Patent Nation Seminar

Is Your Company Safe From False Marking?

Web Conference
March 17, 2010

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Background and History of False Marking

Professor Elizabeth Winston

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Brief History

- 1842: Congress enacts the first false marking statute – making it a fineable offense to mark an unpatented article as patented with the intent to deceive
- In the intervening 168 years there have been 11 circuit court decisions addressing the merits of the statute – three from the Federal Circuit

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Brief History (cont.)

- In 2008, over a dozen actions named the false marking statute as a count
- In 2009, at least nine cases were filed by "marking trolls"
- So far, in 2010, over 100 companies have been sued for false marking

The False Marking Statute 35 U.S.C. § 292

- Definition of Liability
  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 the same is patented, for the purpose of deceiving the public …
- Definition of the Fine
  b) … Shall be fined not more than $500 for every such offense

The False Marking Statute 35 U.S.C. § 292 (cont.)

- *Qui Tam* Provision
  - c) 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

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What is False Marking?

- Item must be marked
  - Each article marked is an offense
- Marking must be false
  - Item not patented
  - Patented vs. Patent Pending
  - Patent expired
  - Method is patented but not the product
  - Extraneous patents listed

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What is False Marking? (cont'd)

- Marking must have been made with intent to deceive
  - The marker must have had the specific intent to deceive the public into believing something that the marker knew to be false

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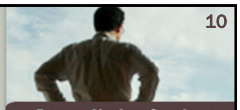
Why is False Marking Harmful?



- False marking hurts competition
  - Leads some to not use marked article
  - Inhibits innovation as risk-adverse competitors may choose to research other areas, wary of infringement claims
- False marking hurts consumers
  - There is at least a segment of the public that thinks patents are an imprimatur of the US government indicating that a device so marked is novel and non-obvious. To falsely mark, is to undermine the public's trust in the notice provided by a correctly marked patented device

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Why is False Marking Harmful? (cont.)

- False marking deceives the public and promotes fraud on the patent system devaluing the benefits of marking items patented
  - It hinders, rather than promotes, progress

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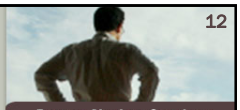
Why Do We Have a Qui Tam Action For False Marking?



- Qui tam actions do not require the instigator of the action, the relator, to show either injury or privity
- They promote an efficient use of government resources by granting rewards to those who sue on behalf of the government
- The limitations of government resources place restrictions on what public investigations can be carried out

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Why Do We Have a Qui Tam Action For False Marking? (cont.)

- Private investigations are usually undertaken because a private party's interest is affected and that party has the ability to seek and use the relevant information to prosecute the offense
- Qui tam actions exist in-between. The public is harmed, but the harm is one that a private party has a greater ability to investigate than the government
- Qui tam actions protect the public and supplement government efforts

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How Do We Render the False Marking Statute Economically Efficient?

- Start by awarding the maximum penalty – each article marked is an offense and each offense is punishable by a fine of up to $500
- Shift the burden of proof
- Reduce the fine based on the culpability of the false marker
  - The number of articles marked
  - The materiality of the false marking
  - The harm to competitors
  - The duration of the false marking
  - The harm to consumers

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Defense of False Marking Claims

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Defense Themes

- Law should encourage marking
  - Informs public and competitors of patent rights
  - Encourages innovation
  - Reduces litigation
- Discourage opportunistic litigation
- Validate commercially reasonable actions
  - J. Gray and A. Arntsen, *False Marking: Is Marking Worth the Trouble?*, 4 Bloomberg Law Reports-Intellectual Property 10 (3/8/2010)

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Defense Strategies: Initial Motions

- Motion to stay
  - Fed. Cir. Decision in *Stauffer v. Brooks Bros., Inc*, 615 F. Supp. 2d 248 (S.D.N.Y. 2009), Fed. Cir. App. Nos. 2009-1438, -1430 and -1453
  - Fed. Cir. Decision in *Pequignot v. Solo Cup Co.*, 646 F.Supp.2d 790 (E.D.Va. 2009), Fed. Cir. App. No. 2009-1547
  - Patent Reform Bill S. 515

