

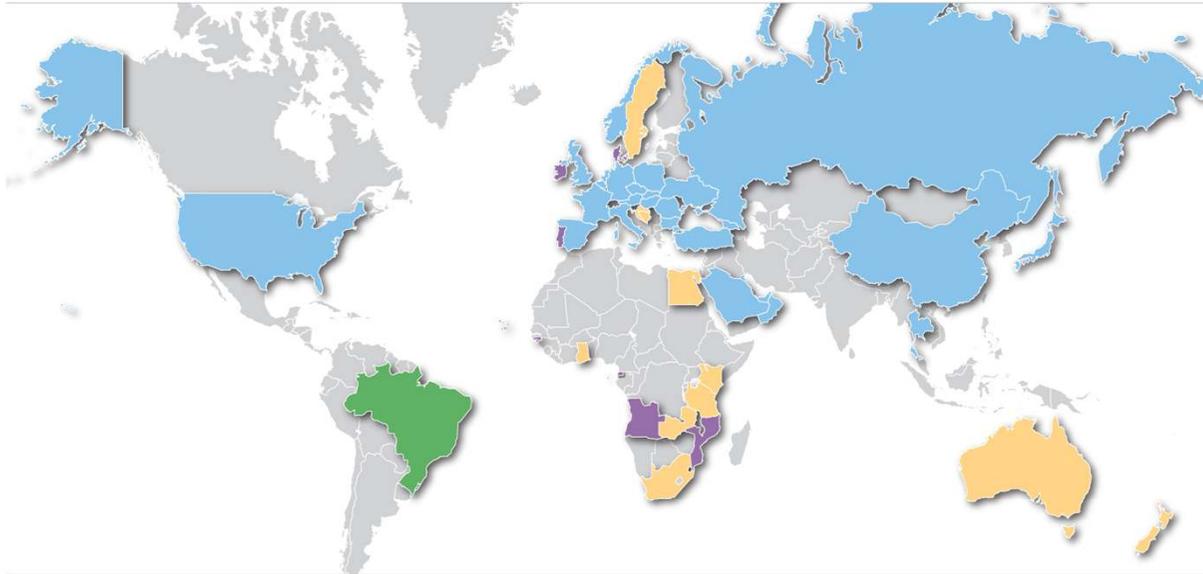


EVERYTHING MATTERS

## **US Intellectual Property Update: Developments in Patent Marking Litigation and Patent Litigation/Litigation Avoidance**

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# Global Locations



- A global organization
  - 69 offices in 30 countries
  - 3,500 lawyers
  - 8,000 people worldwide
  - Over 1,500 lawyers on each side of the Atlantic
  - Major presence in Asia
- Only global law firm with strategic focus on technology and emerging growth

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**SÃO TOMÉ E PRÍNCIPE**  
São Tomé

- Two Basic Accusations
  - Patents listed on products have expired
  - Products marked ‘patented’ without any coverage by patent
- Developments in litigation
  - *Bon Tool* (CAFC 2009) – opened the floodgates, penalty can be \$500 per article
  - 2010:
    - *Pequignot v. Solo Cup* (CAFC) – plaintiff must prove deceptive intent
    - *Stauffer v. Brooks Bros.* (CAFC) – plaintiff has standing even if no injury in fact; sent back to lower court to determine if “intent to deceive” adequately pled
    - *In re BP Lubricants* (CAFC) – mandamus action to determine if plaintiff **required** to plead ‘specific factual support’ for intent, the heightened requirement of FRCP 9(b)
    - *Gonzales v. Trimedica Int’l* (Cal.) – Rule 12(b) motion to dismiss by defendant, arguing ‘intent to deceive’ not pled, was **denied**
    - *Unique Product Solutions v. Holdup Suspender Co.* (Ohio) – action successfully transferred from original venue to Defendant’s state of business

- **Context – The Statute**

- **35 U.S.C. § 292**

- (a) Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article the word "patent" or any word or number importing the same is patented, for the purpose of deceiving the public . . . [s]hall be fined not more than \$500 for every such offense.
    - (b) 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.  
[Permits *qui tam* plaintiffs]

- **Compare 35 U.S.C. § 287**

- “[Patentees] may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent .... In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement.”
    - “Notice to public” → Damages

- **Qui Tam Lawsuits Differ From Traditional Legal Action**

- **Qui tam** (Black's Law Dictionary pronunciation: kwà tæm) is an abbreviation from the Latin "*qui tam pro domino rege quam pro sic ipso in hoc parte sequitur*" meaning "who as well for the king as for himself sues in this matter."
- Black's Law Dictionary defines a qui tam action as "an action brought by an informer, under a statute which establishes a penalty for the commission or omission of a certain act, and provides that the same shall be recoverable in a civil action, part of the penalty to go to any person who will bring such action and the remainder to the state or some other institution."
- Qui tam is a provision of the **Federal Civil False Claims Act** that allows private citizens to file a lawsuit in the name of the U.S. Government charging fraud by government contractors and others who receive or use government funds, and share in any money recovered.
- This unique law was enacted by Congress in order to effectively identify and prosecute government procurement and program fraud and recover revenue lost as a result of the fraud.

