

Committee Chairs

Erick Howard
Shartsis Friese LLP
San Francisco, CA
ehoward@sflaw.com

John P. Hutchins
Troutman Sanders LLP
Atlanta, GA
john.hutchins@troutmansanders.com

Joseph Drayton
Kaye Scholer
New York, NY
jdrayton@kayescholer.com

Newsletter Editors

Editor in Chief
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Kilpatrick Townsend & Stockton LLP
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sgardner@kilpatricktownsend.com

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elaine.chow@klgates.com

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Intellectual Property Litigation

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This Issue: Antitrust and Trade Practice Issues

The Patent Misuse Defense after *Princo*

By Timothy J. Barron and Olivia T. Luk

The president of your best client, Genius Gel, Inc., calls seeking emergency legal advice. Genius is a leading cosmetics manufacturer that makes high-end anti-aging creams. A competitor, Beauty & Brains Co., which had been faithfully paying Genius lucrative royalties under a patent license agreement, abruptly stopped paying. Beauty asserts that it owes no royalty because several Genius licensing practices constitute “patent misuse.”

The dispute arose out of a business arrangement between Genius and another competitor, Smartie Serum, Inc. Responding to consumer demand, Genius and Smartie joined forces to develop anti-aging creams

that also increase brain power. The joint venture resulted in several patents, including Genius patents covering various aspects of the manufacturing process for a cream that uses only organic ingredients and increases test patients’ IQ scores and a Smartie patent covering a manufacturing process for a cream using artificial and synthetic ingredients with an inconsistent effect on IQ scores. Only the Genius cream received FDA approval.

Genius and Smartie licensed the technology to industry competitors, using a single standard license agreement that required a license to several patents in a pool of Genius patents and the Smartie patent, although it did not require licensees

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Unfair Trade Practice Claims under State Law

By John Triggs and Cara Baer

When most people think of cases involving a violation of intellectual property rights, they think of federal court and federal claims such as patent, copyright, or trademark infringement and other Lanham Act claims. With supporting facts, these are strong claims for the plaintiff and have many advantages. First, the various presumptions and burdens of proof generally favor the plaintiff. Second, in some cases, the plaintiff may

seek attorney fees. And even where actual damages may be hard to prove, federal copyright and trademark laws allow for statutory damages. In addition to these federal causes of action, however, there are also some very useful state-law causes of action related to intellectual property disputes. These include causes of action for state-law trademark infringement, misappropriation of trade secrets, and violation

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Message from the Chairs

Intellectual property is a valuable asset to any organization. It can be a shield to prevent brand misappropriation, guard against theft of secrets, ward off the copying of expression, and protect novel inventions. It can also be a sword, in some cases, to totally preclude competitors from the marketplace or limit a competitor's available options in terms of competitive offerings. Today, more than ever, organizations are realizing the value of intellectual property. In fact, there are now organizations that exist for no other purpose than to exploit intellectual property for profit.

But there are limits to how far an intellectual property owner can go in using intellectual property as a sword. This issue focuses on those limits. It contains some very interesting articles on patent misuse, unfair trade practices (as related to the assertion of intellectual property rights), false

patent marketing, and, of course, antitrust.

Our newsletter editors do a terrific job of providing you with insightful articles every quarter. Our newsletter continues to be one of the standard-bearers within the Section of Litigation, consistently receiving awards and praise from the Section. However, it's not just our newsletter editors who focus on delivering content that will help build your practice. Our Committee as a whole is dedicated to this goal. Between newsletters, we are constantly updating our webpage with new articles regarding the practice of intellectual property litigation. Log on regularly and check for new content. Or, better yet, follow us on Twitter and get updates to your mobile device every time something new posts to the Committee webpage. Just log on to Twitter and search for "ABAIPCOMMITTEE."

The rest of our Committee is hard at

work trying to provide an ever-increasing range of member benefits, including roundtables, monthly conference calls with members of the bench, programs, and more. Don't forget to mark your calendar for the Section Annual Conference in Miami, April 13–15, 2011. We expect to have more than 40 active members of our Committee in attendance, and we're planning our usual Committee-wide dinner, at which we hope to get to know you better and find out how we can get you more involved.

Don't hesitate to email any of us if you have any questions. We'd love to hear from you.

John P. Hutchins
Erick Howard
Joseph Drayton

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False Patent Marking: No Competitive Injury Is Currently Required

By Charles R. Bruton and Rajesh C. Noronha

Given the possibility of significant penalties for false marking, why should a patent holder take the risk of marking (and possibly mismarking) a product in the first place? The answer is that the benefits of properly marking a patented product usually far outweighs the risk of false marking. Patent marking is optional but strongly encouraged by existing law.

Proper marking provides notice of patent coverage, but the absence of notice prevents a patent owner from recovering damages for patent infringement in some cases. This limitation on damages is codified in 35 U.S.C. § 287(a), which authorizes patentees and persons selling or importing patented articles in the United States to “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.” The critical language is, “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 and continued to infringe thereafter.”

Under this statute, a patentee must mark each patented article or risk recovering far lower damages in an infringement action. The same rule applies to a patentee’s express and implied licensees, and the patentee must take reasonable steps to ensure that its licensees mark or risk a major reduction in recoverable damages.

History of Patent-Marking Statutes

The patent-marking and false marking statutes were enacted at the same time in the early development of U.S. patent law. Their history is important to understanding the current laws, including ongoing efforts in Congress to change those statutes.

In 1842, Congress first imposed an affirmative duty to mark articles offered for sale or sold with “the date of the patent,” along with a fine of “not less than one hundred dollars” for noncompliance. Act of 1842, ch. 263, §§ 6, 5 Stat. 543, 544-45 (1842).

In 1861, Congress replaced the penalty

provision in the marking statute with a limitation on damages that conditioned recovery upon either the patentee’s marking its articles as patented or the infringer’s receipt of actual notice. Act of 1861, ch. 88, §§ 13, 12 Stat. 246, 249 (1861).

The marking statute has not been substantially changed since the amendments of 1861. The choice and order of words have been altered, but the limitation of damages remains much the same. *See Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1443 (Fed. Cir. 1998). The Patent Act of 1952 included one notable change from the prior versions, namely that patent marking is no longer required of patentees but is only a permissive act that is statutorily encouraged. *American Med. Sys., Inc. v. Med. Eng’g Corp.*, 6 F.3d 1523, 1535 (Fed. Cir. 1993) (noting that, in 1952, “Congress amended [the marking statute] to become the present section 287(a), changing the language to make marking permissive rather than mandatory, so that a ‘[p]atentee . . . may give notice to the public’ by the specified marking”).

Incentive and the Marking Statute

Because of the potential drawbacks to not marking, the choice of whether or not to mark isn’t usually much of a choice. Moreover, marking serves important public-policy objectives. Proper marking of a patented product provides consumers, and the public in general, with notice that a patent exists and that a product is being manufactured pursuant to that patent. It also acts as constructive notice of infringement to a potential infringer. Without the constructive notice of patent marking, the statute requires the patentee to provide actual notice of infringement to an alleged infringer (such as service of the complaint in a filed lawsuit or delivery of a cease-and-desist letter) before the patentee may recover damages.

