

IP Strategies

What's in Your Patent Portfolio? *Beware of Marking Trolls*

Since January 1, 2010, no fewer than 50 lawsuits have been filed by the latest menace to business: the patent marking troll.

The patent marking troll plaintiff is a *qui tam* relator. In colloquial terms, he is a private citizen that is granted the right to sue on behalf of himself and the United States for false marking actions under 35 U.S.C. § 292. Unlike most plaintiffs who must demonstrate an injury (actual or imminent), causation and redressability to establish standing in an action, a *qui tam* relator need not establish any such injury. *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714 (E.D. Va. 2009).

To date, the most prolific *qui tam* relators/patent marking trolls include Thomas A. Simonian, David O'Neill, Matthew Pequignot, Patent Compliance Group, People Protecting Patents and Heathcote Holdings Corp., Inc.

Some of their victims and the products that are alleged to have been improperly marked include:

- Pfizer (Advil® medication)
- Blistex (lip balm)
- Ciba Vision (Clear Care® contact lens solution)
- Bunn-O-Matic (coffee makers)
- Hunter Fan (thermostats)
- Kimberly-Clark (Depends® underwear; Good Nites® sleep shorts)
- Merial (canine medications)
- MeadWestvaco (envelopes)
- Weber-Stephen Products (grills)
- Oreck (vacuum cleaners)
- Fiskars Brands (scissors; cutting instruments)
- Pella (windows)
- 3M (removable poster strips)
- BP Lubricants (Castrol® lubricants)

- The Quigley Corporation (Cold-eeze® medication)
- Irwin Industrial Tool (Shur-Line® tools)
- Edgecraft Corp. (Shef's Choice® knife sharpeners)
- Novartis (Interceptor® animal heartworm medication, Prevacid® medication, Hypo Tears® eyedrops)
- Monster Cable (audio products)
- Global Instruments (Riddex® pest repellants)
- Merck (pharmaceutical medications)
- Cisco (cable and satellite boxes)
- Advanced Vision Research (TheraTears® eyedrops)
- L'Oreal (makeup)
- Playtex (Diaper Genie® diaper disposal system)
- Snap-On (tools)
- Ascan Scandipharm, Inc. (prescription pharmaceuticals)
- Astellas Pharma US, Inc. (prescription pharmaceuticals)
- Amgen (prescription pharmaceuticals)
- Abbott Laboratories (prescription pharmaceuticals)

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- Dyson (vacuum cleaners)
- Activision (video games)
- Wright Medical Technology (orthopedic devices)
- International E-Z Up (instant shelters)
- Tweezerman International (beauty instruments)
- Fujifilm (digital imaging products)
- United Parcel Service (delivery services)
- The Clorox Company (GLAD® sandwich zipper bags)
- Arrow Fastener Company (staples, staple guns and glue guns)

Statutory Basis & Potential Damages

By way of background, the patent marking statutes of the Patent Act attempt to strike a delicate compromise between innovators and the public. On the one hand, the Patent Act permits and indeed encourages patent owners and licensees to provide notice by marking products that are covered by patents with the patent number. For instance, if a patent owner marks an article and/or the packaging for an article that is covered by a patent, then the patent owner may recover damages for infringement of the patent before the infringer is provided actual notice of infringement (e.g., by way of a letter, the complaint or otherwise). 35 U.S.C. §§ 286, 287(a). On the other hand, the Patent Act establishes penalties for patent owners that deceptively abuse the patent marking provisions. Section 292 of the Act prohibits the use of incorrect patent marking for the purpose of deceiving the public. 35 U.S.C. § 292(a). According to the statute, violators may be subjected to a

fine of “not more than \$500 for each such offense.” 35 U.S.C. § 292(b).

Prior to the Federal Circuit’s December 28, 2009 decision in *Forest Group v. Bon-Tool*, false marking actions were few and far between, in part due to a 100-year-old decision holding that a “false marking” offense meant one “continuous” act. See *London v. E.H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910). In other words, a continuous act of manufacturing mass-produced articles would be worth, at most, “not more than \$500” to a person suing to enforce the statute, and from any penalty recovered one-half would go to the use of the United States. 35 U.S.C. § 292(b). As a result, there was little motivation in the way of monetary recovery for a *qui tam* relator to file suit.

Bon-Tool turned *London* on its head and is now credited with creating this new cottage industry for marking trolls looking to hit the jackpot. In *Bon-Tool*, the Federal Circuit held that a single \$500 penalty did not provide enough incentive to comply with the statute and applied the civil penalty of Section 292 to each “unpatented article” so marked. *Forest Group v. Bon-Tool*, No. 2009-1044 (Fed. Cir. 2009). According to *Bon-Tool*, the plain language of 35 U.S.C. § 292 requires courts to impose penalties *on a per-article basis*. In so holding, however, the Federal Circuit carefully explained that the statute did not require a fine of \$500 per article. Instead, the statute permits a range of penalties, giving district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities. The Court even acknowledged that, in some instances, a fraction of a penny may be the appropriate fine per article. *Bon-Tool*, at *13.

