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Case Spotlight

Forest Group v. Bon Tool: A Roulette Wheel for Patent False Marking Claims

Section 292 of the Patent Act provides that a person who falsely marks an unpatented article as being patented, where the false patent marking was done with an intent to deceive the public, “[s]hall be fined not more than \$500 for every such offense.”¹ The statute permits a *qui tam* action whereby any private citizen can sue to recover the penalty and retain for itself half of the penalty.² Over the last few years, the false marking statute has gained a modicum of popularity as plaintiffs, including in some cases private patent lawyers, have brought false marking claims against defendant patentees who have marked products with expired patent numbers.³ Indeed, some commentators have described these plaintiffs as a new breed of troll, the “marking troll.”⁴ For a time the

incentive to bring false marking claims was held in check by a limiting judicial construction of what constituted an “offense” for which the penalty could be quantitatively assessed. Following a hundred year old decision construing the predecessor statute to § 292,⁵ the majority of district courts addressing the issue of what is an “offense” under § 292 held that a continuous act of false marking, e.g., marking an entire single production run, counted as only one “offense” regardless of how many products were improperly marked with a patent number during the continuous act.⁶ Consequently, the financial

¹ 35 U.S.C. § 292(a). See generally, Robert A. Matthews, Jr., *Annotated Patent Digest* §§ 34:97 thru 34:111 [hereinafter APD].

² 35 U.S.C. § 292(b); see also APD § 34:103 Anyone can Assert Violation.

³ E.g. *Pequignot v. Solo Cup Co.*, 646 F. Supp.2d 790 (E.D. Va. Aug. 25, 2009). See generally, APD § 34:106 Marking Expired Patents.

⁴ Accused infringers are also asserting false marking patent claims as affirmative counterclaims to a patentee’s infringement suit.

⁵ *London v. Everett H. Dunbar Corp.*, 179 F. 506, 507-09 (1st Cir. 1910).

⁶ See e.g., *A.G. Design & Associates, LLC v. Trainman Lantern Co., Inc.*, 2009 WL 168544, *3 (W.D. Wash. Jan. 23, 2009) (granting patentee summary judgment that while it may have falsely marked over 15,000 lanterns, that marking constituted a single offense since it was part of one continuous marking); accord *Pequignot*, 646 F. Supp.2d at 801-04; *Forest Gp., Inc. v. Bon Tool Co.*, No. H-05-4127, 2008 WL 2962206, *6 (S.D. Tex. July 29, 2008), adhered to on subsequent proceedings, 2008 WL 4376346, *3 (S.D. Tex. Sept. 22, 2008); *Undersea Breathing Sys., Inc. v. Nitrox Techs., Inc.*, 985 F.Supp. 752, 782 (N.D. Ill. 1997), appeal dismissed, 155 F.3d 574 (Fed. Cir. July 13, 2008) (nonprecedential); *Icon Health & Fitness, Inc. v. The*

incentives for a plaintiff to bring a false marking suit were minimal under this construction of “offense.” That has now changed. The Federal Circuit’s opinion in *Forest Gp., Inc. v. Bon Tool Co.*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009), overrules these district court cases and holds that the penalty of § 292 must be assessed on a per article/product basis with the district court setting the amount of the penalty anywhere from a fraction of a penny to \$500 per falsely marked article.

In *Forest Group*, the patentee sued an accused infringer for patent infringement based on an accused product that was described as being an “exact replica” of the patentee’s commercial product. The patentee had marked its product with the patent number. During the lawsuit, the accused infringer obtained a summary judgment of noninfringement. After the summary judgment was handed down the patentee commissioned another production run of its commercial product and had the newly made products marked with the patent number. The district court found that the patentee committed false marking for this new production run because it clearly knew the commercial product did not meet the patent claims.⁷ While finding a false marking violation, the district

