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# *Forest Group v. Bon Tool* One Year Later

The Legal Landscape of False Marking Claims in the US,  
Germany, Hong Kong, and China

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## Topics for Discussion Today

- The US False Marking statute: 35 U.S.C. § 292
- The impact of *Forest Group v. Bon Tool*
- Recent developments in False Marking cases in the US
- False Marking in Germany
- False Marking in Hong Kong and China
- Strategies for defending False Marking claims
- Status of proposed US legislative reform
- Compliance strategies

PATENTED



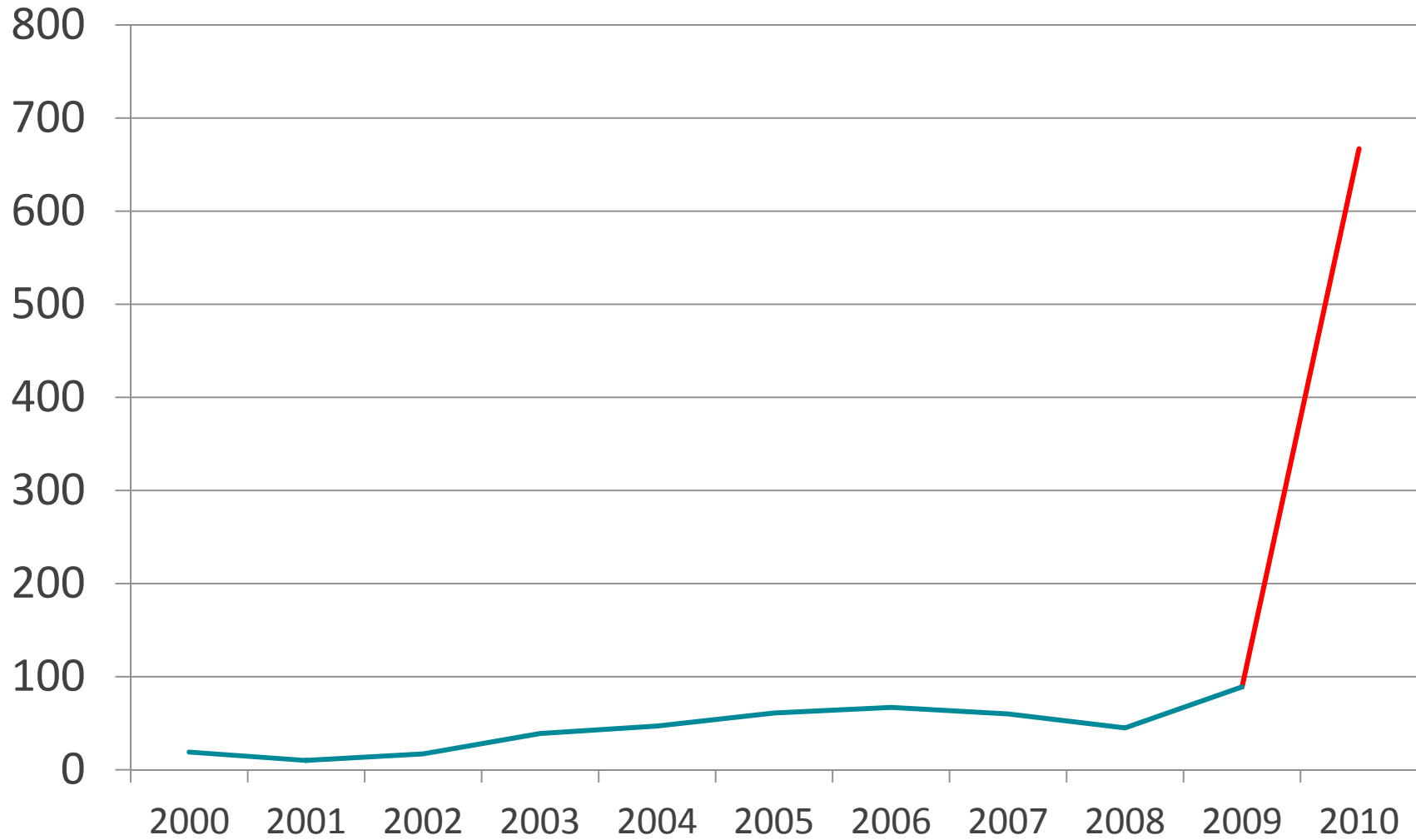
**U. S. and Foreign Patents Pending**

avandula angustifolia  
yethanol  
US PATENTS: 6,015,574;  
6,221,389; 6,524,614 US PATENT PENDING

