INTERESTING AND DEVELOPING ISSUES IN FALSE MARKING ACTIONS

by

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35 U.S.C. 292 False marking.

(a) Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, offered for sale, or sold by such person within the United States, or imported by the person into the United States, the name or any imitation of the name of the patentee, the patent number, or the words "patent," "patentee," or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee; or 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; or Whoever marks upon, or affixes to, or uses in advertising in connection with any article the words "patent applied for," "patent pending," or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public - Shall be fined not more than $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.

INTRODUCTION

For many years, False Marking Statute, 35 U.S.C. 292, lay sleeping, like a dormant giant. Seldom invoked by Patent Attorneys, and virtually, unknown outside the Patent Bar, the statute was infrequently pled and even more infrequently addressed in any written opinion. That changed in 2005 when the Federal Circuit issued the first of two important Federal Circuit Decisions in this area.

In 2005, the Federal Circuit issued its opinion in *Clontech Laboratories, Inc. v. Invitrogen Corp.,* 406 F.3d 1347 (Fed. Cir. 2005). The Federal Circuit dealt with and addressed two key issues that had served as impediments to false marking actions. The first impediment removed by the Federal Circuit concerned the concept of a " unpatented article." Prior to *Clontech,* there were cases holding that if any patent covered the product at issue, it was not an "unpatented article" even if the product was marked with other patents that did not apply to the product. In *Clontech,* the Federal Circuit that the issue of whether a product is, or is not an, "unpatented product" must be considered on a patent-by-patent basis:

> When the statute refers to an "unpatented article" the statute means that the article in question is not covered by at least one claim of ***each patent*** with which the article is marked.

* * * * *

> In each instance where it is represented that an article is patented, a member of the public desiring to participate in the market for the marked article must incur the cost of determining whether the involved patents are valid and enforceable. Failure to take on the costs of a reasonably competent search for information necessary to interpret each patent, investigation into prior art and other information bearing on the quality of the patents, and analysis thereof can result in a finding of willful infringement, which may treble the damages an infringer would otherwise have to pay. *See generally Knorr-Bremse Systeme Fuer Nutzfahrzeuge, GmbH v. Dana Corp.,* **383 F.3d 1337**, **1342** (Fed. Cir. 2004) (en banc)

(citing **35 U.S.C. § 284** for the law that "the court may increase damages up to three times the amount found or assessed.").

Clontech, 406 Fed.3d. at 1347, FN6 (emphasis added).

The second impediment removed by the Federal Circuit concerned the issue of deceptive of fraudulent intent. On this crucial issue, the Federal Circuit found that:

> Intent to deceive is a state of mind arising when a party acts with sufficient knowledge that what it is saying is not so and consequently that the recipient of its saying will be misled into thinking that the statement is true. *Seven Cases v. United States,* 239 U.S. 510, 517-18, 36 S.Ct. 190, 60 L.Ed. 411 (1916).
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> Intent to deceive, while subjective in nature, is established in law by objective criteria. *Id.* Thus, "objective standards" control and "the *fact* of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent". *See Norton v. Curtiss,* 57 C.C.P.A. 1384, 433 F.2d 779, 795-96 (1970). Thus, under such circumstances, the mere assertion by a party that it did not intend to deceive will not suffice to escape statutory liability. Such an assertion, standing alone, is worthless as proof of no intent to deceive where there is knowledge of falsehood.
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> But in order to establish knowledge of falsity the plaintiff must show by a preponderance of the evidence that the party accused of false marking did not have a reasonable belief that the articles were properly marked (i.e., covered by a patent). Absent such proof of lack of reasonable belief, no liability under the statute ensues.

By finding that fraudulent intent can be inferred through proof of: (i) the objective fact that a misrepresentation has been made coupled with (ii) proof that the party making it had knowledge of its falsity, the Federal Circuit planted the early seed for the explosion of false marking cases that we see today. *Clontech,* however, provided no real incentive for the initiation and maintenance of false marking actions, as it was still unclear the extent to which a successful plaintiff (or plaintiff's counsel) could obtain a meaningful recovery on their claims. While the issue of whether false marking action will produce the kinds of returns plaintiffs (and plaintiffs' counsel) have seen in traditional patent infringement actions is still an unanswered question, the Federal

Circuit's decision in *Bon Tools* upped the ante and provided a meaningful incentive for plaintiffs (and plaintiffs' counsel) to aggressively bring false marking claims.

Prior to the *Bon Tool* decision there was always an issue of what type of recovery could be obtained for a false marking action. Under the statute, a person found to have committed an act of false marking "shall be fined not more than $500 for every such offense" (with half going to the plaintiff).

Several very early cases treated false marking as a form of a continuing tort, such that the marking of a given product with an improper patent number constituted a single act of false marking – regardless of how many improperly marked articles were manufactured. See, e.g., *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910) The impact of these cases was that the total available recovery for such claim was $500 in total, or $250 for the plaintiff. While this approach was not universally followed, the potential for a $250 recovery was not nearly enough to encourage the filing of such actions. *See, e.g., Icon Health & Fitness, Inc. v. Nautilus Group, Inc.*, No. 1:02 CV 109 TC, 2006 WL 753002, at *16 D.Utah Mar. 23, 2006) (Recognizing that a single $500 fine for false marking on many occasions "would eviscerate the statute," and imposing a penalty for each week that false marking occurred).

This all changed in *Bon Tool.* In that case, however, the Federal Circuit squarely addressed the issue and held that: "the statute clearly requires that each article that is falsely marked with intent to deceive constitutes an offense under 35 U.S.C. § 202. *Forest Group v. Bon Tool,* 590 F.3d 1295 (Fed. Cir. 2009).

