Optimal Fines for False Patent Marking

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Abstract. Since January 1, 2010, plaintiffs have filed over three hundred lawsuits under 35 U.S.C. § 292, the false patent marking statute. Fueled in large part by recent Federal Circuit case law embracing an expansive interpretation of the statute, this uptick has alarmed some observers, who fear that patent owners whose products bear the numbers of expired or inapplicable patents could be liable for, literally, billions of dollars in fines. While Congress and the courts consider various responses, one issue that has failed to attract much notice thus far is the question of how to calculate appropriate fines for marking violations. Although the statute permits courts to assess a fine of “not more than $500” for every falsely marked article, it specifies neither a minimum fine nor any methodology for setting the amount of the fine. This Essay proposes that, in setting fines, courts should attempt to approximate the social harm caused by false marking by taking into account (1) the plaintiff’s loss (if any) and the defendant’s gain (if any) attributable to the marking at issue; (2) the plausibility of substantial but less easily quantifiable harms to third parties; and (3) the risks, on the one hand, of underdetering statutory violations if the penalty is too small and, on the other, of chilling patentees from lawfully marking their products if the risk of liability is too great. In cases in which the social harm from false marking appears minimal, courts should not be reluctant to impose only nominal fines.

* Briggs and Morgan Professor of Law, University of Minnesota Law School. I thank Nicholas Tymoczko for research assistance. Any errors that remain are mine.
Introduction

Recent months have witnessed a flurry of lawsuits under 35 U.S.C. § 292, the once-obscure false patent marking statute.\(^1\) Fueled in large part by recent Federal Circuit case law that has embraced an expansive interpretation of the statute, this uptick in activity has alarmed some observers, who fear that patent owners who market products bearing the numbers of expired or inapplicable patents could be on the hook for, literally, billions of dollars in liability.\(^2\) While Congress and the courts consider various measures intended to rein in perceived abuses on the part of plaintiffs pejoratively referred to as “marking trolls,” one issue that has failed to attract much notice thus far is the question of how to calculate an appropriate fine for proven violations of the statute. Although the statute as interpreted by the Federal Circuit permits a court to assess a fine of “not more than $500” for every falsely marked article,\(^3\) the statute specifies neither a minimum fine nor a methodology for arriving at an appropriate number. This Essay proposes that, in order to avoid imposing arbitrary (and perhaps unnecessarily large) fines for false patent marking, courts should seek guidance in the law of remedies for false advertising and copyright infringement. In particular, courts should attempt to approximate the social harm caused by actionable false marking by taking into account (1) the plaintiff’s loss (if any) and the defendant’s gain (if any) attributable to the false marking at issue; (2) the plausibility of substantial but less easily quantifiable harms to consumers and to nonparty competitors; and (3) the risks, on the one hand, of underdetering statutory violations if the penalty is too small and, on the other, of chilling patentees from lawfully marking their products if the risk of liability is too great. In cases in which the likely social harm

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\(^1\) See 35 U.S.C. §§ 292(a), (b) (2006) (stating that “[w]hoever 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,” and authorizing any person to “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”). For discussion of some of the recent case law, see infra Part I.

\(^2\) See infra Part I; see also Dionne Searcey, New Breed of Patent Claim Bedevils Product Makers, WALL ST. J., Sept. 1, 2010, at A1 (noting that recent rulings have “raised the stakes in such cases, potentially exposing product makers to huge damages”).

\(^3\) See 35 U.S.C. § 292(a) (2006); Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295, 1300-04 (Fed. Cir. 2009).
from false marking appears minimal, courts should not be reluctant to impose only nominal fines.

Part I provides a brief overview of the recent controversy over false patent marking suits. Part II elaborates on my proposal for calculating optimal fines, and Part III concludes.


Section 292(a) of the U.S. Patent Act states, in relevant part, that “[w]hoever 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.” 4  Section 292(b) states 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.” 5  Courts have interpreted this latter provision to mean that the statute permits plaintiffs to institute so-called *qui tam* actions, on behalf of the United States government, against defendants who have falsely represented their unpatented products as being patented. 6  Nevertheless, until recently, this false marking statute was rarely invoked due to the courts’ narrow interpretation of the language authorizing the fine (“not more than $500 for every such offense”). In particular, most courts held that a defendant that violated the statute by falsely marking as patented its unpatented Product X committed a single offense, authorizing a fine of at most $500, regardless of how many copies of Product X

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5 Id. § 292(b).

6 See Pequignot v. Solo Cup Co., 608 F.3d 1356, 1359 (Fed. Cir. 2010); Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295, 1303-04 (Fed. Cir. 2009). For purposes of § 292, if a defendant marks its product with the numbers of two or more patents and the article is not covered by at least one claim of each patent, the article is mismarked. See Clontech Labs., Inc. v. Invitrogen Corp., 406 F.3d 1347, 1352 (Fed. Cir. 2005) (stating that “[w]hen 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”).

