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Avoiding Intent In A False Patent Marking Action

Law360, New York (July 21, 2010) -- The false marking statute, 35 U.S.C. § 292, which has been in place in its current form since 1952, imposes a fine of $500 per offense for falsely marking a product as "patented," "patent applied for" or "patent pending."

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Historically, a single decision to mark a batch of products was treated as a single offense with a $500 penalty. But in Forest Group Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009), the U.S. Court of Appeals for the Federal Circuit interpreted "offense" to be the sale of each individual article in the batch of products.

Accordingly, the maximum fine that a court can impose as a failed marking penalty has risen dramatically in instances where there are large batches of products being sold. The court, however, noted that the $500 was not a fixed fine, and where products were low-priced, the fines could be proportionately low.

In the past six months, there has been a boom in false patent marking case filings. A reoccurring defense to these claims is the lack of intent. A false patent marking claim under 35 U.S.C. § 292 requires proof of an intent to deceive the public.

On June 10, the Federal Circuit in Pequignot v. Solo Cup -- F.3d ---- (Fed. Cir. 2010) clarified the intent requirement. A party claiming false patent marking can meet this proof requirement by showing the combination of a false statement and knowledge that the statement was false.

The evidentiary standard is a preponderance of the evidence. This showing creates a rebuttable presumption of an intent to deceive the public.

However, the presumption can be rebutted by the accused false marker if it can come forth with credible evidence that it did not intend to deceive the public. For example, if the party accused of false marking made good faith reliance on the advice of counsel and continued to produce articles marked with expired patents in a desire to reduce costs and business disruption, that can suffice to rebut the presumption of an intent to deceive the public.

The Federal Circuit held in Pequignot v. Solo Cup Co., that "a good faith belief that an action is taken for a purpose other than deceiving the public, can negate the inference of a purpose of deceiving the public."

The patent marking statute (35 U.S.C. §287(a)) and the false patent marking statute (35 U.S.C. §292) coexist to insure that the public has accurate information on the existence of patent rights in articles.

The several purposes of the patent marking statute were explained by the Federal Circuit in Nike Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437, 1443 (Fed. Cir. 1998), as: (1) helping to avoid innocent infringement, (2) encouraging patentees to give notice to the public that the article is patented, and (3) aiding the public to identify whether an article is patented.

In the event a patentee (or its licensee) fails to comply with the marking requirement of 35 U.S.C. §287(a), the sanction is that "no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice."

Patent owners are therefore encouraged to mark their products, however false marking of unpatented articles as "patented" is expressly prohibited. As explained by the Forest Group court, false marking can be injurious to the public interest in at least the following ways:

- Acts of false marking deter innovation and stifle competition in the marketplace.

- False marks may deter scientific research when an inventor sees a mark and decides to forgo continued research to avoid possible infringement.

- False marking can cause unnecessary investment in design-arounds or costs incurred to analyze the validity or enforceability of a patent whose number has been marked on a product with which a competitor would like to compete.

Marking advertising or product literature with a patent number has been described as posting a "no trespassing" sign. It is now more important to carefully monitor patent notices on products to be sure that for all of the patent numbers marked on the products, at least one claim of each patent covers the product marked and the patent has not expired.

It is improper to mark products with patents which are expired or lapsed. An article covered by a now-expired patent is "unpatented," for purposes of the false marking statute. To simply say that the product is covered by "at least one of the following patents" or "may be covered" followed by a long list of patents, most of which are unrelated to the product, can invite risk.

If this type of language used, the party marking the product should provide the customer with a way to verify whether a specific product is covered by a patent, such as party's website.

Unlike typical patent litigation, where the patent dispute is between a patent owner and an infringer, false patent marking lawsuits may be brought by any member of the public. If a fine is imposed, half of the money goes to the U.S. government and the other half goes to the plaintiff bringing the patent action.

Prior to the Forest Group decision, there were only a handful of patent marking cases pending. We have already witnessed a significant upturn in patent marking actions with over 250 cases filed this year.

Indeed, on remand the district court in the Forest Group v. Bon Tool case awarded damages at the highest price point of the falsely marked products, resulting in recapture of all the revenue generated from sale of the falsely marked products.

However, the actual amount of the fine was relatively small — less than $7,000 — based on 38 pairs of stilts priced at $180 per pair. With half of the money going to the government, this was no windfall for the plaintiff.

Presently pending before both chambers of Congress are bills to require a false marking plaintiff to have sustained a "competitive injury" as a prerequisite for standing.

On March 25, Rep. Darrell Issa, R-Calif., introduced H.R. 4954 in the U.S. House of Representatives to amend 35 U.S.C. 292(b) to "provide recourse under the patent law for persons who suffer competitive injury as a result of false markings." (www.thomas.gov)

The bill would bring to an end qui tam lawsuits for false marking brought by plaintiffs who have sustained no competitive injury. The bill is co-sponsored by Reps. John Conyers Jr., D-Mich.; Lamar Smith, R-Texas; Rick Boucher, D-Va.; Howard Coble, R-N.C.; Steve Cohen, D-Tenn.; Trent Franks, R-Ariz.; and Dan Lundgren, R-Calif. It was referred to the House Committee on the Judiciary.

The text of the bill is identical to a provision in the manager's amendment to the comprehensive U.S. Senate patent reform bill S. 515, which was published on March 4 and is currently the subject of very active Senate-House talks.

At least one district court has already dismissed a false patent marking claim under Fed. R. Civ. P. 12(b)(1) for lack of standing in the plaintiff. Stauffer v. Brooks Brothers, Inc., 615 F.Supp.2d 248, 256 (S.D. N.Y. 2009). The Stauffer dismissal is also on appeal to the U.S. Court of Appeals for the Federal Circuit.

We believe our clients that mark products with patent numbers or assert that their products are patented, or patent pending, in their advertisements and on their websites, should conduct an audit and promptly remedy any problems.

In order to violate the marking statute, intent to falsely mark for the purpose of deceiving the public has to be proven. While intent may be inferred from the act of false marking, this can be rebutted if it is proven that the defendant did not intend to falsely mark.

However, the Forest Group court made clear that a naked assertion of a party that it did not intend to deceive, has no evidentiary worth. We believe efforts to conduct an audit, to address past acts of false marking, and to establish procedures and policies to prevent future acts of false marking will go a long way in limiting or potentially avoiding damages.

A court has discretion to award a range of penalties for false marking. There are now pending a number of plaintiffs' actions where the plaintiffs are seeking billions of dollars in damages calculated at $500 per article for articles that cost pennies (i.e. the Solo cup case).

Attorneys for some of the defendants have taken equally aggressive positions, arguing that (i) the false marking statute is unconstitutional, (ii) that individuals should not have a standing to sue, or (iii) that a product is not falsely marked if one of a long list of patents (expired or not) has a claim that covers the product.

We believe that the best and most cost-effective approach is to conduct an audit to assess the magnitude of the problem and develop policies and procedures to avoid false marking and, if litigation ensues, to focus on damage control, both in the form of a potential fine to be paid as well as attorneys' fees incurred.

Once a case is brought, and the case is either tried to conclusion or resolved by a settlement that is approved by the court, the defendant can then not be sued for the acts that were adjudicated.

If you are involved in marking litigation, it may be in your best interest to get all of your various product lines or business units involved in the litigation so that you can resolve this issue of past acts all at once and make an express provision for disposing of current inventory.

Hopefully, as some of these cases and legislative bills work their way through the system, there will be a little more certainty. Until then, we think our clients should try to address this issue in a timely and thoughtful manner.

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