").

proceeding from 1980 to 1984, which resulted in a decision upholding the patents in the face of prior art submitted by a protestor.[6] (App. 287-326).

Other litigation is a defense to laches unless the infringer is misled into thinking that the patent holder does not intend to enforce its rights against the infringer. Jamesbury, 839 F.2d at 1553. In this regard, courts have reasoned that if the infringer is given notice of the patentee's intention to enforce his patent, the infringer has no reasonable basis to believe he will be left alone; and that notice of litigation against others is one way to accomplish this. In Watkins v. Northwestern Ohio Tractor Pullers Association, 630 F.2d 1155, 1163 (6th Cir. 1980), the Court explained the rationale for this rule:

> If the patentee does act to enforce his patent and the alleged infringer is informed of it, he cannot reasonably expect his business will remain unmolested. However, if the alleged infringer does not know about the patentee's action to enforce the patent, the belief that he will be left alone is still reasonable. The alleged infringer cannot know the patentee's intentions unless the patentee tells him. Notice of the other litigation informs the alleged infringer that the patentee does not intend to leave him alone....

In the present case, it is reasonable to infer that Chaides had no reasonable basis for believing he would be left alone, because Aukerman told him about his other litigation.

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[6] In Mainland, 799 F.2d at 749, the Federal Circuit noted that in 4 D. Chisum, Patents § 19.05 [2] (1988), that commentator said regarding reissues: "Thus, under appropriate circumstances and subject to the notice requirement applied to litigation, such proceedings should constitute a qualified excuse for delay."

Aukerman's attorney notified Chaides in a certified letter dated February 13, 1979, that Aukerman was the owner of U.S. Patent Nos. 3,792,133; 4,104,633 and 3,957,405, pertaining to slip forming asymmetrical concrete highway barrier wall. He also enclosed copies of the patents for Chaides' review, and pointed out that he had recently been involved in litigation concerning the patents in federal district court with Gomaco Corporation, the manufacturer of the slip form which Chaides had purchased. Aukerman also indicated that suit had been filed and settled against a Gomaco customer. (App. 199).

The district court's statement that Jamesbury holds that "if the alleged infringer does not know about the patentee's actions to enforce the patent, the belief that he will be left alone is still reasonable" is thus not applicable here. (App. 7). See Mainland Industries, Inc. v. Standal's Patents Ltd., 799 F.2d 746 (Fed. Cir. 1986) ("The jury was instructed that other patent litigation could not excuse the delay in pursuing the patent infringement claim unless [the accused infringer] understood [the patent owner's] intention to pursue its patent rights.").

It is reasonable to infer that Chaides had no reasonable basis for believing he would be left alone for the added reason that Aukerman told him of his intention to enforce the patents against infringers, and of Chaides' need to take a license to avoid being sued. Aukerman wrote Chaides on March 16, 1979 to indicate that Chaides would be liable for patent infringement if he failed to enter into a license agreement.

(App. 200). Not having heard from Chaides, Aukerman wrote Chaides on April 12, 1979, to point out that legal action would be instituted against infringers who did not enter into bona fide negotiations toward a license by June 1, 1979. (App. 201). After receiving a telephone message from Chaides, Aukerman wrote Chaides on April 24, 1979, as follows:

> Mr. Aukerman <u>is enforcing his patent rights against infringers</u>, and even though you may be among the smaller contractors <u>you have the same need for a license</u> as the large firms, and we suggest that you take a license before the June 1, 1979 deadline passes. [Emphasis added.]

Chaides was able to convince the district court that a strict notification requirement applied to Aukerman, arguing that <u>Jamesbury</u> requires notice of all pending litigation throughout the period of alleged delay, together with notice of intent to sue the infringer once that pending litigation is resolved. Chaides claimed that "an examination of (Aukerman's) four letters reveals that no notice of actual litigation or notice of Plaintiff's intent to pursue CCC when the litigation was resolved was given." (Chaides' Dist. Ct. Mem. at 9).

The district court was in error in ruling that <u>Jamesbury</u> imposes a strict notice requirement upon the patentee. The district court said that "Aukerman's delay was unreasonable because there was no other litigation at the time Aukerman contacted Chaides." (App. 5). It is true that Aukerman was not involved in "other litigation" from the period of February 22, 1979 to July 31, 1980. But this should not bar Aukerman's lawsuit. This only shows that a strict reading of the <u>Jamesbury</u>

rule does not apply in this case. Since it was impossible for Aukerman's 1979 letters to put Chaides on notice of Aukerman's other litigation because there was no such other litigation, the court must examine the general principle that led to that rule.

