



Opening the floodgates

THE CASE:

Forest Group, Inc. v Bon Tool Co
US Court of Appeals for the
Federal Circuit
28 December 2009

Jones Day lawyers **Kenneth R. Adamo, David M. Maiorana, Susan M. Gerber and John C. Evans** analyse a case that is likely to cause a new wave of suits by "marking trolls"

Section 292 is a provision of the US patent laws that prohibits intentional false marking of patent numbers on unpatented products. If a party marks an "unpatented" article with a patent number, and such marking was "for the purpose of deceiving the public", the party is liable for a fine of "not more than \$500 for every such offense." The statute also permits anyone to "sue for the penalty," although half of any recovery must be given to the US government.

For the last century, courts declined to assess these penalties on a per-article basis, holding instead that a per-marking-decision or periodic basis was more appropriate. But on 28 December 2009, the US Court of Appeals for the Federal Circuit (the Federal Circuit) decided *Forest Group, Inc. v Bon Tool Co.*, which pronounced that the fine for "every such offense" would now be measured on a per-article basis. In so doing, the court inspired a new wave of "marking troll" litigation. Since that decision, the number of false marking suits has grown exponentially, and this trend will likely continue.

Marking under the Patent Act

To understand "false marking", one must consider why products are marked with patent numbers. Section 287(a) of the US patent laws permits patentees and authorised sellers to mark by fixing upon them (or on labels) the word "patent" and the patent number¹.

Section 287 creates powerful incentives to mark. If a patentee selling a covered product fails to mark, "no damages shall be recovered" unless the patentee provides actual notice by making a specific charge of infringement or by filing an infringement suit². These alternatives have significant drawbacks. Infringement may go unnoticed for long periods, but even if a patentee knows of the infringement, sending actual notice puts the patentee at risk that the infringer will sue for declaratory judgment³.

The patentee could also give notice by filing an infringement suit, but litigation is not always a preferable first option. Marking protects patent rights without creating litigation risks or initiating actual litigation.

False marking under the Patent Act

Congress enacted Section 292 in 1952. The new statute changed the earlier false marking laws by, *inter alia*, replacing the \$100 minimum fine per "offense" with a \$500 maximum fine

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per "offense". Yet neither Section 292 nor its predecessors instructed how to calculate this penalty or defined what constituted an "offense".

While false marking plaintiffs urged a per-article basis for assessing fines, pre-Federal Circuit courts consistently rejected that argument. Indeed, *London v Everett H. Dunbar Corp.* found it unlikely that Congress intended a per-article basis for false-marking fines; "Though the marking of each article makes a distinct instrument for the publication of a false statement, this cannot be a proper ground for multiplying penalties. [...] It can hardly have been the intent of Congress that penalties should accumulate as fast as a printing press or stamping machine might operate."⁴

After Section 292 was enacted, courts followed *London's* lead in rejecting a per-

article basis for fines, although they did not settle on a uniform standard. One line of cases held that fines should be based on the number of distinct marking decisions⁵. Another line of cases held that fines should accrue on a periodic basis⁶.

The Federal Circuit's prior decisions

Before *Forest Group*, the Federal Circuit had not addressed the issue of fines for false marking, and indeed, the court had addressed Section 292 in depth in only two published decisions. The first, *Arcadia Machine & Tool Inc. v Sturm, Ruger & Co., Inc.*, affirmed a finding of no liability for false marking because the marking statement included conditional language that, "[o]ne or more of the following US Patents ..." and at least one marked patent covered the marked articles⁷. The court found no liability because the markings were "inadvertent, the result of oversight, or caused by patent expirations," and there was no affirmative evidence of deceptive intent⁸.

The Federal Circuit did not revisit Section 292 again for almost 20 years. In *Clontech Laboratories, Inc. v Invitrogen Corp.*, the defendant marked its articles with patents alleged not to cover the articles. Ignoring the "one or more" rule in *Arcadia*, the court pronounced a new rule: "When the statute refers to an 'unpatented article[.]' [it] means that the article in question is not covered by at least one claim of each patent with which the article is marked."⁹ Applying its new rule, the court affirmed liability for one product and remanded for further fact finding of intent in marking the other products. The case settled shortly after remand.

The Federal Circuit's decision in *Forest Group*

Four years after *Clontech*, the Federal Circuit considered false marking again in *Forest Group, Inc. v Bon Tool Co.*¹⁰ There, the

false marking claims arose as a counterclaim to patent infringement in a suit between competitors. The district court found false marking because the patentee continued to mark long after it had notice that the marked patent's claims did not cover its products; specifically, the patentee received two adverse claim constructions from two different courts (resulting in two summary judgments of non-infringement) and had multiple opinions of counsel cautioning against continued marking¹¹. The court held that the patentee did not have a good faith belief that its marking was proper. Applying the rationale in *London*, the court found one marking decision and awarded a \$500 fine¹².