Notwithstanding the Federal Circuit’s explanation that the false marking statute permits a range of penalties not to exceed \$500 per article, a patent owner’s inattention to patent markings in his portfolio could potentially lead to expensive lawsuits alleging liability for enormous penalties. This is the perfect storm for the marking trolls, since their endgame is a quick, large settlement, not protracted litigation. Either way, the patent owner could be on the hook for a considerable sum.

Not surprisingly, “false marking” allegations have recently also been adopted as a defensive strategy when facing patent infringement accusations, for many of the same reasons set forth above.

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Elements of a False Marking Claim

In order to prevail in a false marking action, the *qui tam* relator must prove two elements: (i) mismarking an article and (ii) intent to deceive the public. Mismarking may occur when one uses the word “patent” or any word or number that suggests that the article is patented on an unpatented article or when one uses the words “patent applied for” or “patent pending” or other similar words that suggests that the article is covered by a pending patent application when no such application is pending. 35 U.S.C. § 292(a).

An “unpatented article” under the patent marking statute is an article that is not “covered” by the patent, either because the patent is expired or because the patent number marked on the article is not consistent with the claims of that patent. *Clontech Labs. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005). In order to determine whether the claims of an unexpired patent cover an article, a court must construe the claims and then determine whether the article in question has every claim element or limitation in the properly construed claim. *Id.*

Unlike patent infringement, false marking is not a strict liability tort. Instead, a violation of the patent marking statute requires either direct or circumstantial evidence of intent, i.e., proof that the accused party had knowledge of the falsity of the marking. A *qui tam* relator plaintiff may show knowledge of falsity by establishing, by a preponderance of the evidence (i.e., more than 50 percent of the evidence), that the defendant patent owner did not have a reasonable belief that the articles were properly marked. *Id.* at 1352-53; *Bon-Tool* at *6. A misrepresentation (i.e., false marking) coupled with proof that the patent owner had knowledge of its falsity gives rise to a presumption or inference that there was fraudulent intent. Once the presumption is established, the burden shifts to the patent owner to demonstrate that he did not intend to deceive the public. Whether evidence adequately rebuts the presumption turns on a fact-specific examination of the patent owner’s conduct. *Solo Cup*, 640 F. Supp. 2d at 197. The courts are clear, however, that a mere assertion by the patent owner that it simply did not have any deceptive intent is insufficient. *Id.*; *Clontech*, 406 F.3d at 1352-53.

Types of False Marking

The cases demonstrate that the following types of mismarking are actionable, and indeed give rise to a presumption or inference of intent to deceive the public: (i) marking an article with an “out-of-scope” patent (i.e., a

patent where no claims read on or cover the article in question); (ii) marking an article with an expired patent and (iii) marking articles with multiple patent numbers, where at least one patent either did not have at least one claim that covered the patent or was expired. According to at least one district court, however, the mismarking of an article with an expired patent that previously covered the marked products weakens the presumption of intent to deceive. *Solo Cup*, 646 F. Supp. 2d at 797-98.

Presently, there appears to be a “split of authority” on whether conditional marking (e.g., a notice indicating that the article is covered by at least one patent in a list of patents) may give rise to a presumption of deceptive intent. *Cf. Arcadia Machine & Tool, Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124, 1124 (Fed. Cir. 1986) (holding that a label using “may be manufactured under” language was properly found not to be deceptive in any way), with *Clontech*, 406 F.3d at 1352 (defining “unpatented article” as an article that “is not covered by at least one claim of each patent with which the article is marked”), and *Solo Cup*, 646 F. Supp. 2d at 800 (noting that use of “may be covered” language in connection with patents that do not cover the article with knowledge thereof gives rise to a presumption of deceitful intent).

The presumption or inference of deceitful intent was not rebutted in cases where the patentee either (i) admitted that he knew of the incorrect marking and purposefully marked the articles to gain an advantage (see *DP Wagner Mfg. Inc. v. Pro Patch Sys. Inc.*, 434 F. Supp. 2d 445, 457 (S.D. (2006 Tex.)); or (ii) knew or should have known that the claims did not cover the article based on a final claim construction order in a related case and continued to mark the articles as protected by the patent (see *Bon-Tool*).

