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# ASSIGNMENT RECORDATION FORM COVER SHEET

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To the Honorable Commissioner of Patents and Trademarks: 441

December 7, 1998

Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

Ken Luker.

Additional name(s) of conveying party(ies) attached? ___ Yes _X_ No

2. Name and address of receiving party(ies):

Designer Mat, Inc.
2115 Via Burton
Anaheim, CA 92806
C/o Donald R. Kurtz
8001 Irvine Center Drive
Suite 1140
Irvine, California 92718
C/o Kenneth R. Luker
2900 East Lincoln, Apt. 37
Anaheim, CA

Additional name(s) & address(es) attached? ___ Yes _X_ No

3. Nature of conveyance:

_____ Assignment
_____ Merger
_____ Security Agreement
_____ Change of Name
_X_ Other: OPINION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF OHIO EASTERN DIVISION

Execution Date: JUNE 3, 1997

4. U.S. Patent No. 4,871,602

If this document is being filed together with a new application, the execution date of the application is:

Additional numbers attached? ___ Yes _X_ No

5. Name and address of party to whom correspondence concerning document should be mailed:

D. Randal Ayers, Esq.
Patent Bar No. 40,493
**Myers Bigel Sibley & Sajovec**
P. O. Box 37428
Raleigh NC 27627

6. Total number of applications and patents involved: 1

7. Total fee (37 CFR 3.41) $ 40.00
_X___ Enclosed
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*To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.*

D. Randal Ayers, Reg. 40,493 — Name of Person Signing

D Randal Ayers — Signature

December 7, 1998 — Date

Total number of pages including cover sheet, attachments and document: 9

**UNITED STATES DISTRICT COURT**
**NORTHERN DISTRICT OF OHIO**
**EASTERN DIVISION**

| | |
|---|---|
| THE AKRO CORPORATION,<br><br>**Plaintiff,**<br><br>**- vs -**<br><br>KEN LUKER,<br><br>**Defendant.** | **CASE NO.** 5:93 CV 2207<br><br>Judge Sam H. Bell<br><br>**OPINION** |

The Akro Corporation ("Akro"), Plaintiff, and Ken Luker, Defendant, dispute whether Akro is liable to Luker for infringement of United States Patent No. 4,871,602 (the "'602 patent"). After denying the parties' cross-motions for summary judgment, the court held a eight-day bench trial. Among its many arguments, Akro challenged Luker's standing to bring an infringement suit by asserting that Luker holds no ownership interest in the patent. The court agrees that Mr. Luker lacks ownership of the patent and, consequently, adequate standing to assert infringement of the patent. Consequently, the court shall dismiss for lack of subject matter jurisdiction each of Plaintiff's claims of non-infringement, invalidity and unenforceability and Defendant's counterclaim of infringement. In addition, because Defendant has failed to present any evidence to support its counterclaim for unfair competition, the court shall find for Plaintiff on that count of the counter-complaint.

## FINDINGS OF FACT

1. The Akro Corporation is a company incorporated under the laws of the State of Delaware Akro produces floor mats for use in automobiles and has its principal place of business in Canton, Ohio. (Tr. at 55-56, 820.)

2. Ken Luker is a resident of the State of California. (Tr. at 397.) Mr. Luker is the named inventor of United States Patent No. 4,871,602. (Tr. at 398; Pl.'s Tr. Ex. 1.)

3. In 1987, Luker founded Designer Mat, Inc. ("DMI"), a company dedicated to, inter alia, the production of carpeted floor mats for automobiles. (Tr. at 403-404, 420-421.) DMI was incorporated under the laws of the State of California and had its principle place of business in Ontario, California, where it operated a factory for the production of its mats. (Tr. at 404-405.) DMI filed for bankruptcy protection in 1989. (Tr. at 405-406.)

4. Since DMI's incorporation, Luker served as its President and sole owner. (Tr. at 405.) Among his other responsibilities, Luker was responsible for the creation and development of DMI products, including the invention of new products. (Tr. at 414; Final Pretrial Order at B-9, ¶ 9.) As an employee of DMI, Luker did not work pursuant to a formal employment agreement.

5. In July, 1987, Luker conceived an idea for improving the wear and appearance of carpeted automobile floor mats. Luker's idea consisted of double-tufting the mat's carpeting in the region of expected high wear, all within a single pass of a carpet tufting machine. (Tr. at 414-415, 588-593.) Luker conceived the idea in his capacity as an officer of DMI, and for the commercial benefit of DMI. (Tr. at 414.)

