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Supreme Court Confirms Broad Standard for Patentability

Supreme Court Rejects Precluding Business Method from Patentability

In *Bilski et al. v. Kappos*, 561 U.S. ____ (2010) June 29th, 2010, appellant, Bernard L. Bilski seeks a patent on a procedure for instructing buyers and sellers on protection against price fluctuations in a certain subsection of the economy. The application consisted of two key claims: the description of a series of steps instructing how to hedge risk; and reducing the procedure to a mathematical formula.

The application was rejected by the examiner, the Board of Patent Appeals and Interferences, and the United States Court of Appeals for the Federal Circuit. The Court of Appeals used the “machine or transformation test” as the sole test for section 101 of the Patent Act analysis in rejecting the application. It stated that, “a claimed process is surely patent eligible under 101 if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” In re Bilski, 545 F. 3d 943, 954.

The Supreme Court said the Court of Appeals incorrectly used “machine or transformation” test as the sole test for section 101. Relying on a series of past Court precedent, the court held that the “machine or transformative test is a useful tool, but not the sole test for deciding patent eligibility. The Court was also concerned that a strict reliance on this test would “create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.” *Bilski*, 561 U.S. ____ (2010).

The Court also looked at the language of 35 U.S.C. 273, in particular the phrase, “a method in [a] patent.” From this language, and interpretation of case history, the court stated that there are at least some circumstances where a business method may be eligible for patenting under 101. The Court however warned that a high standard needed to be set when dealing with such applications, in order to have the proper balance between flooding patent examiners and courts with frivolous applications, and protecting valid applications. Unfortunately, the Court declined to delineate the balance.

After stating that Bilski’s application was not necessarily outside the principles stated above, the Court then held that the application was not patentable because all that was being claimed were two things: the concept of hedging, which is well-known, and an algorithm, which is an abstract idea.

Filing a patent application for an algorithm alone is not valid, as the Court showed in case precedent. In *Benson*, 409 U.S., at 64-67, the Court held that an algorithm to convert binary-coded decimal numerals into binary was not a process, but an unpatentable abstract idea. Building on this, in *Flook*, 437 U.S., there was an application for a procedure to monitor conditions during the catalytic conversion process in the petrochemical and oil-refining industries. Note that the catalytic conversion process was well known in the industry. The only innovation here was the mathematical algorithm describing the procedure. The Court held because the key mathematical algorithm “was assumed to be within the prior art, the application, considered as a whole, contained no patentable invention.” *Id.*, at 594.

The Court differentiated those two rejections with the different result held in *Diehr*, 450 U.S. Here, an application was filed for a *previously unknown* way of curing synthetic rubber into new products using a mathematical formula to complete some of its several steps by way of a computer. *Diehr*, 450 U.S. at 177. That court found that the patent in *Diehr* was for an *application* of a law of nature or mathematical formula, not a patent for the mathematical formula itself.

“Hedging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class.” D. Chorafas, Introduction to Derivative Financial Instruments 75-94 (2008). Because hedging is essentially prior art, the only thing trying to be patented in the case at bar is the algorithm, which is just an abstract idea.

Stevens Concurrence

Justice Stevens presented the case as one key issue: “whether the machine or transformation test is the exclusive test for what constitutes a patentable “process” under 35 U.S.C. 101.” While Stevens agrees that the machine or transformation test is not the sole test, he diverges from the majority by saying that *Bilski*’s application is not a “process” because it describes only a general method of engaging in business transaction, which isn’t patentable.

Stevens believes that although the majority came to the correct conclusion, their process of reasoning was incorrect. He thinks that the majority incorrectly narrowed *Bilski*’s claims to hedging, and then came to the conclusion that the claims were abstract ideas. Stevens believes that it would be more accurate to say that the hedging is a term that describes a “category of processes.”

Steven’s first argument is textual. He first attempts to define a “process.” He rejects the lay meaning of the word “process” in the context of patents. Instead, Stevens starts by looking at terms adjacent to “process” in 101. He concludes from the placement of words that a patentable “process” was not likely meant to cover any series of steps.

Next, Stevens sets up the groundwork to his conclusion by making a grand appeal to the entire history of patents. The result of much of the history was enshrined into the Patent Act of 1952. He notes that in pre-Colonial times that one can infer from the Statute of Monopolies that patents on business methods didn’t qualify with the very narrow exception of discoveries that were considered “state privileges.” Then, at the

time of the crafting of the Constitution, he notes that the Founders gave Congress the power to “promote the Progress of... useful arts.” He then tries to give another textual analysis of the term “art.” Oddly enough, while Stevens rejected using the lay meaning of the term “process,” he references Webster’s first dictionary for authority on the term “art.” From this, he assumes that the “useful arts” at the time were the technological arts and not the business and finance fields.

Stevens then looks through cases for the next 160 years after the country’s founding, and notes that courts consistently rejected patents on methods of doing business.

Looking into the 20th century, he notes that courts began using the terms “art,” “method,” “process,” and “system” interchangeably. By 1952, Congress changed the operative language in 101 of the Patent Act, replacing the word “art” with “process.” However, he notes that the intent of the court had never changed; arts still excluded methods of doing business. Then, from looking at the Committee Reports, Stevens comes to the conclusion that the Act of 1952 codified the generally understood practice that business practices were to remain not patentable.

As we looked to the end of the 20th century, Stevens notes a federal court decision implying that business methods could be patented. *State Street*, 149 F. 3d 1368. Congress then passed the Act of 1999, which included 35 U.S.C. 273, which expanded defenses to patent infringement claims for “method[s] of doing or conducting business. Thus, it appears that Congress’s intent was to reinforce the Act of 1952’s limitation of patents on business methods.

Stevens then makes more practical concerns about business methods patents. He notes that the lack of patent protection for business methods hasn’t stifled innovation in that area; companies will always be trying to develop business methods to one-up their competition. Furthermore, giving patent protection in that area would lead to businesses to over obsess over litigation. After all, “if business methods could be patented, then many business decisions, no matter how small, could be potential patent violations.” *Long, Information Costs in Patent and Copyright*, 90 Va. L. Rev. 465, 487-488 (2004).

By the end, Stevens says that “in the absence of clear guidance from Congress, we only have limited textual, historical, and functional clues on which to rely. Those clues all point toward the same conclusion: that

petitioners' claim is not a "process" within the meaning of 101 because methods of doing business are not, themselves, covered by the statute."

Significance for Patent Owners and Applicants

While the issuance of the *Bilski et al. v. Kappos*, the resulting decision has done little to add certainty to the true definition of what constitutes a patentable process under 35 U.S.C. §101. At the very least, the Supreme Court has confirmed that 35 U.S.C. §101 has broadly defined patentable subject matter, and is

limited only when the invention is too abstract. In applying this abstractness test in the context of a process, 35 U.S.C. §101 encompasses at least those processes which are tied to a machine or transform data. Thus, while the Supreme Court has indicated that the test is broader than this specific test, the lack of guidance as to what constitutes an abstract versus non-abstract invention means that applicants should ensure that their claims and specifications meet the machine or transformation test by setting for specific machinery being used in the processes or how a transformation between states is being achieved.

Supreme Court Finds NFL Not Single Entity for Purposes of Antitrust Analysis of IP Licensing

In *American Needle Inc., v. National Football League et al.*, 2010 U.S. LEXIS 4166, 94 U.S.P.Q.2D 1673 (2010), the appellee American Needle Inc. (Needle) sued defendants including the National Football League (NFL), the NFLP, and Reebok for violations of §1 and 2 of the Sherman Act. Between 1963 and 2000, the NFLP granted nonexclusive licenses to various vendors including Needle. In 2000, the teams authorized the NFLP to grant exclusive licenses. The NFLP granted a 10 year exclusive license to Reebok, and declined to renew Needle's nonexclusive license.

The district court and the court of appeals believed the main issue in the case was "whether with regard to the facet of their operations respecting exploitation of intellectual property rights, the NFL and its 32 teams are, in the jargon of antitrust law, acting as a single entity." *American Needle Inc. v. New Orleans LA Saints*, 496 F. Supp. 2d 941, 943 (2007). Both the district court and the court of appeals held that "in the facet of their operations they have so integrated their operations that they should be deemed a single entity rather than joint ventures cooperating for a common purpose." *Id.*

The Supreme Court believed that the key issue was much narrower. The main issue here was whether the alleged "contract, combination... or conspiracy" is concerted action that joined together separate economic actors pursuing separate economic interests such that the agreement deprives the marketplace of independent centers of decision-making. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 at 773 (1984).

