

NEW FEDERAL CIRCUIT DECISION SPURS WAVE OF FALSE PATENT MARKING *QUI TAM* ACTIONS

Over 20 years ago, the Federal Circuit decried the “absolute plague” that inequitable conduct charges had become in patent cases. Conscious of the risk, the Federal Circuit nevertheless has unleashed yet another patent law “plague” with its recent decision in *Forest Group v. Bon Tool Company*, No. 2009-1044, 2009 WL 5064353 (Fed. Cir. Dec. 28, 2009), regarding false patent marking. Although that decision is barely two months old, there already has been a wave of *qui tam* lawsuits filed on behalf of the US government that seek to capitalize on the increased potential for damages for false patent marking under the *Forest Group* decision.

The patent statute has long included a provision establishing penalties for falsely marking an item as patented with deceptive intent. See 35 U.S.C. § 292. The issue was seldom litigated, however, and the few cases applying the false marking provision awarded only nominal damages for the act of false marking. In *Forest Group*, the Federal Circuit reviewed a district court’s decision that Forest had falsely marked its products as covered by its patent, for which the district court assessed a US\$500 fine for a single offense of false marking. *Id.* at *2. Forest sued Bon Tool for infringement of a patent directed to stilts commonly used in construction, and Bon Tool counterclaimed, alleging false marking under § 292. *Id.* at *1. In February 2007, the district court issued its claim construction, which interpreted the claimed “resiliently lined yoke” to require a lining distinct from the yoke itself. *Id.* In August 2007, the court granted summary judgment in Bon Tool’s favor. In a separate, co-pending declaratory judgment action against Forest, a second court interpreted the claim in a nearly identical manner, and that court also granted summary judgment of non-infringement on November 15, 2007. *Id.* at *2. The stilts that Forest sold did not include the resilient lining that was required under both courts’ claim constructions, yet Forest obtained and sold additional stilts after November 2007, and those stilts continued to be marked with Forest’s patent number. *Id.* The district court found that Forest had the requisite knowledge that its stilt was not covered by its own patent as of November 2007 and fined it a total of US\$500 for its sales of stilts marked with the patent number after that date. *Id.*

On appeal, the Federal Circuit agreed with the district court’s finding that Forest falsely marked its stilts no later than November 2007. The court did take issue,

Brussels

+32 (0)2 290 7800

Denver

+1 303.863.1000

London

+44 (0)20 7786 6100

Los Angeles

+1 213.243.4000

New York

+1 212.715.1000

Northern Virginia

+1 703.720.7000

San Francisco

+1 415.356.3000

Washington, DC

+1 202.942.5000

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however, with the district court's calculation of the penalty. According to the court, the plain language of the statute requires that the penalty be imposed for every offense of marking any unpatented article. *Id.* The court reviewed a line of prior cases beginning with *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), which had generally issued a fine for each decision to falsely mark, as opposed to a fine for each article so marked, but determined that the plain language of the current statute required that the fine be imposed for each article that is falsely marked. *Id.* at *4-5. Moreover, imposing the fine for each falsely marked article supports the statute's purpose of providing the public accurate notice of patent rights. *Id.* at *5. According to the court, as more articles are falsely marked, there is a greater chance that a competitor will see the falsely marked article and be deterred from competing. *Id.* The court further reasoned that imposing a single penalty for a decision to falsely mark would render the statute ineffective, since few plaintiffs would bother to bring an action where the maximum recovery would be US\$500, which then must be split with the United States. *Id.* at *6.

