

## Federal Circuit Raises Stakes In False Patent Marking Cases

The economic downturn has led to a surge of actions for false patent marking. These lawsuits are largely brought by patent attorneys, either on their own behalf or on behalf of holding companies they form, to collect a bounty from patent owners on products with allegedly false patent markings.

The Federal Circuit further incentivized and raised the stakes in such cases in its recent decision in *Forest Group v. Bon Tool Co.*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009), in which it held that the statutory penalty for false marking — up to \$500 — is assessed on each article that is falsely marked, thereby creating the potential for astronomical liability.

The false marking statute has been in existence for more than 100 years but, until recently, lay largely dormant. The statute permits "any person" to sue for false marking and provides up to a \$500 bounty for "each such offense." 35 U.S.C. § 292. There had been considerable debate as to whether this language referred to each decision to include a false patent marking, or to each item on which the marking was affixed. Patent owners argued the former, largely capping their liability at \$500. The "marking trolls" and competitors suing for false marking invariably argued the latter, and sought \$500 for each product falsely marked.

District courts had largely sided with the patent owners, ruling that an "offense" under the statute is the decision to falsely mark. This approach avoided the potential for inequitable results — disproportionate penalties in cases that involve inexpensive goods sold at significant volume. Last week, the Federal Circuit reversed course in *Forest*.

Unlike the recent spate of lawyer-driven litigation, *Forest* was a case between two competitors in which the defendant, Bon Tool, raised false marking as a counterclaim to a patent infringement suit. The district court found that Bon Tool did not infringe and that the patentee, Forest, engaged in false marking. It assessed a penalty of \$500 based on a single decision by Forest to falsely mark its products. Bon Tool argued, and the Federal Circuit agreed, that the statute should be construed to require a penalty imposed on a per-article basis.

According to the Court, a penalty of \$500 per decision to falsely mark would not act as a deterrent and would render the statute ineffective. The Federal Circuit left it to the district courts to find a balance between deterring false marking and imposing disproportionately large penalties. Its only guidance was to state that, for inexpensive goods produced in large quantities (i.e., the types of goods typically at issue in the lawyer-driven false marking cases), district courts have the discretion to determine that a fraction of a penny per product is an appropriate penalty.

Following *Forest*, two things are clear: (1) the statutory penalty is to be calculated on a per-article, not a per-decision, basis; and (2) district courts have wide discretion to impose a penalty of as little as a fraction of a penny, or as much as \$500, per falsely marked article. Patent owners should take note of the increased stakes in such cases and pay careful attention to the patent markings on their products. ♦

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