6. Subsequently, Luker produced a mat incorporating his idea. (Tr. at 415.) He made the prototype mat on a tufting machine located in DMI's Ontario production facility with the assistance

of employee George Kennedy, a DMI foreman. (Tr. at 418-419, 552.) Kennedy suggested the use of two threads in a single needle to achieve the desired double tufting in the region of expected high wear. (Tr. at 347, 349, 353, 416, 586-588.) Luker made the mat using yarn, carpet backing and latex supplied and owned by DMI. (Tr. at 419-420, 552-554, 592.) He named the double-density mat the "Double Mat."

7. On June 29, 1988, Luker filed an application with the United States Patent and Trademark Office for a patent on the double-tufted floor mat. (Tr. at 472; Pl.'s Tr. Ex. 1.) At least a portion of the expenses incurred in filing the application for the patent, such as attorneys' fees and application fees, were paid by DMI. Luker did not pay any of the application expenses in his personal capacity. (Tr. at 424-427, 472-480, 551.) In addition, he did not report any of the payments made by DMI and others as income on his federal or state tax returns. (Tr. at 507.)

8. On October 3, 1989, the United States Patent and Trademark Office granted Luker United States Patent No. 4,871,602 for a double-tufted carpeted automobile floor mat. (Pl.'s Tr. Ex. 1.)

9. On approximately six separate occasions, Luker accused Akro of infringing the '602 patent. (Final Pretrial Order at B-1.) For example, in a letter dated October 13, 1993, Luker, through his counsel, wrote the following:

> It is my understanding that you are aware of the patent held by Mr. Luker and are intentionally manufacturing and selling floor mats using said patent in full disregard of Mr. Luker's patent rights.
>
> Please be advised that our office is investigating this matter and will seek remedies for our client should there be a patent infringement. Such remedies would include injunctive relief, compensatory damages and attorneys' fees.

10. On October 15, 1993, Akro filed suit against Luker for a declaratory judgment that (1) it has not infringed the '602 patent and (2) the patent is invalid and unenforceable. (Docket # 1.)

11. On July 31, 1995, Luker countersued Akro, alleging that Akro had in fact infringed the '602 patent and that Akro had engaged in unfair competition. (Docket #30.)

## CONCLUSIONS OF LAW

1. The court may exercise personal jurisdiction over the parties in a manner consistent with the due process limitations of the Fifth Amendment. See Akro Corp. v. Luker, 45 F.3d 1541, 1549 (Fed. Cir. 1995).

2. The court may issue a declaratory judgment as to the enforceability, validity and infringement by Akro of the '602 patent only upon a determination of an actual controversy. See 28 U.S.C. § 2201 (West 1997). ("In a case within its jurisdiction, . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought."); Aetna Life Ins. Co. v. Hayworth, 300 U.S. 227, 239-240 (1937).

3. "In a patent context, an actual controversy exists if there is (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity." Cygnus Therapeutics Sys. v. Alza Corp., 92 F.3d 1153, 1159 (Fed Cir. 1996) (citing B.P. Chems., Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993)).

4. As the party seeking a declaratory judgment, Akro bears the burden of proving, by a preponderance of the evidence, that an actual controversy exists. Id.

5. "The reasonableness of a party's apprehension of a suit involves an objective inquiry" of

the totality of the circumstances, including "any express charges of infringement." Id.

6. On numerous occasions, Luker expressly charged Akro with infringement of the '602 patent. In light of these charges, Akro reasonably feared that it would face a suit for both legal and equitable relief. In addition, Akro conducted activity at the time of its suit which could constitute infringement. As a result, the court may issue a declaratory judgment as to the rights of Akro and Luker with respect to the '602 patent upon a finding that an infringement suit by Luker against Akro for both legal and equitable relief lies within its jurisdiction.

7. Under 28 U.S.C. § 1338 (West 1997), the court may exercise jurisdiction over any action "arising under" any Act of Congress relating to patents.

8. In order for an action to arise under the patent laws, the plaintiff asserting a claim of patent infringement must have standing to bring the claim. Arachnid, Inc. v. Merit Indus., Inc., 939 F.2d 1574, 1579 (Fed.Cir. 1991).

9. In both his threat of suit and his actual suit against Akro, Luker has asserted a right to both legal and equitable relief. "The general rule is that one seeking to recover money damages for infringement of a United States patent (an action "at law") must have held legal title to the patent during the time of the infringement." Id. (emphasis in original). In addition, "one seeking injunctive relief for infringement of a U.S. patent must hold an equitable interest in the patent at the time of suit." Arachnid, 939 F.2d at 1580 (citing Papazian v. Amer. Steel & Wire Co. of New Jersey, 155 F.Supp. 111 (N.D.Ohio 1957)). Consequently, in order to have standing to bring his suit, Luker must demonstrate both legal title to the '602 patent during the time of the alleged infringement and equitable title at the time the suit was filed.

