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**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA**

SKF CONDITION MONITORING, INC.,  
Plaintiff and Counter-Defendant,  
v.  
INVENSYS SYSTEMS, INC.,  
Defendant and Counter-Claimant.

Case No. 07cv1116 BTM (BGS)

**ORDER GRANTING MOTION FOR  
LEAVE TO FILE SECOND  
AMENDED ANSWER AND  
COUNTERCLAIM**

Defendant and Counter-Claimant Invesys Systems, Inc. has filed a motion for leave to file a second amended answer and counterclaim [Doc. 72]. For the following reasons, the Court **GRANTS** the motion.

**I. BACKGROUND**

This is a patent-infringement case. The patent at issue, U.S. Patent No. 6,006,164 ('164 Patent), describes a portable vibration monitor used to detect vibrations and other movement in machines. The present dispute, however, has little to do with the substance of the patent.

Invensys seeks to add a counterclaim of inequitable conduct. Succeeding on the claim requires proving a person associated with filing a patent made a material misrepresentation or omission with the intent to deceive the Patent and Trademark Office ("PTO"). See *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1327 n.3 (Fed. Cir.

1 2009). In this case, the proposed counterclaim would allege that people<sup>1</sup> involved in filing  
2 the '164 Patent application for SKF<sup>2</sup> intentionally failed to disclose material prior art to the  
3 PTO.

4 The Court would normally be required to freely grant Invensys's request to amend its  
5 answer, see Fed. R. Civ. P. 15(a)(2), but the deadline for amending the pleadings has  
6 passed. Invensys's burden is therefore heightened; it must show that it acted diligently and  
7 that, despite its diligence, it still could not meet the deadline. See *Johnson v. Mammoth*  
8 *Recreations, Inc.*, 975 F.2d 604, 607–09 (9th Cir. 1992). So in reciting the facts, the Court  
9 pays particular attention to exactly when Invensys's learned of the facts underlying its  
10 inequitable-conduct claim and whether it could have been more diligent in trying to meet the  
11 deadline for amending its answer.

12 Invensys claims there are two products which SKF knew were prior art but failed to  
13 disclose: the Picolog and the Vibrotip. Below, the Court examines separately the facts  
14 related to the Picolog and the Vibrotip

### 16 **1. The Picolog**

17 According to Invensys, the Picolog was prior art which SKF knew about and  
18 intentionally withheld from the PTO. There is no question that the Picolog is in the same  
19 product category as the '164 Patent. Nor is there any dispute that SKF was aware of it. In  
20 fact, SKF itself, the holder of the '164 Patent, actually sold the Picolog and even mentioned  
21 it in its application for the '164 Patent:

22 A commercially available device of this nature is the Picolog from SKF

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23  
24 <sup>1</sup> Invensys specifically alleges inequitable conduct against two patent-prosecution  
25 attorneys, Thomas Arno and John Carson of Knobbe Martens; three of the four inventors,  
26 William McCarty, Jerry Drury, and Steve Thompson; and also Roger E. Lamberson, who  
Plaintiff does not identify but Defendant says was a then Vice President of Operations for  
SKF.

27 <sup>2</sup> Invensys was not the original Defendant and Counter-Claimant in this action; SAT  
28 Corporation was. In 2008, Invensys acquired SAT Corporation, and the parties moved jointly  
to substitute Invensys as the named Defendant. The Court will refer to Invensys or  
Defendant throughout this order, which should be construed as a reference to SAT  
Corporation when discussing events preceding Invensys's purchase of SAT Corporation.

1 Condition Monitoring of San Diego, Calif. The Picolog system comprises a  
2 handheld probe capable of measuring and storing hundreds of separate  
3 vibration level measurements. These measurements are later uploaded to a  
host computer system for analysis. The Picolog (TM), however, does not  
provide a real-time output of the vibration measurement.

4 Other than making this reference in the '164 Patent application, neither SKF and nor anyone  
5 affiliated with it formally identified the Picolog as prior art to the PTO.

