Show Me Your Competitive Injuries

BY MONPLAISIR HAMILTON[1]

The 2011 America Invents Act amends the false patent marking statute, 35 U.S.C. §292, which may have remedied the onslaught of false patent marking cases filed in federal court, but this cure is likely temporary because savvy litigants are sure to refine their allegations to meet threshold challenges of sufficiency. Understanding common law and antitrust law competitive injury standards may prove useful when defending against these claims. Below is a brief review of the important reforms, case law interpreting the amended statue, and areas ripe for dispute.

KEY REFORMS OF § 292

The changes to the false claim section have received praise for both limiting who can sue and narrowing the scope of proscribed conduct.[2] Significant reforms include:[3]

- A change in who can sue for the statutory penalty. Previously, any party could sue, but with the reforms, only the United States may sue for the statutory $500 per offence penalty of §292(a).
- *Qui tam*[4] status is completely removed from §292. The government will no longer obtain half of the statutory penalty from *qui tam* litigants who successfully enforce section 292(a) proceedings. The government will now have to expend its own resources to litigate §292(a).
- Alterations in the definition and compensation of injured parties. The reform may effectively limit these parties to competing businesses and replace the damage cap of half of the statutory penalty with any amount the complaining party can prove in business losses. [5]

But individuals—as opposed to the government or competing businesses—may still have their day in court under newly amended §292(b). This subsection creates a damages framework, separate from the statutory penalty. This framework may allow an individual to obtain money damages and perhaps injunctive relief[6] if competitive injury, which the statute does not expressly define, is established. Surprisingly, a patent holder may now be liable for both the §292(a) penalty if the government successfully litigates its claims and any proven §292(b) damages that a non-government party establishes. Courts have not yet faced the question of whether a patent holder may be liable under both §§292(a)-(b). Instead, the courts are answering questions about what showing is necessary to support competitive injury by referring to dictionaries[7], treatises, and other bodies of law, including antitrust law and common law.[8]

Equally important is subsection (c), which limits §§292(a)-(b) liability. Subsection (c) removes liability associated with marking a product with expired patents that covered the product.[9] The "unpatented articles" referred to in 292(a)[10] may no longer include articles previously covered by an expired patent.[11] Although liability associated with expired patents is reduced, patent holders may, however, still be liable for marking uncovered articles with expired patents. Thus, the scope of proscribed conduct is limited to reduce false patent marking claims against patent holders who have products that are marked with expired patents. These reductions may, however, be offset by increased pleading and filing of state law theories, like unfair competition,[12] which has similar evidentiary requirements.

The amended false marking statute may be less burdensome on the business community because of the reductions in §292 liability, which may have unintended consequences on competition within the business community. For example, assume a rights holder, P, has an expired patent that covers product A. Product A is manufactured by Company G, who may be an importer, generic, counterfeiter, or competitor. It appears that Company G having mal-intentions, e.g., crushing competitors, may now mark the product with the expired patent number without P's consent. P may also mark its product covered by the expired patent without fear of liability. Surprisingly, if applied literally, subsection (c) appears to allow counterfeiters, generics, and patent holders to mark previously covered products with expired patents. It is not readily apparent that a counterfeiter or generic exhibiting this type of conduct would be liable under unfair practices, false advertising, competition law, tort, or other state law theories. However, generics and patent holders having mal-intentions may transgress §§292(a) or (b) if an uncovered product was marked with expired patents that relate to products different from the uncovered product. Accordingly, areas of dispute may now include the scope of conduct previously prohibited but now unregulated by §292 and state law competition or tort theories. The courts are now redeveloping the body of case law applying §292 to disputes arising due to alleged inapplicable patent markings on products.

CASE LAW AND AREAS RIPE FOR DISPUTE

Recent decisions show federal courts are narrowly interpreting the amended statute, creating disputes over the scope of prohibited conduct and potentially causing litigants to re-file with additional theories based on state law competition and tort doctrines. Federal courts also are dismissing cases filed under old §292(a), despite challenges regarding the constitutionality of retroactive application of the amended §292(a).[13] With a constitutional challenge likely to make it to the Supreme Court, litigants are now tailoring their suits to fit within the (a) and (b) framework of the amended statute. Thus, current reductions in filings of false patent marking cases may be temporary because the amended §292(b) offers a new arena for litigants to battle. Litigants now will argue about the meaning of a "competitive injury."

