



***YOU'VE JUST BEEN SUED FOR TEN TRILLION DOLLARS:*
NEW CONCERNS AND BEST PRACTICES IN PATENT MARKING**

The Federal Circuit's recent decision in *Forest Group, Inc. v. Bon Tool Co.*¹ has invoked new interest in a rarely cited provision of patent law – the “false marking” statute embodied in 35 U.S.C. § 292. The *Forest Group* Court ruled that a statutory penalty of up to \$500 applies to each wrongly-marked article, thus creating the potential for large penalties for companies that mass produce articles incorrectly marked with a patent number or a patent pending representation. The prospect of significant recoveries, coupled with the statute's *qui tam* provision that arguably allows anyone to sue for the penalty, has resulted in an explosion of false patent marking lawsuits, with at least 118 lawsuits filed against over 100 companies over the last three months.² Adding to present concerns, the *Forest Group* ruling and other recent related decisions left many unanswered questions that present additional risk to those who mark their products.

The following article discusses the false marking statute and ways in which a company can reduce the threat of being sued while still accruing the various benefits of marking.

The False Marking Statute – 35 U.S.C. 292

It is a violation of federal patent law to use a false mark to intentionally deceive the public. Specifically, the false marking statute embodied in 35 U.S.C. § 292 states as follows:

(a) Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words "patent," "patentee," or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee; or 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 the same is patented, for the purpose of deceiving the public; or Whoever marks upon, or affixes to, or uses in

¹ *Forest Group, Inc. v. Bon Tool Co.*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009).

² False Marking Case Information, <http://www.grayonclaims.com/false-marking-case-information/> (Mar. 28, 2010).

advertising in connection with any article the words "patent applied for," "patent pending," or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, 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.

Qui Tam Provision of the False Marking Statute

Qui tam is the process whereby an individual sues in the name of the United States government and shares in the proceeds of any successful litigation or settlement. The false marking statute remains one of only a few remaining *qui tam* actions in American law. (The expression *Qui tam* is an abbreviation of a Latin phrase that translates as "he who prosecutes for himself as well as the King."³)

A party bringing suit under the false marking statute need not be an injured party. Instead, any party that can satisfy constitutional standing requirements may sue. Notably, the statute fails to address the problematic scenario of multiple plaintiffs seeking compensation from a same defendant for the same infraction. Though presented as a hypothetical question in a recent Federal Circuit case, the Court refused to address the question, stating in effect that those who believe the law is unwise may seek redress from Congress.⁴ Pleadings in certain pending cases suggest that this question will require a definite answer in the near future.

Half of any monetary recovery goes directly to the plaintiff and the other half goes to the United States Treasury.⁵ The statute makes no mention of attorneys' fees. Such fees may possibly be available to either party in exceptional cases under the general remedies provisions of 35 U.S.C. 285.

Unlike other *qui tam* actions, actions to enforce the false marking statute are subject to the general five-year statute of limitations found in 28 U.S.C. § 2462.⁶

Actions That Can Cause Liability Under the False Marking Statute

A violation of the false marking statute requires evidence of two separate elements. The defendant (1) must have marked an unpatented article (2) with an intent to deceive the public.⁷

³ Doyle, *Qui Tam: The False Claims Act and Related Federal Statutes*, Cong. Research Serv., Aug. 6, 2009.

⁴ *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, 723 (E.D. Va. 2009).

⁵ *Id.* at 722.

⁶ Doyle, *supra* note 3.

⁷ *Clontech Labs. Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005).

There are several different scenarios where a product may be considered “unpatented” under the false marking statute. The patent on the marked product may be expired,⁸ or the product may be marked “patent pending” prior to filing a patent application.⁹ Alternatively, the identified patent or patent application may no longer apply to the product. This can occur when patent claims are narrowed through prosecution, reexamination, or litigation.¹⁰

One common patent notice reads, “Covered by one or more of the following patents.” Though seemingly grammatically accurate when at least one of the listed patents does in fact apply to the marked product, the courts may in fact consider the marked product to be falsely marked when the product is not covered by at least one claim in each of the listed patents.¹¹

As noted above, false marking alone will not suffice; the marking party must also be shown to have marked the product with an intent to deceive. Determining whether a company’s conduct is culpable in these regards is a question of fact based on the specific circumstances of the particular case under consideration.¹² Intent to deceive will be inferred from proof “by a preponderance of the evidence that the party accused of false marking did not have reasonable belief that the articles were properly marked.”¹³ Thus, “the fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent.”¹⁴ For example, a party that learns that a patent no longer covers a marked product (due, for example, to a redesign of the product or through an interpretive study of the patent) yet still marks the product may be found to have demonstrated the necessary intent to deceive the public.¹⁵

On the other hand, “an intent to deceive the public will not be inferred if the facts show no more than that the erroneous patent marking was the result of mistake,”¹⁶ inadvertence, or innocent oversight. Given the subjective nature of “intent,” this is the most controversial and often litigated of the required elements of liability to date.

