

Intellectual Property Litigation

Attack of the False Marking Trolls

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To the dismay of patent holders, the Federal Circuit last December invited bounty hunting trolls to file false marking claims against companies whose patent marking mistakes were the result of more than mere carelessness. Following other recent decisions favoring false marking plaintiffs, bounty hunters (including patent lawyers “represented” by other members of their firm) have begun trolling the aisles of big-box retailers looking for mass-produced products that have old (and potentially expired) patent numbers, which are then made the subject of federal court lawsuits seeking fines of up to \$500 per item. This article discusses the main issues companies sued for false marking by such trolls can expect to encounter.

Standing of Marking Trolls

The false marking statute, set out in the adjacent box, has historically been used by defendants responding to infringement claims and by competitors of the marker. The plain language of the statute, however, provides that “any person may sue for the penalty.” The Federal Circuit stated that Congress chose this language to permit “members of the public” to bring marking lawsuits even though “purely for personal gain.” *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009). There is accordingly no statutory limitation as to who can serve as a plaintiff in a false marking case.

The constitutionality of such actions, however, is unclear. In general, plaintiffs must show that they have been injured in order to demonstrate standing sufficient to justify federal court jurisdiction, and false marking trolls have sustained no injury. The federal court for the Eastern District of Virginia has held that false marking plaintiffs need not show individualized injury, because they are treated as assignees of the United States, which the court regarded as the injured party. *Pequignot v. Solo Cup. Co.*, 640 F.Supp.2d 714 (E.D. Va. 2009). But how is the government injured by false marking? One case prosecuted by a false marking troll was recently dismissed at the pleading stage because of the plaintiff’s inability to plead a concrete and individualized injury to the federal government. *Stauffer v. Brooks Bros., Inc.*, 615 F.Supp.2d 248 (S.D.N.Y. 2009). Patent holders responding to false marking lawsuits should immediately evaluate any lawsuit to determine whether the plaintiff has sufficiently pled standing to support the exercise of federal-court jurisdiction.

35 U.S.C. 292 False marking.

(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; ... 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.*



Defining an “Unpatented Article”

Certainly, the false marking statute applies to marked articles that do not read on any patent. But what about an article that is marked with the wrong patent, or one that is marked with multiple patents, only one of which is found not to cover the article? Although a strict reading of the statute would suggest that such articles are not subject to false marking claims (because they are not “unpatented”), the Federal Circuit has defined an “unpatented article” as one that “is not covered by at least one claim of each patent with which the article is marked.” *Clontech Labs, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005). This definition was followed by a magistrate judge in the Eastern District of Texas, who held that marking language that “[T]hese products are protected by one or more of the following [17] U.S. patents” could be the subject of a false marking claim even if most of the listed patents did in fact cover the products. *Astec Am., Inc. v. Power-One, Inc.*, 2008 WL 1734833 (E.D. Tex. Apr. 11, 2008). In addition, articles marked with expired patents have been held to be “unpatented articles.” *Pequignot v. Solo Cup Co.*, 540 F.Supp.2d 649 (E.D. Va. 2008). There is a high likelihood at least some of these definitional issues will be addressed by the Federal Circuit in the near future.

Pleading Intent on the Part of the Patent Holder

The statute imposes liability on patent holders who mark “for the purpose of deceiving the public.” The Federal Circuit held in *Clontech* that a patent holder who reasonably and in good faith believes that articles were properly marked is not subject to liability under the statute. Thus, a party who relied in good faith on the advice of counsel and out of a desire to avoid costs and business disruption by phasing out molds using expired patent numbers escaped liability under the statute. *Pequignot v. Solo Cup Co.*, 646 F.Supp. 2d 790, 798.(E.D. Va. 2009).

The pleading requirement that claims of fraud must be pled with particularity has been held to apply to false marking claims. *Juniper Networks v. Shipley*, 2009 WL 1381873 (N.D. Cal. May 14, 2009). Conclusory allegations by a plaintiff that a patent holder “had to have known” that its article was not covered by each of the claims of a marked patent will not suffice to support the maintenance of a false marking lawsuit. This requirement provides a powerful tool to patent holders in their efforts to dismiss troll lawsuits at the outset, before incurring significant discovery and other costs.