6 This reference to the Picolog in the '164 Patent application was not hidden from  
7 Invensys. Invensys was aware or should have been aware that the '164 Patent application  
8 included this reference to the Picolog. In November 2005, Invensys ordered the file wrapper  
9 for the '164 Patent, (Transier Decl. Ex. 8.), which would have included the patent application.  
10 So as early as 2005, Invensys knew that SKF believed the Picolog was related to the '164  
11 Patent.

12 Invensys has not given the Court any evidence that it asked for more information  
13 related to the Picolog during pre-litigation discussions in 2005 and 2006.

14 Once Invensys filed suit and discovery began, it learned even more about the Picolog  
15 through an SKF product catalog. In April and May 2010, SKF produced several documents.  
16 Among those documents was an SKF product catalog, which included a description and  
17 specifications for the Picolog. The product catalog's description of the Picolog was far more  
18 specific than the description in the '164 Patent application. The product catalog was not  
19 confidential.

20 In addition to performing document discovery, in late May and early June 2010  
21 Invensys deposed the four inventors of the product described in the '164 Patent. All four of  
22 them had heard of the Picolog but did not work on it or remember much about it. (Kjelland  
23 Decl., Thompson Dep., Ex. G, 25:1–10; McCarty Dep., Ex. H, 109:16–20; Drury Dep., Ex.  
24 I, 86–88; Calderwood Dep., Ex. J, 67:16–24.)

## 26 **2. The Vibrotip**

27 The Vibrotip was a product manufactured by a company called Pruftechnik. Although  
28 the parties have not given the Court much information about the Vibrotip, it appears that it

1 is in a similar product category as the product described in the '164 Patent. Indeed, the SKF  
2 inventors acknowledged as much in a confidential document.

3 The confidential document, titled Record of Invention and Invention Disclosure,  
4 appears to be an internal, confidential SKF questionnaire which inventors complete in order  
5 to protect SKF intellectual property and to ensure proper disclosure to the PTO (the  
6 "Invention Disclosure"). It shows that three of the inventors<sup>3</sup> described the Vibrotip as the  
7 "closest prior art" to the '164 Patent. They identified the "Pruftechnik Vibrotip and stud, (no  
8 communications to data logger, route built inside)" as the "closest prior art" which "most  
9 closely related to the invention." (Kjelland Decl., Ex. B.) The parties do not dispute that the  
10 first time Invensys saw or had access to this document was when it was produced in  
11 discovery.

12 Despite the inventors belief that the Vibrotip was the closest prior art, neither SKF nor  
13 anyone affiliated with it disclosed the Vibrotip as prior art to the PTO.

14 At the depositions, Invensys's lawyers questioned the inventors of the '164 Patent  
15 about the Invention Disclosure. Mr. McCarty, Mr. Drury, and Mr. Thompson confirmed they  
16 had signed the Invention Disclosure which said they believed the Vibrotip was the closest  
17 prior art, and all but Mr. Drury said they had also signed a declaration to the PTO  
18 acknowledging their duty to disclose information material to patentability.<sup>4</sup> All three also said  
19 they either could not remember or in fact did not take any independent steps to disclose the  
20 Vibrotip to the PTO or to the patent-prosecution attorneys.

### 22 3. The Timeline

23 As the Court mentioned above, discovery began in late January 2010. The last day  
24 to amend the pleadings was February 26, 2010. The product catalog and the Invention  
25 Disclosure were produced sometime in April and May, and the inventors were deposed in

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26 <sup>3</sup> The three inventors are Mr. McCarty, Mr. Drury, and Mr. Thompson.

27 <sup>4</sup> Mr. Calderwood was the fourth inventor, but in the Invention Disclosure he did not  
28 write that the Vibrotip was the closest prior art. He has not been accused of inequitable  
conduct.

1 late May and early June. On June 10, 2010, the day after the last inventor deposition,  
2 Invensys asked SKF to agree to filing an amended answer. After some correspondence,  
3 SKF said no on June 23, 2010. And on July 2, 2010, Invensys filed the motion for leave to  
4 amend now before the Court.

