VIRGINIA JOURNAL OF LAW & TECHNOLOGY

SUMMER 2012 UNIVERSITY OF VIRGINIA VOL. 17, NO. 02

Determining Standing and Damages for "Competitive Injury" from False Patent Marks

DAVID KWOK†

ABSTRACT

On September 16, 2011, Congress amended the false patent marking statute as part of the America Invents Act. After a century of granting statutory damages for false patent marks, the newly amended statute provides compensation for "competitive injury" with scarce other clarification. This Article first provides some early guidance to courts dealing with the new statutory language. To help courts understand which parties can sue under the amended statute, it looks to economic theory in discussing markets and competition. In particular, it considers lessons from the antitrust context, in which companies subvert competition to the detriment of customers. Second, the Article highlights the challenges in calculating appropriate damages for competitive injury, which may be similar to related problems in trademark and false advertising. Finally, it proposes relying upon the principle of disgorgement in establishing competitive damages, as it may both be administratively simpler and encourage the legislative goal of customer protection.

† 2011–2012 Term Law Clerk to the Honorable John T. Noonan, Jr. of the United States Court of Appeals for the Ninth Circuit.

TABLE OF CONTENTS

I. INTRODUCTION

For nearly a century, courts have struggled with the proper penalty for false patent marks.[1] If a company deceptively marks its unpatented products as patented, what penalty should it pay? For years, courts debated whether it was appropriate to penalize a company for each and every falsely marked article produced. In 2009, the Federal Circuit attempted to clear up the confusion in 35 U.S.C. § 292 through *Forest Group, Inc. v. Bon Tool Co.*,[2] stating that the proper penalty should be a maximum of $500 on a per-article basis. It also affirmed Congress's intent to allow "any person" to litigate these actions.[3] *Forest Group* effectively encouraged hundreds of new false patent marking cases.[4] Only two years later, however, Congress would react by amending the statute. On September

[1] *See* Forest Grp., Inc. v. Bon Tool Co., 590 F.3d 1295, 1301–02 (Fed. Cir. 2009).
[2] *Id.* at 1301.
[3] *Id* at 1303–04; *see also* Stauffer v. Brooks Bros., Inc., 619 F.3d 1321, 1322 (Fed. Cir. 2010).
[4] *See* R. Mark McCareins & Peter Slawniak, *Current State of Patent False Marking Litigation*, INTELL. PROP. & TECH. L.J., May 2011, at 3, 3 (2011).

16, 2011, Congress amended 35 U.S.C. § 292 as part of the America Invents Act.[5] Expressing concern that *Forest Group* would encourage frivolous litigation, Congress restricted the power of private plaintiffs under § 292. Instead of permitting any person to sue for the statutory damages, it now allows only some civil litigants damages for "competitive injury."[6]

In this Article, I provide some early guidance to courts dealing with the new statutory language. I do not make recommendations as to bright line rules; instead, I suggest criteria and tools that can inform judicial decisions. First, to help courts understand which parties can now sue under the amended statute, I look to economic theory in discussing markets and competition. In particular, I consider lessons from the antitrust context, in which companies subvert competition to the detriment of customers. Second, I highlight the challenges in calculating appropriate damages for competitive injury, which may be similar to related problems in trademark and false advertising. I propose relying upon the principle of disgorgement in establishing competitive damages, as it may both be administratively simpler and encourage the legislative goal of customer protection.

I should also note that I am not describing an overarching theory as to the optimal level of false marking enforcement; measuring the appropriate harms, benefits, and costs is a substantial endeavor, which this Article does not address.[7] I assume there are cases of false patent marking in which there is real harm worth litigating. My focus here is Congress's choice to delegate some enforcement powers to private plaintiffs and its impact on how courts should grant damages for "competitive injuries" under the amended statute. Given the limited guidance in the amended statute and the long-running debates over penalties, I emphasize the practical problem of interpretation and implementation of a cohesive false marking policy. This guidance is to help answer two fundamental questions in litigation: who should be able to bring cases forward, and how much should they receive?

I begin with some of the history behind 35 U.S.C. § 292, followed by discussing the purposes of the statutory amendment in Part II. Part III addresses the amendment's goal of reducing improper litigation. I consider who should be allowed to litigate in Part IV. Part V addresses the difficulty in calculating damages for competitive injury. I conclude in Part VI.

---

[5] Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 284 (codified in scattered sections of 35 U.S.C.).

[6] *Id.*

[7] *See, e.g.*, Thomas F. Cotter, *Optimal Fines for False Patent Marking*, 17 MICH. TELECOMM. & TECH. L. REV. 181, 182 (2010).