This notice is designed to act as both a deterrent to infringement and an incentive for innovation. The Federal Circuit listed several related purposes of the patent-marking statute in *Nike Inc. v. Wal-Mart Stores,*

Inc., 138 F.3d 1437, 1443 (Fed. Cir. 1998), including avoiding innocent infringement, encouraging patentees to give notice to the public that the article is patented, and aiding the public in identifying whether an article is patented. The limit on damages for failure to mark serves these multiple public-policy objectives of the marking statute, while, at the same time, providing patentees a strong financial incentive for marking their patented articles.

Disincentive and the False Marking Statute

In contrast, the false marking statute provides a strong disincentive to deter improper marking. Still, the Federal Circuit has reasoned that the two statutes share the common underlying purpose of providing notice of patent rights. *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1302 (Fed. Cir. 2009) (“The marking and false marking statutes exist to give the public notice of patent rights.”).

Substantial harm can result from false patent marking. As noted in *Clontech Labs., Inc., v. Invitrogen Corp.*, 406 F.3d 1347, 1356-57 (Fed. Cir. 2005):

[T]he act of false marking misleads the public into believing that a patentee controls the article in question (as well as like articles), externalizes the risk of error in the determination, placing it on the public rather than the manufacturer or seller of the article, and increases the cost to the public of ascertaining whether a patentee in fact controls the intellectual property embodied in an article.

Multiple public policy considerations support the false marking statute. As the Federal Circuit noted in *Bon Tool, supra*, 590 F.3d at 1302–03, among these considerations are:

Congress intended the public to rely on marking as a ‘ready means of discerning the status of intellectual property embodied in an article of manufacture

or design.’ Acts of false marking deter innovation and stifle competition in the marketplace. If an article that is within the public domain is falsely marked, potential competitors may be dissuaded from entering the same market. False marks may also deter scientific research when an inventor sees a mark and decides to forego continued research to avoid possible infringement. False marking can also cause unnecessary investment in design around or costs incurred to analyze the validity or enforceability of a patent whose number has been marked upon a product with which a competitor would like to compete.

Three Types of False Marking

The false marking statute specifies three distinct types of activities that constitute false marking. The issue that is common to all three types is deception of the public.

Marking Without Consent (Counterfeiting). The first type of false marking is counterfeiting a patentee’s marking on an article. As 35 U.S.C. § 292 states, in relevant part, “Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising . . . the name or any imitation of the name of the patentee,

or other indication that it is patented. As 35 U.S.C. § 292 states, “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.”

Falsely Marking as “Patent Pending.” The third type of false marking is marking an article as “patent pending” when that is not true. As 35 U.S.C. § 292 states, “Whoever marks upon, or affixes to, or uses in advertising in connection with any article the words ‘patent applied for,’ ‘patent pending,’ or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public,” is liable for false marking.

Little Motivation to Bring Claims until 2009

Historically, false patent marking claims had been rare. For example, in 2005, the Federal Circuit noted that its own case law on false patent marking claims was “sparse.” *Clontech Labs., supra*, 406 F.3d at 1351. A possible reason for the dearth of false marking claims may be the fact that section 292 provides for a penalty of “up to \$500” for each offense—a penalty that must be shared with the U.S. government. Most courts interpreted the statute to contemplate a penalty which was limited to a maximum of \$500, regardless of the duration of the false marking and the number of products falsely marked. Under such an interpretation, even those parties that suffered actual economic injury as a result of a competitor’s false patent marking had little incentive to incur the costs of litigation. Those parties that suffered no actual injury had no incentive to sue.

Section 292(a) states clearly that, upon a finding of false patent marking with an intent to deceive, some penalty is mandatory. The court must assess some penalty of up to \$500 “for every . . . offense.” Courts, however, were unsure of what constituted an “offense.” Prior to the *Bon Tool* decision in 2009, the Federal Circuit had not considered the issue. Other courts created a variety of approaches.

Most courts adopted a “continuous act” approach, whereby the decision to falsely mark constituted the “offense.” *See, e.g., London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910) (noting,

with respect to an earlier version of the false marking statute, “It can hardly have been the intent of Congress that penalties should accumulate as fast as a printing press or stamping machine might operate.”); *Sadler-Cisar, Inc. v. Commercial Sales Network*, 786 F. Supp. 1287, 1296 (N.D. Ohio 1991). Thus, continuous acts of false marking constituted a single “offense,” with a single penalty of up to \$500, no matter how long the false marking had been going on or how many products had been falsely marked.

A minority of courts adopted a “time-based” approach, whereby each discrete period of false marking constituted a separate “offense.” *See, e.g., Krieger v. Colby*, 106 F. Supp. 124, 131 (S.D. Cal. 1952) (imposing a fine for each day that products were falsely marked); *Icon Health & Fitness, Inc. v. Nautilus Group, Inc.*, 2006 WL 753002, *7 (D. Utah Mar. 23, 2006) (imposing a fine for each week that false marking occurred); *Brose v. Sears, Roebuck and Co.*, 455 F. 2d 763, 766, n.4 (5th Cir. 1972) (reasoning that a fine could be imposed for each day, week, or month that a falsely marked product was produced).

Over the course of a century, federal district courts used a variety of explanations for refusing to assess a fine for each article that was falsely marked. *See, e.g., London v. Everett H. Dunbar Corp.*, supra, 179 F. at 508 (“[A] plaintiff, in order to recover more than a single penalty, must go further than to prove the marking of a number of unpatented articles. The proof must be sufficiently specific as to time and circumstances to show a number of distinct offenses, and to negative the possibility that the marking of the different articles was in the course of a single and continuous act.”); *Bibow v. Am. Saw & Mfg. Co.*, 490 F. Supp. 2d 128, 129 n.1 (D. Mass. 2007) (noting that “[i]t is doubtful that the statute ever intended to create such a lucrative game of ‘gotcha!’” by imposing a fine for each time a falsely marked advertisement was seen); *Brose, supra* at 766, n.4 (noting that with 70,000 falsely marked kits involved, the plaintiff’s share “adds up to a tidy 17 1/2 million dollars although on one basis or another—limiting it to each day or week or month—a Court would find a way to prevent such a result.”).

Neither the “continuous act” approach nor “time-based” approach provided much incentive for a plaintiff to incur the expenses of litigation, including costs, fees,

The issue that is common to all three types of false marking is deception of the public.

the patent number, or the words ‘patent,’ ‘patentee,’ or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee.”

Marking an Unpatented Article. The second type of false marking is marking an unpatented article with a patent number



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and time. As a result, even if a competitor was suffering injury as a result of false marking, the competitor was unlikely to file suit based solely on a false marking claim. In short, there was still little motivation for those that had suffered no injury to file a false patent marking claim.

