New Cottage Industry: Boon or Bust?

By Rod S. Berman

Legal cottage industries built upon claims of intellectual property infringement are established and growing. For example, in the apparel field, entities purporting to own copyrighted fabric designs are employing the Copyright Act to obtain huge numbers of copyright registrations and using those registrations as a basis to seek damages from manufacturers and distributors. Although such businesses often do not manufacture any garments, as damages for the claimed infringement they often seek to recover the profits made by retailers, such as Macy's or J.C. Penney, from sales of garments made from allegedly infringing fabric. Similarly, in technology based industries, so-called "patent trolls" buy rights to portfolios of patents for the sole purpose of licensing them through the threat of litigation. Quick and lucrative settlements are typically driven by the cost of defense and the uncertainty of damages.

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So now comes the newest addition to the world of intellectual property cottage industry lawsuits — the False Patent Marking Statute lawsuit, 35 U.S.C. Section 292(b), which provides: "Whoever marks upon...any unpatented article the word 'patent'...for the purpose of deceiving the public — Shall be fined not more than $500 for every offense."

For years this statute has been relatively inactive. Although patent marking constitutes notice sufficient to start the accrual of damages for infringement, the propriety of patent marking has often not been rigorously monitored by manufacturers of patented products. The lack of enforcement of this statute is due, in part, to the belief that the plaintiff is entitled to only $500 per patent that is being falsely marked, with half of that going to the government.

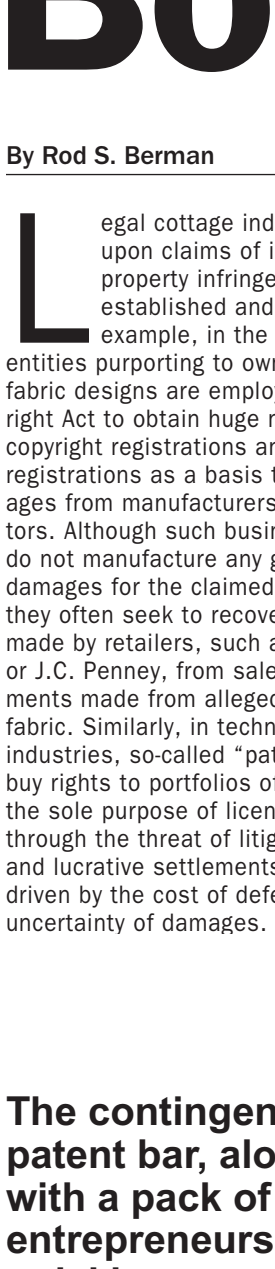
This situation completely changed on Dec. 28, 2009, when the Federal Circuit Court of Appeals issued its decision in *The Forest Group, Inc. v. Bon Tool Co.*, 590 F. 3d 1295 (Fed. Cir. 2009). In *Forest Group*, the Federal Circuit held that "the plain language of 35 U.S.C. [Section] 292 requires courts to impose penalties for false marking on a per article basis." The contingency patent bar, along with a pack of entrepreneurs, quickly recognized that the *Forest Group* decision opened a potential pathway to riches. Even the Federal Circuit recognized that its decision "would encourage 'a new cottage industry' of false marking litigation by plaintiffs who have not suffered any direct harm." Nonetheless, it ultimately concluded that the plain language of the statute must be interpreted to encourage such litigation so that "individuals [can] help control false marking."

So, practically, what does this mean? If Solo Cups sells 10 billion cups each bearing a false patent marking, there is a potential for $500 trillion in fines, split with the U.S. government. And with the government in dire need of revenue, wouldn't you expect our government to support such actions?

As predicted, the floodgates did open and the new Patent False Marking Statute cottage industry has arisen. Not only did Solo Cups get sued (*Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790 (E.D. Va 2009) (trial court dismissal of case on appeal to the Federal Circuit), so did Activision (Guitar Hero source was sued by the "Patent Compliance Group,") Pfizer (Advil), Kimberly-Clark (Depends Underwear for Women), and Brooks Brothers (over falsely marked bow ties). It seems easy: Find a product that has a patent notice, have a patent attorney confirm that the product is not covered by the patent, and sue. Since modern precedent is still to be set, the prevailing party might even qualify for an award of attorneys' fees if it can show that the case is "exceptional" under 35 U.S.C. Section 285.

However, winning is not so easy. The plaintiff must prove by a preponderance of evidence that the product is not covered by the patent and that the entity that marked the product *intended* to deceive the public by the false marking. Nonetheless, we can expect to see quick and lucrative settlements in this arena as well, particularly as precedent remains to be established.