The NFL teams do not possess unitary decision-making quality. Each team is a substantial, independently owned, and independently managed business. Teams compete with one another, not only on the playing

field, but to attract fans, for gate receipts, and for contracts with managerial and playing personnel. *Brown v. Pro Football Inc.*, 518 U.S. 231, 249.

When each NFL team licenses its intellectual property, it is not pursuing the common interest of the whole league but is instead pursuing interests of each corporation itself. *Copperweld*, 467 U.S. at 770. A firm making hats, the Saints and the Colts, for example, are two potentially competing suppliers of valuable trademarks. As such, the NFL does not constitute a single entity for purposes of antitrust laws.

While not a single entity, when restraints on competition are essential if the product is to be available at all, the *per se* rules of illegality are inapplicable, and instead the restraint must be judged according to the flexible Rule of Reason. *NCAA*, 468 U.S., at 109. n. 39. The NFL is such an organization. Football teams need to cooperate to survive and are thus not trapped by antitrust law. The special characteristics of this industry may provide a justification for many kinds of agreements. *Brown v. Pro Football, Inc.*, 518 U.S. 231 at 252 (Stevens, J., dissenting). The Supreme Court said that the fact that NFL teams share an interest in making the entire league successful and profitable, and that they must cooperate in the production and scheduling of games, provides a perfectly sensible justification for making a host of collective decisions.

Finally, NFLP's licensing decisions are made by 32 potential competitors, and each of them actually owns its share of the jointly managed assets. *United States v. Sealy, Inc.*, 388 U.S. at 352-354. Thirty-two teams operating independently through the NFLP are not like the components of a single firm that act to maximize the firm's profits. At the same time, this need for concerted action was noted as being "an interest that

may well justify a variety of collective decisions by the teams” that might weigh favorably in the rule of reason analysis. However, the Supreme Court declined to definitively state that the specific arrangement was

clearly an antitrust violation, and instead remanded to the lower courts to perform a proper rule of reason analysis.

Federal Circuit En Banc Decision Confirms Written Description is Separate from Enablement

In *Ariad Pharmaceuticals, Inc., et al. v. Eli Lilly and Co.*, 598 F3d 1336, 94 USPQ2d 1161 (Fed. Cir. 2010) (en banc), the Federal Circuit reversed the district court’s denial of a JMOL and held that the asserted claims of U.S. Patent No. 6,410,516 are invalid as failing to meet the statutory written description requirement. As background, the plaintiffs (herein, collectively referred to as “Ariad”) are the owners of U.S. Patent 6,410,516 (“the ’516 patent”). The patented technology relates to a method of reducing the activity of NF- κ B, a transcription factor, in eukaryotic cells. Briefly, NF- κ B is a substance that normally exists in cells as an inactive complex with a protein inhibitor, I κ B. When a cell encounters extracellular stimuli, such as lipopolysaccharides from a bacterial invader, NF- κ B is released from its inhibitor and travels to the cell nucleus, where it binds to NF- κ B recognition sites to crank up the production of cytokines that stimulate the immune system to fight the invaders. However, the production of too many cytokines is also harmful to an organism. The inventors of the ’516 patent were the first to identify NF- κ B and discovered its mechanism of activating gene expression. The inventors also came up with the idea that it would be useful under certain circumstances to reduce NF- κ B activity in cells.

The claims of the ’516 patent that were at issue read as follows (brackets indicate text from the independent claims):

80. [A method for modifying effects of external influences on a eukaryotic cell, which external influences induce NF- κ B-mediated intracellular signaling, the method comprising altering NF- κ B activity in the cells such that NF- κ B-mediated effects of external influences are modified, wherein NF- κ B activity in the cell is reduced] wherein reducing NF- κ B activity comprises reducing binding of NF- κ B to NF- κ B recognition sites on genes which are transcriptionally regulated by NF- κ B.

95. [A method for reducing, in eukaryotic cells, the level of expression of genes which are activated by extracellular influences which induce NF- κ B-mediated intracellular signaling, the method comprising reducing NF- κ B activity in the cells such

that expression of said genes is reduced], carried out on human cells.

144. [A method for reducing bacterial lipopolysaccharide-induced expression of cytokines in mammalian cells, which method comprises reducing NF- κ B activity in the cells so as to reduce bacterial lipopolysaccharide-induced expression of said cytokines in the cells] wherein reducing NF- κ B activity comprises reducing binding of NF- κ B to NF- κ B recognition sites on genes which are transcriptionally regulated by NF- κ B.

145. [A method for reducing bacterial lipopolysaccharide-induced expression of cytokines in mammalian cells, which method comprises reducing NF- κ B activity in the cells so as to reduce bacterial lipopolysaccharide-induced expression of said cytokines in the cells], carried out on human cells.

These claims were interpreted as being genus claims encompassing the use of all substances that achieve the result of reducing the binding of NF- κ B to NF- κ B recognition sites on genes or that reduce NF- κ B activity in cells. The specification described the desired goal of reducing the binding of NF- κ B to NF- κ B recognition sites on genes and reducing NF- κ B activity in cells and hypothesized three types of molecules having the potential to reduce NF- κ B activity in cells: decoy molecules, dominantly interfering molecules and specific inhibitor molecules. The specification did not provide any specific examples of decoy molecules and dominantly interfering molecules, and the only example provided of a specific inhibitor molecules was the naturally occurring inhibitor I κ B, which had not yet been isolated.

Ariad brought suit against Eli Lilly & Company (“Lilly”) in the U.S. District Court for the District of Massachusetts, alleging infringement of claims 80, 95, 144 and 145. A jury found infringement and held that the claims were not invalid. The district court denied Lilly’s motion for judgment as a matter of law. A three-judge panel of the Federal Circuit reversed the district court and held that the asserted claims were invalid for lack of written description under 35 U.S.C. §112, first paragraph. Ariad petitioned for a rehearing *en banc*.

For the rehearing, the Federal Circuit directed the parties to address whether 35 U.S.C. §112, first paragraph, contains a written description requirement separate from the enablement requirement and if so, the scope and purpose of the requirement.

The Federal Circuit first discussed the statute itself to determine the proper interpretation with respect to the written description requirement. 35 U.S.C. §112, first paragraph states:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

Ariad argued that, as a matter of English grammar, the phrases “of the invention,” “of the manner and process of making and using it,” and “in such full, clear, concise and exact terms” all modify the term “written description such that statute requires only that the written description of the invention identify the invention and provide sufficient information for a person skilled in the art to make and use the invention. In other words, Ariad argued that the written description requirement is actually just a part of the enablement requirement, serving to identify what it is that the specification must teach how to make and use. Lilly, on the other hand, argued that the phrase “in such full, clear, concise and exact terms as to enable any person skilled in the art...to make and use the same” modifies the phrase “of the manner and process of making and using it” such that there are two separate description requirements, a written description (i) of the invention and (ii) of the manner and process of making and using the invention.

The Federal Circuit agreed with Lilly’s interpretation that the statute contains two separate description requirements. In particular, the Federal Circuit held that the statute does not unambiguously support Ariad’s interpretation and stated that if Congress had intended enablement to be the sole description requirement of 35 U.S.C. §112, first paragraph, the statute would have been worded differently. The Federal Circuit also noted that the requirement of a written description had always been a part of the patent statutes since 1793 and that the Supreme Court had applied the description requirement separate from the enablement requirement, citing *O’Reilly v. Morse*, 56 U.S. (15 How.) 62 (1853), *Schriber-Schroth Co. v. Cleveland Trust Co.*, 305 U.S. 47 (1938) and *Festo*

Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002).

Ariad further argued that the written description requirement does not apply to original claims, since original claims, as part of the original disclosure, constitute their own written description of the invention. That is, the original claims identify whatever they state. The Federal Circuit disagreed that this is always the case. In particular, the Federal Circuit stated that a generic claim may define the boundaries of a vast genus of chemical compounds and the question may arise as to whether the applicant has described species sufficient to support a claim to the genus. The Federal Circuit noted that this problem is particularly acute with respect to genus claims that use functional language to define the boundaries of the claim, in which case, the functional language may merely describe a desired result without describing any species that produce the result. The Federal Circuit stated that the specification must demonstrate that the applicant has made a generic invention that achieves the claims result and do so by showing that the applicant has invented species sufficient to support a claim to the functionally-defined genus or must describe structural features common to the members of the genus so that one skilled in the art can visualize or recognize the members of the genus.