Forest Group, Inc. v. Bon Tool Co.

Section 292(a) of the false marking statute states that whoever commits an offense of false marking “[s]hall be fined not more than \$500 for every such offense.” If the “offense” were to be interpreted as the act of falsely marking a single article, the potential penalty could be huge. In 2009, the Federal Circuit adopted that interpretation in *Bon Tool*, *supra*, 590 F.3d at 1304, holding that “the plain language of 35 U.S.C. § 292 requires courts to impose penalties for false marking on a per article basis.” Recognizing that its decision might create a “cottage industry” among plaintiffs seeking large damage awards, the court noted that the district courts’ statutory discretion to set the amount of the fine per offense, which would allow district judges “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.” *Id.* at 1303–04.

In the wake of the *Bon Tool* decision, district courts have been inundated with hundreds of suits involving false marking claims. Plaintiffs, hoping for a windfall in damages, have combed through the products of countless industries in search of any articles falsely marked in high quantities. The Federal Circuit soon recognized that false marking penalties could be astronomical. *See Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359, n.1 (Fed. Cir. 2010) (“Pequignot accused Solo of falsely marking at least 21,757,893,672 articles and sought an award of \$500 per article, one half of which would be shared with the United States. . . . Incidentally, such an award to the United States, of approximately \$5.4 trillion, would be sufficient to pay back 42% of the country’s total national debt.”) (citations omitted). This financial incentive has caused enterprising individuals and groups to form entities for the sole purpose of filing false patent marking claims. False patent marking allegations are also becoming a mainstay for defendants in patent infringement cases, with accused infringers counterclaiming

not only that the patents in suit are not infringed and invalid, but also that the patentee plaintiff has falsely marked its products.

Pequignot v. Solo Cup Co.

Only about six months after *Bon Tool*, the Federal Circuit decided *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362–63 (Fed. Cir. 2010). The court reaffirmed that the fact that a marking is false, combined with the fact that the defendant knew it was false, creates only a rebuttable presumption that there was intent to deceive the public by the defendant. The court held that the presumption of intent to deceive was weaker when the false markings consisted of expired patents that covered the marked products before they expired. *Id.* at 1364. The presumption can be rebutted with credible evidence that there was no intent to deceive the public, because “mere knowledge that a marking is false is insufficient to prove intent if [the defendant] can prove that it did not consciously desire the result that the public be deceived.” *Id.* at 1363. However, the court also held that the standard of proof for intent to deceive required for false marking is merely a preponderance of the evidence *Id.* at 1363–64.

Solo Cup also held that evidence of certain actions can rebut the presumption of an intent to deceive the public. For example, “[A] good faith belief that an action is appropriate, especially when it is taken for a purpose other than deceiving the public, can negate the inference of a purpose of deceiving the public.” *Id.* at 1364. While bare assertions of good faith would not overcome the presumption, reliance on advice of counsel or evidence of legitimate business objectives could establish good faith. *Id.*

Qui Tam Actions for the Statutory Penalty

The concept of a qui tam action has been present in the false marking statute since its introduction in 1842. “Qui tam” is short for a Latin phrase meaning “who sues on behalf of the King as well as for himself.” This type of procedural device allows a private person, known as a “relator,” to bring a lawsuit on behalf of the United States, where the private person asserts that the named defendant has falsely marked its products. The statute has never required that the relator have suffered economic

harm caused by the false marking.

But does “any person” really mean any person who can identify a falsely marked product? The final section of the false marking statute, 35 U.S.C. § 292(b), specifies, “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.” With the stakes expanding exponentially since *Bon Tool*, some thought that the Federal Circuit might limit standing to sue to persons who suffered economic injury caused by alleged false marking. Presented with a case involving a patent lawyer bringing

Presented with a case involving a patent lawyer bringing suit, the court chose to interpret the statute literally as written.

suit, the court chose to interpret the statute literally as written, holding that “any person” can act as the enforcer of the false marking statute. *Stauffer v. Brooks Brothers*, Nos. 2009-1428, 2009-1430, 2009-1453, 2010 WL 3397419, at *4 (Fed. Cir. Aug. 31, 2010) (“[A] *qui tam* plaintiff, or relator, can establish standing based on the United States’ implicit partial assignment of its damages claim . . . to ‘any person’ In other words, even though a relator may suffer no injury himself, a *qui tam* provision operates as a statutory assignment of the United States’ rights, and ‘the assignee of a claim has standing to assert the injury in fact suffered by the assignor.’”) (citations omitted).

With fines assessed on a per-article basis, the judicial recognition that “any person” can sue for false marking creates a compelling incentive for individuals to pursue what may well be pots of legal gold. Absent amendment of the statute, at least two hurdles remain.

The Heightened Pleading Requirement of Rule 9(b)

The first remaining hurdle is the specificity with which false marking must be pled. Last year, the Supreme Court established a heightened pleading standard for all civil cases in *Iqbal v. Ashcroft*, 129 S. Ct. 1937 (2009). There, the court held that, to survive a motion to dismiss, “a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible,’” meaning that the complaint includes “factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Id.* at 1949. While the Federal Circuit has not directly addressed this issue, it has acknowledged that a unique issue of pleading exists with false marking claims. In remanding *Stauffer*, the court directed the district court to address “Brooks Brothers’ motion to dismiss pursuant to Rule 12(b)(6) ‘on the grounds that the complaint fails to state a plausible claim to relief because it fails to allege an ‘intent to deceive’ the public—a critical element of a section 292 claim—with sufficient specificity to meet the heightened pleading requirements for claims of fraud imposed by’ Rule 9(b).” *Id.* at *6.

Several district courts have recently determined that the heightened pleading standard of Federal Rule of Civil Procedure 9(b) is required for false marking claims. *See, e.g., Josephs v. Federal-Mogul Corp.*, Case No. 10-10617, 2010 WL 3803779, at *3 (E.D. Mich. Sept. 23, 2010) (dismissing a false marking claim but allowing leave to amend after finding that “[u]nder Rule 9’s heightened standard, [the plaintiff’s] allegations are insufficient to support the inference that [the defendant] acted with the intent to deceive the public.”); *Brinkmeier v. BIC Corp.*, Civ. No. 09-860-SLR, 2010 WL 3360568, at *10 (D. Del. Aug. 25, 2010) (dismissing a false marking claim for failing to meet the Rule 9(b) pleading standard after noting that “it appears just as likely on the facts pled that [the defendant] made a marking error. Inconsistency (to the extent the complaint implies such) does not amount to intent to deceive.”).

A new case to watch on this subject is the September 14, 2010 Petition for Writ of Mandamus in *In re Lubricants USA, Inc.*, Appeal No. 2010-M960 (Fed. Cir. 2010), which requests the Federal Circuit to issue a writ of mandamus to the Northern District of Illinois and asks, “Did the district court clearly err

when it denied [the defendant’s] motion to dismiss [the r]elator’s false marking case for failure to plead supporting factual allegations sufficient to infer an intent to deceive under this Court’s precedent in *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 and *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312?”.

