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Optimal Fines for False Patent Marking

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ESSAY
**OPTIMAL FINES FOR FALSE
PATENT MARKING**

*Thomas F. Cotter**

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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

* Briggs and Morgan Professor of Law, University of Minnesota Law School. I thank Nicholas Tymoczko for research assistance; and Laura Arneson, Karin Cotter, Dennis Crouch, Eran Kahana, Mike Lafeber, and participants at a September 23, 2010 session on false patent marking sponsored by the Midwest Intellectual Property Institute, for comments and criticism. Any errors that remain are mine.

1. See 35 U.S.C. §§ 292(a)-(b) (2006). 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 liabilities”).

3. See 35 U.S.C. § 292(a); *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300–04 (Fed. Cir. 2009).

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 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. Part III concludes with a brief recap and summary of the proposed framework.

I. FALSE PATENT MARKING: THE PRESENT STATE OF THE LAW

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 . . . [s]hall 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

4. 35 U.S.C. § 292(a).

5. *Id.* § 292(b).

6. *See, e.g.,* Pequignot v. Solo Cup Co., 608 F.3d 1356, 1359 (Fed. Cir. 2010); *Forest Grp.*, 590 F.3d at 1303–04. 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) (“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.”).

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, a number of 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 the defendant sold.⁷ In late 2009, 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."⁸ As a result, a defendant that falsely marks thousands or millions of identical products is now potentially liable for billions or even trillions of dollars in fines.⁹ Not surprisingly, *Forest Group* quickly generated a cottage industry of false patent marking suits directed against some of the nation's largest corporations.¹⁰ 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 has since expired also can violate the statute.¹¹ 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

The term "*qui tam*" 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." 8 THE OXFORD ENGLISH DICTIONARY 72 (1st ed. 1933).

7. See *Forest Grp.*, 590 F.3d at 1301–02 (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.

9. See, e.g., Justin E. Gray & Harold C. Wegner, *The New Patent Marking Police: Answering Clontech and Forest Group*, GRAY ON CLAIMS, 5 (Jan. 8, 2010), <http://www.grayonclaims.com/storage/MarkingPoliceVers4.pdf> (noting that Solo Cup allegedly sold twenty-one billion coffee cup lids marked with expired patent numbers, thus implying a potential liability of over \$10 trillion); Erik Sherman, *Apple Faces \$60 Billion Patent Lawsuit*, WIRED IN (July 19, 2010), <http://www.bnet.com/blog/technology-business/apple-faces-60-billion-plus-patent-lawsuit/4451> (estimating that, given the number of iPhones and iPods that Apple has sold to date, its potential liability in one currently-pending suit could total \$60 billion). As the statute indicates, half of the fine goes to the *qui tam* plaintiff. See 35 U.S.C. § 292(b).

10. For a frequently updated list of cases filed since *Forest Group*, see *False Marking Case Information*, GRAY ON CLAIMS, <http://www.grayonclaims.com/false-marking-case-information/> (last visited Nov. 4, 2010). As of this writing, this source lists over 400 cases filed since January 1, 2010.

11. *Solo Cup*, 608 F.3d at 1361–62.

has suffered any proprietary injury or the private plaintiff any personal injury.¹²

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.¹³ In *Solo Cup* and other cases, the defendant ultimately prevailed in rebutting the inference that its sale of products marked with expired patent numbers was intentionally deceptive.¹⁴ A variety of other obstacles may also prevent some claims from going forward,¹⁵ and attorneys are

12. *Stauffer v. Brooks Bros., Inc.*, Nos. 2009-1428, 2009-1430, 2009-1453, 2010 WL 3397419, at *3–6 (Fed. Cir. Aug. 31, 2010). Some district courts had reached conflicting conclusions on this issue. *Compare Shizzle Pop, LLC v. Wham-O, Inc.*, No. CV 10-3491 PA (FFMx), 2010 WL 3063066, at *2–3 (C.D. Cal. Aug. 2, 2010) (concluding that the plaintiff had standing), with *U.S. ex rel. FLFMC, LLC v. Wham-O, Inc.*, No. 10cv0435, 2010 WL 3156162, at *8 (W.D. Pa. Aug. 3, 2010) (concluding that a non-competitor plaintiff lacked standing). Some others had stayed proceedings pending the Federal Circuit’s decision in *Stauffer*. See, e.g., *U.S. ex rel. FLFMC, LLC v. William Bounds, Ltd.*, Civil Action No. 10-0420, 2010 WL 2990725, at *1 (W.D. Pa. July 28, 2010); *S.F. Tech. v. Glad Prods. Co.*, No. 10-CV-00966 JF (PVT), 2010 WL 2943537, at *2–3 (N.D. Cal. July 26, 2010). Presumably those stays will now be lifted.