When interpreting competitive injury, some courts adopt an ordinary meaning and others adopt an antitrust definition. The definition adopted by the court draws contours for the relevant evidence that proves competitive injury.[14] In adopting the ordinary meaning of competitive injury, courts require litigants to allege sufficient facts to plausibly establish that, as a result of mismarking a product, a rival's ability to compete against a competitor in the market for purchasers of such products was impaired, resulting in tangible economic loss to the rival.[15] In other words, a litigant must show a business loss caused by a competitive means like false patent marking, which the law forbids. Thus, non-competitors, customers, or individuals may have difficulty

establishing competitive injury unless a showing that falsely marking the product with inapplicable patent markings wrongfully blocked the individual's entry into the market.[16]

Beyond the ordinary meaning, some courts adopt an antitrust definition for competitive injury. The antitrust definition, like the ordinary meaning, requires a business loss that results from the mismarking.[17] The two meanings differ in that competitive injury in the antitrust context also includes predatory pricing, price discrimination, injury to competition, or loss of business opportunities.[18] Generally, in antitrust law the legal focus of the competitive injury inquiry is on the competitor, not the consumer(s). Whether output is restricted or prices are raised is not dispositive.[19]

At administrative agencies like the Federal Trade Commission (FTC) or the Department of Justice (DoJ), competitive injury includes either primary-line injury or secondary-line injury.[20] Primary-line injury occurs when one manufacturer reduces its prices in a specific geographic market and causes injury to its competitors in the same market. For example, it may be illegal for a manufacturer to sell below cost in a local market for a sustained period. Businesses may also be concerned about secondary-line violations, which occur when favored customers of a supplier are given a price advantage over competing customers. One telltale sign of the requisite competitive injury is the diversion of sales or profits from a disfavored purchaser to a favored purchaser. In addition to primary- and secondary-line injuries, courts also identify a third type of injury called tertiary line.[21] Tertiary-line injury cases involve harm to competition at the level of the purchaser's customers. Tertiary-line injury occurs when customers of a disadvantaged buyer allege injury.[22] Thus, non-competitors, in some circumstances, may have the ability to allege a competitive injury based on antitrust' expansive definition of competitive injury.

CONCLUSIONS AND OUTLOOK

The amended statute has changed the rules for establishing a compensable injury and who may obtain compensation for the alleged injuries. As challenges to constitutionality of retroactive application for §292 move toward the Supreme Court, disputes may arise over the scope of unregulated conduct that was proscribed before the reforms. A review of recent decisions shows courts are using the reformed statute to dismiss some cases filed prior to the amendment and to reduce the number of new false patent marking claims filings by introducing rigorous standards for non-government parties to prove competitive injury. Understanding the means of establishing competitive injury and reviewing recent decisions applying competitive injury standards, will aid litigants who try false marking cases. IPT

ENDNOTES

1. Mr. Hamilton is an associate at Shook, Hardy & Bacon LLP (SHB). He practices in the intellectual property section of SHB. The content of this article is not legal advice and does not reflect the opinions of SHB. The content of this article are observations. He can be reached at mhamilton@shb.com for further information.
2. *Fisher-Price, Inc. v. Kids II, Inc.*, 2011 U.S. Dist. LEXIS 146553, 28-29 (W.D.N.Y. Dec. 21, 2011) (The America Invents Act reins in abuses that are reflected in a recent surge in false marking litigation. It allows such suits to be brought only by those parties who have actually suffered a competitive injury as a result of false marking. Currently, such suits are often brought by parties asserting no actual competitive injury from the marking — or who did not even patent or manufacture anything in a relevant industry. Many cases have been brought by patent lawyers themselves claiming the right to enforce a fine of $500 for every marked product. 157 Cong. Rec. S5319 -5321, at 5320 (daily ed. Sept. 6, 2011, S5319) (statement of Sen. Kyl).)
3. 35 U.S.C. §292. False marking as amended with new text underlined and deleted text in double brackets:

(a) . . . Only the United States may sue for the penalty authorized by this subsection.

(b) [[Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States]] 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.

(c) The marking of a product, in a manner described in subsection (a), with matter relating to a patent that covered that product but has expired is not a violation of this section.

