

False Patent Marking Tsunami: What In-House Counsel Should Do Now
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“He who sues on behalf of the King as well as for himself”² - the apparent calling card of *qui tam* plaintiffs filing actions against U.S. patent owners alleged to be falsely marking their products. Many corporate general counsel may feel as if a “king’s ransom” is being asked by these *qui tam* plaintiffs, private attorneys general authorized by Congress to act on behalf of the U.S. Government to enforce the false marking statute, 35 U.S.C. §292.³

The U.S. patent laws encourage patent owners to give notice of their patent rights by marking products covered by their patents.⁴ “Congress intended the public to rely on the marking as ‘a ready means of discerning the status of intellectual property embodied in an article of manufacture or design.’”⁵ To protect the public from intentionally deceptive patent marking practices, a false marking statute has been in the patent law for over 150 years.⁶

The false marking statute in its current form makes it a criminal offense to “mark[] upon or affix[] to . . . any unpatented article, the word ‘patent’ or any word or number importing that the same is patented for the purpose of deceiving the public” and assesses a penalty of “no more than \$500 for every such offense.”⁷ Hence, a violation occurs where the patent owner (1) mismarks or falsely marks an article and (2) does so with intent to deceive the public. A false marking claim can be brought as a *qui tam* action, meaning that a private individual or business entity can investigate false marking offenses, bring suit against the alleged offenders on behalf of the U.S. Government, and share the financial recovery with the Government.⁸ Consequently, according to the Federal Circuit, *qui tam* false marking actions exist to vindicate the public interest in having free and fair competition in the market.⁹ Further, the U.S. Department of Justice has publicly stated that false marking suits can be beneficial to consumers to provide accurate patent information about consumer products.¹⁰

With its December 29, 2009 decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), the Federal Circuit unleashed a veritable tsunami of false marking lawsuits brought by *qui tam* plaintiffs, with no real interest, other than in securing windfall amounts for themselves.¹¹ In 2010 alone, more than 630 false marking lawsuits were filed – targeting over 900 manufacturers and sellers of mass-produced products marked with expired patent numbers – an easily detectable fault which in the case of products sold in large quantities can yield sizable monetary penalties.

In *Pequignot v. Solo Cup*, 608 F.3d 1356 (Fed. Cir. 2010), for example, Pequignot accused Solo Cup of falsely marking over 21 billion plastic drink cup lids with expired patent numbers, and sought an award of \$500 per article. One-half of that amount, i.e., approximately \$5.4 trillion, would have gone to the U.S. government – a sum the Federal Circuit remarked would have been sufficient to pay back 42% of the country’s total national debt - a “king’s ransom” indeed.¹²

Before *Bon Tool*, fewer than ten false marking suits had been filed in the United States in any calendar year. The reason is simple – the majority of courts had held that “every such offense” meant “each decision” to mark and had awarded damages based on a patentee’s decision to mark multiple articles rather than on a per article basis. With an expected maximum recovery of \$500, one-half of which would be shared with the government, there was little economic incentive for *qui tam* plaintiffs to bring suit. That all dramatically changed with the Federal Circuit’s ruling in *Bon Tool*. Rejecting the “per decision” interpretation and recognizing that “[p]enalizing false marking on a per decision basis would not provide sufficient financial motivation for plaintiffs who would share in the penalty to bring suit,” the Federal Circuit concluded that “the plain language of 35 U.S.C. §292 requires courts to impose penalties for

false marking on a per article basis.”¹³ With that ruling, the seemingly toothless false marking statute was instantly transformed into a powerful tool and *qui tam* plaintiffs were given a commanding economic incentive to pursue false marking suits.

The Federal Circuit cautioned that a district court need not fine those guilty of false marking \$500 per article marked; however, the Federal Circuit provided virtually no guidance to the district courts in setting the amount of the false marking penalty. Instead, the Federal Circuit merely opined that the district courts have discretion to order a penalty anywhere from \$500 to “a fraction of a penny per article:”¹⁴

This does not mean that a court must fine those guilty of false marking \$500 per article marked. The statute provides a fine of “*not more than* \$500 for every such offense.” By allowing a range of penalties, the statute provides district courts the discretion 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. In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.