13. See, e.g., *Solo Cup*, 608 F.3d at 1362; *Forest Grp.*, 590 F.3d at 1300; *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352–53 (Fed. Cir. 2005).

14. See *Solo Cup*, 608 F.3d at 1362–65 (stating that “the 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 at issue are expired patents . . . the *Clontech* presumption of intent to deceive is weaker,” and concluding that Solo 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 (citations omitted) (internal quotation marks omitted)); 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) (holding that, “even assuming, *arguendo*, that there was a false statement,” plaintiff “failed to satisfy the high bar set for proving deceptive intent”).

15. 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.*, No. 09-060 SLR, 10-01-SLR, 2010 WL 3360568, at *8 (D. Del. Aug. 25, 2010); *Hollander v. Etymotic Research, Inc.*, No. 10-526, 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 *S.F. Tech., Inc. v. Glad Prods. Co.*, No. 10-CV-00966 JF (PVT), 2010 WL 2943537, at *4 (N.D. Cal. July 26, 2010); *Simonian v. Quigley Corp.*, No. 10 C 1259, 2010 WL 2837180, at *2 (N.D. Ill. July 19, 2010). *But see Simonian v. Hunter Fan Co.*, No. 10 C 1212, 2010 WL 2720749, at *2–3 (N.D. Ill. July 8, 2010) (concluding that § 292 does not contain a first-to-file limitation). Litigants

advising corporate clients to monitor and, where necessary, modify their product marking practices to minimize the risk of liability.¹⁶ Furthermore, legislation introduced in Congress earlier this year would limit § 292 to plaintiffs who have suffered competitive injury, and would permit them to recover only “damages adequate to compensate for the injury.”¹⁷

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

have also raised challenges under the “Appointments” and “Take Care” clauses of the Constitution, though so far without success. See *Shizzle Pop*, 2010 WL 3063066, at *3; *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, 724–28 (E.D. Va. 2009), *aff’d in part and vacated in part*, 608 F.3d 1356 (Fed. Cir. 2010). 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 (citation omitted). The Federal Circuit’s recent decision in *Stauffer* does not expressly address these issues. See *Stauffer*, 2010 WL 3397419, at *5–7 (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”).

16. See, e.g., MaryDilys Anderson & Michael Siekman, *Risks of False Marking: Reducing a Company’s Exposure*, 7 INTELL. PROP. & TECH. L.J. 21, 23–24 (2010) (recommending, inter alia, “preparing and documenting a commercially reasonable plan to update . . . product marking”); James Blackburn et al., “False Patent Marking” Suits: How Judges and IP Rights Holders Can Respond to New Litigation Trend, WASH. LEGAL FOUND. (Aug. 6, 2010), available at http://www.wlf.org/Upload/legalstudies/legalopinionletter/8-06-10Blackburn_LegalOpinionLetter.pdf (suggesting a similar approach); Michael O’Neill, *False Patent Marking Claims: The New Threat to Business*, 8 INTELL. PROP. & TECH. L.J. 22, 29–30 (2010) (suggesting a similar approach).

17. Patent Reform Act of 2010, S. 515, 111th Cong. § 2(k) (2010), available at <http://www.patentbaristas.com/wp/wp-content/uploads/2010/03/GRA10057.pdf>; H.R. 4954, 111th Cong. § 1(a) (2010), available at <http://www.govtrack.us/congress/billtext.xpd?bill=h111-4954>. As a stand-alone bill, perhaps House Bill 4954 stands a better chance of being enacted than do more comprehensive patent reform bills, such as Senate Bill 515, that have been introduced since 2005.

