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“FALSE PATENT MARKING” SUITS: HOW JUDGES AND IP RIGHTS HOLDERS CAN RESPOND TO NEW LITIGATION TREND

by

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In December 2009, the U.S. Court of Appeals for the Federal Circuit issued its decision in *Forest Group, Inc. v. Bon Tool Company*, 590 F.3d 1295 (Fed. Cir. 2009), which radically altered the calculation of damages for false patent marking and set off a wave of lawsuits that seek to capitalize on the increased potential for damages for false patent marking under *Forest Group*.

The federal patent statute has long included a provision establishing penalties for falsely marking an item as patented with deceptive intent. *See* 35 U.S.C. § 292. The issue was seldom litigated, however, and the few cases applying the false marking provision awarded only nominal damages for the act of false marking. In *Forest Group*, the Federal Circuit abandoned this decades-old approach, holding that the plain language of the statute requires that the penalty be imposed for every offense of marking any unpatented article.

By increasing the available recovery, *Forest Group* opened the door to a potentially large number of lawsuits brought by plaintiffs who identify perceived instances of false marking. The court acknowledged that its decision might encourage a “new cottage industry” of false marking litigation but held that the statutory language plainly required the penalty be imposed for each instance of false marking. *Id.* Aware of the possibility of runaway penalties, the court noted that under § 292 each falsely marked article could be fined “not more than \$500,” so courts are permitted to strike a balance between encouraging enforcement of accurate patent marking with the risk of imposing large penalties for inexpensive, mass produced items. *Id.*

As the Federal Circuit predicted, a flood of false patent marking cases has been filed in recent months against companies of all sizes and types. Many of these actions have been brought by self-designated public interest groups that purportedly seek to protect the public from false patent marking. Others have been brought by individual plaintiffs seeking a potential windfall through collection of the statutory penalty. Interestingly, none of the recent cases appears to have been brought by an actual competitor of a defendant, which might actually have suffered injury as a result of false marking. Moreover, a substantial number of cases that have been brought seek damages for marking a product with the number of an expired patent – that is, a patent that once covered the product but has now expired.

Despite the relative newness of *Forrest Group*, decisions have already been issued, and others are pending, that should provide substantial guidance in assessing the merits of a false marking claim. In June, the Federal Circuit decided *Pequignot v. Solo Cup Company*, Case No. 2009-1547 (Fed. Cir. June 10, 2010), which provides guidance on whether and when a failure to remove expired patent markings from a product will meet the requirement of an intent to deceive in a false patent marking case. In *Pequignot*, the Federal Circuit held that while marking items with expired patent numbers may constitute false marking, a plaintiff must still prove

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that the false marking was done with the intent to deceive the public. A presumption of intent arises from false marking combined with knowledge of the falsity, but that presumption can be rebutted. In *Pequignot*, the court found that the presumption was rebutted by evidence that Solo had acted on reliance on advice of counsel in continuing to reference expired patents on its products while slowly phasing out its manufacturing molds that included the expired patent marking, and had done so based upon legitimate desires to reduce costs and avoid interruption of its manufacturing processes.

The Federal Circuit will soon rule on another important issue for false patent marking claims – whether a plaintiff must meet Article III standing requirements to bring a false marking claim. In *Stauffer v. Brooks Brothers, Inc.*, 615 F. Supp. 2d 248, 254-255 (S.D.N.Y. 2009), a district court dismissed a false marking action on the ground that the plaintiff lacked Article III standing because he had failed to provide evidence of actual harm to the government or consumers from the false marking. The court found that the first requirement for standing – injury in fact – required that the plaintiff (who admittedly had suffered no injury himself) allege that the false marking had “caused an actual or imminent injury in fact to competition, to the United States economy, or the public that could be assigned to him as a *qui tam* plaintiff.” Because the plaintiff failed to allege such injury, he lacked standing to pursue his false marking claim. This case has been appealed to the Federal Circuit, which is scheduled to hear argument on the case on August 3, 2010. Affirmance of the district court’s ruling likely would have a significant impact on most if not all pending false marking claims, as many of the plaintiffs in those cases do not appear to have suffered any injury as a result of the alleged false marking. Some district courts have stayed pending false marking suits in view of the *Stauffer* appeal. See, e.g., *San Francisco Tech., Inc. v. Adobe Sys. Inc.*, No. 10-01652, 2010 WL 1640397, at *3 (N.D. Cal. Apr. 19, 2010); *San Francisco Tech., Inc. v. The Glad Prods. Co.*, No. 10-CV-00966, 2010 WL 2836775, at *2-3 (N.D. Cal. July 19, 2010).

In addition, the *Glad Products* court dismissed the false marking claim brought against one of the defendants, Exergen Corporation, in view of an earlier-filed false marking action brought against Exergen by another plaintiff in Delaware. The district court held that the California plaintiff lacked standing to assert a false marking claim because its claims were within the scope of the pending Delaware action and, thus, the right to pursue those claims on behalf of the government already had been assigned to the Delaware plaintiff. *Id.* at *4.

Finally, at least one district court has assessed a false marking fine post-*Forest Group* and declined to award the statutory maximum penalty for false marking. In *Presidio Components, Inc. v. American Technical Ceramics Corp.*, No. 08-CV-335, 2010 WL 1462757, at *3 (S.D. Cal. Apr. 13, 2010), the court found that false marking had occurred but concluded that a fine in the amount of \$0.35 per unit was appropriate, which was about 32% of Presidio’s overall average sales price. According to the court, that fine would function as a deterrent for Presidio’s bad acts while not imposing disproportionate liability for an inexpensive, mass-produced article.

The law on false patent marking remains in flux post-*Forrest Group*, and there is no sign that the flood of false marking cases has ceased. In the meantime, while the contours of a false marking claim are established by the courts, companies should consider whether patent marking is the right course of action for their business needs. Patent marking protects a company’s right to seek damages from infringers prior to giving notice of a claim. If a company does not intend to enforce its patents, or does not foresee significant competition, then patent marking may not provide any benefit and could expose the company to a false marking claim if done incorrectly. Moreover, defense of a false marking claim in the manner endorsed by *Pequignot*, on the basis of reliance on advice of counsel, likely would require waiver of the attorney-client privilege.

If a company decides to mark their products, it should consult with legal counsel regarding its patent marking policies, adopt a policy to audit its patent markings for accuracy, and remove markings for expired patents from its products. Moreover, under *Pequignot*, a company should take steps to document its good faith business reasons for any phased or delayed approach to removal of expired patent markings to rebut any presumption that continued use of those markings was done for the purpose of deceiving the public.