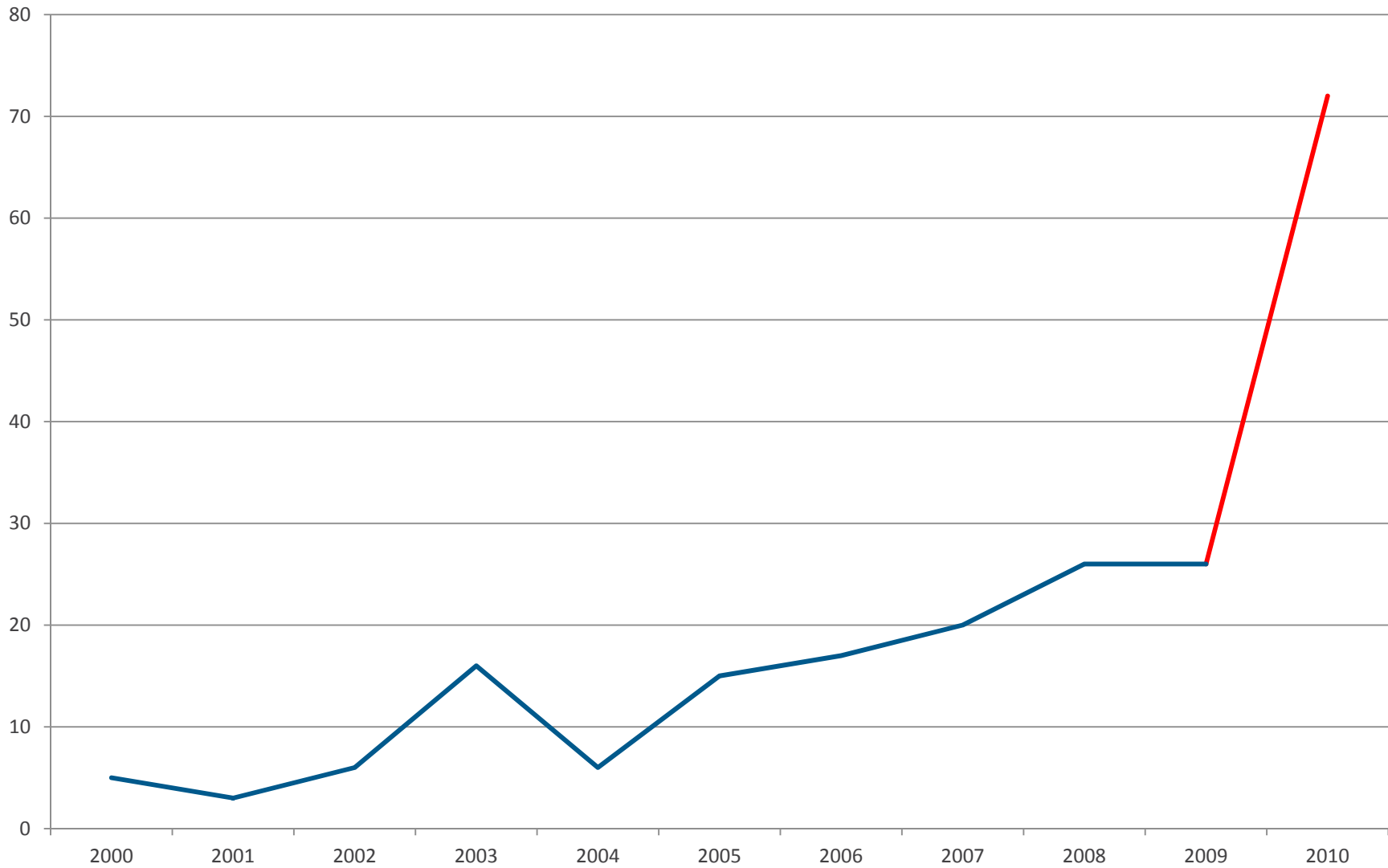
## 35 U.S.C. § 292

- (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 that the same is patented, ***for the purpose of deceiving the public . . . [s]hall 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.”