Jamesbury merely requires that Chaides not reasonably believe Aukerman had acquiesced in his conduct; and it provides an objective test which, if met, demonstrates that the infringer could not have had a reasonable belief that he would be left alone. See Watkins, 630 F.2d at 1163 ("Notice of the other litigation informs the alleged infringer that the patentee does not intend to leave him alone and allows the alleged infringer to sue for declaratory judgment should he choose not to wait until the patentee is ready to bring suit."). Jamesbury does not require any specific notice, but only requires that the infringer not reasonably believe that the patentee was acquiescing in the infringement. Jamesbury, 839 F.2d at 1552.

Chaides' suggestion before the district court that Aukerman should have sent out periodic notices to keep him informed of the other litigation as it progressed is disingenuous. Chaides' conduct to date demonstrates that this would have had no effect upon his actions or state of mind. Chaides ignored the patents when Aukerman first contacted him in 1979; he ignored the patents when Aukerman re-visited him in 1988; and by Chaides' own admission, his state of mind remained the same throughout.

Unlike Jamesbury, on which Chaides principally relies, (where there were equivocal communications between the parties),[7] Aukerman unequivocally put Chaides on notice that, despite his alleged de minimis use, he needed a license to avoid being sued. When Chaides first told Aukerman that his use was de minimis, Aukerman quickly replied that he still needed a license. (App. 202).

6. Chaides' Alleged Prejudice Is Of His Own Making And False

Any prejudice which Chaides may have experienced by Aukerman's alleged delay is of his own making. If Aukerman would have known of Chaides substantially increased infringing activity and copying of its mold, it is reasonable to infer that Aukerman would have sued Chaides earlier. (App. 119-120, ¶ 9). See Jenn-Air Corp. v. Penn Ventilator Co., 464 F.2d 48 (3d Cir. 1972) ("there was no harm to defendant in that, all that happened to it was its continuance of counterfeiting and selling its infringing product.").

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[7] Jamesbury accused Contromatics of infringement in an October 12, 1967 letter, and offered to license the patent. Contromatics responded by denying the infringement and suggesting a meeting. The meeting did not settle the question, and Jamesbury's final contact with Contromatics prior to filing suit, eight years later, indicated only that it had submitted Contromatics' position to its attorneys and the subject was under consideration. Jamesbury never clearly indicated that it intended to enforce its rights against Contromatics. Jamesbury, 839 F.2d at 1544. Even though Jamesbury appears to be support for summary judgment on the issues of laches and estoppel, in Jamesbury each party had the opportunity to present its proofs on laches and estoppel during the jury trial that had already taken place. Because the facts developed at trial on the issue were undisputed, Litton brought a summary judgment motion. Here, Aukerman has disputed underlying facts and never has been given his day in court.

Moreover, Chaides' claims of prejudice depend largely upon proof of his alleged state of mind at various times in the past: For example, Chaides argues that, if he had known of his liability to Aukerman, he would have done things differently, including (1) gone into bankruptcy to discharge more than $200,000 in overdue employee withholding taxes; and (2) never bought his Commander III machine. (App. 336-40). These assertions are demonstrably unbelievable, but even if they were potentially believable, they impermissibly require all inferences to be resolved against Aukerman and determinations of genuinely disputed issues of fact to be made. See A.B. Chance Co., 854 F.2d at 1311 (all reasonable inferences must be drawn in nonmoving party's favor); cf. KangaROOS U.S.A., Inc. v. Caldor, Inc., 778 F.2d at 1577 ("...intent to deceive or mislead is a genuine issue of material fact, and ... the [lower] court erred in summarily drawing factual inferences adverse to [the nonmoving party], while denying [the nonmoving party] the opportunity to testify on the issue.").

a. It Is Reasonable To Infer That Chaides Would Have Purchased The Commander III Machine.

Chaides represented to the district court that he would not have purchased the Commander III paving machine had he known that Aukerman was going to sue him. But Chaides' most important need for and usage of the Commander III was in the non-infringing portion of his business: Chaides testified that barrier wall jobs "are not that big a part of our contracts" (App. 221); and that he purchased the machine because "it's a better machine for doing

[the larger, non-infringing portion of his business, i.e.] sidewalk, curb and gutter, monolithically together." (App. 229, lines 4-12). Moreover, Chaides' attitude throughout the relevant period was that "the liability was so small, $200 or $300 a year,...it just didn't make any difference even if [he] lost a lawsuit..." (App. 236). Contrary to his representation to the district court, the only reasonable inference is that Chaides would have purchased the Commander III without regard to any liability to Aukerman.

b. <u>It Is Reasonable To Infer That Chaides Would Not Have Gone Into Bankruptcy</u>.