The combination of *Clontech* and *Bon Tools* resulted in an explosion of false marking litigation, much of it focused in California and Chicago. Based on non-scientific

data, it appears that the vast majority of these cases concern situations where a patent number is retained on a product or its packaging after that patent has expired.

In many ways, false marking actions are a new frontier of the patent bar. There is very little case law to guide the inner, detailed workings of these cases. There is much to be decided and much to be addressed. The purpose of this paper is to raise and discuss some of the more interesting outstanding issues associated with false marking actions and suggest how some of these issues may play into the maintenance and/or defense of a false marking action.

1. WHAT ARE THE PLEADING REQUIREMENTS FOR FALSE MARKING ACTIONS?

The initial issue for discussion is a very basic one: What types of pleadings are required to properly plead a false marking action and survive a motion to dismiss for improper or insufficient pleadings? If a plaintiff does not state a claim upon which relief can be granted, the court lacks subject-matter jurisdiction and must dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure. Fed. R. Civ. P. 12(b)(6).

To successfully establish a false marking claim under 35 U.S.C. 292, the plaintiff must establish three elements: (1) that the article falsely imports that the article is patented; (2) that the article is an "unpatented article"; and (3) that the marking is made "for the purposes of deceiving the public." *DP Wagner Mfg Inc. v. Pro Patch Systems, Inc.*, 434 F. Supp. 2d 445, 455 (S.D. Tex. 2006).

From the author's perspective, while other issues must be considered, there are two issues of primary concern: First, the pleading must include some allegation that the defendant has engaged in an act of false marking (*e.g.,* placing a patent number on a

product where no claim of the patent covers the product or where the patent has expired (more on that below)). This issue is a reasonably straightforward one and should not likely give rise to any significant pleading issues.

Second, in typical cases, the pleading must include allegations that the false marking was done with the intention to "deceive the public."[1] This requires, in essence, a finding that the party accused of false marking engaged in an act of actual fraud or, at a minimum, an act of quasi-fraud. As such, there is an issue of whether a false marking action is subject only to the pleading requirements of Fed. R. Civ. P. 8 or the higher standard of Fed. R. Civ. P. 9. there is the secondary issue of, if the more lenient standard of Fed. R. Civ. P. The Courts that have addressed this issue are split.

Several courts have found that because the false marking statute contains an allegation of deceptive intent, it is essentially a fraud-based claim and the heightened pleading standard of Fed. R. Civ. P. 9 applies. Rule 9(b) requires a party alleging fraud or mistake to plead with particularity the circumstances constituting fraud or mistake. Fed. R. Civ. P. 9(b).[2] *See, e.g., Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009).

Rule 9(b) is applied to cases that sound in fraud because there is an "obvious concern [ ] that general, unsubstantiated charges of fraud can do damage to a

[1] This discussion focuses on the type of false marking alleged in most pending cases and does not involve all of the alternate grounds for a finding of false marking in 35 U.S.C. §§292, such as, for example the ground that a product was marked with a patent number for purposes of "deceiving the public and inducing them to believe that the thing was made, offered for sale, sold, or imported into the United States by or with the consent of the patentee."

[2] Fed. R. Civ. P. 9(b): "Fraud or Mistake; Condition of Mind: In alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake. Malice, intent, knowledge, and other conditions of a person's mind may be alleged generally."

defendant's reputation." *Guidry v. Bank of LaPlace,* 954 F.2d 278, 288 (5th Cir. 1992). *See also Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009), citing *Vess v. Ciba-Geigy Corp. USA*, 317 F.3d 1097, 1103-04 (9th Cir. 2003) (claims that are "grounded in fraud" or that "sound in fraud" are subject to Rule 9(b)). The heightened standard is a safeguard which puts defendants on notice and allows them to properly defend against serious, reputation-harming allegations of fraud. *See Kearns v. Ford Motor Co.*, 567 F.3d 1120, 1125 (9th Cir. 2009). A party alleging fraud or mistake "must state with particularity the circumstances constituting fraud or mistake." Fed. R. Civ. P. 9(b). "Malice, intent, knowledge, and other conditions of a person's mind may be alleged generally." *Id.* Pleading the circumstances with sufficient particularity under Rule 9(b) requires a specification of the "who, what, when, where, and how" of the conduct alleged. *Exergen Corp. v. Wal-Mart Stores, Inc*., 575 F.3d 1312, 1327 (Fed. Cir. 2009). In addition, courts have required that under Rule 9(b), the pleading of intent requires "sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind." *See, e.g. Exergen Corp. v. Wal-Mart Stores, Inc*., 575 F.3d 1312, 1327 (Fed. Cir. 2009); *Tricontinental Indus., Ltd. v. PricewaterhouseCoopers*, LLP, 475 F.3d 832, 833 (7th Cir. 2007); 459 F.3d 273, 290.