## Trial Pleadings citing 35 U.S.C. § 292 (Last 10 Years)



## Reported Decisions citing 35 U.S.C. § 292 (Last 10 Years)



## ***Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009)**

- Alleged patent infringer brought counterclaim against patentee alleging false marking.
- District court (citing a First Circuit case from 1910) held that the statute provided for a \$500 penalty for each decision to falsely mark a product.
- The Federal Circuit reversed: “Under the current statute, district courts have the discretion to assess the per article fine at any amount up to \$500 ***per article.***”
  - *Forest Group* explicitly gives courts “the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.”



## The impact of *Forest Group* this year

- Over 500 new false marking cases have been filed in 2010.
  - Over half in the E.D. Tex. and N.D. Ill.
  - Vast majority allege mismarking with expired patents.
- Top ten Plaintiffs account for approximately 70% of cases filed.
- Top Plaintiff Patent Group, LLC has filed 96 cases in the Eastern District of Texas.
- Awards
  - *Forest Group* district court assessed fine at \$108 per article, which was the highest price at which the false marking defendant had sold the marked products. 2010 WL 1708433 (S.D. Tex. Apr. 27, 2010).
  - *Presidio Components v. Am. Technical Ceramics Corp.*: Held that a 32% fine was appropriate to enforce public policy while not imposing a disproportionate liability for an inexpensive mass-produced article. 2010 WL 1462757 (S.D. Cal. Apr. 13, 2010).

## Observations on Impact

- Many settlements
  - Based on our experience and reports, plaintiffs will settle for significantly less than the cost of pre-trial discovery.
- Hesitance to mark at all
  - Affects ability to collect damages in the US (35 U.S.C. § 287(a))
    - Patented articles may be marked as patented by marking the product with “patent” or “pat.” together with the patent number.
      - May mark packaging if the article cannot be marked.
    - “In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice.”

## Three Primary Arguments in Recent Cases

- An article marked with an expired patent is not “unpatented.”
  - Rejected by Federal Circuit in *Pequignot v. Solo Cup*.
- *Qui Tam* plaintiffs lack standing.
  - Rejected by Federal Circuit in *Stauffer v. Brooks Brothers*.
- Failure to allege or prove intent to deceive.
  - Federal Circuit emphasized importance of proving intent to deceive in *Pequignot v. Solo Cup*, but it has yet to opine on pleading standards.
  - Disparity among district courts regarding what allegations are sufficient to survive a motion to dismiss.

## Standing:

### ***Stauffer v. Brooks Brothers*, 619 F.3d 1321 (Fed. Cir. 2010)**

- District court: the plaintiff had not sufficiently alleged that the United States (or the plaintiff) suffered an injury-in-fact.
- Federal Circuit reversed and held *any person* may sue for violations of the false marking statute.
- Either a proprietary or a sovereign injury to the United States can confer standing on the government, and therefore on a *qui tam* plaintiff.
- Distinguished *Lujan*, which denied standing under a citizen-suit provision.
- Expressly refused to consider constitutional arguments raised in an amicus brief.
- Federal Government was entitled to and did intervene.

## Intent to Deceive:

### *Pequignot v. Solo Cup*, 608 F.3d 1356 (Fed Cir. 2010)

- Affirmed grant of summary judgment for Solo Cup, holding that Pequignot had failed to provide evidence that Solo Cup intended to deceive the public.
- “The bar for proving deceptive intent here is particularly high, given that the false marking statute is a criminal one, despite being punishable only with a civil fine.”
- Knowledge of falsity creates a rebuttable presumption of intent to deceive, but Solo Cup rebutted the presumption.
- Summary judgment, so no direct impact on pleading requirements.