The district court found that Aukerman had not directly rebutted Chaides' contention that its decision to forego bankruptcy was made in reliance on Aukerman's conduct which led Chaides to believe Aukerman dropped its claims. (App. 9). In fact, Aukerman submitted evidence to rebut Chaides' contention that its decision to forego bankruptcy was made in reliance on Aukerman's conduct. Chaides failed to pay over $200,000 in Social Security taxes, withheld wages from his employees and $47,000 in union pension funds, then sought the advice of a bankruptcy lawyer in an attempt to escape ever paying for these employee rights. In the discussion with his bankruptcy lawyer, Chaides learned that he would remain <u>personally liable</u> for these debts, plus a 100% penalty, even if he went into bankruptcy; and that, contrary to his declaration, he had no "easy way out." (App. 184-187). The reasonable inference is that Chaides would not have gone into bankruptcy even if he had believed that

Aukerman had not dropped his claims. This is especially so given Chaides' belief that his liability to Aukerman was small. Thus Chaides' statement that if he would have known about his liability he would have taken "the easy way out" by going into bankruptcy in 1986 is highly suspect.

This is evidenced further by Chaides' overall financial situation in 1986 which was hardly dire. He became profitable within five months of considering bankruptcy; continued to live in Saratoga, California, one of the more expensive residential areas in the Bay Area; and owned a classic car collection and a number of interlocking corporations. (App. 208, 228). Today, Chaides has an annual revenue of $8-9 million. (App. 229A).

c. <u>It Is Reasonable To Infer That Chaides Would Have Bid Low On The Projects</u>.

In addition, the district court erroneously found that Chaides would not have bid so low on 28 projects if it had known that it would owe Aukerman a royalty. (App. 11). Contrary to the district court finding, Aukerman did contest that Chaides made these bids in the belief that Aukerman abandoned its claims. As Aukerman pointed out to the district court, Chaides' true state of mind was revealed when under cross-examination during his early deposition in this case, he admitted that he felt "the liability (to Aukerman) was so small...that it just didn't make any difference..." (whether he infringed the patents or not). (App. 236).

The district court finding that "Mr. Chaides made this statement in response to plaintiff's litigation threats. ...

[and] had nothing to do with defendant's state of mind concerning plaintiff's ten year silence" is an inference that it is not permitted to make in a summary judgment proceeding. (App. 12). See A.B. Chance Co., 854 F.2d at 1307 (all reasonable inferences must be resolved in nonmoving party's favor); cf. KangaROOS U.S.A., Inc. v. Caldor, Inc., 778 F.2d at 1577 ("...intent to deceive or mislead is a genuine issue of material fact, and ... the [lower] court erred in summarily drawing factual inferences adverse to [the nonmoving party], while denying [the nonmoving party] the opportunity to testify on the issue.").

d. It Is Reasonable To Infer That Chaides Is Not Prejudiced By Any Loss Of Documents Or Memories.

Chaides complained to the district court that documents and memories from 1971 have been lost because he wasn't sued in 1979, or at least by 1985; however, there is no evidence that any of the allegedly missing recollections and/or documents were lost after the six year period of allowable delay and not earlier. Indeed, the district court found that the inventor actually became unavailable in 1980 which was shortly after Aukerman's 1979 notices of infringement. (App. 8). Thus, he would have been unavailable even upon filing suit in 1980. Besides, it is reasonable to infer that whatever memories and documents did exist between 1979 and 1988 have been recorded in Aukerman's prior litigation, which have been undertaken throughout that period. All such records, not privileged, were turned over to Mr. Chaides' attorneys months ago. Indeed, Chaides tacitly admitted the qualitative value of this record when he argued

before the district court that it "proves" his case of patent invalidity, e.g., that the early Goughnour affidavit "clearly establishes that the patents are invalid under 35 U.S.C. § 102(b)." (Chaides' Mem. at 15:22-24; App. 196, ¶ 9).

