

Federal Circuit Court of Appeals Weighs In On Patent False Marking Statute In Solo Cup Decision

In *Pequignot v Solo Cup Company*, a decision appealed from the District Court for the Eastern District of Virginia, the Federal Circuit affirmed the lower court's decision concerning Solo Cup's improper marking of "unpatented articles." However, Solo Cup's lack of "intent to deceive the public" precluded liability, enabling the Federal Circuit to avoid revisiting the issue of "what constitutes an offense" for purposes of calculating damages. The false-marking statute provides for recovery of damages in the amount of \$500 for "every such offense" when an "unpatented article" is marked with the word "patent" or any other word or number importing the same meaning "for the purpose of deceiving the public." The distinction between a rebuttable and an irrebuttable presumption, for purposes of the intent-to-deceive element, in connection with the preponderance-of-the-evidence standard created an escape from liability in the present dispute. All manufacturers who have come under recent attack may not be as fortunate as Solo Cup as to have acted in good faith on advice of counsel in adopting and adhering to the product and pack-

aging marking policies that were called into question.

The record from the lower court established that Solo Cup continued to mark its product with expired patent numbers because wholesale replacement of manufacturing molds each time a patent expired would be costly and burdensome. On advice of patent counsel, Solo Cup adopted and adhered to a policy under which when manufacturing molds required replacement due to wear or damage, new molds would not include the expired patents. Because Solo Cup's manufacturing molds could last for many years, there was often a significant gap in time between when a patent expired and when a manufacturing mold was replaced. Solo Cup also, on advice of patent counsel, adopted and adhered to a policy of marking packaging with a statement "This product may be covered by one or more U.S. or foreign pending or issued patents. For details, contact www.solocup.com." Solo Cup advances two theories as to why these facts did not establish false marking

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New gTLDs: Version 4 of Draft Applicant Guidebook from ICANN

ICANN has recently released for public comment the Fourth Draft Applicant Guidebook for new gTLDs. As we have previously reported, the Guidebook covers the details of ICANN's plan for the expansion of gTLDs (generic top-level domains), introducing alternatives to the existing .COM, .ORG, .BIZ, and others in the form of .YOURBRAND. Comments on the latest draft are being accepted at icann.org through July 21, 2010. It is unknown how many additional versions, if any, of the Guidebook will be issued before a Final Version is released.

The latest Guidebook includes a number of changes and additions from the prior version. Of particular note to trademark

holders is the incorporation of specific trademark-protection mechanisms that include: the Uniform Rapid Suspension, the Trademark Clearinghouse, and the Post-Delegation Dispute Resolution Proposal. In addition to the trademark protections, the Guidebook includes background checks that can exclude applicants for "intellectual property violations," such as being found liable in a series of cybersquatting proceedings.

The Uniform Rapid Suspension System (URS) is a post-delegation dispute-resolution mechanism intended to more swiftly and less costly address the most obvious cases of trademark infringement

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Facebook's Ongoing Struggle with Privacy

When Facebook changed its default privacy settings in late 2009 and changed the way profile information was shared in April 2010, many privacy advocates alleged that the social networking site had run afoul of the FTC's rules for material changes to a privacy policy. While Facebook's actions are irksome, did they actually break any laws under U.S. privacy regulations?

In April 2010, Facebook altered the way profile information would be shared. If a user chose to not link certain profile information with the corresponding Facebook Page, portions of the profile were initially deleted, rather than allowing users to maintain "text" entries listing their likes, interests and biographical information. Privacy and consumer protection organizations subsequently filed a formal complaint with the FTC on May 5, 2010, alleging deceptive trade practices and violations under consumer protection laws. This recent complaint is in addition to an earlier complaint filed in December 2009 after changes in privacy settings. Both are led by the Electronic Privacy Information Center, or EPIC, and joined by a number of other organizations.

Privacy law is somewhat fractured under U.S. law, where there is no general statute governing the collection and sharing of data from users online. Privacy law in the U.S. is generally less restrictive than in other countries, including the European Union countries, and in many cases, applies only to specific facts involving minors or the obligations of financial institutions.

The recent complaints, however, have approached the violations under consumer protection laws governing unfair and deceptive trade practices. Under that theory, a material change to a privacy policy

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under the statute: (1) a product covered by an expired patent is not “unpatented” as required by the statute; and (2) the fact of patent expiration is insufficient to show an intent to deceive the public. The lower court dismissed Solo Cup’s motion to dismiss finding that both marking a product with an expired patent number and marking packaging with the “may be covered” language could constitute false marking. The lower court did grant Solo Cup’s motion for summary judgment, finding that Solo Cup lacked an intent to deceive by adopting its product and packaging marking policies. In its decision, the lower court held that false marking combined with knowledge of the falsity creates only a rebuttable presumption of intent to deceive and Solo Cup’s evidence satisfactorily rebutted this presumption. Despite having granted summary judgment finding no liability, the lower court also granted summary judgment finding that Solo Cup had committed at most three “offenses” for purposes of the patent-marking statute:

one offense when it continued to mark product with each of the two expired patents in question and one additional offense when it marked packaging with the “may be covered” statement.

