LEGAL & REGULATORY

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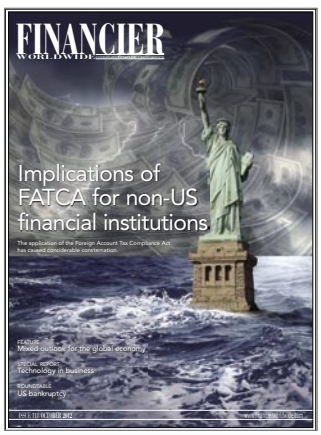
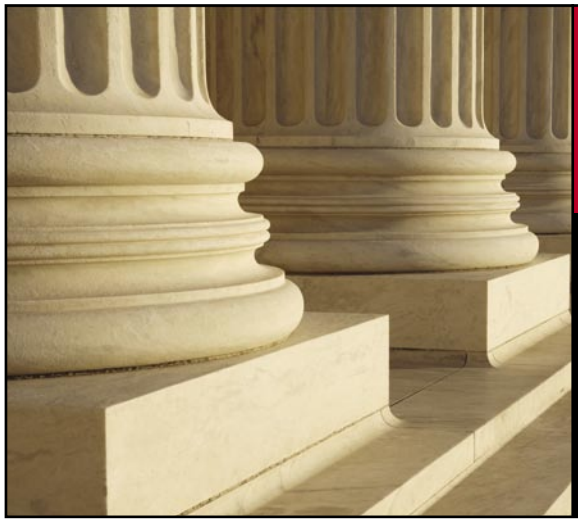


REPRINTED FROM:
OCTOBER 2012 ISSUE

FW MAGAZINE
FINANCIER WORLDWIDE corporatefinanceintelligence



LEGAL & REGULATORY

INTELLECTUAL PROPERTY

A shifting landscape in patent false marking: effects of recent legal changes

BY HA KUNG WONG, VISHAL GUPTA AND YUANHENG 'SALLY' WANG

In response to a surge in litigation between 2009 and 2011, the patent false marking statute (35 U.S.C. §292) was substantially revised by the Leahy-Smith America Invents Act (AIA), making it more difficult for false marking plaintiffs to file suits and recover damages. These modifications were made in an effort to protect businesses from litigation that was in some cases frivolous or abusive. This article examines the recent changes in false marking law and analyses their effects on businesses prospectively.

Pre-AIA litigation hotspot

Manufacturers are generally encouraged to mark articles and products protected by patents to fulfill the public 'notice' requirement under 35 U.S.C. §287 to recover damages in patent infringement actions. False marking occurs when an article is incorrectly marked as patented, or covered by a different or expired patent, with the intent to deceive the public. 35 U.S.C. §292 ("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 $500 for every such offense").

Prior to 16 September 2011 (the enactment date of the AIA), under 35 U.S.C. §292 a private individual could bring suit on behalf of the government *(qui tam)* and recover statutory damages to be shared equally with the government. The Federal Circuit decision of *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009) made the potential recovery quite lucrative for *qui tam* plaintiffs by interpreting 35 U.S.C. §292 to provide for false marking violation damages of up to $500 *per article* (as opposed to per offense). With penalties up to $500 per article and aggregated damages potentially in the millions of dollars depending on the product at issue, the *Forest* decision opened the floodgates to false marking trolls that profited from suing businesses over their deviations from patent marking requirements. A majority of suits filed after *Forest* and before the AIA ended up settling in favour of plaintiffs, since many defendants simply desired to avoid litigation costs.

The AIA put an end to the tsunami of false marking litigation by significantly restricting the right of private parties to sue under the false marking statute.

Post-AIA cool down

The AIA put an end to the tsunami of false marking litigation by significantly restricting the right of private parties to sue under the false marking statute and limiting the amount of damages that can be claimed. Under the new law, only the United States government is allowed to sue for the statutory damages of '$500 for every such offense' of false marking. Private parties are restricted only to compensatory damages based on 'competitive injury' flowing from the false marking. Based on analogous caselaw arising from the Lanham Act, which has similar language, 'competitive injury' is often difficult to prove and determine damages for. Essentially, the new patent marking law requires the plaintiff to have vested commercial or competitive interests to have standing to sue, which vastly differs from the pre-AIA standard.

The false marking provision in the AIA was effective immediately upon enactment, on 16 September 2011. The new provision effectively shut down the industry of false-marking *qui tam* trolls. In fact, Federal Courts, including the Federal Circuit, even began dismissing ▸▸

pending false marking actions *sua sponte* (e.g., without a pending motion to dismiss).

Quantitative analysis of a shifting legal landscape

The rapidly changing landscape of the false marking patent law is reflected in the sudden surge of cases and settlements after the *Forest* decision, followed by a sharp decline after the AIA. A Westlaw docket search reveals that in the 1 year and 9 month period between the *Forest* decision and the passage of AIA (January 2010 to September 2011), false marking suits surged to over 1000 cases filed. That number dropped significantly after the AIA, with only approximately 50 cases filed in the past year.

Settlement statistics highlight similar trends. United States Department of Justice (DOJ) figures show that between January 2010 and 15 September 2011, immediately before the enactment of AIA, there were 490 settlements, averaging $44,300. This translates to a total of over $20m paid to plaintiffs and the government (each receiving half). Since the enactment of AIA, the number and dollar amount of settlement has dropped significantly – there were only 36 settlements between 16 September 2011 and 1 May 2012, averaging $14,000.

Conclusion

The AIA has drastically diminished the number of false marking suits being filed and has limited businesses' exposure to such suits prospectively. While the risk of being abused by false marking trolling has been substantively eliminated by the new law, businesses should remain mindful of the benefits of properly marking patented products. Competitors and the government still have causes of action against false marking and proper product marking may still affect damage recovery in patent infringement suits. ■

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