News & Publications

IP: False-marking Changes Likely to Benefit Patent Owners

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Daily Business Review

May 10, 2011

Patent owners may have one less thing to worry about if recent developments on patent-marking laws are any indication.

Patent owners have long been encouraged to mark their products so any applicable patents are clearly identified. The marking provides notice to third parties and preserves for the patent owner the right to collect monetary damages in cases of infringement. Manufacturers benefit from patent marking because it discourages competitors from copying. But patent marking is subject to misuse, and products are sometimes marked with patents that are expired or otherwise not applicable.

Existing laws prohibit false patent marking and have frequently led to costly problems for manufacturers and patent owners. Current laws provide for a fine of up to $500 per falsely marked product, which can add up quickly when dealing with large-volume sales.

The false marking law is also unusual with regard to who can enforce it. The law provides that any person can sue for the penalty, regardless of whether they are injured as a result of false marking. This has led to opportunistic plaintiffs seeking huge sums from unwary companies.

Constitutional Question

Recently however, at least one federal district court has concluded the false patent-marking law is unconstitutional.

In Unique Product Solutions Ltd. v. Hy-Grade Valve Inc., an Ohio federal judge found in February that the provisions of the false marking statute permitting anyone to sue for the penalty do not provide the Department of Justice with sufficient control over or oversight of patent false marking lawsuits and therefore is unconstitutional under the "take care" clause of Article II, Section 3.

An appeal is likely since other courts have considered the false-marking statute under the same provisions and found the law to be constitutional.

In a related development, the U.S. Court of Appeals for the Federal Circuit recently held that Rule 9(b) of the Federal Rules of Civil Procedure applies to claims under the false patent marking statute. The rule provides that when alleging fraud or mistake, a party must state with particularity the circumstances. Consequently, generalized allegations of fraudulent intent are no longer sufficient to state a claim for false patent marking.

This ruling increases the likelihood that false-marking claims will be dismissed at the outset of litigation. People bringing false-marking claims often lack sufficient knowledge of the underlying facts and circumstances to satisfy the requirements of Rule 9(b).

Future Claims

Finally, there is a proposal in the Patent Reform Act of 2011 on who may bring suit under Section 292. The legislation proposes limiting those who can bring patent false-marking suits to include only the government and competitors suffering injuries. The legislation was passed by the U.S. Senate on March 8, and a similar bill is under consideration by the U.S. House. If passed, the law would not eliminate the risk of false patent-marking claims but would ensure patentees are not harassed by plaintiffs simply looking for a quick cash payout.

Recent developments in the laws may affect when such lawsuits will be brought and how many lawsuits will be brought by individuals. For example, individuals may wait for the constitutional issue to be resolved by the federal courts before bringing new false marking claims. Alternatively, people may decide not to file a false-marking lawsuit in view of the heightened pleading standard. Some individuals may be prevented from filing lawsuits if the Patent Reform Act becomes law.

The best protection for manufacturers and patent owners is to make sure patent markings on their products comply with all legal requirements. Corporate patent-marking policies should be established in advance, and regular audits should be scheduled to ensure products are properly marked.