As examples of recent cases showing a failure of providing sufficient written description to support genus claims, the Federal Circuit discussed *Regents of the University of California v. Eli Lilly & Co.*, 119 F.3d 1559 (Fed. Cir. 1997) and *University of Rochester v. G.D. Searle & Co., Inc.*, 358 F.3d 916 (Fed. Cir. 2004). In particular, in *Rochester*, the Federal Circuit had invalidated claims directed to a method of selectively inhibiting a particular enzyme by administering a non-steroidal compound that selectively inhibits the enzyme. In the patent at issue, the specification did not describe any specific compound capable of performing the claimed method and the court had found that a skilled artisan would not be able to identify any such compound based on the functional description. The court in that case stated that the claims merely recite a description of the problem to be solved while claiming all solutions to the problem, leaving it to others to complete the unfinished invention.

In summary, the Federal Circuit stated requiring a separate written description limits patent protection to those who actually perform and complete the work of invention, of conceiving the complete and final invention with all its claimed limitations and disclose

the fruits of that effort to the public. The Federal Circuit further stated that the written description requirement is part of the quid pro quo of the patent grant to ensure that the public receives a meaningful disclosure in exchange for being excluded from practicing an invention for a period of time.

In the second part of the opinion, the Federal Circuit discussed the application of the written description requirement to the facts of the present case. In particular, the Federal Circuit discussed the sufficiency of disclosure with respect to each of the three classes of molecules, specific inhibitor, dominantly interfering molecules and decoy molecules, hypothesized in the specification of the '516 patent as being capable of

reducing NF- κ B activity. In each case, the Federal Circuit found that the specification only described a vague functional description or desired outcome and did not provide a written description of any specific inhibitor, dominantly interfering molecule or decoy molecule. Accordingly, the Federal Circuit concluded that the district court jury lacked substantial evidence for its verdict that the asserted claims were supported by an adequate written description.

Accordingly, the Federal Circuit reversed the district court and held that the asserted claims were invalid for lack of written description under 35 U.S.C. §112, first paragraph.

Federal Circuit Finds Inequitable Conduct Could Be Based Upon Failure to Disclose Later-Filed Related Applications

In *Leviton Manufacturing Company, Inc., v. Universal Security Instruments, Inc., and USI Electric, Inc.*, 2010 U.S. App. LEXIS 10917 (Fed. Cir. 2010), appellant Leviton Manufacturing Company Inc. (Leviton) appeals a decision which gave attorney's fees and costs to Shanghai Meihao Electric Inc. (Meihao) based on inequitable conduct and vexatious litigation. This article only concerns the inequitable conduct part of the case.

Leviton filed patent No. 690,776 (Germain) on October 22, 2003. Six months later, Leviton filed patent No. 827,093, now issued as 6,864,766 (766). Both the 766 and the Germain have many nearly identical claims.

During the prosecution of 766, Leviton did not disclose the Germain application or the fact that certain claims had been copied from Germain into the 766 patent. The PTO then issued a double patent rejection for substantively identical claims. In a suit between Meihao and Leviton, judge found that Leviton had committed inequitable conduct, and awarded over a million dollars in fees in summary judgment.

Here, the Court of Appeals reviewed the district court's decision to grant summary judgment for inequitable conduct. Summary judgment may only be granted where there are no genuine issues of material fact. *Anderson v. Liberty Lobby, Inc.*, 447 U.S. 242, 248 (1986). Prevailing on inequitable conduct requires two prerequisites: the infringer must have made an affirmative misrepresentation of material fact, failed to disclose material information or submitted false material information; and there was intent to deceive

the PTO. *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1363.

The first issue that the Court of Appeals debated was whether Leviton's failure to disclose the Germain application was material. Information is considered material if there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. *PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1312 (Fed. Cir. 2000). Information concealed from the PTO may be material even though it would not invalidate the patent. *Larson Mfg. Co. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1327. However, a withheld otherwise material reference is not material if it is merely cumulative to, or less relevant than, information already considered by the examiner. *Larson*, 559 F.3d at 1327.

The Germain application was material to inventorship. The court suspected that the copying of certain claims from the Germain application with one set of named inventors into the 766 patent application with another set of inventors suggested that the named inventors may not have, in fact invented the claimed subject matter. Even if the examiner might have ultimately concluded that 776 was valid, the nearly identical claims raise substantial inventorship question. Furthermore, the copying of claims is material to the issue of double patenting because the court would want to consider both applications.

The court noted that even though German application is not material to the written description requirement,

a reasonable examiner would want to consider the Germain application with respect to inventorship and double patenting.

Nilssen v. Osram Sylvania Inc., 504 F.3d 1223, 1224 (Fed. Circ. 2007) held that the existence of earlier related litigation itself was material information. Furthermore, the MPEP 2006c requires at a minimum, “for the application to make aware the existence and the nature of any allegations relating to validity and/or fraud or inequitable conduct relating to the original patent.” MPEP 2006c. Leviton did not disclose the existence of cases relating to the parent patents of the 766 patent. The Court found that this was another example of another failure of material disclosure.

The second issue was whether there was an intent to deceive by Leviton. Generally, “because direct evidence of deceptive intent is so rarely available, such intent can be inferred from indirect and circumstantial evidence.” *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364 (Fed. Circ. 2007). During the deposition, one of the inventors of the 766 patent stated that he did not disclose the Germain application because “the Germain is not a prior art reference to the 766 application... the Germain was not prior art to the 766; therefore, the Germain application didn’t come into the picture at all,” The Court of Appeals stated that this failure to disclose was material, however, the court can not be in full agreement that this explanation

was unreasonable as a matter of law. The inference that the district court made of fraud, was not the only reasonable conclusion.

Thus, even though there are material issues omitted from the patent application, the issue of fraud doesn’t withstand the standard for summary judgment. Thus, the district court’s holding of summary judgment for inequitable conduct is remanded for a bench trial.

Significance for Patent Applicants and Owners

Leviton Manufacturing is yet another in a recent trend of inequitable conduct cases in which the Federal Circuit is increasingly broadening the types of activities that can lead to rendering patents unenforceable. In the instant case, the intent to deceive prong of the inequitable conduct test was not satisfied due to the inventor understanding that the related application is not considered prior art under 35 U.S.C. §102. However, as noted by the Federal Circuit, materiality reaches other forms of invalidity, including inventorship and double patenting under 35 U.S.C. §101. Thus, had the inventor’s deposition gone differently, the intent prong could easily have been met and the patent rendered unenforceable. Therefore, applicants need to be aware of a continuing need to disclose related applications, even where those applications are not technically prior art under 35 U.S.C. §101.

Federal Circuit finds Recapture Rule Extends to Subject Matter Surrendered in Related Cases

In *MBO Lab., Inc. v. Becton, Dickinson & Co.*, 94 USPQ2d 1598 (Fed. Cir. April 12, 2010), MBO owns U.S. Reissue Patent No. 36,885 (the “RE ’885 patent”). The RE ’885 patent is directed to a syringe that protects against needle-stick injuries by sheathing a contaminated needle in a flange-covered guard. The RE ’885 patent is a reissue of U.S. Patent No. 5,755,699 (the “’699 patent”), and claims priority to, among other patents, U.S. Patent No. 5,176,655 (the “’655 patent”), U.S. Patent No. 5,395,347 (the “’347 patent”); and Application No. 08/398,772 (the “’772 application”).

During prosecution of the ‘655 patent, in order to overcome a rejection of claim 18, the applicant amended the claim to include a limitation that described the needle retracting into the guide means and relied upon the new feature to distinguish over the prior art which had the needle being fixed and the

guide moving. Claim 18 later issued with the new limitation.

The ‘347 patent is a continuation-in-part of the ‘655 patent. During prosecution of the ‘347 patent, the applicant also distinguished the claims from the prior art by noting that the prior art has a fixed needle, whereas the claimed invention allowed the needle to be retracted into the barrel which has the effect of making the claimed invention safer to use. The claims were allowed to issue based in part on this representation.

