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New Broader Standing Requirements for Patent False Marking Lawsuits May Put More Companies at Risk

The Court of Appeals for the Federal Circuit's decision in *Stauffer v. Brooks Brothers* (hereinafter "the Stauffer decision"), August 31, 2010, rejects the District Court's attempts to narrow standing requirements for lawsuits brought under 35 U.S.C. § 292 (hereinafter "Section 292"). In view of the Stauffer decision, companies across all industries should expect a surge in the number of *qui tam* (i.e., lawsuits brought by a private person on behalf of a government) false marking claims filed under Section 292. The claim in the Stauffer decision had to do with marking a product with an expired patent number. As a result of this expected surge in false marking claims, companies should implement procedures that reduce liability under Section 292.

The "False Marking" Statue and Penalties for False Marking Articles

Section 292, also known as the "false marking" statute, sets forth that "(a)…Whoever marks upon, or affixes to…any unpatented article, the word "patent" or any word or number importing that the same is patented, for the purpose of deceiving the public…Shall be fined not more than $500 for every such offense and (b) Any person may sue for penalty, in which event one-half shall go to the person suing and the other to the use of the United States." In other words, Section 292 provides that (i) any person may sue for a monetary fine of up to $500 per falsely marked article if an unpatented article is marked as patented for the purpose of deceiving the public and (ii) half of the recovered fine is given to the U.S. government.

In the December 2009 Federal Circuit decision in *Forest Group Inc. v. Bon Tool Co.*, the Federal Circuit ruled that the fine of up to $500 applied per product and not per product line as previously presumed. As a result, a defendant found guilty of violating Section 292 may be faced with overwhelming liability (i.e., $10 trillion for 20 billion falsely marked plastic coffee cup lids sold around the world) instead of the previously assumed nominal fine of $500. Since that Federal Circuit's ruling, more than 350 false marking lawsuits have been filed against more than 250 defendant companies, such as, Pfizer, Inc., 3M Company, Cisco Systems, Inc., Merck & Co., Timex Group, Apple Inc., and Monster Cable Products.

The Background and Decision

Raymond Stauffer brought a false marking claim against Brooks Brothers for bow ties he bought that were marked with two expired patents. A New York District Court held that Stauffer did not have standing to bring the claim because he failed to sufficiently allege an injury to the United States and that his allegations that Brooks Brothers' false marking injured competition were merely hypothetical and/or conjectural.

The Stauffer decision overruled the District Court and held that Section 292 does not require competitive injury and explicitly says "any person may sue" which, in fact, means "any person," including Stauffer. The Federal Circuit added "even though a relator may suffer no injury himself, a qui tam provision operates as a statutory assignment of the United States' rights, and the assignee of a claim has standing to assert the injury in fact suffered by the assignor. Although the Stauffer decision may have broadened the standing requirements for false marking plaintiffs, the Stauffer decision may also provide defendant companies with protection from multiple lawsuits for the same false marking violation.

Defending Against False Marking Lawsuits

The Stauffer decision appears to have provided some hints for defending against false marking lawsuits. One way of defending against a false marking lawsuit, at the pleading stage, is to attack how the plaintiff has pleaded the defendant company's intent to deceive the public. Another way of defending against such lawsuit, at the summary judgment stage, is to show that the defendant company lacked intent to deceive the public. Challenging the constitutionality of Section 292 may also prove to be a useful defense to false marking claims under Section 292; however, the Federal Circuit refused to address the constitutionality of Section 292 in the Stauffer decision because it was not an issue raised by either party.

Policies and Procedures for Potentially Reducing Liability

In order to reduce the liability of a false marking claim under Section 292, the following proactive procedures may be utilized to reduce the occurrences of false marking.

One procedure may include reviewing and tracking all patents within a patent portfolio to determine which patents, if any, have expired and subsequently removing any such expired patents from product packaging and labeling. Continuously reviewing and tracking patent expiration dates greatly reduces the possibility of false marking and may also provide sufficient notice of approaching expiration dates so that timely termination of such markings may be accomplished.

Another procedure may include developing a working cooperation between legal and marketing departments so that product packaging and labeling is reviewed and legally approved in view of any expired patents. Requiring the marketing department to get legal approval of product packaging and labeling along with periodically checking the product packaging and labeling for inclusion of any expired patents greatly reduces the possibility of false marking claims.

Yet another procedure may include obtaining indemnification from a patent holder that licenses a patent. Often, licensing agreements require a licensee to mark their product packaging and labeling with the licensor's (i.e., the patent holder's) patent. In order to prevent liability for including the licensor's patents in the product packaging and labeling, which may or may not have expired, indemnification should be included in the licensing agreement such that the licensee is indemnified by the licensor from any false marking claims which may arise with respect to the markings of the licensor's patent.

In view of the Stauffer decision's broad standing requirements under Section 292, companies should at least utilize the above-mentioned procedures to reduce their liabilities under Section 292 and to prevent as many false marking claims as possible. However, it should be noted that utilizing these procedures alone may not completely eliminate all possibilities of false marking claims.

This *Intellectual Property Law Alert* was written by **Brian Anscomb**, associate of Norris McLaughlin & Marcus, P.A. If you have any questions regarding the information in this alert or any other related matters, please feel free to contact Brian by email at bcanscomb@nmmlaw.com.

NJ: 721 Route 202-206, Suite 200 P.O. Box 5933 Bridgewater, NJ 08807-5933 • P: (908) 722-0700 • F: (908) 722-0755
NY: 875 Third Avenue, 8th Floor New York, NY 10022 • P: (212) 808-0700 • F: (212) 808-0844
PA: The Paragon Centre, Suite 300 1611 Pond Road Allentown, PA 18104-2258 • P: (610) 391-1800 • F: (610) 391-1805

www.nmmlaw.com E: info@nmmlaw.com