The term “qui tam,” by the way, is short for “qui tam pro domino rege quam pro se ipso in hac parte sequitur,” meaning “who as well for the lord the king as for himself sues.”  VIII THE OXFORD ENGLISH DICTIONARY 72 (1st ed. 1933). Although American lawyers and judges often pronounce the term “kee tăm,” the “qu” should be pronounced as in the word “queen.”  See id.; WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED 1867 (Philip Babcock Gove ed. 1976). In classical Latin, the pronunciation of “qui tam” would be something like “quee tom”.  See E.H. STURTEVANT, THE PRONUNCIATION OF GREEK AND LATIN 13-15, 29 (1920).

the defendant sold. Late last year, however, in *Forest Group, Inc. v. Bon Tool Co.*, the United States Court of Appeals for the Federal Circuit rejected this line of precedent, holding that “the statute’s plain language requires the penalty to be imposed on a per article basis.” As a result, a defendant that falsely marks thousands or millions of identical products is now potentially liable for, literally, millions or even billions of dollars in fines. Not surprisingly, the decision in *Forest Group* quickly generated a cottage industry of false patent marking suits directed against some of the nations’ largest corporations. False marking actions received a further boost in June 2010 when, in *Pequignot v. Solo Cup Co.*, the Federal Circuit held that marking a product with the number of a patent that once covered some aspect of the product but that has since expired also can violate the statute. Most recently, in August 2010, the Federal Circuit held that violation of § 292 “inherently constitutes injury to the United States,” and that a private plaintiff therefore has article III standing to assert a *qui tam* action under the statute, regardless of whether the government has suffered any proprietary injury or the private plaintiff any personal injury.

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7 See *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1301-02 (Fed. Cir. 2009) (noting that some courts had followed the interpretation of *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), that “the continuous false marking of multiple articles should constitute a single offense,” while others “adopted a time-based approach” under which a new fine would accrue for each day, week, or month of false marking).

8 *Id.* at 1301.


11 608 F.3d 1356 (Fed. Cir. 2010).

12 See *id.* at 1361-62.

To be sure, the prospect of corporations being forced to pay millions or billions of dollars in fines as a result of false marking liability may be somewhat exaggerated. For one thing, to prevail on a false marking claim the plaintiff must prove not only false marking but also deceptive intent. In some of the cases thus far (including Solo Cup) the defendant ultimately prevailed in rebutting the inference that its sale of products marked with expired patent numbers was intentionally deceptive. A variety of other obstacles also may prevent some claims from going forward; and attorneys are advising corporate clients to monitor and, where necessary, modify their product marking practices to minimize the risk of liability. Furthermore, the most recent Patent Reform

14 See id. at 1362; Forest Group, 590 F.3d at 1300; Clontech v. Invitrogen Corp., 406 F.3d 1347, 1352-53 (Fed. Cir. 2005).

15 See Solo Cup, 608 F.3d at 1362-65 (stating that “a combination of a false statement and knowledge that the statement was false creates a rebuttable presumption of intent to deceive the public,” but that “mere knowledge that a marking is false is insufficient to prove intent if [defendant] can prove that it did not consciously desire the result that the public be deceived,” and that where the false markings “are expired patents . . . the presumption of intent to deceive is weaker”; and concluding that Solo Cup rebutted the presumption by demonstrating that it acted “in good faith reliance on the advice of counsel and out of a desire to reduce costs and business disruption,” representing only that its products “may be covered” by certain patents, and providing consumers with a website address for further information); see also Clontech, 406 F.3d at 1353-59 (affirming a finding of deceptive intent with respect to certain products and reversing as to others); Harrington v. Ciba Vision Corp., No. 3:08-cv-00251-FDW-DCK, 2010 WL 2889584, at *6 (W.D.N.C. July 21, 2010).

16 Some courts, for example, have concluded that false marking claims sound in fraud and therefore implicate the heightened pleading requirements of Federal Rule of Civil Procedure 9(b). See, e.g., Brinkmeier v. BIC Corp., __F. Supp. 2d __, __, 2010 WL 3360568, at *8 (D. Del. Aug. 25, 2010); Hollander v. Etymotic Res., Inc., __ F. Supp. 2d __, __, 2010 WL 2813015, at *4-7 (E.D. Pa. July 14, 2010) (collecting cases on both sides of the issue); Promote Innovation LLC v. Ranbaxy Labs. Inc., No. 2:10-CV-121-TJW-CE, 2010 WL 3120040, at *2-3 (E.D. Tex. July 14, 2010) (collecting cases on both sides of the issue). Others have held that only one relator may bring a qui tam action with respect to a given course of conduct, and have dismissed later-filed actions brought by other plaintiffs. See San Francisco Tech. v. Glad Prods. Co., No. 10-CV-00966 JF (PVT), 2010 WL 2943537, at *2-3 (N.D. Cal. July 26, 2010); Simonian v. Quigley Corp., No. 10 C 1259, 2010 WL 2837180 (N.D. Ill. July 19, 2010); but see Simonian v. Hunter Fan Co., No. 10 C 1212, 2010 WL 2720749 (N.D. Ill. July 8, 2010) (concluding that § 292 does not contain a first-to-file limitation). Litigants have also raised challenges under the Appointments and Take Care clauses of the Constitution, though so far without success. See Shizzle Pop, LLC v. Wham-O, Inc., No. CV 10-3491 PA (FFMx), 2010 WL 3063066, at *3 (C.D. Cal. Aug., 2, 2010); Pequignot v. Solo Cup Co., __ F. Supp. 2d __, 714, 724-28 (E.D. Va. 2009). And, while the Federal Circuit has held that plaintiffs must prove the elements of a false marking claim only by a preponderance of the evidence, see Clontech, 406 F.3d at 1355, one might question whether this is correct, given the court’s characterization of the statute as “a criminal one, despite being punishable only with a civil fine,” Solo Cup, 608 F. 3d at 1363 (citations omitted). The Federal Circuit’s recent decision in Stauffer does not expressly address these issues. See Stauffer, __ F.3d at __, 2010 WL 3397419 at *6-7 (expressly not reaching the “Take Care” issue; remanding for consideration of Brooks Brothers’ argument that the complaint fails to satisfy Rule 9(b); and stating that “the government would not be able to recover a fine from Brooks Brothers if Stauffer loses, as res judicata would attach to claims against Brooks Brothers for the particular markings at issue”).

bill introduced in Congress would limit § 292 to plaintiffs who have suffered competitive injury, and would permit them to recover only “damages adequate to compensate for the injury.”  