The ‘772 application is continuation of the ‘347 patent. During prosecution, the applicants again relied upon the needle being slidable relative to the barrel as a distinguishing factor over the prior art. While the Examiner eventually allowed the claims, the applicants abandoned the ‘772 application in favor of another application which resulted in the ‘699 patent.

In applying for a reissue application for the '699 patent, the applicant indicated as an error that the claims were too narrow in requiring the needle to move, whereas the invention should cover any relative movement between the needle and the barrel. New claims 21-36 included these broadened claims. The reissue application issued with the broadened claims as RE '885 patent.

MBO sued a competitor, Becton, Dickinson & Co., claiming that Becton's SafetyGlide™ hypodermic safety syringes infringed RE '885 claims. At trial, Becton moved for summary judgment for non-infringement claiming that the broadened claims were invalid for violating the rule against recapture, and that the existing claims did not cover the SafetyGlide™. The district court granted Becton's motion for summary judgment as to the issue of recapture, but invalidated all of the claims instead of only the broadened claims.

On appeal, MBO argued that the broadened claims were not invalid as against the rule of recapture, and also on the grounds that the existing claims could not be invalidated under the rule of recapture as they were in the original '699 patent.

On the issue of the rule of recapture, the Federal Circuit first noted that the rule prohibiting recapture is based upon the reissue statute, 35 U.S.C. §251. 35 U.S.C. §251 only allows reissue of a patent where the applicant can show an error that arose "through error without any deceptive intent" he claimed "less than he had a right to claim in the [original] patent". Thus, amendments which are made deliberately are not errors, and therefore subject matter which was deliberately included in an amendment to narrow the amendment cannot be corrected through the reissue process. *Medtronic, Inc. v. Guidant Corp.*, 465 F.3d 1360, 1372-73 (Fed. Cir. 2006) ("[T]he deliberate surrender of a claim to certain subject matter during the original prosecution of the application for a patent 'made in an effort to overcome a prior art rejection' is not such 'error' as will allow the patentee to recapture that subject matter in a reissue."). The court also noted that the public is entitled to rely upon any such surrender, and therefore there is an equitable element to the rule against recapture. In sum, the Federal Circuit noted that "[w]ithout a rule against recapture, an unscrupulous attorney could feign error and redraft claims in a reissue patent to cover a competing product, thereafter filing an infringement suit."

The Federal Circuit then outlined the test for determining whether there has been impermissible recapture:

1. determine in which aspects the reissued claims are broader than the original patent claims;
2. if the reissued claims are broader, whether the broader aspects relate to surrendered subject matter and "whether an objective observer viewing the prosecution history would conclude that the purpose of the patentee's amendment or argument was to overcome prior art and secure the patent." *Kim v. ConAgra Foods, Inc.*, 465 F.3d 1312, 1323 (Fed. Cir. 2006).
3. whether the reissued claims were materially narrowed in other aspects such that the reissued claims avoid the recapture rule.

MBO had argued that any broadened aspects in its reissue claims were not surrendered during prosecution of the '699 patent. In rejecting this argument, the Federal Circuit noted that the applicants had twice relied upon an argument that the needle was movable to achieve patentability. As evidence of these arguments, the Federal Circuit pointed to arguments presented in the prosecution of the '347 patent as well as in the '772 application, whose allowed claims were copied into the '699 patent. While MBO had argued that some of the arguments relied upon to find recapture did not relate to the feature of the recited needle movement but to another feature, the Federal Circuit noted that merely because the arguments were not specifically needed to overcome one particular combination of prior art did not mean that the argument did not distinguish over other prior art combinations. As stated by the Federal Circuit, "a patentee's arguments that emphasize one feature cannot cure arguments that clearly surrender another."

The Federal Circuit further went on to justify its reliance on statements and amendments made in the parent application in finding impermissible recapture in the child cases, such as in the '699 patent. While noting that commentators such as Donald S. Chisum, *Chisum on Patents* (2004) propose a theory that recapture only applies to the patent against which reissue is filed, the Federal Circuit rejected this theory as "erroneous." As an initial point, the Federal Circuit held that the term original patent in 35 U.S.C. §251 has always been defined to include not only the patent on which the reissue application is made, but also to continuations. As evidence, the Federal Circuit cited to *North American Container Inc. v. Plastipak Packaging Inc.*, 415 F.3d 1335, 75 USPQ2d 1545 (Fed. Cir. 2005). The Federal Circuit next traced the origins of the reissue statute starting in 1832, and noted that under the existing and predecessor statutes, the court has never applied the recapture in a doctrine to

exclude the possibility that the recapture could occur in a parent application. The Federal Circuit also noted such an interpretation is also consistent with the recapture rule's "public-reliance rationale", and any more "myopic review" would undercut this rule by allowing in a continuation patent what could not be performed in the parent patent. As such, the Federal Circuit formally held that, in reviewing whether an impermissible recapture has occurred, the entire patent family is reviewed. Thus, the Federal Circuit upheld the district court's finding of recapture based upon statements and amendments made in the parent applications.

Lastly, the Federal Circuit found that, while recapture invalidated the broadened claims, recapture does not apply to the original patent claims. Therefore, the

Federal Circuit reversed the district court's decision invalidating the original patent claims.

Significance for Patent Owners and Applicants

The purpose of the reissue statute is to allow applicants to correct inadvertent errors. However, as noted in *MBO Lab*, the definition of a correctable error is quite narrow and restrictive. It is for this reason that applicants cannot rely upon the reissue process to correct errors in all situations, and are better served by ensuring that a continuation application is pending at all times for important applications. While unfortunate due to the impact on the USPTO's workload, decisions such as that in *MBO Lab* make it unadvisable to rely solely on the reissue process as a mechanism to ensure applicants have the claim scope they need to maximize the value of their invention.

Federal Circuit finds Covenant Not to Sue Divests Court of Jurisdiction Where Basis of Declaratory Judgment Was Invalidity

In *Dow Jones & Company, Inc. and Dow Jones Reuters Business Interactive, LLC v. Ablaise LTD. and General Inventions Institute A, Inc.*, Docket No. 09-1524 (Fed. Cir. May 28, 2010), Ablaise LTD. (Ablaise) owns U.S. Patent No. 6,961,737 (the '737 patent) and No. 6,295,530 (the '530 patent). Both patents claim methods for a Web server to send individualized content and formatting instructions in the form of Web pages that are generated on the fly in response to user preference information encoded in the user's HTTP request for the specific Web page.

In 2006, Ablaise accused Dow Jones & Company, Inc. (Dow) of infringing its '737 and '530 patents and simultaneously offering Dow a licensing agreement. Dow refused, and sued saying both patents were invalid and not infringed. Ablaise counterclaimed for infringement on both patents. The district court rejected Ablaise's motion to dismiss Dow Jones' invalidity claim against the '530 patent and found the '737 patent as invalid due to obviousness in view of U.S. Patent No. 5,675,507 ("Bobo") and the general knowledge in the field.

On appeal, the Federal Circuit first addressed whether a supposed covenant offered by Ablaise, in which Ablaise agreed not to sue Dow for infringement of the '530 patent, was sufficient to divest the district of subject matter jurisdiction over the declaratory judgment of invalidity. The District Court noted that

since *Super Sack Manufacturing Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1060 *(Fed. Cir. 1995), a covenant not to sue for patent infringement divests the trial court of subject matter jurisdiction over claims that the patent is invalid, because the covenant eliminates any case or controversy between the parties. *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Calif., Inc.*, 248 F.3d 1333, 1342.

The District Court found the rule in *Super Sack Manufacturing Corp.* to be inapplicable for "sound prudential reasons," and for "reasons of the efficient utilization of the litigation resources of both bench and bar." *Dow Jones & Co., Inc. v. Ablaise Ltd.*, 583 F. Supp. 2d 41, 44 (D.D.C. 2008). The district court held that the two patents were close enough to be part of the same "case or controversy" under 28 U.S.C. 1367. However, the Court of Appeals held that the district courts holding was contrary to jurisprudence, which remained valid after *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007). Thus, the covenant therefore extinguished any current or future case or controversy between the parties, and divested the district court of subject matter jurisdiction. Thus, the summary judgment for invalidity as to the '530 patent was reversed.

The second issue was whether the district court correctly granted Dow's motion for summary judgment

of invalidity on the '737 patent on the grounds that the asserted claims were obvious under 35 U.S.C. 103.

