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**Successfully Defending Against
False Marking Claims**

Steve Williams & Jane Du



Successfully Defending Against False Marking Claims

By Steve Williams* & Jane Du**

I. INTRODUCTION

¶1 Through its recent opinion in *Forest Group Inc. v. Bon Tool Co.*,¹ the Federal Circuit has redefined the remedies available for a claim of false patent marking under 35 U.S.C. § 292, and has given birth to a new breed of patent litigants. Reversing decades of jurisprudence, *Forest Group* for the first time has interpreted the civil fine provision of § 292 to impose a maximum fine of \$500 *per improperly marked article*.² Before *Forest Group*, the courts had applied the civil penalty to each continuous act of false marking.³ The Federal Circuit's new interpretation of the measure for imposing civil penalties under § 292 exposes targeted defendants to liability for significant civil penalty judgments. Predictably, *Forest Group* has opened the door to a new wave of patent litigation. Since January 1, 2010, already nearly two hundred cases claiming false marking of unpatented articles have been filed around the country, including forty-five such cases in the Eastern District of Texas.⁴ A majority of these suits are based on products marked with the numbers of expired patents.⁵ This new breed of patent litigant preys on expired or expiring patents in hopes of reaping considerable damages from inattentive companies.

¶2 Although *Forest Group* has encouraged a bevy of new lawsuits under § 292, the path to large damage awards is far from easy. A plaintiff must overcome several hurdles before he can establish liability against a company accused of falsely marking products. In order to succeed, a plaintiff must not only establish the marking of an incorrect or expired patent number but also intent by the marker to deceive the public. Moreover, because of the fraud-like nature of § 292 false marking claims, at least one district court has held that intent to deceive must be pled with particularity because false marking is a fraud-based claim which is subject to the heightened pleading requirements of Rule 9(b).⁶

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¹ 590 F.3d 1295 (Fed. Cir. 2009).

² *Id.* at 1301.

³ *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790 (E.D. Va. 2009) (holding that an offense is only committed when a party makes a distinct decision to mark falsely).

⁴ This figure is current up through May 17, 2010, based on a survey of case filings through www.docketnavigator.com.

⁵ Whenever a patent is issued by the United States Patent & Trademark Office, it is assigned a unique number that can then be used to identify the patent. See MANUAL OF PATENT EXAMINING PROCEDURES (MPEP) 1309: ISSUE OF PATENT, *available at* http://www.uspto.gov/web/offices/pac/mpep/mpep_e8r5_1300.pdf.

⁶ *Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009). Previously, the Eastern District of Texas and Middle District of Florida had both found that only notice pleading is necessary in a false marking case. *Astec America, Inc. v. Power-One, Inc.*, No. 6:07-cv-464, 2008 WL 1734833, at *9 (E.D. Tex. Apr. 11, 2008) (holding defendant had cited no authority

In addition, the Federal Circuit has recently implied that the intent element of a false marking should be pled with particularity.⁷

II. BACKGROUND ON 35 U.S.C. § 292

¶3 35 U.S.C. § 292(a) states: “Whoever 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 . . . [s]hall be fined not more than \$500 for every such offense.”⁸ Section 292 has been identified as a *qui tam* statute.⁹ *Qui tam* originates from 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.”¹⁰ The false marking statute is penal in nature, and the party bringing the action need not be a victim of the alleged wrong.¹¹ Accordingly, a false marking claim may be prosecuted by anyone who can satisfy constitutional standing requirements.¹² Any proceeds recovered by a private claimant through a false marking claim are divided evenly between the person and the United States.¹³ Claims for false marking are subject to a five-year statute of limitations.¹⁴

¶4 The marking provisions of the United States Code are intended to give the public notice of patent rights, but marking falsely without the support of a valid patent deprives the public of potential contribution.

requiring claims for false marking to be pled with particularity, therefore plaintiff’s claim satisfied the threshold requirements for notice pleading); *Third Party Verification, Inc. v. Signaturelink, Inc.*, 492 F. Supp. 2d 1314, 1327 (M.D. Fla. 2007) (holding there was no case law that required the Rule 9 level of pleading to claims for false marking). Significantly, both of these cases were decided before *Juniper Networks*. The Federal Circuit has not yet addressed this issue directly. However, in light of *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009), one can anticipate that the Federal Circuit may be favorably disposed to requiring false marking cases to be pled with particularity.