Bon Tool, 590 F.3d at 1304.

The defendant in *Bon Tool* argued that interpreting §292 to apply on a per article basis would encourage “a new cottage industry” of false marking litigation by plaintiffs who have not suffered any direct harm. The Federal Circuit conceded as much, “[t]his . . . is what the clear language of the statute allows.”¹⁵ And true to expectations, that is exactly what has happened in the year since *Bon Tool* was decided.

Since its ruling in *Bon Tool*, the Federal Circuit has handed down two major decisions interpreting the false marking statute in *Pequignot v. Solo Cup*, 608 F.3d 1356 (Fed. Cir. 2010) and *Stauffer v. Brooks Brothers, Inc.*, 619 F. 3d 1321 (Fed. Cir. 2010). Pending on appeal are least two other cases involving false marking claims, *In re BP Lubricants USA Inc.*, Appeal No.

2010-M960 (involving a petition for writ of mandamus) and *FLFMC, LLC v. Wham-O, Inc.*, Appeal No. 2011-1067.

Solo Cup

At issue in *Solo Cup* was whether a product marked with an expired patent number is a “unpatented product” within the meaning of 35 U.S.C. §292 and whether Solo Cup presented sufficient evidence to rebut the presumption that it intended to deceive the public by falsely marking products knowing that the products were falsely marked.¹⁶ The Federal Circuit held that a product marked with an expired patent number is an “unpatented product” within the scope of §292. With respect to the issue of intent, the Federal Circuit clarified in *Solo Cup* that the second prong of the §292 inquiry requires a heightened burden of proof that the patent owner falsely marked for the purpose of deceiving the public. “The bar for proving deceptive intent [] is particularly high, given that the false marking statute is a criminal one.”¹⁷ The court opined that the “mere knowledge [of the patent owner] that a marking is false is insufficient to prove intent” under §292.¹⁸ Thus even if the patent owner defendant knew the marking was false, the defendant can “prove that it did not consciously desire [] that the public be deceived.”¹⁹ Proof of a lack of intent is shown by “the preponderance of the evidence that [the patent owner] did not have the requisite purpose to deceive.”²⁰ Under this standard, the Federal Circuit concluded that Solo Cup lacked an intent to deceive where Solo Cup, relying on the advice of counsel in light of the substantial expense and production disruption involved in replacing cup molds, implemented a policy whereby the expired patent markings were removed when the cup molds were replaced due to wear or damage rather than when the patents expired.

Brooks Brothers

In *Brooks Brothers*, the defendant sought to dismiss the false marking suit on procedural grounds arguing that the *qui tam* plaintiff lacked standing to bring the suit because the plaintiff had not suffered any injury as a result of the alleged false marking. The Federal Circuit disagreed, holding that standing was satisfied because the government had standing to enforce its own law and that Stauffer, as the government's assignee, also had standing to enforce §292.²¹ With that ruling, the court removed a defense that many false marking defendants hoped would provide a quick and cost-effective way out of these lawsuits. But there is still hope for the false marking defendant. The Federal Circuit hinted that the false marking statute may violate the "take care" clause of Article II, §3 of the U.S. Constitution.²² Because the constitutionality issue was neither decided by the district court nor appealed by the parties, the Federal Circuit left that issue open for another day, *Brooks Brothers*, 619 F. 3d at 1327 – a day that may come sooner than later when the court decides the pending appeal in *FLFMC, LLC v. Wham-O*. The Federal Circuit also instructed the district court to consider on remand whether the complaint alleged an "intent to deceive" the public with sufficient specificity to meet the heightened pleading requirements for claims of fraud under Fed. R. Civ. P. 9,²³ which is an issue presented in *In re BP Lubricants*.

