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# Trolling for Dollars: A New Threat to Patent Owners

By Donald W. Rupert

For the past three years, a company has manufactured and sold 1,000 widgets every week (a total of 156,000 widgets) for \$1.00 each. Every widget was marked with the number of a US patent that the company owns. However, the claims of the patent do not cover the widget.

Last week, the company received a complaint in a federal lawsuit filed by some individual who is unknown to the company. The complaint charges the company with falsely marking the widgets with a patent number and seeks \$500.00 for each widget that bore the false patent marking. Simple math shows that the complaint seeks \$78,000,000 for the sale of 156,000 widgets.

Is this scenario far-fetched? Actually, it is being played out in several lawsuits pending in different federal district courts today. Before reviewing these recent suits, this article summarizes the false marking and patent marking statutes as backdrop.

## False Marking and Patent Marking

Section 292 of the US patent statutes, 35 U.S.C. § 292, prohibits the improper reference to a US patent or a pending patent application for the purpose of deceiving the public. Such improper use may happen when an article is marked with a patent number, but the claims of that patent do not cover the article, or when the article is marked with “patent pending” or similar wording but no application has been filed or is pending.

Section 292(a), provides in part:

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.

This false marking statute is criminal in nature and provides for the \$500 fine “for every such offense.” However, in a somewhat unusual twist, the statute also provides a private right of action, meaning that “[a]ny 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.”<sup>1</sup>

The prohibition against falsely marking an article with a patent number or a “patent pending” designation creates a tension with another provision of the patent statute. Under 35 U.S.C. § 287, patent owners may mark a patented article with “patent” or “pat.” and the patent number in order to give notice to the public that the article is, in fact, patented. If a patented article is not so marked, then the patent owner cannot recover damages for infringement unless the owner proves that the infringer received actual notice of the infringement. In such a situation, damages can be recovered only for infringement occurring after such notice.<sup>2</sup> Thus, a patent owner must mark the patented article to be able to recover the full scope of infringement damages but must ensure that the marking is proper; otherwise, the false marking statute may come into play.

This patent marking statute applies only to patents having claims covering a physical article; the statute does not apply to patents having claims covering only methods. However, if a patent contains claims covering an article (*i.e.*, apparatus claims) and other claims covering a method (such as a method of manufacturing the article), then the statute applies, and articles covered by the patent must be marked. Moreover, companies that manufacture the patented article under a license from the patent owner must also apply the patent marking to the articles produced. If that is not done, the patent owner may lose the ability to recover damages from an infringer until the actual notice is given.<sup>3</sup>

## Issues Concerning False Marking Arise in Different Ways

False marking has two elements: (1) there was a patent number or a “patent pending” designation used on the article when a claim of the patent did not cover the article or when there was no application pending, and (2) the marking was placed on the article with

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the intent to deceive the public into believing that the article was subject of a patent or an application.

The question of whether a patent marking would be deemed to be a false marking could arise under many different scenarios. The easiest is when a company marks the article with a patent number knowing full well that no such patent either exists or covers the article and the marking is done specifically to deceive the public into believing the article is, in fact, patented.

Other scenarios are not always so clear-cut. Some of the more difficult yet commonplace examples include:

1. The article is marked with a patent number that covers the article, but the patent has expired.
2. The article is marked with several patent numbers, only one of which covers the article.
3. The article is marked with a patent number, but the patent covers only a method of making the article and not the article itself.
4. The article is marked with a patent number that the manufacturer believes covers the article, but the patent does not.
5. The article is marked with a patent number, but the patent is invalid or unenforceable.<sup>4</sup>

Analysis of these and other similar situations requires a two-step approach. First, it must be determined whether the patent number marked on the article covers the article itself. Doing this requires a study of the patent's claims and a determination as to whether any of the claims, when properly construed, "reads on" or covers from an infringement standpoint the article. Second, if the listed patent does not cover the article, consideration of deceptive intent is required.

The process of investigating the meaning of the patent claim is fairly straightforward. The words of the claims are construed from the viewpoint of a person of ordinary skill in the relevant technical field in light of the claim language, the patent's specification, the prosecution history of the patent as it made its way through the patenting process, and the relevant prior art. Although this sounds reasonably uncomplicated, there are numerous instances in which seemingly plain language can take on different meaning when used in patent documents. Likewise, it is not uncommon for companies to fail to understand what their patent claims actually mean in the patent context; often companies also do not fully appreciate what the patent's claims do and do not cover.