In finding that '737 patent was obvious, the District Court rejected two of Ablaise's main arguments: that the combination of the HTML align image tag and the Bobo reference did not provide the same content in different formats; and that there was a level of market skepticism with regards to the incorporation of the Bobo and HTML tags.

The District Court found that the '737 patent, which involved a modification incorporating location changing HTML tags into the Bobo prior art reference would have been straightforward and obvious to anyone of ordinary skill. Any person of ordinary skill would have been aware that HTML tags affect content location on a Web page. The Federal Circuit affirmed. Specifically, the

Federal Circuit noted that Ablaise admitted that "an artisan of ordinary skill would have been aware that HTML tags affect content location on a Web page" and that the incorporation of such into the Bobo reference would have been straightforward. Further, there was evidence of market need to include personalization features such that there was evidence of a reason to make the combination.

With regards to the second argument, the Federal Circuit also affirmed the District Court as none of the evidence that Ablaise provided addressed actual skepticism by outside parties concerning the invention of dynamically generated personalized web pages. Thus, the secondary indicia of nonobviousness relied upon by Ablaise did not overcome the evidence of obviousness relied upon by the District Court in finding the '737 patent obvious.

Federal Circuit Reemphasizes the Need to Find Intent to Deceive In False Marking Actions

In *Matthew A. Pequignot v. Solo Cup Company*, No. 07-CV-0897 (Fed. Cir. June 10, 2010), Solo Cup Company (Solo) manufactures various dinnerware and beverage items, including a plastic drink cup lid which was issued two patents in 1976. While the patent was active, the company mass-produced the plastic lids from molds in the shape of the lids, which included the patent number.

Once the patents expired, the company continued to produce the lids from the molds with the patent numbers still ingrained. Appellant, Matthew A. Pequignot (Pequignot) then brought suit against Solo under U.S.C. § 292 alleging that Solo had falsely marked its products with the expired patent numbers, knowing those patents had expired, for the purpose of deceiving the public.

At trial level, the court granted summary judgment of no liability or the false marking. *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790, 795-800 (E.D. Va. 2009) It also tried to define the definition of "offense" according to "false marking" statute of 35 U.S.C. 292. The statute, in relevant part state:

Whoever marks upon... in connection with any *unpatented article*, the word "patent" or any word or number importing that the same is patented, *for the purpose of deceiving the public*. 35 U.S.C. 292 (Emphasis added).

The Appellate court looked at three issues. First, did Solo add patent numbers to an "unpatented article?"

The court found that an expired patent is now considered "unpatented," because the item, whether before the patent is filed or after it expires, is now part of the public domain. Thus, the court found that the plastic lids were falsely marked.

A more difficult question was whether Solo kept the expired number on the lid for the purpose of deceiving the public. Prior to suit, Solo was aware that the numbers on the lids were expired, but had decided (with advice from outside legal counsel) that it would be financially unfeasible, yet legally permissible under 292 to remove the numbers off the metal lids until the molds wore out, afterwards which they would replace with new molds without the numbers. Also around that time, Solo decided (again, on the advice of outside legal counsel) to include on its packaging the following language: "This product may be covered by one or more U.S. or foreign pending or issued patents. For details, contact www.solocup.com." In particular, Pequignot believed that this statement added after the numbers had expired was indicative of deceptive intent by Solo.

The court noted that the bar for proving deceptive intent is very high here, because false marketing statute is a criminal one, despite having a civil penalty. The court reasoned that having mere knowledge that the marking was false would not be sufficient to prove intent if Solo could prove that it did not consciously desire the result that the public be deceived. From the facts stated above, the appellate court agreed with

Solo that it successfully rebutted any presumption of deceptive intent.

The court believed that Solo made a good faith effort in getting specific advice from counsel, and that its true intent in not replacing the molds was to reduce costs and business disruption. This belief was reinforced by Solo's action of replacing worn out molds with unmarked molds. With regards to the language on the packaging, the court explained that the language was completely true. The contents of some of the package were covered by patents, and the contents of some of the packaging were not covered. Thus, the court highly doubted the statement could be made for the purpose of deceiving the public.

Because Pequignot raised no genuine issue of material fact as to deceptive purpose, the court affirmed the lower court's decision of summary judgment.

Ninth Circuit Finds Completed Registration Not Required Prior to Filing Copyright Suit

In *Cosmetic Ideas Inc. v. IAC/InteractiveCorp & Home Shopping Network Inc. & HSN LP & HSN General Partner LLC*, 2010 U.S. App. LEXIS 10555;94 U.S.P.Q.2D 1735 (9th 2010), appellant Cosmetic Ideas Inc. (Cosmetic) created a piece of costume jewelry named "Lady Caroline Lorgnette" (Carol) and began selling copies of Carol in 1999. Cosmetic claims sometime between 2005 and 2008, appellees IAC/InteractiveCorp, Home Shopping Network Inc., HSN LP, and HSN General Partner LLC (collectively, "HSN") began selling copies of a virtually identical Carol.

Cosmetic submitted an application to the Copyright Office for registration of a copyright for Carol. Confirmation of receipt of application was received. Cosmetic then filed a complaint for infringement of Carol *before* the Copyright Office issued Cosmetic a registration certificate for its copyrighted Carol.

The District Court dismissed the claim for lack of subject matter jurisdiction and for failure to state a claim (12b6 motion). The court reasoned that since Cosmetic didn't possess a valid copyright registration when it commenced action, the court lack subject matter jurisdiction over the copyright infringement claim.

On appeal, the court focused on two issues. First, must a copyrighted work be registered to satisfy subject matter jurisdiction. The court noted in *Reed Elsevier, Inc. v. Muchnick*, 130 S. Ct. 1237 (2010), that "although section §411(a)'s registration requirement is a

Finally, the court vacated the district court's definition of "offense" under 292. The court reasoned that although it was likely that Solo committed some violations, defining "offense" was a moot point since Solo had no intent to deceive the public.

Significance to Patent Owners

As noted below in greater detail in the Feature Comment, false patent marking lawsuits have been attracting a great deal of notice from the patent community. One of the charges leveled against these suits is that the qui tam relator jurisdiction is improper as there is no true case or controversy necessary for Article III jurisdiction. However, as is evident from *Pequignot*, the better defense is to attack the intent to deceive prong of test for finding false marking in violation of 35 U.S.C. §292.

precondition to filing a claim, it does not restrict a federal court's subject-matter jurisdiction." Thus, the district court's dismissal for lack of subject matter jurisdiction was an error.

The second issue the court focused on was whether a copyright is considered registered at the time the copyright application is received (application approach), or at the time the Office issues a registration certificate (registration approach). The court noted other circuits have split both ways with regards to this issue.

The court noted that the plain meaning of U.S.C. § 410a and part of §411a appeared to support the registration approach. However, the plain meaning of 17 U.S.C. §408a and §410d appeared to support the application approach. Because of this ambiguity, the court then turned to looking at the purpose of the statute.

First, the statute created in 1976 is a reformation of the 1909 Act. The Act of 1976 eliminated many formalities of copyright law, relaxed notice requirement, and eliminated mandatory registration. See Pub. L. No. 94-553, §§301, 401-412 (codified at 17 U.S.C. §§301, 401-412), see also H.R. Rep. No. 94-1476, at 147, 150. The changes of 1976 greatly increased the scope of works subject to copyright protection to provide incentives to novel works. *Chicago Bd. of Education*, 354 F.3d at 631. Thus, the application

approach better fits Congress's goal of stronger copyright protections and eliminating red tape.

Another reason can be found in Section 411a. Section 411a allows a party, after applying for registration, to litigate the claim whether the Copyright Office accepts or rejects the registration. See 17 U.S.C. §411a.

The court reasoned that under the registration approach, a plaintiff must wait for the Copyright Office's affirmative acceptance or rejection, despite knowing he could proceed in either event. The court considered this a needless delay and red tape. The application approach avoids this red tape and support's Congress's goal in the Act of 1976. Furthermore, the Act of 1976 has a three year statute of limitations for copyright infringement. Following the registration

approach could cause a party to lose the ability to sue in some cases. This would be a serious breach of justice.

