

ClientAlert

Intellectual Property

Forest Group Spawns a Flurry of False Marking Litigation

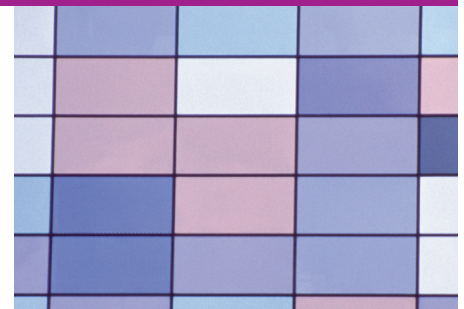
If anyone had any doubts whether the Federal Circuit's December 28, 2009 decision in *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009) would lead to a spate of new litigation over false marking, the answer has arrived already.¹ A brief search indicates that more than 30 false marking lawsuits were filed so far this year and at least 18 were filed in less than a week in February 2010.

As if the patent field were not challenging enough for manufacturers, on December 28, 2009, the Federal Circuit issued a decision that should give any patent owner that marks its products with patent numbers reason to pause. In *Forest Group*, the Federal Circuit held "that the plain language of 35 U.S.C. § 292 requires courts to impose penalties for false marking **on a per article basis**." 590 F.3d at 1304 (emphasis added). In so holding, the Federal Circuit vacated the district court's ruling that imposed a fine of US\$500 only on a per decision to mark basis. This decision potentially exposes the patent owner to fines of up to US\$500 for each **article** that is falsely marked, rather than a single US\$500 fine for each decision to mark a type of article. Although the Federal Circuit explained that the US\$500 fine was a maximum fine per article, and that district courts have wide discretion to award sums as small as fractions of a penny for mass-produced products,² the potential penalties assessed for false marking a mass-produced article will almost certainly encourage more lawsuits by private parties who get to split the award with the United States.

The False Marking Statute

35 U.S.C. § 292 provides in relevant part:

- (a) ...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... Shall be fined not more than [US]\$500 for every such offense.
- (b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.



For more information, please contact:

Kevin X. McGann
Partner, New York
+ 1 212 819 8312
kmcgann@whitecase.com

Dimitrios T. Drivas
Partner, New York
+ 1 212 819 8286
ddrivas@whitecase.com

Susanna Chenette
Associate, Palo Alto
+ 1 650 213 0352
schenette@whitecase.com

¹ A copy of the case is available on the Federal Circuit website at <http://www.ca9c.uscourts.gov/opinions/09-1044.pdf>.

² 590 F.3d at 1304.

The language of the statute itself requires not only marking an unpatented article, but also doing so with an intent to deceive the public. *Forest Group*, 594 F.3d at 1300. As such, a party asserting a false marking claim must demonstrate, by a preponderance of the evidence, that the patent owner did not have a reasonable belief that the articles were properly marked. *Id.* Once a court finds that a patent owner has knowledge of the falsity of the marking, merely asserting a lack of intent, without evidence to support the assertion, is worthless. *Id.*

The Facts of the Forest Group Case

In *Forest Group*, a competitor charged with infringement of Forest Group's patent asserted a counterclaim for false marking. In a previously initiated case against Warner Manufacturing Company, the district court granted summary judgment of non-infringement. In *Warner*, the court found that the accused products (stilts) lacked a "resiliently lined yoke," which the court determined was required by the appropriate claim construction. *Forest Group*, 590 F.3d at 1299. This same feature was also absent from the patent owner's own stilts and the patent owner was advised by counsel to revise its stilts to include such a feature. *Id.* Nonetheless, after the summary judgment of non-infringement in the *Warner* case, the patent owner ordered additional stilts without the "resiliently lined yoke," but continued to mark the stilts with the patent number at issue. *Id.* The Federal Circuit accepted the district court's decision that at least as of the date of the summary judgment ruling, the patent owner had knowledge that its patent did not cover its commercial embodiment; thus, the patent owner was aware that the marking was false. *Id.* at 1300. Although the Federal Circuit found no flaw in the district court's decision that the particular patent owner in *Forest Group* did not have sufficient knowledge of the mismarking until after the summary judgment decision issued, the Federal Circuit took pains to point out that the particular patentees did not have "'strong academic backgrounds'" and were not patent savvy. *Id.* It is far from clear whether sophisticated patent owners will be given the same treatment or whether they will be held to a higher standard.

Policy Considerations and the Road Ahead

While the Federal Circuit found that "every such offense" in the statute means that a patent owner may be fined up to US\$500 for each article that is mismarked, the Federal Circuit provided little guidance in several other areas. For example, the questions of (i) what factors should a district court consider in its discretion when determining the amount to award per article and (ii) does the statute apply to articles marked with expired patents remain open.