Congressional Actions

The surge in false marking cases prompted the Senate Judiciary Committee to propose an amendment to the current patent reform bill in March 2010 that would require *qui tam* plaintiffs to demonstrate that they had suffered a "competitive injury" as a result of the false marking. The amendment provides for the award of compensatory, rather than statutory, damages for false marking.²⁴ House bills introduced in March 2010²⁵ and September 2010²⁶ contain language

substantially similar to that of the Senate amendment. However, none of these bills was passed in the second session of the 111th Congress. On January 7, 2011 the “Patent Lawsuit Reform Act of 2011,” a bill “To amend title 35, United States Code, to modify the penalty for false marking, and for other purposes,” was introduced in Congress as H.R. 243. The bill is identical to H.R. 6352, the false marking bill introduced in the 111th Congress.

What to Do Now – Proactive Steps

In the meantime, absent a ruling that the false marking statute is unconstitutional, there is no indication that the “cottage industry” and “bounty hunting” spawned by *Bon Tool* will disappear soon. While patent reform legislation has stalled in the Congress, new false marking cases are being filed every week with no signs of slowing. Companies currently marking their products are thus well-advised to take proactive steps to minimize their exposure to false marking claims.

Review Patent Marking Programs and Consider Audits

As a first step, companies should review their patent marking programs and institute regular audits of their marked products and license agreements. Audits should be properly documented to show that the company acted in good faith and, therefore, lacked any intent to deceive the public. Further, audits should be designed to at least ensure (1) that a product is marked with a patent number only if the product is covered by at least one claim of the patent; (2) that patent markings are removed when the patent expires or is abandoned; and (3) that patent markings also are removed if the patent is found in litigation to be either invalid or unenforceable or if the claims are construed during litigation or in reexamination proceedings in such a way that the claims no longer cover the product on which the patent number is marked.

Determine Whether Products Should be Marked

Avoiding patent marking altogether, of course, is the surest way of preventing false marking claims. Taking that step, however, may severely limit or even eliminate a company's ability to obtain damages for patent infringement. This may be an alternative worth considering, especially if a company does not intend to enforce its patents or does not anticipate significant competition. Patent marking, however, is most likely the better course of action. There are at least three benefits to correctly marking a product with a patent number:

- Marking permits the recovery of damages for a period of time that pre-dates discovery of the infringing activity. Accordingly, a patent marking may permit a patent owner to recover a substantially larger damages amount than would otherwise be available.
- Marking may have a deterrent effect in causing competitors or would-be competitors to tread lightly or at least "think twice" before copying a particular product or offering a competitive alternative.
- In some circumstances and industries, marking may provide a competitive advantage in the market by lending an air of uniqueness, exclusivity, and/or quality to the patented article.

However, a decision whether to mark necessarily depends on whether these benefits are sufficient to justify continued marking or whether the benefits instead are outweighed by the practical difficulties involved in patent marking, including the costs of marking.

Patent marking is *only* effective, and past damages may *only* be collected, if the patent owner can show that it placed the patent number(s) on *substantially all* of its patented articles being distributed and that once marking was begun, the marking was *substantially consistent and continuous*. It also is essential, in order to avoid liability for false marking, to ensure that products are not marked with patents that do not cover the product or with expired patent numbers. Therefore, in deciding whether to mark, a key consideration is the costs associated with determining which products are actually covered by a particular patent and further with

ensuring that *substantially all* of those products (and only those products) are marked with the patent number and that the marking is discontinued after the patent expires.

The difference between being able to recover for past damages versus being limited to only prospective damages from the time a suit is filed or actual notice of infringement is provided to the infringer can be substantial and may be a determining factor in a company's decision whether to enforce a particular patent. On the other hand, that differential may be of lesser importance to the extent that a company becomes aware of potential infringing products within a relatively short time after the infringement begins so that an appropriate notice letter can be promptly forwarded to the alleged infringer. In that situation, the differential in damages (between the recoverable damages based on constructive notice, i.e., marking, and the recoverable damages based on actual notice) may be insufficient to justify the costs of marking and the attendant risks associated with mismarking.

