



TIP SHEET™

an informational newsletter on intellectual property matters

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INTELLECTUAL PROPERTY
PRACTICE GROUP

Tony Rahhal, Group Leader
anthony.rahhal@mcafeetaft.com
(405) 552-2306

Rachel Blue
rachel.blue@mcafeetaft.com
(918) 574-3007

John Burkhardt
john.burkhardt@mcafeetaft.com
(918) 574-3001

Bob Dace
bob.dace@mcafeetaft.com
(405) 552-2268

Cliff Dougherty
cliff.dougherty@mcafeetaft.com
(405) 552-2302

Matt Gibson
matt.gibson@mcafeetaft.com
(405) 552-2348

Bill Hall
bill.hall@mcafeetaft.com
(405) 552-2218

John Kenney
john.kenney@mcafeetaft.com
(405) 552-2244

Mike LaBrie
michael.labrie@mcafeetaft.com
(405) 552-2305

Sasha Legere
sasga.legere@mcafeetaft.com
(405) 270-6011

Ryan Lobato
ryan.lobato@mcafeetaft.com
(405) 552-2390

Mike McClintock
michael.mcclintock@mcafeetaft.com
(405) 552-2213

Jim McMillin
james.mcmillin@mcafeetaft.com
(405) 552-2280

MAKING YOUR MARK

INCREASED POTENTIAL LIABILITY FOR FALSE PATENT MARKING



BY RYAN LOBATO
ryan.lobato@mcafeetaft.com

Recently, a judicial decision raised the penalties for incorrectly labeling patented products by multiple powers of 10, potentially exposing manufacturers to staggering increases in liability. Here's an example: a manufacturer makes a run of 100,000 widgets and marks them with expired, incorrect or inapplicable patent numbers. Until December 2009, the maximum fine for false patent marking that could be assessed against the manufacturer would have most likely been \$500. Now, however, the maximum fine allowed by statute would be \$50,000,000. This is a dramatic increase.

The relevant statute is 35 U.S.C. § 292 and the violation is called "false marking." False marking consists of attaching incorrect patent numbers or terms (such as "patented" or "patent pending") to articles in order to mislead others as to its patent status. Under the language of the statute, false marking an article (or selling an article falsely marked) incurs a civil penalty of up to \$500¹ on a per "unpatented article" basis.

Historically, a single large-scale production run of a falsely marked unpatented article was considered one "continuous"² offense since all of the articles were identical. In late 2009, however, the landscape changed significantly. In *Forest Group Inc. v. Bon Tool Co.*,³ the Court of Appeals for the Federal Circuit held that the false marking statute should be interpreted to assess a fine up to \$500 for each improperly marked article. Consequently, the risk involved with patent marking has increased significantly, which leads to situations like the one mentioned at the outset. Tempering this staggering result is the discretionary power of the court to assess fines less than \$500 per article.⁴ In assessing the fine, courts are likely to take into account the relative cost of the articles, the quantity marked, the actual intent of the offending party and the ability of the offending party to pay.

Importantly, as recounted in the *Forest Group* decision, a key purpose of the false marking statute is to permit what are known as *qui tam*⁵ actions. *Qui tam* actions allow private parties to assist in prosecution of an offense and, as recompense, receive a portion of the penalty imposed by the state. *Qui tam* actions are part of the False Claims Act.⁶ As a result, any third party who becomes aware of a falsely marked product may have standing to sue under the statute. The ability for any party, e.g., non-competitors without a particularized injury, to bring a *qui tam* false marking suit was affirmed on August 31, 2010, by the Federal Circuit Court of Appeals.⁷ As noted in *Forest Group*, this provides significant incentive for a non-competitor, private third party to use or, according to some, abuse this process. In fact, several entities have been formed and incorporated in patent plaintiff-friendly forums such as the U.S. District Court for

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the Eastern District of Texas for the sole purpose of bringing and profiting from these actions against unsuspecting patent owners. Consequently, while in the past *qui tam* false marking suits were among the least common patent-related lawsuits, more than 350 *qui tam* false marking suits have been filed since January 1, 2010. In short, the pieces are moving and the game is in play.

Further complicating the situation for manufacturers is the expanding number of circumstances which may constitute “false marking” under the statute. The statutory requirements are two-fold: (1) actual falsity in the patent marking on the article, and (2) intent to deceive the public.

With respect to actual falsity, it was formerly the case that if a product was marked with multiple patent numbers and at least one patent covered the article, there was no violation of the statute.⁸ In 2005, however, the Federal Circuit held that the subject article must be “covered by at least one claim of each patent with which the article is marked.”⁹ While conditional language (e.g., “may be covered by one or more of the following patents”) may be sufficient to escape liability,¹⁰ this is not necessarily the case.¹¹

While the actual falsity prong has been somewhat dynamic, the intent to deceive prong has remained comparatively constant. To satisfy the “intent to deceive the public” requirement, a party alleging false marking must show by a preponderance of the evidence that the accused party did not have a reasonable belief that the articles were properly marked.¹²

Intent to deceive the public has undergone some legal development. Recent case law has held that articles bearing expired patent numbers may also satisfy the false marking requirements of the statute, since such articles (1) are marked with patent numbers which are now invalid, and (2) patent owners may be assumed to know when their patents expire and may further be assumed to have marked their articles with this knowledge (thus the intent to deceive the public may be legally presumed).¹³ In cases where the article is falsely marked solely because the relevant patent expired, the legal presumption of intent to deceive is weak; nevertheless, the presumption of intent to deceive still exists. Since more than 80% of the false marking suits filed this year have been filed for this reason,¹⁴ this is an important point of which to be aware.

