THARPE & HOWELL

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CLIENT ALERT!
PRODUCT MANUFACTURERS BEING HIT WITH FALSE PATENT MARKING CLAIMS

Companies handling or insuring patented products should be aware of what appears to be a new trend. Certain law firms and professional plaintiffs have filed a number of private attorney general lawsuits against product manufacturers claiming the manufacturers misrepresent the patent status of certain products. Specifically, that the products are being marketed as covered by a patent, when in fact they were not.

These suits are related to the December 28, 2009 decision by the United States Court of Appeals in *Forest Group, Inc. v. Bon Tool Company*. In *Forest Group*, the court held that the false patent marking statute, 35 U.S.C. § 292, **requires** courts to assess false marking penalties on **a per "article"** basis rather than a per "event" basis. Under the *Forest Group* decision, damages of up to $500 may be assessed **for every article sold** during the five year statute of limitations period. *Forest Group's* holding turned on the court's interpretation of the phrase in 35 U.S.C. 292(a) which holds... "shall be fined not more than $500 for every such offense."

In these cases, the standing of the plaintiffs arise as a *qui tam* act that allows individuals to sue on behalf of the government for false marking violations, and then recover half of any fines assessed. This appears to be leading to a "bounty hunter" approach by certain law firms and individuals looking for companies that are marking products with expired patents, or where no patents were ever obtained. Liability under Section 292 is relatively easy to establish by showing (1) the product is not covered by a patent, and (2) an intent to deceive the public. In this regard, the courts have eased plaintiff's burden of proving deceptive intent by allowing a presumption of intent where the patent owner had actual knowledge that its marking was false. The burden thus shifts to the defendant to prove it did not intend to deceive the public, but acted reasonably given the situation. In a June, 2010 Federal Court decision, *Pequignot v. Solo Cup Company,* Solo obtained summary judgment of no liability under Section 292 even though it admitted that it had knowingly allowed its products to be marked with an expired patent number. The court found that Solo overcame a rebuttable presumption of deceptive intent by offering evidence that the continued marking of its products was based on "advice of counsel" and the high replacement costs and business disruption associated with replacing the dies.

Recommendations for avoiding these suits, or prevailing in them, include the following: First, the products manufacturer should adopt policies and procedures to determine the *current status* of patent coverage for any products marked as patented. Second, it should create a reasonable procedure, including the use of advice of counsel, for the sale-through of any products that are marked when a patent expires, and avoid any new orders of marked products. Lastly, the manufacturer should consider whether patents that *are* issued will withstand an attack to invalidate them.

For more information on this issue, please contact attorney Robert Freedman of Tharpe & Howell's Sherman Oaks, California, office at (818) 205-9955.

CONSTRUCTIVE NOTICE MAY BE ADEQUATE FOR EQUITABLE CONTRIBUTION CLAIM

In *OneBeacon America Insurance Company v. Fireman's Fund Insurance*, OneBeacon America ("OneBeacon"), Fireman's Fund ("FFIC), and Insurance Company of the West ("ICW"), were all primary insurers on liability policies of insurance issued to common insureds. In 1998, the insureds were sued for alleged contamination of real property. In 1999, OneBeacon agreed to defend the insureds. Although they had no documents evidencing policies issued by FFIC and ICW, the insureds contacted these carriers as well - because they believed policies *may have been issued* by them during the time period in question. In their communications, the insureds asked that FFIC and ICW attempt to locate any such policies on their behalf. Eventually, both FFIC and ICW denied coverage on the grounds that they had not issued any such policies to the insureds.

In 2002, the insureds obtained information about the "missing" ICW and FFIC policies through their insurance agents. Then, both ICW and FFIC found the policies and agreed to defend the insureds under a reservation of rights. Although OneBeacon demanded that ICW and FFIC contribute toward the costs expended in the common insureds' defense **since 1999**, they refused.

OneBeacon filed a declaratory relief action against FFIC and ICW, alleging they had received notice and/or tender of the subject lawsuit **in 1999**, and therefore were required to share in the defense costs **from that time**. However, the Trial Court ruled that, at as a result of the deficiencies in the insureds' tender and other communications, OneBeacon was **not** entitled to contribution before 2002. OneBeacon appealed.