Meanwhile, debate continues on the merits of allowing private claims for false patent marking. Supporters of these claims, including some Federal Circuit panels, argue that false patent marking discourages potential competitors and inventors from entering markets from which no valid, existing patent actually bars them (or else that it encourages them, unnecessarily, to “design around” what they believe to be applicable patents); that it raises the cost of determining whether a product is covered by an existing, valid patent or patents; and that it potentially defrauds consumers, who may rely on a product’s supposed patented status as an indicium of quality. Critics, meanwhile, question whether firms are likely to avoid competing without first investigating whether the patents allegedly covering a product are valid and still in force. In addition, they argue that the cost of determining whether a given patent has expired is relatively low; and some have argued that potential competitors actually may benefit from reviewing the technology disclosed in an expired or subsisting patent. By contrast, the cost to the patentee of strictly complying with the statute can be significant. Another provision of

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18 See Amendment in the Nature of a Substitute to S. 515, 111th Cong., 2d Sess., § 2(k) (introduced Mar. 5, 2010), available at http://www.patentbaristas.com/archives/2010/03/05/the-patent-reform-act-of-2010-a-substitute-s-515/. Whether this bill stands a better chance of being enacted than have predecessor bills introduced since 2005, however, is debatable.


21 See id. at 29; Gray & Wegner, supra note 9, at 5. The Federal Circuit takes issue with this point in Solo Cup, however, noting the possibility for patent term extensions in some cases, and of premature expiration due to failure to pay maintenance fees in others. See Solo Cup, 608 F.3d at 1362; see also Corey McCaffrey, The Virtues of Virtual Marking in Patent Reform (Aug. 1, 2010), at 27 & nn. 146, 147, available at http://ssrn.com/abstract=1618162.

22 See Arneson, supra note 17, at 29-31 (limiting discussion to expired patents); McCaffrey, supra note 19, at 27. The Federal Circuit took issue with this point in Clontech. See Clontech, 406 F.3d at 1356 (rejecting, as contrary to the statutory mandate, defendant’s argument that “there is no harm in marking products with patents even when those products do not fall within the bounds of properly construed claims because the additional marking” would enable the “public to undertake the appropriate investigation . . . and to take steps to avoid infringement”).
the Patent Act requires patentees to mark their products with the numbers of any patents incorporated therein, if they wish to maximize their potential damages recovery in the event of infringement. Moreover, in the case of a product covered by multiple patents—which may include not only high-tech products like cell phones and PCs but also relatively low-tech products like Solo’s cup lids—the cost of changing the product mold or labeling each time a patent expires can be significant. Finally, whether consumers are likely to infer, incorrectly, that patents necessarily signify product quality is a question with respect to which participants in the current debate have yet to offer empirical support. Significantly, perhaps, Lanham Act false advertising claims (which require proof that a misrepresentation was likely to affect consumers’ purchasing decisions) rarely involve claims of false patent marking. If widespread false marking is having a deceptive influence on consumer behavior, it seems odd that more Lanham Act plaintiffs had not seized the opportunity to challenge false marking long before Forest Group made § 292 an attractive alternative.

One issue that has received surprisingly little attention thus far in the debates over § 292 is how to calculate the appropriate fine in cases in which a court concludes that the defendant has violated the statute. This issue is unlikely to go away, however, even if

23 See 35 U.S.C. § 287(a); Roger D. Blair & Thomas F. Cotter, Strict Liability and Its Alternatives in Patent Law, 17 BERKELEY TECH. L.J. 799, 801-07 (2002); see also Arneson, supra note 17, at 32-33 (noting that to the extent false marking litigation discourages marking, it risks making it more difficult for potential competitors to determine if an article is patented); Searcey, supra note 2, at A14 (quoting attorney Robert Koch as stating that he now “advises his clients to stop marking patents on their products”).

24 See Solo Cup, 608 F.3d at 1358-59, 1364-65; Searcey, supra note 2, at A14 (noting that Solo had “more than 3,000 molds for its products that were stamped with erroneous patents”).

25 See, e.g., Johnson & Johnson Vision Care, Inc. v. 1-800 Contacts, Inc., 299 F.3d 1242, 1250-51 (11th Cir. 2002). A minority of courts, however, would presume that a literally false statement is material to consumers’ purchasing decisions. See Pizza Hut, Inc. v. Papa John’s Int’l, Inc., 227 F.3d 489, 497 (5th Cir. 2000).

