Keywords: **successor in interest; prosecution history estoppel; doctrine of equivalents; tangential amendments.**

General: **A successor corporation is liable as a successor in interest for judgments against a U.S. predecessor.**

Funai Electric Co. v. Daewoo Electronic Corp.
96 U.S.P.Q.2d 1329 (Fed. Cir. 2010)
Decided September 1, 2010

I. Facts

Funai Electric Company, Ltd. ("Funai") filed suit against four Daewoo entities: Daewoo Electronics Corporation ("DEC"), a corporation of South Korea, and its predecessor Korean company Daewoo Electronics Company Ltd. ("DECL"); and their United States subsidiaries Daewoo Electronics America, Inc. ("DEAM"), a Florida Corporation, and its predecessor Daewoo Electronics Company of America ("DECA"), a California corporation. Funai alleged infringement by the Daewoo entities of six United States patents owned by Funai and pertaining to video cassette players and recorders ("VCRs").

In early 2005, DECL and DECA ceased participating in the litigation, presenting no defense and refusing discovery. The district court entered default judgment against them and, based on the evidence before the court, awarded Funai $6,956,187 in damages for infringement by DECL and DECA before October 25, 2002, plus attorney fees and costs incurred as to these entities. The total award, including prejudgment interest, was $8,066,112. No appeal was taken from this award. However, DECL and DECA did not pay the judgment. Funai then asserted by amended complaint that successor companies DEC and DEAM ("Daewoo") were liable for payment of the infringement judgment against the predecessor companies

The district court held on summary judgment that Daewoo did not infringe three of the six patents asserted by Funai. In addition, the court granted summary judgment of no literal infringement of two of the remaining asserted patents, U.S. Patent No. 6, 021,018 ("the '018 patent") and U.S. Patent No. 6,421,210 ("the '210 patent"). However, the court denied summary judgment on the issue of infringement of the '018 and '210 patent under the doctrine of equivalents. The court also denied summary judgment of infringement, either literal or under the doctrine of equivalents, for U.S. Patent No. 6, 064,538 (the '538 patent"). The remaining issues went to a jury trial.

The jury found that Daewoo willfully infringed the '018 and '210 patents under the doctrine of equivalents and willfully infringed the '538 patent either literally or under the doctrine of equivalents. The jury awarded Funai $7,216,698 in damages against Daewoo. The court also entered a permanent injunction against Daewoo. The district court also considered Funai's request that the damages awarded against the predecessor companies, DECL and DECA, be assessed against Daewoo. In considering whether Daewoo was liable for judgments against its predecessor companies, the court applied the law of South Korea as to successor liability, and ruled that Daewoo was not liable for the judgments entered against their predecessors.

Daewoo appealed various issues related to infringement, claim indefiniteness, and damages. Funai cross-appealed the district court's refusal to enhance damages based on the jury's willfulness findings and the sanctioned attorney misconduct, and also appealed the ruling as to successor liability.

II. Issues

A. Did the district court err in applying South Korean law as to successor liability in determining whether Daewoo was liable for judgments against its predecessor companies?

B. Did the district court err in considering infringement of claim 1 of the '210 patent under the doctrine of equivalents because equivalents were precluded by prosecution history estoppel?

III. Discussion

A. Yes. The Federal Circuit reversed the district court's ruling that Korean law applies to absolve Daewoo of successor liability for the judgment against predecessor companies DECL and DECA.

Funai did not challenge the application of Korean law to the Korean companies DECL and DEC, but argued that Korean law does not apply to the successor liability of United States companies DECA and DEAM. Funai further noted that its claim was not a contract claim under Korean contract law, but was instead a judgment in a United States court for patent infringement solely governed by the laws of the United States and applicable state law.

The Federal Circuit noted that the issue revolved around whether a domestic corporation is insulated from a judgment if the judgment would not be enforceable under the laws of its foreign parent. The Federal Circuit agreed with Funai, stating, "the United States has an overriding interest in the integrity of judgments of its courts with respect to violations of United States law by entities doing business in the United States."

B. No. The Federal Circuit upheld the district court's finding of infringement of claim 1 of the '210 patent under the doctrine of equivalents, noting that the amendment in question was only "tangentially" related to the equivalent in question.

Claim 1 is reproduced below:

> 1. A mechanism for preventing propagation of driving motor noise and vibration on a tape deck, comprising:
> a deck chassis, a pinch roller and a capstan axis for conveying a tape, a motor which is mounted on said deck chassis for driving said capstan axis, a cylinder drum which is mounted on said deck chassis and provided with a head for magnetic-recording and playing on the tape;
> said motor being a direct driving motor in which a motor shaft is directly coupled to the capstan axis, and which is controlled by current switching;
> said motor being electrically insulated from said deck chassis;
> said direct driving motor controlled by a pulse width modulation (PWM) control; and
> said direct driving motor including a rotational axis as a capstan axis, a rotor which is mounted on said rotational axis, a stator core which is wounded by a coil being supplied PWM control current and faces to said rotor, and a bearing holder which holds said stator core and supports said rotational axis, and said direct driving motor is mounted through said bearing holder on the deck chassis;
> *wherein said bearing holder is made of an insulating material.*

Although Daewoo was found not to literally infringe claim 1 based on summary judgment that Daewoo's VCR products did not use an "insulating material," the district court found that Daewoo used an equivalent material. Daewoo did not contest the equivalency, but instead argued that Funai was estopped from asserting equivalents. During prosecution, dependent claim 4, which depended from claims 1 and 2, was rewritten in independent form and subsequently issued as claim 1. Citing to *Honeywell*, Daewoo argued that the cancellation of the claims from which claim 4 depended raised the presumption of surrender of the entire scope between claims 1 and 2 and claim 4.

Funai argued that the cancellation of claims 1 and 2 did not constitute a narrowing amendment as to the nature of the insulating material, because the insulating material was unrelated to the rejection that prompted the amendment and the patentability of the claim was based on other limitations. Citing to *Festo*, the Federal Circuit characterized the limitation as "tangential" to the prosecution. Under *Festo*, an amendment made during prosecution does not trigger a prosecution history estoppel bar if the "rationale underlying the amendment [bears] no more than a tangential relation to the equivalent in question."