⁷ *Stauffer v. Brooks Bros., Inc.*, 2010 WL 3397419, at *6 (Fed. Cir. Aug. 31, 2010)

(“We remand for the court to address the merits of the case, including Brooks Brothers’ motion to dismiss pursuant to Rule 12(b)(6) ‘on the grounds that the complaint fails to state a plausible claim to relief because it fails to allege an “intent to deceive” the public—a critical element of a § 292 claim—with sufficient specificity to meet the heightened pleading requirements for claims of fraud imposed by’ Rule 9(b).”).

⁸ 35 U.S.C. § 292(a) (2006).

⁹ *Stauffer*, 2010 WL 3397419, at *3 (“The Supreme Court, this court, and the Second Circuit have repeatedly treated it as such. See *Vermont Agency of Natural Res. v. United States ex rel. Stevens*, 529 U.S. 765, 768 n.1 (2000) (listing § 292(b) as one of four *qui tam* statutes currently in force”); see also, *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010) (referring to § 292 as a *qui tam* provision); *Boyd v. Schildkraut Giftware Corp.*, 936 F.2d 76, 79 (2d Cir. 1991) (stating that § 292 is enforceable by a *qui tam* remedy).

¹⁰ *Stevens*, 529 U.S. at 769 n.1.

¹¹ *Pequignot*, 646 F. Supp. 2d at 801.

¹² *Brooks Brothers*, 2010 WL 3397419, at *3.

¹³ *Id.* at *1, quoting 35 U.S.C. § 292.

¹⁴ *Arcadia Mach. & Tool Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124, 1125 (Fed. Cir. 1986) (holding a false marking action is subject to 28 U.S.C. § 2462, which imposes a 5 year statute of limitations on any action for the enforcement of any civil fine); *Pequignot*, 646 F. Supp. 2d at 793, n.3 (holding the statute runs backwards from the time suit is filed, meaning the plaintiff cannot sue based on any markings that occurred before 5 years prior to date of filing).

¶5 Acts of false marking deter innovation and stifle competition in the marketplace. If an article that is within the public domain is falsely marked, potential competitors may be dissuaded from entering the same market. False marks may also deter scientific research when an inventor sees a mark and decides to forego continued research to avoid possible infringement.¹⁵

¶6 Those who falsely mark should not be permitted to take advantage of the marking statute and represent themselves as patent owners in the marketplace. So great was Congress's interest in preventing false marking that it enacted § 292 as a *qui tam* statute to encourage individuals to bring suit.

III. ELEMENTS OF A FALSE MARKING CLAIM

¶7 To prevail on a false marking claim, a plaintiff must establish two elements: that the defendant (1) marked a patent number on an unpatented article (2) with intent to deceive the public.¹⁶

A. *Marking of an Unpatented Article*

¶8 With respect to the first element, an “unpatented article” is an item that “is not covered by at least one claim of each patent with which the article is marked.”¹⁷ An article is considered unpatented when “no patent, foreign or domestic, is pending or has been issued for it or for a portion of it; or when any of the patents asserted on its behalf do not in fact cover it; or when any patent which once covered it has expired.”¹⁸ Thus, a product that was once labeled and protected under a valid patent becomes “unpatented” once that patent expires. If the manufacturer or seller continues to mark its “unpatented articles” with the expired patent number, he is susceptible to a § 292 suit.

B. *With Intent to Deceive the Public*

¶9 The second element—intent to deceive the public—pays tribute to the statute's purpose of preventing fraud. The courts are clear that § 292 is not a statute of strict liability.¹⁹ “Intent to deceive is a state of mind arising when a party acts with sufficient knowledge that what it is saying is not so and consequently that the recipient of its saying will be misled into thinking that the statement is true.”²⁰ Accordingly, an honest mistake that results in mismarking a product will not trigger liability.²¹

¶10 Knowledge that a product has been falsely marked serves as proof of intent to deceive. While intent is subjective in nature, the law allows intent to be established by objective criteria. “Thus, ‘objective standards’ control and the *fact* of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to

¹⁵ Forest Group Inc. v. Bon Tool Co., 590 F.3d 1295, 1302–03 (Fed. Cir. 2009) (citations omitted).

¹⁶ *Id.* at 1300.

¹⁷ Clontech Lab., Inc. v. Invitrogen Corp., 406 F.3d 1347, 1352 (Fed. Cir. 2005).

