

THE FEDERAL CIRCUIT INTERPRETS THE FALSE PATENT MARKING STATUTE

A December 2009 decision by the U.S. Court of Appeals for the Federal Circuit, *The Forest Group, Inc. v. Bon Tool Co.*, has changed the measure of damages for false patent marking from a maximum of \$500 per *occurrence* to a maximum of \$500 per *product*.¹ That decision has unleashed a flood of over 175 false marking cases, representing approximately 17% of all patent cases that have been filed since the *Bon Tool* decision. However, another case now on appeal as well as pending legislation hold the promise of closing the floodgates.

Background

Two provisions of the United States patent law govern patent marking. Under 35 U.S.C. § 287(a), a patentee can mark its articles with the applicable patent numbers to give constructive notice of the patents to the public. Patentees have a strong economic incentive to mark their products because otherwise the patentee generally cannot recover pre-suit damages in an infringement action unless the patentee gave the accused infringer actual notice of the patent. However, the patentee must ensure that the marked article is within the scope of the patent claims and that the patent has not expired or been held invalid or unenforceable. If the marking fails to meet these requirements, the patentee is subject to a fine under the false marking statute, 35 U.S.C. § 292(a). The false marking statute imposes a fine of “not more than \$500 for every such offense” to “[w]hoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word ‘patent’ or any word or number importing that the same is patented, for the purpose of deceiving the public.”²

The Forest Group, Inc. v. Bon Tool Co.

In *Bon Tool*, Forest accused Bon Tool of infringing its patent, U.S. No. 5,645,515 (the “515 patent”). Bon Tool counterclaimed that Forest had falsely marked its S2 model construction stilts with the 515 patent number. The Southern District of Texas agreed because, after the finding in an unrelated case that the 515 patent did not cover the S2 model stilt, Forest sold at least one order of the S2 model marked with the 515 patent.³ The court fined Forest \$500 for false marking. Bon Tool appealed the decision, arguing that the court should have fined Forest for each item that was falsely marked.

¹ *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009).

² 35 U.S.C. § 292 (2006).

³ *The Forest Group, Inc. v. Bon Tool Co.*, No. H-05-4127, 2008 WL 2962206 (S. D. Tex. Jul. 29, 2008), *aff’d in part, rev’d in part*, 590 F.3d 1295 (Fed. Cir. 2009).

The district court had followed *London v. Everett H. Dunbar Corp.*, which found that the statute imposes a fine for each instance of false marking rather than for each falsely marked article.⁴ The Federal Circuit provided a different interpretation in *Bon Tool*, holding that § 292 “clearly requires that each article that is falsely marked with intent to deceive constitutes an offense.”⁵ The court distinguished *London*, explaining that the statute in effect at the time imposed a \$100 minimum fine for false marking.⁶ The *London* court was concerned that fining on a per article basis might result in makers of small or cheap articles paying disproportionately large fines. By contrast, today’s statute imposes a maximum \$500 fine and leaves the amount of the fine to the district court’s discretion, eliminating the inequities that concerned the *London* court.

In justifying its interpretation, the Federal Circuit explained the dangers of false marking, emphasizing that a greater number of falsely marked articles increased the likelihood that competitors would be deterred from entering the market. Additional consequences include reduced innovation and costly investments to design around falsely marked products. Imposing a fine for each falsely marked article would provide a more powerful deterrent than a one-time fine and would account for the negative consequences that occur each time a product is falsely marked. The court also pointed to the statute’s *qui tam* provision as evidence of congressional intent to take a strong stance against false marking.⁷ A fine limited to \$500 per incident would not provide enough incentive to third parties to initiate *qui tam* actions.⁸ On remand, the district court imposed a fine of \$180 for each of the 38 falsely marked stilts (equal to the selling price).⁹

The *Bon Tool* decision applying the fine to each falsely marked item provides significantly more incentive for “marking trolls”¹⁰ to file false marking complaints. In fact, over 175 false marking suits have been filed in the four months since the *Bon Tool* decision. Of these, over three dozen are against pharmaceutical companies, which face significant exposure due to the number of

⁴ 179 F. 506 (1st Cir. 1910).

⁵ *Bon Tool*, 590 F.3d at 1301.