# The *Bon Tool* Case - Calculating the “Fine”



- Since 1910, most courts calculated damages on a “per decision” basis (*London v. Everett*)
- District Court found false marking based on a earlier court ruling that patents did not cover products
  - Applied the “per decision” analysis and awarded \$500 fine
- Federal Circuit in *Bon Tool* – December 2009
  - every offense = up to \$500 on a “per article” basis

# Fundamental Change in Interpretation of Patent Statute



- Plain Language
  - “the statute’s plain language requires the penalty to be imposed on a per article basis”
  
- Policy Considerations
  - Deter innovation and stifle competition
  - Deter scientific research/dissuade others from entering market
  
- Enforcement Mechanism
  - *Qui tam*

- Federal Court said abuse would not happen
  - Courts will “strike a balance” between enforcement of public policy and imposing large penalties for small, inexpensive items produced in large quantities
  - “a court has the discretion to determine that a fraction of a penny per article is a proper penalty”
  
- It happened
  - Over 600 lawsuits in past 14 months

# What to Expect? Wait and See



- Congress – proposed legislative fix (H.R. 6352) regarding standing
  - Requires “competitive injury”
  - Retroactive (active lawsuit at time of enactment)
- Constitutional Challenge – *FLFMC v. Wham-O* (Penn. 2010)
  - District Court held the statute valid
  - Now on appeal to the Federal Circuit, 1<sup>st</sup> brief due Jan 10, 2011
- Recent Federal Circuit cases (2010)
  - *Stauffer v. Brooks Bros* – standing: actual injury to plaintiff not required
  - *Pequignot v. Solo Cup* – intent to deceive is required
  - *In re BP Lubricants* – U.S. Government and others favor heightened pleading requirement of FRCP 9(b) and filed briefs in support thereof
    - Would require pleadings to include specific facts of intent to deceive

- *Bon Tool* (SD Tx 2010, Remand)
  - Fine = maximum amount of revenue (even though prices fluctuated)
  
- *Just Intellectuals v. Clorox* (ED Mich. 2010) – Transfer from original venue to Defendant’s state of business
  - Convenience of plaintiff, attorney and only witness, given little weight
  - Successful transfer out of Michigan to California, where defendant’s business operates
  
- Measure of Damages per Offense
  - *Presidio Components* (SD Cal 2010) - 32% of sales price (capacitors)
  - However, **FULL** price of product, not profit, can be awarded
  
- *ZOJO Solutions v. Stanley* (ND II. 2010)
  - Applies to expired patents

- *Hollander v. Etymotic Research (ED Pa. 2010)*
  - Defendant filed Motion to Dismiss, arguing no intent to deceive, as products marked with the conditional phrase "[X products] are covered **by one or more of** the following U.S. patents: [#A, #B, #C, #D] and other patents pending."
  - Motion denied November 1, 2010: "*Defendant argues that the listing of an expired patent in conjunction with 'at least one nonexpired patent' does not support an inference of an intent to deceive. According to Defendant the conditional language used in its markings defeats any allegation of purposeful intent to deceive the public. Defendant's argument lacks merit. That Defendant chose to couch its markings in conditional language does not negate the fact that some of the patents listed in the markings were expired. Further, Defendant's use of conditional language could have the effect of deceiving members of the public into believing that the products were covered by all the patents listed in the markings.*"
  - **Thus, at least in this District Court (Penn), Marking With Conditional Language Does Not Negate Inference of Intent to Deceive.**
  - Likely to be appealed; conditional language may still be beneficial
  
- *Gonzales v. Trimedica Int'l (ED Cal. 2010)*
  - Defendant filed Rule 12(b) motion to dismiss, arguing 'intent to deceive' not pled
  - Motion **denied** on Nov. 20, 2010
  - Fact that product marked as 'patented' (when no patent) noted as significant

# Most Active Plaintiffs



- Patent Group LLC
- Promote Innovation, LLC
- Simonian
- Unique Product Solutions, Ltd.
- Texas Data Co., LLC
- Texas Pat, LLC
- Main Hastings, LLC
- Patent Compliance Group, Inc.
- North Texas Patent Group, Inc.
- Patect, LLC

- Marking Programs
  - Stop entirely
  - Scale back
  - Police carefully
  - Consider marking with published application Nos. and/or listing expiration dates
  - For overseas companies, make decisions and task decision-makers (witnesses) within most favored forum
- Licensing Considerations
  - Marking provisions
    - Reject
    - Indemnification