5 Fact discovery is scheduled to close on March 14, 2011, and the pretrial conference  
6 is scheduled for August 23, 2011. There is no trial date.

## 7 8 **II. LEGAL STANDARD**

9 Under Federal Rule of Civil Procedure Rule 16(b), a court can only modify a  
10 scheduling order for good cause. “Rule 16(b)’s ‘good cause’ standard primarily considers  
11 the diligence of the party seeking the amendment. The district court may modify the pretrial  
12 schedule ‘if it cannot reasonably be met despite the diligence of the party seeking the  
13 extension.’” *Johnson v. Mammoth Recreations, Inc.*, 975 F.2d 604, 609 (9th Cir. 1992).  
14 “Although the existence or degree of prejudice to the party opposing the modification might  
15 supply additional reasons to deny a motion, the focus of the inquiry is upon the moving  
16 party’s reasons for seeking modification.” *Id.* “It is the moving party’s burden to show that  
17 good cause exists.” *Robertson v. Sadjak*, No. 09cv136, 2010 WL 1418393, at \*7 (D. Idaho  
18 April 7, 2010).

19 If a party establishes good cause for amending a scheduling order, the Court must  
20 then consider the amendment under the more liberal standard of Federal Rule of Civil  
21 Procedure 15(a). See *Jackson v. Laureate, Inc.*, 186 F.R.D. 605, 607 (E.D. Cal. 1999) (citing  
22 *Johnson*, 975 F.2d at 607–08). Under that rule, “[t]he court should freely give leave when  
23 justice so requires.” Fed. R. Civ. P. 15(a). Although Rule 15(a) should “be applied with  
24 extreme liberality,” the court may deny the amendment if there is bad faith, undue delay,  
25 prejudice to the opposing party, or if the amendment would be futile. *Owens v. Kaiser*  
26 *Foundation Health Plan, Inc.*, 244 F.3d 708, 712 (9th Cir. 2001).

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3 **III. DISCUSSION**

4 **1. Rule 16: Is There Good Cause for the Late Amendment?**

5 Plaintiff claims there is good cause for the amendment because it only recently  
6 learned through discovery of the basis for the inequitable-conduct claims. By the time  
7 Plaintiff received the relevant documents and took the inventors' depositions, it argues, the  
8 deadline for amendment had already passed. The Court first reviews the elements of  
9 inequitable conduct.

10 To state a claim for inequitable conduct, a party must allege "(1) an individual  
11 associated with the filing and prosecution of a patent application made an affirmative  
12 misrepresentation of a material fact, failed to disclose material information, or submitted false  
13 material information; and (2) the individual did so with a specific intent to deceive the PTO."  
14 *Exergen Corp.*, 575 F.3d at 1327 n.3. Inequitable conduct must be pled with  
15 particularity—this means the "who, what, when, where, and how of the material  
16 misrepresentation or omission committed before the PTO." *Id.* at 1326–27. Particularity is  
17 not required for pleading knowledge of the misrepresentation or omission, or intent to  
18 deceive the PTO; knowledge and intent may be pleaded generally with sufficient facts to infer  
19 the state of mind. *Id.* at 1327.

20 With this heightened pleading standard in mind, the Court now turns to when Plaintiff  
21 learned of the details underlying its claims.

22 **A. The Picolog**

23 SKF disclosed to the PTO that the Picolog was related to the '164 Patent from the  
24 very beginning. It included a brief description of it in the '164 Patent application. Invensys  
25 was aware or should have been aware of the reference to the Picolog in 2005, when it  
26 obtained the file wrapper for the '164 Patent. The file wrapper would have included the  
27 patent application and any prior-art disclosures. *See Phillips v. AWH Corp.*, 415 F.3d 1303,  
28 1317 (Fed. Cir. 2005); *Autogiro Co. of America v. United States*, 384 F.2d 391, 398 (Ct. Cl.

1 1967). This means that, as of 2005, Invensys was on notice that SKF believed the Picolog  
2 and the '164 Patent were related and that the Picolog was not formally disclosed as prior art.