The court in *Juniper* held that Juniper did not make sufficient allegations of Shipley's deceptive intent when it merely alleged that Shipley "knew the language to be false, and that no Dynamic Firewall [as required by the patent] . . . was functioning" when Shipley marked the website with the patent. *Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009). The court found this

to be a conclusory allegation that was insufficient under the Rule 9(b) standard to plead an intent to deceive. *Id.*

The court in *Brinkmeier* declined to resolve whether Rule 9(b) applied to false marking claims because it held that Brinkmeier failed to sufficiently plead the requisite element of intent to deceive "even under the liberal pleading standards of Rule 8(a)" when Brinkmeier did not provide any factual matter suggesting Graco's intent to deceive. *Brinkmeier v. Graco Children's Prods. Inc*., No. 09-262-JJF, 2010 WL 545896, at *11 (D. Del. Feb. 16, 2010). The court held that Brinkmeier only made conclusory allegations that did not contain enough factual matter to support its allegations. *Id.* Brinkmeier alleged that since the patents did not cover the marked products, Graco could not "have any reasonable belief that such products [we]re protected by such patents." *Id.* Brinkmeier made other conclusory statements that Graco "marked products . . . with expired patents for the purpose of deceiving the public into believing that something contained in or embodied in the products is covered by or protected by the expired patents." The court held in *Brinkmeier* that the pleading was sufficient only with respect to the '437 patent marking. *Id.* The court concluded in a footnote that the pleading was sufficient under Rule 8(a), and would meet the Rule 9(b) standard, when Brinkmeier provided specific facts supporting its allegation that Graco had knowledge of an expired '437 patent marking on its product. *Brinkmeier v. Graco Children's Prods. Inc*., No. 09-262-JJF, 2010 WL 545896, at *12 n.5 (D. Del. Feb. 16, 2010). Brinkmeier alleged that Graco had no reasonable belief that the product was covered by the '437 patent because Graco had been sued by two competitors for infringing the '437 patent

marking and had revised its patent markings at least thrice since the ‘437 patent expired. *Id.* at *11-12.

At least one commentator has noted that the potential for litigation abuse in false marking lawsuits counsels a more frequent use of the Rule 9(b) standard. *See* Jonathan L. Moore, *Particularizing Patent Pleading: Pleading Infringement in a Post-Twombly World*, 18 Tex. Intell. Prop. L.J. 451, 484-92 (2010) (arguing that the lower standard of notice pleading allows plaintiffs to turn a quick profit from settlement, at the expense of defendants who must spend a large amount of resources investigating and responding). This makes sense, especially with respect to cases alleging false marking on the continued making of a product with the number of a patent that has expired and that had claims describing the subject matter in the product. In such cases, the effort for Plaintiff (or Plaintiff’s counsel) to determine that the patent at issue has expired is trivial. It is only an Internet connection and a few clocks away. The cost and effort that is involved in defending against such a case, however, is significant.

Even if the more lenient standard of Rule 8(a) applies, a pleading is insufficient if it only makes conclusory allegations and merely recites the elements of the cause of action. *See Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007). At a minimum, the facts must be sufficient to allow the court to “draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2000).

Rule 8(a) states that a pleading must contain a “short and plain statement of the claim showing that the pleader is entitled to relief.” Fed. R. Civ. P. 8(a)(2). The claim must be plausible on its face, and factual allegations must go beyond “conclusions . . .

and a formulaic recitation of the elements of a cause of action." *Bell Atl. Corp. v. Twombly,* 550 U.S. 544, 555 (2007). The plaintiff "must plead factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal,* 129 S. Ct. 1937, 1949 (2009).

In applying the Rule 8(a) standard to false marking claims, the court held in *Brinkmeier* that Brinkmeier failed to sufficiently plead the requisite element of intent to deceive when it did not provide any factual matter supporting its allegation of Graco's intent to deceive. *Brinkmeier v. Graco Children's Prods. Inc.*, No. 09-262-JJF, 2010 WL 545896, at *11. Brinkmeier only made conclusory allegations, claiming that since the patents did not cover the marked products, Graco could not "have any reasonable belief that such products [we]re protected by such patents." Id. Brinkmeier made other conclusory statements that Graco "marked products . . . with expired patents for the purpose of deceiving the public into believing that something contained in or embodied in the products is covered by or protected by the expired patents." The court held that the pleading was sufficient only with respect to the '437 patent marking, in which Brinkmeier provided specific facts supporting its allegation that Graco had knowledge of an expired '437 patent marking on its product. *Id.* at *12.

Accordingly, even under Rule 8, a Complaint should plead sufficient factual allegations to allow the court to draw the reasonable inference that Cooper had the purpose of deceiving the public.

PRACTICE THOUGHTS: Until the pleading standard issue is conclusively resolved by the Federal Circuit (or the Supreme Court), it is suggested that a plaintiff advancing a false marking claim plead the claim in such a manner that it can meet the heightened

pleading standards of Fed. R. Civ. P. 9. That, however, does not mean that the Complaint need plead in multi-page, explicit detail, but rather in enough detail that the plaintiff can show that the pled facts, if accepted as true, would entitle the plaintiff to the inference of presumption of intent to deceive as set forth in *Clontech.*

For cases where an accused defendant is marking a product with the number of a patent whose claims cannot be reasonably construed to cover the marked product, this should be a relatively easy standard to meet. *See, e.g., Astec America, Inc. v. Power-One, Inc.* C.A. No. 6:07-cv-464, 2008 WL 1734833 (E.D. Tex. Apr. 11, 2008)

For claims based, on the continued marking of a product with the number of a patent that includes claim covering the patent, but that has expired, however, it may be difficult for a Plaintiff without some evidence of an actual intent to deceive to plead the facts necessary to give rise to a Clontech inference/presumption and, therefore, it may be difficult for such a plaintiff to meet the heightened pleading standards of Fed. R. Civ. P. 9. The practical implication of this conclusion is that if the Courts ultimately apply the heightened Rule 9 standard to False Marking – which at least one of the authors believes that they should – it may be difficult for Plaintiff's to maintain the type of cases that currently comprise the vast majority of false marking action.

