

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN**

**MIKKELSEN GRAPHIC ENGINEERING INC.,
Plaintiff,**

v.

Case No. 07-C-0391

**ZUND AMERICA INC.,
Defendant.**

DECISION AND ORDER

Mikkelsen Graphic Engineering, Inc. (“MGE”) alleges that Zund America, Inc. (“Zund” or “Zund America”) infringed U.S. Patent No. 6,619,168 (“the ’168 patent”) and U.S. Patent No. 6,672,187 (“the ’187 patent”). In an order dated April 7, 2011, I granted MGE’s motion for summary judgment of infringement in part. However, Zund intends to argue that MGE’s patents are invalid, and that therefore it is not liable for infringement. Before me now is MGE’s motion for summary judgment of assignor estoppel, which if granted would prevent Zund from challenging the patents’ validity. Also before me is Zund’s motion for leave to file a declaration of one of its witnesses in opposition to the motion, and Zund’s motion for leave to file a sur-reply brief.

I. FACTS

The following facts are stated as favorably to Zund as the record allows, with all genuine factual disputes resolved in Zund’s favor and all reasonable inferences drawn in Zund’s favor. See Fed. R. Civ. P. 56.

Both MGE and Zund are in the business of selling graphics cutting systems that include a flat table, camera, computer, and a cutting tool. Decals or graphics are printed

on sheets fed to the table, the camera finds the outer edge of each decal, and the cutting tool moves around the outer edge of each decal to cut it away from the sheet. The entire process is controlled by computer software, which is typically sold with the cutting system. The system is designed to reduce or eliminate the need to hand-cut each decal. Zund Decl. ¶ 2, ECF No. 388.

Zund America, which was founded in 2004, is the U.S. distributor for Zund Systemtechnik of Switzerland, which manufactures cutting systems. Between 1998 and 2004, MGE rather than Zund America was the U.S. distributor for Zund Systemtechnik. During this time, and for a short time after, Zund's cutting systems were sold with MGE's "i-cut" software products, which embodies the inventions of the '168 and '187 patents. The inventions of these patents are described in detail in my April 7, 2011 decision and order. For present purposes, it is enough to note that the inventions allow the cutting systems to automatically compensate for misplacement of the sheet on the cutting table or distortion of the sheet through use of a search function in which the camera searches for certain markers that provide information to the computer about the placement and condition of the sheet on the cutting table.

Peter Alsten was employed by MGE from 1998 to 2004. As part of his employment, he played a role in developing the i-cut software and was named as a co-inventor on the '168 and '187 patents. Alsten describes his involvement in developing the software as "beta testing" the software and proposing to others that they incorporate certain "functions, corrections, improvements or changes" with respect to the software. Alsten Decl. ¶¶ 5–7, ECF No. 387. Alsten, who does not know how to write software code, did not write any part of the i-cut software himself. Id. ¶¶ 2, 4. Instead, he described what he wanted the

software to do to MGE's software engineer. Alsten Dep. at 56–58, ECF No. 202-1. In the ordinary course of his employment, Alsten assigned his rights in the '168 and '187 patents to MGE.

In March 2004, Alsten resigned from MGE. On the same day, he spoke with Oliver and Karl Zund of Zund Systemtechnik about setting up a Zund distributorship in the United States, and he was immediately hired. Alsten Dep. at 15–16. Within about a month, Zund America was incorporated in Wisconsin. The sole shareholder of Zund America was Zund Holdings AG, a Swiss company that is also the sole shareholder of Zund Systemtechnik. Alsten was hired as an employee of Zund America and given the title “North American Product Manager.” He was not an officer, director, or shareholder of Zund America or, as far as the record reveals, any other Zund entity. Oliver Zund was the president of Zund America, and Karl Zund was its sole director.

