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Client Alert

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Federal Circuit Rules That False Marking Statute Requires Penalties *Per Article*

"Proper marking can be a powerful tool in that it provides constructive notice of the specified patent or patents, and thus allows a plaintiff to recover damages for the time period beginning with the commencement of substantial and continuous marking. However, the *Forest Group* decision reminds us that care is warranted, because the penalty for false marking must be imposed on a per article basis and claims for false marking can be filed by anyone."

Introduction

35 U.S.C. § 292 provides, in part: "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."

On December 28, 2009, the Court of Appeals for the Federal Circuit ruled in *Forest Group, Inc. v. Bon Tool Co.*, No 2009-1044 (Fed. Cir. Dec. 28, 2009) (*Forest Group*) that the penalties associated with violations of 35 U.S.C. § 292, apply on a per article basis, reversing the district court's imposition of a $500 fine "for a single decision to falsely mark." The court also acknowledged the explicit language of the statute permitting third parties to bring *qui tam* actions to enforce the statute.

The Purpose of the False Marking Statute

Companies often mark their products with patent numbers, or as "patent pending", "patent applied for", or "protected by one or more of the following patents." Indeed, marking products with patent numbers can serve as constructive notice to potential infringers, and allow patent holders to collect damages for past infringement. *See* 35 U.S.C. § 287. Products falsely marked or advertised as "patented" or as covered by specific patents can, according to the *Forest Group* court, dissuade potential competitors from creating similar products, deter scientific research, and cause unnecessary investment to analyze issues regarding validity, enforceability or design-around. According to the Federal Circuit, the false marking statute is intended to prevent those consequences. *Forest Group, Inc. v. Bon Tool Co.*, No. 2009-1044, 2009 WL 5064353, at *5 (Fed. Cir. Dec. 28, 2009).

To successfully assert a claim under the statute, a party must prove both (a) that an article was improperly marked or advertised as covered by a patent when in fact it is not so covered, and (b) that this was done with an intent to deceive the public. If such a showing is made, the district court has discretion to impose a fine of up to $500 for each article improperly marked or advertised as covered by a patent. The district court is not required to impose the full $500 penalty for each such article. As stated in *Forest Group*: "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

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small, inexpensive items produced in large quantities. In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty." *Id.* at *6.

Implications and Practice Considerations

Potential Increase in False Marking Claims

By explicitly confirming the ability of third parties to bring *qui tam* actions and clarifying that penalties under the false marking statute must be imposed on a per article basis, the Federal Circuit has laid the legal groundwork to allow opportunistic plaintiffs to assert false marking claims. False marking claims are likely to increase.

Potential Low Hanging Fruit for Plaintiffs: Expired Patents

An expired patent no longer protects a previously covered product; so the question arises: is the continued marking of a product with the number of an expired patent false marking under the statute?

The only Federal Circuit case on point, *Arcadia Machine & Tool, Inc. v. Sturm, Ruger & Co.*, 786 F.2d 1124 (Fed. Cir. 1986), suggested that inadvertently marking with an expired patent is not false marking. In *Arcadia*, the Court upheld summary judgment of no false marking because "whatever errors… were inadvertent, the result of oversight, or caused by patent expirations." *Id.* at 1125. Despite this dicta, in a 2008 district court decision, the court found that *Arcadia* did not directly address the issue of marking with expired patents. Treating the issue as a question of first impression, the court in *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649 (E.D. Va. 2008) held that marking with an expired patent with intent to deceive was false marking and may be a violation of the statute.

Although other district courts have followed *Pequignot*, the Federal Circuit has yet to address the decision and it is unclear whether the Federal Circuit will adopt its reasoning. It is also unclear whether the Federal Circuit would hold that the "intent to deceive" element is necessarily met when a product is marked with an expired patent — particularly since expiration is a very easy thing for a potential competitor to check on its own, and one can easily conceive of situations where a failure to remove an expired patent from a marking or advertisement is a simple result of inadvertence or negligence, and not deceptive intent. That said, until there is a contrary ruling by the Federal Circuit, it is likely that plaintiffs, relying on *Pequignot*, will target expired patents under the false marking statute, which has the added benefit (for such plaintiffs) of eliminating the need to prove that none of the patent's claims actually cover the product (since, by definition, the claims of an expired patent provide no exclusionary right).

