False patent marking lawsuits are on the rise, and any company manufacturing or selling products in large quantities could be a target. Companies should pay attention to this developing area of law and review their current patent marking procedures.

The Rise of False Patent Marking Suits

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I. Introduction

A recent Federal Circuit decision has exponentially raised the potential recoveries in false patent marking actions. Because anyone can bring this type of lawsuit, aggressive plaintiffs have flooded the district courts with false patent marking actions in the past three months.
Most or all of these suits have targeted products marked with expired patent numbers, which requires very little pre-lawsuit investigation. Companies should be aware that many of these plaintiffs may be looking for a quick settlement and should also look out for both judicial and legislative developments in this area of law.

II. Background on Patent Marking

A patent holder that manufactures or sells a product that is covered by its patent typically marks the product with the patent number. In this manner, the patentee gives notice to the general public that the article is patented. More importantly, marking allows the patentee to recover a greater amount of damages in a subsequent infringement action.

Specifically, the law bars a plaintiff from recovering damages for infringement that occurred before the plaintiff filed suit unless the plaintiff properly marked the patented articles or gave notice of the infringement to the alleged infringer. See 35 U.S.C. § 287(a). Although, it is in a patent-holder’s best interests to properly mark its products, there can be penalties for falsely marking products that are not covered by a patent.

III. The New Breed of False Patent Marking Suits

The false patent marking statute provides that “[a]ny person may sue for the penalty [for false patent marking], in which event one-half shall go to the person suing and the other to the use of the United States.” 35 U.S.C. § 292(b). A false patent marking action is a qui tam civil action—anyone can bring a suit for false marking on behalf of the federal government and whoever does so shares in the recovery.1 In the first three months of 2010, aggressive plaintiffs with clever names like “People Protecting Patents LLC” and “Public Patent Foundation Inc.” have filed nearly 100 false patent marking lawsuits seeking to claim a share of the statutory penalty against companies who mark their products with expired patent numbers. Until 2010, only a handful of false patent marking claims were filed annually.

The meteoric rise in false patent marking suits has four likely causes. First, the Federal Circuit recently handed down a decision that exponentially raised the potential recoveries in false patent marking actions.

Second, “false marking” based on an expired patent is fairly easy for plaintiffs to spot. Third, the qui tam nature of a false patent marking suit likely allows only the first filer to recover a reward.

Finally, Congress is currently considering proposed legislation that, if passed and signed into law, would prevent noncompetitors from suing companies for false marking.

A. Forest Group, Inc. v. Bon Tool Co.: the Federal Circuit Opens the Floodgates on False Patent Marking Lawsuits

The false patent marking statute establishes a penalty of “not more than $500 for every [false marking] offense.” 35 U.S.C. § 292(a). Until recently, courts held that continuous false markings over a given period of time constituted only a single offense under the statute. See, e.g., Sadler-Cisar Inc. v. Commercial Sales Network Inc., 786 F. Supp. 1287, 1296 (N.D. Ohio 1991). However, less than three months ago, the Federal Circuit held that the penalty is assessed on a “per article” basis. Forest Group Inc. v. Bon Tool Co., 590 F.3d 1295, 93 USPQ2d 1097 (Fed. Cir. 2009)(79 PTCJ 247, 1/8/10). Hence, plaintiffs now can potentially share a penalty of up to $500 per product on millions of products.

The actual amount of the penalty can range from fractions of a penny per article to $500 per article. See id. at 1304. This determination is firmly within the discretion of the district courts. See id. at 1302.

To date, no district court has applied the Federal Circuit’s new holding, so there is little guidance as to how courts will determine the amount of the penalty per article. However, the Federal Circuit did indicate that, in determining the amount of the penalty assessed, district courts should “strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties.” Id. at 1304.

Here, relevant considerations tending to lower the penalty imposed are whether the patented articles are “inexpensive” or “mass-produced.” See id. In reaching its decision, the Federal Circuit recognized that this would “open the door for a new cottage industry of false marking litigation,” but nevertheless found that the statute mandates a “per article” penalty. Id. at 1303 (internal quotations omitted).

B. The Target: Products Marked with Expired Patents

Section 292(a) provides for a penalty against “[w]hoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word ‘patent’ or any word or number importing that the same is patented, for the purpose of deceiving the public.”2 The term “unpatented article” means “that the article in question is not covered by at least one claim of each patent with which the article is marked.” Clontech Laboratories Inc. v. Invitrogen Corp., 406 F.3d 1347, 1352, 74 USPQ 2d 1598 (Fed. Cir. 2005) (70 PTCJ 34, 5/13/05). An article that was once covered by a patent that has now expired is, for the purposes of the statute, an “unpatented article.” See Pequignot v. Solo Cup Co., 540 F. Supp. 2d 649, 653, 87 USPQ 2d 1365 (E.D. Va. 2008) (75 PTCJ 598, 4/4/08).

