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FEDERAL CIRCUIT CONFIRMS THAT FINES FOR FALSE PATENT MARKING ARE TO BE IMPOSED FOR EACH UNIT FALSELY MARKED

By Joseph Casino and David Boag

(January 6, 2010). On December 28, 2009 in *The Forest Group, Inc. v. Bon Tool Co., No. 2009-1044* (Fed. Cir. 2009), the Federal Circuit clarified the law of false patent marking and confirmed that 35 U.S.C. § 292 requires the assessment of a penalty of up to \$500 for each unit sold that has been falsely marked with a patent number. District courts had inconsistently interpreted the statute. While some courts had held that only a single fine could be imposed for each continuous act of false marking, other courts imposed fines for each product falsely marked, while still other courts imposed other penalties such as a fine for each week that false marking occurred. This recent decision from the Federal Circuit maximizes the fine for false marking by requiring that the statutory penalty of up to \$500 be assessed for each and every unit that has been falsely marked. This holding requires companies to give serious consideration to their patent marking policies.

Section 292 provides, in part, that, “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 . . . Shall be fined not more than \$500 for every such offense.” 35 U.S.C. § 292. The Federal Circuit held that the plain language of the statute requires the penalty to be imposed for each and every article sold that has been falsely marked. (*The Forest Group*, slip op. at 8). “The statute prohibits false marking of ‘any unpatented article,’ and it imposes a fine for ‘every such offense.’ . . . We conclude that the statute clearly requires that each article that is falsely marked with intent to deceive constitutes an offense under 35 U.S.C. § 292.” (*Id.*) (emphasis original). The \$500 penalty is the maximum fine that a court can impose per unit falsely marked and lower fines may be appropriate depending on the nature of the goods and circumstances of the case.

A party claiming false marking must also show, by a preponderance of the evidence, that the accused party “did not have a reasonable belief that the articles were properly marked.” (*Id.* at 6). Where knowledge of the false marking can be shown, the mere assertion by the manufacturer that it did not intend to deceive is “worthless as proof of no intent to deceive.” (*Id.* at 6 citing *Seven Cases of Eckman’s Alternative v. United States*, 239 U.S. 510, 517-18 (1916)). This holding suggests that it may be wise to obtain an opinion of counsel in order to show a reasonable belief that a product has been properly marked with a patent number.

In *The Forest Group*, the Forest Group, the patentee, manufactured and sold spring-loaded stilts of the type commonly used in construction. (*Id.* at 2). The Forest Group sued Bon Tool, a former customer that had begun to acquire replicas of the patented stilts from a foreign supplier. (*Id.* at 3). Bon Tool counterclaimed, alleging false marking and seeking a declaratory judgment of invalidity. The district court found that the Forest Group falsely marked its stilts with its own patent number and imposed a single fine of \$500 for the false marking. The Federal Circuit vacated the single \$500 award and remanded the case to the district court for an appropriate recalculation of the fine.

The district court found that the patentee knew that its product was not covered by its patent because in a prior patent litigation, the court interpreted a claim element, “resiliently lined yoke,” in a manner nearly identical to the present case. The Forest Group’s patent counsel, aware that the company’s product did not practice the patent, advised the company

to include a “resiliently lined yoke” in future commercial embodiments of the patent. Notwithstanding that advice and the claim construction ruling in the prior litigation, the Forest Group placed an additional order for stilts without the resiliently lined yoke, but nevertheless marked with the patent number.

In addition to the plain language of the statute, the Federal Circuit found support for its interpretation in a 1952 change to the law, which altered the fine from a \$100 minimum fine to a fine of not more than \$500 “for every such offense.” (*Id.* at 8-9). The Federal Circuit reasoned that the change from a minimum to a maximum fine addressed the concerns of earlier courts worried about imposing disproportionate fines for the false marking for small and inexpensive articles. (*Id.* at 9). The Federal Circuit did not otherwise address the legislative history of § 292.

The Federal Circuit further looked to policy considerations as supporting its analysis, including the potential chilling effect on competition and research and development where an inventor sees a mark and decides to forego investment or research to avoid possible infringement. (*Id.* at 11). The Federal Circuit also recognized the potential waste in design around costs or costs incurred in studying the validity or enforceability of a patent falsely marked on a product. (*Id.*). “These injuries occur each time an article is falsely marked. The more articles that are falsely marked the greater the chance that competitors will see the falsely marked article and be deterred from competing.” (*Id.* at 11-12).

Since the statute permits members of the public to sue on behalf of the government (with the claimant splitting any recovered fine evenly with the government), the Federal Circuit acknowledged that its holding, which may increase overall fines for false marking, could increase the prevalence of so-called “marking trolls” (i.e., individuals or companies that look to sue other companies for false marking without some other controversy between them), but noted that it was Congress’s intent to allow the general public to aid in controlling false marking. (*Id.* at 13). The false marking statute expressly permits such so-called qui tam actions. See 35 U.S.C. § 292(b).

The Federal Circuit’s interpretation of § 292 as requiring a per-unit fine could result in substantial fines to companies that knowingly mark their goods with the number of a patent that does not actually cover those goods. At the same time, forgoing marking altogether can limit the recovery of past damages. 35 U.S.C. § 292(a). Companies must be vigilant in properly marking their goods since improper marking with an intent to deceive can result in substantial fines.

Marking trolls seeking a share of the increased fines that will likely follow the Federal Circuit’s decision will be on the lookout for companies that have not been careful in marking their goods. Even where the improper marking was inadvertent, defending against a claim of false marking—which necessarily involves issues of claim construction—will be costly and is avoidable by reviewing the decision to mark any patent number on a product with competent patent counsel.

One additional issue to keep in mind when evaluating patent marking policy is that a failure to update a patent marking after the patent has expired may also constitute false marking. See *Pequignot v. Solo Cup Co.*, No. 1:07cv897 (E.D. Va. Mar. 24, 2008). That same court found that using permissive language such as “this product may be covered by one or more of the following patents” will not in itself insulate the marker from liability if the product is not covered by those listed patents. *Id.*

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