26 A few courts have held or suggested that falsely representing that one’s goods are covered by a patent, copyright, or trademark rights (or that such rights are pending) may constitute false advertising under the Lanham Act. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 3, Reporter’s Note to cmt. c, illus.3 (1995); 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 27:78 n.1 (4th ed. 2010); Grant, supra note 19, at 296-98. Such cases nevertheless appear to be few and far between, though perhaps in part because merely marking a product may not constitute “commercial advertising or promotion” (a prerequisite for liability under Lanham Act § 43(a), 15 U.S.C. § 1125(a)). Advertisements falsely asserting patent rights, however, would be actionable under the Lanham Act if all of the other elements of a false advertising claim were satisfied, as well as potentially actionable under 35 U.S.C. § 292(a). For a discussion of the difficulties plaintiffs face in successfully alleging false marking as a Lanham Act violation, see Thomas M. Williams, False Patent Marking Claims Under the Lanham Act, BNA PAT., TRADEMARK & COPYRIGHT DAILY, Mar. 22, 2010 (describing “proving that defendants’ false patent markings were material to the purchasing decision . . . and that the plaintiffs were injured, or likely to be injured, as a result” as “a tall task”); see also Forest Group, Inc. v. Bon Tool Co., Civil Action No. H-05-4127, 2008 WL 2962206, at, at *7-8 (S.D. Tex. July 29, 2008) (dismissing Lanham Act counterclaim based on false patent marking—the same false patent marking that gave rise to Bon Tool’s successful § 292 counterclaim—absent evidence of materiality and injury), rev’d on other grounds, 590 F.3d 1295 (Fed. Cir. 2009).
Congress or the Federal Circuit decides to limit false marking claims to competitor plaintiffs. Although claims by noncompetitors have attracted the lion’s share of attention thus far, anecdotal evidence suggests that claims by competitors—sometimes asserted as counterclaims when those competitors are themselves sued for patent infringement—also may be on the rise. Indeed, as long as *Forest Group* and *Solo Cup* remain good law, one would expect parties to infringement litigation to assert false marking claims whenever the facts may so warrant (subject, of course, to the possibility that asserting such a claim risks retaliation in kind).

Thus far, however, courts have provided very little guidance on how to set the appropriate statutory fine. In *Forest Group*, the Federal Circuit stated that a court need not always fine those guilty of false marking $500 per article marked. The statute provides a fine of “*not more than* $500 for every such offense.” 35 U.S.C. § 292(a) (emphasis added). By allowing a range of penalties, the statute provides district 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. In the case of inexpensive mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.

On remand, the district court noted that Forest Group had sold 38 falsely marked stilts at prices between $103 and $180, and concluded that “the appropriate fine in this case is $180.00 per article, the highest point of the price range,” because “[t]his will deprive Forest of more than it received for the falsely-marked stilts, fulfilling the deterrent goal of § 292’s fine provision.” In another recent case, a magistrate judge recommended a fine amounting to 10% of the total revenue the defendant earned on sales of 1,127 falsely marked items, while in a third, a court imposed a fine equal to about 32% of the total revenue earned from sales of 651,675 falsely marked articles. In none of the three


28 590 F.3d at 1304.


district court cases, however, have the courts articulated any clear framework for determining what an appropriate penalty should be in a broad range of cases.  

II. A Suggested Framework for Imposing Rational Fines

As noted above, courts have suggested that false marking potentially causes social harm by (1) discouraging would-be inventors and competitors from competing against the firm that engages in false marking, or alternatively by encouraging them to engage in unnecessary design-around efforts; (2) raising the cost of evaluating whether a given patent really does cover the product at issue; and (3) defrauding consumers, who may assume that a (falsely marked) product is superior to nonpatented substitutes.  

This last harm also potentially affects competitors of the firm engaging in the false marking, by depriving them of sales they otherwise would have made. These potential harms are analogous to the harms that are often said to result from false advertising. Like false patent marking, false advertising (when successful) may discourage some firms from competing against a firm that falsely claims product superiority; may raise the cost of evaluating the claims made in all advertising, both truthful and nontruthful; and potentially defrauds consumers and deprives truthful competitors of sales they otherwise would have made. Whether the analogy to false advertising is an apt one is ultimately

public policy embodied in the statute and to deter any similar violations,” and that “by not imposing a disproportional liability for what appears to be an ‘inexpensive mass-produced article,’ the fine serves its deterrent function without over-penalizing” the defendant).


See supra text accompanying note 19.

See Barton Beebe et al., TRADEMARKS, UNFAIR COMPETITION AND BUSINESS TORTS, ch. 9, at 4-5 (unpublished manuscript, on file with author) (noting, among other things, that “[i]n the extreme, false advertising might tend to drive out of truthful advertising, because firms would be unable to signal truthful private information about their products in ways that consumers could trust) (citing George Akerlof, The Market for “Lemons”: Quality Uncertainty and the Market Mechanism, 84 Q.J. Econ. 488 (1970)).
an empirical question, however. Perhaps would-be inventors and competitors are not so easily cowed into submission; and they might, in any event, double-check the scope and validity of patents that assertedly cover products with which they intend to compete. In addition, perhaps consumers pay little attention to patent marking or accord little weight to the fact that a product is patented. Finally, commentators on the law of false advertising have long noted that, if the standard for imposing liability is too strict, the penalty too harsh, or the risk of error too large, the end result may be counterproductive: firms may compete less (and consequently make consumers worse off) if the law inhibits them from making all but the most anodyne, least informative claims about their products. So too, at least potentially, with false marking: if the liability standard or the penalty is excessive, or the risk of error too high, patentees might respond by reducing or eliminating patent marking altogether. Such a response would threaten to make competitors and consumers worse off, because it would reduce not only false but also some amount of lawful marking, and thus potentially impede competition by making it more difficult to discover which patents potentially cover a given product. Moreover, since patent marking is often a prerequisite to a full award of patent damages, a regime that discourages lawful patent marking risks undermining the patent incentive by interfering with patent owners’ ability to recover the full measure of their provable lost profits or reasonable royalties in the event of infringement.