II. STATUTORY BACKGROUND

Producers of goods may choose to advertise or physically mark their goods as patented. There may be numerous reasons to apply patent marks;[8] one basic reason is that these marks constitute notice of patent protection for potential infringers.[9] Given the long history of the statute dating back to 1836, the original emphasis on notice to potential infringers was important in an era of costly patent searches.[10] Today, 35 U.S.C. § 292 proscribes false patent marks. Defendants who apply the word "patent," "patent pending," or other patent-affiliated words on products or advertising with the purpose of deceiving the public are subject to a fine of up to $500 per offense.[11]

As described in *Forest Group*, the false patent marking statute in 35 U.S.C. § 292 has given courts trouble in determining penalties for nearly a century.[12] Courts struggled to determine whether Congress intended to assess a penalty for each article bearing a false patent mark or, instead, a single penalty for the single decision to incorporate a false patent mark on multiple identical articles. The Federal Circuit attempted to clean up the conflicting case law through *Forest Group*, stating that the maximum $500 penalty was a penalty per falsely marked article rather than penalty based on a nebulous "transaction" or time period.[13] Furthermore, the Federal Circuit affirmed Congress's intent to supplement public enforcement with private *qui tam* actions to help control false markings.[14] "Any person" could pursue litigation against defendants making such false marks. Under the pre-amendment statute in 2009, courts had the discretion to determine the fine of up to $500 per article, and the total penalty would be split fifty-fifty between the private plaintiff and the U.S. government.[15]

Forest Group raised some alarm in Congress, as the maximum $500 penalty per article could theoretically amount to tremendous penalties for high-volume manufacturers.[16] On September 16, 2011, Congress amended the statute as part of the America Invents Act. 35 U.S.C. § 292(a) now reads in part:

Whoever marks upon . . . any unpatented article the word "patent" or any word or

---

[8] *See, e.g.*, Ted Sichelman & Stuart J.H. Graham, *Why Do Start-Ups Patent?*, 23 BERKELEY TECH. L.J. 1063, 1064–70 (2008).

[9] *See* 35 U.S.C.A. § 287(a) (West 2011) ("In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter.").

[10] *See* Craig Deutsch, Note, *Restoring Truth: An Argument to Remove the Qui Tam Provision from the False Marking Statute of the Patent Act*, 11 MINN. J.L. SCI. & TECH. 829, 834 (2010).

[11] 35 U.S.C.A. § 292(a) (2011).

[12] 590 F.3d 1295, 1301 (Fed. Cir. 2009).

[13] The Federal Circuit believed courts could exercise discretion as to the specific per article fine and thus did not require further discretion as to what constituted a single "transaction" or relevant timeframe. *Id.* at 1301–03.

[14] *Id.* at 1303–04.

[15] *Id.* at 1304.

[16] *See infra* Part III.

> 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. Only the United States may sue for the penalty authorized by this subsection.[17]

The amendment also revised 35 U.S.C. § 292(b), stating that "A person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury."[18]

Previously, the statute allowed "any person" to pursue action against false patent marks, effectively making it a *qui tam* statute. After the amendment, Congress only authorized parties suffering "competitive injury" to pursue litigation. It thus excluded third parties such as independent patent attorneys. It also did not define "competitive injury." The United States, of course, can still sue for the maximum $500 penalty per offense.[19]

Just as importantly, persons suffering competitive injury could no longer participate fifty-fifty with the up-to-$500 penalty per offense. Instead, these persons can pursue a civil action in U.S. district court for recovery of damages "adequate to compensate for the [competitive] injury."[20]

As a final background note regarding the amendment, it also clarified that expired patent marks did not constitute a false patent mark violation.[21] Thus, as long as the product was once covered by the corresponding patent, continuing to mark the product as patented would be acceptable. Given the high costs of retooling production machinery, this clarification seems to excuse delays in changing physical patent marks on products.[22] Section 292(c) appears to be a relatively straightforward clarification; this Article will focus on judicial application of the changes to § 292 (a)–(b).

III. REDUCING ABUSIVE LITIGATION AS THE PURPOSE OF THE AMENDMENT

Most of the legislative history suggests that the amendment's goal is the reduction of improper litigation.[23] I will focus on Senator Kyl's comments, as he provides some of

---

[17] 35 U.S.C.A. § 292(a) (West 2011).
[18] *Id.* § 292(b).
[19] *Id.* § 292(a).
[20] *Id.* § 292(b).
[21] *Id.* § 292(c).
[22] *See* Pequignot v. Solo Cup Co., 608 F.3d 1356, 1364 (Fed Cir. 2010) (holding Solo Cup Co. did not have the requisite deceptive intent in continuing to mark its lids as patented after patent expiration).
[23] *See* 157 CONG. REC. H4420-06 at *H4426 (daily ed. June 20, 2011) (statement of Rep. Goodlatte); 157 CONG. REC. S3768-02 (daily ed. June 14, 2011) (statement of Sen. Leahy, reading a statement from the Chamber of Commerce); 157 CONG. REC. S1545-01 (daily ed. Mar. 10, 2011) (statement of Sen. McCaskill, expressing concern regarding retroactivity); 157 CONG. REC. S1360-02 at *S1368 (daily ed.

the more detailed explanations. First, Senator Kyl expresses concern that parties suffering no competitive injury have brought cases under 35 U.S.C. § 292.[24] We might interpret this as concern that parties who actually did suffer competitive injuries were not receiving compensation under the earlier statute. Under the pre-amendment statute, this might occur in two ways. First, there may have been multiple competitors harmed by the defendant's actions, but not all of them may have participated in litigation. After a court awarded penalties against a defendant in litigation, it might be reluctant to levy civil penalties for the same set of actions in subsequent litigation by other competitors. Second, even if only one competitor were harmed, note that the plaintiff only received fifty percent of the recoveries under the pre-amendment statute. If courts awarded a penalty equal to the total competitive harm, the competitor might still suffer a net loss after successful litigation. Thus, one possible concern is that parties suffering loss due to the false patent marking were not receiving compensation or were receiving insufficient compensation under the previous § 292.