More recently, Congressman Bob Latta introduced an alternative measure, the Patent Lawsuit Reform Act of 2010, H.R. 6352, 111th Cong. (as introduced Sept. 29, 2010), available at <http://www.govtrack.us/congress/billtext.xpd?bill=h111-6352>. This bill also limits standing to plaintiffs who have suffered competitive injury and restores the status quo *ante Forest Group* by capping the fine at “\$500, in the aggregate, for all offenses in connection with” the unpatented articles at issue. *Id.* § 2(a)-(b).

patented status as an indicium of quality.¹⁸ 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.¹⁹ In addition, they argue that the cost of determining whether a given patent has expired is relatively low,²⁰ and some have argued that potential competitors may actually benefit from reviewing the technology disclosed in an expired or subsisting patent.²¹ By contrast, the cost to the patentee of strictly complying with the statute can be significant. Another provision of 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.²² 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.²³ To the extent these costs are passed on to consumers, they reduce whatever net benefits may arise from truthful marking. Alternatively, some commentators have suggested that firms may respond

18. See *Forest Grp.*, 590 F.3d at 1302–03; *Clontech*, 406 F.3d at 1356–57 & n.6; *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 653–54 (E.D. Va. 2008); Elizabeth I. Winston, *The Flawed Nature of the False Marking Statute*, 77 TENN. L. REV. 111, 115, 132–34 (2009); Bonnie Grant, Note, *Deficiencies and Proposed Recommendations to the False Marking Statute: Controlling Use of the Term “Patent Pending,”* 12 J. INTELL. PROP. L. 283, 283, 289–92 (2004).

19. See Laura N. Arneson, Note, *Defining Unpatented Article: Why Labeling Products with Expired Patent Numbers Is Not False Marking*, 95 MINN. L. REV. (forthcoming 2010) (manuscript at 35–36), available at <http://ssrn.com/abstract=1599902>.

20. See *id.* (manuscript 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, Note, *The Virtues of Virtual Marking in Patent Reform*, 105 NW. U. L. REV. (forthcoming 2011) (manuscript at 27 & nn.146–47), available at <http://ssrn.com/abstract=1618162> (noting that expiration dates are not printed on the face of the patent, and that they “are not always easy to calculate”).

21. See Arneson, *supra* note 19 (manuscript at 29–31) (limiting discussion to expired patents); McCaffrey, *supra* note 20 (manuscript 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”) (internal quotation marks omitted).

22. See 35 U.S.C. § 287(a) (2006); Roger D. Blair & Thomas F. Cotter, *Strict Liability and Its Alternatives in Patent Law*, 17 BERKELEY TECH. L.J. 799, 801–07 (2002).

23. See *Solo Cup*, 608 F.3d at 1358–59, 1364–65; Searcey, *supra* note 2, at A1 (noting that Solo had “more than 3,000 molds for its products that were stamped with erroneous patents”).

to these risks and costs by simply abandoning marking altogether.²⁴ If liability risks (including the cost of even a *successful* defense in a patent marking suit) cause firms to reduce the amount of truthful marking, however, the notice function that patent marking is supposed to serve²⁵ is undermined; so too is the patent incentive scheme, to the extent the patent incentive depends on firms being able to recover the full measure of their provable damages in the event of infringement.²⁶

Finally, whether consumers are likely to infer, incorrectly, that patents necessarily signify product quality is a question that participants in the current debate have yet to empirically support. Significantly, Lanham Act false advertising claims, which require proof that a misrepresentation was likely to affect consumers' purchasing decisions,²⁷ rarely involve claims of false patent marking.²⁸ 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

24. See *Ameson*, *supra* note 19 (manuscript 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 A1 (quoting attorney Robert Koch as stating that he now "advises his clients to stop marking patents on their products").

25. See, e.g., *Lee v. Accessories by Peak*, 705 F. Supp. 2d 249, 257-58 (W.D.N.Y. 2010) ("[The patent marking statute] serves the three related purposes of (1) helping to avoid innocent infringement, (2) encouraging patentees to give notice to the public that the article is patented, and (3) aiding the public to identify whether an article is patented.").