Nevertheless, for present purposes, I will concede that negative social consequences can at least sometimes result from false patent marking as defined by the courts. As a first approximation, then, the optimal fine for false patent marking would be one that forces patentees to internalize the net social costs of false marking; or, on the assumption that the private gain from false marking and the social cost are roughly equal, by making false marking unprofitable to the faux patentee. The minimum

35 Courts invalidate almost half of all patents asserted in litigation, after all. See John R. Allison & Mark A. Lemley, Empirical Evidence on the Validity of Litigated Patents, 26 AIPLA Q.J. 185, 205-07 (1998); see also Paul M. Janicke & LiLan Ren, Who Wins Patent Infringement Cases?, 34 AIPLA Q.J. 1 (2006) (finding that defendants win about three out of four patent infringement cases). Alternatively, they might simply ignore those patents. See Mark A. Lemley, Ignoring Patents, 2008 Mich. St. L. Rev. 19, 19-22 (2008) (stating that many companies ignore patents). In addition, and as noted above, the cost of determining whether a patent is simply still in force is often (if not always) low. See supra note 21 and accompanying text.

36 See Grant, supra note 19, at 289-91 (noting the lack of empirical evidence thus far).

37 See Mead Johnson & Co. v. Abbott Laboratories, 209 F.3d 1032, 1034 (7th Cir. 2000) (per curiam) (expressing concern that, if advertisers had to conform their ads to the understanding of even small numbers of easily misled consumers, they would reduce “ads and packaging to meaningless puffery”); BEEBE ET AL., supra note 34, ch.9 at 7; Richard Craswell, Interpreting Deceptive Advertising, 65 B.U. L. Rev. 657, 688-92 (1985).

38 See supra note 23 and accompanying text.

39 In theory, the social harm could exceed the private gain. One might imagine a case, for example, in which false marking dissuaded a firm from competing against the offender (or deprived that firm of sales of competing products) and that firm’s products would have led to greater positive spillover effects down the
penalty that would serve this purpose would be one that is precisely equal to the social harm/private gain, though perhaps in some cases (e.g., where the probability of detection and enforcement is less than one) a multiplier might be necessary to achieve optimal deterrence. At the same time, however, a fine that greatly exceeds the social harm/private gain caused by false marking risks being counterproductive. In particular, if the probability of a court’s erroneously determining that the defendant violated the statute is greater than zero, even a small risk of potentially ruinous liability may induce some patentees to forgo marking altogether; and this would be a social loss, for the reasons discussed above. How, then, should courts go about approximating the social harm/private gain resulting from false marking? Fortunately, the law of unfair competition and copyright provides some assistance in making such approximations in analogous circumstances.

Turning first to the law of unfair competition, the prevailing plaintiff in a trademark or false advertising action is normally awarded injunctive relief. Of greater relevance in the present context, in an appropriate case the plaintiff also may recover monetary relief in the form of compensatory damages or disgorgement of the defendant’s profits attributable to the misconduct at issue. Compensatory damages generally take the form of lost profits resulting from sales lost to the defendant, though these can be

road. But whether false patent marking frequently causes such extensive social harms in excess of the defendant’s private gain seems speculative.


41 See supra text accompanying notes 37-38. The loss would be compounded if patentee’s agents are risk-averse. See Thomas F. Cotter, An Economic Analysis of Patent Law’s Inequitable Conduct Doctrine, at 33-34 (explaining how risk aversion on the part of the patentee’s agents may affect behavior) (unpublished manuscript, on file with author).

42 In a trademark case, this will be the trademark owner. See ROGER D. BLAIR & THOMAS F. COTTER, INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL ANALYSIS OF RIGHTS AND REMEDIES 183 (2005). In a Lanham Act false advertising case, the prevailing plaintiff typically is a competitor of the defendant. See Phoenix of Broward, Inc. v. McDonald’s Corp., 489 F.3d 1156, 1164-66 (11th Cir. 2007), cert. denied, 128 S. Ct. 1647 (2008); Serbin v. Ziebart Int’l Corp., 11 F.3d 1163 (3d Cir. 1993).

