Litigation Update - Recent Changes in Enforcement of False Patent Marking

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Although a company may gain important benefits by marking a product as patented, it also puts itself at risk of facing a lawsuit for false marking—a risk that has increased with a recent change in federal law. The Federal Circuit Court of Appeals, in a recent case entitled *Forest Group v. Bon Tool*, concluded that a penalty of up to $500 for each "offense" of false marking applied to each falsely marked article, rather than each decision to mark a type of article. 590 F.3d 1295 (Fed. Cir. 2009). This change exponentially increased the penalty that may be awarded against an offending company and encouraged a number of lawsuits from private citizens making false marking claims. To avoid the risk of lawsuits from patent marking "trolls" and exposure to increased penalties, companies should evaluate their patent marking strategy and ensure that their marking accurately reflects the content of their patents and complies with federal law.

Patent owners commonly and legitimately mark their products with terms such as "Patent Pending" or a patent number to provide constructive notice to potential infringers. This notice may allow a patentee to collect damages for infringement even if the infringer had no other knowledge of the patent. Marking may also deter potential competitors and create consumer goodwill by suggesting the product is innovative.

However, federal law provides a cause of action against those who falsely claim their products are patented. Under 35 U.S.C. § 292, it is unlawful to mark an article as patented if it is unpatented, or to indicate a patent application is pending for the product when it is not. To create liability under the statute, the false marking must be done for the purpose of deceiving the public. The statute imposes a penalty of "not more than $500 for every such offense." Under the qui tam provision in the statute, any person may sue for false marking of a product, and if the suit is successful, the penalty is divided evenly between the plaintiff and the federal government.

Previously, if a company falsely marked an item as patented, then manufactured and sold thousands of those articles, the company generally would be liable for only one offense—the false marking of the type of article—instead of thousands of offenses for the false marking of each individual article. Thus, the penalty for false marking would be $500 or less, creating little incentive for a private citizen to bring a lawsuit under the qui tam provision.

This changed with the Bon Tool decision. In that case, the Federal Circuit changed course and held that the language of the statute, as well as the public policy underlying it, imposes liability for each falsely marked article. Forest Group v. Bon Tool, 590 F.3d 1295 (Fed. Cir. 2009). This exponentially increased a false marker's potential liability and the possible reward for any person filing a qui tam lawsuit.

The penalty imposed for false marking will not necessarily be $500 for each article. The statutory penalty is not more than $500 per offense, and the court in Bon Tool specifically stated that a court has discretion to strike a balance between deterring false marking and imposing disproportionately large penalties for inexpensive mass-produced articles. Bon Tool, 590 F.3d at 1304. In some cases, the court explained, the penalty imposed could be just a fraction of $0.01 per article. Id. In one of the first cases to apply the new Bon Tool damages calculation, the court imposed a fine of $0.35 per article on items that the false marker sold for $1.07 each, for a total fine of $228,086.25. Presidio Components Inc. v. Am. Technical Ceramics Corp., No. 08-CV-335, 2010 U.S. Dist. LEXIS 36127, at *137 (S.D. Cal. April 13, 2010). By contrast, on remand in Bon Tool, the court found that the defendant should be fined $180 for each falsely marked article, for a total of $6,840. This fine fulfilled the deterrent function of the false marking statute by depriving the defendant of more than it had received for the falsely marked items, the court explained, as the articles had sold for prices between $103 and $180. Forest Group, Inc. v. Bon Tool Co., No. H-05-4127, 2010 U.S. Dist. LEXIS 41291, at *6-7 (S.D. Tex. Apr. 27, 2010).

Since December 2009—encouraged by the potential for greater recovery—plaintiffs have filed more than 130 new lawsuits under the qui tam provision of the statute against companies including corporate giants such as Pfizer, Inc., Merck & Co., Procter & Gamble Co., Kimberly-Clark Corp., and Costco Wholesale Corp. Often the plaintiffs in these lawsuits are patent attorneys, who have not been personally harmed in any way by the false marking, but who are allowed to file qui tam lawsuits nonetheless.

This free-for-all may be short-lived. One district court has already ruled that a plaintiff in a false marking suit lacked standing to sue because he failed to specify an actual injury to an individual competitor, the market for the product, or any aspect of the United States economy. See Stauffer v. Brooks Brothers, Inc., 615 F. Supp.2d 248, 255 (S.D.N.Y. 2009). The case is currently on appeal. In addition, the Patent Reform Act of 2010, which has been introduced in Congress, includes amendments that would allow only individuals who have "suffered a competitive injury" to file a false marking lawsuit and would allow a recovery "adequate to compensate for the injury" instead of the current penalty. S. 515, 111th Cong. § 2(k)(1) (2010).

Companies may decrease the possibility of being targeted for a private citizen lawsuit by ensuring their patent marking strategy complies with the false marking statute. Common mistakes include:

1. Continuing to mark products with a patent number after the patent has expired.

2. Marking products with "Patent Pending" even after the patent application has been abandoned.
3. Failing to evaluate markings when a product changes, to determine whether the changed product is still covered by the patent at issue.
4. Failing to review patent markings when acquiring a product or component from another company.

To defeat a false marking claim, a company may show it had a reasonable belief that its articles were properly marked; in such cases, there is no intent to deceive the public. See Clontech Labs., Inc. v. Invitrogen Corp., 406 F.3d 1347, 1352 (Fed. Cir. 2005). One court has found that a company had no intent to deceive when its policy, which was created based on advice of its attorneys, was to replace product molds with expired patent markings as the molds wore out or were damaged, instead of all at once. Pequignot v. Solo Cup Co., 646 F. Supp. 2d 790, 799 (E.D. Va. 2009). This case and others suggest that relying in good faith on the advice of attorneys and following a specific patent marking policy may help prevent liability for false marking.

By regularly reviewing and updating patent markings on products, companies can ensure compliance with the federal statute and decrease the risk of being targeted—goals that have become more urgent in the wake of the Federal Circuit's decision to increase the potential liability for false marking. Although legislation or pending appellate cases may decrease this risk, it is important for companies to assess their current patent marking strategies to make sure their markings are accurate and up-to-date.

Gray Plant Mooty's patent litigation team works with clients on issues including patent infringement, inventorship, and licensing disputes. The patent litigation team works closely with a Minneapolis patent boutique firm, Pauly DeVries Smith and Deffner, LLC. To discuss patent marking, or a patent litigation issue, please contact the firm's patent litigation team.