Significance for Copyright Owner

Cosmetic Ideas represents an important clarification for copyright owners in the digital age. Copyright registration, while fast in comparison to patent prosecution, still can take upwards of 9 to 22 months to obtain. Yet copyrightable content is often distributed far more quickly than this, and infringement can occur just as quickly. Thus, *Cosmetic Ideas* presents a more sensible solution that allows the copyright owner to protect the work against infringers prior to the official registration certificate being received.

Sixth Circuit Finds Dilution in Long Running Case

In *V Secret Catalogue, Inc. v. Moseley*, 605 F.3d 382 (6th 2010), Victoria's Secret Catalogue, Inc., has licensed Victoria's Secret Catalogue, LLC and Victoria's Secret Stores, Inc. to use the "Victoria's Secret" mark. Victoria's Secret sells a complete line of women's lingerie in nation wide store chain, and distributes 400 million copies of the Victoria's Secret catalog each year, including 39,000 in Elizabethtown, Kentucky. Victor and Cathy Moseley opened "Victor's Secret" in Elizabethtown to sell a wide variety of items, including women's lingerie, adult videos, sex toys and "adult novelties" in February, 1998. The Moseleys assert that they were not aware of Victoria's Secret's catalog or stores until they received a cease and desist letter from counsel for Victoria's Secret on February 25, 1998 after an army officer who saw the advertisement of "Victor's Secret" made the mental association with "Victoria's Secret" and informed the plaintiff of "Victor's secret" store. The Moseleys subsequently changed the name of their store to "Victor's Little Secret" then "Cathy's secret."

Suit was initially brought under the former Federal Trademark Dilution Act ("FTDA" or "the Act"), which allowed injunctive relief for the owner of a famous mark against another person's use of a mark if it causes dilution of the distinctive quality of the mark and did not clarified whether "actual dilution" was required or "likelihood of dilution" was enough for injunction. 15 USC § 1125 (c). But the definition clause of "dilution" under former FTDA discerned "actual dilution" and "likelihood of dilution." 15 USC § 1127.

The district court found that the Victor's Little Secret mark both blurred and tarnished the Victoria's Secret

mark under FTDA 15 USC § 1125 (c). *V Secret Catalogue v. Moseley*, 54 U.S.P.Q.2D (BNA) 1092 (W.D. Ky.2000).

On appeal, the Court of Appeals for the Sixth Circuit refused to interpret the act as requiring "actual dilution" as doing so would defeat the intention of statute. Thus, the Sixth Circuit held that the injunction should be allowed even absence of "actual dilution."

However, the Supreme Court of United States held that since the act provides that the infringing use must cause "dilution of the distinctive quality" of the famous mark, 15 U.S.C. § 1125(c)(1) unambiguously required a showing of actual dilution, rather than a likelihood of dilution. *Moseley v. V Secret Catalogue*, 537 U.S. 418, 433 (2003). The Court further held that where the marks at issue are not identical, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution because such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner.

In 2006, a new Act was passed expressly intended to overrule the Supreme Court interpretation of the old Act. The new statute provides that "likelihood of dilution" is enough to establish injunctive relief of the senior user of a mark. 15 U.S.C. § 1125(c)(1) (2006). The legislative record clearly stated that the *Moseley* standard creates an undue burden for trademark holders who contest diluting uses and should be revised, whereby the standard for proving a dilution claim is "likelihood of dilution" and that both dilution by blurring and dilution by tarnishment are actionable. U.S. Code Cong. & Adm. News, 109th Cong. 2d Sess. 2006, Vol. 4, pp. 1091, 1092, 1097.

Thus, while on remand from the Supreme Court, the District Court retroactively applied this new law and found dilution. *V Secret Catalogue Inc. v. Moseley*, 87 USPQ2d 1240 (W.D. Ky. 2008). The Court of Appeals for the Sixth Circuit, under the revised statutory requirement, held that “likelihood of dilution” is satisfied when junior mark was similar to the famous senior mark and due to there being evidence of possible semantic associations between the famous senior mark and junior mark by the general public without specific proof of tarnishment effects. *V Secret Catalogue, Inc. v. Moseley*, 2010 FED App. 0144P, 9 (6th Cir. 2010) *affg V Secret Catalogue, Inc. v. Moseley*, 558 F. Supp. 2d 734 (W. D. Ky., 2008)) (finding the Moseley’s store cause dilution) under the established federal courts’ standard. See *Victoria’s Cyber Secret Ltd. P’ship v. V Secret Catalogue, Inc.*,

161 F. Supp. 2d 1339, 1355 (S.D. Fla. 2001) (defendants’ internet trade names likely to tarnish famous mark when websites “will be used for entertainment of a lascivious nature suitable only for adults”); *Mattel, Inc. v. Internet Dimensions, Inc.*, 55 U.S.P.Q.2d 1620, 1627 (S.D.N.Y. 2000) (linking BARBIE with pornography will adversely color the public’s impressions of BARBIE); *Polo Ralph Lauren L.P. v. Schuman*, 46 U.S.P.Q.2d 1046, 1048 (S.D Tex. 1998) (defendants’ use of “The Polo Club” or “Polo Executive Retreat” as an adult entertainment club tarnished POLO trademark); *Pillsbury Co. v. Milky Way Prods., Inc.*, 215 U.S.P.Q. 124, 135 (N.D. Ga. 1981) (defendant’s sexually-oriented variation of the PILLSBURY DOUGHBOY tarnished plaintiff’s mark). As such, the Sixth Circuit upheld the District Court’s finding of dilution.

Feature Comment: New and Expanded Uses of Patent Marking Liability

By James G. McEwen¹

I. INTRODUCTION

While previously not a hot topic for most companies, patent marking is generating a great deal of interest in the U.S. As background, 35 U.S.C. §287(a) establishes a mechanism for putting potential infringers on notice of a particular patent where the patent owner labels products manufactured or sold in the United States with the corresponding patent number. The marking is supposed to be on the product itself, although there are exceptions when there is no practicable mechanism for affixing the label directly to the product.² The benefit to applying the marking is that the patent owner can obtain pre-litigation damages. Thus, instead of accruing damages after a lawsuit has begun or when the patent owner otherwise puts the infringer on notice, the damages begin when the marked product is put into commerce (i.e., shipped).

While patent marking is not mandatory, it is an important tool to discourage infringement by competitors. However, to prevent discouraging competition where there is no risk of infringement, Congress enacted a criminal and civil penalty under 35

U.S.C. § 292. Interestingly, 35 U.S.C. § 292(b) provides that any “person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.” In essence, 35 U.S.C. § 292 provides for *qui tam* actions by any person, regardless of actual harm to that person.

Liability is Broad

As to when liability attaches, 35 U.S.C. § 292(a) imposes liability on anyone who mismarks a product as being protected by a U.S. patent. The penalty can be up to \$500 per offense, and each offense is for each mismarked article. Mismarking itself is broader than the patent marking required under 35 U.S.C. §287(a), and applies to any of the following situations:

1. Where the marking is of an unpatented item but the marking indicates that issued patent covers product; and
2. Where the marking indicates that a patent application has been filed (i.e., “patent pending”) but where patent application has not been filed.

Further, the marking need not be a marking under 35 U.S.C. §287(a), but also applies to “uses in advertising in connection with” the article. Thus, liability can exist even where the marking is only on a press release or on a package such that damages would not be available under 35 U.S.C. §287(a).

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² When it is not possible to affix the patent marking to product, the law allows the marking to instead be attached a label to the package containing the product.

Objective Test for When Mismarking Is Actionable

While the liability is potentially broad, the liability only attaches in a specific instance: where the mismarking is intended to deceive the public. Thus, even where the article is mismarked, liability will only attach where there is evidence of an intent to deceive. It is this hurdle which, as will be discussed below, prevents patent owners from being liable under 35 U.S.C. §292 for any mistake as opposed to where there is an actual attempt to harm competition and the public at large.

35 U.S.C. § 292 existed in relative obscurity until 2005, when the Federal Circuit issued its decision in *Clontech Lab. Inc. v. Invitrogen Corp.*³ In *Clontech*, Clontech alleged that Invitrogen had falsely marked its products, and cited a test in 2000, which put Invitrogen on notice of mismarking. The Federal Circuit stated that the purpose of the 35 U.S.C. § 287 is to provide a mechanism for reliably determining if an article is covered by intellectual property. However, the Federal Circuit noted that this purpose is frustrated where unpatented articles are mismarked with the intent to deceive. Thus, 35 U.S.C. § 292 compliments 35 U.S.C. § 287 in ensuring that any markings are genuine or at least are not used with an intent to deceive competitors or the public at large.