2. IS THE CONTINUED MARKING OF AN EXPIRED PATENT NUMBER OF A PATENT, WITHOUT MORE, AN ACT OF FALSE MARKING? HOW DOES THIS RELATE TO THE PLEADING REQUIREMENTS?

The vast majority of pending False Marking actions involve situations where a party has continued to mark a product with the number of a patent that includes claims that cover the product, but that has expired. Estimates are that such claims comprise at least 80% of all currently-pending false marking claims, and some estimate that the

number is as high as 90%. Thus, the issue of whether the continued marking of a product with an expired patent can constitute False Marking and, if so, under what conditions, is one that the Courts will have to address with increasing frequency in the future.

There are few written opinions addressing this issue in detail. Offered below, however, are at least one author's thoughts on this issue.

Initially, the courts that have addressed the issue have found that the continued marking of a product with the number of an expired patent is the marking of an "unpatented" product, such that the marking of such product *could potentially* give rise to a claim of false marking if the required intent to deceive the public was shown*. See, e.g., See Pequignot v. Solo Cup Co.,* 540 F. Supp. 2d 649(E.D. Va. 2008). The rationale of such cases was articulated in some detail in the *Pequignot* opinion:

> Patent markings are an essential component of this system. The "Patent No. XXX" imprint is, in effect, a "no trespassing" sign. Would-be inventors and consumers justifiably rely on such marks to assume that the patent holder retains control over how the article can be used, displayed, modified, or licensed. As the Supreme Court has observed, those markings "provide [the public] a ready means of discerning the status of the intellectual property embodied in an article of manufacture or design." *Bonito Boats,* 489 U.S. at 162 (emphasis added).
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> Giving the patent holder free reign to list expired patent numbers on articles would upset this delicate balance. The public could no longer assume "the status of the intellectual property" by the simple presence of a "Patent No. XXX" marking. Potential inventors and consumers would be forced to look up every patent marking to discern whether the patent was valid or expired, possibly leading some to shy away from using that article. These burdens, when considered in the aggregate, inhibit the free flow of ideas and "the benefits of the unrestricted exploitation" with respect to those articles that have entered the public domain. *Scott Paper,* 326 U.S. at 255; *see also Clontech,* 406 F.3d at 1356-57 (observing that a false marking "misleads the public into believing that a patentee controls the article in question . . ., externalizes the risk of error in the determination, placing it on the

> public rather than the manufacturer or seller of the article, and increases the cost to the public of ascertaining whether a patentee in fact controls the intellectual property embodied in an article").
>
> For the reasons discussed above, marking an article with an expired patent number is a false marking under 35 U.S.C. § 292(a)."

The impact of these courts' holdings is that one could not succeed on a summary judgment that the continued marking of a product of an expired patent could, as a matter of law, never give rise to a valid claim of false marking. *See, e.g., Pequignot,* 540 F. Supp. 2d 649 (denying summary judgment on these grounds). The issue then, when a product continues to be marked with an expired patent number, turns on whether there is an intent to deceive. *See, Pequignot,* 540 F. Supp.2d at 650 ("To prevail on his claim, the plaintiff must further establish that the defendant affixed the expired patent marking "for the purpose of deceiving the public."").

There clearly are circumstances under which the continued marking of an expired patent – or the making of certain statements concerning an expired patent – can, and should constitute false marking. For example, if the patent covering a product has expired and the patentee and product manufacturer continue to promote its product through advertisements indicating that the product is "proprietary and covered by a patent" or otherwise directly represents in its promotional materials that the product at issue is available only from the patentee because it is patented, then the affirmative making of such statements may give rise to a false marking action. As another example, if a Patentee sends out a letter accusing another of infringement of an expired patent as a result of manufacturing the product once covered by the patent, or otherwise advances allegations of infringement with respect to the expired patent against a "copy" of the product once covered by the patent, false marking may arise.

Indeed facts similar to this have been found to give rise to valid claims of false marking. *See, e.g., DP Wagner Mfg Inc. v. Pro Patch Systems, Inc.*, 434 F. Supp. 2d 445, 455 (S.D. Tex. 2006).

As these examples indicate, the issue of whether continued marking with an expired patent constitutes false marking turns on whether there is an intent to deceive the public into believing that the product is, in fact, covered by a valid, enforceable patent. If there is no intent to deceive, there can be no false marking. *See, e.g., FMC Corp. v. Control Solutions, Inc.*, 369 F. Supp. 2d 539, 584 (E.D. Pa. 2005) (false marking not found because there was an absence of any evidence in the record demonstrating bad faith).

If a patent at one time covered a product, but the patent has now expired, is the mere continued marking in and of itself sufficient to warrant, or infer, a finding that there is an intent to deceive? That is the $100,000 question.

If the logic of *Clontech* is followed, the marking of the product with an expired patent would be the marking of an "unpatented product." Because the party marking the product would presumably be aware of the expiration of the patent, (*e.g.,* because its internal patent records, the general knowledge of the expiration of the patent, etc.) one would have a "false marking" coupled with knowledge of the false marking. Under *Clontech,* this combination of facts would be sufficient to infer an intent to deceive.

