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False Patent Marking: The Next Frontier for IP Litigation

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In February 2010, over 30 lawsuits were filed against companies in myriad industries—including computer, pharmaceuticals, consumer products, auto parts, and video games—alleging false patent marking under 35 U.S.C. section 292. Even before this recent surge, false marking lawsuits had been increasing over the last few years, as plaintiffs' lawyers have realized the many advantages of a false marking suit over a traditional patent infringement suit: for instance, there is no need to have a patent of one's own, anyone can sue, litigating the case often is easier and less expensive, and the potential damages are enormous.

However, defendants accused of false patent marking have many possible defenses. And, with a few easy steps, companies can avoid or reduce liability. Below, we pose and then answer six important false marking questions.

1. WHY MARK AT ALL?

The easiest way for a company to avoid false marking liability is not to mark its product with applicable patents at all, but there are significant downsides to this approach.¹ A patent marking on the product or associated packaging provides constructive notice to potential infringers. That permits a patentee to collect damages for infringement even if the infringer had no actual knowledge of the patent before the patentee filed an infringement suit. See 35 U.S.C. section 287(a). Marking also might convince customers that the product is unique and innovative, and might deter competitors or copycats. Therefore, **most companies mark their products.**

2. WHAT ARE THE KEY ELEMENTS OF A FALSE MARKING CLAIM?

35 U.S.C. section 292 prohibits the use of a patent mark (e.g., "Protected by U.S. Patent X,XXX, XXX") on an "unpatented article" with the intent to deceive. This prohibition covers a mark on the article itself, a mark on packaging for the article, or a use of the mark in advertising for the article. The prohibition therefore is quite broad.

Two elements of this statute typically are at issue in false marking cases. **First, what is an "unpatented article"?** Traditionally, "unpatented articles" were articles where the marked patent did not cover any aspect of the article. A relatively recent district court case, however, appears to have broadened that definition by holding that once a patent has expired, a product covered by that patent is an "unpatented article" under section 292(a). *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 653 (E.D. Va. 2008), *appeal pending*, No. 09-1547 (Fed. Cir.). If that decision is affirmed on appeal, a marking that states "This product is protected under U.S. Patent X," where X has expired, would violate section 292(a) if the requisite intent to deceive the public is proven. Most recent false marking cases have involved expired patents, since it is easy for any plaintiff to figure out when a patent has expired.

¹ Patent marking is not necessary for patents that cover processes or methods.

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Companies often mark their products with multiple patents, with each patent covering a different aspect of the product. The Federal Circuit has stated in dictum that to avoid a false marking claim, an article must be “covered by at least one claim of *each* patent with which the article is marked.” *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005) (emphasis added). Under *Clontech*, therefore, it is likely that false marking liability is possible—assuming the plaintiff demonstrates the necessary intent to deceive—even if only one patent (out of many) marked on the product has expired. *Accord Astec Am., Inc. v. Power-One, Inc.*, 2008 U.S. Dist. LEXIS 30365, at *31-32 (E.D. Tex. Apr. 11, 2008).

Second, what showing is required for “intent to deceive the public”? The Federal Circuit recently held that “[a] party asserting false marking must show by a preponderance of the evidence that the accused party did not have a reasonable belief that the articles were properly marked.” *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009). It is not enough for a defendant simply to say that it did not intend to deceive, if it also knew of the false marking. *Id.* On the other hand, markings of expired patents likely are not sufficient by themselves to demonstrate an intent to deceive. See *Arcadia Mach. & Tool, Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124, 1125 (Fed. Cir. 1986).

3. WHO CAN SUE FOR FALSE MARKING?

Many courts have held that a false marking plaintiff need not be directly injured by the false marking. These courts have held that: a) section 292 is a *qui tam* statute, where the private plaintiff is suing on behalf of the government; b) in *qui tam* cases, the government has standing because, among other things, it has a sovereign interest in having the law—such as section 292—followed; and c) because the private plaintiff is “stepping into the shoes” of the government, it, too, has standing. See, e.g., *Pequignot v. Solo Cup*, 640 F. Supp. 2d 714, 719-24 (E.D. Va. 2009). One district court decision, however, has held that non-competitor plaintiffs lacked standing to sue under section 292. See *Stauffer v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248, 254-55 (S.D.N.Y. 2009). *Stauffer* is on appeal to the Federal Circuit.

Under the majority position, virtually any private party can sue. That makes false marking suits fertile ground for plaintiffs’ lawyers, who just have to find someone—anyone—to be a plaintiff. The Federal Circuit in its recent *Forest Group* decision specifically recognized “the possible rise of ‘marking trolls’ who bring litigation purely for personal gain.” *Forest Group*, 590 F.3d at 1303 (internal quotation marks in original).

4. WHAT IS THE RISK TO A DEFENDANT OF A FALSE MARKING CLAIM?

The penalty for false marking is statutory damages of up to \$500 per “offense,” with the individual plaintiff keeping 50% of the award and the U.S. government receiving the other 50%. Since the offense can be defined as each mismarked article, damages under section 292 are potentially astronomical for a company that manufactures millions of items. In addition, a defendant found liable for false marking likely will have to change its product packaging, which can be costly.