Another difficulty in assessing this factor arises when the article is marked with a number of patents. If one claim of only one patent covers the article, is there potential liability under § 292? The US Court of Appeals for the Federal Circuit<sup>5</sup> addressed this point, albeit in passing, in 2005, stating (emphasis added): "When the statute refers to an 'unpatented article' the statute means that the article in question is *not covered by at least one claim of each patent* with which the article is marked."<sup>6</sup>

This wording by the Federal Circuit strongly suggests that at least one claim of each of the listed patents must cover the article in question, and if that does not occur, then there is a false marking under § 292. At least one federal district court has quoted this language, concluding that it means exactly what it says.<sup>7</sup>

Determining whether the use of a patent marking was done with intent to deceive requires application of an objective standard, that is, the manufacturer's subjective belief that it did not intend to deceive is not considered. Rather, if it is shown that the party accused of false marking did not have a reasonable belief that the articles were properly marked, then false marking liability may exist. This type of showing typically relies on the fact of a misrepresentation, that is, the patent claims do not cover the article, *and* proof that the manufacturer had knowledge of that fact.

This application of the claim meaning and the objective standard has given rise to the view that an honest, though mistaken, belief that a claim, when properly construed, covers the article in question cannot trigger liability under the statute.<sup>8</sup>

### **What Is an Offense?**

As noted, the statute provides a penalty of up to \$500 for each offense. What constitutes an "offense" is not defined, and unfortunately, the case law on this point is sparse. This point is important because, as suggested earlier, if an "offense" is every single mismarked unit, then the penalty could be substantially greater than the total revenues generated from the sale of the article. One early case considered this result, explaining that:

The false marking of small or cheap articles in great quantities will result in the accumulation of an enormous sum of penalties, entirely out of proportion to the value of the articles, while the marking of expensive machines used in limited numbers may result in the infliction of penalties which are comparatively slight in relation to the pecuniary value of the articles.<sup>9</sup>

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Although the Federal Circuit has not yet addressed the offense prong of § 292, a number of district courts have tried to put some definition to it. For example, in a 1991 Ohio case, the court held that “continuous markings” over a given time is akin to a single and continuous act and constitutes a single offense.<sup>10</sup> A federal district court in Texas approved the same concept in 2008.<sup>11</sup> However, this “continuous markings” approach begs the question. What exactly is “continuous marking”? Is it 24-hours per day; the entirety of each shift; one complete scheduled production run that may occur over a number of days; all production runs until the molds have to be replaced, etc.?

The current law provides no definite answer.<sup>12</sup> And, with the entry of the so-called patent trolls into this area, the answer is more important than ever before.

### **The Patent Marking Trolls Make Their Appearance**

In patent speak, a “troll” is pejorative term describing a non-manufacturing patent owner who owns one or more patents and asserts the patent(s) against alleged infringers, with a desire typically to obtain settlement rather than actually trying any lawsuit. Indeed, the cost of patent litigation has emboldened these types of patent owners. Consider, for example, that it may cost up to \$2 million in defense costs to get a relatively simple patent case ready for trial. Assume also that the troll patent owner (who has a good faith belief of infringement) sues 10 companies in the same suit, but offers each defendant a license for \$400,000. Simple economics tell the defendants that it is cheaper to settle than to litigate. The result is that the patent owner walks away with \$4 million and then goes after the next batch of companies that allegedly infringe.

Initially, this type of activity was limited to a few individuals who had acquired a patent portfolio, mainly through prosecution of their own alleged inventions. More recently, companies have been established for the sole purpose of acquiring patents from individuals, small companies, or out-of-bankruptcy proceedings. These patents are often then assigned to separately established, minimally capitalized limited liability corporations for enforcement.<sup>13</sup>

While the history of patent trolling presents an interesting case study in litigation and licensing economics, all of the prior activities had a common denominator: The so-called troll actually owned patents and was willing to license them for a fee.

Prior to 2007, cases involving the false marking statute were typically between competitors; the patent owner would sue for infringement and the defendant-competitor would counterclaim for, among other things,

the false marking penalty. However, in 2007, the equation changed and a new breed of troll emerged. Since 2007, there have been five lawsuits filed by individuals who are relying on the patent false marking statute in an attempt to reap potentially staggering amounts of money. These individuals do not own any patents. Instead, they look for high-volume products that are marked with patent numbers, investigate whether the products are covered by the identified patents, and file lawsuits seeking recovery of the penalty if there is even the hint that false marking might exist. In what some may say is a bizarre twist to business development, each of the plaintiffs in these five lawsuits is an attorney who is registered to practice before the US Patent and Trademark Office.

Mathew A. Pequignot filed the first of these cases against Solo Cup Company in 2007.<sup>14</sup> In that case, Pequignot asserted that certain drinking cup lids made and sold by Solo were marked with the patent numbers of expired patents. Pequignot also asserted that packaging of certain cups and eating utensils bore the phrase “[t]his product may be covered by one or more U.S. or foreign pending or issued patents.” According to the complaint, this phrasing “is likely to lead certain persons who view such language to believe such products are patented.”