There are two problems with this analysis. First, it is not clear that merely because a patent has expired, the patentee will have actual knowledge of its expiration. While the expiration of the patent may be reflected in the record of a manufacturing company, that does not necessarily translate into actual knowledge of someone that the

patent has expired and a conscious decision to continue to mark the product to deceive the public. Indeed, at least one Court that has specifically addressed the issue has found that the allegation of continued marking with an expired patent – in and of itself – was not adequate to support a conclusory allegation of intent to deceive. In *Hollander v. Etymotic Research, Inc.*, No. 10-526, 2010 WL 2813015, *6 (E.D. Pa. Jul. 14, 2010) the Court dismissed a false marking complaint for failing to meet the pleading requirements where the only essential facts in the pleading were continued marking with an expired patent:

> [S]pecific facts showing Defendant's knowledge of falsity or intent to deceive are critically absent from the pleadings. Defendant has conceded only that its patents expired, not that it *knew* that those patents were expired when it marked its products. Although Plaintiff has alleged that Defendant knew or reasonably should have known that the products were marked with expired patents, Plaintiff attempts to support those allegations by averring merely that: (1) Defendant knows that patents have limited duration; (2) the patents at issue expired; and (3) Defendant continued to mark its products with those patents after expiration. Those allegations do not sufficiently articulate knowledge of falsity or intent to deceive because Defendant's knowledge of the limited duration of patents and the actual expiration of the patents do not create an inference that Defendant knew that the patents at issue actually expired. Moreover, Plaintiff's allegations based on information and belief are insufficient under Rule 9(b) where Plaintiff has failed to set forth specific facts upon which such belief is reasonably based. Therefore, Plaintiff's allegations do not meet Rule 9(b)'s heightened pleading standards.
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> *Id.*

A second issue is whether the marking of a product with an expired patent number, in the absence of proof of actual intent to deceive, should give rise to any type of inference of intent to deceive. As a practical matter, it is relatively easy to determine whether a patent is or is not in force by virtue of the expiration of its longest potential patent term. Generally, one need only review the case of the patent to determine that it

has expired based on the expiration of the term 20 years from the earliest filing date modified with the stated patent term extension. Under these conditions, where the expiration can be readily determined, is it truly fair to infer an intent to deceive under such circumstances? It is suggested that the answer should be no. If all that one has done is continue to mark a once-covered product with an expired patent, one could not reasonably expect any interested member of the public to be confused as to whether the product is currently protected by a patent. Any interested member of the public could immediately know, by inspection of widely available information, that the patent at issue has expired.

While very old, one false marking of interest on this matter is *Wilson v. Singer Mfg. Co.,* 12 F. 57 (C.C. N.D. Ill. 1882). In that case, the Defendant was accused of false marking by virtue of marking a product with an expired patent number. In that case, the Court found that the marking did not violate the then-false marking statute because the markings identified not only the patent number, but also the date of issuance of the patents. According to the *Wilson* court, because the expired statute of the patents was readily apparent to anyone familiar with the legal terms of a patent, there was no basis to find that the markings were affixed to deceive the public. "*Wilson,* 12 F. at 58.

In *Wilson,* the expiration of the patent was deemed to have been apparent because the markings included the issue date (this was at a time when the term of a patent was calculated from its issuance). In the world of today, anyone familiar with the legal terms of a patent who made the effort to obtain the patent at issue would essentially immediately know whether the natural term of the patent has – or has not –

expired. As such, it is believed that there is a strong basis against using the *Clontech* presumption of intent to deceive in connection with the marking of expired patents.

The discussion of the issue of a ready determination of the expiration date of a patent was in connection with the natural term of a patent. In situations where the enforceable life of a patent ends before its natural term by virtue of, for example: (i) failure to pay maintenance fees; (ii) a judgment that the patent is invalid or unenforceable; or (iii) the issuance of a reexamination certificate finding the claims unpatentable, continued marking may, when coupled with notice of the acts set forth above, be sufficient to warrant an inference of an intent to deceive.

PRACTICE CONSIDERATIONS: For new products that will be marked, consider including the earliest filing date on the face of the patent with the patent number if you have the space to do so. Alternatively, consider including, on the product and/or materials associated with the product, a link to a website that describes how the term of a patent can be determined and that includes PDF links to the patents whose numbers are placed on products. While these steps do not ensure a finding of a lack of intent, they are evidence that any marking of an expired patent was not done with an intent to deceive.

With respect to patents found invalid in litigation or reexamination, and any patents for which maintenance fees are not paid, consider taking extra steps to verify that any associated marking has ceased and/or been modified to reflect the non-enforceable state of the patent.

For products being marked in a transitional state, consider including a notice to a website with information along the lines described above and consider including, in

addition, a list of patents whose numbers are being placed on products that have expired. Again, while this will not ensure a finding of no intent to deceive, it could be helpful in defending against those who suggest that such marking was deliberately done to deceive the public.

3. WHAT IS THE PROPER VENUE FOR A FALSE MARKING ACTION? CAN A PLAINTIFF COMBINE CLAIMS AGAINST MULTIPLE DEFENDANTS IN A SINGLE ACTION?

One issue that is only now being addressed by the Courts in some detail is the proper venue for a false marking action. Without conducting a scientific review, it appears that most false marking cases are brought in forums deemed convenient to *the plaintiffs* who initiate the action under the assumption that if the personal jurisdiction can be obtained over the defendants, venue will be appropriate. This is not the case and in every false marking action, a defendant should consider whether a motion to transfer a false marking claim to a more convenient forum is warranted.

On a § 1404(a) motion, a plaintiff's choice of forum generally is accorded substantial weight, and a court will not transfer a case unless the "convenience" and "justice" factors tip strongly in favor of the transfer. *Florens Container v. Cho Yang Shipping,* 245 F.Supp.2d 1086, 1092 (N.D. Cal. 2002), citing *Securities Investor Protection Corp. v. Vigman,* 764 F.2d 1309, 1317 (9th Cir. 1985).