Alsten's employment with Zund America initially involved primarily product sales. His tasks grew to include educating Zund's technicians and sales staff to understand the products they sell and maintain. If there was a problem with a Zund machine, either with the hardware or software, Alsten worked with the technician, salesperson, vendor, or customer to resolve the problem. His other responsibilities included assisting with technical aspects of sales, performing demonstrations of Zund products, attending trade shows, testing vendor-developed software, assisting with the installation of Zund products, and generally assuring overall customer satisfaction. Def.'s Supp. Proposed Findings of Fact (“PFOF”) ¶ 34, ECF 390. Alsten would also make suggestions to others for improving the software sold with Zund products.

Zund America does not manufacture cutting tables and does not independently develop software. It receives the cutting tables it sells and other hardware components from Zund Systemtechnik, and it purchases software from third-party vendors. Between 2004 and until 2006, Zund America sold Zund Systemtechnik cutting tables along with MGE's i-cut software. Alsten Decl. ¶¶ 73. During this period, Alsten, on behalf of Zund America, performed beta tests of the i-cut software and made suggestions for improvements to MGE. Id.

In approximately 2004, a company named Eurosystems approached Zund Systemtechnik and proposed to develop software for use and sale with Zund products. That same year, Zund Systemtechnik and Eurosystems entered into a contract under which Eurosystems would develop this software, which would be known as "Optiscout." Zund Decl. ¶¶ 32, ECF No. 388. In June 2005, Eurosystems demonstrated the Optiscout software to Zund personnel, including Alsten, at Zund Systemtechnik's facilities in Switzerland. This was the first time that Alsten had any contact with the Optiscout software. Alsten Decl. ¶¶ 47. During that demonstration, the software was able to perform the search function that would eventually cause me to grant summary judgment of infringement to MGE. See April 7, 2011 Dec. & Order at 10–18; Alsten Decl. ¶¶ 47; Meyer Decl. ¶¶ 8–12, ECF No. 389; Zund Decl. ¶¶ 30. This was because Optiscout was based on Eurosystems' predecessor software programs, which were able to perform the infringing search functions. Meyer Decl. ¶¶ 10–11.

Before June 2005, Alsten was not involved in the development of Optiscout, and no evidence in the record suggests that he encouraged any Zund entity to develop software that could replace MGE's i-cut software. Following the demonstration of Optiscout in June

2005, Alsten began to test the software and make suggestions to Eurosystems for tailoring the software to Zund's needs. Alsten Decl. ¶ 53; Alsten Dep. at 41–42. This was similar to Alsten's involvement with i-cut when Zund America had distributed MGE's software with its cutting systems. Alsten Dep. at 44. As far as the record reveals, none of Alsten's suggestions to Eurosystems related to the aspects of Optiscout that caused it to infringe MGE's patents. The only specific contribution of Alsten's to Optiscout that the parties describe in detail is his customizing the appearance of the graphics that appear on a computer screen when using Optiscout. Alsten Decl. ¶ 56; Alsten Dep. at 69–71.

On March 31, 2006, Oliver Zund informed the staff of Zund America that it would begin selling Optiscout software at an industry trade show in April 2006. Kirby Decl. Ex. 33, ECF No. 204-1. Zund America would continue to offer its customers the option of purchasing MGE's i-cut software through 2006. Id. Ex. 17 p. 2, ECF No. 203-4.

In addition to selling MGE's i-cut software and Eurosystems' Optiscout software, Zund America also sold software produced by a company named Grafitroniks. Zund Systemtechnik has sold Grafitroniks' software along with Zund cutting systems since 1999, before Zund America's incorporation in 2004. Zund Decl. ¶ 22. There are two Grafitroniks software lines at issue in this lawsuit, known as "GTK" and "Touch & Cut." Zund America's first sale of a Zund product with GTK software occurred in October 2005. The version of GTK sold in that transaction was developed without any input by Alsten at all. Alsten Decl. ¶ 63. That version contained the search function that resulted in infringement of MGE's patents. Id. ¶¶ 63–64; Dubesset Decl. ¶¶ 9–12, ECF No. 395-1. At some later point, Grafitroniks developed the Touch & Cut software, which was built off of GTK and therefore immediately incorporated the search function that was already present in GTK. Dubesset

Decl. ¶ 11. No evidence in the record suggests that Alsten made any suggestion to Graftroniks to include a search function in either GTK or Touch & Cut.