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Defense Strategies: Initial Motions

- Motion to transfer venue
  - 28 U.S.C. § 1404
  - Little contact with filing forum
  - Little discovery from plaintiff
  - Information at defendant place of business
- In multi-defendant case, sever claims against various defendants
  - Misjoinder: Fed. R. Civ. P. 20 and 21

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Defense Strategies: Initial Motions

- Fed. R. Civ. P. 12(b) motions to dismiss
  - Plaintiff lack of standing (12(b)(1))
    - Article II
    - Article III
    - Government intervention
  - Failure to sufficiently plead intent (12(b)(6))
    - Criminal statute with civil penalties
    - Fed. R. Civ. P. 8(a)
    - Fed. R. Civ. P. 9(b)

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Defense Strategies: Substantive Defenses

- Substantive defenses (12(b)(6))
  - Product covered by a valid patent claim is not an "unpatented article"
  - Marking product with expired patent is not false marking
  - Marking in certain locations (*e.g.* user manual) is not advertising

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Defense Strategies: Tactical Issues

- Contention interrogatories to plaintiff
  - Intent to deceive
  - Claim coverage
- If appropriate, require proof that product not covered by valid claim
  - Claim charts
  - *Markman* process
  - Experts
- Commercial reasonableness of marking actions

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Forfeiture/Damage Issues

- 5 year limitations period 28 U.S.C. § 2462
- *Forest Group* gives trial court broad discretion
- Constitutional limits
  - Fair notice of both conduct punished and severity of penalty
    - *BMW v. Gore,*, 517 U.S.599 (1996)
    - *San Huan v. I.T.C.,* 161 F.3d 1347 (Fed. Cir. 1998)

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Forfeiture/Damage Issues

- Analogies to other remedies/forfeitures
  - EPA General Enforcement Policies #GM-21 and 22
  - FDA civil penalty framework 21 C.F.R. 17.34
  - FTC (15 U.S.C. § 45
  - State Little FTC Acts
  - OSHA 29 U.S.C. § 666
  - USDA *e.g.* 7 U.S.C. §§ 6501-6523
  - Criminal sentencing guidelines
  - Antitrust or Lanham Act remedies

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Insurance Coverage

- Standard CGL likely excludes
- Public D & O likely excludes
- Private D & O may cover defense costs, but not forfeiture
- Tender claim to insurer

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Terminating The Flood Of False Marking Actions

Settlement, Potential Legislative Changes

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Who is the Real Plaintiff?

- "When a legislative body enacts provisions enabling qui tam actions, those provisions carry with them an understanding that in such suits it is **the government**, and not the individual relator, who has suffered an injury resulting from violation of the underlying law and **is therefore the real plaintiff in the action**"

70 C.J.S. Penalties § 10 (emphasis added)

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Who is the Real Plaintiff?

- Qui Tam Relator as "agent" of the Government. *See, e.g., Gublo v. Novacare,* Inc., 62 F. Supp.2d 347, 351-52 (D. Mass 1999)
- A principal can direct and control its agent
- Unlike the FCA ("**for the person** and for the United States Government"), § 292 ("Any person may sue for the penalty") does not grant any individual rights in the action to the Relator

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Government Settlements?

- The FCA allows the Government to settle actions against the wishes of the relator. *See* 31 U.S.C. § 3730(c)(2)(B)
- No similar provision in 35 U.S.C. § 292
- The Government may have the right to intervene or control the litigation based on its role as the "principal" or "real party in interest"

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Government Settlements?

- The law is unclear on whether a company can settle a false patent marking lawsuit, once filed
- Early versions of the FCA had no provisions allowing for Government settlements
- The Senate addressed this point during one of its amendments of the FCA. *See* Senate Report 99-345 at 5275 (citing *United States v. Griswold*, 30 F. 762 (D. Ore. 1887)

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Government Settlements?