C. Aukerman's Claim Is Not Barred by Estoppel

1. The Law of Estoppel Defeats Chaides' Defense

Mere delay or acquiescence on Aukerman's part cannot and should not give Chaides a legal right to Aukerman's patent. Chaides contends that Aukerman's claim for injunctive relief and damages for infringement occurring after filing of the lawsuit is barred by estoppel. A finding of estoppel is a particularly harsh result since laches bars only retrospective relief while estoppel entirely bars assertion of the patent claim. Mainland, 799 F.2d at 748. Thus, even though Congress has statutorily established a seventeen year monopoly for a patentee, a finding of estoppel can effectively terminate the patent against an infringer. In addition, it can cripple enforcement efforts against other infringers as well because of the loss of regard for the patent.

In Menendez v. Holt, 128 U.S. 514, 523-24, 32 L. Ed. 526, 9 S. Ct. 143 (1888), the Supreme Court emphasized the distinction between retrospective and prospective relief in the context of laches and estoppel:

> So far as the act complained of is completed, acquiescence may defeat the remedy on the principle applicable when action is taken on the strength of encouragement to do it, but so far as the act is in progress and lies in the future, the right to the intervention of equity is not generally lost by previous

delay, in respect to which the elements of an estoppel could rarely arise.

In Menendez, the Supreme Court recited that relief would not be refused on the ground that, as the defendant had been allowed to cut down half the trees upon the complainant's land, he had acquired by that allowance, the right to cut down the remainder. Similarly, any delay by Aukerman in bringing suit for Chaides' past infringement should not give Chaides the right to continued infringement.

The defense of estoppel requires that the alleged infringer show all four of the following elements: (1) unreasonable and inexcusable delay in filing suit; (2) prejudice to the alleged infringer; (3) affirmative conduct by the patentee inducing the belief that it abandoned its claims against the alleged infringer; and (4) detrimental reliance by the infringer.[8] Jamesbury, 839 F.2d at 1553. Thus, for estoppel, the infringer must prove the same elements as in laches [items (1) and (2)], plus two additional elements [items (3) and

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[8] Chaides seemed to suggest before the district court that the ruling in A.C. Aukerman Co. v. Miller Formless Co., 693 F.2d 697, 702 (7th Cir. 1982) had a collateral estoppel effect in putting Aukerman on notice that failure to bring this action would result in laches or estoppel. (Chaides Mem. at 13). Chaides misstates the law. Laches and estoppel defenses are "...personal defenses. They depend upon the relation between a plaintiff and a defendant ...." Caterpillar Tractor Co. v. International Harvester Co., 32 F. Supp. 304, 308 (D.N.J. 1940). See also Pierce v. International Telephone & Telegraph Corp., 147 F. Supp. 934, 937 (D.N.J. 1957); Perry v. Reeves Steel & Manufacturing Co., 8 F.R.D. 318 (N.D. Ohio 1948). This issue was briefed in A.C. Aukerman Co. v. Jasper Const. Co., 795 F.2d 1015 (Fed. Cir. 1986) (Federal Circuit rev'd in Aukerman's favor without opinion).

(4)]. Moreover, unlike laches, the burden of proof in an estoppel defense never shifts from the alleged infringer. Jamesbury, 839 F.2d at 1554.

Recognizing the harsh result that estoppel entirely bars the assertion of a patent claim, this Court has held that silence alone is not sufficient affirmative conduct to give rise to estoppel. Studiengesellschaft Kohle v. Dart Industries, 726 F.2d 724 (Fed. Cir. 1984); see Stickle v. Heublein, Inc., 716 F.2d 1550, 1559, 219 U.S.P.Q. 377, 383 (Fed. Cir. 1983); (estoppel by implied license cannot arise out of unilateral expectations or even reasonable hopes of one party).

Moreover, the Federal Circuit has squarely held that, if silence is to be an element (along with other elements) of alleged affirmative conduct amounting to estoppel, the silence must be "intentionally misleading" and some evidence must exist to amount to "bad faith". Hottel Corp. v. Seaman Corp., 833 F.2d 1570, 1573 (Fed. Cir. 1987). See also TWM Mfg. Co., Inc. v. Dura Corp., 592 F.2d 346, 350, 201 U.S.P.Q. 433, 436 (6th Cir. 1979), cited with approval in Hottel, where the Court held that actual misrepresentation, affirmative acts of misconduct or intentionally misleading silence are required for estoppel; Broomall Industries v. Data Design Logic Systems, 786 F.2d 401 (Fed. Cir. 1986) (discussing Sixth Circuit opinion reversing district court summary judgment, where patentee refrained from any action for substantial period of time after infringing party advised the patentee of the invalidity of the patent).