26. See *supra* text accompanying note 22.

27. 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, e.g., *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000).

28. 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, cmt. c, illus. 3 (1995); 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 27:78 (4th ed. 2010); *Grant*, *supra* note 18, 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 the Lanham Act). Lanham Act § 43(a), 15 U.S.C. § 1125(a) (2006). 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*, 79 Pat. Trademark & Copyright J. (BNA) No. 607, (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 Grp., Inc. v. Bon Tool Co.*, Civil Action No. H-05-4127, 2008 WL 2962206, 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).

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 Congress or the Federal Circuit decide 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.²⁹ 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). 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.³⁰

On remand, the district court noted that *Forest Group* had sold thirty-eight 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

29. See, e.g., *Plásticos Vandux de Colombia S.A. v. Robanda Int'l, Inc.*, No. 10-60188-Civ., 2010 WL 2721852 (S.D. Fla. July 9, 2010); *Leader Techs., Inc. v. Facebook, Inc.*, Civil Action No. 08-862-LPS, 2010 WL 2545959 (D. Del. June 24, 2010); *Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2010 WL 986809 (N.D. Cal. Mar. 17, 2010); *Third Party Verification, Inc. v. Signaturelink, Inc.*, 492 F. Supp. 2d 1314 (M.D. Fla. 2007). Alternatively, if Congress were to enact the Patent Reform Act proposal that courts award actual damages, courts would have to struggle with the question of how to calculate those damages.

30. *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009) (alteration in original).

goal of § 292's fine provision."³¹ In another recent case, a magistrate judge recommended a fine amounting to ten percent of the total revenue the defendant earned on sales of 1127 falsely marked items;³² while in a third, a court imposed a fine equal to about thirty-two percent of the total revenue earned from sales of 651,675 falsely marked articles.³³ In none of the three district court cases, however, have the courts articulated any clear framework for determining how to calculate an appropriate penalty in other cases.³⁴

II. A SUGGESTED FRAMEWORK FOR IMPOSING RATIONAL FINES

As noted in Part I, 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

31. *Forest Grp., Inc. v. Bon Tool Co.*, Civil Action No. H-05-4127, 2010 WL 1708433, at *2 (S.D. Tex. Apr. 27, 2010).

32. *See Custom Designs of Nashville, Inc. v. Alsa Corp.*, Civil No. 3:08-0665, 2010 WL 2991247, at *4 (M.D. Tenn. July 27, 2010).

33. *See Presidio Components Inc. v. Am. Technical Ceramics Corp.*, No. 08-CV-335-IEG (NLS), 2010 WL 1462757, at *42 (S.D. Cal. Apr. 13, 2010) (concluding that the fine would be "substantial enough to enforce the 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).

34. *Pre-Forest Group* cases in which courts imposed fines for false patent marking do not appear to have engaged in any deeper analysis. For example, a review of the cases cited in *Forest Group* itself in which courts imposed fines—including the district court opinion under review—shows that in all but one the court simply awarded the statutory maximum of \$500 per offense (under the 1952 Act) or the statutory minimum of \$100 (under pre-1952 law). *See Forest Grp.*, 590 F.3d at 1302 (citing *Icon Health & Fitness, Inc. v. Nautilus Grp., Inc.*, No. 1:02 CV 109 TC, 2006 WL 753002, at *16 (D. Utah Mar. 23, 2006); *Undersea Breathing Sys., Inc. v. Nitrox Techs., Inc.*, 985 F. Supp. 752, 782 (N.D. Ill. 1997); *Sadler-Cisar, Inc. v. Commercial Sales Network, Inc.*, 786 F. Supp. 1287, 1296 (N.D. Ohio 1991); *Joy Mfg. Co. v. CGM Valve & Gauge Co.*, 730 F. Supp. 1387, 1399 (S.D. Tex. 1989); *Precision Dynamics Corp. v. Am. Hosp. Supply Corp.*, 241 F. Supp. 436, 447 (S.D. Cal. 1965); *Krieger v. Colby*, 106 F. Supp. 124, 131 (S.D. Cal. 1952)). The one exception is *Enforcer Products, Inc. v. Birdsong*, No. 1-93-CV-1701-CC, 1995 U.S. Dist. LEXIS 22524, at *25 (N.D. Ga. Nov. 29, 1995), *aff'd per curiam*, 98 F.3d 1359 (Fed. Cir. 1996), in which the court—foreshadowing the result in *Forest Group*—imposed a fifty dollar per article fine, but without explaining its methodology. (*Forest Group* cites this case, but with an incorrect date. *See Forest Grp.*, 590 F.3d at 1302.) The legislative history of § 292 similarly sheds no light on the appropriate methodology for calculating the fine. *See S. REP. NO. 1979*, at 22 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2424 ("The minimum fine [under § 292], which has been interpreted by the courts as a maximum, is replaced by a higher maximum.").