4. This is a Latin term that refers to a private person suing for herself and on behalf of the government.
5. *Contra, Stauffer v. Brooks Bros.*, 619 F.3d 1321, 1328 (Fed. Cir. 2010) (By allowing any person to sue, Congress granted individuals a legally cognizable right to half of the penalty)
6. *See, Conceal City, L.L.C. v. Looper Law Enforcement, LLC*, 2011 U.S. Dist. LEXIS 131415 (N.D. Tex. Nov. 15, 2011) (injunction may be awarded if injury shown)
7. *Fisher-Price*, 2011 U.S. Dist. LEXIS *at* 28-29 (identifying the plain meaning of competitive injury based on a dictionary definition)
8. *Seirus Innovative Accessories, Inc. v. Cabela's Inc.*, 2011 U.S. Dist. LEXIS 145307, 11-12 (S.D. Cal. Oct. 19, 2011) (reviewing antitrust and common law views of competitive injury to determine relevance of evidence)
9. *Fasteners for Retail, Inc. v. Andersen*, 2011 U.S. Dist. LEXIS 124937 (N.D. Ill. Oct. 28, 2011) (Applying exception for items covered by an expired patent)
10. 35 U.S.C. §292(a). (2011) (Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article the word "patent" or any word or number importing the same is patented, for the purpose of deceiving the public)
11. *Contra, Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 653 (E.D. Va. 2008) (defining ordinary meaning of the term "unpatented article" in 35 U.S.C. § 292(a) as an article unprotected by a patent, and includes an article for which a once valid patent has expired.)
12. *Restatement 3d of Unfair Competition, § 36* (2011) (defining unfair competition as pecuniary loss to another caused by the deceptive marketing or infringement) and *See, e.g., Sukumar v. Nautilus, Inc.*, 2011 U.S. Dist. LEXIS 145960 (W.D. Va. Dec. 19, 2011) (allowing state law competition claims in an amended complaint)
13. *Brooks v. Dunlop Mfg. Inc.*, 2011 U.S. Dist. LEXIS 141942 (N.D. Cal. Dec. 9, 2011) (holding that retroactive application is constitutional)
14. *Fisher-Price*, 2011 U.S. Dist. LEXIS *at* 28-29 (defining competitive and injury, where competitive in the context of economic activity, means a market condition wherein two or more persons or organizations exist in rivalry of economic endeavor and without the presence of monopoly or collusion. A competitor is one that is engaged in selling or buying goods or services in the same market as another. Injury, of course, broadly implies a right of recovery for loss or impairment of a right or damage to property)
15. *Advanced Cartridge Techs. v. Lexmark Int'l*, 2011 U.S. Dist. LEXIS 146942 (M.D. Fla. Dec. 21, 2011 (the competitive injury that Section 292(b) requires differs from the injury-in-fact that Article III requires. Black's Law Dictionary 302 (8th ed. 2004) defines a "competitive injury" as wrongful economic loss at the hands of a commercial rival . . .)
16. *Fisher-Price*, 2011 U.S. Dist. LEXIS at 28-29.
17. *Seirus Innovative Accessories, Inc. v. Cabela's Inc.*, 2011 U.S. Dist. LEXIS 145307 (S.D. Cal. Oct. 19, 2011)
18. *Volvo Trucks N. Am., Inc. v. Reeder-Simco GMC, Inc.*, 546 U.S. 164, 176, (2006) (explaining competitive injury in terms of primary, secondary, and tertiary harms).
19. *Alans of Atlanta, Inc. v. Minolta Corp.*, 903 F.2d 1414, 1418, n.6 (11th Cir. 1990).
20. *Price Discrimination Among Buyers: Robison-Patman Violations* (2008), at http://www.ftc.gov/bc/antitrust/price_discrimination.shtm
21. *Volvo Trucks N. Am., Inc.* at 177.
22. *Perkins v. Standard Oil Co.*, 395 U.S. 642, 649 (U.S. 1969) (Perkins submitted evidence tending to show that he as an individual had suffered financial losses because the two failing Perkins corporations (Perkins of Washington and Perkins of Oregon) were unable to pay him agreed brokerage fees for securing gasoline, rental on leases of service stations, and other indebtedness.)