Proof of Intent to Deceive the Public

As noted above, the *Solo Cup* and *Stauffer* decisions have established that a heightened standard of proof exists to prove false marking and that various defenses have been recognized that may serve to avoid a finding of intent to deceive the public. As a result, the threat of summary judgment is another potential hurdle that any false marking plaintiff must consider.

Proposals to Restrict Standing to Sue

There are currently bills pending in both houses of Congress that would require a false marking plaintiff to have suffered a “competitive injury” to have standing to bring a suit under the false marking statute.

On March 25, 2010, Rep. Darrell Issa introduced H.R. 4954 to amend 35 U.S.C. 292(b) to “provide recourse under the patent law for persons who suffer competitive injury as a result of false markings.” In effect, the bill would prevent qui tam lawsuits for false marking from being brought by plaintiffs who have not suffered competitive injury. In addition, it would allow a plaintiff who has suffered competitive injury to recover damages adequate to compensate for the injury (not just \$250 per offense). The bill has been referred to the House Committee on the Judiciary.

The text of the House bill is identical to a provision in the Manager’s Amendment to the comprehensive Senate Patent Reform Bill S. 515, which was published on March 4, 2010, and is currently being considered. *See* Patent Reform Act of 2010, S. 515, 111th Cong. §§ 2(k)(1)(b) (2010).

If enacted, the proposed legislation will have retroactive effect such that it will apply “to all cases, without exception, pending on or after the date of the enactment of this Act.” *See id.* at § 2(k)(2) (2010). It will also eliminate the standing of qui tam plaintiffs, and may lead to the dismissal of most false marking claims pending at the time the legislation is signed by the president. Going forward, only competitors who have suffered some actual “competitive injury” as a result

of false marking would have standing to sue. Moreover, there would no longer be a penalty of up to \$500 per falsely marked article. Instead, the plaintiff could recover only those damages “adequate to compensate for the injury.”

The Patent Lawsuit Reform Act of 2010

The latest attack on the false marking statute was by Rep. Robert E. Latta, who, on September 29, 2010, introduced H.R. 6352, the Patent Lawsuit Reform Act of 2010, which was referred to the House Judiciary Committee. Like Rep. Issa’s proposal, Rep. Latta’s legislation would have retroactive effect and require competitive injury for standing, but it would also set a maximum \$500 fine per decision to falsely mark, rather than per falsely marked article. If enacted, Rep. Latta’s bill would effectively repeal the current false marking statute, removing its identity as a qui tam provision and severely limiting the statute’s deterrence of false marking.

Many who keep a close watch on developments in this area of the law are not confident that the current legislation will be passed. For one thing, various patent reform measures that have been proposed in the last few years have received widespread support but were never passed into law. In addition, patent reform legislation is unlikely to be a priority for Congress or the current administration, with legislation in other areas dominating their focus. Finally, under the law as it currently stands, the government benefits financially from every qui tam false patent marking action that is successful. At a time when the government is faced with increasing deficits, Congress and the current administration may be reluctant to eliminate or restrict a law that brings in significant revenue at little or no cost to the government. ●

Charles R. Bruton is a shareholder and chair of the IP Litigation Practice Group at Buchanan Ingersoll & Rooney, Alexandria, Virginia. He may be reached at charles.bruton@bipc.com. Rajesh C. Noronha is an associate in the same group. He may be reached at rajesh.noronha@bipc.com.

FTC and DOJ Clarify the Aims of Federal Antitrust Guidelines

By Michael Young

Greed is good, and Gordon Gecko isn't the only one who thinks so—the evidence suggests that the U.S. government agrees. We have long known that inspiration for commercial competitiveness is driven by the prospect of financial reward.

However, in contrast to Mr. Gecko's views, the government believes that the marketplace is far from optimal when left unrestrained, so it scrutinizes certain competitor conduct, prohibiting activities that might threaten the stability or health of the open market. This is where the Federal Trade Commission (FTC) and Department of Justice (DOJ) come in. Market regulation is not always preemptive, though. Indeed, the FTC and DOJ often exercise their enforcement directives via post-merger administrative, criminal, and civil litigation.

Background and Context

Section 7 of the Clayton Act prohibits mergers and acquisitions where the "effect may be to substantially lessen competition or to create a monopoly." Although Section 7 of the Clayton Act is most often

implicated when enforcing antitrust policy against horizontal mergers, Sections 1 and 2 of the Sherman Act and Section 5 of the Federal Trade Commission Act are also sometimes employed. The agencies apply these statutes against either proposed or executed mergers and acquisitions involving either "actual or potential competitors" in an effort to notify the business community what types of mergers are likely to draw the most scrutiny.

The FTC and DOJ Horizontal Merger Guidelines were first articulated in 1968, followed by a revision in 1992. Informed by the experience gained through the thousands of merger assessments, hundreds of civil actions, and dozens of criminal charges under the agencies' belts, the most recent version of the guidelines in 2010 outline the antitrust analysis and enforcement framework that the FTC and DOJ will apply when reviewing activities within their purview.

Uncertain or unpredictable risk liability is costly to clients and encumbering to counsel. Thus, because the 2007 Report on Antitrust and Intellectual Property Rights did not explicitly illustrate their

applicability to horizontal mergers within high-technology or patent-driven industries, an understanding and appreciation of the 2010 Horizontal Merger Guidelines would be prudent for both general and litigation counsel.

Problem

We are in an age where size and capital are far from determining factors. Today, mergers involving even smaller, new, otherwise benign entities may be exposed to antitrust liability.

But even though "the guidelines [should] provide more clarity and transparency," and are meant to "provide businesses with an even greater understanding of how we review transactions," as Christine Varney, head of the DOJ's Antitrust Division proclaims, it is unlikely that the intended insight will be revealed to all business types. In particular, mergers between companies with assets and commercial viability steeped in ownership of intellectual property may still be left unguided under the current guidelines. Even though the FTC has acknowledged since 1995 that particular considerations are necessary when evaluating competitors within such markets, any mention of what was previously dubbed "innovation markets" is absent from the 2010 guidelines—although they comprise a large and growing sector of the U.S. economy. This is precisely why being proactive in understanding and appreciating the 2010 guidelines is important.

Since evaluating the antitrust liability of merging competitors in IP-centric markets requires detailed analysis that is currently unfurnished by the current guidelines, an in-depth review of both the 2007 report and 2010 merger guidelines is warranted.

The 2007 report expressed the philosophy that the acquisition of IP rights does not, by itself, confer a presumption of power in the marketplace. However, with respect to several emerging and "innovation" markets, many within the biotechnology and software sectors, actual market power may be near-automatic from

Highlights from the 2010 Horizontal Merger Guidelines

There is an increase in the Herfindahl-Hirschman Index threshold, which the agencies use to assess market power and the concentration of companies involved in a particular market.

