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Deputizing Patent Marking Bounty Hunters

Law360, New York (January 08, 2010) -- As if there were not enough parties trolling through the patent world looking for infringers, the Federal Circuit gave a big Christmas present to parties searching for companies who have intentionally marked their products with a patent number the product is not entitled to. Under this decision, their reward could run into the millions.

A relatively obscure patent statute, 35 U.S.C. § 292, provides that, where a party marks an unpatented article with a patent number with the intent to deceive the public, “any person” may sue that party to recover a statutory penalty of \$500 for “each such offence.” Known as a “qui tam” action, a successful plaintiff must split his recovery with the United States government.

This statute, dating back to the late 1800s was rarely used, since, for the last century, it was understood that an “offense” was committed when the defendant produced a new model — not every time it sold a product.

On Dec. 28, this all changed and this statute became a whole lot less obscure when the Federal Circuit issued its decision in *Forest Group v. Bon Tool Company*, which started out as a garden variety patent infringement case.

Forest Group owned the ‘515 patent, which covered an improved spring-loaded stilt of the type used in construction and sued Bon Tool for infringement; Bon Tool counterclaimed for a declaratory judgment of invalidity and for false patent marking.

In August 2007, Bon Tool successfully moved for summary judgment of noninfringement and the court then held a bench trial on its false patent marking counterclaims.

The court found that since in another case brought by Forest Group, the court had made a noninfringement summary judgment ruling which made it clear that Forest’s own product was not covered by the ‘515 patent.

The fact that Forest subsequently placed an order with its supplier for this same product — marked with the '515 patent number — showed to the court's satisfaction that Forest had falsely marked its products with the intent to deceive the public.

Since Forest was held to violate the statute, the only really important issue was the amount of the penalty. Was it to be \$500 for each "decision to mark," as the district court determined? Or was it to be \$500 for each sale of an improperly marked article, as Bon Tool requested?

The Federal Circuit examined the long history of the statute, going back to the 1870 Patent Act (which imposed a \$100 penalty) through the 1952 Patent Act, which raised the penalty to \$500.

It looked at every possible rationale the courts have used to impose penalties under this statute over the years. It looked at the public policy of the statute. And came to a decision which will empower a new category of trolls — the bounty hunter.

The Federal Circuit noted that, as early as 1910, the First Circuit had decided that "continuous" false marking under the statute would constitute only one offense on the grounds that "it can hardly have been the intent of Congress that penalties should accumulate as fast as a printing press or stamping machine might operate."

This rationale had been applied, the court noted, by a number of district courts since.

Other district courts, the Federal Circuit noted, had imposed what the court called a "creative" time-based approach, imposing a penalty per week or per day.

All of these approaches, however, are contrary to the "plain language" of the statute, the Federal Circuit held, which "clearly requires a per article fine."

This per article approach, the court contended, was supported by good public policy. The false marking statute was intended to give the public notice of patent rights — false marking "deters innovation and stifles competition in the marketplace by deterring potential competitors from entering the market."

The court's rationale for applying the penalty to every article was that the more articles that are falsely marked the greater the chance that competitors will see the falsely marked articles and be deterred from competing.

Applying a \$500 fine for continuous marking would not, according to the court, accomplish this public purpose.

The court recognized the monster it may have created, noting that this decision would create a new "cottage industry" of false marking "trolls" since, under the statute, anybody can bring a false marking claim, whether they have suffered any damages or not.

The court's only response was to note, in the face of 100 years of contrary precedent, that "this is what the clear language of the statute allows."

The court's only solution for the problems this new "industry" will cause was to note that the statute does not require that the full \$500 be imposed per article, but that a court might well impose a penalty of a fraction of a penalty.

Cold comfort, obviously, to a target of such bounty hunter litigation who is faced with a threat of a verdict in the hundreds of millions and who will legitimately feel itself extorted into an excessive settlement.

So what can patent owners do in the face of this ruling? The only real solution is to be vigilant — watch closely for expiring patents and make sure that patent numbers are removed immediately.

Watch for ambiguous rulings in patent cases you bring which, like this case, may result in a later determination that you "knew" that your product was not covered by a valid patent and that you "must have" intended to deceive the public.

For the new bounty hunters, looking to be the Boba Fett of the patent world — the only suggestion is "good hunting."

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