

Beware Your Expired Patents

Law360, New York (March 08, 2010) -- In a potentially far-reaching decision in the last days of 2009, the Federal Circuit recognized that it might just have opened the floodgates for suits by the latest type of opportunistic plaintiffs in patent cases: the “marking troll.” *Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009).

Interpreting the federal false marking statute, which imposes a \$500 civil penalty for identifying a product as patented if it’s really an “unpatented article,” the court in *Forest Group* held that the statute subjects an offender to a penalty of up to \$500 for each article so marked.

The decision is a sea change. Before, most district courts had followed a 100-year-old decision that an “offense” under the false marking statute meant one “continuous” act. *London v. Everett H. Dunbar Corp.*, 179 F. 506, 507-09 (1st Cir. 1910).

That is, a single production run of a falsely marked, mass-produced article would be worth, at most, just \$500 to a private citizen suing to enforce the statute — and that penalty would then have to be split with the government. See 35 U.S.C. § 292.

While acknowledging the existence of “marking trolls,” and waiving off warnings that it could be creating a “new cottage industry” of false marking litigation, the *Forest Group* court found that the “continuous act” courts got it wrong.

In the court’s view, the statute’s clear purpose was to permit *qui tam* actions. 590 F.3d at 1303-04. And since only a “per article” penalty would make it worthwhile to bring such actions, any other reading — including the “continuous act” interpretation — failed because it would frustrate that purpose.

So does the *Forest Group* decision really herald a flood of false marking cases from plaintiffs seeing the potential for large dollar awards — or at least large dollar settlements?

The answer appears to be “yes,” as dozens of such cases are already appearing on court dockets around the country. And one particular type of false marking claim — marking an item with an expired patent — is likely to be the marking troll’s claim of choice given the ease of determining a patent’s expiration date.

The result: a patent holder’s manufacturing oversight could lead to lawsuits involving at least some risk of enormous penalties, not to mention significant litigation expenses. That’s a recipe for a high-dollar settlement — exactly what marking trolls are after.

Liability Issues

There are two elements of a false marking claim. First, the marked article must be “unpatented,” and second, the accused defendant must have intended to deceive the public when the decision to mark the product was made. 35 U.S.C. § 292. These two elements and their interplay raise several issues and potential defenses, particularly when the claim involves an expired patent.

Until only a few years ago, courts read the first element very literally: If a product was marked with multiple patents and any of them covered the product, then there generally was no culpable mislabeling, regardless of the defendant’s intent. E.g., *Santa Anita Mfg. Corp. v. Lugash*, 369 F.2d 964, 967-68 (9th Cir. 1966).

In 2005, however, the Federal Circuit held that “when the statute refers to an ‘unpatented article’ the statute means that the article in question is not covered by at least one claim of each patent with which the article is marked.” *Clontech Labs. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005).

Courts continue to struggle with the implications of this ruling. For example, a product marked with conditional language — e.g., “may be covered by” one or more of a list of patents — may not be falsely marked because the statement is true. E.g., *Arcadia Mach. & Tool Inc. v. Sturm, Ruger & Co.*, 1985 WL 5181 (C.D. Cal. June 25, 1985), *aff’d*, 786 F.2d 1124 (Fed. Cir. 1986).

The issue in *Clontech* was whether the claims of the listed patents covered the marked products — that is, whether the marked products would infringe one or more claims of the patents. What about continuing to mark products with a patent that once covered the product but has since expired? Is this type of product “unpatented?”

There is little authority addressing whether marking with expired patents can qualify as intentional false marking. A case from the 19th century held that it cannot — although there the mark included the patent’s issue date, so it was simple arithmetic to determine that it was expired. *Wilson v. Singer Mfg. Co.*, 12 F. 57 (C.C.N.D. Ill. 1882).

By contrast, a 1985 opinion noted, in a different context, that marking a product with expired patents can be misleading. *Hart-Carter Co. v. J.P. Burroughs & Son Inc.*, 605 F. Supp. 1327, 1342 (E.D. Mich. 1985) (“The inclusion of such irrelevant and expired patent numbers on Plaintiffs’ [product] could only confuse and mislead and play a role in Plaintiffs’ attempt to obtain a patent monopoly or to scare off competitors.”).

A more recent case addressed the question head-on, stating clearly that an article no longer covered by a patent was an “unpatented” product under the false marking statute; thus, marking it with the expired patent number could constitute false marking given proof of intent to deceive. *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 654 (E.D. Va. 2008).

Unfortunately, the *Pequignot* court’s reasoning is logically appealing: One would likely consider Alexander Graham Bell’s telephone to be “unpatented” today, even though it once was covered by U.S. Patent No. 174,465 issued in 1876.

More disturbing (for unvigilant patent holders) was *Pequignot*’s procedural posture: After concluding that an article covered by an expired patent is “unpatented,” the court denied defendant’s motion to dismiss the case.

If followed, the *Pequignot* court’s decision means no “early out” for inadvertent false markers, as well as potentially expensive discovery regarding the second element of a patent marking claim — culpable intent.

