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Federal Circuit Reverses ITC Finding Claim Term a Nonce Word Invoking Means-Plus-Function Analysis

The Federal Circuit ("CAFC"), on appeal from the ITC, held that the claim term "cheque standby unit" constituted a nonce word requiring analysis as a means-plus-function claim in *Diebold Nixdorf, Inc. v. International Trade Commission, and Hyosung TNS, Inc.*, and found the asserted claims invalid under 35 U.S.C. §112 as indefinite because the specification did not describe the structure of a "cheque standby unit."

By way of background, patentee-Hyosung asserted the '235 patent against Diebold alleging infringement before the ITC. The '235 patent is directed to an ATM apparatus that is capable of performing banking transactions, and more particularly is "capable of automatically depositing a bundle of cashes and cheques inserted at once," by performing the following steps: (1) separating deposited bundles into individual banknotes; (2) transferring such notes horizontally through the ATM; (3) verifying the authenticity or abnormality of each note; (4) sorting and processing the notes based on how each was verified; and (5) preparing the notes for depositing into storage safes.

As is relevant here, one feature recited in each of the '235 patent's nine claims is a "cheque standby unit" that is "placed in the main transfer path between the first gate and the second gate" and is "configured to hold the at least one authentic cheque to return the at least one authentic cheque to the user responsive to receiving user instructions cancelling deposition of the at least one authentic cheque." The '235 patent specification however does not disclose a "cheque standby unit," but instead discloses a "cheque temporary standby unit." The "cheque standby unit" limitation was added to the claims during prosecution to overcome prior art that purportedly permitted cheques to be stored in a safe, but did not disclose returning stored cheques to the user upon cancellation of the deposit.

After an evidentiary hearing, the ALJ issued an Initial Decision which the ITC allowed to become final, holding that (i) the accused Diebold module directly infringed claims 1-3, 6, 8 and 9, (ii) Diebold contributorily infringed the claims by importing the module, and (iii) the claims of the '235 patent were not invalid. Specifically, the Decision concluded that the claim term "cheque standby unit" is not indefinite and according the term its plain and ordinary meaning on the grounds that a person of ordinary skill in the art "would understand that a structure in an ATM that temporarily holds checks pending the customer confirming the deposit is the 'cheque standby unit'" and that "in general a 'cheque standby unit' is the escrow that temporarily holds checks". The Decision expressly credited the testimony of Hyosung's expert noting that Dr. Howard "described how the phrase 'a cheque standby unit' would necessarily have a structural meaning to such a person, and would refer to the physical portion of a cash-and-check depositing module that is comprised of well-known components for holding cheques in a standby configuration pending user confirmation of the deposit."

On appeal, Diebold argued that "cheque standby unit" was a purely functional term that connoted no specific structure and was, therefore, a means-plus-function claim subject to 35 U.S.C. §112, ¶ 6 (the '235 patent was filed prior to September 16, 2012, such that pre-AIA §112 was being applied). Diebold

specifically argued that the word "unit" is a "generic nonce word" akin to "mechanism, element, device and other nonce words that reflect nothing more than verbal constructs," and highlighted that the '235 patent recites thirteen different "unit" elements in the claims, each of which has unique function. Diebold continued arguing that (i) the specification included no discussion of a specific structure of the "cheque standby unit", but instead defined the term by its function and location exclusively, (ii) Hyosung's expert did not testify that the term "cheque standby unit" connotes sufficiently definite structure, but instead testified that the term encompasses all structures capable of fulfilling the function of temporarily holding checks pending the customer confirming the deposit, including a non-exhaustive list of structures as varied as a "suction cup", a "trap door," and a "drum."

Both the ITC and Hyosung responded that the claims do not recite the word "means" raising the presumption that these are not means-plus-function claims, and that Diebold had failed to present evidence of its own regarding the term "cheque standby unit" to rebut the presumption.

The CAFC opened its analysis noting that the claims of the '235 patent were presumed to not be means-plus-function because they did not recite word "means," but that the presumption may be overcome if the challenger demonstrates that the claim term fails to "recite sufficiently definite structure" or else recites "function without reciting sufficient structure for performing that function." The CAFC continued by observing that the standard for finding a term a nonce word was "whether the words of the claim are understood by persons of ordinary skill in the art to have a 'sufficiently definite' meaning as the name for the structure."

In finding the '235 patent claims means-plus-function and invalid, the CAFC found that Diebold had shown that the term "cheque standby unit" as understood by one of ordinary skill in the art, both (i) failed to recite sufficiently definite structure and (ii) recited a function without reciting sufficient structure in the specification for performing that function. The CAFC continued finding that the intrinsic evidence suggested that the claims do not recite any structure, much less "sufficiently definite structure" for the "cheque standby unit," but rather, describe the term solely in relation to its function and location in the apparatus. The CAFC found that although the specification contained passages suggesting that the "cheque standby unit" must have some structure to perform the function of holding checks and then either returning them to the user or continuing to process them pending a user instruction, the '235 patent does not offer any clues as to what such a structure might be.

The CAFC accordingly held that the term "cheque standby unit" was a nonce word, and held the '235 patent claims invalid under 35 U.S.C. §112 as indefinite because the specification does not describe with any specificity the definite structure of a "cheque standby unit."

Federal Circuit Affirms District Court's Finding of Document Spoliation Against Rembrandt

On appeal of a finding of evidence spoliation, the CAFC affirmed the district court's ruling "that Rembrandt engaged in (or failed to prevent) widespread document spoliation over a number of years." In so doing, the CAFC noted that under Third Circuit jurisprudence, "spoliation occurs where: the evidence was in the party's control; the evidence is relevant to the claims or defenses in the case; there has been actual suppression or withholding of evidence; and, the duty to preserve the evidence was reasonably foreseeable to the party". *Bull v. United Parcel Serv., Inc.*, 665 F.3d 68, 73 (3d Cir. 2012) (citing *Brewer v. Quaker State Oil Ref. Corp.*, 72 F.3d 326, 334 (3d Cir. 1995)).

The CAFC further noted that (i) Rembrandt did not dispute that Zhone destroyed thousands of boxes at the warehouse, (ii) by the time litigation had already begun or was reasonably foreseeable, Rembrandt had a duty to preserve relevant evidence, and (iii) even if most of the documents were irrelevant, at least some of the destroyed documents were relevant. Rather,

Rembrandt's only argument was that it had no control over the destroyed documents.

The CAFC rejected Rembrandt's lack of control argument and continued noting that a district court may award fees in the rare case in which a party's unreasonable conduct, while not necessarily independently sanctionable - is, like here, nonetheless so "exceptional" as to justify an award of fees. The CAFC also rejected Rembrandt's argument that there was no bad faith because Zhone destroyed the documents to clear warehouse space without even reviewing their contents noting that the issue is not Zhone's bad faith, rather it is Rembrandt's, and Rembrandt should have taken steps to preserve the documents.