

Patent False Marking:

How To Spot and Avoid Physical and Virtual Landmines in Marketing and Advertising Your Products

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Agenda

- What is False Patent Marking?
- Why is False Patent Marking Suddenly Important?
- What are the Elements of a False Patent Marking Claim?
- Is False Patent Marking Different from False Advertising?
- Pending Legislative Solutions
- Tips to Minimize False Patent Marking Concerns



What is False Patent Marking?

35 USC §292(a) makes it a [quasi] criminal offense to:

- Mark, or
Use in advertising in connection with, any unpatented article;
- The word “patent” or any word or number importing that the same is patented or the word “patent pending” when there is no such application pending;
- For the purpose of deceiving the public

35 USC §292(b) allows **any person** to pursue false marking violations on behalf of the United States in return for half of the resulting fine.



Why is False Patent Marking Suddenly Important?

The patent false marking statute has not significantly changed since 1870. One difference:

- In 1910, the First Circuit held continuous marking of multiple articles constitutes **a single offense** for equitable reasons (*London v. Everett H. Dunbar Corp.*)
- In 1952, Congress changed the **\$100 minimum fine** to a **\$500 maximum fine**

Still, Courts continued to apply the *London* rule focusing the litigation on the scope of “continuous marking.”

That was, at least, until a little over 10 months ago . . .



Why is False Patent Marking Suddenly Important?

On December 28, 2009, in *Forest Group, Inc. v. Bon Tool Co.*, the Federal Circuit cast the *London* rule aside holding that each article was a separate offense.

The Court noted that the plain statutory language prohibits patent mismarking of “**any** unpatented **article**,” and imposes up to a \$500 fine “for **every such offense**.”

In the 10 months since *Bon Tool*, over 500 false patent marking cases have been filed. (Compare with 2007-2009, when few than nine patent false marking suits were filed.)



What are the Elements of a False Patent Marking Claim?

What or who is a “Relator”?

- False patent marking is a “qui tam” statute (i.e. “who brings the action for the King as well as for himself”)
- The person who brings a qui tam case is called a “Relator”
 - States and other governmental entities can’t be Relators
 - Because the Relator brings suit on behalf of the government, no separate standing is required (*Stauffer v. Brooks Brothers, Inc.*, ___ F.3d ___ (Fed. Cir. August 31, 2010))
- Because Relator brings the case for the US, any final disposition (e.g. dismissal with prejudice or settlement) would be *res judicata* with respect to the alleged mismarking (see *Stauffer*)



What are the Elements of a False Patent Marking Claim?

Elements of a patent false marking claim:

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The Statute of Limitations is *five years*. (28 U.S.C. § 2462)



What are the Elements of a False Patent Marking Claim?

Marking

Marking is the particular placement of a patent number **on an article**, unless the character of the article does not permit such placement.

- On the product
- On packaging (in certain circumstances)
- Can you mark software/web sites? If so, where?

Why “mark” articles with patent numbers anyway?

- Constructive notice of marked patents (35 USC §287)
- Show the public that the company is innovative
- Deter competitors from copying
- Persuade public that article has government approval
- Mislead public into thinking article is better than others



What are the Elements of a False Patent Marking Claim?

Use in Advertising

- Advertising use broader than marking (35 USC §287)
- Reaches commercials, infomercials, print ads, web sites, packaging and tear sheets
- Likely does not reach user or instruction manuals



What are the Elements of a False Patent Marking Claim?

Unpatented Article

Article

- Process may be an “unpatented article”
 - Can an insurance policy ever be an “article”
 - Can software ever be an article

Unpatented

- Expired patent (most frequent predicate for litigation to date)
- No patents reasonably cover the article
 - *Bon Tool*: summary judgment non-infringement granted because alleged infringer (and patentee) had no resilient lining on its drywall stilts
- Patent status changes (i.e. invalidated)
- Patent application status changes (abandoned/issued)



What are the Elements of a False Patent Marking Claim?

For the Purpose of Deceiving the Public

- High bar to prove deceptive intent (*Solo Cup*)
- Accused did not have a reasonable belief that the articles were properly marked (*Bon Tool*)
 - Forest knew resiliently lined yoke required from the summary judgment ruling, yet marked products without a resilient lining
- False statement plus knowledge of falsity creates a rebuttable presumption of intent to deceive the public (*Pequignot v. Solo Cup Co.*, ___ F.3d. ___ (Fed. Cir. June 10, 2010))
- Difficult to show the intent where marking uses “may be covered by one or more of the following patents” because it is always true



What are the Elements of a False Patent Marking Claim?

Rebutting the Presumption

- Presumption is weaker where the false marking is of expired patents that previously covered the product
- Presumption rebutted where defendant proves it did not consciously desire that the public be deceived (*Solo Cup*)
 - “[T]he mere assertion by a party that it did not intend to deceive” is insufficient (*Clontech*)
 - Good faith reliance on advice of counsel may rebut presumption
 - Desire to reduce costs and avoid business disruption may rebut presumption



Federal Circuit Decision – Penalty

- Penalty is up to \$500 per offense at the discretion of the district court
- No case law guidance on how to determine award
- In *Bon Tool*, the district court awarded \$6,840.00 for 38 falsely-marked products. Not a large award, but the means for getting there was troubling:
 - Forest sold the falsely-marked stilts between \$103.00 and \$180.00
 - “The Court finds that the appropriate fine in this case is \$180.00 per article, the highest point in the price range. This will deprive Forest of more than it received for the falsely-marked stilts, fulfilling the deterrent goal of §292’s fine provision”



False Patent Marking and False Advertising

15 USC 1125(a)

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof . . . , which . . . misrepresents the nature, characteristics, qualities, . . . of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Differences between false advertising and false patent marking:

- Standing required for plaintiff
- Must prove actual damages



Pending Legislation

There are three bills currently before Congress that would amend §292 to avoid the “marking troll” issue:

- First (Senate) and Second (House) Legislative Proposals:
 - “A person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury”
- Third Legislative Proposal:
 - Limit maximum damages to \$500 total

All three proposals call for retroactive application of the amendments.



Ramifications of False Patent Marking Tsunami

Companies may simply not mark their products with patent numbers, or may apply a cost/benefit/risk analysis to “marking” decisions:

- **Patent Owner:** May affect ability to recover damages if there is no marking
- **Licensee:** No advantage to marking for licensee, so refusing to mark only avoids risk of false marking with no downside
- **Modified Language:** If patent owner insists on marking, consider modified language: “May be covered by” or “Believed by Patent Owner to be covered by.” Consider making marking an agency relationship by qualification at the end of the standard “No Agency Relationship” provision



Ramifications of False Patent Marking Tsunami

Representations, warranties and indemnities:

- Include appropriate representations and warranties from patent owner as to scope of patents to be marked, assurances of proper marking
- Require patent owner to indemnify for losses due to claims of false patent marking
- Patent False Marking statute is quasi-criminal; consider including language to address public policy concerns with indemnification obligation.
 - Limit to indemnification where no intent is found by indemnitee



Ramifications of False Patent Marking Tsunami

Companies may adopt detailed review procedures to consider existing/future patent markings:

- Patent marking audits and review of all marking decisions
 - Legal opinions on coverage
 - Licensees demand legal opinion they can rely on
- Docket expiration of marked patents; require licensor to provide written notice of expiration or invalidation of marked patents
- Establish patent marking policies (legal approval; track patent expiration; keep records; confirm markings periodically, in particular, when products are modified, or when significant revenue is spent on equipment (e.g., replacing molding) and packaging is changed))



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