⁶ The false marking statute has been amended once since its inception. The original language imposed a minimum fine of \$100 per false marking offense. Patent Act of 1842, ch. 263, § 5, 5 Stat. 543, 544. Concerned that this would result in disproportionately large fines for small and inexpensive articles, Congress amended the statute 110 years later in 1952 by changing the \$100 minimum fine to a \$500 maximum fine. The statute also grants district courts the discretion to determine a reasonable amount. See 35 U.S.C. § 292 (2006).

⁷ 35 U.S.C. § 292(b) (2006) (“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.”).

⁸ Joseph A. Farco, *The Fight Against False-Markers, the Real “Marking Trolls,”* NYIPLA BULL., Dec. 2009 - Jan. 2010, at 6-7 (noting that false marking was “the precise harm to the public Congress meant to remedy in enacting the statute” and that the statute aims to achieve “proper representations of exclusionary rights in the public domain”).

⁹ *The Forest Group, Inc. v. Bon Tool Co.*, No. H-05-4127 (S.D. Tex. Apr. 27, 2010).

¹⁰ Farco, *supra* note 8, at 1.

items that they sell.¹¹ Other defendants include several consumer electronics companies and retailers. Several of the plaintiffs in these actions are non-profit organizations that apparently have focused their efforts on filing false marking suits.¹² Although the surge in false marking suits may dissipate once companies end their false marking practices, the lawsuits nevertheless pose a significant risk for the defendants.¹³

Pequignot v. Solo Cup Co.

A case now pending before the Federal Circuit focuses on the deception element of the statute rather than the quantum of the fine. In *Pequignot*, a patent attorney sued Solo Cup for marking its plastic cup lids with two expired patents.¹⁴ Solo Cup was aware that the patents had expired but would have had to incur significant costs to interrupt production and replace the lids. Solo Cup's counsel advised it to correct the marking when it next changed the molds for its lids. The Eastern District of Virginia acknowledged that Solo Cup had falsely marked its lids but found that Solo Cup lacked the requisite intent to "deceiv[e] the public" to establish a false marking violation.¹⁵

The Federal Circuit heard oral argument for the *Pequignot* case earlier this month.¹⁶ The panel, composed of judges Gajarsa, Lourie, and Rader, focused on the issue of intent. The patent attorney argued that to violate § 292, a patentee need only have falsely marked the patent and known of the falsehood. He equated the statute's intent element with knowledge, arguing that under *Clontech Laboratories, Inc. v. Invitrogen Corp.*¹⁷ a party's assertion that it lacked intent to

¹¹ Posting of Kurt R. Karst to FDA Law Blog, <http://fdalawblog.net> (Mar. 5, 2010, 7:57AM PST) (noting that complaints have been filed against Novartis, Merck, and L'Oreal and that "[i]f each allegedly falsely marked item distributed is an 'offense' subject to a . . . fine, then the monetary damages could be astronomical").

¹² For example, People Protecting Patents LLC is a newly incorporated non-profit organization that recently sued Fujifilm Holdings Corp. and United Parcel Service Inc. *People Protecting Patents LLC v. Fujifilm Holdings Corp.*, No. 3:10-cv-00491 (N.D. Tex. Mar. 11, 2010); *People Protecting Patents LLC v. United Parcel Service Inc.*, No. 3:10-cv-00484 (N.D. Tex. Mar. 10, 2010). In addition, Public Patent Foundation Inc., a non-profit organization operating out of Cardozo Law School, sued Adobe Systems Inc. for false marking earlier this month. *Public Patent Foundation Inc. v. Adobe Systems Inc.*, No. 10-cv-01834 (S.D.N.Y. Mar. 9, 2010). Both groups argue that the defendants are sophisticated corporations whose lawyers are familiar with patent law requirements and should have known that the patents marked on the products in question did not cover those products.

¹³ Nick Brown, *House Bill Seeks to Amend False Marking Remedies*, IP LAW360 (Mar. 26, 2010), <http://ip.law360.com/articles/158061>.

¹⁴ Solo Cup marked its cold drink cup lids with RE 28,797, which expired in 1988, and its hot "Traveler" cup lids with U.S. Patent 4,589,569, which expired in 2003. It also marked cups, bowls, and utensils that were not protected by any patents with a statement that the articles may be covered by pending or issued patents.

¹⁵ *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790, 800 (E.D. Va. 2009).