Dilemmas Created by the False Marking Act

Many Areas of the Law Remain Uncertain and May Present Additional Risk

⁸ *Pequignot*, 640 F. Supp. 2d. at 715.

⁹ *A.G. Design & Assocs., LLC v. Trainman Lantern Co.*, 2009 U.S. Dist. LEXIS 83200 (W.D. Wash. Jan. 23, 2009).

¹⁰ *Forest Group*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009).

¹¹ *Clontech*, 406 F.3d at 1352 (stating in dicta that “When the statute refers to an ‘unpatented article’ the statute means that the article in question is not covered by at least one claim of each patent with which the article is marked.”); *see also Pequignot*, 540 F. Supp. 2d. at 655.

¹² *Clontech*, 406 F.3d at 1353.

¹³ *Clontech*, 406 F. 3d at 1352-53.

¹⁴ *Id.*

¹⁵ *Forest Group*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009).

¹⁶ *Clontech*, 406 F. 3d at 1352-53.

The *Forest Group* ruling left many unanswered questions that present additional risk to those who mark their products. For example, although *Forest Group* made clear the Court's intention to apply a penalty per article, the Court did not provide any guidelines or framework for setting the amount of the penalty. A Federal District Court seemingly may order fines anywhere from \$500 per marked article to even "a fraction of a penny per article."¹⁷ The idea of possibly owing up to \$500 for ever falsely marked mass-produced product over a multi-year period of time is, without a doubt, daunting. This uncertainty may intimidate some defendants into unnecessary or inappropriate settlements.

Making inaccurate references to patents in product advertising can also lead to liability under the false marking statute. It is uncertain what effect *Forest Group* will have on penalties for false marking conducted solely in advertising. Will a court assess a penalty for each piece of advertising distributed (such as each copy of an advertisement in a given magazine run)? What happens if the advertisement is posted to a website? Will the website posting be considered a single offense or will each webpage viewing be considered a separate act of false marking? Traditionally (in other legal settings), a website posting has been considered a single publication. The Federal Circuit's new rule of applying false marking penalties *per article* rather than *per act*, arguably calls into question the Court's current practice of only penalizing parties per act of advertising.

Potential Use of False Marking Challenges as a Tactical Tool

The patent marking statute may intentionally be used as a tool for potential infringers in order to gain knowledge to inform their plans and behaviors. For example, Company A may be assessing a given patent with an eye towards developing a competing product. Such an assessment often rests on uncertain grounds – what does a particular word or phrase in a patent claim really mean, or how will a particular statement made during prosecution of that patent be interpreted?

If the owner of this patent marks this patent number on their product, Company A could conceivably bring a *qui tam* action alleging false marking. This action could be based upon a presentation of an interpretation of the claims that excludes the patentee's marked patent.

To defend against this assertion, the patentee may go on the record with their interpretation of many things of interest to Company A; the meaning of the words and phrases of one or more of the claims, for example, or the scope and impact of the prosecution record. These statements, in turn, may provide a more solid basis for Company A to determine whether their own product infringes and/or to guide a corresponding design-around activity.

Though obviously an unintended use of the false marking remedy, so long as the *qui tam* litigant presents an honest case and controversy, such an approach may provide a useful way to gain insight into the patentee's interpretation of their claims with considerably less risk than would ordinarily attach to such a courtroom-based challenge.

¹⁷ *Forest Group*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009).

Why Continue to Mark Products?

There are at least three basic benefits to correctly marking a product with a patent number. First, this can provide a basis for collecting damages from an infringing party for a period of time that pre-dates when the patentee discovers the infringing activity. Accordingly, patent marking can permit the patentee to recover damages in some cases where otherwise damages might be considerably lessened. (Note – this constructive notice benefit refers only to issued patents and not to notices regarding pending patent applications.)

Second, patent marking can cause some competitors and would-be competitors to tread carefully before copying a given product or offering a competing alternative. This can translate into delayed market entry, increased costs of design, and other benefits to the patentee. (Note – this behavioral benefit can result both with marked issued patents as well as pending patent notifications.)

And thirdly, patent marking sometimes serves a promotional purpose. In this case, the patent marking lends a marketable air of uniqueness, exclusivity, and/or quality.

Depending upon the circumstances of a given market, industry, and competitive landscape, patent marking can offer considerable benefits. For many patentees, these benefits are more than sufficient to justify persisting with the marking of their products.

