Dealing With the Uptick In False Marking Suits

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Recent months have witnessed a surge in the filing of "false marking" litigation – suits brought under 35 U.S.C. Section 292. The section provides penalties against any person that marks an "unpatented article" with any word or number indicating that the article is patented with the intent to deceive the public. This provision also permits enforcement via *qui tam* actions, whereby a person may sue on the behalf of the government and share in the award.

False marking suits became more attractive after the Federal Circuit's December 2009 decision in *Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), which held that penalties in false marking actions must be imposed on a per article basis. The statute provides that such penalties amount to "not more than $500 for every such offense," so the new rule has the potential to lead to hefty fines for mass-produced articles. For example, on remand, the Southern District of Texas assessed a per-article fine against Forest Tool equal to the highest price at which the articles had been sold. *Forest Group Inc. v. Bon Tool Co.*, No. H-05-4127, 2010 U.S. Dist. LEXIS 41291 (S.D. Tex., April 27, 2010). Before the Federal Circuit decision, fines were often assessed by product line, or decision to mark, rather than per article, such that only a single fine would be assessed for a product, no matter how many units of that product were manufactured and marked.

As the court predicted, the potential for larger awards has led to an uptick in false marking suits. The ease in bringing a false marking suit is due to its liberal standing requirement – 35 U.S.C. Section 292(b) allows these suits to be brought by any person, not merely one that has been harmed, so long as the recovery is split with the government. Patent blogs and other watchers report that well over a hundred false marking suits have been filed since the *Forest Tool* decision issued.

These changes create a new tension for manufacturers of products. On one hand, manufacturers are motivated to mark products with comprehensive listings of all the patent numbers that apply. The motivation may stem from multiple sources. Products that practice a patent are expected to be properly marked with applicable patent numbers under 35 U.S.C. Section 287. A failure to mark even a small percentage of applicable products can lead to an inability to collect pre-suit damages for infringement of the patent. Also, third party patent license agreements may request or require that products be marked with patent numbers.

On the other hand, the false marking statute and resultant case law provide little guidance on the boundaries of liability under 35 U.S.C. Section 292. For example, it is unclear what level of investigation is necessary for a good faith belief that a product is covered by a given patent, or when or even whether patent markings need to be removed when a patent expires. The current patent reform bills propose changes only regarding the false marking standing requirements and damages. Proposed amendments to 35 U.S.C. Section 292 would restrict the ability to bring suit to persons who had suffered competitive injury from the false marking, and would clarify that damages should be "adequate to compensate for the injury." Amendment to S. 515, 111th Cong. (2010), H. R. 4954, 111th Cong. (2010). No changes to the standard of liability have been proposed. The potential for significant monetary liability due to high per article fines makes the need for guidance regarding standards of avoiding liability under the statute urgent.

Such guidance may be on the horizon, as the Federal Circuit held oral arguments in *Pequignot v. Solo Cup Co.* on April 6, 2010. The case deals with allegations by patent attorney Matthew Pequignot that the Solo Cup Co. improperly failed to remove patent markings from its products after the patents expired and improperly marked other products with conditional marks that read "This product may be covered by one or more U.S. or foreign pending or issued patents," when the products were not covered by any pending or issued patents.

The first issue to be addressed by *Pequignot* relates to the proper standards for determining whether articles were marked with the intent necessary to constitute a violation of 35 U.S.C. Section 292. The statute only provides for fines when an article was marked intentionally, to "deceive the public." Pequignot argued that the proper standard for establishing intent under the false marking statute is an "objective standard" developed by the Federal Circuit in *Clontech Laboratories Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005). According to Pequignot's analysis of *Clontech*, intent may be established by showing two things: that the mark is incorrect and the party that made the mark knew that it was false or lacked a reasonable belief that it was true when the mark was applied. Under Pequignot's analysis, knowledge of falsity would be enough to infer fraudulent intent, because it assumes that the public would necessarily be misled by false marks.

Solo Cup and the district court instead viewed *Clontech* as stating a standard of proof. Thus, the district court found that an inference of intent drawn according to *Clontech* may be rebutted by presenting evidence beyond the mere assertion of a party. In oral argument on April 6, the judges focused closely on these issues, questioning the propriety of equating intent and knowledge, and challenging appellant to identify real evidence of Solo Cup's intent to deceive. It is to be expected that the *Pequignot* decision will clarify the proper standard.

The Federal Circuit may also weigh in on whether Solo Cup's evidence effectively rebutted the presumption of intent. The district court found that it had, based on evidence that Solo Cup had acted on the advice of counsel, and had developed a gradual plan for phasing out marked products, in order to reduce costs and business disruption. While the appellate panel appeared sympathetic to the idea that the obligation to mark products under 35 U.S.C. Section 287 should not convert to a criminal violation the day a patent expires, Solo Cup was challenged over the length of time it proposed to take to cease marking products, which Pequignot had estimated as 15-20 years. It was suggested that an overlong delay might begin to be viewed as deceptive.

Solo Cup responded by differentiating between the case where a product is marked with the number of a patent that does accurately describe the features of the marked article, and the case where a product is marked with a patent that does not apply to the article, and never has. Solo Cup argued that if the claims of a patent are contained in the marked article, marking the article with the patent number is always truthful, even long after the patent expires. Such marks can never be deceptive, according to this argument. Were this position adopted, a major portion of recent false marking cases, those based on marking with expired patent numbers, would be undercut. What would remain are the smaller proportion of cases based on false marking with patents that never applied to a product, invalid or unenforceable patents, or nonexistent patents or applications.

One last issue the Federal Circuit may give guidance on is whether it is acceptable to mark packaging with conditional language, stating that the products therein "may be covered" by one or more patents. Solo Cup put such markings on all its packaging to give warning that they might contain patented articles, though the packaging was used for both patented and unpatented articles. The marking then referred the customer to a website for further information.

Accordingly, manufacturers of patented products, and the people that advise them, will need to stay tuned for the upcoming *Pequignot* decision, which has the potential to shift the law significantly. In the interim, manufacturers may prudently pursue a policy of procedures to audit patent markings for expired, invalidated, and unenforceable patents, or patents that no longer apply to the product, and remove them when feasible.

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