3 Despite this knowledge, Invensys has not shown that it investigated the relationship  
4 between the '164 Patent and the Picolog before formal discovery. Invensys could have  
5 researched the Picolog based on publicly available documents. The catalog produced during  
6 discovery, which has detailed specifications for the Picolog, was not a confidential document.  
7 To the contrary, it appears to be a catalog for marketing purposes that Invensys may have  
8 been able to get simply by asking.<sup>5</sup> But there is no evidence that Invensys ever asked SKF  
9 for information related to the Picolog or otherwise investigated the Picolog's specifications  
10 before filing suit.

11 Although there has been some delay in researching and asserting the inequitable-  
12 conduct claim related to the Picolog, there will be no prejudice to SKF if Invensys is allowed  
13 to assert it. That is because, as discussed below, the Court will permit Invensys to assert  
14 an inequitable-conduct claim related to the Vibrotip, and any evidence regarding disclosing  
15 the Picolog to the PTO would likely be admissible under Federal Rule of Evidence 404(b) as  
16 it relates to SKF's intent. The Court therefore finds good cause for the amendment.

17  
18 B. The Vibrotip

19 There are two important differences between the facts related to the Picolog and the  
20 facts related to the Vibrotip. The first is that Invensys did not know until it got the Invention  
21 Disclosure that three SKF inventors subjectively believed the Vibrotip was the "closest prior  
22 art." The confidential Invention Disclosure shows that three of the inventors said that the  
23 Vibrotip was the closest prior art. This document may relate to a crucial element of an  
24 inequitable-conduct claim, which is that the accused person knows of or intended the  
25 omission. Invensys had no evidence of the inventors' belief until they saw the Invention  
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27 <sup>5</sup> Diligence requires at least trying to find the document or asking SKF for it. If SKF  
28 had said no, then Invensys's argument that it acted diligently would be strengthened. But  
Invensys has made no showing that it sought more information about the Picolog before the  
deadline for amendments had passed.

1 Disclosure and the deadline for amendments had already passed. As discussed above,  
2 however, Invensys knew SKF believed the Picolog was a related product as early as 2005.  
3 This is a crucial distinction.

4 But could Invensys have gotten the Invention Disclosure sooner if it was more  
5 diligent? Probably not. This touches on the second important difference between the  
6 Picolog and the Vibrotip. The Invention Disclosure, unlike the product catalog which set forth  
7 the specifications for the Picolog, is a confidential document. It would have been difficult, if  
8 not impossible, for Invensys to get that document without using formal discovery. Under the  
9 circumstances, Invensys did as much as it could.

10 Once Invensys had the document, it acted diligently in questioning the inventors about  
11 it, promptly raising the motion to amend with opposing counsel, and then filing the motion  
12 once opposing counsel would not stipulate to it. Due to the heightened pleading  
13 requirements of inequitable-conduct claims, Invensys had a right to depose the inventors and  
14 gather more information before asserting its claim. *See, e.g., Kannar v. Alticor, Inc.*, No.  
15 09cv2500, 2010 WL 891289 (C.D. Cal. March 10, 2010) (finding good cause for late  
16 inequitable-conduct claim because moving party could only depose key witnesses after the  
17 deadline for amendments had passed). Because Invensys acted diligently, did not have  
18 notice of the inventors' belief about the Vibrotip until it had the Invention Disclosure, and  
19 since that document was confidential, the Court finds good cause for the late motion for leave  
20 to amend.

21 SKF argues that because "Invensys has known about the VIBROTIP for years," it was  
22 not diligent in asserting its inequitable-conduct claim. (Opp. 13.) But Invensys's mere  
23 knowledge of the Vibrotip is irrelevant. The crucial question is when did Invensys have any  
24 reason to know that SKF knew of the Vibrotip and believed it to be prior art. And the answer  
25 is Invensys knew of SKF's belief only when it received the Invention Disclosure.