¹⁸ CHARLES DOYLE, CONG. RESEARCH SERV., R 40786, QUI TAM: AN ABBREVIATED LOOK AT THE FALSE CLAIMS ACT AND RELATED FEDERAL STATUTES 4 (2009).

¹⁹ *Clontech*, 406 F.3d at 1352.

²⁰ *Id.*

²¹ *Id.*

warrant drawing the inference that there was a fraudulent intent.”²² Knowledge of the falsity must be established by a preponderance of the evidence that the accused party did not have a reasonable belief that the articles were properly marked. Absent proof of the lack of reasonable belief, there can be no liability under § 292. The Federal Circuit in *Pequignot v. Solo Cup Co.* has adopted the *Clontech* standard²³ that an inference of intent depends on “whether [the plaintiff] proved by a preponderance of the evidence that [the defendant] did not have an honest good faith belief in marking its products”²⁴ The *Clontech* opinion is the key legal authority for evaluating intent to deceive under § 292.

¶11 The presumption of intent can be rebutted by the defendant with a showing of good faith. However, “the mere assertion by a party that it did not intend to deceive will not suffice to escape statutory liability.”²⁵ The defendant must provide actual evidence. “Whether evidence suffices to rebut the presumption turns on a fact-specific examination of the defendant’s conduct.”²⁶

IV. CASES INVOLVING EXPIRED PATENTS GIVE RISE TO A WEAKER PRESUMPTION

¶12 According to the Eastern District of Virginia, the regular notice pleading that can get a plaintiff into court on a false marking claim will not furnish the same presumption of intent in the case of expired patents. In *Pequignot*, the court held that when “false markings at issue are expired patents that had previously covered the marked products, the *Clontech* presumption of intent to deceive is *weaker*, because the possibility of actual deceit, as well as the benefit to the false marker, is diminished.”²⁷ One rationale behind the weaker inference is that anyone can look up the patent and see that the expiration date has passed, reducing the likelihood of deception.²⁸

¶13 Based on *Pequignot*, the presumption of intent in cases involving expired patents is a half-step down from the standard *Clontech* presumption. “[A]lthough some presumption of deceptive intent exists when a product is knowingly marked with an expired patent, that presumption is weaker than when a product is marked with an unexpired patent that does not cover the product.”²⁹ Of course, if someone falsely marks an article with an expired patent with actual intent to deceive, § 292 is violated.³⁰

¶14 It logically follows that a weakened presumption of intent should be rebuttable with a lesser showing of good faith. For example, in *Pequignot*, the defendant was a manufacturer of disposable flatware that marked its plastic cup lids with a patent that had been expired for nine years. An application of the *Clontech* standard of review led to a weakened presumption of intent even though the Defendant admitted it knowingly marked its lids. The cup lids were produced by stamping machines using mold cavities that were expensive to replace. At trial, evidence showed that Solo Cup was advised by its attorneys that it was permissible to continue stamping its products with the existing

²² *Id.* (citing *Norton v. Curtiss*, 433 F.2d 779, 795–96 (C.C.P.A. 1970)).

²³ *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363–64 (Fed Cir. 2010).

²⁴ *Clontech*, 406 F.3d at 1355.

²⁵ *Id.* at 1352.

²⁶ *Pequignot*, 646 F. Supp. 2d at 797 (quotation and citation omitted).

²⁷ *Id.* at 797–98 (emphasis added).

²⁸ *Id.*

²⁹ *Id.* at 798.

³⁰ *Id.* at 798 n.15.

mold and expired patent number so long as it took reasonable steps to replace the cavities over time and did not otherwise manifest an intent to deceive the public.³¹ There was also evidence that Solo Cup had implemented a business plan to replace the mold cavities as the existing ones wore out. The replacements would have the expired patent number removed. Accordingly, Solo Cup successfully rebutted the presumption of intent by showing that it relied in good faith on the advice of counsel and that it acted out of a motive to reduce costs and business disruptions, and not for the purpose of deceiving the public.³² The *Pequignot* standard effectively raises the bar for plaintiffs to succeed in false marking cases involving expired patents by lowering the threshold for defendants to defeat the presumption of intent.