# Recommendations to Avoid Liability



- Before Accusation, Take Steps to Avoid Exposure
  - Review products and patents re correction, and update products
  - Add qualifying language and/or patent expiration dates to marked products
  - Obtain advice of U.S. patent counsel before marking “Patented” or “Pat. Pending”
- Upon Accusation or filing of qui tam action
  - Remedy problem
    - Immediately correct marking issues, if possible
  - Request Stay of Litigation
  - Delay - Court decisions giving defendants strong tools to defend themselves
  - Transfer venue – defendants having success, esp. in last 2 months
  - If multiple defendants or related parties, consider joint defense options
  - Approve settlement w/Gov: specific person at DOJ; breadth to avoid future litigation
  - Dispute propriety of action
    - Challenge pleadings (motions to dismiss, no ‘intent to deceive’, etc.)
    - File dispositive motions (Summary Judgment, etc.)

- Dealing with Patent Trolls
  - Before, and During, Litigation
  
- Avoiding Patent Litigation
  - Against Primary Competitors (with products)
  - Against Secondary Actors
  
- Succeeding in Patent Litigation
  - First Strike
  - Ensuring Patents are in Best Shape to Use
  - Plaintiff and Defendant considerations

## Before Litigation / Upon Receipt of Demand Letter

- Take steps to protect company + avoid active engagement
  - Gauge seriousness, number of likely targets, etc.
    - If possible, do not reply
  - Obtain counsel that allegations are unfounded or do not warrant any reply, e.g. for procedural reasons such as improper jurisdiction, incorrectly named defendant, etc.
  - Obtain invalidity and/or non-infringement opinion
  - File anonymous re-examinations, against asserted, **or other**, patent(s)
- Research/contact other companies accused or likely accused
  - Consider Joint Defense Group, esp. initially
  - Consider Joint filing of re-exam, esp. anonymous re-exam
- If significant exposure, file Declaratory Judgment Action
  - Enables use of preferred venue (favorable court)

## During Litigation

- If multiple defendants, assume quite role
- Transfer venue
  - Consider strategies, esp if multiple defendants
- Use strategic (non-litigation) patent counsel
- Consider direct challenges to U.S. patent right
  - File Summary Judgment motions to establish invalidity (based on prior art, indefiniteness, etc) or prior use rights of claimed invention
  - File re-examination, which may yield stay of case
- Consider other options to apply leverage against plaintiff
  - Cause problems that encourage early settlement/exit
  - File re-exams against other U.S. patents owned by plaintiff
  - Pursue options that can be stopped if negotiation succeeds, e.g., challenge foreign counterparts of plaintiff's patents in JP or other jurisdictions, etc.

Understand Business Objectives, Worth of Products, Litigation Costs, etc.

Avoid Provocation(s) Based on Animosity, Past, Relationships, etc.

## Against Primary Competitors

- File patents and obtain claims covering their products
- Challenge patents or file re-exams in foreign jurisdictions (JP, etc.)
- Use First Strike: develop position they cannot endure, and reach it **first**

## Against Secondary Actors (Trolls/NPEs, tangential companies, etc.)

- Use First Strike, if possible
- Seek business resolution(s) to disputes
- Challenge patents or assert leverage in different jurisdiction (JP, etc.)

- First Strike
  - Similar to litigation tactics, such as litigation forum selection
  - Proceed with plan of action that forces other party to settle the case on your terms, release you, etc.
    - File lawsuit or Declaratory Judgment (“DJ”) action in home jurisdiction
    - Assert other unique challenge(s) to the asserted patents
    - Challenge patents unrelated to litigation, known to be valuable to plaintiff
      - Research existing licenses filed with SEC, if public company
    - Develop successful non-infringement position quickly (file summary judgment motion using prior art similar to your product, then file summary judgment non-infringement)
    - Assert business pressures on plaintiff
    - Take actions causing plaintiff’s litigation costs to increase substantially

- Ensuring Your Patents are in Best Shape to Use
  - Draft patent applications to cover competitors' products
  - Include original claims drawn to competitors' products
  - Present claims that will be **directly** infringed by competitor
    - What, precisely, do your competitors' sell?
  - Present claims with specific language/limitations describing elements for which broadest scope is desired:
    1. A car comprising: an engine, a transmission, and a radiator.
  - Be sure to cite all of the closest art known
  - Try to secure grant with minimal "prosecution disclaimer"
    - Obtain allowance via reply to the first Office Action
    - Save most important claims for 2<sup>nd</sup> (continuation/divisional) application

- Successful Litigation, as Defendant
  - Include non-litigation counsel in strategy
  - Use First Strike
  - File re-examination with specific strategy in mind
  - Assert your own patents
  - File counter-attack, from your home jurisdiction
  - Utilize business partners to apply leverage
  - Develop and quickly implement “design-around” of patent
  - (a.k.a. use DLA Piper)
  
- Successful Litigation, as Plaintiff
  - File only once ready to go all the way (and, use DLA Piper)