On the issue of defining “unpatented” for purposes of the patent-marking statute, the Federal Circuit affirmed that products once covered by now-expired patents are “unpatented” within the meaning of the statute. While the Federal Circuit modified some of the lower court’s analysis, the outcome of what constitutes “unpatented” did not change. On the issue of “intent to deceive”, Pequinot argued at the lower court level that under Supreme Court precedent, intent had been proven if Solo Cup’s statements were false and Solo Cup knew they were false. Solo Cup responded that the inference from knowingly false statements is rebuttable with evidence of good faith, such as advice of counsel. The Federal Circuit agreed with Solo Cup’s position, finding that the bar for proving deceptive intent is particu-

larly high as the false-marking statute is a criminal one, despite being punishable with only a civil fine. A purpose of deceit, rather than simple knowledge of falsity is required to satisfy this element of the statute. Such a purpose of deceit must be shown by a preponderance of the evidence. As established in the lower court record, “Solo [Cup] acted not for the purpose of deceiving the public, but in good faith reliance on advice of counsel and out of a desire to reduce costs and business disruption.” The Federal Circuit agreed that Pequinot provided no credible contrary evidence. Because the Federal Circuit affirmed the lower court’s finding of no liability for the lack of intent to deceive, the “for every such offense” element of the patent-marking statute was not examined on appeal.

This decision should begin to slow the tide of false-marking cases brought by plaintiff who has no real interest in the outcome of the dispute beyond the monetary award available under the statute.

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can constitute an unfair and deceptive trade practice when done without the user’s consent. The complaints allege that changes implemented by Facebook without users’ consent “violate user expectations, diminish user privacy, and contradict Facebook’s own representations.”

There is no doubt that the increasing concern has also brought the issue of privacy to the forefront for lawmakers as well. In April, New York Senator Chuck Schumer proposed to the FTC that it use its authority to examine Facebook’s practices or appoint a privacy commissioner, and joined with other Democrat Senators in a letter to the Facebook CEO, imploring that the company make its privacy practices more transparent. More recently, the House Judiciary Committee has asked that Facebook cooperate with its inquiries into Facebook’s privacy practices. As a

result, the recent controversy has the potential to significantly affect the landscape of privacy law in the United States in the future.

A decision from the FTC may not come any time soon, but the recent May complaint also comes on the heels of a security breach that enabled users to view others’ private chats, and allowed users’ private data to be sent to advertisers by mistake. In response to the growing concern that Facebook defaults to revealing private information rather than protecting it, Facebook recently revealed a simplified method for users to control their privacy settings, in which users are provided with three basic options—to share certain information with anyone, with “friends of friends”, or with the user’s friends only. Facebook’s default “recommended” settings share some information, like user’s name, gender and profile

photo with anyone; make user’s photos accessible to “friends of friends;” and restrict access to user’s contact information to “friends only.” Criticism continues over the amended approach, reiterating that the “recommended” option should always be the most stringent settings, however Facebook asserted that the site’s primary focus is establishing and facilitating “connections” and has maintained that Facebook is devoted to protecting users’ privacy. It remains to be seen whether the FTC complaints will be found to have merit, or whether these recent changes will be enough to satisfy users and keep Facebook a leader in social networking.

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or cybersquatting in domain names. While it is similar to a UDRP, the burden of proof is intentionally higher than in the UDRP, and shall be by clear and convincing evidence. The Examiner must also find that there is no genuine contestable issue. Rather than resulting in the transfer of the domain name as in a UDRP decision, a favorable URS decision would result in the domain name being suspended for the balance of the registration period, without resolving to the original web site. The nameservers would be redirected to an informational web page provided by the URS Provider about the URS. Penalties for abuse of the process by trademark holders are also provided.

The Trademark Clearinghouse (TM Clearinghouse) is intended to make verification of rights easier via a centralized database. The Guidebook makes clear however, that inclusion of a mark in the database is not proof of any right, nor does it cre-

ate legal rights. Likewise, failure to submit trademarks to the TM Clearinghouse should not be perceived to be lack of vigilance by a trademark holder or a waiver of any rights. The proposed standards for inclusion in the Clearinghouse database are for nationally or multi-nationally registered "text" trademarks from all jurisdictions, including countries where there is no substantive review. Additional text marks to be included are those that have been validated through a court of law or other judicial proceeding, or those protected by a statute or treaty currently in effect and that was in effect on or before June 26, 2008. No common-law rights will be included in the TM Clearinghouse database, except for court-validated common-law marks.