Looking at Senator Kyl's statements in their entirety, however, his concerns seemed to fall in line with those of other members of Congress regarding abusive practices in litigation. His comments regarding the fact that parties not suffering loss could file actions for false patent marking suggested that there were no barriers to filing such actions. As a result, parties who might not exercise the most care or discretion could pursue litigation.[25] Citing *Forest Group*, his concern was that defendants could be liable for up to $500 per article that was falsely marked, which led to plaintiffs searching for cases with high article volume. Senator Kyl implied that cases were being brought and settled unnecessarily. For this Article's purposes, I will distinguish between two different mechanisms. The first problem is that non-meritorious cases might be brought forward at all, and defendants might be induced to settle simply because the costs of litigation outweigh a settlement offer. The second problem is that these defendants might face high levels of uncertainty as to the potential losses from litigation. Thus, defendants might settle due to risk aversion, or they might settle for excessively high amounts. I will address these two mechanisms in turn.

The amendment's limitation on which individuals can bring false patent marking cases forward might address the first problem regarding non-meritorious cases. Simply reducing the total number of individuals eligible to litigate could reduce the volume of non-meritorious cases; this depends on the distribution of individuals who file non-meritorious cases. Perhaps the more immediately believable argument is that competitors are less likely to bring frivolous cases against each other due to the potential for "mutually assured destruction" through litigation. The repeat nature of competitors'

Mar. 8, 2011) (statement of Sen. Grassley); 157 CONG. REC. S1360-02 at *S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

[24] *See* 157 CONG. REC. S5319-03 (daily ed. Sept 6, 2011) (statement of Sen. Kyl).

[25] *See, e.g.*, Forest Grp., Inc. v. Bon Tool Co., 590 F.3d 1295, 1303 (Fed. Cir. 2009); Donald W. Rupert, *Trolling for Dollars: A New Threat to Patent Owners*, 21 No. 3 INTELL. PROP. & TECH. L.J. 1, 3 (2009).

involvement in the same market might limit their willingness to pursue inflammatory strategies such as non-meritorious litigation. A competitor may be just as vulnerable to litigation as the company it is suing, and initiation of non-meritorious litigation could result in retaliation. Of course, the repeat nature of their relationship might also discourage some types of meritorious litigation—in particular, litigation that primarily benefits the public rather than the competitor might be infrequent.[26]

The second concern regarding high levels of uncertainty of potential losses appears to be a criticism of judicial application of the statute. Senator Kyl presumably cites *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359 (Fed Cir. 2010) as a case where a manufacturer selling a high volume of very cheap plastic cup lids could face a trillion dollar penalty for false patent marks on those lids. The trillion-dollar penalty assumes the maximum $500 penalty per article. In reality, courts have not applied such a maximum penalty for high-volume, low-dollar devices after *Forest Group*.[27] The actual case of *Pequignot* was resolved on a lack of intent; the court held that the plastic cup manufacturer had not intended to deceive the public and was thus not liable for such penalties. These seem to be examples of courts taking their responsibilities seriously in not applying excessive penalties.

Of course, the fact that some courts have properly performed their duty in applying 35 U.S.C. § 292 is not dispositive. We can easily imagine defendants to be extremely wary of the risks of such large penalties. Courts still have great statutory discretion as to the precise penalty to apply, and there is evidence that courts may have misused their discretion under earlier versions of the statute.[28] Such concern could induce them to settle potential litigation in the manner suggested by Senator Kyl.

The amendments to 35 U.S.C. § 292 make sense in attempting to provide more statutory guidance to judges, thus reducing some of the uncertainty that defendants might fear. Instead of a maximum $500 per-article penalty, defendants now face liability for "competitive injury" suffered by private plaintiffs. Of course, since the United States can still sue for the per-article penalty, there remains the potential for large penalties.[29] This depends on how the government chooses to exercise prosecutorial discretion in the future; I do not address public prosecution in this Article.

---

[26] *See infra* Part IV.

[27] *See, e.g.*, *Forest Grp., Inc. v. Bon Tool Co.*, No. H-05-4127, 2010 WL 1708433, at *2 (S.D. Tex. Apr. 27, 2010) (applying a $180 per article fine); *Presidio Components Inc. v. Am. Technical Ceramics Corp.*, 723 F. Supp. 2d 1284, 1334–35 (S.D. Cal. 2010) (applying a thirty-five-cent-per-unit sanction for 651,675 falsely marked capacitors).

[28] The Patent Act of 1870 had a $100 minimum penalty for false patent marks, but courts instead read the $100 penalty as a maximum. *See Forest Grp.*, 590 F.3d at 1301–02. Such application of the law suggests courts were more favorable towards defendants in comparison to Congress.

[29] The pre–amendment statute did not give much guidance as to the calculation of the $500-per-article maximum penalty. For some suggestions, *see* Sid Leach & Sean J. O'Hara, *Figuring the Fine for False Patent Marking: How Should a Court Determine the Amount?*, 3 No. 5 LANDSLIDE 18, 29–30 (2011).

Similarly, limiting plaintiffs to those suffering competitive injury could help anchor court decisions. Prior to amendment, a plaintiff who had suffered no personal competitive injury could litigate. We can imagine that courts might face more uncertainty as to the appropriate penalty if the plaintiff had not suffered any specific loss. For such a court, the $500 maximum might play an overly large role in determining sanctions.