The guidelines show insight into the agencies' process for identifying the relevant competitive market against which to assess a merger's anticompetitive effects. In markets difficult to define, the agencies suggest reliance on correlative evidence between the presence of product rivals and variations in product prices.

The guidelines introduce new sections on the evidence of adverse competitive effects typically considered, powerful buyers, partial acquisitions, and mergers of competing buyers.

An updated explanation of the hypothetical monopolist test used to define relevant antitrust markets explains the role this test currently plays in the agencies' analyses.

The guidelines also provide an updated explanation of how the agencies presently evaluate unilateral competitive effects, including effects on innovation and whether a merger or an acquisition would likely impede potential competitors from entering the market.

Recommendations

- Consider patent pooling to avoid compulsory licensing or litigation that might ensue from merger activities.
- Conduct thorough economic evaluations of the marketplace in view of the shrinking domain of traditional markets and the increasing prevalence of technologies spawning “niche” markets.
- Carefully document valuation reports of IP rights on a consistent basis.
- Evaluate potential antitrust issues before acquiring or licensing IP with the potential to effectively transfer a large market share of any product, even if the product is not within the primary industry.
- Avoid hostile acquisitions of major competitors.

patent ownership and diligent enforcement. Moreover, mergers of competitors within IP-centric markets might find themselves particularly vulnerable to the agencies’ review or enforcement, as the 2010 guidelines maintain an inimical view of horizontal mergers involving companies

with high margins.

The path ahead is coarse. Courts have articulated that with respect to IP, they will consider the size and strength of marketplace competitors’ anticompetitive behavior. Additionally, the guidelines explain that the FTC and DOJ “may

consider whether a merger is likely to diminish innovation competition by encouraging the merged firm to curtail its innovative efforts below the level that would prevail in the absence of the merger.” The problem is that mergers of IP tend to accompany mergers of IP developers, which inherently makes post-merger innovation at the same level more difficult to achieve. In today’s volatile, fast-paced technology markets, hinging the agencies’ views of anticompetitive behavior on factors such as these burdens many high-technology companies with navigating a minefield of potential missteps and litigation. ●

Michael Young is a graduate of the law school at the University of North Carolina at Chapel Hill. He may be reached at moyoung@email.unc.edu.

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The Patent Misuse Defense after *Princo*

Continued from page 1

to practice the Smartie technology. Royalty payments to Genius under a license are not calculated based on the number of patents licensed, but rather on the number of products made. Genius and Smartie also agreed that Smartie would not separately license the Smartie patent to any company outside the standard license agreement.

About a year ago, Beauty entered into a standard license with Genius. Under the license, Beauty used the Genius technology to manufacture its balm in France, which it then imported into the United States. Now, however, Beauty continues to import the product without paying royalties, based on its belief that the license is illegal. According to Beauty's president, two of Genius's practices constitute patent misuse: forcing licensees who wanted the Genius technology to also license the inferior Smartie technology and agreeing with Smartie to refuse licensing the Smartie patent outside of the standard package license. Genius wants to sue Beauty for patent infringement, but its president is concerned about Beauty's contention that no royalty is due because Genius is guilty of "patent misuse."

Recently, the scope of actions that constitute misuse per se has narrowed markedly.

You explain to your client that patent misuse is a defense related to antitrust law that can be used in a patent infringement action. Luckily, the U.S. Court of Appeals for the Federal Circuit recently clarified the scope of the defense in its en banc decision in *Princo Corp. v. Int'l Trade Comm'n*, ___ F.3d ___, No. 2007-1386,

2010 WL 3385953 (Fed. Cir. Aug. 30, 2010). Indeed, *Princo* extended the recent trend of decisions that have significantly narrowed the circumstances in which a defendant in a patent case can prevail on a misuse defense.

What Is Patent Misuse?

The doctrine of patent misuse, which usually concerns a patent owner's licensing practices, is a defense available to a party accused of patent infringement. Generally, the doctrine limits a patent owner's ability to include provisions in a license that impermissibly broaden the owner's rights under a patent. The defendant itself need not have been a licensee or prospective licensee to raise the defense.

Development of the Misuse Defense

The principle of patent misuse originated in a 1917 U.S. Supreme Court decision, *Motion Picture Patents*.¹ There, the patentee owned a patent on projector technology that it was willing to license, but it refused to do so unless the licensee also agreed to purchase unpatented film the patentee manufactured. The Supreme Court held that the license's requirement that all licensees purchase the patentee's unpatented film was an improper broadening of the patentee's rights under the projector patent.

In subsequent decisions, the Supreme Court explained that the doctrine of patent misuse bars a patent owner from using the "patent's leverage" to "extend the monopoly of his patent to derive a benefit not attributable to the use of the patent's teachings."² The Federal Circuit has since indicated that the "key inquiry is whether, by imposing conditions that derive their force from the patent, the patentee has impermissibly broadened the scope of the patent grant with anticompetitive effect."³

In 1986, the Federal Circuit identified a few "specific practices as constituting per se patent misuse, including so-called 'tying arrangements' in which a patentee conditions a license under the patent on the purchase of a separable, staple good, and arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties."⁴ Price-fixing has also been considered misuse per se, requiring no further analysis of competitive effect.⁵

The State of Patent Misuse Before *Princo*

Recently, the scope of actions that constitute misuse per se has narrowed markedly. For example, under the 1988 revision to 35 U.S.C. § 271(d), a tying arrangement in which a patentee conditions a license under the patent on the purchase of a separable, staple good does not amount to patent misuse "unless in view of the circumstances, the patent owner has market power in the relevant market."⁶ Section 271(d) codifies this and other restrictions on relief for infringement or contributory infringement when the patent owner has done one or more of the following:

- (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent;
- (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent;
- (3) sought to enforce his patent rights against infringement or contributory infringement;
- (4) refused to license or use any rights to the patent; or
- (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

With the constriction of the circumstances in which licensing practices are deemed per se patent misuse, these practices are now commonly analyzed under the "rule of reason." The U.S. Supreme Court described this analysis as follows:

When a practice alleged to constitute patent misuse is neither per se patent misuse nor specifically excluded from a misuse analysis by § 271(d), a court must determine if that practice is reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims. If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with

an anti-competitive effect, that practice must then be analyzed in accordance with the “rule of reason.” . . . Under the rule of reason, the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint’s history, nature and effect.⁷

Naturally, a rule of reason inquiry typically involves a detailed analysis of the pro-competitive benefits as well as the anti-competitive harms of any challenged practice.⁸

After you explain this general background of patent misuse, your client asks for the bottom line: “Will Beauty be able to successfully assert that we committed patent misuse?” You explain that the Federal Circuit’s recent *Princo* decision sheds some light on the situation.