non-patented substitutes.³⁵ 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 competition against a firm that falsely claims product superiority; raise the costs of evaluating the claims made in all advertising, both truthful and untruthful; and defraud consumers and deprive truthful competitors of sales they otherwise would have made.³⁶ Whether the analogy to false advertising is an apt one is ultimately an empirical question. Perhaps would-be inventors and competitors are not so easily cowed into submission; they might, in any event, double-check the scope and validity of patents that claim to cover products with which they intend to compete.³⁷ In addition, perhaps consumers pay little attention to patent marking or accord little weight to the fact that a product is patented.³⁸ 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 leave consumers worse off) if the law inhibits them from making all but the most anodyne, least informative claims about their products.³⁹ So too, at least

35. See *supra* text accompanying note 18.

36. See Barton Beebe et al., *Trademarks, Unfair Competition and Business Torts*, (forthcoming 2011) (manuscript ch. 9, at 4-5) (on file with author) (citing George Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q.J. ECON. 488 (1970) ("In 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.")). In a related vein, Dennis Crouch suggests that false marking may implicate "systemic problems created by misinformation and over-assertion of legal rights," disrupting "our social confidence in the rule of law." E-mail from Dennis D. Crouch, Assoc. Professor of Law, Univ. of Mo. Sch. of Law, to author (Sept. 1, 2010) (on file with author).

37. 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, 8 tbl.1 (2006) (finding that accused infringers win about three out of four patent infringement cases). Alternatively, competitors 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 20 and accompanying text.

38. See Grant, *supra* note 18, at 289-91 (noting the lack of empirical evidence thus far of consumer reliance on patent marking).

39. See *Mead Johnson & Co. v. Abbott Labs.*, 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"); Richard Craswell, *Interpreting Deceptive Advertising*, 65 B.U. L. REV. 657, 688-92 (1985); Beebe et al., *supra* note 36, ch. 9, at 37.

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.⁴⁰ Such a response would threaten to make competitors and consumers worse off, because it would reduce not only false but also truthful marking, and thus potentially impede competition by making it more difficult to discover which patents potentially cover a given product.⁴¹ 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.⁴²

Nevertheless, for present purposes we 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,⁴³ one that makes false marking unprofitable to the *faux* patentee. The minimum penalty that would serve this purpose would be one that is precisely equal to the social harm/private gain, though perhaps in some cases (for example, where the probability of detection and enforcement is less than one) a multiplier might be necessary to achieve optimal deterrence.⁴⁴ At the same time, however, a fine that greatly exceeds the

40. See *supra* note 24 and accompanying text.

41. To the extent, if any, that truthful patent marking serves its intended purposes of putting competitors on notice that certain products are patented and of providing consumers with some sort of signal about the quality of those products, see *supra* note 27 and accompanying text. A reduction in truthful patent marking would undermine these purposes, potentially to the detriment of both competitors and consumers. Whether truthful patent marking actually *does* serve these purposes very effectively is a matter on which I remain agnostic (though some audience members at a recent Midwest Intellectual Property Institute at which I spoke suggested that patent marking is sometimes an effective marketing tool, at least in some non-U.S. markets). If, however, empirical evidence were to show that neither competitors nor consumers actually pay much attention to patent marking, then a reduction in the amount of truthful patent marking would not necessarily increase any social costs. At the same time, however, evidence of the irrelevance of patent marking would also seem to undercut the need for an aggressive *false* patent marking regime.

