

Federal Circuit Construes Section 292 to Impose Per Article Fine

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On December 28, 2009, the U.S. Court of Appeals for the Federal Circuit, in an opinion by Judge Moore (joined by Judges Rader and Plager), held that section 292 of the patent statute provides for a fine of up to \$500 per article that is falsely marked with a patent number. *Forest Group, Inc. v. Bon Tool Co.*, No. 2009-1044 (Fed. Cir. Dec. 28, 2009).

Relying on “the clear language of the statute,” legislative history, and “[p]olicy consideration,” the Federal Circuit rejected district court decisions that have interpreted section 292 as imposing a single fine of \$500 for each “offense” (i.e., each decision to mark a product with a patent number) without regard to how many articles were actually marked. *Forest Group*, slip op. at 8–12. Also rejected as not comporting with the “plain language of § 292” were “creative” district court decisions that have interpreted section 292 as imposing a time-based penalty (e.g., \$500 per day of false marking). *Id.* at 10–11. Because Congress intended to “encourage third parties to bring qui tam suits to enforce the statute” and the statute states only a maximum penalty per offense, the Federal Circuit dismissed concerns that applying section 292 “on a per article basis would encourage ‘a new cottage industry’ of false marking litigation” by “marking trolls.” *Id.* at 12.

Though the Federal Circuit emphasized that the district court has discretion to determine the appropriate per article penalty and may find that “a fraction of a penny per article is a proper penalty,” the Federal Circuit’s decision increases both the likelihood of patent marking litigation and a party’s potential liability for false marking. Companies placing patent numbers on products should review their patent marking procedures in light of this increased potential exposure. *Id.*

In-Depth Analysis

In December 2005, Forest Group, Inc. (Forest) sued Bon Tool Company (Bon Tool) in the U.S. District Court for the Southern District of Texas. Forest alleged that Bon Tool infringed U.S. Patent No. 5,645,515 (the ’515 patent), which claims an improved spring-loaded parallelogram stilt commonly used in construction. Bon Tool’s response included a counterclaim that Forest falsely marked its stilts with the ’515 patent number. The district court found that Forest had falsely marked its stilts with the ’515 patent number, but did not begin this practice until November 2007. Pursuant to section 292, the district court fined Forest “\$500 for a single decision to falsely mark.” *Id.* at 1. On appeal, Bon Tool argued that the district court improperly interpreted section 292 as providing “for a penalty based on each decision to mark rather than on a per article basis.” *Id.* at 5.

A section 292 false marking claim has two elements: “(1) marking an unpatented article and (2) intent to deceive the public.” *Id.* at 6. Where these two elements are satisfied, section 292 states that “[w]hoever marks . . . any unpatented article, . . . [s]hall be fined not more than \$500 for every such offense.” 35 U.S.C. § 292(a). The Federal Circuit held that “the statute’s plain language requires the penalty to be imposed on a per article basis.” Slip op. at 8. This interpretation furthers Congress’s objectives of encouraging accurate notice to the public of patent rights and discouraging false marking, which “deter[s] innovation and stifle[s] competition,” may undermine scientific research, and “cause[s] [or may cause] unnecessary investment in design around or costs incurred to analyze a patent’s validity or enforceability.” *Id.* at 11.

The Federal Circuit rejected Forest’s reliance on *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), and “a number of district courts [that have] followed London.” Slip op. at 9. *London* had interpreted the false marking language of the Patent Act of 1870, which imposed a minimum penalty of \$100 per offense. Reasoning that Congress did not intend inequitable penalties to “accumulate as fast as a printing press or stamping machine might operate” without regard to the value of the marked article, “[t]he London court therefore found that the continuous false marking of multiple articles should constitute a single offense subject to a distinct penalty.” *Id.* (quoting *London*, 179 F. at 508).

In the Patent Act of 1952, however, Congress amended the language considered in *London* to provide for a maximum penalty of \$500 rather than a minimum penalty of \$100 per offense. This affirmative change eliminated the *London* court’s rationale “[b]y allowing [for] a range of penalties” and providing “district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.” *Id.* at 13. Having found opinions such as *London* inapposite, there was no need for “creative attempts to reconcile the statute’s language with opinions such as London” by imposing time-based fines that do “not find support in the plain language of § 292.” *Id.* at 10–11.

The Federal Circuit also rejected Forest’s arguments that per article fines would spawn “false marking litigation by plaintiffs who have not suffered any direct harm” and by “‘marking trolls’ who bring litigation purely for personal gain.” *Id.* at 12. This not only “is what the clear language of the statute allows,” it is what Congress intended because its “interest in preventing false marking was so great that it enacted a statute which sought to encourage third parties to bring qui tam suits to enforce the statute.” *Id.* Congress sought to advance this goal by providing a “sufficient financial motivation for plaintiff—who would share in the penalty—to bring suit” and “incur the enormous expense of patent litigation.” *Id.* at 13.

The Federal Circuit’s decision increases both the likelihood of false marking litigation and the potential liability associated with a violation of section 292. To minimize this increased exposure, companies that mark their products should implement reasonable patent marking procedures. Because a successful section 292 claim requires proof of intent to deceive, companies should document the basis for their marking decisions. These rationales should be reviewed and updated if a court or the PTO issues a decision regarding a patent identified on a product. Maintenance fee decisions regarding patents identified on products should be made sufficiently in advance of the payment deadline, to allow marking to be removed if a decision is made not to pay the fee. Similarly, steps should be in place to ensure that patent markings are removed when the patent expires. Finally, more robust procedures to monitor competitors’ patent marking practices may be warranted.