The Federal Circuit’s *Princo* Decision

The facts of the *Princo* case are very similar to those of Genius’s predicament, although the case had a rather tortuous procedural history. In *Princo*, Sony and Philips competed in manufacturing recordable and rewritable compact discs. However, several years ago, they were concerned about adopting competing technologies that would limit the growth of both parties’ technology. Thus, they agreed to work together to develop a standard technology for compact discs that consumers could use to record information.

At the time, both companies owned patents covering methods of writing on discs. Philips’s patent used an analog method, while Sony’s patent employed digital technology. For various reasons, they agreed that Philips’s patented technology was more suitable for the market, and thus, the companies decided to pursue only the technology covered in Philips’s patents. In so doing, they developed and published technical standards—the Recordable CD Standard—which the industry dubbed the “Orange Book.” Companies manufacturing the machines used by consumers to record on compact discs followed the Orange Book standard to be compatible.

Sony and Philips licensed their patents, among others, as a group in a “package license” agreement. Companies who wanted to make and sell such recordable compact

discs entered into a package license agreement with Philips that included a “patent pool” of patents. The Philips patents that were actually adopted as the standard were in the patent pool, as was the Sony patent on the digital writing method, even though that technology was incompatible with the Orange Book standard. The licenses required the manufacturers to pay a royalty of one half to two thirds of the selling price per disc.

Like many others in the industry, Princo wanted to make recordable compact discs that were compatible with the industry standard. Accordingly, Princo entered into the standard package license agreement with Philips. Shortly thereafter, however, Princo stopped making the steep royalty payments.

The First Trial and Appeal

Philips sued Princo for patent infringement in the U.S. International Trade Commission (ITC), where the administrative law judge (ALJ) ruled that although Princo’s recordable compact discs infringed the Philips patents at issue, all of the patents were unenforceable due to per se patent misuse. The ITC affirmed the ALJ’s ruling that the Philips-Sony package licensing arrangements were illegal “tying” arrangements because they were patent misuse per se and there was also patent misuse under the “rule of reason” analysis.

On appeal, the Federal Circuit reversed, finding that Philips’s license agreement did not constitute patent misuse because it did not broaden the scope of Philips’s patents or involve an illegal tying arrangement. In addition to citing other errors, the Federal Circuit held that even though the package license tied different patents together, the license was not illegal because it did not charge the licensee extra for the nonpracticed patent, but rather, charged a fixed fee.⁹ Therefore, including additional patents in the license program may actually have pro-competitive effects such as minimizing transaction costs and ensuring against the risk of post-agreement disputes. The Federal Circuit remanded the case back to the ITC for further “rule of reason” analysis on issues including whether there had been price fixing, whether the licenses covered technologies that were close substitutes, and whether the pool licensors would have competed in the technology-licensing market absent the pooling arrangements.

The Second Trial and Appeal

On remand, the ITC determined that “there has been no showing that the [tied] patent competes with another patent in the pool, no showing that the pool licensors would have competed in the technology licensing market absent the pooling arrangement, and no showing of the anti-competitive effect required under a rule of reason analysis.” Thus, the ITC concluded there was no patent misuse.¹⁰ Princo again appealed to the Federal Circuit, in *Princo II*, focusing on an alleged side agreement between Sony and Philips barring Sony from licensing its patent on digital disc writing methods outside of the package li-

The Federal Circuit applied the doctrine of patent misuse narrowly and upheld the ITC’s decision.

cense. Princo argued that this arrangement was a “horizontal agreement” between Sony and Philips that illegally suppressed competition. Princo contended that the Sony patent was a commercially viable technology and would have been fully able to compete in the market had the technology not been suppressed.¹¹ The Federal Circuit initially remanded the case again to the ITC for further fact finding regarding the alleged horizontal agreement. However, before the remand was effected, the Federal Circuit granted rehearing en banc.

The Federal Circuit’s Decision on Rehearing

On rehearing, the Federal Circuit applied the doctrine of patent misuse narrowly and upheld the ITC’s decision finding Philips had committed no patent misuse. The court held that even if Philips and Sony had agreed to suppress the technology embodied in Sony’s patent, such an agreement would not constitute patent misuse and would not be a defense to Princo’s patent infringement. The court based its ruling on the fact that the activity that forms the basis of the defense of patent misuse must involve the patent that the

defendant is accused of infringing, which were Philips's patents. Because the alleged misuse related only to Sony's patent, which was not at issue in the infringement case, Princo could not prove the defense of patent misuse.¹²

The Federal Circuit also held that Princo failed to establish that the alleged horizontal agreement had anticompetitive effects. To the contrary, the court reasoned that Philips and Sony had acted legitimately in choosing not to compete against their own joint venture. And, pointing to evidence that the Sony patent was prone to errors, unreliable, and unworkable, the court determined that the alleged "suppressed" Sony technology was not a viable potential competitor to Philips's technology.¹³

In his dissent, Judge Dyk presented a dif-

There is no patent misuse if the anticompetitive activity in a "horizontal agreement" involves a licensed patent that is not asserted in the infringement action.

ferent analysis of the patent misuse doctrine and explained why the majority's narrow approach was improper. He explained that neither Philips nor the ITC even advanced the position the majority ultimately adopted—that the failure to assert infringement of Sony's patent in the ITC proceedings barred a finding of patent misuse. He also pointed out that the majority's holding—that there could be no misuse unless the accused infringer shows that the technology was, or would probably have become, commercially viable—contravenes established patent misuse doctrine. The dissent asserted that the majority holding contradicts the Supreme Court's latest decision on patent misuse,

Illinois Tool Works, in which the Court concluded that "[i]t would be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony [under the Sherman Act] would not constitute 'misuse.'"

Judge Dyk further argued that if the horizontal agreement and the license agreements constitute misuse with respect to Sony's patent, they should also constitute misuse of Philips's patent at issue. He contended that the majority decision effectively emasculates the patent misuse doctrine and leaves the enforcement of antitrust violations (outside illegal tying arrangements and patent term extensions) to private and government antitrust proceedings, which are "likely inadequate to the task."¹⁴

Despite the dissent's misgivings, in the end, the majority opinion in *Princo* does provide clear guidance on two points:

- There is no patent misuse when a license agreement that ties a nonessential, or nonpracticed, patent to an essential, or practiced, patent results in procompetitive effects, including decreased post-agreement disputes, that outweigh any anticompetitive effects such as restraint on trade or competition.
- There is no patent misuse if the anticompetitive activity in a "horizontal agreement" involves a licensed patent that is not asserted in the infringement action.

How Princo Affects Genius

After hearing this explanation of *Princo*, your client asks again for the bottom line: How does *Princo* affect Genius's situation? You explain that there are two separate Genius activities that potentially constitute misuse: the requirement that all package licenses include both Genius and Smartie patents even though some licensees do not want the inferior Smartie technology, and the side agreement between Genius and Smartie that Smartie will not license its patent outside the package license agreement.