By increasing the potential recovery, *Forest Group* opened the door to a potentially large number of lawsuits brought by plaintiffs who identify perceived instances of false marking. The court acknowledged that its decision might encourage a "new cottage industry" of false marking litigation but held that the statutory language plainly required the penalty be imposed for each instance of false marking. *Id.* Aware of the possibility of runaway penalties, the court noted that under § 292 each falsely marked article could be fined "*not more than* \$500," so courts are permitted to find a balance between encouraging enforcement of accurate patent marking with the risk of imposing large penalties for inexpensive items that are mass produced. *Id.*

Notwithstanding the Federal Circuit's reminder that the actual amount of the per article penalty is in the district court's discretion, the *Forest Group* decision already has spawned over 25 *qui tam* actions seeking to capitalize

on alleged false patent marking. Unlike marking cases brought in the past, however, none of these cases appear to have been brought by a competitor of the entity allegedly engaged in false patent marking.

On February 23, 2010, a *qui tam* action alleging false marking was filed in the Northern District of California by the "Patent Compliance Group, Inc." against Activision Publishing Inc. alleging that Activision falsely labeled its popular line of Guitar Hero products as falling within the scope of several patents. The suit alleges three claims: false marking with out-of-scope patents, false patent pending marking, and false advertising. The lawsuit seeks a fine of up to US\$500 for each Guitar Hero product at issue, with half the fine going to the US government and the other half to the plaintiff. Two false marking cases also have been filed in the Eastern District of Texas. On February 22, 2010, S.C. Johnson & Co. and Energizer Holdings Inc. were sued for false patent marking for allegedly knowingly marking products with patent numbers that have expired and/or that otherwise do not cover the marked products. On February 23, 2010, the same day as the *Activision* suit, an individual plaintiff brought a *qui tam* action under 35 U.S.C. § 292 against Able Planet, Amazon.com, Target Stores, Wal-Mart, and others alleging false marking with respect to Able Planet's noise canceling headphones and other products. Several other cases also have been filed in the Southern District of New York by the "Public Patent Foundation," a nonprofit corporation that purports to represent consumers against misuses of patents. And, in the Northern District of Illinois, one plaintiff filed over 20 false marking complaints just last week.

Whether any of these actions will be successful remains to be seen. Certain of the complaints do not appear to meet the *Iqbal/Twombly* pleading standard. For example, the *S.C. Johnson* complaint identifies only "exemplar" falsely marked products and includes only a conclusory legal allegation, and no facts, regarding defendants' intent to deceive the public through the false marking. There also currently is a dispute among the district courts regarding

the standing of a non-competitor to bring *qui tam* false marking actions. While the statute provides that “any person” may bring such an action, one court recently dismissed a false marking action on the ground that the plaintiff lacked Article III standing because he had failed to provide evidence of actual harm to the government or consumers from the false marking. *See Stauffer v. Brooks Brothers, Inc.*, 615 F. Supp. 2d 248, 254-255 (S.D.N.Y.2009) (“Accordingly, the actionable injury in fact that the government is able to assign would have to be an injury to it or to the public stemming from fraudulent or deceptive false marking.”). The *Stauffer* court expressly rejected the determination in *Pequignot v. Solo Cup Co.*, 640 F. Supp.2d 714, 724 (E.D. Va. 2009), that standing can be found for purposes of a Section 292 claim based solely on the United States government’s “sovereign interest” in seeing its laws upheld. *Id.*

Both the *Stauffer* and the *Solo Cup* decisions currently are on appeal to the Federal Circuit. At least one court in the Southern district of New York has stayed its decision on a motion to dismiss a false marking case pending the outcome of *Stauffer*.

In the meantime, companies should consider auditing their patent and patent pending product markings to ensure that products are no longer being marked with the numbers of expired patents and that the marked products actually are covered by the patents identified by the marking. Putting in place patent marking procedures and controls may help establish a lack of intent to deceive in the event that improper marking occurs. And, if you are sued for false marking, consider moving to dismiss on lack of standing grounds and/or seeking a stay pending resolution of *Stauffer* and *Solo Cup*.

We hope that you have found this advisory useful. If you have additional questions, please contact your Arnold & Porter attorney or:

James S. Blackburn

+1 213.243.4063

James.Blackburn@aporter.com

Matthew N. Bathon

+1 202.942.6395

Matthew.Bathon@aporter.com