26 SKF also argues that "Invensys has always known that SKF's patent counsel knew  
27 of the VIBROTIP's existence during the reexamination." (Opp. 14.) Invensys discussed the  
28 Vibrotip with SKF while the reexamination was pending. Therefore, SKF claims, Invensys



1 could have asserted the inequitable-conduct claim against SKF's patent counsel much  
2 sooner. But just because Invensys gave SKF's attorneys information about the Vibrotip in  
3 the belief that the Vibrotip was prior art does not mean that the attorneys then had an  
4 obligation to disclose the Vibrotip to the PTO. Invensys could have concluded that the SKF  
5 attorneys simply believed the Vibrotip was not prior art. But it was not until the Invention  
6 Disclosure, which the patent-prosecution attorneys presumably had access to, that Invensys  
7 learned the inventors' themselves believed the Vibrotip was prior art.

8 SKF focuses on Invensys's failure to give the PTO information about the Vibrotip  
9 during the reexamination of the '164 Patent. Invensys's failure to disclose the Vibrotip is not  
10 relevant to its inequitable-conduct claim against SKF. It does not matter what Invensys did  
11 or did not disclose to the PTO during the reexamination. SKF also makes arguments  
12 regarding the merits of, and evidentiary support for, the inequitable-conduct claim. Those  
13 arguments are irrelevant to the Court's analysis. The Court's concern is Invensys's diligence,  
14 not the merits of its claim. The Court finds Invensys was diligent in preparing its inequitable-  
15 conduct claim because the Invention Disclosure was the first thing that gave it notice of a  
16 possible inequitable-conduct claim, and once it had the document it acted quickly and  
17 diligently to investigate and bring that claim before the Court.

18 The Court finds good cause for Invensys's late amendment to add the inequitable-  
19 conduct claim regarding the Vibrotip.

20

21 C. Prejudice to SKF

22 Although the Court may consider prejudice to SKF as part of its good-cause analysis,  
23 the existence of prejudice "might supply *additional* reasons to *deny* a motion" if a party has  
24 not shown good cause. *Johnson*, 975 F.2d at 609 (emphasis added). Here, however, the  
25 Court has found good cause and so does not consider prejudice. The Court considers  
26 prejudice in the context of Rule 15.

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1 **2. Rule 15: Is There Bad Faith, Undue Delay, Prejudice, or Futility?**

2 Invensys has shown good cause for its late amendment regarding the Vibrotip, but the  
3 inquiry is not over. The Court must now determine whether the amendment satisfies the  
4 requirements of Rule 15(a). The Court “should freely give leave when justice so requires,”  
5 Fed. R. Civ. P. 15(a), but may deny the amendment if there is bad faith, undue delay,  
6 prejudice to the opposing party, or if the amendment would be futile, *Owens v. Kaiser*  
7 *Foundation Health Plan, Inc.*, 244 F.3d 708, 712 (9th Cir. 2001). SKF argues that all four  
8 factors are present.

9

10 A. Bad Faith

11 SKF asserts that Invensys’s motion is sought in bad faith mainly because during pre-  
12 litigation discussions, Pruftechnik, the manufacturer of the Vibrotip, essentially told SKF that  
13 the Vibrotip was dissimilar to the ‘164 Patent and that the Vibtool, the successor to the  
14 Vibrotip, did not infringe on the ‘164 Patent. SKF claims it reasonably relied on this assertion  
15 in not disclosing the Vibrotip to the PTO and that Invensys is acting in bad faith in  
16 contradicting Pruftechnik’s earlier position.

17 Although Pruftechnik’s and Invensys’s interests may be aligned, the Court will not hold  
18 Invensys accountable for Pruftechnik’s representations. Moreover, the context of the pre-  
19 litigation dispute was different. There may be legitimate distinctions between the ‘164 Patent  
20 and the Vibrotip, but that does not necessarily mean the Vibrotip was not prior art or that it  
21 should not have been disclosed. Indeed, SKF’s own inventors believed the Vibrotip was the  
22 closest prior art. For these reasons, the Court finds Invensys’s motion is not made in bad  
23 faith.

24

25 B. Undue Delay

26 The Court has already found that Invensys acted promptly and diligently with respect  
27 to the Vibrotip allegations.

