

## False Press Release by Patent Infringement Defendants Nets District Court Sanctions

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The United States District Court for the Eastern District of Virginia recently issued significant sanctions against three defendants to a patent infringement suit. The case, *American Science and Engineering, Inc. v. Autoclear, LLC*, No. 2:07-CV-415 (E.D. Va. 2007), was filed on September 13, 2007 and involves claims that the Defendants, Autoclear, LLC, Control Screening, LLC, and Scan-Tech Security, L.P. (apparently related companies) infringed certain patents owned by Plaintiff American Science and Engineering, Inc. (“AS&E”). The trouble, which ultimately resulted in the Court’s issuance of a \$194,896.91 sanction award, began early on when the Defendants failed to appear and answer, and culminated with the issuance of a press release by Defendants containing false and misleading statements about the litigation and actions taken by the United States Patent and Trademark Office (“USPTO”).

The Clerk of Court filed an Entry of the Default on October 26, 2007 after the Defendants, who had been served on October 3, 2007, failed to file an Answer. AS&E moved for default judgment on November 9, 2007 and on November 19, 2007, the Defendants appeared and filed a Motion to Set Aside Entry of Default. The Defendants argued that: (1) Autoclear and its principal, Todd Conway, were unsophisticated and had never before hired out-of-state litigation counsel; (2) Autoclear had difficulty obtaining defense counsel; and (3) Defendants were confused and mistaken regarding the date their answer was due. The Court conducted a hearing on the Motion to Set Aside Entry of Default on May 1, 2008, at which it determined that Mr. Conway had engaged in a “reckless disregard of the facts” since he was an attorney,

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Autoclear had been involved in patent litigation before, and Mr. Conway had, in fact, retained litigation counsel before submitting their Motion stating otherwise. Nevertheless, the Court set aside the Entry of Default Judgment on May 1, 2008. After learning that certain factual statements made by Defendants in connection with the Motion to Set Aside Entry of Default were untrue, AS&E filed a motion seeking sanctions.

Thereafter, on November 16, 2008, the Defendants compounded their error by issuing a press release on Business Wire entitled: *Control Screening and Autoclear Announce District Court Patent Ruling and USPTO Action Against American Science and Engineering, Inc. (AS&E)*. The press release, among other things, stated that the Court had rejected AS&E's "motions for summary relief" and "denied AS&E's motion for injunctive relief and other relief." The press release went on to state that "[i]n a related matter, the U.S. Patent and Trademark Office (USPTO) has formally rejected all claims of AS&E's core backscatter x-ray patent alleged by AS E [sic] to be applicable, and will rigorously reexamine them, and may not ever reinstate any, or part of any claims." After attempting, unsuccessfully, to get Defendants to issue a retraction, AS&E filed an emergency motion requesting that Defendants be sanctioned and ordered to cause the removal of the press release from Business Wire and issue a corrected press release.

The Court issued a Memorandum Opinion and Order on December 16, 2008 granting both of AS&E's pending motions for sanctions. The Court found that, although the press release mentioned "summary relief" being denied rather than "summary judgment," the press release improperly suggested that the Court had denied summary judgment for AS&E or otherwise ruled on the merits of the case. The Court found this to be exceptionally inflammatory in light of the fact that AS&E had not even filed a motion for summary judgment and since the Court had made no determination on the merits of the case. The Court also found that Defendants' statements regarding the USPTO actions were false, and that while the USPTO had agreed to reexamine AS&E's claims, it had not, as stated in the press release, "formally rejected all claims," "struck

AS&E's core...claims as unallowable," "suspended" AS&E's patent or "advised" Defendants of those actions.

The Court ordered Defendants to cause Business Wire to remove the press release within 24 hours, issue a corrected press release, as drafted by AS&E, on Business Wire and to any third parties who disseminated the November 16th press release, and to pay AS&E's fees and costs incurred in connection with the sanctions motions, filing AS&E's Motion for Default Judgment, and opposing Defendants' Motion to Set Aside Entry of Default. The Court also struck assorted affirmative defenses asserted by Defendants. On February 17, 2009, after reviewing AS&E's statement of fees and costs, the Court ordered Defendants to pay a total of \$194,896.91 in sanctions for their actions, including the false press release.

While the Court did not make any new or groundbreaking law in ordering these sanctions, it sent out a chilling reminder that litigants can be ordered to pay significant sanctions for their actions both inside and outside of the courtroom. While the First Amendment protects speech, the breadth of First Amendment protections have limits as the Court found here, the breach of which can be costly, especially when the breaching party is in the midst of litigation. Parties should be cautious when issuing press releases regarding the status of pending litigation, particularly in the case of public companies, and if they do so, they should be certain that such publicity does not contain false, or misleading, information.