43 See BEEBE ET AL., supra note 34, ch. 9, at 228; BLAIR & COTTER, supra note 42, at 36.


45 See, e.g., Porous Media Corp. v. Pall Corp., 110 F.3d 1329, 1335 (8th Cir. 1997); ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 969 (D.C. Cir. 1990). Enhanced damages are sometimes awarded for willful infringement. See 15 U.S.C. § 1117(a) (2006) (stating that “the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount,” and that if the court instead awards defendant’s profits, if it finds the amount “either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case,”) but that in either instance the award “shall constitute compensation and not a penalty”); BLAIR & COTTER, supra note 42, at 84-85. In the ALPO case on remand, the district court listed three factors relevant to determining whether a damages award is inadequate (and hence a candidate for enhancement): “the impact of the unlawful conduct directly
difficult to prove when the relevant market consists of more than two firms, as well as reasonably necessary out-of-pocket costs such as the cost of having conducted a responsive advertising campaign.\(^{46}\) The disgorgement remedy, by contrast, traditionally has been available only when the defendant is found to have acted “willfully” or in “bad faith.”\(^{47}\) In previous work on the law and economics of trademark remedies (the reasoning of which is equally applicable to false advertising), Roger Blair and I have argued that limiting the disgorgement remedy to cases involving bad faith may make sense, given the risk of overcompensation if such awards were more freely available.\(^{48}\) Although the plaintiff is, strictly speaking, entitled only to the portion of the defendant’s profits that is attributable to the infringement or false advertising, the burden is on the defendant to prove what portion of its profits are not so attributable;\(^{49}\) errors therefore may be more likely to be biased in favor of plaintiffs. In the case of willful misconduct, this may not be such a problem, either on moral or economic grounds; in the case of willful trademark infringement in particular, the vast majority of the defendant’s profits from the sale of a given product may be attributable to willful misconduct.\(^{50}\) In cases involving nonwillful misconduct, by contrast, the risk of overcompensation (and thus overdeterrence of lawful behavior on the part of others) may counsel in favor of awarding actual damages or (in the case of trademark infringement) reasonable royalties based on comparable licenses, rather than a disgorgement of the defendant’s profits.\(^{51}\)

As for statutory damages, the Copyright Act permits the prevailing plaintiff (subject to certain qualifications) to an award of damages in lieu of actual damages or defendant’s profits, in the amount of $750 to $30,000 for each work infringed.\(^{52}\) Like the

\(^{46}\) See ALPO, 913 F.2d at 969 (stating that the plaintiff may recover damages for responsive advertising expenses or other damage control costs it has incurred, to the extent these expenses were reasonably necessary to counter the defendant’s false advertising); Balance Dynamics Corp. v. Schmitt Indus., 204 F.3d 683, 692–93 (6th Cir. 2000).


\(^{48}\) See Blair & Cotter, supra note 42, at 84-89.

\(^{49}\) See id. at 37.

\(^{50}\) See id. at 86-87.

\(^{51}\) See id.; see also BEEBE ET AL., supra note 34, ch. 8, at ___.

\(^{52}\) See 17 U.S.C. § 504(c).
$500-per-offense cap in the false marking statute, the damages range in the statutory damages provision at first blush seems rather arbitrary. Reviewing cases decided from 1992 to 1997, and again from 2000 to 2002, however, Blair and I concluded that (1) courts tended to award statutory damages at the higher end of the spectrum in cases involving infringement of a single work over a long period of time or on many occasions; (2) in cases in which courts were presented with evidence of the plaintiff’s actual damages (for example, in the form of lost licensing revenue), and the cost of detecting the infringement was likely high, courts tended to award statutory damages roughly double or triple the amount of those actual damages; and (3) in other cases in which courts were presented with little or no evidence of the amount of the plaintiff’s actual loss or the defendant’s gain, they tended to award statutory damages at the lower end of the spectrum.\footnote{See Blair & Cotter, supra note 42, at 80-82; see also Roger D. Blair & Thomas F. Cotter, An Economic Analysis of Damages Rules in Intellectual Property Law, 39 WM. & MARY L. REV. 1585, 1661-69 (1998) (discussing the results of the 1992-97 research, as well as the existence of some cases that did not fit the patterns).} Indeed, some of the cases (both then and now) have set statutory damages explicitly in reliance on factors such as

1. the expenses saved and the profits reaped; 2. the revenues lost by the plaintiff; 3. the value of the copyright; 4. the deterrent effect on others besides the defendant; 5. whether the defendant's conduct was innocent or wilful; 6. whether a defendant has cooperated in providing particular records from which to assess the value of the infringing material produced; and 7. the potential for discouraging the defendant.\footnote{Yash Raj Films (USA), Inc. v. Sidhu, No. CV F 09-0233 AWI GSA, 2010 WL 1032792, at *8 (E.D. Cal. Mar. 19, 2010) (quoting Cartier v. Symbolix, Inc., 544 F. Supp. 2d 316, 318 (S.D.N.Y. 2008)). Similar factors are relevant when calculating statutory damages for trademark counterfeiting pursuant to 15 U.S.C. § 1117(c). See Philip Morris USA Inc. v. Tammy’s Smoke Shop, Inc., __ F. Supp. 2d __, 2010 WL 2985491, at *1 (E.D.N.Y. July 19, 2010) (stating that “[i]n determining the amount of statutory damages, the Court considers several factors, including, inter alia: the defendant’s profits, the plaintiff’s lost profits, the defendant’s willfulness, the size of defendant’s counterfeiting operation, the defendant’s efforts to mislead and conceal, and the need to deter the defendant and others”). Compare Roger D. Blair & Thomas F. Cotter, An Economic Analysis of Damages Rules in Intellectual Property Law, 39 WM. & MARY L. REV. 1585, 1660-61 (1998) (noting similar factors as reflected in the case law at that time).}

One of the few commentators who has addressed the calculation of fines for false patent marking has recently advocated the use of factors resembling the factors quoted above in this context. \textit{See} O’Neill, supra note 17, at 28. O’Neill notes that, in \textit{Bon Tool} and \textit{Presidio}, “the courts considered the number of products falsely marked and the selling price for those products,” and suggests

In the future, courts also may consider such factors as the extent of falsely marked advertising, the duration of the false marking (especially after the defendant had knowledge of the falsity), the defendant’s profit margins on the falsely marked products, the impact that any potential penalty would have on the defendant’s business, the strength of the evidence on the issue of intent, whether any competitors or potential competitors incurred any actual harm as a result of the false marking, and whether the public actually was deceived as a result of the false marking.