Amount of the Penalty

The statute provides that the court may fine a false marking defendant “not more than \$500 for each offense.” The Federal Circuit in *Forest Group* defined “each offense” as each article that was mismarked. If a million articles are mismarked, the fine could be as high as \$500 million. The Federal Circuit agreed, however, that courts have the discretion to determine lower fines per offense, suggesting that in the case of “inexpensive mass-produced articles,” courts may award fines of “a fraction of a penny per article.” The court did not give any guidance on how that discretion should be exercised.



The amount of any fine imposed will be subject to the Eighth Amendment's prohibitions against excessive fines. A fine is considered excessive if it is grossly disproportional to the gravity of the offense, considering such things as the harm to the government or the profits realized from the wrongdoing. *United States v. Bakajian*, 524 U.S. 321 (1998). Defendants can be expected to argue that any fine should not exceed a fraction of the profits per article, with the size of that fraction depending on factors such as whether the marking secured monopolistic rents for the benefit of the patent holder.

Fighting Back Against the Marking Troll

False marking claims are subject to the provisions of 35 U.S.C. § 285, which permit courts to award attorney fees to prevailing parties in exceptional cases. Companies that have successfully beaten back suits by false marking trolls have been unable thus far to convince courts to award them fees under that statute. It is unclear whether district courts may shift their views as the number of such lawsuits increase, particularly when they see the same plaintiffs appear in case after case. Patent holders should strongly consider the viability of a claim for fees in appropriate circumstances. Even if attorney fees cannot be recovered, court costs can and have been awarded under general federal rules of procedure. For example, the patent lawyer who sued Solo Cup Company for not taking expired patent numbers off its products was ordered to pay more than \$5,000 in court costs following dismissal of his claims after two years of litigation.

Settlement with a Marking Troll

Because marking trolls have no individualized injury but are suing for the benefit of the government, settling with one troll does nothing by itself to preclude subsequent suits by other trolls for the exact same marking violation (or related violations that should have been brought in the first suit). Unlike other bounty-hunter statutes, there is no explicit mechanism requiring notification to the government of the prosecution or resolution of false marking prosecutions. Settling such cases without the involvement of the government may be of little value to a patent holder. False marking defendants seeking settlements should strongly consider conditioning any settlement payment on the government's release of any and all marking claims relating to the articles in question.

Reducing the Risk of Being Sued

One clear message of the recent false marking cases is that patent holders need to pay much greater attention to their marking activities. In an environment in which a troll can turn an innocent mistake into an expensive false-marking lawsuit, patent holders may need to develop well-reasoned protocols on how to handle the inventory and distribution of mass-produced articles covered by patents, including the maintenance of strong lines of communication among manufacturing, business, and legal departments regarding the effect of marking decisions. Patent holders may also need to ensure that their patent markings, including any advertising featuring marked articles, are not unnecessarily overbroad by referring to more patents than needed. Patent holders need to respond quickly to adverse judicial determinations narrowly construing patent claims to ensure that previously marked



articles remain covered by those claims. With respect to all of these issues, outside patent counsel can be of great benefit, particularly because courts have held that good-faith reliance on the marking advice of patent lawyers can be a strong defense to claims that patent holders intended to deceive others. An ounce of prevention today can be all that is needed to ward off the threat posed by false marking trolls.

Future Business Consideration: To Mark or Not To Mark?

While patent holders should not lose focus on ensuring that their products are properly marked, it is also important to consider whether all products should be marked going forward. For example, should a low-margin article be marked? Perhaps a cost-benefit analysis may show that it is not worth the expense. Other business considerations are whether a product has a short useful life — which may support a decision not to mark — or whether a product will be used only outside the United States, in which case marking the product with U.S. patents may not be necessary. Here are a few more questions patent holders may ask to guide their business decision of whether to mark:

- Is the article a high-margin part?
- How many competitors are there?
- What is the cost to mark?
- Can someone else make the patented article?

As mentioned above, this decision-making process likely entails communication among a patent holder's legal, manufacturing, and business departments.

For more information, please contact Vinson & Elkins lawyers [Scott Breedlove](#), [Efrén García](#), [Stuart Tonkinson](#), or [Allen Yee](#). Visit our website to learn more about V&E's [Intellectual Property Litigation practice](#), or e-mail one of the [V&E Intellectual Property Litigation practice contacts](#).

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