The challenge now is to determine how courts should interpret the amended statute. This Article is a step in understanding competitive injury and the parties that will bring such cases forward, particularly in light of Congress's aforementioned concerns.

IV. WHO CAN LITIGATE?

The questions of calculating competitive injury and identifying those suffering competitive injury are closely entwined. For example, competitive injury might simply refer to any injury suffered by competitors. I will start by discussing who may litigate, or, in the words of the statute, who has suffered competitive injury. Part IV will consider the nature of competitive injury.

Given the explicit removal of the "any person" line leading to *qui tam* actions under the pre-amendment statute, I assume there is no longer broad standing under the new amendments. Therefore, I consider customers and competitors as potential candidates for standing. I follow with some practical considerations in light of economic theory and antitrust law.

A. It Is Unlikely Customers Have Standing

The statute states that parties suffering competitive injury can litigate. Intuitively, it is competitors who are most likely to suffer competitive injury. As I note in Part V, customers and potential customers could also suffer injury related to the loss of competition due to false patent markings.[30] They may pay higher prices or have fewer purchasing options if competitors are scared off by false patent marks. Nonetheless, the causal chain between false patent markings and customer injury is relatively distant, as the customers' loss may be due in part to competitors' reaction to the false patent markings. Furthermore, the legislative history, at least according to Senator Kyl, suggests that Congress did not intend for customers to be able to litigate under the amended statute.[31]

---

[30] There are also the harms to customers in the form of false advertising, but these harms are also difficult to categorize as "competitive" in nature.

[31] *See* 157 CONG. REC. S1360-02 at *S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) ("[I]t is not entirely clear how consumers would suffer any tangible harm from false marking that is distinct from that suffered when competitors are deterred from entering a market. . . . To the extent that false patent marking deters competition, [the amendment] allows those competitors to sue for relief.").

Senator Kyl's presumption against actions brought by customers could fit the goal of reducing non-meritorious litigation. The most straightforward method of reducing non-meritorious litigation would be for courts to allow standing only to those who bring meritorious claims forward, but such a purely merits-based approach is infeasible. As the legislative history suggests, Congress seems to believe that competitors as a group are better situated to bring forward meritorious claims.[32] Sophisticated competitors may be more likely to conduct patent research and understand the product marketplace. Given their investment in the industry, hopefully they are also less likely to pursue frivolous litigation that could be costly to both sides.

B. Which Competitors Should Have Standing?

This leaves courts with the challenge of identifying entities that are properly considered competitors with standing under this statute. Broadly speaking, there are competitors and potential competitors. As some plaintiffs have attempted to argue, nearly any person could be a potential competitor.[33] Nonetheless, the fact that any person could potentially be an entrepreneur does not provide sufficient particularized harm that is not conjectural.[34]

As courts consider how much investment or evidence is necessary to demonstrate that a company is sufficiently a potential competitor for purposes of litigation, an instrumental view is an important consideration. It may be tempting to draw a bright line rule regarding sufficient investment, but courts should consider the purposes of the statute.

If we believe there is real harm caused by false patent markings and that government enforcement alone might be insufficient, courts should be wary of interpreting the statute in a way that forecloses civil litigation. One consideration should be the density of competitors in a market. If a market consists of a very limited number of competitors, cartel or détente behavior may be possible. This small group of competitors might not bring any litigation against each other, regardless of the public harm generated by one competitor's actions. Similarly, the presence of a strong market leader with numerous small competitors might also lead to this cartel/détente behavior; small competitors might fear being crushed by the leader and thus be reluctant to act. We should be particularly wary that the false marking statute does not become another tool of "mutually assured destruction" that simply helps competitors enforce collusive behavior among themselves.

Consider an example from the antitrust context, in which the Department of Justice has utilized its leniency program to encourage parties to break from

---

[32] *See* 157 CONG. REC. S1360-02 at *S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).
[33] *See, e.g.*, Pequignot v. Solo Cup Co., 640 F. Supp. 2d 714, 718 (E.D. Va. 2009).
[34] *Id.* (citing Vt. Agency of Natural Res. v. United States *ex rel.* Stevens, 529 U.S. 765, 771 (2000)).

conspiracies.[35] Under the leniency program, companies who are the first to volunteer information regarding antitrust violations enjoy dramatic leniency from prosecution. This program changes the incentives for participants in an antitrust conspiracy. Prior to the leniency program, the participants have every incentive to cooperate in avoiding detection of their conspiracy. The program breaks the incentive structure by granting an advantage to the first party to deviate from cooperating with its fellow defendants.

Note that this Article's proposed instrumental approach to identifying competitors does differ from antitrust approaches to identifying the relevant market for purposes of monopolization.[36] The concern in § 2 of the Sherman Act is determining whether there is relevant competition that might preclude the defendant from exercising monopoly power.[37] For false patent marks, the concern is not the exercise of monopoly power, but rather the practical reality of whether parties will litigate against a company utilizing false patent marks. Thus, in determining which party constitutes a competitor for litigation, the focus is not on whether customers have relevant choices. Rather, the focus should be on ensuring there are sufficient parties that can be considered competitors such that some will be willing to prosecute false patent markings.