## Intent to Deceive: District Court Decisions

- Most courts have held that the standards of Rule 9(b) apply, with a notable exception.
  - Courts holding that Rule 9(b) applies:
    - Northern, Central, and Eastern Districts of California; Northern District of Illinois; Eastern District of Michigan; Eastern District of Missouri; Eastern and Western Districts of Pennsylvania; Middle District of North Carolina; Western District of Wisconsin.
      - Some cases from these jurisdictions have refused to decide because the complaint was either sufficient or insufficient under either standard.
      - Some courts apply a “relaxed” form of 9(b) when “essential information lies uniquely within another party’s control.”
  - Rule 9(b) does not apply:
    - Eastern District of Texas (*See, e.g., Texas Data Co., LLC v. Target Brands, Inc.*, NO. 2:10-cv-269 (TJW) (E.D. Tex. Nov. 24, 2010))

## Intent to Deceive: Examples of Allegations Deemed Sufficient

- Defendant received ribbon copies of patents with information on expiration and completed patent reviews to comply with maintenance fees. *Hollander v. Etymotic Research, Inc.*, 2010 WL 4321577 (E.D. Pa. Nov. 1, 2010).
- Packaging was designed and printed after date of expiration, and Defendant was a sophisticated company. *Simonian v. Blistex, Inc.*, 2010 WL 4539450 (N.D. Ill. Nov. 3, 2010)
  - Court explained that it was enough the defendant alleged the “who” (Blistex), “what” (falsely marked the products), “when” (after the patent expired), “where” (on the packaging of the product), and “how” (marking the products with expired patent numbers) of the alleged fraud.
  - Many other N.D. Ill. Cases have reached the same conclusion when faced with allegations that the defendant is “sophisticated,” and some do not even rely on those allegations. *See Simonian v. Oreck Corp.*, 2010 WL 3385465 (N.D. Ill. Aug. 23, 2010).
- When Defendant revised its patent markings it knew or should have known that the patents were expired. *EMD Crop Bioscience, Inc. v. Becker Underwood, Inc.*, 2010 WL 4386674 (W.D. Wis. Oct. 29, 2010).

## Intent to Deceive: Examples of Allegations Deemed Insufficient

- Defendant (1) was a sophisticated business entity with extensive experience in patent prosecution; (2) marked its products with expired patents; (2) knew or reasonably should have known that it was falsely marking its products with expired patents. *Hollander v. Ortho-McNeil-Janssen Pharms., Inc.*, 2010 WL 4159265 (E. D. Penn., Oct. 21, 2010).
- Defendant was a sophisticated company with experience with applying for, obtaining, and litigating intellectual property. *Simonian v. Edgecraft Corp.*, 2010 WL 3781262, at \*3 (N.D. Ill. Sept. 20, 2010)
- Defendant revised the packaging for the product after the patent's expiration. *Shizzle Pop, L.L.C. v. Wham-O, Inc.*, 2010 WL 3063066, at \*4 (C.D. Cal. Aug. 2, 2010).



## Intent to Deceive

- Outcome of motion to dismiss unpredictable unless the specific judge has issued prior rulings.
  - Even within a single jurisdiction, results can vary. (See the *Simonian* cases from the N.D. Ill.)
  - Some judges are not issuing detailed written opinions, which makes the outcome difficult to predict.
    - *See, e.g., Texas Data Co., LLC v. Target Brands, Inc.*, NO. 2:10-cv-269 (TJW) (E.D. Tex. Nov. 24, 2010) (adopting a prior ruling that Rule 9(b) does not apply and stating, without analysis, that plaintiff's allegations were sufficient).
  - At least one court has summarily denied the motion to dismiss, explaining that intent to deceive is for the jury to decide. *See FLFMC, LLC v. William Bounds, Ltd.*, 2010 WL 4788554 (Nov. 17, 2010).
- *Pequignot v. Solo Cup* provided Defendants with excellent precedent for summary judgment, but it is expensive to get there.

## Current State of the Law in the US

- Anyone can sue for violations.
- Pleading requirements are unclear, and results vary among individual judges.
- Intent to deceive is the crux of most defenses.
- Federal Circuit likely to opine again.
  - Defendant BP Lubricants has filed for a writ of mandamus, arguing:
    - Hundreds of false marking cases pending, and the need to determine pleading standards can be addressed only through mandamus.
    - Court below erred in permitting relator to plead intent to deceive generally without alleging specific factual allegations.
    - Intent to deceive cannot be analyzed at the corporate level.
    - Factual allegations could just as easily be explained by inadvertent lack of knowledge of the patent's expiration.