However, there is a growing body of law that, while a plaintiff's choice of forum generally is a factor that weighs against transfer, the Court should accord little to no weight to Plaintiff's choice of forum in a *qui tam* action such as a false marking action. In such cases, false marking defendants seeking to transfer the action to an alternate forum

have argued that "where there are hundreds of potential plaintiffs, all equally entitled voluntarily to invest themselves with the. . .cause of action and all of whom could with equal show of right go into their many home courts, the claim of any one plaintiff that a forum is appropriate merely because it is his home forum is considerably weakened," *Johns v. Panera Bread Co.,* No. 08-1071, 2008 WL 2811827, at *2 (N.D. Cal. July 21, 2008), quoting *Koster v.(Am.) Lumbermens Mut. Cas. Co.,* 330 U.S. 518, 67 S.Ct. 828, 91 L.Ed. 1067 (1947).

Several Courts have been receptive to this argument. Perhaps the most detailed and thorough analysis of this issue is found in the District Court's opinion in *San Francisco Technology, Inc. v. The Glad Products Company, et. al.,* 10-cv-00966 (N.D. Cal. July 19, 2010). Citing a substantial amount of related precedent, the Court in that case found that the false marking plaintiff's selection of the forum was entitled to little weight and transferred a number of claims to the home forums of the defendants.

> In *Johns,* the district court analyzed the plaintiff's choice of forum within the context of a class action, while in *Koster,* the Supreme Court determined that this factor was accorded less weight when the plaintiff sought relief in a derivative action. While the instant scenario is a *qui tam* action, rather than a class or derivative action, the Supreme Court's reasoning is arguably applicable here.
>
> Plaintiff is one of "hundreds of potential plaintiffs, all equally entitled voluntarily to invest themselves with the. . . cause of action and all of whom could with equal show of right go into their many home courts." *Id.* Moreover, there is substantial persuasive authority supporting Defendants' position that a plaintiff's choice of forum is entitled to less weight in a *qui tam* action. *Harrington v. Ciba Vision Corp.,* NO. 3:08-CV-00251-FDW, 2008 WL 2893098, at *1 (W.D.N.C., July 23, 2008) (holding that a plaintiff's choice of forum may be accorded less weight in the context of a *qui tam* false marking action); *U.S., ex rel. Roop v. Arkray USA,* Inc., No. 1:04 CV 87-M-D, 2007 WL 844691, at *2 (N.D. Miss. Mar. 19, 2007) (noting that "federal district courts throughout the nation have held that, in *qui tam* actions, the plaintiff's choice of venue is not entitled to the same level of deference as in other actions."), citing *U.S. ex rel. Adrian v.*

Regents of University of California, No. C 99-3864 THE, 2002 WL 334915, at *3 (N.D. Cal. Feb. 25, 2002) (emphasis in original) ("a plaintiff's choice of forum is *not* given substantial weight when the plaintiff is a *qui tam* relator, asserting the rights of the United States government."); *U.S. ex rel. Haight v. Catholic Healthcare West,* No. C-01-1202 PJH, 2001 WL 1463792, at *2 (N.D. Cal. Nov. 9, 2001) (holding that the fact that "the United States, rather than relators, is the real party in interest ... lessen[ed] the deference traditionally accorded the plaintiffs' choice of forum."); *U.S. ex rel. Swan v. Covenant Care, Inc.,* No. C-97-3814 MHP, 1999 WL 760610, at *3 (N.D. Cal. Sept. 21, 1999) (holding that "plaintiffs here are also suing in the name of another, the United States" and that "thus, plaintiff's choice of forum is entitled to little consideration."). *U.S., ex rel. Penizotto v. Bates East Corp.,* No. CIV.A. 94-3626, 1996 WL 417172, at *2 (E.D. Pa. July 18, 1996); *United States ex rel. LaValley v. First Nat'l Bank of Boston,* 625 F.Supp. 591, 594 (D.N.H. 1985) (plaintiffs' choice of forum "should be given relatively little weight" in a *qui tam* action).

* * * * *

While the statute explicitly considers a financial incentive for *qui tam* relators, the same cannot be said with respect to choice of forum. Accordingly, the Court concludes that this factor is not entitled to the considerable weight it typically receives, and the Court finds that this factor weighs only slightly against transfer.

Id.

Other Courts have reached similar conclusions:

As [plaintiff] was created for the express purpose of pursuing litigation and is largely comprised of local attorneys, the weight given to its litigation strategy is minimal. This Court will not permit the system to be gamed.

Unique Product Solutions, Ltd. v. Otis Products, Inc., 5-10-cv-01471 (OHND September 22, 2010, Order) (Adams, J.).

In addition to increasingly dealing with issues of venue, Courts are beginning to consider whether false marking claims against different defendants, involving different patents and different products, can be maintained in a single action. While a plaintiff's desire to minimize filing fees and complexity are understandable, the Courts that have

addressed the issue have found that it is NOT proper to maintain such claims in the same action.