However, the courts appear willing to provide a safe harbor for patentees who act in good faith reliance on the advice of counsel even if the patentee knew that it was marking unpatented articles. For example, in *Solo Cup*, the patentee marked cup lids with expired patent numbers and packages with conditional “may be covered by” language. *Solo Cup*, 646 F. Supp. 2d at 797-800. The Eastern District of Virginia held that, although the patentee knew that some of its patents had expired, the patentee had, in good faith and in accordance with the advice of counsel, implemented a policy under which the mold cavities with expired numbers would be replaced as they wore out or were damaged so as to avoid the high costs and disruption from replacement of all mold cavities at once. *Id.* The court further held that *Solo Cup*’s use of the conditional “may be covered” language

was suggested by its outside counsel because the alternative (i.e., using separate packaging for each unique product) was too difficult from a logistical and financial perspective and not for the purpose of deceiving the public. *Id.* Indeed, Solo Cup had procedures on its website and phone lines to handle any questions regarding patent markings. *Id.* In each instance, Solo Cup had successfully rebutted the presumption of deceitful intent.

The *qui tam* relator in *Solo Cup* has since appealed the decision of the district court to the Federal Circuit. Oral arguments are currently scheduled for April 6, 2010.

Conclusion and Recommendations

As we continue to monitor the legal landscape surrounding false marking and the *Solo Cup* appeal to the Federal Circuit, we offer the following recommendations to avoid becoming the patent marking troll's next victim.

- (1) **Know what's in your patent portfolio.** Before you can protect yourself from the next *qui tam* relator, you must first identify all of your (i) pending patent applications, (ii) abandoned patent applications, (iii) active patents and (iv) expired patents. In identifying the active patents, it is critical that you also identify the date on which the patent will expire.
- (2) **Identify marked products.** Identify the products that you are presently marking.
- (3) **Conduct an attorney audit to avoid any problems with intent.** Because we anticipate that the Federal Circuit will uphold the Eastern District of Virginia's finding of a safe harbor in *Solo Cup*, the only way to avoid entanglement with the false marking statute is to rely in good faith on the opinion of counsel. So get one. Specifically, have a qualified patent attorney confirm or conduct the patent portfolio survey, step (1) above, and issue a written opinion setting forth which claims of the various patent applications and unexpired patents cover the products that are currently marketed. To the extent the audit identifies any articles that include expired patent markings or improper marking, work with your attorney to devise a reasonable policy to phase out such improper markings on future articles.
- (4) **Consult with a qualified attorney as new patents issue and as patent applications**

are filed. As new patents issue and as new patent applications are filed, obtain an opinion of counsel confirming that at least one claim of each such patent or patent application covers an article before selling or distributing that article in commerce.

The patent attorneys at Vedder Price P.C. are qualified to conduct false marking audits and are prepared to answer any questions you may have regarding the bevy of lawsuits that are currently pending in this latest "get-rich-quick" cottage industry.

Financial Institutions Under Attack

Over the last several months, Wolf Run Hollow LLC has sued no less than 34 financial institutions in Texas, Mississippi and Alabama alleging infringement of U.S. Patent No. 6,115,817 related to sending secure messages across unsecured networks. The requested relief includes compensatory damages, pre- and post-judgment interest, trebled damages for any infringement after notice of the patent and attorneys' fees. Many of the banks have settled by entering into a nonexclusive license agreement, though further details of the agreements were not disclosed. However, some have answered the complaint and counterclaimed that the '817 patent is invalid. This is classic patent troll activity that may expose your clients or contacts to bothersome and costly patent litigation or settlements.

Does your financial institution direct users of its Website(s) to send or receive messages via the institution's secure messaging systems?

Does your financial institution use methods and systems for facilitating the transmission of secure messages across unsecured networks?

If so, then your financial institution may be at risk from suit by Wolf Run Hollow. We can provide value by determining if we believe that an infringement question exists, assisting in a design-around process if we believe that an infringement question may be present, counseling with respect to obtaining and enforcing patent rights, and defending against allegations of infringement.

Wolf Run Hollow is based in Kinnelon, N.J., but all of the lawsuits have been filed in the Eastern District of Texas or the Northern District of Texas. Wolf Run Hollow alleges to be the exclusive licensee under the '817 patent and that each of the defendant financial institutions infringed the

claims of the '817 patent by making, using, providing, offering to sell and selling (directly or through intermediaries) secure messaging systems and methods via the defendant's website and by acting as the mastermind to direct or control users to request, transmit and/or receive secure messages via their secure messaging systems and methods. The '817 patent issued on September 5, 2000, and matured from application number 09/072,986, filed on May 6, 1998. David R. Whitmire was the sole inventor who assigned ownership of the '817 patent to Rapa Nui Marble LLC, 501 Silverside Road, Suite #149, Wilmington, Delaware 19809, as recorded at Reel/Frame 023148/0991 in the U.S. Patent & Trademark Office.