The Post-Delegation Dispute Resolution Procedures (PDDRP) provide an administrative proceeding for a trademark holder to claim that one or more of its marks have been infringed by the regis-

try operator's manner of operation or use of the gTLD. The "registry" is the company/organization/party that has the rights to and operates the master database of the domain names in a particular gTLD. However, before proceeding to the merits of a dispute against a registry operator, a one-person Panel will perform an initial "threshold" review. Similarly to the URS, the burden of proof is by clear and convincing evidence. The PDDRP potentially applies to infringements by the registry operator in both the top-level gTLDs and second-level domain names. While not necessary or required, a hearing lasting no longer than one day may be requested by a party or determined to be necessary by the Expert Panel.

While the above highlights the proposed trademark-protection mechanisms, the full Guidebook can be found at icann.org, where interested parties should voice their comments and request potential changes.

Business-Method Patents—Down but Not Dead

In a fractured decision, the Supreme Court's *Bilski* opinion (June 28, 2010) has ruled that patent law is available to secure the exclusive ownership of certain business methods. The Court failed to provide any clear rules for distinguishing between viable business methods for patent protection purposes and unprotectable abstract ideas.

The Court's opinion was directed to whether patents should be available for methods of doing business. In light of the negative press which patent law has experienced in recent years (some, but not all, of which was with merit), including the issue of business-method patents, it is surprising that the opinion was not more limiting in nature. It would not have been a complete surprise if the Court held that no business method is patentable. That was not the case. The patent statute continues to provide that any new process (and method) may be patentable. The majority opinion declined to read a business-method exception into the patent statute. However, in contrast, Justice Stevens's concurring opinion advocates that all business methods should be carved out from the patent statute.

The majority opinion holds that the Federal Circuit's test of whether a method or process is patentable (i.e., the machine-transformation test) is not the sole test. The majority opinion and concurring opinion lead us to believe the test is still viable, although it is not the sole test. The Federal Circuit's machine-transformation test holds that a process or method must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing to be eligible for patenting. Under the machine-transformation test, most if not all pure business methods or processes would not be patentable.

Further, the majority opinion interprets the scope of the patent statute broadly or literally, holding that the term "method" may include at least some methods of doing business. Yet, we are also warned that some business-method patents raise special problems in terms of vagueness and suspect validity.

Notwithstanding, the petitioners seeking pat-

ent protection for a pure business method did not prevail on the issue of patentability. *Bilski* claims a procedure for instructing buyers and sellers how to protect against the risk of price fluctuations in a discrete section of the economy. While the opinion suggests that additional or other tests are required to be formulated by the lower courts to decide whether a process or method is patentable, the Court relied on its earlier decisions to find the petitioners' business method was not patentable. Further, while the Court advocated against reading into the patent statute exceptions as to patentable processes, the Court relied on a previously created exception. In particular, the Court held *Bilski*'s claims related to abstract ideas and thus were not patentable.

Specifically, the Court acknowledged that its precedents provide three specific exceptions to the patent statute's broad patent-eligibility principles: "laws of nature, physical phenomena, and abstract ideas." The Court justified these exceptions as consistent with the notion that a patentable process must be "new and useful" and further that these exceptions have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years. Otherwise, the Court was unaware of any other "exceptions" carved out from the patent statute without appropriate basis for doing so. Again, Justice Stevens's concurring opinion advocated excluding all business methods as not patentable.

The majority opinion repeatedly affirmed the Court's earlier *Benson*, *Flook*, and *Diehr* decisions. The Court's 1972 *Benson* decision considered whether a patent application for an algorithm to convert binary-coded decimal numerals into pure binary code was a "process" under the patent statute. The Court held it was not a "process" but an unpatentable abstract idea. A contrary holding would wholly preempt the mathematical formula and in practical effect would allow a patent on the algorithm itself.

The Court's 1978 *Flook* decision was directed to a procedure for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industries. The

Court held the process unpatentable as the only innovation was reliance on a mathematical algorithm and that the limitation to a particular field (petrochemical and oil-refining) did not rescue the process from being unpatentable. Thus, the proposition that abstract ideas are not rendered patentable with the addition of insignificant post-solution activity.

The Court's 1981 *Diehr* decision was directed to an unknown method for molding raw, uncured synthetic rubber into cured precision products using a mathematical formula to complete some of its several steps by way of a computer. *Diehr* explained that while an abstract idea, law of nature, or mathematical formula could not be patented, an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.

So what does it all mean? Reading the tea leaves, it would appear that a business method may be patentable if it is somewhere between a pure business method and one tied to a machine or which transforms a particular article.

As to computer software programs, the opinion arguably advocates patent protection once again. Yet, it is not an unbridled position. In particular, the opinion refers to the *Diehr* decision repeatedly, noting that the majority opinion in that case held that a procedure for molding rubber that included a computer program is within patentable subject matter. Further, the *Bilski* Court noted that relying solely on the machine-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.

All in all, the opinion advocates patent protection yet roughs out some vague guidelines in which to operate, and affirms the Court's earlier decisions as to guiding the lower courts. Thus, business methods remain potentially patentable, but subject to further and possibly uncertain scrutiny as lower courts attempt to interpret and implement *Bilski*.