- The Senate Report misreads *Griswold*
- *Griswold* merely held that once a relator has obtained a judgment, under the predecessor FCA Statute, the Government cannot divest the relator of its share of the damages
- *Griswold* is silent on the Government's pre-judgment ability to settle a *qui tam* action
- No pre-judgment property interest even under *Griswold*

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Government Settlements?

- *Solo Cup*, 640 F. Supp.2d 714, 728-29 (EDVA 2009) supports the Government's ability to settle or intervene in a false patent marking lawsuit:
  - Intervention under FRCP 24(a)(2) or 24(b)
  - Move for protective order if suit interferes with a government investigation or prosecution
- *But see Brooks Brothers,* 2009 WL 1675397 (S.D.N.Y. June 15, 2009), denying intervention
- The Government has intervened in several cases to defend the constitutionality of § 292

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Proposed Legislative Changes

- Patent Reform Bill
- Proposed amendment to 35 U.S.C. § 292(b):
- Current Language
  - "(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"
- Proposed Language
  - "(b) A person who has suffered a **competitive injury** as a result of a violation of this section may file a civil action in a district court of the United States for recovery of **damages adequate to compensate for the injury**"

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Proposed Legislative Changes

- The proposed amendment applies to all pending and future actions on the date of enactment
- No recovery for Government
- Creates a private right of action
- No longer a *qui tam* statute?

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Patent Marking Strategy

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Costs and Benefits of Marking

- Patent Marking Program should support the Company IP Business Plan
- Costs of Marking
  - Evaluating patent claims for each product
  - Tracking product changes
  - Tracking expired and abandoned patents
  - Updating product dies, packaging, labels, advertising, literature
- Benefits of Marking
  - Prohibit Others from Using Company IP
  - Advertising
  - Licensing
  - Enforcement Damages

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Marking Benefits

- Six Year Time Limit of Damages
  - (35 U.S.C. 286): no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint . . . for infringement
- However, the six year period is further limited by actual or constructive notice to the infringer (35 U.S.C. 287)
- Marking as Constructive Notice
  - Constructive Notice for damages
  - Avoid requirements for actual notice
  - Avoid declaratory judgment suit

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Marking Requirements

- For marking to serve as notice there are a number of requirements:
  - WHO: Patentees and Licensees (Express and Implied)
  - WHAT: Patent 223,898 or Pat. 223,898
  - WHERE: Affixed to the Product Or On the Packaging if affixing the mark on the product can not be done based on the character of the article
  - WHEN: Continuous

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Marking Exceptions

- Notice Not Required for:
  - Patents Not Practiced –
    - U.S.C. 287 limits damages for failure to mark only where there is a "making, offering for sale, or selling" of a patented article
    - Damages begin from the date of infringement
  - Process Patents
    - If a product is covered by both process and product claims, notice IS required

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Avoiding a *Qui Tam* Action

- 35 U.S.C. 292 Prohibits Marking "for the purpose of deceiving the public"
  - Intent issue may turn on
    - A) Company policies on marking
    - B) Conduct upon notice of marking issue

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Avoiding a *Qui Tam* Action Establishing a Company Policy

- Establish a Formal Patent Marking Program and Procedure
  - Identify which patents support the Company's IP Business Plan
  - Create a System to track patents as they expire and/or abandoned
- Ensure the Patents to be Marked Cover the Products
  - Conduct an initial review
  - Review upon product change
- Mark only patents that cover the product
  - Avoid "May be covered by one or more of the following Patents"
- Create a System to track patents as they expire and/or abandoned
- Obtain Opinion of Counsel

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Avoiding a *Qui Tam* Action
Actions to take today

- Immediate Action – Focus on Expired Patents
- Remove all references to expired patents on the Internet pages of the Company
- Remove all Expired Patents from
  - Advertising
  - Product literature
  - Product packaging
  - Product labels
  - Products themselves (Where mark is on the die)

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