The financial institutions that have been sued include: Herring Bank, American State Bank, Benchmark Bank, Meridian Bank Texas, Plainscapital Bank, Plainscapital Corporation, United Central Bank, Mills County State Bank, Happy State Bank, HCSB, Wellington State Bank, First Bank & Trust Childress, State Bank of Texas, Compass Bancshares, Inc., Compass Bank, BancorpSouth Bank, Bank of Texas NA, Texas Capital Bancshares, Inc., Texas Capital Bancshares, NA, ViewPoint Bank, Woodforest Financial Group, Inc., Peoples State Bank, First International Bank, First Federal Bank Texas, First State Bank, Community Bank, Huntington State Bank, American State Bank, Guaranty Bond Bank, American Bank of Texas, First State Bank of Ben Wheeler, Southside Bank, Citizens State Bank, Independent Bank, Prosperity Bancshares, Inc., Prosperity Bank, Valliance Bank, Access 1st Capital Bank and Sanger Bank.

Case Law Review

AGGRESSIVE ENFORCEMENT OF COMMON-LAW TRADEMARK RIGHTS IS EVIDENCE THAT MARK IS NOT MERELY DESCRIPTIVE

In re Murad, Inc.

(TTAB 2010) (nonprecedential)

As most IP practitioners and savvy businesses know, a trademark may be registered on the principal register only if it is distinctive (i.e., if it is suggestive, arbitrary or fanciful or if it has acquired distinctiveness through secondary meaning). One may not successfully register a trademark on the principal register if the mark, "when used on or in connection with the goods [or services] of the applicant is *merely descriptive* of [such goods or services]." Sections

2(e)(1), 3 of the Lanham Act, 15 U.S.C. §§ 1052(e)(1), 1053.

Following a final refusal to register the mark PERFECTING SERUM for skin moisturizers on the basis that the mark was merely descriptive, the Trademark Trial and Appeal Board (the "TTAB" or the "Board") not only provided sage reminders regarding the standards by which trademark examining attorneys are to evaluate descriptiveness, but also endorsed an applicant's policing tactics as evidence in favor of a finding that the mark is not merely descriptive.

As would be expected, the TTAB started with the well-accepted definition of what it means to be "merely descriptive" under the Lanham Act and noted that a "term is deemed to be merely descriptive of goods or services ... if it forthwith conveys an immediate idea of an ingredient, quality, characteristic, feature, function, purpose or use of the goods or services. ... Whether a term is merely descriptive is determined not in the abstract, but in relation to the goods or services for which registration is sought, the context in which it is being used or in connection with the goods or services, and the possible significance that the term would have to the average purchaser of the goods or services because of the manner of its use."

The Board then proffered an important reminder to practitioners and examining attorneys. "[T]he question [under a descriptiveness analysis] is whether someone who knows what the goods are will immediately understand the mark as directly conveying information about them." In the present case, the issue is "whether someone familiar with applicant's skin moisturizer will understand PERFECTING SERUM to convey information about the goods." If, however, "one must exercise mature thought or follow a multi-stage reasoning process in order to determine what products or service characteristics the term indicates, the term is suggestive rather than merely descriptive."

Before finding the mark suggestive, the Board reacted positively to evidence produced by the applicant demonstrating that the applicant had adopted an aggressive enforcement strategy to stop third-party use of the term "perfecting serum" in the market, thereby demonstrating that the mark was not merely descriptive. According to the decision, the policing tactics worked, as only two third-party users of the term "perfecting serum" remained in the market, and one such party was in the midst of negotiations with the applicant regarding such use. Indeed, another third-party user of the term had settled an infringement action brought by the applicant arising out of its use of its mark.

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The Board recognized that the discontinuance of the term “perfecting serum” by third parties upon legal action might merely indicate a desire to avoid litigation rather than recognition of trademark rights. Importantly, however, the Board also noted that the applicant had taken steps to ensure that third-party use of the mark PERFECTING SERUM did not cause it to lose whatever exclusivity or distinctiveness that it had achieved and had been successful in all but two cases.

Turning to the mark itself, the Board noted that the applicant’s disclaimer of the term “serum” operated as a concession that the term was descriptive of skin moisturizer. However, with the exception of the two third-party users described above, the Board found no evidence that the word “perfecting” was used by others in the industry or that it was understood by consumers to describe a quality, characteristic or function of skin moisturizer or any other cosmetic or personal care product. Because the term “perfecting serum” requires an effort of imagination on the part of an observer to resolve the incongruity between the product itself, a skin moisturizer, and the mark components “perfecting” and “serum” in that a serum does not normally perfect something, the Board reversed the refusal to register.

Practice Tip:

It is important for trademark owners to diligently police and enforce both common-law trademarks (i.e., nonregistered marks) and registered marks alike. Based on at least one TTAB decision, aggressive enforcement strategies may assist applicants when faced with a merely descriptive rejection under Section 2(e)(1).