## Germany: Patent marking

- No requirement under German patent law as to patent marking.
- In order to recover damages from patent infringements no patent marking is necessary, as negligence can be established in *the absence of patent marking*.
- If, however, a *marking is placed* on an article, the patent owner is *required to give information on demand*, to any person having a legitimate interest in knowing the legal position, regarding the patent or patent application upon which the marking is relied, section 146 German Patent Act (PatG).

## Germany: False Patent Marking

- No provisions on false marking in the German Patent Act.
- However : If patent marking is used as an advertisement, it is subject to section 5 of the German Act against Unfair Competition (UWG).
- Section 5 UWG (Misleading commercial practices):
  - *Unfairness shall have occurred where a person uses a misleading commercial practice. A commercial practice shall be deemed to be misleading if it contains untruthful information or other information suited to deception regarding the following circumstances:*
    - *No. 3: the nature, attributes or rights of the entrepreneur such as his identity, assets, including **intellectual property rights**...*

## Germany: False Patent Marking

- When an advertisement is found to be misleading under section 5 UWG, legal remedies in the shape of
  - cease and desist orders (injunctions) and
  - orders to recall or destroy the unlawfully advertised goodsare available.
- These orders can be asserted by any competitors who have a “*concrete competitive relationship*” with the offender or by any entities listed in section 8 (3).

## Germany: False Patent Marking

- If the offender has acted intentionally or negligently, the parties injured have a right to claim damages, section 9 UWG.
- Only competitors with a “*concrete competitive relationship*” are entitled to assert claims for damages.

## Germany: Examples

- Examples of advertisements that have been found to be misleading under section 5 UWG:
  - Reference to an unpublished patent application.
  - Reference to a patent application, if the invention is obviously unpatentable.
  - Advertisements with marks of expired patents.
  - Markings of insufficient clearness, i.e. abbreviations that are not usually understandable (DPA, Dpang, pat.pend. ...).
  - Using “patentrechtlich geschützt“ (protected by patent law) or the like, if the marks only refer to utility model rights.

## Germany: Conclusion

- Marking is not compulsory in Germany.
- Contrary to US and UK patent law, no specific provisions on false marking exist within German patent law.
- Cases of false or otherwise misleading patent marking are subject to competition law scrutiny.



# False Marking Law in Asia (Hong Kong & China)

- Hong Kong

- SS.142 and 143 of the Patents Ordinance (Cap.514)
- False marking on or in relation to a product to be disposed of for value is a criminal offence
- Applies to both false claims of patent rights and that a patent has been applied for
- Exception - allowing a reasonable period to remove markings after the patent has expired or been revoked
- A fine of HK\$10,000 (~US\$1,300) per criminal charge
- No reported case since the Patents Ordinance was enacted in 1997

# False Marking Law in Asia (Hong Kong & China)

- Hong Kong

- S.81 of the Patents Ordinance - Restrictions on recovery of damages
- No damages/ account for profits if the infringer has no actual or constructive knowledge that the patent exists at the date of infringement
- The patented product must be properly marked with (i) the words "Patent"/ "Patented" or similar wordings AND (ii) the relevant patent no.

# False Marking Law in Asia (Hong Kong & China)

- China

- Significant no. of false patent marking cases – more than 800 cases per year on average in the past three years.
- Art. 63 of the PRC Patent Law & Art. 84 of the PRC Patent Rules
- False marking includes:
  - patent marking after expiry or revocation of patent
  - marking the other's patent no. without authorization
  - passing off a patent application as a granted patent
  - falsifying a patent certificate or related documents
  - in any way mislead the public that an unpatented product is patented
  - sales of any products with any of the above false marking with knowledge

# False Marking Law in Asia (Hong Kong & China)

- China

- Consequences: Civil - mainly injunction and damages
- Administrative Penalties - rectification order; confiscation of illegal profit and fine below 4 times of the illegal profit; fine below RMB200,000 (~US\$30,000) if no illegal profits were made
- Criminal (under the PRC Criminal Law) if
  - the illegal turnover is over RMB200,000 (~US\$30,000) or the illegal profit is over RMB100,000 (~US\$15,000);
  - causing an economic loss over RMB500,000 (US\$75,000) to the patent owner;
  - two or more counts of marking the other's patent no. with illegal turnover over RMB100,000 (~US\$15,000) or illegal profit over RMB50,000 (~US\$7,500);
  - other serious circumstances.