Most, if not all, of the recently filed false marking suits target products marked with expired patent numbers. This is likely because determining whether a patent is expired is trivial in comparison to determining whether or not the patent’s claims cover a particular product.

Under Section 292, the offense of false patent marking requires that the person to mark “for the purpose of deceiving the public.” Hence, for a party to succeed on a claim of false patent marking, it must prove intent to deceive the public. Generally, the burden of proof on intent and the other elements of a Section 292 offense rests on the party making the false marking charge.

However, if the patent owner or licensee knowingly marks an unpatented product, the fact finder may draw

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1 “Qui tam” is short for the Latin phrase “qui tam pro domino rege quam pro se ipso in hac parte sequitur,” which means “who pursues this action on our Lord the King’s behalf as well as his own.”

2 In addition to false patent marking, the statute prohibits counterfeit marking (use of a patent mark without the patent owner’s permission) and false patent pending marking (fraudulent use of the “patent applied for” or “patent pending” mark). See 35 U.S.C. § 292(a).
an inference that the marker intended to deceive the
public. See Clontech Laboratories, 406 F.3d at 1352.
Hence, another likely reason why plaintiffs are target-
ing expired patents is that it may be easier to show that
a company knew, or should have known, that a patent
was expired—rather than having to establish that the
company knew its patent did not cover a certain prod-
uct.

C. The Rush to File

1. The Importance of Being First

Currently, the case law has not firmly established
that the outcome of a false marking suit by one plaintiff
would prevent other suits arising from the same mark-
ing allegations. See Pequignot v. Solo Cup Co., 640
F. Supp. 2d 714, 721 n.9 (E.D. Va. 2009) (noting that it
is “unclear” whether or not the outcome of a false
marking claim would have a binding effect on the gov-
ernment and declining to decide whether or not it
would have “a [preclusive] effect on future actions”).
However, principles of res judicata would seem to allow
only one penalty to be assessed for the same instances
of false marking. See id. at 719. Furthermore, one of the characteristics of a typi-
cal qui tam action is that the outcome is binding on the
government. See id. at 721. Hence, if the outcome of a
false marking action binds the government, no one
should be permitted to bring a subsequent action for the
same offense and, thus, being the first to obtain a judg-
ment or settlement is key.

Realistically, these new plaintiffs—usually repre-
sented by classic “plaintiff’s lawyers”—are likely look-
ing for a quick settlement without the need to engage in
extensive litigation. Despite the fact that the amount of
any penalty is within the discretion of the district court,
there is no reason to think that the parties cannot
jointly propose a settlement to the court.

Indeed, other qui tam actions are regularly settled in
this manner. See, e.g., United States ex rel Wright v.
Chevron USA Inc., No. 5:10-cv-0008 (E.D. Tex. Jan. 19,
2010) (approving settlement of qui tam action under the
False Claims Act).

Again, being the first to settle is likely critical to these
plaintiffs.

2. Legislative Changes to False Patent Marking Actions

Currently, Congress is considering patent reform leg-
islation that would affect various aspects of patent liti-
gation. See Patent Reform Act of 2009, S. 515, 111th
Cong. § 5 (2009). In particular, the Manager’s Amend-
ment to the bill, released on March 4, contains a provi-
sion that would only allow someone who had suffered a
“competitive injury” to file a false patent marking law-
suit (79 PTCJ 537, 3/12/10). See § 2. Hence, this provi-
sion would eliminate the new cottage industry” of false
marking suits that can be brought by anyone.

Given that this amendment was only released in the
past few weeks, as well as the uncertainty associated
with legislation, it is unlikely that this amendment is the
leading cause for the spike in false marking suits. How-
ever, the amendment, as is, applies retroactively “to all
cases, without exception, pending on or after the date of
the enactment of this Act.” Id.

Hence, companies should keep an eye on this legisla-
tion.

IV. Conclusion

False patent marking lawsuits are on the rise and any
company manufacturing or selling products in large
quantities could be a target. The potential penalties for
falsely marking millions of products could be enor-
mous, although it is too soon to know how the district
courts will use their discretion to set the appropriate
remedy in each case.

Companies should pay attention to this developing
area of law and review their current patent marking
procedures.