Courts should consider this instrumental problem in determining standing. First, when a plaintiff comes forward claiming to be a competitor, courts should consider the size of the relevant market and the number of other competitors. Courts should construe the market sufficiently broadly to reduce the chance of collusive behavior, assuming that collusive behavior is more difficult to establish in a broader group. If a plaintiff's products or services are not obviously competitive, courts should be generous in granting standing if there are very few companies producing products that are clearly competitive.

Second, courts should be aware of this instrumental concern for purposes of determining who is properly a potential competitor. Again, courts should set relatively low requirements to establish standing as a potential competitor if there are a limited number of actual competitors. Furthermore, courts should also be aware of the level of investment necessary to enter the market for the product in question. High barriers to entry may also result in collusive behavior, because competitors may similarly have too much to lose and thus be reluctant to offend each other. If there are high barriers to entry in the industry, courts should also consider having a relatively low bar in establishing standing as a potential competitor.

---

[35] *See* Giancarlo Spagnolo, *Leniency and Whistleblowers in Antitrust*, *in* HANDBOOK OF ANTITRUST ECONOMICS 259 (Paolo Buccirossi ed., 2008).

[36] *See, e.g.*, Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 481–82 (1992) (noting that a single brand may constitute the relevant market for antitrust purposes); Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962) ("The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it. However, within this broad market, well-defined submarkets may exist which, in themselves, constitute product markets for antitrust purposes.").

[37] *See* 15 U.S.C. § 2 (2006).

If courts set this investment bar too low, however, the statute may effectively revert to its pre-amendment form. Any person who had sufficient capital to bring litigation might find it trivial to invest sufficient capital to be established as a potential competitor. Judicial awareness of these factors, however, improves the chance that courts will be able to balance the public interest in reducing false patent marks with the interest in reducing non-meritorious litigation.

V. DEFINING COMPETITIVE INJURY

The next challenge for courts will be to determine the appropriate measure of competitive injury. Such measurement is important not only for ensuring sufficient compensation for the plaintiff, but it may also play a central role in providing sufficient incentives for both private enforcement and deterrence.

A. Injury to the Public

To avoid an under-inclusive discussion of competitive injury, I begin with a broad consideration of injury resulting from false patent marking. There may be generalized harms to the public as a result of improper patent marks. Freely allowing any form of patent marks on products, regardless of actual patent rights, may cause a general dilution of the value communicated via patent marks. Such marks might effectively become meaningless, which would reduce the amount of information transmitted in society. Furthermore, to the extent that such improper patent marking is acceptable, it may cause a general devaluation of written statements in advertising or products, as the public may simply learn to distrust information provided by manufacturers and advertisers. These losses are difficult to measure, although if courts can accurately measure these losses it may be possible for private litigation to help enforcement. To the extent we are concerned about Article III standing, however, emphasizing these diffuse losses alone is troublesome.

Perhaps a more particularized version of this public injury is the harm caused to the product market or industry. The devaluation of written statements or product information may become centered on the specific industry. For example, used car salespeople have a relatively poor reputation—the public does not value the representations made by them. Although it is possible that this reputation for untrustworthiness may be unearned, it is also possible that poor enforcement and poor market signals have led to the current state of affairs. In an extreme case in which an industry is dominated by a single company, we might imagine that dominant company to have a particularized interest in protecting the market from devolving into such a state. As the market incorporates more competitors, however, the feasibility of such a particularized interest becomes more remote.

B. Injury to Competitors and Potential Competitors

The most natural place to look for competitive injury is among the marketplace competitors. For the purposes of this section, I will not distinguish between competitors and potential competitors; I will simply refer to them as a uniform group. 35 U.S.C. § 287 suggests that patent marks are of particular importance to competitors, as they provide notice to potential infringers. While such notice is certainly important should litigation occur, note that there are many possible reasons for patenting.[38] I begin with the basic assumption that companies patent for the purpose of gaining greater profits for innovative products.[39]

We can break down the resulting injuries into at least three forms, which I rank by causal proximity to the false patent mark. First, there are the harms to the competitor due to the competitor's direct reaction to a false patent marking. A competitor seeing the falsely marked patent may make an improper investment decision as a result. It might believe that some feature of the product is patented and thus expend extra effort in designing around a patent. It might feel compelled to license someone else's patent in order to be competitive. A competitor might also lose out on revenue, believing it is not capable of competing due to patent protection and thus not sell certain products, or it may not incorporate certain features into existing products.

Second, there are harms to the competitor due to customer behavior. I discuss this in more detail in Part V.C, but potential customers might be confused as to patent protection, perhaps believing a falsely marked product to be unique or superior. A competitor could lose out on revenues and profits due to these lost sales.

Third, there are the harms to the competitor due to its reactions towards the customer behavior. The competitor might expend marketing or informational efforts to explain the quality and uniqueness of the products. These are the competitor's expenditures in correcting deceived customers. Note that in the false advertising context, courts have allowed recovery of corrective advertising costs without showing actual marketplace confusion.[40]

The probability that these harms would occur depends on the sophistication of the competitors and the industry. I begin with the most direct harms that result from the competitor's viewing of the false patent marks. If the industry is highly specialized and requires large start-up costs, we would expect competitors to be familiar with the patent system. Rather than relying on the vague assertion of a patent mark, we might expect

---

[38] *See, e.g.*, Sichelman & Graham, *supra* note 8 at 1064–70.