42. See *supra* notes 24–26 and accompanying text.

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

44. For an overview of the literature on damages multipliers, see Thomas F. Cotter, *An Economic Analysis of Enhanced Damages and Attorney's Fees for Willful Patent Infringement*, 14 FED. CIR. B.J. 291, 308–14 (2004). The basic idea is that, if a particular act of

social harm/private gain caused by false marking risks counterproductive effects. In particular, if the probability a court will erroneously determine 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. This would be a social loss, for the reasons discussed above.⁴⁵ 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 this approximation in analogous circumstances.

Turning first to the law of unfair competition, the prevailing plaintiff⁴⁶ in a trademark or false advertising action is normally awarded injunctive relief.⁴⁷ Of greater relevance in the present context, in an appropriate case the plaintiff may also recover monetary relief in the form of compensatory damages or disgorgement of the defendant's profits attributable to the misconduct at issue.⁴⁸ Compensatory damages generally take the form of lost profits resulting from sales lost to the defendant (though these can be difficult to prove when the relevant market consists of more than two firms),⁴⁹ as well as reasonably necessary out-of-pocket

misconduct causes X amount of harm but is likely to go undetected with probability Y , the penalty should be set at XY in order to achieve optimal deterrence. *See id.* at 310–11.

45. *See supra* text accompanying notes 24–26, 38–40. 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*, 34–35 (Oct. 6, 2010) (unpublished manuscript) (on file with author) (explaining how risk aversion on the part of the patentee's agents may affect behavior).

46. In a trademark case, this will be the trademark owner. *See* ROGER D. BLAIR & THOMAS F. COTTER, *INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES* 183 (2005). In a Lanham Act false advertising case, the prevailing plaintiff is typically a competitor of the defendant. *See, e.g.,* Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1164–66 (11th Cir. 2007); Serbin v. Ziebart Int'l Corp., 11 F.3d 1163, 1168–69 (3d Cir. 1993).

47. *See, e.g.,* BLAIR & COTTER, *supra* note 46, at 36; Beebe et al., *supra* note 36, ch. 8, at 243, ch. 9, at 226.

48. *See* Lanham Act § 35(a), 15 U.S.C. § 1117(a) (2006).

49. *See, e.g.,* Porous Media Corp. v. Pall Corp., 110 F.3d 1329, 1333–36 (8th Cir. 1997); ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 968–69 (D.C. Cir. 1990). Enhanced damages are sometimes awarded for willful infringement. *See* 15 U.S.C. § 1117(a) (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 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 46, at 84–85. In *ALPO*, 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 upon the plaintiff competitor, the systemic distortion which the wrongdoer's conduct has upon the particular product market in which the plaintiff must compete in the future, and the costs incurred by the competitor in its efforts to mitigate its damages.” *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 778 F. Supp. 555, 564 (D.D.C. 1991),

costs, such as the cost of having conducted a responsive advertising campaign.⁵⁰ The disgorgement remedy, by contrast, has traditionally been available only when the defendant is found to have acted “willfully” or in “bad faith.”⁵¹ 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.⁵² Although the plaintiff is, strictly speaking, entitled only to the portion of the defendant’s profits attributable to the infringement or false advertising, the burden is on the defendant to prove what portion of its profits are not so attributable;⁵³ errors therefore may 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.⁵⁴ In cases involving non-willful misconduct, by contrast, the risk of overcompensation (and thus over-deterrence 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.⁵⁵

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.⁵⁶ Like the \$500 per offense cap in the

aff’d in part, rev’d in part on other grounds, 997 F.2d 949 (D.C. Cir. 1993). Statutory damages are available for trademark counterfeiting, *see* 15 U.S.C. § 1117(c), and treble damages for intentional counterfeiting, *see* 15 U.S.C. § 1117(b).

50. *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); *see also* *Balance Dynamics Corp. v. Schmitt Indus., Inc.*, 204 F.3d 683, 689-95 (6th Cir. 2000) (stating that, in an appropriate case, damages may be awarded for lost profits, lost goodwill, and damage control).