The California Court of Appeal reversed the Trial Court's ruling opining that, under California law, tenders can be accomplished through **constructive notice** (without an actual tender letter) in cases where diligent inquiry by the insurer would have revealed the potential exposure. Accordingly, since ICW and FFIC had received constructive notice of the lawsuit in 1999, and diligent inquiry would have revealed the policies they had issued to the common insureds, they were obligated to contribute to the defense from 1999 forward.

Insured May Be Entitled To Costs Incurred In Responding To Regulatory Subpoena

In *MBIA, Inc. v. Federal Insurance Company*, the United States District Court for the Southern District of New York has held that, depending on the contract provisions contained within a D&O policy of insurance, an insured may be entitled to reimbursement for costs incurred in responding to a regulatory subpoena.

In this case, MBIA purchased a primary policy from Federal and an excess policy from ACE. The Federal policy provided a $15 million aggregate liability limit, inclusive of defense costs, for all claims and Securities Claims.

The Federal policy defined a "Securities Claim" as "a formal or informal administrative or regulatory proceeding or inquiry commenced by the filing of a notice of charges, formal or informal investigative order or similar document" that arises from the purchase or sale of securities. ACE's policy provided for $15 million in excess coverage, with some coverage overlap.

In March of 2001, the SEC issued an order and subpoena against MBIA seeking information about its loss mitigation products. The SEC later issued additional subpoenas pursuant to that order, and the New York Attorney General issued subpoenas for various other documents. Both regulatory investigations subsequently expanded.

Over four years later, in October of 2005, MBIA executed Offers of Settlement in which it agreed to retain and pay an Independent Consultant to conduct a comprehensive review of various business practices. The total amount paid by MBIA in defending and responding to the regulatory investigations (and derivative lawsuits) was several million dollars.

MBIA filed an action for declaratory relief against Federal and ACE, seeking a determination of coverage for the regulatory investigations, derivative actions, and amounts paid for the Independent Consultant's work. In large part, the Court ruled in favor of MBIA, indicating that the broad language of the policies allowed the **subpoenas** to constitute a **claim** as a "formal or informal investigative order."

Employment Practices Liability Policy Rescinded For Failure To Disclose

In *Carolina Casualty Company v. RDD, Inc.*, the United States District Court for the Northern District of California has determined that an insurer can rescind an employment practices liability policy based on a failure of the insured to disclose information on the insurance application.

On April 28, 2008, an owner of a restaurant received a resignation letter from a waitress which indicated she was immediately quitting her job because of continual sexual harassment.

The next day, on April 29, 2008, the restaurant owner contacted his insurance broker to obtain an employment practices liability policy of insurance. The broker completed the insurance application on the restaurant's behalf and noted that, during the past five years, no employee had made any harassment allegation or claim. The application contained a notice advising that if certain key officers of the entity proposed for coverage knew, as of the policy inception date, that the statements in the application were untrue, inaccurate or incomplete, the policy would be void. The broker then submitted the application to the carrier [with the information about the waitress' allegations omitted].

The next day, on April 30, 2008, the broker sent an e-mail to the insurer advising that a previous employee of the restaurant had hired legal counsel - but that the details where unknown. After some back and forth on the quote for the policy, the president of the restaurant signed the insurance application the next day. The policy was subsequently issued on July 15, 2008 for the period of May 5, 2008 through May 5, 2009.

Shortly before the policy was issued, the employee filed suit. The restaurant tendered the action to the carrier, which subsequently paid $50,000 in settlement of the waitress' claim. Meanwhile, the insurer had learned of her previous letter of resignation which alleged sexual harassment, and filed an action to rescind.

In response to the rescission complaint, the restaurant argued it was not on notice of a "claim" until it received a right to sue letter from the Labor Department on March 28, 2008. The court rejected this argument, however, noting that the application specifically asked whether any **allegation** of harassment had been made. The restaurant also argued the insurer waived its right to rescind when it did not investigate the responses on the application - in light of the e-mail which had been sent by the agent advising that a previous employee had retained legal counsel. The court however found the subject e-mail was "devoid of any meaningful detail to put [the insurer] on notice to investigate [the insured's] application further" because it did not identify the former employee or indicate a possible reason for legal retention. The court also noted that the e-mail contained false information when it stated no details about the situation were known.

In the end, the Court ruled against the restaurant and in favor of the insurer, and held that the insurer was entitled to rescind the policy and recover from the restaurant all amounts it had paid in relation to the waitress' claim.

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