COPYRIGHTABILITY OF FORMS CALLED INTO QUESTION

***Utopia Provider Sys., Inc. v.
Pro-Med Clinical Sys., LLC***
(11th Cir. 2010)

Copyright protection subsists, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. 17 U.S.C. § 102(a).

According to a leading treatise on copyright, a work is “original” if it “was independently created by the author” and “possesse[d] at least some minimal degree of creativity.” *Nimmer on Copyright*, §§ 2.01[A], [B].

Thus, there can be no doubt that this newsletter is a work of authorship subject to copyright protection under federal law.

Does that mean that a “blank” form produced by an author is copyrightable and subject to protection?

According to a recent Eleventh Circuit opinion, to the extent the form is a blank form, the answer is likely to be “no.”

In *Utopia Provider Sys.*, the plaintiff had created 56 templates designed to capture a patient encounter with a treating physician. The templates were used for, among other purposes, documenting a patient’s personal data, medical and social history, symptoms and a physician’s impressions, conclusions and discharge directions to a patient. Each of the templates consisted of a set of charts tailored to a particular type of ailment, such as chest pain, burns, head injury, etc. Other than what necessarily differed from chart to chart based on the particular ailment addressed, the charts were identical.

The plaintiff copyrighted the templates and entered into a royalty-bearing license with the defendant. When the defendant refused to pay royalties for its use of the templates in its Electronic Physician Documentation system, things got ugly. At trial, the defendant asserted that the copyrights in the templates were invalid because the templates themselves were not subject to copyright protection. The trial court granted summary judgment in the defendant’s favor and the plaintiff appealed to the Eleventh Circuit.

On appeal, the Eleventh Circuit turned to the Supreme Court and noted that the “sine qua non of copyright is originality” and that originality has the definition provided above. It further noted that copyright protection does not, however, extend to anything in the work of authorship that constitutes an “idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” 17 U.S.C. § 102(b).

The court went on to explain that it is further well established that forms which do not convey information or contain original expression are not copyrightable. According to the court, most blank forms such as bank checks, scorecards, address books, etc., have headings that are so obvious that their selection cannot be said to satisfy even minimal creativity. Such a work conveys no information, not

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just because it contains blanks, but because its selection of headings is totally uninformative.

In the present case, the court concluded that the forms were indeed “blank forms” that were intended to be populated by a physician and that the forms themselves did not convey information about a patient or about what procedures the doctors were to follow in evaluating a patient. For instance, the forms called for the same information that any reasonable physician would ask a patient with the given ailment. At best, the court noted that the templates merely described the correct and established way of performing an action in the medical profession and that such a procedure cannot be original. Moreover, the evidence showed that the templates did not prompt the physician to care for the patient but rather prompted the physician to capture the information that derives from providing the care, and thus they did not actually convey any information to the physician. Put another way, the forms were not responsible for walking a physician through the steps because physicians are supposed to know these steps.

Accordingly, the Eleventh Circuit affirmed the decision and upheld the finding of invalidity.

Practice Tip:

Notwithstanding the *prima facie* evidence of copyrightability of a work that accompanies a certificate of registration from the U.S. Copyright Office, copyrights can be found invalid if not sufficiently original. Therefore, it is important for copyright licensors to include an express acknowledgement of ownership and validity provision in copyright license agreements to avoid the copyright validity problems facing the plaintiff/licensor in the case summarized above. An exemplary provision is provided below:

“Licensee is estopped from challenging the validity of the licensed work(s) or from asserting any claim adverse to Licensor regarding its ownership in the work(s) and the validity of any copyright persisting in such work(s).”

“ORDINARY OBSERVER” TEST IS SOLE TEST FOR EVALUATING ANTICIPATION OF DESIGN PATENTS

International Seaway Trading Corp. v. Walgreens Corp. (Fed. Cir. 2009)

The “ordinary observer” test developed in *Egyptian Goddess, Inc. v. Swisa, Inc.*¹ is the sole test for determining design patent invalidity under 35 U.S.C. § 102, according to the Federal Circuit.

Plaintiff International Seaway Trading Corp. (“Seaway”) is in the business of shoe and boot designs and is the owner of U.S. Design Patent Nos. D529,263 (the “’263 patent”), D545,032 (the “’032 patent”), and D545,033 (the “’033 patent”) (collectively “the patents-in-suit”). The patents-in-suit are directed to designs for casual, lightweight footwear, which are typically referred to as “clogs.” On February 15, 2008, Seaway filed a complaint against Walgreens Corp. (“Walgreens”) and Touchsport Footwear USA, Inc. (“Touchsport”) alleging infringement of the ’263, ’032, and ’033 patents. Walgreens and Touchsport moved for summary judgment, which the district court granted, finding that the patents-in-suit were invalid as anticipated under 35 U.S.C. § 102(a) and (e) by U.S. Design Patent No. D517,789 (the “Crocs ’789 patent”). In determining that the patents-in-suit were invalid as anticipated, the district court applied only the “ordinary observer” test. Seaway appealed to the Federal Circuit, contending that the district court erred by basing its invalidity determination solely on the ordinary observer test and by failing to apply the “point of novelty” test.