Alsten's involvement in developing GTK and Touch & Cut was similar to his involvement in developing Optiscout: he tested the software and made suggestions to Graftroniks for improving the software and tailoring it to Zund's needs. Alsten Decl. ¶¶ 68–72. The specific examples of Alsten's suggestions that appear in the record indicate that they related to the appearance of the program on the computer screen and were otherwise designed to make the software easier to use. Alsten Decl. ¶¶ 71–72; Alsten Dep 128–32. None of the suggestions related to the software's ability to control the cutting hardware.

II. ASSIGNOR ESTOPPEL

Assignor estoppel is an equitable doctrine that prevents one who has assigned the rights to a patent from later contending that what was assigned is a nullity. Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 1224 (Fed. Cir. 1988). The purpose of the doctrine is to prevent the unfairness and injustice that would result if the assignor were “permitted to sell something and later to assert that what was sold is worthless, all to the detriment of the assignee.” Id. To prevent the assignor from circumventing the estoppel, the doctrine also operates to bar other parties in privity with the assignor, such as a corporation founded by the assignor. Id. In the present case, Alsten, as a co-inventor, is estopped from challenging the validity of the '168 and '187 patents. The question is whether Zund America is in privity with Alsten and therefore also estopped from challenging the validity of the patents.

The Federal Circuit has stated that privity “is determined upon a balance of the equities.” Shamrock Techs., Inc. v. Med. Sterilization, Inc., 903 F.2d 789, 793 (Fed. Cir. 1990). The court explained:

If an inventor assigns his invention to his employer company A and leaves to join company B, whether company B is in privity and thus bound by the doctrine will depend on the equities dictated by the relationship between the inventor and company B in light of the act of infringement. The closer that relationship, the more the equities will favor applying the doctrine to company B.

Id. There is no bright-line test for determining whether a party is in privity with the assignor; instead, courts consider all “direct and indirect” contacts between the assignor and the party. Intel Corp. v. U.S. Int’l Trade Comm’n, 946 F.2d 821, 838 (Fed. Cir. 1991). However, it is clear that if an assignor forms a corporation or other business entity wholly owned by him and causes that entity to infringe the assigned patent, the corporation is the assignor’s privy. Diamond Scientific, 848 F.2d at 1224. In contrast, if the assignor is a “mere employee” of a new company, the company will not be in privity with the assignor. Shamrock, 903 F.2d at 794 (citing Nat’l Cash Register Co. v. Remington Arms Co., 283 F. 196, 202 (D. Del. 1922) and Babcock & Wilcox Co. v. Toledo Boiler Works Co., 170 F. 81, 85 (6th Cir. 1909)). To resolve cases that fall in between these two extremes, a court examines the totality of the circumstances to determine whether the assignor is the driving force behind the new company’s infringing operations, such that it is fair to characterize the assignor as the person ultimately responsible for infringement and the invalidity argument. See Shamrock, 903 F.2d at 794 (finding privity when assignor was shareholder of new

company and was heavily involved in decision to begin infringing operations); Intel Corp., 946 F.2d at 838–39 (finding privity when assignor was a major shareholder of one half of joint venture, was pervasively involved with joint venture’s infringing operations, and agreed to personally indemnify the other half of joint venture for patent infringement).

Some cases suggest that a company will be found to be in privity with an assignor if the company availed itself of the assignor’s “knowledge and assistance” to conduct infringement. See Intel Corp., 946 F.2d at 839; Shamrock, 903 F.2d at 794. The origin of this “knowledge and assistance” language appears to be Mellor v. Carroll, 141 F. 992 (C.C.D. Mass. 1905), which contains the following statement:

If the estopped assignor enters into business others, who derive from him their knowledge of the patented process or machine availing themselves of this knowledge and assistance, enter with him upon a manufacture infringing the patent which he has assigned, they are bound by his estoppel.