Marking With Current Patents In Addition to Expired Patents May Not Help

The marking statute refers to false marking or advertising with respect to any "unpatented article." Early cases suggested that, where a product is in fact covered by at least one valid marked patent, including in a marking or advertisement additional inapplicable or expired patents might not violate the statute since the product is not an "unpatented article." More recently, however, the Federal Circuit stated in dicta that the statute requires the product to be "covered by at least one claim of each patent with which the article is marked." *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005). In light of this ruling, prudence suggests that, even where unexpired patents cover a product, expired patents be removed from markings and advertisements for that product, and other patents that

are known not to be applicable to that product not be included in the first place.

Markings Containing Conditional Language May Arguably Violate the Statute

Companies may not be able to avoid a claim of false marking by modifying a marking or advertisement with conditional or imprecise language such as "*may be* protected by *one or more* of the following patents," thereby avoiding a definitive statement that the article is covered by all of the patents in the listing. In *Pequignot*, the district court held that a marking does not need to explicitly state that the product is in fact covered by a patent to constitute false marking: "the practical effect of such a marking is similar to a more forceful statement; it functions as a *de facto* 'no trespassing' sign." *Pequignot*, 540 F. Supp. 2d at 655. *See also Astec American, Inc. v. Power-One, Inc.*, No. 6:07-cv-464, 2008 WL 1734833, at *11 (E.D. Tex. Apr. 11, 2008) (noting that the use of conditional statements in patent markings does not preclude a finding of false marking). The Federal Circuit has not yet addressed the issue.

Regular Review of Patent Listings is a Good Idea

To reduce potential exposure to liability under the false marking statute, companies can establish routine procedures to review patent lists so that inapplicable and expired patents are excluded (or, if inadvertently included, are removed). Because penalties will be assessed on a per article basis, prompt updates should minimize damages exposure and will also help undermine efforts to establish intent to deceive.

Patent Licensees Should Consider Marking Issues and Contractual Obligations/Indemnities

Some patent licensees are contractually bound to mark licensed products. If this is the case, the licensee may wish to require the licensor to provide indemnity in the event the licensee is sued for false marking. Such an obligation would presumably also motivate the licensor to be more careful about the term and coverage of patents the licensor demands to be included in any marking obligation. This is an issue that should be considered in the context of a licensing process.

Infringement Defendants Should Consider False Marking Counterclaims

In *Forest Group*, the defendant (Bon Tool Company) asserted — and prevailed on — a false marking counterclaim against the plaintiff. Such a counterclaim should be considered where the plaintiff in a patent infringement litigation sells products and marks or advertises such products as patented. Indeed, in *Forest Group*, the plaintiff was found liable for false marking as to the very patent at issue, which the district court had found was both (a) not infringed, and (b) inapplicable even to the plaintiff's marked product.

Marking Still Provides the Benefit of Starting the Damages Clock – But Care is Warranted

Proper marking can be a powerful tool in that it provides constructive notice of the specified patent or patents, and thus allows a plaintiff to recover damages for the time period beginning with the commencement of substantial and continuous marking. However, the *Forest Group* decision reminds us that care is warranted, because the penalty for false marking must be imposed on a per article basis and claims for false marking can be filed by anyone. This suggests that "marking trolls" may be on the lookout for opportunities to file false marking suits, which suggests that vigilance to ensure proper marking is warranted.

If you have any questions about this *Client Alert*, please contact one of the authors listed below or the Latham attorney with whom you normally consult:

Mark A. Flagel
+1.213.891.7581
mark.flagel@lw.com
Los Angeles

Bob Steinberg
+1.213.891.8989
bob.steinberg@lw.com
Los Angeles

William W. Yu
+1.213.891.7854
william.yu@lw.com
Los Angeles

Neil A. Rubin
+1.213.891.8841
neil.rubin@lw.com
Los Angeles

Maximilian A. Grant
+1.202.637.2267
max.grant@lw.com
Washington, D.C.

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