

Fed. Circ. 4Q Rulings May Trigger More Suits

By Erin Coe

Law360, New York (January 20, 2010) -- The U.S. Court of Appeals for the Federal Circuit has handed down key rulings over the false patent marking statute and the declaratory judgment jurisdiction standard that could lead to a surge in litigation, according to intellectual property attorneys.

The appeals court also made use of the last quarter of 2009 to expand on damages awards in patent litigation and clarify that advertisements can be used as ammunition to invalidate patents.

Here's a roundup of the top rulings by the Federal Circuit from October to December and their potential implications for IP law:

The Forest Group Inc. v. Bon Tool Co. et al., case number 09-1044

In a decision that some attorneys fear could spawn a new crop of patent trolls, the Federal Circuit in December held that the false marking statute imposes a penalty of up to \$500 for each product that is marked with an incorrect patent number for the purpose of deceiving the public.

The appeals court affirmed that Forest had falsely marked its stilts with a patent that no longer covered the products in order to intentionally deceive the public, but vacated the district court's award of a total of \$500 in penalties to Bon Tool, finding that the court could impose as much as \$500 for each stilt intentionally marked with the wrong patent.

The statute, 35 U.S.C. § 292, provides that if a party intentionally marks an article with an incorrect patent number, a qui tam action can be brought to recover \$500 for "every such offense," and if successful, the plaintiff can split the award with the U.S. government.

The statute had not been used very often because parties interpreted an "offense" to mean each time the defendant produced a new model, but the Federal Circuit's decision makes clear that an "offense" should be interpreted as each time a defendant knowingly sold a falsely marked product.

"The decision creates opportunities for a new generation of patent trolls. Now the Federal Circuit is saying you can get really rich by suing companies that have the wrong patent numbers on products. A large group of parties are going to go after the products of the Wal-Mart's of the world looking for the gotcha," said Steven M. Bauer, head of Proskauer Rose LLP's litigation team and co-head of its patent group.

Bauer said companies tend to put several patent numbers on products, but now they have to be extremely mindful of communicating to the marketing department when a patent has expired, been invalidated or been held not to cover certain products.

“There’s no shortage of opportunities to find products to sue over patent numbers,” he said.

False marking claims have gone up over the past few years as parties tested whether the statute could help them collect revenue, according to John S. Pratt, chair of Kilpatrick Stockton LLP’s IP practice.

“This decision will accelerate the recent trend of cases in this area, encouraging more plaintiffs to use the statute in an effort to generate revenue and more parties to assert the statute as part of a defensive strategy,” he said.

Although the Federal Circuit said the district court could impose a penalty significantly less than the statutory maximum, the statute’s broad standing provision encourages plaintiffs to file lawsuits that may greatly expand the potential liability of patentees, their licensees and other parties in product manufacturing and distribution chains, according to David E. Kleinfeld, a partner of Foley & Lardner LLP.

He noted that patent licensees who are required to mark as a condition of their license may want to add license provisions that require the patent owner to indemnify them for false marking, but he said for some parties, it may be too late.

“The statute of limitations for false marking actions is five years. As a result, some patentees and licensees may already be exposing themselves to financial liability on a much greater scale than they ever anticipated,” he said.

The Federal Circuit’s decision has mobilized some firms, like Howrey LLP, to put together a task force to assess and defend against false patent marking suits.

i4i LP v. Microsoft Corp., case number 09-1504

In a blow to Microsoft, the Federal Circuit in December upheld a record \$290 million award against the software giant for willfully infringing i4i’s document-formatting patent and cleared the way for an injunction barring sales of the latest version of Word software, to take hold this month.

In the opinion, Judge Alvin Anthony Schall rejected Microsoft’s arguments that the damages award, which was based on a hypothetical royalty rate of \$98 per copy of Word plus interest and enhanced damages, was excessive and that the district court had abused its discretion in imposing a permanent injunction against sales of the current version of Word.

Not ready to back down, Microsoft filed a petition seeking a panel rehearing or a rehearing en banc, claiming the three-judge panel’s decision weakened judges’ authority to apply appropriate safeguards in future patent trials.

The \$290 million award stands as the largest patent infringement judgment ever to be affirmed on appeal, according to Microsoft’s petition.

The decision came out just a few months after the Federal Circuit elaborated on damages in another case involving Microsoft that indicated parties could only use the entire market value rule when a patented feature is part of the impetus of the sales of the infringing product.

In that ruling, the appeals court in September affirmed a jury verdict that Microsoft's calendar date-picker tool infringed a patent by Alcatel-Lucent but found that a damages award of \$358 million for Lucent, which had since grown to more than \$511 million due to interest, was unjustified based on the evidence.