Policy considerations may shed some light on these issues. As the Federal Circuit observed in *Forest*, 35 U.S.C. § 292

operates to encourage enforcement of false marking claims because mismarking may discourage competition, increase costs associated with design-around efforts and stifle innovation. *Id.* at 1303-04. The Federal Circuit noted, however, that district courts should use discretion to avoid imposing disproportionately large penalties for what may be a relatively minor offense. *Id.* at 1304.

In view of these policies and the statutory requirement of intent to deceive, there is certainly room for a patent owner to assert that marking a product with an expired patent is not a violation of 35 U.S.C. § 292. For example, the expiration of a patent may be readily determined from the public records at the United States Patent and Trademark Office, accessible to the public at www.uspto.gov. Moreover, listing an expired patent on a product may promote competition since the listing identifies a disclosure describing the product and/or its method of manufacture. By emphasizing these points, a patent owner may enhance its argument that it had no intent to deceive and hence there is no violation of the statute.

The Federal Circuit may get the chance to answer some of these questions in the appeal from *Pequignot v. Solo Cup Company, Inc.* 646 F. Supp. 2d 790 (E.D. Va. 2009) ("*Solo*"). In *Solo*, the district court found there was no intent to deceive and granted summary judgment for the patent owner, where the patent owner's products were marked with expired patents. *Id.* at 800. The products in question were made from molds that were expensive and not often replaced. *Id.* at 793 Further, acting with the advice of counsel, Solo did not replace existing molds as patents expired, but did institute a policy that when new molds were ordered, the expired patents should be removed from the mold so that products made thereafter would not contain the patent number for the expired patent. *Id.* at 798-99. The district court found that Solo's conduct defeated any rebuttable presumption of intent to deceive that might arise from Solo's knowledge that the patent in question had expired. *Id.* at 800.

Lessons and More Questions

Although subject to review by the Federal Circuit, *Solo* provides some further insight for patent owners. Policy considerations suggest that if a patent owner has been making a product using existing tooling or other equipment, or placed orders for products or packaging for those products before the patent expired, the patent owner may not be required to discard inventory or immediately replace expensive investments. For example, consider the burdens on a manufacturer that uses specific tooling or molds to make its products (such as Solo) or on a semiconductor designer or manufacturer that marks its products via expensive masks used in lithographic processes to make the devices. Requiring these patent owners to immediately destroy or

discard these investments as patents expire is not economically sensible and may only serve to drive up consumer prices. Moreover, patent owners in some fields, such as the pharmaceutical field, may require FDA approval to change their labels or packaging.

How will licensees and licensors handle patent marking issues? A licensor will want its licensee to mark the products made under the license. Does a licensee's decision to take a license under a patent provide a reasonable basis to believe the product is covered by the patent and thereby defeat a claim for false marking? Should licensees who are required to mark the licensed products demand indemnity for false marking claims? If the outcome of these unresolved matters is that fewer products are marked with patent numbers simply to avoid the risk of false marking claims, has the public really benefited?

Conclusions

Patent owners would be wise to consider an audit of their marked products to identify and correct any errors and/or determine whether to mark their products at all in view of the comparative risks of liability for false marking and reduced damages for infringement if the products are not marked (see 35 U.S.C. § 287). Further, although an audit may put a patent owner on notice of a false marking, patent owners, particularly sophisticated patent owners, should not necessarily assume that the courts will be as generous to them in assessing whether they had knowledge as the courts were with Forest Group. Certainly, once a patent owner becomes aware that a patent-marked product is not covered by at least one claim of the marked patent(s) or a patent has expired, it would be wise to cease marking the product with the patent number or at the very least document the reasons the product is still marked (e.g., manufacturing costs, post-expiration inventory, regulatory requirements, etc.).

An as yet untested alternative may be to indicate in the product labeling that the product is covered by certain listed patents until their expiration, which would provide even the unwary with notice that they should consider the expiration of patents. If accepted by the courts, this solution might also provide a mechanism to avoid the increased costs associated with revising the labeling as patents expire.

Defendants (and potential defendants) in patent infringement cases should consider false marking as a viable declaratory judgment claim or counterclaim.

Authored by Kevin X. McGann with Susanna Chenette

This Client Alert is provided for your convenience and does not constitute legal advice. It is prepared for the general information of our clients and other interested persons. This Client Alert should not be acted upon in any specific situation without appropriate legal advice and it may include links to websites other than the White & Case website.

White & Case has no responsibility for any websites other than its own and does not endorse the information, content, presentation or accuracy, or make any warranty, express or implied, regarding any other website.

This Client Alert is protected by copyright. Material appearing herein may be reproduced or translated with appropriate credit.