# False Marking Law in Asia (Hong Kong & China)

- China
  - No adverse consequence if patent no. is not marked
  - If marked, it must comply with the relevant regulation:
    - Stipulate clearly whether it is an invention patent, a utility model or a design patent in Chinese
    - State the patent no. in full
    - Other words or symbols used associated with the patent marking must not mislead the public
    - Non-compliance constitutes a false patent marking

# CLE Code

# Strategies For Defending False Marking Claims (1)

- Move to Dismiss
  - Failure to adequately plead intent
  - Challenge the Constitutionality of the Statute
    - Lacks the protection of the False Claims Act that was upheld in *Vermont Agency*.
    - Several district courts have rejected. Federal Circuit will likely hear in *FLFMC v. Wham-O*, No. 11-1067.
  - Some defendants may not have been involved in false marking decision or marketing activities. (Consider Rule 11 if plaintiff failed to investigate.)
    - *Inventorprise, Inc. v. Target*, 2009 WL 3644076 (N.D.N.Y. Nov. 2, 2009): Court held that allegations insufficient to show intent to deceive where Target had no role in marking the product.
  - Statute of Limitations: Several district courts have held that applicable SOL period (5 years under 28 USC § 2462) is measured from the date each article is produced, citing *Forest Group*, but Federal Circuit has not addressed.

## Strategies For Defending False Marking Claims (2)

- Move to transfer to a more favorable venue
  - “[P]laintiff's choice of forum is entitled to little deference because of the nature of the case -a *qui tam* action in which the United States is the real party in interest.” *Hollander v. Hospira, Inc.*, 2010 WL 4751669 (E.D. Penn. Nov. 22, 2010); *see also Simonian v. Monster Cable Prods., Inc.*, 2010 WL 4822899 (N.D. Ill. Nov. 22, 2010); *San Francisco Tech. Inc. v. Glad Prods. Co.*, 2010 WL 2943537 (N.D. Cal. July 26, 2010).
- Summary Judgment
  - In cases of innocent mistakes, defendants are likely to prevail, particularly in light of *Pequignot v. Solo Cup*.
  - In some fields, *i.e.* pharmaceuticals, it is particularly unlikely that the public would be deceived.



## Strategies for Defending False Marking Claims (3)

- Settlement
  - Many courts have held that subsequent plaintiffs cannot bring the same false marking claim.
    - Dicta in *Stauffer v. Brooks Brothers*
    - *Simonian v. Quigley Corp.*, 2010 WL 2837180 (N.D. Ill. July 19, 2010).
    - *San Francisco Tech., Inc. v. Glad Products Co.*, No. 10-00966, 2010 WL 2836775 (N.D. Cal. July 19, 2010).
  - Consider other potential exposure that has not yet been alleged.
  - Require plaintiff to pay federal government half of recovery and indemnify for failure to pay.
    - Ask for indemnity re: other relators.
- Check your insurance coverage

## Proposed Legislative Reform

- September 29, 2010, H.R. 4954: Would allow a maximum of \$500 fine in the aggregate and standing would be conferred only upon plaintiffs who had suffered a “competitive injury.”
  - Would apply to all pending cases.
  - Referred to the House Committee on the Judiciary
- March 3, 2010, S. 515: Would confer standing only upon plaintiffs who had suffered a “competitive injury.”
  - Would apply to all pending cases.
  - Committee report filed (no comment on false marking provisions); placed on legislative calendar.

## To Mark or Not to Mark?

- Does potential for lost infringement damages outweigh cost of settling a false marking suit?
- Consider likelihood of legislative reform.
- For inexpensive products produced in large quantities, consider that even under current statute, \$500 per article is discretionary.

## Compliance Strategies

- Establish procedures for legal department approval of patent markings.
- Establish systematic patent marking audit procedures.
- Re-evaluate patent markings after key case rulings in offensive patent litigation, such as claim construction or summary judgment of non-infringement.
- Avoid “may be covered” warnings on products.
- Consider how to allocate risk of § 292 claims in retailing situation, manufacturing, co-branding, etc.

## Questions & Answers



*Thank you*

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