The Federal Circuit began its discussion on whether the ordinary observer test should be the lone test for determining anticipation of a design patent by analyzing the holding in *Egyptian Goddess*. In *Egyptian Goddess*, the Federal Circuit changed the test for design patent infringement, concluding that “the ‘ordinary observer’ test should be the sole test for determining whether a design patent has been infringed,”² and that “the ‘point of novelty’ test should no longer be used in the analysis of a claim of design patent infringement.”³ The ordinary observer test was originally proffered in the 1871 case *Gorham Manufacturing Co. v. White*,⁴ in which the Supreme Court held:

if, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is

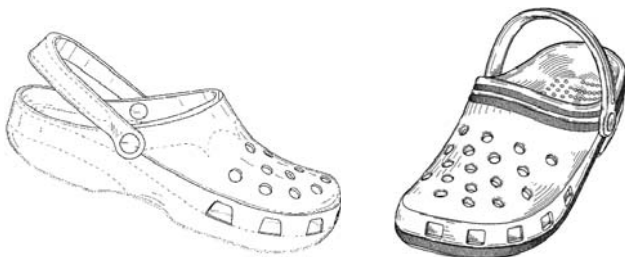
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such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.⁵

The *Egyptian Goddess* court further characterized the hypothetical “ordinary observer” as being “deemed to view the differences between the patented design and the accused product in the context of the prior art.”⁶ Conversely, the point of novelty test, which *Seaway* urged the court to apply, asks whether the patented design appropriates the points of novelty of the prior art reference in assessing whether a patent is invalid as anticipated.⁷

Confronted with the issue of which test(s) to apply for determining anticipation post-*Egyptian Goddess*, the Federal Circuit held, “[W]e now conclude that the ordinary observer test must logically be the sole test for anticipation as well.”⁸ The Federal Circuit based this decision largely on the fact that courts have consistently held that the same test must be used for both infringement and anticipation determinations.⁹ In holding that the same test (i.e., the ordinary observer test) should be applied for determinations of design patent infringement *and* anticipation, the court reasoned that “[i]n so doing, we will prevent an inconsistency from developing between the infringement and anticipation analysis.”¹⁰ Accordingly, the Federal Circuit determined that the district court properly applied only the ordinary observer test.

The court then turned to the issue of whether the district court applied the ordinary observer test correctly. In finding that the Crocs ’789 patent anticipated the patents-in-suit under the ordinary observer test, the district court compared only the exterior designs of the patents-in-suit and the Crocs ’789 patent, failing to compare the insoles of the shoes. The district court refused to consider the insole designs of the patents-in-suit and the Crocs ’789 patent because the insoles would be invisible during “normal use” of the shoe (when a user’s foot hides the insoles), despite the fact that the insoles would be visible at the point of sale.¹¹ An illustration of the shoe designs is provided below.



The Federal Circuit took issue with the district court’s reasoning, holding that the insoles would, in fact, be visible during the normal use of the shoe.¹² The Federal Circuit reasoned that the normal use of a shoe occurs between the time that it is manufactured and the time that it is ultimately destroyed.¹³ Because the point of sale occurs within this normal use period, and because the insoles were plainly visible during the point of sale, it is necessary to compare the insole designs of the patents-in-suit and the Crocs ’789 patent.¹⁴ Therefore, the Federal Circuit vacated the district court’s finding as to anticipation and remanded the case for further proceedings on the issue of whether the differences in the insole patterns between the Crocs ’789 patent and the patents-in-suit bar a finding of anticipation.¹⁵

Practice Tip:

A design patent will be stronger when the aesthetic features distinguishing the subject matter of the design patent from the prior art are conspicuous (i.e., visible during “normal use”). When the aesthetic features that distinguish the subject matter of a design patent over the prior art are *not* visible during the normal use of the product, it opens the door for a court to invalidate such a patent under the ordinary observer test. Vedder Price patent attorneys can assist in preparing design patents that emphasize the distinguishing aesthetic features that will be visible during the normal use of the product.

¹ 543 F.3d 665 (Fed. Cir. 2008) (en banc).

² *Id.* at 678.

³ *Id.*

⁴ 81 U.S. 511 (1871).

⁵ *Id.* at 528.

⁶ *Egyptian Goddess*, 543 F.3d at 676.