At the same time, the court held that 35 U.S.C. § 292 is not a strict liability statute whereby liability attaches merely where there is evidence that the marking is incorrect. There needs to be evidence of an intent to deceive which is in addition to evidence of a falsity of the marking. Further, this evidence is not subjective as to the patent owner, but is objective such that the mere incorrect belief by the patent owner does not represent a total defense to liability if the facts show that the belief is not objectively reasonable. Therefore, the Federal Circuit held that, in order for there to be liability under 35 U.S.C. § 292, there needed to be objective evidence of an intent to deceive the public, and found at least certain products indeed met this test and were mismarked.

Damages Confirmed as Per Article

Clontech seemed to spark the interest of the legal community as there was renewed activity for suits under 35 U.S.C. § 292. The next unresolved ambiguity was, even assuming that the objective test established in *Clontech* is met, what would be the liability. Specifically, it was unclear as to whether the damages are measured per mismarked article or per decision to

mark batches of articles. Moreover, it was unclear as to whether the damages are \$500 per article or decision, or could be less than \$500. Both questions were answered in *Forest Group Inc. v. Bon Tool Co.*⁴

In *Forest Group*, the patent owner made stilts which were purported to be covered by U.S. Patent No. 5,645,515 (the '515 patent). The defendant copied the marked stilts, and the patent owner sued. Importantly, the patent owner had previously sued another defendant who had also copied the stilts, and at summary judgment, had the court had found that the stilts were not covered by the '515 patent. During the instant trial, the patent owner again lost at summary judgment for the same reason, and yet continued to mark the stilts as covered by the '515 patent. The defendant then counterclaimed under 35 U.S.C. §292, claiming false marking by the patent owner.

On appeal, the Federal Circuit agreed that the stilts were mismarked. Further, the Federal Circuit found that the objective test was met as the patent owner was on notice of the mismarking due to its having twice lost at summary judgment, which confirmed that the stilts were not covered by the '515 patent. Thus, despite its subjective belief that the stilts were properly marked, the Federal Circuit found that the facts supported a finding that the patent owner had an intent to deceive the public in continuing to mark its stilts.

On the issue of damages, the Federal Circuit found that 35 U.S.C. § 292 requires that the damages be assessed according to each mismarked article. This was both consistent with the statutory language, as well as with the purpose of preventing patent owners from falsely claiming that articles are patented when they objectively know that they are not. However, while the idea is to create a steep fine to dissuade harm to the public, the Federal Circuit cautioned that damages need not be \$500 dollars, and the district court has discretion to award less.

Current Strategic Uses

With the objective test for when liability attaches as well as the damages being set, the legal community has been subjected to a host of innovative uses of 35 U.S.C. § 292. The first strategic use takes advantage of 35 U.S.C. § 292(b), which allows enforcement by any member of the public. The second strategic use is as a counterclaim by a defendant who can claim harm but which also relies upon 35 U.S.C. § 292(b) to obtain

³ 406 F.3d 1347; 74 USPQ2d 1598 (Fed. Cir. 2005).

⁴ 93 USPQ2d 1097 (Fed. Cir. 2009).

damages. Both theories will be discussed below separately.

1. *Qui Tam Suits and Stand Alone Claims*

As noted above, 35 U.S.C. § 292(b) appears to allow suits by any person, regardless of whether they can demonstrate being harmed, so long as the Government receives half of the award. These suits are usually referred to as *qui tam* suits. *Qui tam* suits are a traditional mechanism which allows a private citizen to sue government contractors for fraud on the government.⁵ Indeed, such *qui tam* suits have been credited with returning to the Government \$16 billion in fraudulent claims that the Government otherwise would not have the resources to pursue.⁶ In essence, a *qui tam* suit is provided by any law which gives standing to any private citizen to sue on behalf of the Government even if not personally harmed. In this regard, 35 U.S.C. § 292(b) is such a suit.

This capability has been confirmed in at least one *qui tam* style suit. *Pequignot v. Solo Cup Co.*⁷ In *Pequignot*, the District Court confirmed that 35 U.S.C. § 292(b) does allow suit by any person, and can be brought without proof of harm since, like all *qui tam* suits, Congress has conferred standing since the 50% of recovery goes to U.S. While there is a contrary holding in *Stuaffer v. Brooks Brothers, Inc.*,⁸ until the Federal Circuit resolves the standing issue, it would appear that *Pequignot* provides the more likely result.

Interestingly, while any person can bring these suits, patent attorneys are more often the person who brings the suits. The reason is likely simple: a patent attorney does not need to hire outside counsel to evaluate whether a marked product is covered by a particular patent, which makes bringing the suit directly more financially feasible. However, there is no requirement that only patent attorneys bring the suit.

While there has been a flood of filings in relation to such individuals,⁹ it is believed that the increase in stand alone *qui tam* suits will not last as companies become more sophisticated in their marking techniques. Specifically, companies are now alerted to the fact that there is liability for false patent marking,

and are taking precautionary steps to correct any mistakes on their patent markings. Moreover, even where a mismarking occurs, the mere mismarking is not sufficient as there needs to be evidence of an intent to deceive the public. In essence and as discussed below, this evidence is hard to obtain and, outside of a lawsuit, not known prior to filing the suit. This makes bringing a *qui tam* style suit highly speculative and more easily defeated by any number of defenses which might excuse mismarking which could not be known prior to initiating the suit. As such, it is more likely that the relative increase in the rates at which *qui tam* suits for false marking are currently being brought will not sustain itself in the long run.

2. *Counterclaim*

As false marking claims can be brought by anyone, another use of false marking claims is brought by competitors. Competitors have always had the ability to bring false marking suits in state and Federal courts under the rubric of unfair competition and false advertising. However, these unfair competition style suits are more difficult to bring as they require evidence of competitive harm. In contrast, false marking suits under 35 U.S.C. § 292(b) can be brought on essentially the same fact pattern, but with a reduced pleading requirement. Specifically, as noted above, the only evidence required is whether the patent marking or the advertisement of the patent is false, and whether there is objective evidence of an intent to deceive the public. Notably missing is the requirement that the competitor show actual harm. Therefore, competitors are going to be more likely to rely on 35 U.S.C. § 292(b) than state and Federal unfair competition laws when alleging false advertising related to patents.

In contrast to *qui tam* false patent marking suits, actions brought by competitors under 35 U.S.C. § 292(b) are much more likely to succeed. For instance, both *Forest Group* and *Clontech Lab.* were brought successfully by competitors. Why would suits from competitors be more successful than suits from noncompetitors? The reason is simple: they are brought in relation to infringement allegations by the patent owner, which results in substantial discovery of the background facts. Moreover, the requirements for pleading objective recklessness are not far removed from charges of inequitable conduct which are customarily pled as both show an intent to deceive and awareness of some form of patent unenforceability. Further, where the result of the Markman hearing produces a claim construction that the patent owner's product is not covered by the asserted patent, this is

⁵ See 31 U.S.C. §3730 as discussed in *Kirk v. Schindler Elevator Corp.*, 2010 U.S. App. LEXIS 7097; Civ. Case 09-1678-cv (2d Cir. April 6, 2010).

⁶ *Supreme Court restricts whistleblower lawsuits*, Washington Times (March 31, 2010).

⁷ 640 F.Supp.2d 714, 91 U.S.P.Q.2d 1493 (E.D.Va. Mar. 27, 2009).

⁸ 615 F. Supp. 2d 248 (S.D. N.Y. 2009).

⁹ Robert J. Kriss, Jeffrey w. Sarles, and Richard M. Assmus, *Watch Out for the Patent Marking Trolls*, ipFrontline (March 09, 2010) (available at <http://www.cafezine.com/printtemplate.asp?id=24147>).

evidence that the patent owner is on notice of mismarking and any continued marking is actionable.¹⁰ Also, during the course of discovery or during depositions, the competitor is likely to uncover evidence that shows that the marked product is not covered by the patent as was the case in *Clontech Lab*. Lastly, it is always likely that an overly aggressive plaintiff attorney will adopt a claim construction which, while covering the defendant's good, means the patent owner's product is no longer covered by the patent. In any of these situations, given the steep fine per mismarked goods, a competitor would be sorely tempted to add claims of patent mismarking to turn the tables, financially, on the patent owner.