In the past, courts sometimes would reduce damages by defining “offense” expansively (e.g., one “offense” for a week’s production of mismarked products or one “offense” for each decision to falsely mark a patent). However, less than two months ago, the Federal Circuit held in *Forest Group* that each mismarked article is an “offense,” and that these past attempts to reduce damages were based on incorrect readings of section 292. 590 F.3d at 1301-04. The court acknowledged that in theory, damages could be enormous under its holding, but emphasized that: a) the statute is

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written that way; and b) district courts have discretion to assess a small fine per offense: “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.” *Id.* at 1304. While this discretion to reduce damages is helpful to defendants, there is still a significant risk of massive liability.

5. WHAT ARE A DEFENDANT’S BEST DEFENSES TO LIABILITY?

Assuming that expired patents have been listed on an article, its packaging, or associated advertising, the primary defense to a false marking suit will be **lack of intent to deceive**.² Since direct intent to deceive will be difficult to find, a plaintiff will look hard for circumstantial evidence of such intent. Plaintiffs often will allege in their complaint that the defendant is a sophisticated company with an in-house legal department that knows about patents, and then supplement these allegations through discovery.

For defendants, telling a compelling story demonstrating lack of intent to deceive, and backing that story up with evidence, is critical to rebut the plaintiff’s story. One way to show lack of intent might be having a program where the company regularly reviews product packaging and advertising to make sure that expired patents are removed. Even if that program were not 100% effective, it would help show lack of intent to deceive. Other facts that might show lack of intent are good-faith reliance on advice of counsel and documents showing that expired patents were marked on products “out of a desire to reduce costs and business disruption.” See *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790, 798 (E.D. Va. 2009). All of these defenses might implicate a possible waiver of privilege, so defendants will have to tread carefully.

It might be possible to convince a court that the allegations supporting an inference of intent fail the particularity standard in Federal Rule of Civil Procedure 9(b) or the new plausibility standard the Supreme Court announced in *Twombly* and *Iqbal*. But because determining intent often requires discovery, summary judgment likely will be the best place to attack these charges. See *Pequignot*, 646 F. Supp. 2d at 798-800 (ruling at summary judgment that the defendant has no intent to deceive).

Another possible defense is to argue that **non-competitor plaintiffs lack standing**, citing the *Stauffer* case as support. The Federal Circuit will soon decide this issue. Of note, the U.S. government has stated in court papers that *Stauffer* was wrongly decided.

Some false marking defendants have asserted that the **entire false marking statute is unconstitutional** under Articles II and III of the U.S. Constitution because unlike other *qui tam* statutes (such as the False Claims Act), the executive branch has little or no control over the private litigant bringing a section 292 claim, as the Constitution supposedly requires. While the Federal Circuit has not ruled on the issue, multiple district courts have rejected this defense.

Finally, **one could challenge the 2008 Pequignot district court decision as wrongly decided**, and argue that the phrase “unpatented article” in section 292 does not include articles that once were patented but where the patent has

² If a plaintiff instead alleges that the marked patent does not actually cover the product, then another defense for the defendant is that the product is covered by one or more claims of the patent. That may require claim construction, as well as fact and expert discovery. Because that process is much more complicated and expensive, few recent false marking lawsuits have made this allegation.

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expired. (The defendant in *Pequignot* is making this argument in the Federal Circuit as an alternate ground to support the district court's judgment in its favor.)

6. WHAT STEPS CAN YOU TAKE TO AVOID FALSE MARKING LIABILITY IN THE FIRST PLACE?

Here are three simple tips to reduce the chance your company will be sued for false marking:

First, **review your marking practices.** A periodic review of your marks will ensure that you are not listing expired patents on your products. Even if somehow an expired patent "slips through" and you are accused of false patent marking, the fact you have tried in good faith to prevent that from happening will help establish lack of intent to deceive.

Second, **if you list multiple patents as part of your mark, make sure your product is covered by all patents listed.** This step flows from the *Clontech* decision, where, as mentioned above, the Federal Circuit stated (albeit in dictum) that to avoid a false marking claim, an article must be covered by at least one claim of *each* patent with which the article is marked.

Third, **make sure you have a documented, good-faith, non-privileged basis for listing each patent.** Documenting the basis for including the patent in your mark will be valuable evidence if you later have to show a lack of intent to deceive. You also will want to make sure, to the extent possible, that such evidence can be produced without any risk of broad attorney-client privilege waiver. If, for some reason, it is too expensive to remove expired patents from a mark, that fact, along with supporting evidence, should be documented because that, too, can negate intent. See *Pequignot*, 646 F. Supp. 2d at 798.

Bottom line: it is extremely easy to become a target for a false marking suit, but it also is relatively straight-forward to reduce your risk.

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