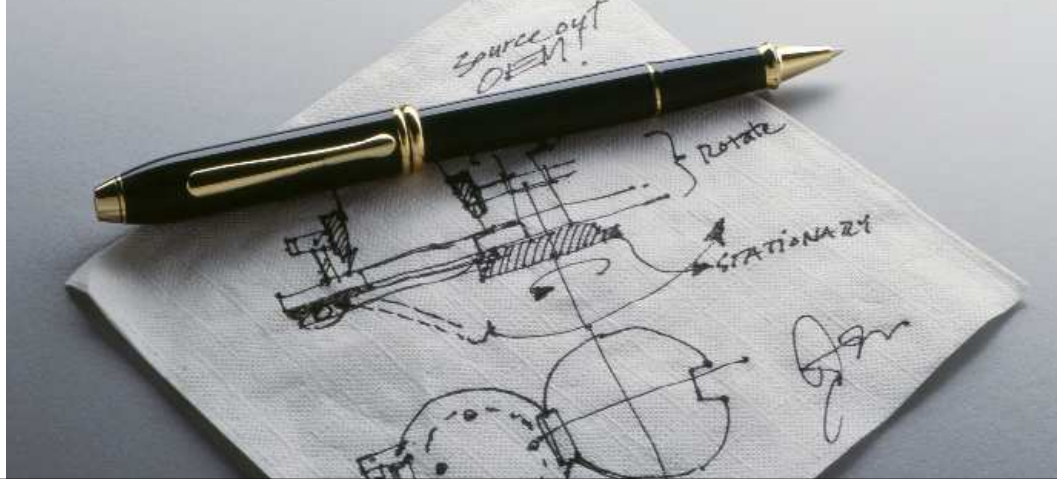


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FALSE PATENT MARKING BECOMES RISKY BUSINESS

Once viewed as a mild irritant, the false marking statute has suddenly become a force with which to be reckoned. The statute gives the public the ability to bring suit and collect a fine from the statute's violators, half of which goes into the government's pocket. Until recently, few parties had incentive to assert a claim under the statute as damages were typically no more than a few hundred, or few thousand dollars – hardly worth the time and legal fees of bringing the suit. However, a recent ruling has increased the potential recovery in these lawsuits, and that increase may be drastic.

In a precedential opinion, the U.S. Court of Appeals for the Federal Circuit held on December 28, 2009 that the fine imposed in a false patent marking action is to be assessed according to the number of articles falsely marked, rather than the continuous false marking of a line of articles. In *The Forest Group, Inc. v. Bon Tool Company*, Fed. Cir., No. 2009-1044, the Federal Circuit analyzed the text and purpose of the false marking statute, 35 U.S.C. § 292, to interpret the meaning of the language "[s]hall be fined not more than \$500 for every such offense." The court determined that the proper interpretation of this language is to impose upon a party in violation of the statute a fine of up to \$500 for each falsely marked article.

The false marking statute provides that any party who is marking unpatented products with patent numbers, or "patent pending," for the purpose of

deceiving the public shall be fined a maximum of \$500 for every such offense. Further, § 292(b) provides that "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."

The Federal Circuit reviewed the district court's interpretation of the statutory language de novo. The district court in *The Forest Group, Inc. v. Bon Tool Co.*, 2008 U.S. Dist. LEXIS 57134 (S.D. TX 2008) found that Forest had deceptive intent to falsely mark items with patent numbers that did not cover those items. The court considered evidence of Forest's marking of construction stilts with patent numbers that, in previous district court decisions, had been found not to apply to the stilt Forest was marking. Forest unsuccessfully attempted to rebut the presumption that it had acted with intent to deceive with unsupported testimony that it directed its manufacturer to stop marking its stilts with the patent number.

Regarding the issue of damages and the meaning of the language "shall be fined . . . for every such offense" in § 292(a), *Bon Tool* argued that the court should impose a penalty of \$500 for each stilt sold with a false marking. The district court rejected *Bon Tool's* argument, citing *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), in which the First Circuit held that § 292 did not impose a penalty for each article, but rather for each offense of marking. The *London* court further

held that:

a plaintiff, in order to recover for more than a single offense, must present specific proof as to time and circumstances of the false marking to show a number of distinct offenses, and to negative the possibility that the marking of the different articles was in the course of a single and continuous act.

The district court held that the facts in the record established that Forest placed a single order for falsely marked stilts after it knew of its patent's inapplicability thereto. Applying the logic of the *London* court, the district court held that Forest made "one separate, distinct decision to mark its stilts after it knew the stilts did not meet all the claims" of its patent, and held Forest liable for \$500.

The Federal Circuit disagreed, citing the plain language, legislative intent, public policy, and the *qui tam* nature of the statute to interpret "every such offense" to mean every article falsely marked for the purpose of deceiving the public. The Federal Circuit dismissed the holding of the *London* court and those district courts following it, pointing out that those decisions predated or gave little or no attention to the 1952 amendment to the false marking statute. The 1952 amendment to the statute changed the fine from a minimum of \$100, to a maximum of \$500. The amendment, according to the Federal Circuit, "eliminated the policy consideration

expressed by the court in *London* of not imposing disproportionate fines for the false marking of small and inexpensive articles.”

The Federal Circuit further contended that the statute exists “to give the public notice of patent rights” and that marking articles falsely potentially results in reduced competition, determent of research and innovation, and unnecessary costs associated with designing around a patent whose number has been marked on a product. The court stated that “these injuries occur each time an article is falsely marked,” and thus, the more articles falsely marked, the greater the likelihood that these damages will be incurred.

Responding to concerns that the imposition of fines on a per article basis might lead to the rise of “marking trolls,” the Federal Circuit asserted that the false marking statute explicitly permits *qui tam* actions, in which members of the public are allowed to file suit on behalf of the federal government and retain half of the awarded fines. The court reasoned that limiting the false marking penalty to a fine imposed for each continuous act of false marking, as supported by *Forest*, would do little to encourage members of the public to file suit under the statute, and little to discourage anyone from falsely marking an article. The court stated that such a reading would effectively render the statute useless in that a plaintiff would be deterred from filing an expensive lawsuit where the damages might be a mere \$500, half of which would be paid to the government.

Finally, the Federal Circuit noted that 35 U.S.C. § 292 explicitly provides a fine of “not more than \$500 for every such offense,” and as such, a court may in its discretion assess a smaller fine for each article falsely marked. In light of the plain language, purpose, public policy, and the *qui tam* nature of the statute, the Federal Circuit held that “35 U.S.C. § 292 requires courts to impose penalties for false marking on a per article basis.”

While common sense tells us that selling a lot of an expensive item is a good thing, this logic holds only when the seller has complied with the patent marking statute. With fines of up to \$500 per article, it most definitely follows that prospective plaintiffs will be scrutinizing patent markings more closely. To be sure, the benefits associated with patent marking continue to make it sound practice. But one should ensure that a reliable system is in place to monitor the application of patent numbers or a “patent pending” marking to products and packaging. The failure to do so might result in unwanted exposure.

Additional Information

Please contact:

Steven M. Auvil at (216) 363-4686 or sauvil@beneschlaw.com.

Ty Kendrick at (614) 223-9373 or tkendrick@beneschlaw.com.

www.beneschlaw.com

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