How to Properly Mark Your Products

In order to comply with the patent marking statute (and in particular to gain the notice benefit described above), the word “patent” or the abbreviation “pat.”, together with the number of the patent, must be on the patented article.¹⁸ The marking must be legible, and is generally required to be directly on the patented item. “Patent No. 1,234,567” is therefore one example of proper marking. In addition, the marking must be “substantially consistent and continuous” in order to provide the desired constructive notice to the public.

When the article itself cannot be marked, then a label with the information must be affixed to the article or its packaging. Some courts have not accepted marking on packaging in the absence of a sufficient reason as to why the article itself was not marked.¹⁹ For example, courts have allowed patent owners to mark the packaging when the article is so small that on-product marking would be illegible. The courts may also accept on-packaging marking if on-product marking would aesthetically deface the article or render it unusable for its commercial purpose.

Courts will also consider whether the article has other markings on it, such as a trademark or the name of the manufacturer. When other such markings exist (and presuming that space permits), the courts may require the product itself to be similarly marked to comply

¹⁸ 35 U.S.C. §287.

¹⁹ *Rutherford v. Trim-Tex, Inc.*, 803 F. Supp. 158 (N.D. Ill. 1992).

with the statute. On the other hand, for articles with no external marking, courts have concluded that marking the label or packaging is sufficient when the costs associated with marking the product are commercially unreasonable.

To repeat an earlier caution, phrases like “Patent Pending,” “U.S. Patent Application No. 79/123,456,” or “U.S. Published Patent Application No. 79/123,456” at present have no determined constructive notice effect with regard to a claim of damages. Rather, such expressions only operate to inform the public that a patent application has been filed in the United States Patent and Trademark Office.

Steps to Limit Your Company’s Risk for a Patent Marking Lawsuit

To assure the benefits of proper patent marking while limiting the risk of being targeted with claims of false patent marking claims, companies should consider taking the following steps:

- Conduct an immediate review of all marked products in the marketplace and make corresponding corrections as needed. As a first order of business, ensure that expired patent numbers are removed and that representations regarding patent application pendency are removed when such is not, or is no longer, the case. As a second order of business, ensure that each patent listed has at least one claim that covers the marked product. As a third order of business, ensure that the patent notice is sufficient to meet the constructive notice requirements of the patent law.
- Establish systematic and periodic patent-marking audit procedures to add new patents, remove expired patents, and reconsider product coverage as patents are prosecuted, issued, litigated, reexamined, or otherwise studied and as product designs change. The appropriate frequency of such reviews can vary with such things as the size of the enterprise’s patent portfolio, the diversity of its product lines, the frequency of product revisions, and so forth.
- Consider obtaining legal opinions that a pending patent application or a patent covers a marked product. (Note, however, that a legal opinion may not negate intent when other events and behaviors clearly indicate that a company nevertheless had knowledge of the false marking.)
- Avoid conditional language such as “this product may be covered by” or “this product is protected by one or more patents.” Courts have suggested that such qualified warnings may be insufficient to avoid liability²⁰ unless all of the listed patents in fact cover the marked item.
- Include indemnification clauses for false marking in licensing, manufacturing, or distribution agreements.

²⁰ *Pequignot*, 540 F. Supp. 2d at 655.

Although companies are urged to take care in avoiding false marking, valid patent marking of products continues to offer genuine benefits. The present circumstances simply urge that patent marking be done correctly.

Future of False Marking Cases

The law on false patent marking continues to evolve and pending court decisions may continue to fuel false marking litigation or calm the waters over the next few years.

In addition, a recently proposed amendment to the Patent Reform Act of 2010 could effectively remove the *qui tam* aspect of the false marking statute. In particular, the proposed modification would limit the action to only those parties that were “competitive[ly] injure[d]” by the false marking. The proposed legislation is intended to be retroactive and would apply to “all cases, without exception, pending on or after the date of the enactment of this Act.” The point of such a statutory provision is to close the courthouse doors to persons who are presently aggressively seeking false-marking actions in an opportunistic way but who do not have a competitive interest in the marketplace of the products themselves. It is of course uncertain when and if these or other changes would take effect.

In the short term, we expect false-marking cases to continue and we advise companies to continue to take active steps to police their patent markings in order to minimize threats of false marking violations.

Please note that the points and examples we express are intended to provide general guidance and should be not taken as specific counsel or advice. Proper marking and false marking issues can be highly fact intensive and hence seemingly similar marking behaviors as between two different parties can lead to highly divergent legal outcomes. Please contact your Fitch Even attorney if you have specific concerns you wish to consider.

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