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False Patent Marking Litigation: The Present Landscape And Mitigating Its Risks

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With *Forest Group v. Bon Tool*, 590 F.3d 1295 (Fed. Cir. 2009), the United States Court of Appeals for the Federal Circuit breathed life into a “cottage industry of false marking litigation.” *Id.* at 1303. The *Forest Group* court held that the plain language of the false patent marking statute, 35 U.S.C. § 292, does not merely support a one-time penalty of \$500 for falsely marking multiple articles, but instead, the “statute requires a fine to be imposed for every offense of marking any unpatented article.” *Id.* at 1301. The court acknowledged that the per-article fine might encourage plaintiffs who have not suffered any direct harm to “bring litigation purely for personal gain,” but noted that the false patent marking statute “explicitly permits *qui tam* actions” to help control false marking. *Id.* at 1303-04.

The court’s apprehension about the rise in false patent marking litigation proved to be well-founded. Since January 2010, enterprising plaintiffs have filed more than 150 false marking cases against companies, such as Cisco Systems, Fuji Film, Pfizer, Proctor & Gamble, United Parcel Service, Kimberly-Clark, 3M Company

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and others. After *Forest Group*, if you are a successful company that innovates and uses patent portfolios to protect innovations, then you are a target for these *qui tam* false marking actions. Therefore, until the false marking litigation landscape changes, companies should take proactive steps to minimize their exposure to such false marking claims.

Legal Framework For The False Marking Claim

Liability for false marking is predicated on a violation of 35 U.S.C. § 292, and arises when a party (1) marks an unpatented article (2) with the intent to deceive the public. *See Clontech Labs, Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed.Cir.2005). An action to enforce 35 U.S.C. § 292 may be brought by any person on behalf of the government (a *qui tam* action), and if successful, the plaintiff splits the penalty with the government.

In the context of § 292, an “unpatented article” can take various forms. First, an “unpatented article” could be any article that is marked with the word “patent” or any word or number suggesting that the article is patented, and yet the article is *not* covered by at least one claim of each patent with which the article is marked. *Clontech*, 406 F.3d at 1352. Second, an “unpatented article” could be an article

marked with a patent number after the patent’s term has expired. Third, an “unpatented article” could be an article marked with a patent number after the patent has been invalidated in litigation or after the claims no longer cover the article following post-grant review. Fourth, an “unpatented article” could be an article that is marked with the words “patent applied for,” “patent pending,” or any word suggesting that an application for patent has been made, when in fact no application for patent has been made, or if made, is no longer pending. 35 U.S.C. § 292. Finally, an “unpatented article” could be an article marked with any word or number that imports that the article is patented without the consent of the patentee. *Id.*

The second element of a claim for false marking, “intent to deceive is a state of mind,” can be inferred when an unpatented article is marked coupled with proof that the marking was done with the “knowledge of its falsity.” *Clontech*, 406 F.3d at 1352. Thus, liability does not attach under the false patent marking statute unless the plaintiff can show “by a preponderance of the evidence that the party accused of false marking did not have a reasonable belief that the articles were properly marked (i.e., covered by a patent).” *Id.* at 1353-54.

Penalty For False Marking

The false marking statute provides for a fine of “not more than \$500 for every such offense.” 35 U.S.C. § 292. Before *Forest Group*, courts restricted the false marking damages by determining that a continuous act of marking occurring over a period of time constituted a single offense. The *Forest Group* court, however, rejected precedent to hold that an “offense” is committed each time a defendant knowingly sells a falsely marked product with the intent to deceive. *Forest Group*, 590 F.3d at 1301.

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The *Forest Group* court explained that “[t]he statute prohibits false marking of ‘any unpatented article,’ and it imposes a fine for ‘every such offense,’ thus, the plain language of the statute requires the penalty to be imposed on a per article basis.” *Id.*

In the court’s view, a penalty of \$500 per continuous act of marking, would contravene Congress’s intent to enforce the statute by third parties’ *qui tam* suits. *Id.* at 1303. The court considered it “unlikely that any *qui tam* plaintiffs would incur the enormous expense of patent litigation in order to split a \$500 fine with the government.” *Id.* at 1304. The court recognized that its decision might “encourage ‘a new cottage industry’ of false marking litigation” and attempted to alleviate concerns by noting that § 292 does not require that the full \$500 per-article fine be imposed in every case. *Id.* Rather, 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.*

On remand, the district court assessed a per-article fine equal to the highest price at which the articles had been sold to fulfill the “deterrent goal of § 292’s fine provision.” *Forest Group, Inc. v. Bon Tool Co.*, No. H-05-4127, 2010 U.S. Dist. Lexis 41291, *6-7 (S.D. Tex. April 27, 2010). Under this formula, Forest Group paid \$6,840, *i.e.*, highest sales price of \$180 times 38 falsely marked stilts.