As a result of these developments, legal commentators have suggested that businesses consider one or more of the following actions:

1. Inventory all articles manufactured or sold and identify any patent terms or numbers;
2. Verify that the only patent numbers on the article are patents whose claims cover the article;
3. Ensure any underlying patents are still valid and take note of their expiration/ maintenance fee due dates, scheduling the appropriate action in response to these dates; and
4. Carefully consider use of conditional language (e.g., “may be covered by”) in conjunction with the markings, but this does not appear to be a foolproof approach.

INTELLECTUAL PROPERTY PRACTICE GROUP

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Chris Miller

chris.miller@mcafeetaft.com
(918) 574-3043

Richard Miller

richard.miller@mcafeetaft.com
(405) 552-2249

Andy Peterson

andy.peterson@mcafeetaft.com
(405) 552-2333

Jenna Perry

jenna.perry@mcafeetaft.com
(918) 574-3019

Reid Robison

reid.robison@mcafeetaft.com
(405) 552-2260

Jay Shanker

jay.shanker@mcafeetaft.com
(405) 552-2385



Should a party be sued for false marking, depending on the facts, several defenses may be available.¹⁵ It is also worth noting that in the only two cases to have awarded damages for false marking as of September 1, 2010, both claims were brought by defendants as counterclaims in larger lawsuits. Third party *qui tam* plaintiffs have not yet recovered damages from the court for independently raised *qui tam* false marking violations, unrelated to other litigation, but there are hundreds of cases pending in early stages of the litigation process.

While this provides some perspective on recent legal developments, there are strategies for avoiding and responding to these suits. The Intellectual Property practice group at McAfee & Taft has experience avoiding, deterring and defending these suits and has developed tactics relating to false marking claims. If you have any follow-up questions or concerns about your false marking prevention program, please feel free to contact us at your earliest convenience.

Please be aware that the above article contains legal information and not legal advice. This article is intended to inform clients and associates of McAfee & Taft about recent legal developments and should not be relied on for any other purpose.

¹ Advertisers may also be held liable for false marking. See *Inventorprise, Inc. v. Target Corp.*, 2009 WL 3644076 (N.D.N.Y. Nov. 2, 2009), currently on appeal, (stating that those who only advertise mismarked products may likewise be found to have violated the false marking statute if they have done so “for the purpose of deceiving the public” when “drawing attention to the false marking” itself.)

² See *London v. Everett H. Dunbar Corp.*, 179 F. 506, 507-09 (1st Cir. 1910).

³ 590 F.3d 1295 (Fed. Cir. 2009)

⁴ The fee in *Forrest Group*, for example, was assessed on remand by the District Court at \$180 per article.

⁵ *Qui tam* comes from the Latin phrase *qui tam pro domino rege quam pro se ipso in hac parte sequitur*, meaning “[he] who sues in this matter for the king as [well as] for himself.”

⁶ 31 U.S.C. § 3729 *et seq.*

⁷ *Stauffer v. Brooks Brothers, Inc. v. United States* (Fed. Cir. 2010)

⁸ See, e.g., *Santa Anita Mfg. Corp. v. Lugash*, 369 F.2d 964, 967-68 (9th Cir. 1966).

⁹ *Clontech Labs. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005)

¹⁰ See, e.g., *Arcadia Mach. & Tool Inc. v. Sturm, Ruger & Co.*, 1985 WL 5181 (C.D. Cal. June 25, 1985), *aff'd*, 786 F.2d 1124 (Fed. Cir. 1986).

¹¹ *Hart-Carter Co. v. J.P. Burroughs & Son Inc.*, 605 F.Supp. 1327, 1342 (E.D. Mich. 1985) (stating that conditional language and extraneous patent markings confuses and misleads competitors.)

¹² See *Clontech Labs Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005). Notably, an accused party’s mere assertion that it did not intend to deceive “is worthless as proof of no intent to deceive where there is knowledge of falsehood.” *Id.* at 1352.

¹³ *Pequignot v. Solo Cup Co.*, 540 F.Supp.2d 649, 654 (E.D. Va. 2008)

¹⁴ See Erin Coe, *Stauffer Paves Way For New False Marking Defenses*, [available online here](#), last accessed September 9, 2010.

¹⁵ See, e.g., *Brinkmeier v. Bayer Healthcare LLC*, case number 10-cv-00001, and *Brinkmeier v. Bic Corp. et al.*, case number 09-cv-00860, in the U.S. District Court for the District of Delaware, dismissing false marking suits for failure to state a claim on which relief could be granted and for failure to plead allegations of fraud with required particularity, respectively.



OKLAHOMA CITY

TWO LEADERSHIP SQUARE
TENTH FLOOR
211 N. ROBINSON
OKLAHOMA CITY, OK 73102
405.235.9621

TULSA

1717 S. BOULDER
SUITE 900
TULSA, OK 74119
918.587.0000

www.mcafeetaft.com

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