[39] *See* WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 297–98 (2003); W.D. NORDHAUS, INVENTION, GROWTH, AND WELFARE: A THEORETICAL TREATMENT OF TECHNOLOGICAL CHANGE 70 (1969); JOHN W. SCHLICHER, PATENT LAW: LEGAL AND ECONOMIC PRINCIPLES § 2.15 (2d ed. 2011).

[40] *See* Balance Dynamics Corp. v. Schmitt Indus., Inc., 204 F.3d 683, 689–91 (6th Cir. 2000).

sophisticated competitors to perform patent research regardless of patent markings. Under this scenario, both true and false patent marks might have no impact on sophisticated competitors. There still remains the possibility that, on the margin, sophisticated competitors might still exert additional and unnecessary research efforts upon discovering a false patent mark. The sophisticated competitor might second-guess its inability to find a relevant patent covering the product in question, resulting in further efforts to double check the product's patent status. In an alternative scenario, a sophisticated competitor might generally pursue a strategy of not investigating other parties' patents to avoid a claim of willful infringement. Nevertheless, having seen a patent mark, the competitor might feel compelled to conduct patent research. As a general guide, however, it seems less likely that false patent marks would cause sophisticated competitors to incur unnecessary research costs. Less sophisticated competitors or competitors in low start-up cost industries are more likely to be susceptible to these unnecessary costs. The same logic follows for competitors missing out on revenue by failing to incorporate allegedly patented features or products; the false patent marks are more likely to harm less sophisticated competitors in such a fashion.

On the other hand, to the extent the loss of revenue is due to customers being deceived by patent marks, the sophistication of the competitors themselves may not matter. The sophistication of the industry at large, however, might have some effect on the customers. Highly sophisticated purchasers may be less likely to be deceived by false patent marks.

Generally speaking, it seems as though less sophisticated competitors in relatively low barrier-to-entry markets will more likely be directly injured by false patent marks.

1. Alternative Purposes of Patents and Patent Markings

Thus far, I have focused on a defendant's use of patent marks for the straightforward purpose of providing notice as to patent protection. Although the deception involved suggests that a product is protected by a patent, and thus infringing competitors would be subject to penalty, it is possible that companies might use patents for purposes besides competitive notice. One such purpose might be to communicate the idea that a company is willing to make large expenditures in litigation.[41] The mark might function as a signal to competitors that the company should be taken seriously, as it is willing to invest in patent protection. This might be a threat to competitors, acting to deter competitors from litigious behavior. By applying a false patent mark to its products, a company could deter competitor litigation without actually investing in patent protection. In this case, the loss to competitors due to a false patent marking might be the competitor's decision to not engage in litigation against the defendant.

[41] *See* Sichelman & Graham, *supra* note 38 at 1079–81.

Establishing causation under this theory is difficult, as it may be challenging to determine the material factors in a competitor's perception of the defendant. First, the competitor would have to establish that it truly would otherwise have litigated had it not been for the perception of the false patent mark. Furthermore, measuring this type of damage could be rather speculative, as it would entail evaluating the merits of the foregone litigation.

2. Parallel Offenses

Complicating calculation of competitive injury is the possibility that the defendant will commit other violations parallel to the false patent marking. Possibilities include patent infringement and trademark infringement, which could occur in the manufacture of counterfeit goods. If a defendant manufactures an identical clone of a trademarked product, for example, much of the defendant's profits may originate from simply benefiting from the trademark holder's reputation. If the defendant includes a false patent mark on the product, is there additional competitive injury? Isolating the independent deceptive contribution of the false patent mark may be very difficult.[42]

This problem manifests in two distinct ways. First, there is the plaintiff's need to prove that the false marking caused damages. Second, there is the need to prove the *amount* of damages. In antitrust concerns on patent licensing, the Supreme Court has demonstrated leniency in allowing liability even though other sources of injury might exist.[43] Courts should show similar leniency with proving false patent marking when it is mixed together with an offense such as trademark infringement. Note also that in this situation, determining the competitor best suited for false patent mark litigation should be relatively more straightforward, as it will be the party with a cause of action for the other offenses.

C. Injury to Customers

Customers might suffer injury from false patent marking through a number of different mechanisms. First, customers might pay higher prices or face a lack of competitive alternatives due to limits in competition. These are harms that would stem from the injury to competitors discussed in Part V.B. The causal link is a little more diffuse due to the intervening action by the competitors themselves; it is the competitors, rather than customers, who were deceived by the false patent marks and failed to compete in the marketplace.

---

[42] *See* Cyclone USA, Inc. v. LL&C Dealer Servs., LLC, No. CV 03-992AJW, 2010 WL 2104963, , at *1, *6–7 (C.D. Cal. Mar. 24, 2010) (discussing a fuel-saving device that was sold under a competitor's trademarked name and featured false patent markings).

[43] *See* Zenith Radio Corp. v. Hazeltine Research, 395 U.S. 100, 123–24 (1969) (recognizing the "practical limits of the burden of proof" in injury due to partial market exclusion resulting from threats of patent litigation), *on remand*, 418 F.2d 21 (7th Cir. 1969), *rev'd*, 401 U.S. 321 (1971).

More directly, customers might face injury due to their own perception of the false patent marks. These injuries could be analogous to false advertising problems. [44] Customers may be misled into purchasing a product, believing that the patent mark is a stamp of quality implying a variety of factors. For example, the mark could be an indicator that the U.S. Patent Office recognized something novel about the product.