The Package License's Inclusion of the Smartie Patent

On the first issue, *Princo* sets forth several factors related to whether the agreement is procompetitive or anticompetitive that guides the determination of whether Genius's package license agreement amounts to misuse. For example, one

anticompetitive factor is whether Genius's licensees have to pay more because the license includes the Smartie patent or if instead, the price of the license agreement is fixed regardless of whether the Smartie patent is included. If the price of the license increases when it contains the Smartie patent, a finding of misuse is more probable, whereas if the price remains the same, misuse is less likely. Another anticompetitive factor is whether Genius's licensees are forced to practice the Smartie patented technology, even if they do not wish to. Based on the facts your client related, however, neither of these factors is present, and thus, under the *Princo* holding, the license agreement does not at first blush appear to be anticompetitive in nature.

Based on the *Princo* decision, an additional factor to investigate is whether Genius believed the Smartie patent was reasonably necessary to practice anti-aging intelligence cream manufacturing according to FDA standards. If even one of the claims in the allegedly unwanted Smartie patent is arguably necessary to meet the industry standard, the patent would be considered a so-called blocking patent. Under *Princo*, the licensing of blocking patents actually promotes competition by permitting all licensees to practice industry standard technology and by preventing overlapping patent litigation.¹⁵ Thus, if Genius believed the Smartie patent was necessary to practice the FDA standard, including the Smartie patent in the package agreement would more likely be considered procompetitive in nature.

The Horizontal Agreement to Restrict Licensing the Smartie Patent

The second issue is whether the "horizontal" agreement between Genius and Smartie to restrict licensing of the Smartie patent to the package license agreement amounts to misuse. Once again, *Princo* lays out several relevant factors to determining whether the restriction is anticompetitive in nature. For example, one consideration is how well the Smartie technology works. Because your client has indicated that the Smartie technology has unpredictable results, the technology would not likely be considered a viable alternative to the Genius patent, and therefore, its restriction would not be anticompetitive.

Another factor *Princo* considered in the analysis of this issue is the reason Genius and Smartie teamed up in the first place to research and develop the intelligence

cream technology. If Genius entered into the joint venture to share royalties with Smartie in exchange for Smartie's agreement not to compete against the Genius technology, the action would likely be seen as anticompetitive.

Finally, *Princo* made clear that the anticompetitive behavior must concern the patent that is the subject of the infringement action to be the basis for a misuse defense. Based on the *Princo* holding, because the alleged anticompetitive acts concern the Smartie patent, but your client would only assert that Beauty infringed the Genius patent, the misuse defense would have little chance of success.

Conclusion

The *Princo* decision continues the trend of narrowing the patent misuse doctrine. The Federal Circuit's holding that the alleged misuse must involve the specific patent at issue in the infringement litigation and not any of the other licensed patents is another clear statement that the doctrine applies in very limited circumstances.

Princo may still petition the Supreme Court to grant certiorari, however. If the Supreme Court does so, of course, you may

need to reconsider Genius's actions in light of the Court's subsequent ruling. In addition, Genius must also consider its actions in light of antitrust law, because actions that do not rise to the level of patent misuse may still constitute antitrust violations. ●

Timothy J. Barron is a partner at Jenner & Block, LLP, Chicago, Illinois. He may be reached at tbarron@jenner.com. Olivia T. Luk is an associate at Jenner & Block, LLP, Chicago, Illinois. She may be reached at oluk@jenner.com.

Endnotes

1. Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).
2. Zenith Radio Corp. v. Hazeltine Research Inc., 395 U.S.100, 136 (1969); see 6 *Chisum, Chisum on Patents*, § 19.04[3] at 19–451.
3. C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998).
4. Vir. Panel Corp. v. MAC Panel Co., 133 F. 3d 860 (Fed. Cir. 1997).
5. HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 3.2 (2d ed. 2010).
6. 35 U.S.C. § 271(d)(5); Ill. Tool Works

Inc. v. Indep. Ink, Inc., 547 U.S. 28, 46 (2006) (holding that in all cases involving tying arrangements, the plaintiff must prove that the defendant has market power in the tying product).

7. *Id.*

8. See IP AND ANTITRUST, at § 3.2e.

9. *Id.* (holding no patent misuse where a license did not force licensees to manufacture or practice the Sony patent and explaining patent misuse is found only if there is proof the patentee had market power and proof the license agreement's effect is to restrain competition in a relevant market.)

10. Princo Corp. v. Int'l Trade Comm'n, 563 F.3d 1301, 1306 (Fed. Cir. 2009).

11. *Id.* at 1315.

12. Princo Corp. v. Int'l Trade Comm'n, 2010 WL 3385953, at *10 ("Such an agreement would not have the effect of increasing the physical or temporal scope of the patent in suit, and it therefore would not fall within the rationale of the patent misuse doctrine as explicated by the Supreme Court and this court.")

13. *Id.* at *12.

14. *Id.*

15. See *Id.* at *3; see IP AND ANTITRUST, at § 3.3g.



Unfair Trade Practice Claims under State Law

Continued from page 1

of rights of publicity. State-law causes of action can be preferable, for example, if no federal trademark registration exists, or even exclusive, as in the case of trade secrets and rights of publicity. Additionally, in at least some states, these actions can carry criminal penalties.

Provided here is a brief explanation of state-law causes of action for trademark claims, trade secret misappropriation, and rights of publicity. Because the authors are located in Tennessee, that state is used as an example of typical laws in these areas. While the laws vary by state, most states recognize some, if not all, of these rights.

Trademark Claims

One of the most obvious state-law causes of action for intellectual property infringement activities is a state-law claim of trademark infringement. Tennessee's state laws regarding trademarks can be found at Tennessee Code Annotated 47-25-501 et seq. In Tennessee, a trademark or service mark used in the state to identify the source of goods and/or services may be registered with the Secretary of State. Contrary to federal allowances for intent-to-use applications, a state application must be filed based on the applicant's actual use of the mark in commerce within the state. Beyond that, the requirements for a mark to be registered mirror the federal requirements, including the requirement that the mark may not be merely descriptive. The state trademark office may ask for the applicant to identify and provide information regarding any U.S. Patent and Trademark Office (PTO) applications or registrations for the same or similar marks that the applicant has. Generally, state trademark application examinations are for basic filing requirements only. Because examination is minimal at the state level, it is rare to have a rejection of a state trademark application based on descriptiveness of the mark or conflicting registrations. Additionally, items that support proof of use can include business cards and letterhead, unlike in federal applications.

Although state trademark applications

are typically not published for opposition, registrations can be cancelled if a court of competent jurisdiction finds that the registration is faulty. As there is no state version of the Trademark Trial and Appeal Board, state courts handle that duty. In Tennessee, the courts of Davidson County, where the capital, Nashville, is located, have jurisdiction over issues of validity for a registration.

A state trademark infringement lawsuit looks similar to its federal counterpart. The issue is still likelihood of confusion of the average consumer, although it is limited to sales or offers for sale within the state. There is also a state law cause of action for dilution of a famous mark similar to the federal cause of action for dilution.