The i4i decision signifies that there can still be major damages awards against big technology companies following the Lucent ruling, and a small company can still secure an injunction even though it is not a direct competitor with the defendant, according to Anthony F. Lo Cicero, a partner of Amster Rothstein & Ebenstein LLP.

"The takeaway from this case is that large damages can still be awarded, but trial courts will be taking a more careful view of this facet of the case and make sure outlandish theories won't get before a jury," he said.

The Federal Circuit's Lucent decision appeared to indicate a conscious strategy by the court to rein in patent damages awards, but the i4i decision showed that the court will continue to give deference to qualified damages experts using established damages methodologies, no matter how extreme their ultimate conclusion may be, Kleinfeld said.

In the i4i case, the Federal Circuit allowed the award in part because there was no judgment as a matter of law on damages filed before the case was submitted to the jury.

"The Federal Circuit held that where the plaintiff's damages expert used Georgia-Pacific factors, the method was court approved and reliable, thus complying with Daubert. Most of the arguments that Microsoft raised, therefore, went to credibility and weight, not admissibility of opinion," Kleinfeld said.

Mitchell G. Stockwell, a partner of Kilpatrick, said it seemed odd that the Federal Circuit declined to review the award for excessiveness because Microsoft failed to make a pre-verdict motion for judgment as a matter of law on damages.

"If you don't have a jury verdict yet, why would you make that motion?" he asked.

The main lesson to draw from the i4i and Lucent cases is that the Federal Circuit is going to focus more heavily on damages and the details matter, according to Stockwell.

Hewlett Packard Co. v. Acceleron LLC, case number 09-1283

The Federal Circuit in December revived HP's suit seeking declaratory judgment for noninfringement of a blade server patent owned by Acceleron.

HP's appeal of the district court's dismissal of the case hinged on whether the letters that the patent-holding firm sent to HP identifying the patent and a specific line of HP products were sufficient for the court to find declaratory judgment jurisdiction.

The appeals court found it was not unreasonable for HP to interpret Acceleron's letters as implicitly asserting its rights under the patent, stating that "the purpose of a declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids the magic words such as 'litigation' or 'infringement.'"

The Federal Circuit reviewed the standard for declaratory judgment jurisdiction and held that receiving a letter implying infringement was enough for a party to bring a declaratory judgment action; it no longer had to wait until it was sued, according to Bauer.

He said the decision is likely to encourage parties to file suits quicker and will lead to more forum shopping than ever before.

“The case says you cannot have prelitigation negotiations with any confidence that you are not going to be sued somewhere,” Bauer said. “The Federal Circuit said HP could sue because of the letters and set the ground rules that will result in more litigation.”

Iovate Health Sciences Inc. et al. v. Bio-Engineered Supplements & Nutrition Inc. et al., case number 09-1018

The Federal Circuit in November struck down infringement claims for a bodybuilding supplement patent held by Iovate and the University of Florida Research Foundation, ruling that a fitness magazine advertisement describing the product had rendered the patent obvious.

The decision affirmed a lower court's dismissal of Iovate and University of Florida's infringement claims against rival supplement makers BSN and Medical Research Institute over the patent, which describes a nutritional supplement containing a ketoacid and amino acid to enhance muscle performance and recovery from fatigue.

BSN had argued that the patent should be invalidated based on detailed ads for dietary supplements, including one for Weider's Victory Professional Protein that ran in bodybuilding magazine Flex and contained a list of ingredients, directions for administering them orally to humans, marketing claims and testimonials from bodybuilders.

The appellate panel agreed with BSN that the Professional Protein ad disclosed every single claim limitation asserted by Iovate and dismissed the discrepancies between ad language and claim language by claiming that “such an argument borders on the frivolous.”

Companies that are putting a product on the market will need to be more attentive to the content in ads in light of the Federal Circuit's ruling, according to Matthew D'Amore, a partner of Morrison & Foerster LLP.

“In this case, it wasn't Iovate and Florida's own ad that was used against them, but there's no reason it couldn't have been. The teaching here to patent holders is to be careful what disclosures they put in their own advertising. The teaching to defendants is to look to ads as evidence of prior art because the court found that an ad all by itself was enough to invalidate the patent,” he said.

The Iovate decision underscores that a company's IP and advertising departments should check that they are on the same page and make sure that ads are not disclosing key information that the company plans to claim in a patent, D'Amore said.

Although the Bilski case before the U.S. Supreme Court has captured the spotlight in recent months and overshadowed rulings by lower courts, several decisions by the Federal Circuit in the final quarter of 2009 will help attorneys and the patent community to better understand IP law, according to D'Amore.

“Even though there were no earth-shattering decisions, the Federal Circuit still came down with important rulings that serve to teach us,” he said.