Nautilus Group, Inc., 2006 WL 753002, *5-*7 (D. Utah March 23, 2006); *Sadler-Cisar, Inc. v. Commercial Sales Network, Inc.*, 786 F. Supp. 1287, 1296 (N.D. Ohio 1991); *Hoyt v. Computing Scale Co.*, 96 F. 250 (S.D. Ohio 1899); see also *Bibow v. Am. Saw & Mfg. Co.*, 490 F. Supp. 2d 128, 129 n.1 (D. Mass. June 11, 2007) (“Plaintiff’s claim for \$200 million in damages seems to be anchored on his calculation of the number of times Defendants’ erroneous press release, or reports including the press release, might have been seen in some medium, such as an internet website. It is doubtful that the statute ever intended to create such a lucrative game of ‘gotcha!’”). But see *Enforcer Products, Inc. v. Birdsong*, 98 F.3d 1359 (Table), 40 USPQ2d 1958, 1959 n.1 (Fed. Cir. 1996) (*nonprecedential*) (noting, but not discussing whether it was correct, the district court’s assessing, pursuant to 35 U.S.C. § 292, “a \$ 50 fine for each flea trap product or product packaging of appellants falsely marked with U.S. Patent No. 5,142,815”). See also, APD § 34:102 Penalties for Violation.

⁷ The district court held, and the Federal Circuit affirmed, that there was no false marking for the earlier made products since the patentee “genuinely believed” its products were covered by its patent at the time of the marking. *Id.* at 7.

court held that there was only one continuous offense, and therefore assessed the total penalty at \$500.⁸

On appeal the Federal Circuit vacated the penalty award because the district court erred in ruling there was only one “offense” of false marking. Applying a *de novo* review of the district court’s construction of the statute, the Federal Circuit held that the text of “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. slip opn.* at 8. The court also noted that “[u]nder the current statute, district courts have the discretion to assess the per article fine at any amount up to \$500 per article.” Indeed, the court explicitly instructed that “[i]n 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.” *Id.* at 9. In view of this sliding scale approach to the amount of the penalty, the Federal Circuit noted that district courts have “the discretion to strike a balance between encouraging enforcement of an important public policy [*i.e.*, ensuring that acts of false marking do not stifle competition or innovation] and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.” *Id.* at 13.

In reaching its holding, the Federal Circuit rejected the patentee’s arguments that the per-article standard should not be adopted because it “would encourage ‘a new cottage industry’ of false marking litigation by plaintiffs who have not suffered any direct harm.” *Id.* at 12.⁹ Although acknowledging that “an *amicus* brief was filed in th[e] case by an individual who created a holding company to bring *qui tam* actions in false marking cases,” the Federal Circuit noted that “[r]ather than discourag[ing] such activities, the false marking statute explicitly permits *qui tam* actions.” *Id.* at 12-13. The court further justified its per-article

⁸ *Forest Gp., Inc. v. Bon Tool Co.*, No. H-05-4127, 2008 WL 2962206, *6 (S.D. Tex. July 29, 2008), *adhered to on subsequent proceedings*, 2008 WL 4376346, *3 (S.D. Tex. Sept. 22, 2008).

⁹ Some courts have noted that plaintiffs asserting false marking claims must demonstrate an injury-in-fact to the government to have standing to assert a claim. *Stauffer v. Brooks Bros., Inc.*, 2009 WL 1357954, *3-*6 (S.D.N.Y. May 14, 2009). See also APD § 34:103 Anyone can Assert Violation (discussing *Stauffer* and other cases limiting recovery for *qui tam* suits). If accepted by other courts, this “injury-in-fact” standard may limit the ability to assert some false marking claims.

standard by noting that “[p]enalizing false marking on a per decision basis would not provide sufficient financial motivation for plaintiffs—who would share in the penalty—to bring suit.” *Id.* at 13.

Forest Group gives a green light to opportunistic plaintiffs to assert false marking claims when they believe they can show deceptive intent or, more likely, where they believe they can at least articulate a basis to plead a claim that passes muster under Rule 11 and can survive a Rule 12(b)(6) motion to dismiss.¹⁰ The per-article standard may give hope to these plaintiffs of a big payday (albeit one they must share with the federal government) if the defendant has mass produced the alleged falsely marked product.¹¹ It may also prompt more accused infringers to assert false marking claims as a routine counterclaim to an infringement suit where the patentee markets a product allegedly covered by the asserted patent.