Conclusion

The legal landscape with respect to the defenses to false marking claims will likely be carved out by the Federal Circuit in 2011. The new Congress may also take action in 2011 to remove the uncertainty and inconsistency of the application of the false marking statute. In the meantime, patent owners facing an inconsistent legal landscape with respect to false patent marking claims, can take proactive steps now to potentially eliminate or avoid liability. Corporate counsel would be well served to investigate whether there is potential liability for false marking. Based on the wave of false marking lawsuits in 2010, if proactive steps are not taken by patent owners, a private attorney general may easily sweep a company into court in the false marking surge.

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² BLACK'S LAW DICTIONARY 867 (6th ed. 1991).

³ The false marking statute provides in pertinent part:

(a)

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 that the same is patented for the purpose of deceiving the public

Shall be fined not more than \$500 for every such offense.

(b) 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.

35 U.S.C. §292 (2010).

⁴ See *Am. Med Sys., Inc. v. Medical Eng'g Corp.*, 6 F.3d 1523, 1534-38 (Fed. Cir. 1993) (discussing the history of patent marking statute 35 U.S.C §287(a)).

⁵ *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356 (Fed. Cir. 2005) (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989)).

⁶ In the Patent Act of 1870, the relevant language provides, in part -

– [I]f any person ... shall...mark upon or affix to any unpatented article ... 'patent,' or any word importing that the same is patented, for the purpose of deceiving the public, he shall be liable for such offense to a penalty of not less than one hundred dollars...

Patent Act of 1870, Ch. 230, 16 Stat. 108, §39.

⁷ 35 U.S.C. §292(a) (2010).

⁸ 35 U.S.C. §292(b) (2010).

⁹ See *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356 n. 6 (Fed. Cir. 2005) (discussing the public financial burden of determining whether the patents are valid and enforceable).

¹⁰ See, e.g., Dionne Searcey, "New Breed of Patent Claim Bedevils Product Makers," Wall Street Journal, (Sept. 1, 2010) <<http://online.wsj.com/article/SB10001424052748703467004575463843289453872.html>> ("We do think that these suits have directed industry attention to the need to adopt procedures to assure that patent markings are accurate and to remove the numbers of expired patents from products," says ... a Justice Department spokesman. "This should result in more accurate information on products and their packaging, which would be beneficial to consumers.").

¹¹ See *id.*

¹² *Solo Cup*, 608 F.3d at 1359 n. 1.

¹³ *Bon Tool*, 590 F.3d at 1304.

¹⁴ The district court in *Presidio Components, Inc. v. American Technical Ceramics Corp.*, 723 F.Supp. 2d 1284 (S. D. Cal. 2010) took that caution to heart and refused to award the \$500 statutory maximum for false marking. Instead, the court concluded that \$0.35 per article was the appropriate penalty for the 651,675 falsely marked BB capacitors, i.e., approximately 32% of Presidio's average sales price of \$1.07 per BB capacitor. The court reasoned that this amount in the future without over-penalizing Presidio by imposing "a disproportional liability for what appears to be an 'inexpensive mass-produced article.'" *Id.* at 1335.

¹⁵ *Bon Tool*, 590 F.3d at 1303.

¹⁶ A rebuttable presumption of intent to deceive the public arises from false marking coupled with knowledge of the falsity. See, *Solo Cup*, 608 F.3d at 1362-63.

¹⁷ *Solo Cup*, 608 F.3d at 1363.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Solo Cup*, 608 F.3d at 1364.

²¹ *Brooks Brothers*, 619 F. 3d at 1325.

²² Amicus Ciba Vision Corporation raised this issue in its amicus brief, arguing that Congress, in enacting the false marking statute, and specifically §292(b), stripped the executive branch of its duty to “take Care that the Laws be faithfully executed” by giving such power to the public. *See Brooks Brothers*, 619 F. 3d at 1327.

²³ *Brooks Brothers*, 619 F. 3d at 1328.

²⁴ S. 515, 111th Cong. (2010).

²⁵ H.R. 4954, 111th Cong. (2010).

²⁶ Patent Lawsuit Reform Act of 2010, H.R. 6352, 111th Cong. (2010).