Damages may be recovered for infringement, including the total profits of the infringer or the actual damages of the mark owner related to the infringement. Multiples of damages may be awarded if the court finds the infringement was willful or in bad faith. Injunctions may also be granted to prevent future infringement, and the court may order that existing infringing articles be destroyed. However, in some states, including Tennessee, statutory damages are not available. Similarly, in some states, including Tennessee, attorney fees are not mandated by the state statute.

There are also common-law rights in unregistered marks based on their use in commerce in the state. Those rights are not diminished by the availability of a state registration, and owners of rights in common-law marks can pursue infringers for their acts of deception as well. For that reason, many attorneys will advise clients that, while federal registration is worth pursuing, as it affords protection nationwide and raises an assumption of the validity of the mark, state registration is typically unnecessary, as a common-law cause of action for infringement exists.

Theft of Trade Secret Claims

Trade secret claims are some of the few intellectual property claims that are purely state-law driven. Most states, the District of Columbia, and the U.S. Virgin Islands have adopted some form of the Uniform Trade Secrets Act (UTSA), making theft of trade secret claims more consistent. Only Massachusetts, New Jersey, New York, and Texas have not adopted the

UTSA, and of those, Massachusetts, New Jersey, and New York have introduced their own versions of the UTSA this year as bills in their state legislatures for potential adoption.

According to the UTSA, a trade secret is any information that derives value from its not being known and not being readily ascertainable by others who would derive economic value from their knowledge of it and which is subject to reasonable efforts to maintain its secrecy. Trade secrets can include secret technical information that could otherwise be patented, such as

Trade secrets can include secret technical information that could otherwise be patented, but can also include nontechnical information that may not be patentable.

source code and manufacturing methods, but can also include nontechnical information that may not be patentable, such as customer lists, not-yet-implemented marketing plans, and the oft-cited secret recipes for Coca Cola and KFC's fried chicken. Unlike most other forms of intellectual property, there is no method to record ownership of a trade secret, as the rights in the trade secret are obtained through its secrecy. Trade secret rights are easily obtained and just as easily lost. If a company has information that is in fact secret, but which it does not protect sufficiently, it can lose its trade secret status despite the fact that the secret is not out. Indeed, courts focus on how the secret is treated. Sloppy safeguards, easy access,

or too many people in the know can easily shred trade secret status.

Misappropriation of trade secrets is defined as one of four acts. First, it is misappropriation to acquire “a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.” In this case, “improper means” is defined as including “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.” This includes the classic examples of a corporate spy or breach of a nondisclosure agreement. Second, it is misappropriation to copy, destroy, or convey a trade secret without permission. An example is the disgruntled employee who copies his employer’s customer list the day before he quits to go work for a competitor, regardless of whether he has ever actually shared that copied information. Third, it is misappropriation to buy or otherwise acquire a trade secret you know has been stolen. Finally, misappropriation includes disclosing or using another’s trade secret without the owner’s permission by someone who improperly acquired it, received it from someone who improperly acquired it or who had a duty of confidentiality, or knew that the information was provided to him or her by mistake. This last category could include both disclosure to another by someone who stole a trade secret but also, importantly, disclosure or use of a trade secret by an attorney in litigation who received a trade secret in discovery that was not marked confidential but that the attorney knew was not intentionally disclosed to him or her.

Damages, injunctive relief, and attorney fees are all potentially available in a case for misappropriation of trade secrets. Damages calculations can take into account actual damages, unjust enrichment, and reasonable royalty calculations. Punitive damages are often available in egregious cases of willful or malicious misappropriation. Injunctions are available, unless it is too late to “un-ring the bell.” Depending on the acts constituting misappropriation, once the secret is out, the trade secret status can easily be lost simply because the information is no longer secret. If someone found out the Colonel’s secret recipe and published it, although a court could enjoin the offender from opening a restaurant or using it for a

period of time, he could not prevent others receiving the information innocently from using it in their restaurants or home kitchens. At least in Tennessee, attorney fees are only available for cases involving either bad-faith filing of accusations of trade secret misappropriation or for especially egregious cases of willful or malicious misappropriation.

Trade secrets can be as valuable as the strongest patent or most well recognized trademark, and may even comprise a company’s key asset. Very rarely can the full value of the secret be recovered in an action for misappropriation. Thus, it is important to counsel clients about the importance of protecting their trade secrets with vigor and constancy. A nondisclosure agreement, however well written, is only as good as the good faith of the parties signing it. It is far safer to strictly control access to key trade secret information than to rely upon nondisclosure agreements.

Rights of Publicity

Laws regarding rights of publicity, what they entail and how long they last vary greatly by state. For example, in some states, rights of publicity end with death. In other states, they extend for some period after death, and in some cases, they can even potentially extend indefinitely if they are continually exercised. In Tennessee, where Elvis’s right of publicity is still very real and existent, rights of publicity are covered by Tennessee Code Annotated section 47-25-1101 et seq. Generally, a right of publicity is the right to control the use of one’s own name, likeness, and image in any medium, in any manner. This right prevents companies from implying that an individual is associated with or promotes a product without his or her agreement. In Tennessee, the right of publicity is considered a property right that may be assigned, licensed, and inherited. Unauthorized use of the name or likeness of an individual for commercial purposes not only creates a civil cause of action, but also is a criminal offense in many states, including Tennessee.

If the violation of one’s right of publicity is found, a court can order all contraband materials destroyed. In addition, the individual may receive his actual damages or the actual profits of the violator’s activities involving the individual’s improperly misappropriated likeness. In Tennessee, an individual who is an active member of the

military may recover treble damages if his rights are violated while on active duty.

It is not a defense that the person whose likeness is used is part of a group of people. However, there are exceptions for cases deemed to be fair use. These cases include use on the news, in “public interest,” and in sports broadcasts. Newspapers, billboard owners, and the like are also not liable if they publish an advertisement at the direction of another and the advertisement is found to violate a person’s right of publicity.

Conclusion

State trademark laws, state causes of action for trade secret misappropriation, and state laws regarding rights of publicity, when understood, can add three tools to an intellectual property litigator’s arsenal. Many states have additional intellectual property-related unfair competition laws that are not covered here. Therefore, when researching potential causes of action for any individual case, it is advisable to look to that state’s laws to determine all of the options available. The full factual setting will evolve over the course of a lawsuit, often in surprising ways. That terrific federal claim can be dismissed, and in its place a state-law claim may suddenly make the case not only just as worthwhile, but maybe easier to prove. As such, an attorney should always consider filing appropriate state-law claims. When the jury conference is concluded and you have the final jury verdict form, you may be very glad you pleaded those state claims. ●

John Triggs is a partner at Wadley & Patterson, PC, Nashville, Tennessee. He can be reached at jft@iplawgroup.com. Cara Baer is an associate at Butler, Snow, O’Mara, Stevens & Cannada, PLLC, Memphis, Tennessee. She can be reached at cara.baer@butlersnow.com.



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