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New Federal Circuit Decision Spurs Wave of False Patent Marking *Qui Tam* Actions

By James Blackburn and Matthew Bathon

More than 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*,[1] regarding false patent marking. Although that decision is barely five 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.[2] 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 Group had falsely marked its products as covered by its patent, for which the district court assessed a $500 fine for a single offense of false marking. Forest Group sued Bon Tool for infringement of a patent directed to stilts commonly used in construction, and Bon Tool counterclaimed, alleging false marking under § 292. 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.

In August 2007, the court granted summary judgment in Bon Tool's favor. In a separate, copending declaratory judgment action against Forest Group, 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. The stilts that Forest Group sold did not include the resilient lining that was required under both courts' claim constructions, yet Forest Group obtained and sold additional stilts after November 2007, and those stilts continued to be marked with Forest Group's patent number. The district court found that Forest Group had the requisite knowledge that its stilt was not covered by its own patent as

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of November 2007 and fined it a total of $500 for its sales of stilts marked with the patent number after that date.

On appeal, the Federal Circuit agreed with the district court's finding that Forest Group had falsely marked its stilts no later than November 2007. The court did take issue, however, with the district court's calculation of the penalty. According to the Federal Circuit, the plain language of the statute requires that the penalty be imposed for every offense of marking any unpatented article. The court reviewed a line of prior cases beginning with *London v. Everett H. Dunbar Corp.*,[3] 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.[4] Moreover, imposing the fine for each falsely marked article supports the statute's purpose of providing the public accurate notice of patent rights. 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. 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 in which the maximum recovery would be $500, which then must be split with the US government.

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. 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.[5]

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 more than 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: (1) false marking with out-of-scope patents, (2) false patent pending marking, and (3) false advertising. The lawsuit seeks a fine of up to $500 for each Guitar Hero product at issue, with half the fine going to the US government and the other half to the plaintiff.

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.

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 had expired and/or that otherwise did 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 recently filed more than 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 pleading standard for federal court established by *Bell Atl. Corp. v. Twombly* and *Ashcroft v. Iqbal*.[6] Under this standard, a plaintiff must "plead facts sufficient to place the alleged infringer on notice as to what he must defend."[7] Many of the recently filed false marking complaints do not appear to meet this standard, particularly with respect to the intent-to-deceive element of a false marking claim. 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.

Many of the plaintiffs in the new false marking actions also may lack standing to assert such claims. While the false marking 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.[8] In *Stauffer v. Brooks Brothers, Inc.*, the district court held that, even though § 292 is a *qui tam* provision authorizing "anyone" to pursue an action on behalf of the government, a false marking plaintiff must still "satisfy the 'irreducible constitutional minimum' of standing."[9] The court found that the first requirement for standing—injury in fact—required that the plaintiff (who admittedly had suffered no injury himself) allege that the false marking had "caused an actual or imminent injury in fact to competition, to the United States economy, or the public that could be assigned to him as a *qui tam* plaintiff." Because the plaintiff had failed to allege such injury, he lacked standing to pursue his false marking claim.[10]

The *Stauffer* court acknowledged that another district court recently had reached the opposite conclusion on the same issue. In *Pequignot v. Solo Cup Co.*,[11] the district court rejected defendant's argument that the claim should be dismissed for lack of standing. According to the *Solo Cup* court, false patent marking does not involve a proprietary injury to the US government but rather an injury to its sovereignty. Accordingly, standing to assert a false marking claim under § 292 can be based solely on the US government's "sovereign interest" in seeing its laws upheld.

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*.

Notes

1. Forest Group v. Bon Tool Co., No. 2009-1044, 2009 WL 5064353 (Fed. Cir. Dec. 28, 2009).
2. *See* 35 U.S.C. § 292.
3. London v. Everett H. Dunbar Corp., 179 F. 506 (1st Cir. 1910).
4. *Id.* at *4-5.
5. *Id.*
6. *See* Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007) (antitrust complaint must include sufficient facts to state a claim to relief that is plausible on its face; merely conceivable claims are subject to dismissal); Ashcroft v. Iqbal, 129 S. Ct. 1937, 1953 (2009) (*Twombly* applies to "all civil actions.").
7. McZeal v. Sprint, 501 F.3d 1354, 1357 (Fed. Cir. 2007).
8. *See* Stauffer v. Brooks Brothers, Inc., 615 F. Supp. 2d 248, 254-255 (S.D.N.Y. 2009).
9. *Id.* at 253.
10. *Id.* at 255.
11. Pequignot v. Solo Cup Co., 640 F. Supp. 2d 714, 724 (E.D.Va. 2009).