Typical defenses

As noted above, there are large classes of potential litigants who can bring suit. At the same time, as 35 U.S.C. § 292 is not a strict liability statute, this allows the accused patent owner to plead defenses beyond arguing that their patent marking is correct. With respect to actions brought by noncompetitors, a common pleading is that the plaintiff has no standing to sue under 35 U.S.C. § 292(b). While it does appear that 35 U.S.C. § 292(b) should be considered an enforceable *qui tam* cause of action, the Federal Circuit has not definitively confirmed that 35 U.S.C. § 292(b) is a Constitutionally-permissible cause of action for anyone who cannot show injury in fact. For this reason, a common defense has been to plead that the plaintiff lacks an injury which allows suit in Federal Court.¹¹

Another (and more successful) defense has been to show that the patent owner's actions do not amount to objective recklessness such that there is no evidence of an intent to deceive the public. For instance, successful defenses have used advice of counsel as to the form of the marking,¹² evidence that the patent owner is taking commercially-reasonable steps to correct the mismarked products,¹³ the patent owner relied upon an incorrect claim construction,¹⁴ and any other evidence to show that any mismarking was not

deliberate or otherwise mistakenly done.¹⁵ Lastly, while such a defense should not be successful as 35 U.S.C. § 292(a) does not require the mismarking to be compliant with 35 U.S.C. § 287(a), at least one district court excused a mismarked product as the mismarked product used a label that would not provide notice for purposes of the 35 U.S.C. § 287(a).¹⁶ Thus, when faced with a patent mismarking cause of action, plaintiffs can and have successfully defended themselves by showing the commercial reasonableness of their actions once alerted to a mismarking issue.

Impact of False Marking

As noted above, there has been unprecedented interest in enforcing the false marking statute. Indeed, there are record numbers of actions filed under 35 U.S.C. § 292, which has inspired a new label for at least the *qui tam* relators bring such actions: Patent Marking Trolls.¹⁷ Moreover, there has been the inevitable congressional response in order to curtail 35 U.S.C. § 292 actions.¹⁸ Given the level of interest, companies need to take action to reduce their exposure to actions under 35 U.S.C. § 292. As demonstrated above, such actions are generally only those a responsible company undertakes and should be undertaken in the course of managing their patent portfolio. These steps include being aware of when their patents have expired, invalidated, or have had their scope reduced through court action. Yet these are the steps that companies should already have in place in order to safeguard their patent portfolios. Thus, while companies need to be aware of the new risk posed by 35 U.S.C. § 292 both through direct actions and counterclaims, responsible companies can reduce or avoid this risk using their existing portfolio management techniques with little change to their day to day business operations.

¹⁰ Indeed, while the court in *Forest Group* did not find patent mismarking until after the second summary judgment loss, the Federal Circuit specifically stated that objective recklessness can be shown earlier depending on the facts and sophistication of the patent owner.

¹¹ A good explanation of this is found in *Stuaffner v. Brooks Brothers, Inc.*, 615 F. Supp. 2d 248 (S.D. N.Y. 2009).

¹² *Pequignot v. Solo Cup Co.*, 646 F.Supp. 2d (E.D. Va. 2009).

¹³ *Pequignot*, 646 F.Supp. 2d.

¹⁴ *United States Gypsum Co. v. Pacific Award Metals, Inc.*, 438 F.Supp.2d 1101 (N.D. Cal. 2006).

¹⁵ *Rainworks Ltd. v. Mill-Rose Co.*, 609 F.Supp.2d 732 (N.D. Ohio 2009); *Bibow v. American Saw and Mfg. Co.*, 490 F.Supp.2d 128 (D. Mass. 2007).

¹⁶ *Rainworks*, 609 F.Supp.2d 732.

¹⁷ Robert J. Kriss, Jeffrey W. Sarles, and Richard M. Assmus, *Watch Out for the Patent Marking Trolls*, ipFrontline (March 09, 2010) (available at <http://www.cafazine.com/printtemplate.asp?id=24147>).

¹⁸ H.R. 4954 (introduced 3/25/2010).

Stein McEwen Is Pleased to Welcome the Following New Additions

John K. Weatherspoon, PhD

John Weatherspoon, Of Counsel, received a B.S. in Neuroscience from Duke University in 1990, and a Ph.D. in Pharmacology from The George Washington University in 1998. He received his J.D. in 2002 from the George Mason University School of Law where he was active in the Giles Rich Intellectual Property Moot Court Competition and other activities with a focus on Intellectual Property Law. Dr. Weatherspoon is admitted to practice law in Maryland and is registered to practice before the U.S. Patent and Trademark Office.

Prior to joining Stein McEwen LLP, Dr. Weatherspoon was with another intellectual property law firm where he counseled primarily pharmaceutical and biotech clients. In addition, he spent several years as a patent attorney at a few large general practice law firms.

Prior to his legal career, Dr. Weatherspoon spent several years in the 1990s engaged in biotechnology and pharmaceutical research, including research at the Duke University Medical Center; the Radiobiology Research Institute, an institute of the Department of Defense; and also in the Pharmacology Division of Burroughs Wellcome Company, now part of GlaxoSmithKline. Furthermore, he was a Biotechnology Patent Examiner at the U.S. Patent and Trademark Office.

Dr. Weatherspoon has extensive experience with patent preparation and prosecution. In particular, his experience includes drafting and prosecuting numerous patent applications in the chemical, biotechnological, and pharmaceutical arts. Moreover, he has handled numerous patent applications covering a broad range of subject matter including, for instance, new chemical entities, polymorphs, drug delivery systems, high throughput systems, separation technology, inorganic chemistry, organic chemistry, analytical chemistry, nanotechnology, bioengineering, genetic engineering, molecular biology, genomics, proteomics, oncology, developmental biology, cell biology, gene therapy, protein biochemistry, vaccine technology and immunology, neurobiology, molecular diagnostics, tissue engineering, stem cells, bioinformatics, medical devices, and analytical instrumentation.

Dr. Weatherspoon has several years' experience with patent reissue and reexamination proceedings; interference practice; strategic national and

international patent portfolio development and management; patentability, validity, invalidity, infringement, non-infringement, and freedom to operate opinions; intellectual property due diligence; client counseling; pre-litigation analysis; patent litigation; and preparation of license agreements. Furthermore, he has extensive experience with Hatch-Waxman matters, including analysis of Orange Book listed patents, and preparation of *ex parte* Reexamination requests of third-party patents.

Amy J. Benjamin

Amy J. Benjamin, Of Counsel, received a B.A. cum laude in American Studies from Brandeis University in 1986. She received her J.D. from New York University School of Law in 1989, where she was also a Fellow in Libel Law. Ms. Benjamin is admitted to practice law in New York State and before all of the U.S. District Courts in New York, the Eastern District of Michigan, and the Second, Ninth and Federal Circuit Courts of Appeals.

Prior to joining Stein McEwen, Ms. Benjamin was an associate at Skadden, Arps, Slate, Meagher & Flom's New York Office where she practiced in the firm's intellectual property group. Ms. Benjamin then joined the intellectual property firm Darby & Darby, P.C. in its New York office, where she was an associate for six years and then as a partner of the firm for another ten years. She left Darby & Darby in January 2009 to found Benjamin Law PC, in New York, a firm specializing in all aspects of intellectual property law except for patent prosecution.

Ms. Benjamin's practice focuses on all areas of intellectual property law including trademark, copyright, and unfair competition, advertising and First Amendment litigation, counseling and procurement. She has significant experience with Internet, new media and on-line matters such as key word and pop-up advertising and domain name issues. Ms. Benjamin manages significant trademark portfolios with U.S. and foreign trademark prosecution, and provides clearance opinion and counseling services to her clients. She has extensive litigation experience in intellectual property matters in Federal Court and before the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office, including trying cases before a jury and arguing appeals before the T.T.A.B. and the Federal and Second Circuit Courts of Appeals. She is

also experienced in advertising and packaging review, pre-publication review, licensing and due diligence for

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Stein McEwen, LLP is a full service intellectual property law firm with an emphasis on intellectual property creation and maximization. With a diverse clientele, including large multinational corporations, as well as small to midsize domestic and international companies, the attorneys of Stein McEwen, LLP have worked with and counseled clients on the use of intellectual property as a tool for maximizing the protection of their research and development efforts.

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