In June 2008, Pequignot filed a second suit, this time against The Gillette Company and The Procter & Gamble Company.<sup>15</sup> In his 218-page complaint, Pequignot asserted that many of defendants’ razors, razor blades, anti-perspirants, and toothbrushes were marked with expired patents, patents that claim only methods and not articles, and patents that do not cover the specific products marked with their numbers.

Pequignot’s third complaint was filed in September 2008 against Arrow Fastener Company alleging that Arrow marked staple gun products with the numbers of expired patents, marked the products with the patent pending designation when no applications covering the products were pending, advertised products as being patented when the products were not covered by any extant patents, and marked products with patent numbers that do not cover the products so marked.<sup>16</sup>

In 2008, James M. Harrington and Glen A. Cipriani filed suit in North Carolina against New Products Marketing Corp. and others asserting that certain reels for dispensing string or construction line were marked with two patent numbers, but one of the patents does not cover the articles.<sup>17</sup>

Later in 2008, Harrington filed another suit, this one against CIBA Vision Corporation.<sup>18</sup> In this suit, Harrington asserted that CIBA is a licensee of four patents directed to a method or apparatus for disinfecting

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or cleaning contact lens. Harrington alleged that CIBA applied these four patent numbers to boxes containing only a bottle of disinfecting solution and that none of the identified patents cover that solution or the bottle.

While none of these cases has advanced in any material respects, the notion that the false marking statute is being used in an apparent attempt to extract potentially significant amounts of money from companies should concern every manufacturing company.<sup>19</sup> Indeed, these cases point out the problems with the marking statute itself.

### Issues Surrounding the False Marking Statute

Several of the issues surrounding the false marking statute arise from the language used in the statute. For example, the statute commences with the wording: "Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article. . . ." The statute, unfortunately, does not define "unpatented article." Does that phrase mean an "article that has never been patented," or does it mean "an article that is not currently protected by a patent"? The answer to this question is important because, if the phrase means "an article that is not currently protected by a patent," then conceivably articles marked with the number of an expired patent might be subject to the false marking statute. Indeed, this is the meaning given to the phrase by the court in the *Solo Cup* case.<sup>20</sup> This meaning does not seem to be inconsistent with the Federal Circuit's earlier comment that "the statute means that the article in question is not covered by at least one claim of each patent with which the article is marked."<sup>21</sup> Under the interpretation given by the court in *Solo Cup*, an article must be covered by a currently in force patent claim; once the patent has expired, the article is not covered because the patent has ceased to exist.

Similar to this point is the use of a patent marking phrase taking the form of "These products are protected by one or more of the following patents" or comparable language. Is this type of phrase acceptable? Here, again, there is no definitive answer in the case law. One court has concluded that whether the use of this phrase implicates the false marking statute must be viewed in relation to the patent owner's intent at the time that the phrase was adopted. That is, was the phrase adopted with the intent to deceive the public?<sup>22</sup> Thus, the use of this type of phrase may be inappropriate in a given circumstance.

A further issue involves the determination of whether "the word 'patent' or any word or number importing that the same is patented," as stated in the statute, refers only to a US patent (or a pending US application) or

also includes foreign patents. Two more recent cases on this point from district courts concluded that, if the article is covered by either US or foreign patents, then there would be no violation of the false marking statute.<sup>23</sup>

As discussed already, the statute does not provide a definition for "offense." The meaning that a court gives that term can have a significant impact on the total amount of any penalty.

Another issue about § 292 is a substantive one. The statute is a *qui tam* statute, meaning that it is one that permits a private entity to sue on behalf of the government.<sup>24</sup> Although these types of laws were popular more than 100 years ago, there are only four other *qui tam* laws still in effect. The problem with § 292 is that its constitutionality has been questioned. In the other *qui tam* statutes, the person suing does so on behalf of the government, and the laws provide that the government, as the real party in interest, must have the ability to control the litigation pursuant to the Take Care and Appointments clauses of the Constitution.<sup>25</sup> Under these clauses, the President, through the Attorney General, must retain control of litigation pursued on behalf of the United States. However, § 292 is silent as to the role, if any, of the government in the private enforcement of the statute. Indeed, in the *Solo Cup* and *CIBA* cases, the defendants have raised the constitutionality question of § 292, and the respective courts invited the government to intervene in the cases to least address the constitutional issue. The government did so in both cases and has argued that § 292 is constitutional.