V. NEW FOCUS ON DAMAGES

¶15 35 U.S.C. § 292 states the plaintiff shall recover “not more than \$500 for every such offense.”³³ Historically, “every offense” was interpreted as a continuous act of false marking, which did not make a sizeable recovery for *qui tam* plaintiffs. As recently as the *Pequignot* case, courts have awarded only one fine for each continuous act or each distinct decision to falsely mark.

¶16 In *Pequignot*, the Court adopted Solo’s position of a single fine per continuous act of false marking, which the court considered supported by the majority of case law addressing damages under § 292. In support of its argument, the court cited the seminal case of *London v. Everett H. Dunbar Corp.*, “[A] plaintiff, in order to recover more than a single penalty, must go further than to prove the marking of a number of unpatented articles. The proof must be sufficiently specific as to time and circumstance to show a number of distinct offenses”³⁴

¶17 The Federal Circuit abandoned this long-held approach in *Forest Group* when it reinterpreted “every offense” to apply to every falsely marked article. “The statute requires a fine to be imposed for every offense of marking any unpatented article. The act of false marking is the offense punished by the statute . . . [therefore] the statute clearly requires that each article that is falsely marked with intent to deceive constitutes an offense under 35 U.S.C. § 292.”³⁵

¶18 In departing from the hundred-year-old ruling in *London*, that a single fine should be imposed per continuous act of false marking, the Federal Circuit explained that the false marking statute had evolved.³⁶ The original false marking law imposed a *minimum* penalty of \$100. Congress amended § 292 in 1952 to allow a *maximum* fine of \$500. At the time of the *London* decision, the \$100 minimum penalty would make application on a per article basis inequitable. If a defendant who was found to have falsely marked products had manufactured a large number of inexpensive products, then being assessed with a penalty of at least \$100 per article could drive many such defendants out of

³¹ *Id.* at 793–94.

³² *Id.* at 798.

³³ 35 U.S.C. § 292 (2006).

³⁴ *Pequignot*, 646 F. Supp. 2d at 801 (citing *London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910)) *vacated in part as moot*, 608 F.3d 1356, 1365 (Fed. Cir. 2010).

³⁵ *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1301 (Fed. Cir. 2009).

³⁶ *Id.*

business. Now, district courts have the discretion to assess the per article fine in any amount not to exceed \$500 to enable the court to fashion a penalty that is sufficiently punitive for the defendant to remove improper patent numbers from future products without risking its complete bankruptcy. In light of the distinction, “Congress’[s] affirmative change of the statute’s penalty from a minimum to a maximum fine eliminated the policy consideration expressed by the court in *London* of not imposing disproportionate fines for the false marking of small and inexpensive articles.”³⁷ The fact that § 292 provides for *qui tam* actions supports the Federal Circuit’s construction.³⁸ Splitting a single fine of \$500 with the government would not provide sufficient financial motivation for plaintiffs who incur the enormous expense of patent litigation. In addition, a single fine per continuous act of false marking has little deterrent effect on the wrongdoer and would render the statute ineffective.³⁹ As a consequence, § 292 now presents a potentially serious financial burden to companies that inadvertently continue to mark products with numbers from expired patents.

VI. CONCLUSION

¶19 The courts are beginning to witness an explosion of new false marking cases in the wake of the Federal Circuit’s recent ruling in *Forest Group*. However, while the court has made false marking cases potentially more lucrative, prospective plaintiffs considering filing such cases, particularly ones based on expired patents, should realize that their path is strewn with hurdles that may be difficult to overcome. Plaintiffs must show the products were falsely marked and the defendants knew of the falsity. The inference of intent to deceive is then subject to rebuttal by a wide array of good faith evidence by the defendant. Plaintiffs will have particular difficulty in the case of expired patents in which the presumption of fraudulent intent is weaker—as in the case of expired patents.

¶20 Finally, even if the plaintiff is able to obtain a judgment of false marking, the rewards may not be as great as expected. In its decision to impose § 292 fines on a per article basis, the Federal Circuit cautioned: “By allowing a range of penalties, the statute provides district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.”⁴⁰ Thus, defendants should be prepared to vigorously defend any false marking claim, challenge the presumption of intent to deceive, and show that in the event the false marking statute is violated, any penalty should be meted out in proportion with the low margins typically associated with mass produced, inexpensive articles.

³⁷ *Id.* at 1302.

³⁸ *Id.* at 1304.

³⁹ *Id.* at 1303.

⁴⁰ *Id.* at 1304.