Guidelines To Help Avoid False Marking Claims

Predictably, as a result of the *Forest Group* decision, false patent marking litigation has mushroomed. Companies, however, can undertake several actions, outlined below, to mitigate the possibility and/or impact of such lawsuits.

- Implement a written patent marking program that holistically defines the company’s patent marking policies and procedures.
- Conduct an audit of its marked products to ensure that all products comply with its patent marking policies and procedures. This audit should include, but is not limited to, a review of all products to ensure that their markings:
 - reasonably cover at least one claim of each patent with which the product is marked;
 - do not refer to expired patents;
 - do not refer to patents that have been found invalid or unenforceable in litigation;
 - do not refer to patents that no longer cover the product as a result of

claim modification in post-grant proceedings;

- do not refer to patents that no longer cover the product as a result of claim construction rulings in patent litigation; and
- do not refer to patents where the claim construction advanced in litigation has affected the patent’s applicability to the marked product.
- Perform regular and periodic patent marking audits to identify:
 - products marked with expired or unenforceable patents;
 - markings no longer valid due to modification of either the product or the patent.
 - Take prompt post-audit corrective action for erroneous markings and maintain a record of any corrective action. The record arguably creates a paper trail, but the contemporaneous record of prompt corrective action would be compelling evidence of lack of deceptive intent.
 - Remove promptly words like “patent applied for,” “patent pending,” if the patent application is no longer pending.
 - Do not use conditional language, such as, “product *may* be covered by *one or more* of the following patents,” to mark products.
 - Obtain consent of the patentee before marking a product with another’s patent.
 - Before marking a product, it may be advisable to obtain opinion of counsel explaining why the patents cover the product. The opinion should be revisited whenever the patent or the article is modified.

Insurance Coverage For False Marking Litigation

Even if the patent holder successfully defends a false marking claim, defending patent litigation can be expensive and can disrupt its business. According to the American Intellectual Property Law Association Report of the Economic Survey 2009, the median costs for patent litigation range from \$650,000 to \$5,500,000. Given the high cost of patent litigation, companies should take a close look at their existing insurance program to cover legal fees.

Although advertising injury coverage of conventional comprehensive general liability (“CGL”) policies covers a wide array of intellectual property claims, coverage for false marking claims might be challenging for two reasons. First, CGL policies might not cover losses for erroneous marking with one’s own patent. Second, the intent required under the false marking statute might preclude coverage because of an

exclusionary provision of the policy. However, this is not to say that coverage would never be available under CGL policies; coverage could arguably exist when a company is accused of erroneously marking its product with another’s patent. Moreover, coverage for false marking claims might exist under media perils and professional errors and omissions liability insurance policy, under Side A and Side C of a directors’ and officers’ (“D&O”) liability insurance, or under other specialty insurance policies. The only way to know whether a false marking claim is covered is to examine it closely in connection with the policy and the caselaw that has developed in the relevant jurisdiction and then determine whether there is coverage under each type of insurance policy.

Potential Changes To The Present Patent False Marking Litigation Framework

Two appeals pending in the Federal Circuit may alter the legal landscape for false marking claims. In *Pequignot v. Solo Cup Co.*, the Federal Circuit heard oral argument on April 6, 2010, and focused on the boundaries of the intent required for liability under 35 U.S.C. § 292. In *Stauffer v. Brooks Brothers Inc.*, the court will decide the requirement for Article III standing in order to sue under 35 U.S.C. § 292.

The Senate Judiciary Committee is also contemplating an amendment to the Patent Reform Act of 2009, S. 515, that would restrict *qui tam* false marking suits. The proposed amendment would require plaintiffs to demonstrate that they have “suffered a competitive injury” in order to file a lawsuit under the false marking statute, and would apply retroactively to bar currently pending lawsuits. The amendment would also change the damages calculations by permitting recovery “adequate to compensate for the injury.” *See* Amendment to S. 515, 111th Cong. (2010). On March 25, 2010, Rep. Darrell Issa (R-Cal.) referred a revision to the false marking statute that tracks the language of Senate’s proposed amendments to the House Committee on the Judiciary. *See* H.R. 4954, 111th Cong. (2010).

Whether or not the legal and legislative landscape changes, companies should implement the guidelines outlined above to minimize their exposure to false marking suits. In the event a suit is filed, companies should thoroughly examine their insurance portfolio to determine if coverage is available for the defense of the false marking claims.