Perhaps the most thorough analysis of this issue was provided in the *San Francisco Technology, Inc. v. The Glad Products Company, et. al.,* 10-cv-00966 (N.D. Cal. July 19, 2010) opinion referenced above:

> The complaint alleges no connection or relationship among any of the defendants or their products. Rule 20(b)(2) of the Federal Rules of Civil Procedure governs when multiple defendants may be joined in an action. It permits joinder of more than one defendant where:
>
> > (A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and
> > (B) any question of law or fact common to all defendants will arise in the action.
>
> In opposing severance, [False Marking Plaintiff] has focused solely on the requirement of subsection (B) that there be a common question of law or fact. The requirements of (A) and (B) are conjunctive, both must be satisfied. There is no tenable argument that the claims alleged against each of these separate defendants arise out of the "same transaction, occurrence, or series of transactions or occurrences."
>
> While each defendant is alleged to have engaged in a similar kind of conduct, each defendant acted in a separate place and time when it put its allegedly mis-marked products on the market.
>
> At oral argument, [False Marking Plaintiff] argued that the circumstances here are analogous to patent infringement suits, where it is not uncommon to join otherwise unrelated defendants into a single infringement suit. In those actions, however, there is at a minimum the common "transaction" of the patents-in-suit having been issued by the PTO. Here, there is nothing but separate alleged violations of a particular statute.
>
> Accordingly, there simply is no basis to join these fourteen defendants in a single suit.
>
> *Id.*

PRACTICE CONSIDERATION: As a defendant, always consider the potential for a motion to transfer when a false marking action is brought in a forum other than the

defendants home forum or other forum within which the marking decisions were made. When the action involves multiple defendant, consider a motion to sever.

4. CAN CONDITIONAL STATEMENTS AVOID FALSE MARKING?

There is some contrary authority on this point.

Perhaps the leading District Court opinion on this point is the *Pequignot v. Solo Cup* decision. In the same opinion finding that the continued marking of a product with an expired patent could give rise to a false marking claim, the court found that – from the perspective of false marking – conditional statements should be analyzed similar to direct, affirmative statements:

> "The marking at issue need not explicitly state that the product is patented to constitute a false marking. The statute prohibits "any work or number importing that the same is patented for the purpose of deceiving the public." 35 U.S.C. § 292(a) (emphasis added).
>
> To that end, a statement that an article "may be covered by one or more U.S. or foreign pending or issued patents" clearly suggests that the article is protected by the patent laws. After reading this statement, potential inventors and consumers cannot readily confirm whether the article is protected. They must instead undertake an external inquiry, thereby assuming "the costs of a reasonably competent search for information necessary to interpret each patent." Clontech, 406 F.3d at 1357 n. 6. At a result, the practical effect of such a marking is similar to a more forceful statement; it functions as a de facto "no trespassing" sign.
>
> *See, Pequignot*, 540 F. Supp.2d at 655.

While the Federal Circuit has not explicitly addressed this issue, dicta its opinion in the appeal from the decision of the *Pequignot* granting a summary judgment on no false marking suggests that it may be difficult to establish intent when conditional language is used:

> We also agree with Solo that it rebutted the presumption of intent to deceive with the "may be covered" language. As Solo points out, the

> "may be covered" language stated exactly the true situation; the contents of some of the packaging were covered by patents, and the contents of some of the packaging were not covered. ***Thus, it is highly questionable whether such a statement could be made "for the purpose of deceiving the public," when the public would not reasonably be deceived into believing the products were definitely covered by a patent.***
>
> *** * * * ***
>
> The court also properly relied on undisputed testimony that the language was added to all packaging because the alternative was inconvenient from a logistical and financial perspective. Such evidence rebuts the presumption of deceptive purpose, as Solo's actions indicate its good faith. Solo did not state on its packaging that any product was definitely covered by a patent, and it provided the consumer with an easy way to verify whether a specific product was covered; the consumer could "contact www.solocup.com" for details.
>
> *Pequignot v. Solo Cup,* __ F. 2d. ___ (Fed. Cir. 2010).

5. HOW DO YOU/CAN YOU SETTLE A FALSE MARKING ACTION?

The goal of a false marking plaintiff is not that different from many plaintiffs: collect money from the defendant. In most instances, the goal is to collect a reasonable amount of money early in a litigation before the plaintiff has invested much in the case in terms of costs, expenses and attorneys' fees (to the extent that it is not a contingent matter). In most cases, this goal is met through early settlement. In False Marking actions, which are brought by the plaintiff *qui tam*, however, special considerations relating to the nature of the claim make settlement potentially more difficult.

In many cases involving disputes between two parties, the settlement of an action is accomplished through an agreement (typically under which one side makes a payment to the other) and a dismissal of an action "with prejudice" or "without prejudice." When a defendant wants to prevent the plaintiff from re-advancing their

claim down the line, the dismissal is usually a “with prejudice” dismissal and the agreement will contain a release and/or a covenant on the part of the plaintiff not to bring the settled claim in the future. It is not clear that this typical approach should apply to the settlement of False Marking actions.

In a False Marking action, the plaintiff is acting in a q*ui tam* capacity as one who brings a claim on the part of the United States Government and, ultimately, the citizens of the United States of America. As such, any settlement of False Marking that is truly final, will preclude any other plaintiff or party from advancing the claim at issue. The issue, then, is what is the effect of a false marking claim brought by a specific Plaintiff if dismissed, and more specifically, dismissed “with prejudice?”

The mere dismissal of an action, without more, is deemed a dismissal “without prejudice.” *See* Fed. R. Civ. P. 41. As such, any settlement of a False Marking claim that results in a mere dismissal of the action likely will not have any claim preclusive effect, and a settling defendant may face the prospect of a duplicate claim in the future.

A dismissal of an action “with prejudice,” however can have claim preclusive effect. The issue, however, is whether the dismissal with prejudice applies to the claim of the individual qui tam plaintiff – such that the individual plaintiff relinquishes his right to bring the claim in the future -- or whether it applies to the claim as a whole such that the dismissal has claim preclusive effect against anyone who would attempt to bring the same claim in the future on the part of the government.

