

# AVOID BEING AN EASY TARGET PREVENTING PATENT MARKING LAWSUITS

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In 2009 and 2010, the Federal Circuit Court issued three significant decisions that dramatically changed the legal landscape of patent marking claims. Before these decisions, patent marking lawsuits that accused companies of marking products with expired or inapplicable patent numbers were relatively rare. Court rulings that capped damages at \$500 *per decision* pertaining to falsely marked products failed to motivate many plaintiffs to bring false patent marking lawsuits.

However, the Federal Circuit then interpreted the \$500 penalty as applying *per falsely marked article*, and further opined that the standing requirement may be satisfied by any person, regardless of whether the person alleged a competitive injury resulting from the alleged false patent. Perceiving these developments as an opportunity for large damage awards, the plaintiffs' bar began filing a torrent of false patent marking lawsuits on behalf of non-competitive plaintiffs.

In response to these mass filings, Senate Judiciary Chairman Patrick Leahy (D-VT) proposed the Patent Reform Act of 2011. If the Patent Reform Act of 2011 is passed as adopted by the Senate Judiciary Committee, only plaintiffs who allege a competitive injury will have standing to bring a false patent marking lawsuit. As we

await the fate of the Patent Reform Act of 2011, it is incumbent upon in-house counsel of product manufacturing companies and outside counsel defending these companies to understand how to prevent these claims.

## TRENDS IN PATENT MARKING CASES

United States law, 35 U.S.C § 292, prohibits sellers of goods from marking products or packaging with expired patent numbers or patent numbers that do not cover the product upon which they appear. Any seller who falsely marks a product is subject to a penalty of \$500 for each offense. The statute allows any person to sue to recover the penalty on behalf of the United States; if the person is successful, they share the recovery equally with the government.

Courts historically interpreted the \$500 recovery permitted under Section 292 as applying *per decision*. However, in *Forest Group, Inc. v. Bon Tool Company*, 590 F.3d 1295 (Fed. Cir. 2009), the U.S. Court of

Appeals for the Federal Circuit clarified the penalty as applying *per article*, not *per decision*. The Federal Circuit acknowledged that a *per article* penalty may encourage "a new cottage industry" of false marking litigation by plaintiffs who have not suffered any harm." *Id.* at 1303. However, the court further opined that a penalty of "not more than \$500" would guard against "disproportionately large penalties for small, inexpensive items produced in large quantities." *Id.* at 1304. This, unfortunately, has not proved to be true.

In *Pequignot v. Solo Cup Company*, the Federal Circuit held that products marked with an expired patent number may constitute false marking, but a plaintiff must still prove that the false marking was done with the intent to deceive the public. A rebuttable presumption of intent arises from a false marking paired with knowledge of the falsity. In *Pequignot*, Solo successfully rebutted the presumption by providing credible evidence that it did not leave the expired patent numbers on its products to



deceive the public, but did so in good faith reliance on the advice of counsel and to reduce costs and business disruption as it phased out the products that referenced the expired patents.

In *Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321 (Fed. Cir. 2010), the Federal Circuit considered whether an individual plaintiff had standing to bring a false patent marking lawsuit. The court reaffirmed that Section 292, which provides that “[a]ny person may sue for the [\$500 per article] penalty, in which one-half shall go to the person suing and the other to the use of the United States,” is a *qui tam* statute. “[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.’” *Brooks Bros.*, 619 F.3d 1321, 1325. In other words, a *qui tam* plaintiff can establish standing merely by alleging that the United States has suffered an injury in fact that is causally connected to the defendant’s conduct.

As a result of the Federal Circuit’s decisions in *Bon Tool*, *Pequignot* and *Brooks Brothers*, false patent marking lawsuits have become financially enticing for opportunistic plaintiffs and their counsel, and the obstacle of establishing standing has been more easily overcome. This, in turn, has caused the number of patent marking claims to multiply exponentially.

### OVERVIEW OF THE FALSE MARKING PROVISION IN THE PENDING PATENT REFORM ACT OF 2011

To guard against the continued flood of patent marking lawsuits, Congress proposed the Patent Reform Act of 2010. The 2010 bill was the first piece of legislation to propose an amendment requiring *qui tam* plaintiffs to allege a competitive injury resulting from the alleged false patent marking. Additionally, the proposed reform provides for the application of the bill to all cases pending at the date of enactment. This provision would eliminate standing in already-filed cases in which plaintiffs failed to allege a competitive injury.

Although the 2010 bill failed to pass, Senate Judiciary Chairman Patrick Leahy remained an undeterred proponent of patent reform. Leahy recently introduced the Patent Reform Act of 2011, which proposes the same key provisions as the 2010 bill: Section 292 plaintiffs would be required to allege a competitive injury, and, if enacted, the bill would apply to all cases pending as of the date of the bill’s enactment. Proponents of patent reform were recently encouraged when the Senate Judiciary Committee passed the Patent Reform Act of

2011 and sent it to the Senate floor for consideration.

### PREVENTING PATENT MARKING CLAIMS

Until Congress passes a patent reform bill that requires Section 292 plaintiffs to allege competitive injury, virtually anyone can bring a false patent marking lawsuit against a product manufacturer. To avoid becoming a target of such a claim, product manufacturers and their counsel can take the following preventative measures:

- **Consult with Counsel Regarding Patent Marking Policies**

Companies that mark their products with patent numbers should consult with counsel regarding their patent marking policies. This is particularly important for manufacturers of mass-produced consumer goods, as those products seem to be the target of opportunistic plaintiffs attempting to reap a financial benefit from filing false patent marking lawsuits.

- **Maintain a Patent Inventory**

Product manufacturers should maintain a list of patents that are applicable to each product they manufacture and send to market. Maintaining a current list of the patents and their respective expiration dates allows a manufacturer to effectively monitor the status of patents, and will facilitate efforts to remove expired patents from products.

- **Remove Expired Patents from Products**

Expired patents should be promptly removed from products. To the extent that the removal of expired patents is delayed or completed in phases, companies should document the good faith or business-related reasons for the delay. As in *Pequignot*, such documentation will help the company rebut the presumption that the expired patents remained on the products in an attempt to deceive the public.

- **Avoid Marking a Product with Multiple Patents that May or May Not Cover the Product**

A product should only bear applicable patents. If a company is unsure whether a patent applies to a particular product, the company should seek the opinion of counsel. A false marking plaintiff may attempt to show that the inapplicable patent is demonstrative of the manufacturer’s intent to deceive. The manufacturer will be better able to defend against the plaintiff’s claim if it possesses a formal opinion concerning the applicability of the patent to the product at issue.

- **Ensure Patents on Redesigned or Modified Products are Still Applicable**

If a manufacturer redesigns or modifies a product, it should also evaluate whether the patents that were marked upon the original product still apply to the redesigned/modified product and its packaging. Any inapplicable patents should be removed.

- **Remove Unowned or Disclaimed Patents from Products**

If the manufacturer sells or disclaims a patent, the patent should be promptly removed from the products on which the patent appears. Additionally, the manufacturer should document the sale or disclaimer of a patent in the company’s patent inventory.

### CONCLUSION

With its decisions in *Bon Tool*, *Pequignot* and *Brooks Brothers*, the Federal Circuit has unfortunately opened the floodgates for patent marking claims. While the political climate may be ripe for patent reform efforts, the passage of patent reform legislation will take time and is not guaranteed. Product manufacturers should therefore take preventative measures to ensure that each product they sell bears current and appropriate patents. Paired with the manufacturer’s reliance upon counsel who is knowledgeable in this area of law, such efforts could ultimately spare your company or client from a large exposure.



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