51. *See, e.g., ALPO*, 913 F.2d at 968-69. Some recent decisions have concluded that the Lanham Act no longer requires proof of willfulness as a precondition to an award of defendant’s profits. *Compare* *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168 (3d Cir. 2005), *with* *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 500 F. Supp. 2d 276, 280-82 & n.22 (S.D.N.Y. 2007). Though these latter two cases involved trademarks, they interpret the same section of the Lanham Act (15 U.S.C. § 1117(a)) that would be applicable in a Lanham Act false advertising case in which damages are at issue.

52. *See* *BLAIR & COTTER*, *supra* note 46, at 84-89.

53. *See id.* at 37.

54. *See id.* at 86-87.

55. Beebe et al., *supra* note 36 ch. 8, at 250-51; *see* *BLAIR & COTTER*, *supra* note 46, at 86-87.

56. *See* 17 U.S.C. § 504(c) (2006).

false marking statute,⁵⁷ 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 multiple 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.⁵⁸ 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 beside 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.⁵⁹

57. See *supra* text accompanying note 4.

58. See BLAIR & COTTER, *supra* note 46, 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).

59. *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) (2006). See *Philip Morris USA Inc. v. Tammy's Smoke Shop, Inc.*, No. CV 09-1899 (LDW)(MLO), 2010 WL 2985491, at *1 (E.D.N.Y. July 19, 2010) ("In 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."); see also Blair & Cotter, *Economic Analysis*, *supra* note 58, at 1660-61 (noting similar factors reflected in the case law at the 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. See O'Neill, *supra* note 16, at 28. O'Neill notes that, in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), and *Presidio Components Inc. v. American Technical Ceramics Corp.*, No. 08-CV-335-IEG (NLS), 2010 WL 1462757, at *42 (S.D. Cal. Apr. 13, 2010), "the courts considered the number of products falsely marked and the selling price for those products," and suggests:

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.”⁶⁰

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 the provable harm the plaintiff 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 harm to consumers resulting from a decrease in competition. Other factors therefore may also be relevant in evaluating (if only roughly) the magnitude of the harm caused by the false marking—for example,

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.

O’Neill, *supra* note 16, at 28-29 (footnote omitted).

60. BLAIR & COTTER, *supra* note 46, 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 perceived earlier. Even after *Feltner*, however, courts continue to set statutory damages in some cases (such as *Yash Raj Films*). See *supra* text accompanying note 59. 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 Entm’t v. Teitelbaum*, Civil Action No. 07cv11446-NG, 2010 WL 2705499, at *26-27 (D. Mass. July 9, 2010); *Capital Records Inc. v. Thomas-Rasset*, 680 F. Supp. 2d 1045, 1056-57 (D. Minn. 2010).

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.⁶¹ 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.⁶² Evidence that consumers have been materially deceived might also suggest that the false marking has resulted in lost sales to some competitors.⁶³ Although none of these factors may provide much precision 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, perhaps only a nominal fine would be appropriate.⁶⁴

61. In the *Stauffer* litigation, for example, the 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 v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248, 255 (S.D.N.Y. 2009), *rev'd*, Nos. 2009-1428, 2009-1430, 2009-1453, 2010 WL 3397419 (Fed. Cir. Aug. 31, 2010); see also *McNamara v. Natural Organics, Inc.*, No. 10 C 3544, 2010 WL 3521850, at *2 (N.D. Ill. Sept. 1, 2010) (“McNamara’s belief as to Natural Organics’ asserted intent to deceive—a claimed belief that it was seeking to ‘gain a competitive advantage in the marketplace’—is materially undercut by McNamara’s having brought like Section 292(b) actions against Natural Organics’ competitors on the same asserted ground.”). I thank Karin Cotter for suggesting the relevance of the market’s competitiveness on the issue of actual damages.

62. See *supra* text accompanying note 59; see also O’Neill, *supra* note 16, at 28-29 (suggesting that courts may want to consider factors such as “the number of products falsely marked and the selling price for those products,” as well as “the extent of falsely marked advertising, the duration of the false marking . . . , 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 . . . intent,” and evidence of any actual harm or deception).