¹⁶ *Pequignot v. Solo Cup Co.* Oral Argument, Federal Circuit (Apr. 6, 2010) (<http://www.grayonclaims.com/home/2010/4/7/false-marking-federal-circuit-holds-pequignot-v-solo-cup-ora.html>).

¹⁷ 406 F.3d 1347 (Fed. Cir. 2005).

deceive was insufficient to escape liability when the party nevertheless knew of the false marking.

Judge Rader appeared reluctant to agree with that proposed standard, stating that knowledge alone is insufficient to constitute an intent to deceive. The panel repeatedly asked for evidence of Solo Cup's specific intent to deceive the public, highlighting the assertion that Solo Cup had a reasonable business purpose for failing to remove the false mark. The appellant replied that false marking is "inherently deceptive" and argued that under *Clontech*, subjective good faith should not be a defense to false marking.¹⁸

Solo Cup argued that in *Clontech*, there were no significant facts to combat the inference of intent to deceive given the patent holder's knowledge of the falsehood. Solo Cup argued that here, it correctly placed the patent numbers on its cup lids because the patents had not yet expired at the time of marking. Furthermore, Solo Cup was following its attorney's advice to wait to remove the mark given the expense. The court challenged Solo Cup on the issue of time, asking how long a false marking could remain on an article before it became deceptive. Solo Cup replied that regardless of the expiration date, marking the article with a patent number is sufficient disclosure because it provides the public with a method of determining whether the article is protected. Further, it argued that the patent number itself is not deceptive and that, if at one time a patent number accurately marked an article, it need not be removed.¹⁹

The court's resolution of the standard for intent to deceive could limit the number of false marking cases.

Pending Legislation – House Bill H.R. 4954

In response to the explosion of false marking suits filed after *Bon Tool*, Representative Darrell Issa (R-Cal.) introduced a revision to the false marking statute on March 25, 2010 that would eliminate the *qui tam* provision by requiring plaintiffs to demonstrate that they have "suffered a competitive injury" as a result of false marking.²⁰ The bill will next be considered by the House Committee on the Judiciary. If the legislation passes, any pending *qui tam* actions would be terminated. Opponents of the legislation argue that the *qui tam* action is necessary to protect the public.²¹

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ H.R. 4954, 111th Cong. (2010). The bill would also award compensatory rather than statutory damages upon a finding of false marking.

²¹ Posting of Donald Zuhn to Patent Docs, *PUBPAT Expresses "Deep Concern" over Senate False Marking Provision*, <http://www.patentdocs.org> (Mar. 25, 2010, 11:55 PM). The *qui tam* provision has been attracting attention in the courts as well. In *The North Carolina Farmers' Assistance Fund, Inc. v. Monsanto Company et al.*, No. 08-cv-00409 (M.D.N.C. June 17, 2008), the defendants, accused of falsely marking genetically modified seeds, argued that the *qui tam* provision violated the separation of powers clause. The United States has submitted briefs in support of the *qui tam* provision's constitutionality. The case is pending in the district court.

The language of House Bill H.R. 4954 mimics the language in the Senate's proposed patent reform legislation, S. 515, which has gone before a committee and will soon be considered by the Senate. Senate Bill S. 515 also adds language to the patent marking provision, § 287(a), that would allow patentees to mark articles "by fixing thereon the word 'patent' or the abbreviation 'pat.' together with an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent."²² This addition presents a new avenue through which patent owners could notify the public about their patent protection. Given the ease with which information could be corrected, the new provision should reduce the number of false marking instances.²³ This method of updating patent protection information will also likely pressure patent owners to ensure that their information is accurate; excuses that corrections are too costly or time-consuming are less feasible in the face of web-based marking.

Conclusion

This is an active and unsettled area of patent law. After *Bon Tool*, patent owners are under increased pressure to not mark their products with inapplicable, expired, invalid, or unenforceable patents. Regardless of the outcome of *Pequignot* or pending patent legislation, prudent patent owners should review their patent-marking practices. In any event, the Federal Circuit's expected decision in *Pequignot* might inhibit false marking actions by making the intent to deceive element of the false marking offense more challenging to prove.

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²² S. 515, 111th Cong. (2010).

²³ For example, rather than incurring the expense of manufacturing new lid molds upon expiration of a patent, Solo Cup could direct the public to a web site with up-to-date patent information.