\textit{Id.} at 28-29 (footnote omitted).
We suggested that the patterns in the case law made “some rough economic sense,” in that “in awarding statutory damages, courts appear to have at least some general idea of the probable harm or gain involved and to be sensitive to the need to set an award high enough to encourage” detection and enforcement.55

The standards courts use in awarding damages in unfair competition and copyright litigation could prove useful in crafting appropriate fines for false patent marking for several reasons. First, to the extent the fine should approximate the social harm caused by false patent marking, courts could look to these other bodies of law for guidance in estimating the magnitude of that harm. Because one component of social harm is whatever provable harm the plaintiff itself has suffered, courts could look to false advertising law in particular for guidance on how to estimate the lost profits and other expenses the plaintiff has incurred as a result of the defendant’s misrepresentation. As in false advertising litigation, however, it often may be difficult or impossible for the plaintiff to quantify any such damages (particularly if the plaintiff is a noncompetitor, and noncompetitor suits survive Patent Reform efforts). Any such inability or unwillingness to prove lost profits should not necessarily be dispositive, however; indeed, even if the plaintiff can and does prove some quantifiable loss, imposing a fine merely equal to the amount of that loss may not adequately compensate for other competitors’ losses or for the alleged harms to consumers resulting from a decrease in competition. Other factors therefore also may be relevant in evaluating (if only roughly) the magnitude of the harm caused by the false marking—for example, whether the market in which the defendant sells its product is reasonably competitive and innovative, or whether other firms within that market appear to be deterred by the defendant’s false claim that the technology embodied in the product is patented.56 Similarly, as in some of the cases involving statutory damages, the length of time the misconduct has persisted may be relevant in determining the magnitude of the fine.57 Evidence that consumers have been materially deceived also would tend to suggest that the false marking has resulted in lost sales to

55 *Id.* at 83. We have not exhaustively surveyed the more recent cases, so whether these patterns have continued to hold up in more recent years is uncertain. It is surely possible that the Supreme Court’s 1998 decision in *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998), holding that litigants have a Seventh Amendment right to a trial by jury on the amount of copyright statutory damages, has obscured the patterns we earlier perceived. Even after *Feltner*, however, courts continue to set statutory damages in some cases, as discussed in note 54 above. Moreover, in some recent cases involving illegal file sharing, the courts have effectively overruled jury awards of statutory damages as excessive. See Sony BMG Music Enter. v. Teitelbaum, ___ F. Supp. 2d __, 2010 WL 2705499, at *26-27 (D. Mass. July 9, 2010); Capitol Records Inc. v. Thomas-Rasset, 680 F. Supp. 2d 1045, 1056-57 (D. Minn. 2010).

56 In the *Brooks Brothers* litigation, for example, evidence cited by the district court suggests that other firms were using the same device (for adjusting bow ties to neck size) as Brooks Brothers, under license from the owner of the trademark for the brand name of the device. The fact that advertisements referred to some long-expired patents covering the device arguably had little if any effect in discouraging competition or innovation in the bow tie market. See *Stauffer*, 615 F. Supp. 2d at 255. I thank Karin Cotter for suggesting the relevance of the market’s competitiveness on the issue of actual damages.

57 See supra text accompanying note 53; see also O’Neill, *supra* note 17, at 28.
some competitors. Although none of these factors may provide much precise assistance in gauging the amount of the social harm, their presence (or absence) might be relevant in estimating whether the social harm is closer to the high or the low end of the spectrum. Absent evidence that the plaintiff, other competitors, or consumers have suffered any tangible harm, for example, perhaps only a nominal fine would be appropriate.

Second, to the extent the fine should approximate the defendant’s private gain from the false marking, courts again might look to unfair competition law for guidance. Indeed, disgorgement might seem to be a more appropriate benchmark than actual harm, if only because successful false marking claims necessarily entail proof of deceptive intent that is arguably akin to the “willfulness” required in the trademark and false advertising realm. On this analogy, the defendant would bear the burden of proving the portion of its profits during the relevant time period that were not attributable to the false marking. As in the false advertising realm, however, the disgorgement remedy may risk overrewarding the plaintiff, to the extent the defendant may encounter difficulty in proving what portion of its profits were not attributable to the misconduct at issue. Nevertheless, in the present context this risk sometimes may be insubstantial. For example, if the defendant ceased its false marking far enough in advance of the entry of judgment, the defendant could then compare its profit level before and after marking; if there is little or no difference (or the difference can be explained by other market factors),

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58 See O’Neill, supra note 17, at 29 (suggesting the relevance of such proof).

59 Whether the plaintiff or the defendant should have the burden of offering such evidence is an interesting question. In the context of the other qui tam action still available under federal law, the False Claims Act, a person who is found to have defrauded the federal government “is liable to the United States Government for a civil penalty of not less than $5,000 and not more than $10,000, as adjusted by the Federal Civil Penalties Inflation Adjustment Act of 1990, plus 3 times the amount of damages which the Government sustains because of the act of that person.” 31 U.S.C. § 3729(a)(1). To recover treble “the amount of damages which the Government sustains,” the relator must offer evidence of that amount. See, e.g., Landau v. Lucasti, 680 F. Supp. 2d 659, 672 (D.N.J. 2010).