### Related Issues

Companies should also be aware that a case brought for false patent marking could also include assertions of false advertising under the Lanham Act, 15 U.S.C. § 1125(a), if there are references to the patent in advertising. The Lanham Act provides for damages, injunctive relief, and attorney's fees.

### Conclusion

Because of the unsettled nature of the full reach of § 292, the prudent course is for companies to establish a consistent process to review their patent marking procedures and seek guidance from counsel on issues concerning the applicability of their patents to their products. Part of this process could also include a review of the products made by licensees that are marked with the company's patents to determine whether those products are properly marked. The end goal is to ensure that the patent marking statute is followed and that the false marking statute is not violated.

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## Notes

1. 35 U.S.C. § 292(b).
2. See, e.g., *Amsted Industries Incorporated v. Buckeye Steel Castings Co.*, 24 F.3d 178, 184 (Fed. Cir. 1994) (when the patented articles are not marked with the patent number, the patent owner's recovery of damages is limited to the period after which it notified the infringer of the infringement.).
3. See *Amsted*, 24 F.3d at 185 (licensee who makes or sells for the patent owner but does not place the patent number on the patented article will limit the patentee's damage recovery to the period after which the infringer had notice of the infringement.). Of course, another reason that patent numbers are placed on products is to alert competitors to the existence of the patents, with the hope that the competition will be cautious when introducing competitive products.
4. The invalidity of a patent poses particular questions because of timing. For example, if a patent is held invalid or unenforceable by a district court and that holding is on appeal, does the false marking statute apply? There appear to be no cases addressing these situations.
5. The Court of Appeals for the Federal Circuit was established in 1982 as the federal appellate court to hear all appeals of cases involving, among other things, patent matters.
6. *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1351 (Fed. Cir. 2005).
7. *DP Wagner Manufacturing Inc. v. Pro Patch Systems, Inc.*, 434 F. Supp. 2d 445, 455 (S.D. Tx. 2006).
8. *London v. Everett H. Barr Corp.*, 179 F. 506, 510 (1st Cir. 1910); *Brose v. Sears, Roebuck and Co.*, 455 F. 2d 763, 768-769 (5th Cir. 1972); *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005).
9. See *London*, 179 F. at 508.
10. *Sadler-Cisar, Inc. v. Commercial Sales Network, Inc.*, 786 F. Supp. 1287, 1296 (N.D. Ohio 1991).
11. *The Forest Group, Inc. v. Bon Tool Company*, 2008 WL 2962206, at \*6 (S.D. Tx. 2008).
12. The *Forest Group* court suggested, in passing, that separate orders sent by the patent holder to the manufacturer of the falsely marked goods might show that the marking of the articles over time was not a single and continuous act. *The Forest Group*, 2008 WL 2962206, at \*6, n.9.
13. The use of limited liability companies as vehicles to own the patents is an attempt to shield the owners of the companies from personal liability in the event one of the patents makes its way through litigation and attorney fees are awarded to the defendant.
14. *Pequignot v. Solo Cup Co.*, Case No. 07- CV-897, E.D. Va.
15. *Pequignot v. Gillette Co.*, Case No. 08-CV-222, E.D. Tx.
16. *Pequignot v. Arrow Fastener Co.*, Case No. 08-CV-353, E.D. Tx.
17. *Harrington v. New Products Marketing Corp.*, Case No. 08-CV-225, W.D. N.C.
18. *Harrington v. CIBA Vision Corp.*, Case No. 08-CV-251, W.D. N.C.
19. As of January 9, 2009, each of these cases remained pending, except that the plaintiffs voluntarily dismissed the *New Products Marketing Corp.* case.
20. *Pequignot v. Solo Cup Company*, 540 F. Supp. 2d 649, 652-653 (E.D. Va. 2008).
21. See *Clontech*, 406 F.3d at 1347.
22. *Astec America, Inc. v. Power-One, Inc.*, 2008 U.S. Dist. LEXIS 30365 at \*31 (E.D. Tx. 2008).
23. *Kor-CT, LLC v. Savvier, Inc.*, 344 F. Supp. 2d 847, 857 (D. Conn. 2004); *Project Strategies Corp. v. National Communications Corp.*, 948 F. Supp. 218, 225-227 (E.D. N.Y. 1996).
24. *Qui tam* is the shorthand version of the Latin phrase "*qui tam pro domino rege quam pro se ipso in hac parte sequitur*," roughly translated as "[one] who sues in this matter for the king as [well as] himself."
25. The Take Care clause provides that the President "shall Take Care that the laws be faithfully executed, and shall Commission all the Officers of the United States." U.S. Const. Art. II, § 3. The Appointments clause provides that the President "shall appoint . . . all . . . Officers of the United States." U.S. Const. Art. II, § 2, cl. 2.