⁷ *Int’l Seaway Trading Corp. v. Walgreens Corp.*, 589 F.3d 1233, 1238 (Fed. Cir. 2009).

⁸ *Id.* at 1240.

⁹ *Id.* at 1239 (quoting *Peters v. Active Mfg. Co.*, 129 U.S. 530, 537 (1889) in the context of utility patents as stating: “That which infringes, if later, would anticipate, if earlier”).

¹⁰ *Id.* at 1240.

¹¹ *Id.* at 1241 (noting that the district court misconstrued the holding in *Contessa Food Prods., Inc. v. Conagra, Inc.*, 282 F.3d 1370 (Fed. Cir. 2002), in excluding the point of sale from the normal use of a product).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* at 1244.

**“DELIBERATE INDIFFERENCE” STANDARD
LOWERS THE BAR FOR FINDINGS
OF INDUCED INFRINGEMENT**

SEB S.A. v. Montgomery Ward & Co., Inc.

(Fed. Cir. 2010)

A party may incur liability for inducing infringement under 35 U.S.C. § 271(b) even absent direct evidence that the party actually knew of the patent being asserted against it, according to the Federal Circuit.

In 1999, SEB sued Hong Kong-based Pentalpha Enterprises, Ltd. and its British Virgin Islands-based parent company, Global-Tech Appliances, Inc. (collectively “Pentalpha”) for patent infringement, based in part on a theory of induced infringement under 35 U.S.C. § 271(b). The patent at issue in the case was U.S. Patent No. 4,995,312 (the “’312 patent”), which is directed to a deep fryer having an inexpensive plastic outer shell, or “skirt.” With respect to the claim under 35 U.S.C. § 271(b), SEB argued that Pentalpha induced infringement by selling copy-cat versions of the deep fryers covered by the ’312 patent to Sunbeam, Inc. (“Sunbeam”), which Sunbeam then resold under its own trademarks within the United States.

On April 17, 2006, trial finally commenced in the U.S. District Court for the Southern District of New York. Following the close of evidence, Pentalpha moved for judgment as a matter of law (“JMOL”) on SEB’s claim that Pentalpha had induced infringement of the ’312 patent through the sales to Sunbeam. Specifically, Pentalpha argued that it could not be liable for induced infringement absent direct evidence that it had actual knowledge of the ’312 patent at the time that it sold the copy-cat deep fryers to Sunbeam. In support of its position, Pentalpha relied on the Federal Circuit’s statement in *DSU Medical Corp. v. JMS Co.*¹ that “[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”²

Despite the district court’s acknowledgment that there was no evidence that Pentalpha was aware of the ’312 patent prior to selling its deep fryers to Sunbeam, the court allowed SEB’s inducement claim to reach the jury. The jury found that Pentalpha had willfully infringed, and induced infringement of, claim 1 of the ’312 patent. Pentalpha then renewed its motion for JMOL and moved for a new trial on the grounds that SEB failed to adequately prove inducement under 35 U.S.C. § 271(b). The district court denied this motion and an appeal to the Federal Circuit followed.

The Federal Circuit began its discussion on whether a claim for inducement is viable absent direct evidence that the accused infringer actually knew of the patent-in-suit by analyzing the language of 35 U.S.C. § 271(b). Section 271(b) provides that “whoever actively induces infringement of a patent shall be liable as an infringer.”³ In *DSU*, the Federal Circuit interpreted section 271(b) as requiring the plaintiff to show that the alleged infringer knew or should have known that his actions would induce actual infringement.⁴ The *DSU* court further indicated that implicit in this “knew or should have known” standard is the requirement that the accused infringer know of the patent-in-suit at the time of inducement.⁵

After reviewing the *DSU* decision, the instant court concluded that the portion of that opinion seemingly requiring an accused infringer to have actual knowledge of the patent-in-suit to be liable for induced infringement was mere dicta.⁶ Accordingly, the instant court explored Supreme Court jurisprudence unrelated to patent law to arrive upon a new standard for satisfying the knowledge requirement of section 271(b).⁷ The new standard that the Federal Circuit arrived upon was one of “deliberate indifference.”⁸

In essence, this standard permits a finding of induced infringement under 35 U.S.C. § 271(b) where there is sufficient evidence to demonstrate that a party remained deliberately indifferent to the possibility that a patent *may* exist covering the allegedly infringing device, irrespective of whether or not the party *actually* knew about the existence of such a patent. Thus, the level of knowledge required to incur liability for induced infringement appears to have been lowered. However, rather than characterizing “deliberate indifference” as a lower standard than “actual knowledge,” the court concluded that deliberate indifference is a particular form of actual knowledge, stating, “[T]he standard of deliberate indifference of a known risk is not different from actual knowledge, but is a form of actual knowledge.”⁹