The patent mark could also be an indicator that the company was willing to invest in the product. Companies who build better products and invest in novel design might proceed with patent protection and the associated patent marks to distinguish themselves in the marketplace. In contrast, companies who are not innovators would not be able to obtain such patent markings. Customers might desire such products or to support such companies, and potential customers may be misled by the false marks.

The difficult problem is the materiality of such markings to customers. It is unclear whether unsophisticated retail customers pay attention to such marks on products, although anecdotal evidence in advertising suggests that some companies believe these marks are important.[45] Sophisticated corporate customers, however, who value obtaining a competitive advantage might expect to see such patent marks on products they purchase, particularly when salespeople are touting exclusive product features.

To the extent that customers may be swayed by patent marks, the cost of determining actual patent protection is relatively high for customers. Unlike the defendant's competitors, it seems less likely that a customer would conduct research into the existence and validity of a patent on a product. This seems true even for a sophisticated corporate customer, unless the corporate customer is developing products that might infringe on its purchases. To the extent that the sophisticated corporate customer is simply looking for components or supplies for its business, it seems reasonable for the customer to rely on the vendor's patent assertions—the vendor's competitors have a greater interest in policing relevant patent matters.

As such, customers are more likely to rely on the patent mark alone, as opposed to conducting research into the actual patent protection of the product. If patent marks become unreliable indicators, it seems unlikely customers would then invest in determining actual patent protection. Instead, customers would increase reliance upon less costly methods of product evaluation, such as "customer reports" services to reduce search costs.

Perhaps one overarching statutory interpretation problem is that these aforementioned injuries to customers may be linked to problems in the competitive marketplace caused by the false patent markings, but these injuries may not seem like "competitive injury" given that customers are not competitors.

---

[44] *See* 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 (2004).

[45] *See, e.g.,* Sichelman & Graham, *supra* note 8 at 1069–70.

D. The Relationship Between Customer and Competitor Injury

Nonetheless, competitors and customers endure related losses due to improper patent marks. For clarity, note that although the mechanism of loss is similar, the extent of loss distribution depends on market factors. If a customer suffers injury because of the unavailability of a competitive good, both he and the potential competitor lose out on the sale of a good. The distribution of the loss depends on the price of the unsold good, which ties back to the competitiveness of the marketplace. Relatedly, if the customer suffers injury because he fails to buy the proper product due to "false advertising" and his belief about the quality of the product due to the patent mark, then the loss to the competitor stems from the customer's choice.

The loss to the customer depends on the price, quality, and availability of alternative product. If the market is highly competitive, it may be that the customer loses very little because there are sufficient alternatives at a similar price. Similarly, the highly competitive marketplace might mean extremely limited profits for competitors. As a result, the failure of a potential competitor to enter the market might mean very limited foregone profits.

My intent here is not to pursue a detailed analysis of the factors leading to the distribution of loss between customers and competitors. Rather, I highlight that it is not a trivial determination.[46] The practical question is whether courts should even engage in such analysis once they establish the presence of competitive harms.

E. Providing Adequate Compensation

As I discussed in Part III, it is unlikely that Congress intended customers to litigate under the amended statute. This leaves competitors and potential competitors as the primary private enforcement agents, and courts will have to decide among the various concepts of competitive injury as described above. Next, I analyze what constitutes adequate compensation for such injuries.

We can turn again to trademark and false advertising law for some guidance. The Lanham Act describes three potential tools that could be used for compensatory purposes: actual damages, enhanced damages, and disgorgement.[47] While granting actual damages theoretically makes the most sense for compensatory purposes, properly calculating actual damages may be rather difficult.

As discussed earlier in this part, false patent marking may present precisely this problem. The number of potential parties harmed can be rather large, and sorting out the precise impact on them is challenging. There is difficulty in determining the precise

---

[46] *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION: DAMAGES: TRADEMARK INFRINGEMENT AND DECEPTIVE MARKETING § 36 cmt. b (1995) for some historical problems in calculating damages.
[47] 15 U.S.C. § 1117(a) (2006 & Supp. II 2007–2009).

susceptibility of customers to the patent marks, along with the challenge of determining who would have benefited had customers not been deceived.

1. Disgorgement

I encourage courts to consider disgorgement as a method of awarding damages for competitive injury. Disgorgement shifts the calculation focus onto the defendant's profits; this may allow the court to conserve judicial resources. Courts have been rather generous to plaintiffs in utilizing disgorgement. Rather than focusing on precisely how much, on the margin, false patent marks contributed to the customer's propensity to purchase an item, courts have been willing to award all revenue based on any product with a false patent mark.[48] Accurately measuring such aggregate revenue is a comparatively straightforward judicial exercise.

Furthermore, disgorgement can help aggregate the losses accrued by customers and competitors. As discussed earlier, the losses caused by false patent marking may be distributed among various competitors and customers; determining who suffered what level of loss may be rather difficult. While disgorgement may not perfectly equal the total amount of loss suffered by all of the parties, it may be an effective rough proxy for the total losses. Applying disgorgement would provide stronger incentives for competitors to litigate on behalf of customers and other competitors alike. In the trademark and false advertising context, Congress specifically intended for competitors to protect customers through litigation.[49] Courts have borrowed damage calculation logic from antitrust and trademark infringement in other contexts. [50]

Disgorgement, particularly if granted to the first plaintiff to file, provides a strong incentive against inaction in the presence of multiple competitors. The first plaintiff does not have to worry about investing in litigation up front with uncertainty about how damages will be distributed among all the potential competitor-plaintiffs.