10. "[A]n invention presumptively belongs to its creator . . . . Consistent with the

presumption that the inventor owns the invention, an individual owns the patent rights even though the invention was conceived and/or reduced to practice during the course of employment." Teets v. Chromolloy Gas Turbine Corp., 83 F.3d 403, 406 (Fed. Cir. 1996) (citing Beech Aircraft Corp. v. EDO Corp., 990 F.2d 1237, 1248 (Fed.Cir. 1993); Arachnid, 939 F.2d at 1578; Hapgood v. Hewitt, 119 U.S. 226, 233-34 (1886)).

11. Nevertheless, an employer may still claim legal title to an employee's inventive work, under either an express assignment or an implied contract. Id.

12. "As a matter of common law, after the Supreme Court's decision in Erie Railroad v. Thompkins, 304 U.S. 64 (1938), state contract principles provide the rules for identifying and enforcing implied-in-fact contracts." Teets, 83 F.3d at 407.

13. As a California resident employed by a California corporation at a site located in Ontario, California, Luker is subject to the employment and contract law provisions of the State of California. Cf. Id. (applying Florida law to an employment relationship within the State of Florida)

14. Under California law, "[e]verything which an employee acquires by virtue of his employment . . . belongs to the employer . . . ." Cal. Labor Code § 2860 (West 1997).

15. Luker and DMI did not enter into a precise employment agreement. Consequently, Cal. Labor Code § 2860 must be read into the parties' employment relationship. See Lugosi v. Universal Pictures, 603 P.2d 425, 431 (Cal. 1979) (Mosk, J., concurring) ("In the absence of precise provision of a contract to the contrary, Labor Code section 2860 (formerly Civil Code § 1985) must be read into every employment relationship.").

16. Under Cal. Labor Code § 2860, Luker does not hold legal title to the '602 patent. First, Luker conceived the idea of using double-tufting in the high wear region of an automobile floor mat

while serving as President of DMI. Among his responsibilities as President were the design and development of new products. Cf. Goodyear Tire & Rubber Co. v. Miller, 22 F.2d 353, 356 (9th Cir 1927) (holding that an invention made by an employee hired to make it belonged to the employer). Teets, 83 F.3d at 406 ("When the purpose for employment thus focuses on invention, the employee has received full compensation for his or her inventive work."). Moreover, he used DMI facilities and materials to construct the Double Mat prototype and received the assistance of a fellow DMI employee in configuring the tufting machinery. Finally, DMI paid at least a portion of the fees necessary to secure patent protection for the tufted floor mat idea. In sum, the court finds that Luker acquired the '602 patent "by virtue of his employment" by DMI. Cf. Aero Bolt & Screw Co. of Cal. v. Iaia, Cal.App.2d 728 (Ct. App. 1960) (finding no employer right to assignment where an employee developed the invention on his own time and at his own expense, and paid all patent application costs).

17. In addition, Luker holds no equitable interest in the '602 patent. Under Cal. Labor Code § 2860, "[e]verything which an employee acquires by virtue of his employment . . . belongs to the employer . . . ." Thus, under California law, if an employer assumes ownership of a patent by virtue of the nature of the employee's acquisition of the patent rights, an employee is left with no rights in the patent at all. Furthermore, under Teets, the existence of an implied assignment contract divests an employee of all rights, both legal and equitable. In that case, the Federal Circuit Court of Appeals concluded that, under applicable state law, the defendant employer had been assigned the rights to a patent that had been issued to the plaintiff employee. The Court found that the rights had been assigned under an implied contract between the two parties. As a result, the Court held that "the district court clearly erred in its determination that [employee] Teets owned any rights to the

invention." Teets, 83 F.3d at 408 (emphasis added).

18. In the absence of either legal or equitable title to the '602 patent, Luker lacks standing to sue Akro for either legal or equitable relief from any alleged infringement. Consequently, the court may not exercise subject matter jurisdiction over either Akro's original infringement suit or Luker's infringement counterclaim. Furthermore, the court must decline to rule on the merits of Count 1 of Akro's complaint and Count 1 of Luker's counter-complaint. See Firestone Tire & Rubber Co. v. Risjord, 449 U.S. 368, 379 (1981) ("A court lacks discretion to consider the merits of a case over which it is without jurisdiction . . . .").

19. Luker failed to present any evidence to support his claim of unfair competition pursuant to the Lanham Act. As a result, the court hereby finds for Akro on Count 2 of Luker's counter-complaint.

IT IS SO ORDERED.

SAM H. BELL

United States District Judge