The court then proceeded to analyze defendant Pentalpha’s conduct in light of the deliberate indifference standard, beginning their analysis by emphasizing that “a claim for inducement is viable even where the patentee has not produced direct evidence that the accused infringer actually knew of the patent-in-suit.”¹⁰ In determining whether Pentalpha exhibited deliberate indifference to the existence of SEB’s patent (i.e., the ’312 patent), the court found the following pieces of evidence to be instructive: (1) Pentalpha purchased an SEB deep fryer in Hong Kong and copied all but the cosmetics of the device; (2) Pentalpha commissioned an attorney to conduct a right-to-use study but did not tell

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the attorney that it had based its product on SEB's product; and (3) Pentalpha's president was well versed in the U.S. patent system and understood SEB to be cognizant of patents as well.¹¹

In light of the foregoing, and with particular emphasis on the fact Pentalpha failed to inform its counsel of the copying prior to obtaining a right-to-use opinion, the court concluded that "[t]he record thus contains considerable evidence of deliberate indifference."¹² However, the court also acknowledged that "proof of knowledge through a showing of deliberate indifference may be defeated where an accused infringer establishes that he actually believed that a patent covering the accused product did not exist."¹³ Here, Pentalpha was unable to establish that it actually believed that a patent covering the accused product did not exist.¹⁴ Accordingly, the Federal Circuit held that the district court did not err in denying Pentalpha's renewed motion for a judgment as a matter of law ("JMOL") and that the jury's finding of induced infringement was justified.¹⁵

Practice Tip:

Parties seeking a right-to-use opinion from counsel should be sure to disclose as much information as possible concerning known related products. Failure to do so can lead to a court applying an adverse presumption. Vedder Price patent attorneys are skilled at preparing right-to-use opinions and can assist clients in determining what types of information are relevant and necessary to produce a legally sound right-to-use opinion.

¹ 471 F.3d 1293 (Fed. Cir. 2006) (en banc in part).

² *Id.* at 1304.

³ 35 U.S.C. § 271(b).

⁴ *DSU Medical*, 471 F.3d at 1304.

⁵ *Id.*

⁶ *SEB S.A. v. Montgomery Ward & Co., Inc.*, 2010 WL 398118, *12 (Fed. Cir. 2010) ("The facts of *DSU Medical* did not require this court to address the scope of the knowledge requirement for intent.").

⁷ *See id.*

⁸ *Id.*

⁹ *Id.* (citing *United States v. Carani*, 492 F.3d 867, 873 (7th Cir. 2007), and *Woodman v. WWOR-TV, Inc.*, 411 F.3d 69, 84 n.14 (2d Cir. 2005)).

¹⁰ *Id.* at *13.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* at *14.

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The ULR product line offers a new, more efficient method for companies to enter into nonexclusive license agreements for their valuable IP assets. ULR contracts address the inefficiencies of technology transfer, including the time, expense and redundancy inherent to traditional bilateral licensing negotiation, offering a new methodology for IP owners to deal with enforcement.

In the ULR process, IPXI serves as the intermediary between the IP owner and potential licensees. To that end, IPXI is authorized by the IP owner to market the IP licenses, which is accomplished by means of one or more public offerings of consumable "license rights" made available through IPXI. After these initial offerings, buyers and sellers may transact unconsumed ULR contracts through the secondary market facilitated by IPXI, with transaction information publicly disseminated. In addition to the role as licensing intermediary, IPXI fills two other vital roles. First, it audits consumption over time and regularly reports this data to market participants. Second, in the event of infringement, IPXI is responsible for managing the enforcement process.

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While there are a number of established methods for companies to monetize their IP through nonexclusive

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licensing, the ULR process offers some appealing features that, as a package, are likely to interest a wide variety of IP owners. Among these are: the transparency of the exchange offerings and post-market transaction activity; market-driven price discovery; the ability for all qualified parties to take licenses by participating in the ULR offerings; IPXI rules that provide for abbreviated arbitration of infringement questions; the ability for companies to outsource enforcement, if necessary; and enforcement costs that are competitive with other types of enforcement funding options.

IPXI intends to introduce its initial ULR contracts in the first half of 2010. In parallel, IPXI continues to develop other product lines, expecting to introduce its first index products in the second half of the year.

For further information about IPXI, or to explore opportunities using the ULR product line, please contact Gerard J. Pannekoek, Chief Executive Officer of IPXI Holdings, LLC, at gpannekoek@ipxi.com or 312-327-4483.

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We also have been principal counsel for both vendors and users of information technology products and services.

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We welcome your input for future articles. Please call Angelo J. Bufalino, the Intellectual Property and Technology Practice Chair, at 312-609-7850 with suggested topics, as well as other questions or comments concerning materials in this newsletter.

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