63. See O’Neill, *supra* note 16, at 29 (suggesting the relevance of such proof).

64. Whether the plaintiff or the defendant should have the burden of offering such evidence is an interesting question. In the context of another federal *qui tam* statute, 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 . . . 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) (2006). 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). Until recently, the False Claims Act appears to have been by far the most commonly litigated federal *qui tam* action. See John Martinez, *Getting Back the Public’s Money: The Anti-Favoritism Norm in American Property Law*, 58 BUFF. L. REV. 619, 628-30 & n.33 (2010) (discussing the False Claims Act and citing a handful of other federal *qui tam* actions, including 35 U.S.C. § 292); see also Drew A. Harker et al., *Whistleblower Incentives and Protections in the Financial Reform Act*, 127 BANKING L.J. 779 (2010) (comparing the whistleblower provisions of the recent Dodd-Frank Act to both a *qui tam* action and to the IRS Whistleblower Program).

Second, to the extent that 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 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.⁶⁵ 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.⁶⁶ As in the false advertising realm, however, the disgorgement remedy may risk over-rewarding the plaintiff, to the extent a defendant encounters difficulty proving the portion of its profits not attributable to the misconduct at issue. Nevertheless, in the present context this risk may sometimes 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), the amount of profit attributable to the false marking would appear to be minimal.⁶⁷ Moreover, in a case in which the marking included some expired or non-applicable 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 non-applicable patents are probably low, all other things being equal. Evidence comparing the value of technology covered by the expired or non-applicable 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,

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 *U.S. ex rel. Tyson v. Amerigroup Ill., Inc.*, 488 F. Supp. 2d 719, 737–48 (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—or in the event Congress amends 35 U.S.C. § 292 so as to permit only the recovery of actual damages, see *supra* note 17—the discussion in the text above on estimating the actual harm caused by false marking will, if anything, take on added significance.

65. See *supra* notes 13, 51–55 and accompanying text (discussing deceptive intent and willfulness).

66. See Lanham Act § 35, 15 U.S.C. § 1117(a) (2006).

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

evidence that other firms within the relevant market appeared to suffer no ill effects from the false marking might 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 a low probability of detection or enforcement counsels in favor of enhancing the fine beyond the social harm/private gain baseline, or if the corresponding risk of deterring firms from lawful marking (due to concerns over error and litigation costs, for example) counsels against such 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., 400-plus false marking cases filed since January 1, 2010)⁶⁸ is any guide, a good deal of false patent marking is not 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.

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 a 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, 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 benefit) risk either under-detering false marking or over-detering lawful marking. Moreover, as the Federal Circuit itself suggested in *Forest Group*, a very small per article fine may sometimes be appropriate.⁶⁹ Or, as another court put it in a false copyright marking case from long, long ago:

68. *See supra* note 10.

69. *See Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

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.⁷⁰

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.⁷¹ Perhaps only legislative action can bring the needed degree of certainty to this unruly body of law. Until Congress takes action, however, the measures described in this Essay would help to reduce uncertainty and bring some semblance of order to patent law's latest *cause célèbre*.

70. *Taft v. Stephens Lithographing & Engraving Co.*, 38 F. 28, 29 (C.C.E.D. Mo. 1889). In response, one might argue that such an approach underestimates the ethical cost of tolerating some intentionally deceptive false marking. See E-mail from Crouch to Author, *supra* note 36 (suggesting that the approach set forth in this Essay “overlooks the issues of punishment/denouncement/condemnation that often arise as part of the adjudication process in criminal cases”). I agree that ethics are important. I also believe, however, that, in designing a patent system, utilitarian principles—as opposed to an undue focus on the mental state of either the patentee or an accused infringer—should be the paramount consideration. See Cotter, *supra* note 44, at 314; cf. NAT’L RESEARCH COUNCIL, A PATENT SYSTEM FOR THE 21ST CENTURY 117–23 (Stephen A. Merrill et al. eds., 2004) (advocating the reform of certain patent doctrines that hinge on subjective mental states).

71. See Cotter, *supra* note 45, at 33 & n.92 (discussing the relationship between variance and risk aversion); *supra* notes 24–26, 39–42 and accompanying text (discussing the effects of competing incentives to mark and not mark).