To avoid any doubt as to the effect of a “with prejudice dismissal,” it is recommend that a settling defendant include language in the dismissal making it abundantly clear that the dismissal “with prejudice” is intended to completely, and

forever discharge the claim brought against the defendant by the Plaintiff as a qui tam representative of the United States. Furthermore, although not necessarily required by Fed. R. Civ. P. 41, one may want to have such a dismissal signed off on by the Judge. As a still further matter, one may want to consider contacting the Department of Justice and having them formally approve the settlement. It is the author's understanding that the DOJ Civil Division, Intellectual Property group in Washington, DC, is reviewing such settlements, but does not yet have a formal written policy with respect to the approval of such settlements.

t is interesting to note, that while there is very little in the way of guidance with respect to the settlement of qui tam False Marking claims, there are well-developed and well documented guidelines, regulations and requirements that must be met to settle Qui Tam False Claims. It is the author's hoped that, through case law or DOJ written guidance, clear guidelines and practices will be established with respect to the settlement of qui tam actions, such that such claims can be resolved under conditions where settling defendants have a firm and justified understanding of what they will receive as a result of the settlement.

6. THE END OF FALSE MARKING AS WE KNOW IT?

It is clear that the maintenance of the false marking statute in its current form, in the absence of some significant case law development restricting the ability of plaintiffs to bring such claims and/or minimizing the chances for a significant financial windfall for such plaintiffs, will result in the maintenance of a relatively large number of cases that will utilize valuable judicial resources and that will impose expenses and costs on defendants in such actions. While it is generally agreed that true, deliberate fraud in

suggesting that a product is patented when it is not to deter and inhibit competition should not be allowed and should be punished, the present wording of the statute, coupled with the Federal Circuit's *Clontech* decision and the ability to infer deceptive intent establishes a relatively low bar for the filing and maintenance of such actions.

As such, there is a move for reform of the statute. At least one District Court that has considered the False Marking statute and issues surrounding it in detail – namely the Eastern District of Virginia, which heard the *Pequignot v. Solo Cup* case -- has made an articulate plea for reform:

> "It is likely an accident of history that § 292(b) survives as one of only a few remaining *qui tam* statutes in American law, given that the overwhelming majority of these statutes have been repealed.
>
> Unlike false claims against the government, misuse of a patent marking does not involve a proprietary injury to the United States that must be vindicated through the actions of private prosecutors; rather, the injury to the United States is only to its sovereignty.
>
> To the extent that there is any real injury caused by false marking, it is to competitors of the entity abusing patent markings. Congress could easily provide such competitors with a private right of action without enacting a *qui tam* statute. The only practical impact of the *qui tam* provisions of § 292(b) appears to be its potential to benefit individuals, such as the plaintiff in the case at bar, who has chosen to research expired or invalid patent markings and to file lawsuits in the hope of financial gain.
>
> To the extent that Solo, and other potential defendants in § 292(b) actions, believe that the law is unwise, they are not without recourse to seek its revision. The history of the FCA, and *qui tam* actions in general, indicates that when these actions have been subject to abuse by profit-seekers with little public motivation, legislatures, both in the United States and England, have reacted. Indeed, in the aftermath of a Supreme Court decision broadly interpreting the FCA, *U.S. ex rel. Marcus v. Hess,* 317 U.S. 537 (1943), Congress swiftly revised the FCA to limit *qui tam* actions substantially. *See* Beck, *supra,* at 556-61.
>
> However, any arguments against § 292(b) based on policy concerns are "addressed to the wrong forum." *Id.* at 547. As the Fourth Circuit stated regarding the FCA:

> [P]erhaps Congress should have taken note of the possibility that [defendants] would be harassed by vexatious *qui tam* suits in federal courts. Perhaps it did, but decided that the benefits of the qui tam scheme outweighed its defects. In any event, we have no inclination or power to delve into the wisdom of the balance Congress struck . . . Congress has let loose a posse of ad hoc deputies . . . [Defendants] may prefer the dignity of being chased only by the regular troops; if so, they must seek relief from Congress.
>
> *U.S. ex rel. Milam v. Univ. of Tex. M.D. Anderson Cancer Ctr.;* 961 F.2d 46, 49 (4th Cir. 1992).

Pequignot v. Solo Cup, 640 F. Supp. 2d. at 728-729.

Commentators have suggested reform as well. *See, e.g.,* Elizabeth I. Winston, THE FLAWED NATURE OF THE FALSE MARKING STATUTE, 77 Tennessee Law Review 111 (2009).

The call for reform has been heard, at least partially. Included in the currently-pending Patent Law Reform bill (S. 515) are provisions which would amend the false marking statute to require that plaintiffs bringing false marking claims show that they have suffered "competitive injury" as a result of the alleged false marking. Whether this legislation will ultimately result in an amendment of the patent statute, however, is yet to be determined.

CONCLUSION

As the above makes clear, there are a number of issues relating to false marking claims that will likely be determined and decided as the many pending cases flow through the Judicial System. This is one of the few areas of intellectual property law where the parties are writing on a slate that is essentially clean. It is anticipated that conclusive rulings on many of the issues raised in this paper will remain outstanding for

a number of years. Moreover, absent some legislative reform or aggressive action on the part of the DOJ in terms of resolving past claims relating to the maintenance of an expired patent number on a product, it is anticipate that false marking cases will consume an increasing amount of our Court's Judicial Resources and will put a running burden on companies that make and sell products in the United States.