Though the first element may not present an opportunity to challenge false marking claims at the pleading stage, the intent element might (despite *Pequignot*). As a civil penalty statute, Section 292’s intent element borders on willfulness.

It's an open issue whether intent must be pleaded with specificity under Rule 9(b) — as is required, for example, with the intent element of inequitable conduct or another fraud claim. *Ferguson Beauregard/Logic Controls v. Mega Sys. LLC*, 350 F.3d 1327, 1343-44 (Fed. Cir. 2003).

Even so, Rule 9(b) might not present an insurmountable pleading barrier: Requesting leeway, plaintiffs will argue that the facts surrounding the alleged malfeasance are solely within the defendant corporation's knowledge.

This would shift the burden to the defendant to demonstrate good faith — or lack of bad faith — as “the fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was fraudulent intent.” *Clontech*, 406 F.3d at 1352.

But even with these relaxed standards, something more should be required than allegations that the defendant is a sophisticated company, well-versed in patent law, that should know and understand its own assets.

Regardless of the standard, though, the ultimate issue of liability will likely be a fact-specific inquiry. The cases offer some hope to hapless patent holders who falsely, but unintentionally, mark their products: Courts are willing to rule in your favor.

In fact, a year after denying the patentee's motion to dismiss, the Pequignot court granted it summary judgment. *Pequignot v. Solo Cup. Co.*, 646 F. Supp. 2d 790 (E.D. Va. 2009).

In doing so, the court noted that marking with expired patents was different from marking with inapplicable patents, so that the “presumption” of deceptive intent is “weaker” and easier to rebut. *Id.* at 797-98; see also *Arcadia Mach. & Tool Inc. v. Sturm, Ruger & Co.*, 786 F.2d 1124, 1125 (Fed. Cir. 1986) (affirming summary judgment given no evidence of deceptive intent, and that “whatever errors appeared in the labels were inadvertent, the result of oversight, or caused by patent expirations”); cf. *FMC Corp. v. Control Solutions Inc.*, 369 F. Supp. 2d 539, 584 (E.D. Pa. 2005) (rejecting false marking claim as part of unclean hands defense, in part given “the absence of a scintilla of evidence that FMC acted with intent to deceive”). It's just that, more often than not, success may come only after some pricey litigating.

Indeed, an early summary judgment motion reciting the bases on which a presumption of deception intent can be negated may offer a way of focusing discovery and moving to early disposition.

The factors negating deceptive intent can include: that the marking inaccuracies are minor, relate only to patent expiration, and then only to some patents; that patent expiration is evident from the patent or readily accessible; that the markings are more inaccurate in understating the extent of patent protection than in overstating it (as when the mark says “patent pending” and a patent has actually issued); and that the company has — even belatedly — instituted a program for finding and correcting patent marking inaccuracies.

Damages

The next question is what kind of liability might arise after the Forest Group decision.

While the court held that damages must be calculated on a “per article” basis, it also made clear that the amount is within the district court's discretion: This does not mean that a court must fine those guilty of false marking \$500 per article marked. The statute provides a fine of “not more than \$500 for every such offense.”

By allowing a range of penalties, the statute provides district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.

In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is the proper penalty. *Forest Group Inc.*, 590 F.3d at 1304 (citation omitted).

While acknowledging the issue, the court provided no guidance on how to calculate the per-article damages amount. We do not so constrain ourselves here. Since Section 292 is a civil penalty provision, analogy to an unjust enrichment calculation — disgorgement of ill-gotten gains — may be appropriate.

In addition, many factors seem highly relevant to calculating this discretionary penalty: How much was the alleged deception worth to the defendant? And how much of a penalty is necessary to deter the unwanted behavior?

Some more practical questions might be: What's the total cost of the product, and is there a way to apportion the cost to the "patented" feature? Who would be the target audience for the mark? Potential competitors who might be deterred from entering the market? Consumers? Is the consumer a sophisticated player — such as a corporate purchaser of a high-tech component used in another product — or an individual member of the public? Is there any evidence of actual confusion or deception in the marketplace?

Although these questions are good ones to ask, the lack of judicial guidance on damages under the statute leaves defendants in an uncertain world. This uncertainty may spur plaintiffs to file strike suits. With unknown and potentially large damages as weapons, such plaintiffs can gamble that their targets will be more likely to settle rather than fight.

Conclusion

Apart from increasing exposure to potential liability and costly litigation expenses, the *Forest Group* decision produces some internal tension for patent holders. Under 35 U.S.C. § 287(a), a patent holder or licensee must mark its product with patent information, thus "giv[ing] notice to the public that the [product] is patented," or else forgo damages for any infringement.

After *Forest Group*, patent holders that take advantage of this marking and notice provision now have the added burden of being attentive to and prepared for the imminent expiration of their patents.

Particularly as the decision appears to have jump-started a "new cottage industry" of litigation, *Forest Group* should push patentees to take stock of their portfolios and track their patents' expiration dates to avoid becoming victims of the "marking troll."

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