Forest Group makes clear that district courts have discretion in setting the rate of the penalty. However, other than stating that a district court should “strike a balance between encouraging enforcement of an

¹⁰ The Federal Circuit has yet to address whether a false marking claim, with its requirement that the false marking be done with “the purpose of deceiving the public,” should be subject to the heightened pleading requirements of Rule 9(b), in the same way that inequitable conduct, with its requirement to show an intent to deceive the PTO, must meet the Rule 9(b) standards. See *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1344 (Fed. Cir. 2003) (“inequitable conduct, while a broader concept than fraud, must be pled with particularity.”). Some district courts considering the issue have held that Rule 9(b) does not apply to pleading § 292 claims. E.g. *Astec America, Inc. v. Power-One, Inc.*, 2008 WL 1734833, *9 & *12 (E.D. Tex. April 11, 2008); see also APD § 39:21 [Pleading] False Patent Marking Claims under § 292. Applying Rule 9(b) to false marking claims, and borrowing the pleading standards regarding deceptive intent for inequitable conduct set forth in *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1329-31 (Fed. Cir. 2009), might help deter frivolous and opportunistic false marking claims.

¹¹ The case law has yet to address whether a patentee who obligates its licensees to mark products under a patent license agreement can be held liable for false marking if the marked product is not actually covered by the product or if the marking obligations continued for an expired patent because a group of patents had been licensed and the license did not terminate until the last patent in the licensed group expired. With the new incentives to pursue false marking claims, it is only a matter of time before a patentee will be challenged on this basis.

important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities,” *Forest Group* does not provide any practical framework to guide district courts in setting the amount of the penalty. One court may determine that a penalty of one cent per article on one million falsely marked products is proper, while a second court, on the same facts, could find that one dollar is the proper rate, thereby imposing a penalty 100 times larger than the first court. Given the uncertainty in how district courts will set the penalty rate, plaintiffs may feel that they effectively have a chance to spin a “false marking” roulette wheel and may eagerly do so by filing questionable suits. Plaintiffs may also prey on the uncertainty defendants will face in assessing the possible financial magnitude of a penalty as a means to intimidate or harass defendants into settlements.

In addition to leaving open the question of how to set the per article penalty, the standard in *Forest Group* fails to address how the penalty should be assessed if the act of false marking does not involve a product that is falsely marked, but only involves an advertisement that falsely identifies the advertised product as being patented.¹² In that scenario should the court assess the penalty on each piece of advertising distributed or broadcasted to the public, on each unmarked product allegedly sold as a result of the improper advertising, on the number of people who saw the advertisement, or some other basis? What happens if the advertising is posted on a website: does the posting count as a single advertisement, or does each click on the webpage count as its own punishable act of false marking? Courts in other legal contexts have followed a “single publication” rule for such web-based claims. But the “single publication” rule appears similar to the continuous marking rule the Federal Circuit rejected in *Forest Group*.¹³ These and other questions will surely arise in the near future.

¹² Section 292(a), in part, provides a person commits false marking if he “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...”

¹³ *Nationwide Bi-Weekly Admin., Inc. v. Belo Corp.*, 512 F.3d 137, 143-46 (5th Cir. 2007) (in the context of libel claims based on internet postings, applying a “single publication” rule to measure the statute of limitations as running from the first date of posting, and refusing to treat each individual hit as a new cause of action for purposes of

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Forest Group does not change the substantive aspects of proving a false marking violation. But it likely changes the financial incentives for bringing false marking claims such that plaintiffs and accused infringers will assert these claims more often in litigation. Accordingly, those who counsel clients on patent matters should become intimately familiar with § 292, and be ready to advise their clients on how to avoid violating § 292 while complying with any duty the client may have to mark under § 287(a) or having their licensees mark.¹⁴

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the statute of limitations) (collecting cases applying single publication rule to internet postings). *Cf. Vantage Trailers, Inc. v. Beall Corp.*, 2008 WL 4746288, *2 (S.D. Tex. Oct. 27, 2008) (denying defendant's Rule 12(b)(6) motion to dismiss plaintiff's false patent marking claim, where plaintiff pled that defendant falsely marked its website and that "each hit" of the website constituted a separate offense of false marking, the defendant challenging the "each hit" contention as being legally flawed, the court ruling that the "each hit" contention went to the amount of the penalty but not whether the plaintiff properly stated a claim of false marking).

¹⁴ See generally, APD § 30:141 Duty to Mark Product with Patent Number Under 35 U.S.C. § 287.

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