The district court erroneously concluded as a matter of law that "estoppel is applicable where the silence was sufficiently misleading so as to constitute bad faith, although the silence may not have been intentionally misleading." (App. 9). This finding was derived from a distortion of Hottel where this court explained that "[a]lthough there is precedent for applying equitable estoppel where there has been 'intentionally misleading silence' some evidence must exist to show that the silence was sufficiently misleading to amount to bad faith." Hottel, 833 F.2d at 1574-75 (citations omitted). Thus, Hottel court established a two-part test for estoppel where silence is part of the affirmative conduct: (1) the silence must be found to have been intentional; and (2) some evidence must exist to show bad faith. Chaides has not met this two-part test.

2. The District Court Erred in finding that Chaides Had Met His Burden Of Proof For Estoppel

Chaides offered no evidence to show Aukerman was acting in bad faith or intentionally misled Chaides. It is reasonable to infer that the only party who was misled was Aukerman, when Chaides told him he would pour only de minimis amounts of barrier wall. Accordingly, there is no estoppel for each of the reasons set forth above in connection with the laches issue.

Further, there was no affirmative conduct by Aukerman which induced Chaides to believe Aukerman had abandoned its claim, and no detrimental reliance on such conduct by Chaides. Chaides' only evidence of alleged affirmative conduct is the following statement in Aukerman's letter of April 12, 1979:

> You are hereby informed that the offer of waiver of past and current liability will expire on June 1, 1979. On that date sufficient time will have elapsed to permit the license offer to be evaluated and legal action will be instituted against infringers. (App. 201).

The letter clearly states that the offer to waive past and current liability will expire on June 1, 1979. The letter is fairly interpreted to mean further that the June 1 deadline was selected because that would allow enough time for infringers to evaluate the license offer. However, the letter is ambiguous as to what it said about when legal action would be commenced against infringers. There are three possible interpretations in this regard: (a) Legal action will be taken against infringers who do not take a license by June 1, 1979, without any date specified for suit. (b) Legal action will be taken on June 1, 1979 against infringers, but not necessarily all infringers. (c) Legal action will be taken on June 1, 1979 against all infringers.

For Chaides to prevail on estoppel, this court must be convinced of the following: (1) that the only reasonable inference is that Chaides believed the letter to unequivocally mean interpretation (c); (2) that once June 1 passed and no action was taken against him, Chaides believed Aukerman would never pursue him later; and (3) that Chaides acted in detrimental reliance on this belief.

The district court erred in finding that Chaides had proven any of the above elements, let alone all three. Chaides cannot prove element (1) because the letter admits to at least

three possible interpretations as to when Chaides might be sued. Interpretations (a) and (b) are at least as possible as (c). Moreover, the Court "must draw all reasonable inferences in the nonmovant's favor." A.B. Chance Co., 854 F.2d at 1307. Thus, Chaides is not entitled to an inference that he unequivocally interpreted the letter to mean (c). At a minimum, Chaides' interpretation (i.e., his state of mind) is an issue of fact.

The district court erred in finding that Chaides had proven element (2) because it necessarily falls with element (1). Moreover, Chaides had to understand that he might get sued if Aukerman ever found out that Chaides was really pouring 50 times more wall than he said, or that he had built an illicit mold.

The district court erred in finding that Chaides had proven element (3) because it necessarily falls with (1) and (2). In addition, Chaides' true attitude was that "the liability was so small, $200 or $300 a year, ... it just didn't make any difference even if (he) lost a lawsuit..." (App. 236). On that basis, he "felt it was reasonable to keep doing what he was doing and see what happened." (Id.). Chaides testified that this state of mind was unchanged up until the time of the deposition. (App. 239). Thus, Chaides was not relying on Aukerman's failure to sue him on June 1, 1979, but on his admitted belief that it made no difference if he infringed or not.

The district court erred in finding that Aukerman's silence was "sufficiently misleading" to establish estoppel without even giving Aukerman a chance to draw from Chaides that he was not misled. (App. 11). The district court viewed

Jamesbury as on point in regard to this issue. However, in Jamesbury the plaintiff informed the defendant that it "was considering" defendant's denial of infringement. Here, Aukerman unequivocally stated that Chaides' conduct was infringing.

The district court also erroneously concluded as a matter of law that in the context of estoppel, Jamesbury squarely places the obligation on Aukerman to resolve this "ambiguity" by informing Chaides of the result of the deadline. (App. 11). Failure to resolve an ambiguity in letters cannot and should not be interpreted as bad faith, estoppel and a vesting of a right to patent in an infringer.

V. CONCLUSION

For the foregoing reasons, the district court judgment concerning laches and estoppel should be reversed.

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Respectfully submitted,

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