Id. at 993–94. This statement has been interpreted to mean that a company is in privity with an assignor if the company could not have initiated its infringing operations without the assignor’s knowledge and assistance. See HWB, Inc. v. Braner, Inc., 869 F.Supp. 579, 582 (N.D. Ill. 1994).

It is difficult to see why a company’s relying upon the assignor’s knowledge and assistance to conduct infringement should estop the company from challenging the patent’s validity, or why the company should even have a need to rely upon the assignor’s knowledge and assistance in the first place. Because a patent must enable a person having ordinary skill in the art to make and use the patented machine or process, see 35 U.S.C. § 112(a), a company can determine how to infringe without relying on the

knowledge and assistance of the assignor. Cf. MGE Supp. Reply Br. at 12, ECF No. 401 (“Publication of a patent by its nature informs the public of the patented methods and apparatus; thus, there is no instance in which the inventor/assignor is ‘indispensable’ to a company developing an infringing product.”). Thus, it is hard to see how a company’s obtaining the information needed to infringe from the assignor rather than the patent leads to unfairness. The company could have infringed without consulting the assignor, and if the patent were invalid the company would not have been liable to the patent owner for infringement. Why should the company’s having consulted the assignor during the process of infringing prevent the company from challenging the patent’s validity? As one court has observed in discussing Mellor, “it is difficult to understand why the doctrine of estoppel should apply to a person receiving the information from the patentee, and not to one obtaining it direct from the patent.” Nat’l Cash Register Co. v. Remington Arms Co., 283 F. 196, 203 (D. Del. 1922).

In any event, in none of the above cases did the courts find a company in privity with an assignor solely because that company availed itself of the assignor’s knowledge and assistance to conduct infringement. Rather, in each case, other factors indicated that the assignor was the driving force behind the infringing operation, which brought the case closer to the paradigm case of privity—the assignor’s forming his or her own corporation and causing that corporation to infringe. In Mellor, the assignor was a shareholder and director of the infringing corporation and also its president. 141 F. at 993. In Shamrock, the assignor was a shareholder of the infringing corporation, was one of two individuals at the corporation who made the decision to commence infringing operations, and was in charge of the corporation’s infringing operations. 903 F.2d at 794. In Intel Corp., the

assignor was the largest single shareholder of one corporation, and he had agreed to indemnify from claims of patent infringement another corporation that entered into a joint venture with the first corporation to conduct infringement. 946 F.2d at 837–39. In all three of these cases, it was clear that the assignor was the driving force behind the estopped company’s acts of infringement, such that if the company were allowed to challenge the validity of the assigned patent, the court would in essence be allowing the assignor to argue that what he had assigned was worthless. Thus, the “knowledge and assistance” factor is simply one factor to consider in the course of determining whether the assignor is the driving force behind the separate entity’s infringing operations. It does not, by itself, determine whether the assignor and the separate entity are in privity.

In light of the above, to determine whether Zund America is in privity with Alsten and thus estopped from challenging the validity of the ’168 and ’187 patents, I examine whether the totality of the circumstances shows that Alsten was the driving force behind Zund’s infringing operations. Because this issue arises in the context of MGE’s motion for summary judgment, I view the facts in the light most favorable to Zund. See Fed. R. Civ. P. 56.

As discussed in the fact section, Zund America initially hired Alsten to sell cutting systems controlled by MGE’s i-cut software, not to help develop new software. No evidence suggests that Alsten left MGE with the intention of helping Zund develop an alternative to i-cut. A short time after Zund America hired Alsten, Zund Systemtechnik began to explore the possibility of selling cutting systems controlled by software other than i-cut. No evidence suggests that Alsten was involved in this decision, much less that he was the driving force behind it. Once the decision was made to explore other software,