Query however: is the "public" really being deceived? Does the "public" carefully study and evaluate patent labels on products in making a buying decision?



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Surely sophisticated competitors review such notices to evaluate what their competition is doing from a research and development standpoint, as well as to avoid infringement and design around known patents.

In light of ever increasing complaints about this newest cottage industry, Congress has gotten involved. On March 25, 2010, Rep. Darrell Issa (R-CA) introduced H.R. 4954 (copying provisions from Senate Bill S.515) to respond to these complaints by amending Section 292(b).

The proposed legislation narrows the class of potential plaintiffs to those who have suffered "a competitive injury as a result of a violation of Section 292(b)." No longer would "any person" have standing to bring such a suit. Significantly, the competitive injury requirement would be retroactive to all cases pending as of the date of enactment of the amendment.

To no one's surprise, opposition to such Congressional action quickly arose. On March 19, Daniel B. Ranicher, Executive Director of the Public Patent Foundation, a consumer advocacy group, wrote to Senator Patrick Leahy, Chairman of the Senate Judiciary Committee, of his "deep concern" over the proposed amendment. "While there indeed has been a surge in such suits recently, this will undoubtedly lead to a virtual extinction of the practice [of false marking]. Once manufacturers get the message that attempting to deceive the public with the false patent markings will be punished, they will stop doing so and the need to bring such suits will disappear.... Claims of potential windfalls to citizen plaintiffs are pure nonsense.... Federal District Court judges have wide discretion to set appropriate fines in order to accomplish the goal of deterrence without overburdening defendants. And, half of any such fine goes directly to the Federal government for its own use. This is money that can pay for health care, homeland security and any other important public program."

And of course, politicians won't allow such legislation to move along in an uncontested manner. In commenting upon the Senate Bill, Rep. Jon Conyers Jr. (D-MI), Chairman of the House Judiciary Committee, stated "[w]e believe a number of changes are essential before it could be considered by the House. We are hopeful our Senate Judiciary colleagues will consider these changes as part of their process."

If Congress does take up this Bill, the patent bar and Congress might give some thought to a number of issues related to Section 292(b). For example: Does the Patent Act's attorneys' fees provision apply? Should the amount of the damages be determined by a jury, like statutory damages in the Copyright Act context? Does *res judicata* bar multiple lawsuits by multiple plaintiffs over the same false markings when an initial suit is settled and there is no formal judgment? With the proposed "competitive injury" element, will companies now be exposed to multiple lawsuits? What is the test of "competitive injury?" Is "competitive injury" determined on a low threshold or is there a heightened standard, like that existing in antitrust cases? Is the statute unconstitutional as a criminal statute that should be handled by prosecutors and not private entities? Does jurisdiction lie wherever a mismarked product can be found? Will an opinion of patent counsel that the marked product is covered at least under the Doctrine of Equivalents act as a shield to liability? Must an affirmative false marking claim be raised as a compulsory counterclaim? Is false marking an affirmative defense? If a company has knowledge of improper patent markings, does a rebuttable presumption of intent to deceive arise? Is a company that marks products with an expired or wrong patent number have an "intent to deceive the public" when the cost of relabeling is enormous and the company chooses to correct the labeling on a going forward basis to minimize costs? What if a product includes many patent markings and only one is wrong — can intent to deceive be proven in these circumstances as a matter of law? Does mismarking with an expired patent number really deter competition?

We may soon receive some judicial guidance. On April 6, the Federal Circuit was scheduled to hear oral arguments in the *Solo Cup* case. In the meantime, regardless of the Congressional outcome, consider having your client's product line audited for false patent marking. The legal fees incurred may be far less than the false marking fine and the legal fees to defend such a suit.

OBITUARY

Walter C. Losiewicz

Attorney Walter C. Losiewicz passed away unexpectedly in Beverly Hills, on April 2, 2010, from a massive heart attack after jogging. He was only 58 years old. A wonderful man, he was past president of the So. Calif. Business Lit. Inn of Court, whose members deeply mourn his loss. He was also active in his church, where he served as treasurer, in local theater and basketball. Walter was a professional dancer before embarking on his legal career.

Admitted to the bar in 1985, Walter graduated from the University of Rhode Island and New England School of Law. Walter is survived by his parents, his step-father and step-sister. Always a true gentleman and always with a smile, he will be sorely missed. We didn't get to say goodbye and we're devastated that he's gone.

Memorial services will be held on April 16, 2010 at 12:00 P.M.
Westminster Presbyterian Church
2230 W. Jefferson Blvd., Los Angeles, CA