If there are multiple competitors, however, a remaining problem is the fairness concern, in that competitors who were not the first to file may recover almost nothing.[51] Nonetheless, if the main concern is the effective deterrence of improper patent marking behavior, the compensatory problem may be secondary. Those secondary competitors

---

[48] *See, e.g.*, Forest Grp., Inc. v. Bon Tool Co., No. H-05-4127, 2010 WL 1708433, at *2 (S.D. Tex. Apr. 27, 2010) (applying a $180 penalty for a product sold at prices between $103 and $180 to insure that defendant would not profit from false marking).

[49] *See* Ferrari S.P.A. v. Roberts, 944 F.2d 1235, 1245 (6th Cir. 1991) (describing Congress's intent to protect both purchasers and manufacturers in the Lanham Act).

[50] *See* Bangor Punta Operations, Inc. v. Universal Marine Co., 543 F.2d 1107, 1110 (5th Cir. 1976) (upholding jury verdict for infringement of copyright and § 43(a) violation and citing antitrust precedent); Everco Indus., Inc. v. O. E. M. Prods. Co., 63 F.R.D. 662 (N.D. Ill. 1974) (relying on antitrust precedent to hold § 43(a) damages sufficient,).

[51] I assume that courts would not grant multiple disgorgement penalties against a single defendant for the same behavior, as such sanctions would seem to be extremely unjust.

could still recover damages from "direct" losses rather than market share (customer-derived) losses.

Another downside to utilizing disgorgement is that there may not be much marginal deterrence if the defendant has committed other parallel offenses. If courts would already have awarded disgorgement for a product that violated the plaintiff's trademarks, there may be no real additional sanction for the defendant's inclusion of false patent marks.

Finally, disgorgement may trigger over-enforcement of false patent marks. This is partially an empirical question without a clear, present answer, although the false patent marking statute has been scaled back already in an effort to reduce the potential for excessive enforcement. Disgorgement might help counterbalance the reduced incentives for private enforcement. Nonetheless, without a full accounting of the actual social losses due to false patent marking or empirical evidence of this amendment's impact, a proper determination of excessive enforcement due to disgorgement remains elusive.

2. Inclusion of Losses to Both Customers and Competitors

Even if courts decide to calculate competitive injury to competitors via actual damages, they should consider losses to both competitors and customers. This way, courts can still pursue the goal of customer protection by providing adequate incentives to plaintiffs. Furthermore, this process will allow courts to avoid the difficult problem of disentangling the distribution of hypothetical loss between competitors and customers; all such losses would be awarded to the plaintiffs.

3. The Defendant's Burden of Distinguishing Customer Loss

If a judge feels that the award of customer loss is inappropriate under the amended statute, the plaintiff should be assigned the burden of production as to evidence of total losses, which may include losses to both the plaintiff and to customers. Judges should then assign the burden of proof to defendants in disentangling customer loss from competitor loss. This distribution of burdens seems to be fairer, as it assigns the difficult task of measuring customer loss to the party who committed the deception via false marking. This distribution is somewhat parallel to the distribution of burdens under the Lanham Act, requiring plaintiffs to prove revenues and defendants to prove costs in the calculation of profits.[52]

VI. CONCLUSION

Congress's choice to amend 35 U.S.C. § 292 by focusing on "competitive injury" may become a challenge to courts, as precise calculations of false patent mark harm can

[52] *See* 15 U.S.C. § 1117(a) (2006).

be a complex endeavor. But the fact that precise harm measurement is difficult should not automatically outweigh the importance of prosecuting such offenses. Competitive offenses in antitrust, trademark, and false advertising have also encountered such harm-measurement problems; courts addressing false patent marks can benefit from that experience.

I expect courts to interpret the amendment as primarily allowing competitors to litigate false patent marking cases. For courts to ensure the effectiveness of competitors as enforcers of the law, it is important to consider the competitive market structure. If there are insufficient competitors, locking out other litigators may result in cartel-like action in which the limited number of competitors only use the statute to prevent new entrants. Courts should interpret the standing of potential competitors broadly if they are dealing with a concentrated marketplace, while a tighter standing requirement is acceptable if there are a large number of equally situated competitors.

In calculating compensatory damages for competitive injury, courts should consider disgorgement as a remedy. False patent marks may result in harm that is distributed among a number of different competitors and customers; properly measuring the harm to each of the parties may not be trivial. Providing disgorgement can be a rough proxy for the aggregate harm caused by the defendant. The amended statute makes sense as a customer protection regime in which competitors act as proxies for customer losses, analogous to the Lanham Act. Effectively treating customer losses as competitive injury to competitors will help provide sufficient incentives for companies to prosecute false patent marking on behalf of both themselves and their potential customers.

I should note, of course, that this Article has focused on the private enforcement of false patent marking. It remains to be seen how much of a role the Department of Justice will take in prosecuting false patent marking now that it no longer automatically benefits from private enforcement actions. I leave the theoretical and empirical interactions between private and public enforcement of this statute for another day.