The question of whether the fine imposed is unconstitutionally excessive has arisen in some actions under the False Claims Act. Compare United States v. Cabrera-Diaz, 106 F. Supp. 2d 234, 239-42 (D.P.R. 2000) (holding that, on the facts of the case, the imposition of civil fine in addition to treble actual damages would have constituted an unconstitutionally excessive fine), with United States ex rel. Tyson v. Amerigroup Ill., Inc., 488 F. Supp. 2d 719 (N.D. Ill. 2007) (holding that the fine imposed under False Claims Act was not unconstitutionally excessive, and disagreeing with Cabrera-Diaz’s approach to the constitutional issue). To my knowledge, the question of whether the fine imposed in a false patent marking case is unconstitutionally excessive has not been addressed in any reported decision thus far, and this Essay does not undertake that analysis. In the event the issue does arise in some future case, however—or in the event Congress amends 35 U.S.C. § 292 so as to permit only the recover of actual damages, see supra note 18—the discussion in the text above on estimating the actual harm caused by false marking will, if anything, take on added significance.

60 See supra notes 14, 47-51 and accompanying text (discussing deceptive intent and willfulness).

the amount of profit attributable to the false marking would appear to be minimal. Moreover, in a case in which the marking included some expired or nonapplicable patents along with a number of applicable subsisting patents, the odds that any substantial portion of the defendant’s profits were attributable to the expired or nonapplicable patents are probably low, all other things being equal; evidence comparing the value of technology covered by the expired or nonapplicable values to the technology covered by the applicable subsisting patents could either bolster or rebut this inference. Finally, as in the example above involving actual damages, evidence that other firms within the relevant market appeared to suffer no ill effects from the false marking might tend to dispel the inference that the portion attributable to deceptive marking was significant.

Third, using the statutory damages framework as a guide, a court should consider whether the risk of nondetection or nonenforcement counsels in favor of enhancing the fine beyond the social harm/private gain baseline; or whether instead the corresponding risk of deterring firms from lawful marking counsels against an enhancement. In the abstract, it is difficult to predict which way this consideration should tilt in the average case. On the one hand, the diffuse and unquantifiable nature of the harm in some cases may suggest that no affected party would have a substantial incentive to sue if the fine were limited to the amount of proven harm. On the other, if current experience (i.e., 300-plus false marking cases filed since January 1, 2010) is any guide, a good deal of false patent marking may not be particularly difficult to detect. Moreover, the defendant’s private gain may be both an adequate and more tractable measure of the social harm resulting from false marking; if so, then the availability of a fine mirroring that gain may provide a sufficient incentive for potential plaintiffs to seek out violations. In a case in which there is no reasonable basis for inferring either harm or gain, however, the need for an enhancement to achieve optimal deterrence may be illusory. Any number times zero is zero, and thus if only nominal harm or gain has occurred a nominal fine may be all that the facts warrant.

III. Conclusion

I have argued above that, in setting fines for false patent marking, courts should attempt to approximate the social harm or private gain caused by the defendant’s misconduct, rather than simply awarding some arbitrary percentage of the defendant’s gross revenue. In theory, that harm (or benefit) could be substantial or it could be minimal; whichever way it turns out, however, it would be preferable if the fine bore some rational relation to that number. Awards that substantially depart from the proven or likely harm or gain risk either underdeterrenting misconduct or overdeterrenting lawful marking. Moreover, as the Federal Circuit itself suggested in Forest Group, a very small

62 In a somewhat different context, courts often permit a plaintiff in a product disparagement case to prove its actual damages based on a comparison of it profits before and after the disparaging conduct, taking into account other possible explanations for the variance. See Lenscrafters, Inc. v. Vision World, Inc., 943 F. Supp. 1481, 1490 (D. Minn. 1996).

63 See supra note 10.
per-article fine sometimes may be appropriate. Or, as another court put it in a false (copyright) marking case from long, long ago:

Plaintiff is not suing for the value of his services, or for injury to his property, but simply to make profit to himself out of the wrongs of others; and when a man comes in as an informer, and in that attitude alone asks to have a half million dollars put into his pocket, the courts will never strain a point to make his labors light, or his recovery easy.

In setting fines under the modern-day false patent marking statute, courts should take these suggestions to heart. If and when the facts disclose no basis for a large per-article fine, nothing in the statutory text—or in public policy—demands that the plaintiff (and the government on whose behalf the plaintiff sues) be accorded an undeserved windfall.

That said, even under the system sketched out above, substantial uncertainty often may attend the calculation of fines for false patent marking; and the variation among possible outcomes, ranging from a fine near zero to one of ten digits or more, may cause risk-averse agents to avoid marking altogether. Perhaps only legislative action can bring the needed degree of certainty to this unruly body of law. Until Congress takes appropriate action, however, the measures described in the Essay should help to reduce uncertainty to some extent and to bring some semblance of order to patent law’s latest cause célèbre.

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64 590 F.3d at 1304.


66 See supra notes 23, 38 and accompanying text (discussing competing incentives to mark and not mark); Cotter, supra note 41, at 33 & n.92 (discussing the relationship between variance and risk aversion).