28

1 C. Prejudice to SKF

2 SKF argues it would be prejudiced because it would now be forced to choose between  
3 submitting information about the Picolog and Vibrotip to the PTO and having to redo the  
4 reexamination, or defending the inequitable-conduct claim. Having to defend against a claim,  
5 which in this case is at least colorable and has some evidentiary support, is not the type of  
6 prejudice that supports denying this type of motion. If defending against new claims was  
7 enough prejudice to deny a belated motion to amend, then they would never be granted.  
8 And that, of course, is not the case. See, e.g., *Bigband Networks, Inc. v. Imagine*  
9 *Commc'ns., Inc.*, No. 07cv351, 2010 WL 2898286 (D. Del. July 20, 2010) (granting belated  
10 motion to amend adding inequitable conduct claim).

11  
12 D. Futility

13 SKF also argues that the amendment would be futile. It argues that the proposed  
14 counterclaim is not specific enough to meet the requirements of Rule 9(b). As discussed  
15 above, inequitable-conduct claims must be pled with particularity under Rule 9(b). *Exergen*  
16 *Corp.*, 575 F.3d at 1326. The claim “must be pleaded in detail,” *Id.* at 1327, and must also  
17 explain “‘why’ the withheld information is material and not cumulative, and ‘how’ an examiner  
18 would have used this information in assessing the patentability of the claims.” *Id.* at  
19 1329–30. The party asserting inequitable conduct must allege specific facts and do “more  
20 than simply allege that the references are ‘highly material and non-cumulative.’” *Advanced*  
21 *Micro Devices v. Samsung Electronics Co.*, No. 08cv986, 2010 WL 963920, at \*11 (N.D. Cal.  
22 Mar. 16, 2010).

23 Invensys’s proposed second amended answer adequately alleges that the Vibrotip  
24 would be non-cumulative. (See Proposed 2d Am. Answer ¶¶ 50–55.) Although Invensys  
25 never makes that allegation directly, there are several allegations which support a  
26 reasonable inference that those references would be non-cumulative. For example, the  
27 proposed answer alleges that the Vibrotip and Picolog have additional features not found the  
28 “primary reference . . . [which] was discussed during the reexamination prosecution.”

1 (Proposed 2d Am. Answer ¶ 50.) In another paragraph, Invensys claims that SKF did not  
2 bring the Picolog or Vibrotip to a product demonstration during the reexamination.

3 Invensys also alleges the PTO said that certain new claims which SKF added to the  
4 '164 Patent were not disclosed in the prior-art references. And, Invensys alleges, because  
5 these new claims had not been previously disclosed to the PTO, the PTO accepted them.  
6 But according to Invensys, those new features were present in the undisclosed Picolog and  
7 Vibrotip. See *id.* at ¶ 51, 53–55. So if the PTO had information about those references, it  
8 would not have accepted the new claims, Invensys argues.

9 Invensys only alleges the *PTO said* that the already submitted prior art did not  
10 disclose features allegedly present in the Picolog and Vibrotip. Invensys does not directly  
11 allege the references are non-cumulative. Nevertheless, making all reasonable inferences  
12 in favor of the non-moving party, the PTO's statements provide a sufficient basis to infer that  
13 the references are non-cumulative. SKF argues that the Picolog and Vibrotip are cumulative  
14 of other references submitted to the PTO, but this issue is better resolved on a motion for  
15 summary judgment.

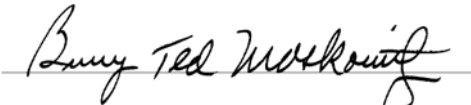
16 The proposed second amended answer states a claim for inequitable conduct and is  
17 therefore not futile.

18  
19 **IV. CONCLUSION**

20 For the foregoing reasons, the Court **GRANTS** Invensys's motion for leave to file a  
21 second amended answer and counterclaim [Doc. 72]. Invensys must file its second  
22 amended answer and counterclaim within seven days of the filing of this order.

23 **IT IS SO ORDERED.**

24  
25 DATED: August 31, 2010

26   
27 Honorable Barry Ted Moskowitz  
28 United States District Judge