Alsten was involved in testing the software and making suggestions for improving it, but no evidence suggests he played a major role in developing the software. Rather, the kinds of contributions Alsten made had to do with peripheral matters, such as the appearance of the user interface. Even if Alsten had not made these contributions, it is likely that the software would have infringed, since no matter how the software looked it would still have performed MGE's patented search functions. No evidence suggests that Alsten educated either Eurosystems or Grafitroniks on how to incorporate a search function into their software; rather, each company had incorporated search functions into its software before Alsten's involvement. Further, MGE concedes that Zund, Eurosystems, and Grafitroniks could have learned everything they needed to know to begin infringing the '168 and '187 patents from the patents themselves and did not need to draw on Alsten's knowledge or assistance for that purpose. MGE Resp. to Zund Supp. PFOF ¶¶ 53 & 68, ECF No. 402. Under these circumstances, one cannot view Zund America as being in privity with Alsten. Zund likely would have infringed even if Alsten was not employed by the company, and it would not be proper to view Zund's invalidity argument as an attempt by Alsten to render his previous assignment worthless. Accordingly, MGE's motion for summary judgment of assignor estoppel will be denied.

III. MOTIONS FOR LEAVE

Zund has filed a motion for leave to file a declaration of one of its witnesses, Didier Dubesset of Grafitroniks. The reason Zund seeks leave to file this declaration is that the declaration was not submitted to the court and opposing counsel until fourteen days after the filing deadline of December 27, 2013. Zund states that Dubesset, who resides in France, did not forward the declaration to Zund's counsel by the filing deadline, and that

Zund and its counsel did not learn that they had received the declaration until after they returned from their holiday travel on January 9, 2014.

Because Zund's motion for leave was filed after Zund's time to file the declaration had expired, Zund must show excusable neglect. See Fed. R. Civ. P. 6(1)(B). Here, there is no doubt that the failure to act was the result of neglect (i.e., inadvertence), and the question is whether the neglect is excusable. The determination of whether a party's neglect is excusable is an equitable one, and a court must take account of all relevant circumstances. Pioneer Inv. Servs. Co. v. Brunswick Assocs. Ltd. P'ship, 507 U.S. 380, 395 (1993). These circumstances include the danger of prejudice to non-moving parties, the length of the delay and its potential impact on judicial proceedings, the reason for the delay, including whether it was within the reasonable control of the movant, and whether the movant acted in good faith. Id.

Taking these circumstances into account, I conclude that Zund's neglect is excusable. First, the delay has not prejudiced MGE. Although MGE states that if Dubesset is allowed to submit his declaration it might want to depose him, that has nothing to do with the fourteen-day delay. Had Zund filed Dubesset's declaration on time, MGE would still have had to consider whether to depose him. Thus, the cost of any deposition cannot be deemed to be prejudice caused by the delay. In any event, at an earlier stage of this case, Zund submitted a declaration from Dubesset that is very similar to the one it now seeks leave to submit, see ECF No. 223-8, and thus MGE has known for some time that Dubesset has information relevant to this case and could have deposed him at any time. MGE does not claim that the new information in Dubesset's latest deposition has caused it to change its mind about whether to depose him. Second, the length of the delay is

minimal and has had no impact on these proceedings. Third, the reason for the delay supports a finding of excusable neglect. Dubesset is not an employee of Zund America, and thus whether he submitted his declaration on time was largely outside of Zund's control. Finally, there is no suggestion that Zund America has acted in bad faith. Accordingly, Zund's motion for leave to file Dubesset's declaration will be granted.

The remaining matter is Zund's motion for leave to file a sur-reply brief, which I will grant.

IV. CONCLUSION

For the reasons stated, **IT IS ORDERED** that plaintiff's motion for summary judgment of assignor estoppel is **DENIED**.

IT IS FURTHER ORDERED that defendant's motion for leave to file the declaration of Didier Dubesset is **GRANTED**.

FINALLY, IT IS ORDERED that defendants's motion for leave to file a sur-reply brief is **GRANTED**.

Dated at Milwaukee, Wisconsin, this 23rd day of May, 2014.

s/ Lynn Adelman

LYNN ADELMAN
District Judge