FALSE PATENT MARKING LAWSUITS: PART II – BE AWARE AND BE PREPARED

Be Aware

Recent interpretations of the current false patent marking statute, 35 U.S.C. §292, by the U.S Court of Appeals for the Federal Circuit (Federal Circuit) have clarified three issues: 1) whether the plaintiff has proper standing to sue against distributors and retailers for the false marking, 2) whether the current false marking statute covers an article marked with an expired patent, and 3) whether the mere knowledge of the false marking is sufficient to prove a defendant's intent to deceive the public.

The effect of the first issue is that distributors and retailers, as well as the manufacturers, could be at risk of false marking lawsuits. The false marking statute states that "whoever *marks upon, or affixes to, or uses in advertising* in connection with any unpatented article . . . shall be fined . . ." (emphasis added). For example, in *Stauffer v. Brooks Brothers, Inc.* (*Stauffer*), the marked article at issue was manufactured and marked by a third party, rather than the defendant.[1] The Federal Circuit held that the plaintiff had proper standing to sue Brooks Brothers for the alleged false marking. Therefore, distributors and retailers should also be aware of the risk and be prepared.

Second, an article is deemed to be mismarked not only when the marked patent does not read on the article, but also when the article is marked with an expired patent. In *Pequignot v. Solo Cup Co.* (*Solo Cup*), the Federal Circuit noted that marking an article with expired patent numbers is potentially as harmful as marking the article with inapplicable patent numbers because determining the expiration date of a patent can be difficult for the competitors and the public.[2]

Third, a combination of false marking and the defendant's mere knowledge of the falsity creates a presumption of deceptive intent, which the defendant can rebut by a preponderance of the evidence to avoid liability. In *Solo Cup*, the Federal Circuit reiterated that the current false marking statute requires the alleged infringer's intent to device the public, rather than a mere knowledge that the marking is false. In addition, the Federal Circuit stated that the presumption is rebuttable if the defendant can prove by a preponderance of the evidence that it did not have the intent to deceive the public. Therefore, it should be noted that mere knowledge of the false marking cannot prove the deceptive intent required by the current false marking statute, but the knowledge creates a rebuttable presumption of deceptive intent.

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[1] 2010 WL 3397419 (Fed. Cir., 2010).
[2] 608 F.3d 1356 (Fed. Cir. 2010).

Be Prepared

In accordance with the recent Federal Circuit decisions, patent holders and their assignees can minimize the risk involved in false marking lawsuits by reviewing the expiration dates of patents marked on articles. Distributors and retailers, as well as manufacturers, should be involved in the review of the expiration dates. As noted above, the Federal Circuit has broadly interpreted the "any unpatented article" language of the false marking statute to cover items marked with expired patents, as well as items marked with inapplicable patents.

In the event items with false markings have already been distributed, legal advice must be sought promptly.

Competent legal advice has been the most reliable evidence in rebutting the presumption of deceptive intent. In *Central Admixture Pharmacy Services v. Adv. Cardiac Solutions, P.C.*, the U.S. District Court for the Northern District of Alabama found that the article marked with an inapplicable patent was not a violation under the false marking statute because the article was marked as patented in good faith supported by legal advice.[3] Similarly, in *Solo Cup*, the Federal Circuit held that the article marked with expired patents was not a violation under the false marking statute because the defendant relied on the specific advice of its counsel. Therefore, at least, the scope of the patent, patent terms, patent portfolio, and licensing situation must be evaluated.

Good faith business judgment of patent holders and licensees may also be effective evidence in rebutting the presumption of deceptive intent. In *Solo Cup*, where the defendant provided evidence to show that its true intent of the resulted false marking was to reduce costs and business disruption, the Federal Circuit found that the defendant successfully rebutted the presumption of deceptive intent. Specifically, the defendant successfully showed its good faith business policy of replacing molds with unmarked molds once the current molds wore out. Therefore, patent holders and licensees should set up a business policy in good faith to minimize the risk of false marking lawsuits.

Conclusion

The proposed Patent Reform Bill 2011 would bring various changes in false marking lawsuits, and such changes would also apply to the currently pending court cases. Although the proposed changes would eliminate the *qui tam* action for false marking, patent holders and licensees would remain at risk of false marking lawsuits by an injured competitor, as well as the U.S. Government. Therefore, the patent holders and the licensees should continue to be prepared to minimize the risk of possible false marking lawsuits.

Complete prevention of false marking is neither a simple nor efficient process. However, the risk involved in the false marking lawsuits may significantly be lowered by setting up a good faith business policy based on competent legal advice.

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[3] 2006WL4448613 (2006).