The Federal Circuit affirmed the intent findings, but vacated and remanded for recalculation of the fine¹³. The court held that the language of the statute did not support a \$500 penalty for a decision to mark multiple articles, but rather required fines on a per-article basis¹⁴.

The court distinguished *London* because under the then-current regime of mandatory minimum fines, per-article penalties would have led to disproportionate fines. It further found that a per-decision basis for assessing penalties would be ineffective and not deter false marking.

The court invoked broader policy considerations to support its construction, reasoning that false marking "deter[s] innovation and stifle[s] competition in the marketplace," and pointing to a number of potential effects:

- dissuading competitors from entering the same market;
- deterring scientific research; and
- causing unnecessary investment in designing around and analysing patents¹⁵.

Building on these possibilities, the court said that "[t]hese injuries occur each time an article is falsely marked.¹⁶" Further, the court rationalised that where more articles are falsely marked, there is a "greater ... chance that competitors will see the falsely marked article and be deterred from competing.¹⁷" The court concluded that its per-article interpretation was "consonant with the purpose behind marking and false marking.¹⁸"

The defendant protested that a per-article construction "would encourage 'a new cottage industry' of false-marking litigation by plaintiffs who have not suffered any direct harm". While the court noted the surge in actions brought by "marking trolls" who bring litigation purely for personal gain,¹⁹ it dismissed the concern because such suits are permitted by the statute and because awarding only a \$500 fine (half of which would be turned over to the government) would give plaintiffs little incentive to file suit¹⁹.

The court did, however, recognise that disproportionate fines should be prohibited. Mirroring the concerns expressed in *London*, it instructed that while the statute provides a *maximum* fine of \$500, it does not require courts to award \$500 per article, and indeed, "[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.²⁰" With that, the court remanded to the district court to determine a proper penalty, based on each article falsely marked.

What *Forest Group* means going forward

Forest Group's immediate impact is clear: With the prospect of recovering a fine for each falsely marked article, actions for false marking are becoming a hot new US litigation trend. Since *Forest Group*, the number of actions filed is growing exponentially²¹. While *Forest Group* apparently resolved the method for calculating fines under Section 292, many important questions remain unanswered.

Consider:

What is a "proper" penalty? No one knows. The court did not give much, if any, guidance for calculating a proper penalty or what factors should be considered in the analysis.

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What is the threshold for fraudulent intent under Section 292? To be determined. This remains unresolved, as the Federal Circuit expressly declined to decide this issue. By its terms, Section 292 requires a finding of specific intent: "for the purpose of deceiving the public".

Yet the Federal Circuit's treatment of intent is conflicting. *Arcadia* held that inadvertence, oversight, or the expiration of patents is insufficient to establish intent. *Clontech* declined to read the statute as one of strict liability and fashioned an intent standard sounding in negligence: "objective standards' control" and "did not have a reasonable belief". But *Forest Group* found no fault in relying on *subjective* factors, such as the patentee's

genuine belief, the prosecuting attorney's access to the "patented" products during prosecution, the patentee and inventor's lack of "strong academic backgrounds" or "in-depth appreciation of patent law", and patentee's status as a non-native English speaker.

Hopefully, these conflicts will be resolved by the Federal Circuit. In *Pequignot v Solo Cup Co*, the district court found that there was a weak rebuttable presumption of intent because the marked patents had expired²². That presumption was overcome by evidence negating intent, in that case the advice of counsel, and the district court granted summary judgment of no liability. The *Solo Cup* appeal was scheduled for oral argument on 6 April 2010.

How are defendants fighting back against the "marking trolls"?

Defendants have successfully challenged the pleadings in "marking troll" suits. False marking allegations have been dismissed because of insufficient factual pleadings under Rules 8, 9(b) and 12(b)(6) and lack of Article III standing under Rule 12(b)(1). Another theory, challenging Section 292

under Article II of the Constitution, has met stiffer resistance from litigants and the US Department of Justice (intervening to defend Section 292's constitutionality). To date, no Article II challenges have been successful.

Will the Federal Circuit reconcile the policies behind Section 287 and Section 292?

Hopefully, yes. Section 287 provides strong incentives to mark and imposes consequences on practicing patentees that don't mark. Patentees now face a triple tension between the consequences of failing to mark (the inability to recover damages for past infringement if practicing the patent), the disadvantages of trying to protect their patent rights via actual notice (the choice between litigation

as a first-option and declaratory judgment retaliation), and the potential penalties if found to have intentionally falsely marked (a per-article fine).

Is the Federal Circuit's justification in Forest Group grounded in fact? Maybe not. The court recited a number of potential harms from false marking, but do they survive real-world scrutiny?

First, how do inventors and competitors respond to patent markings? Isn't it likely that a party sophisticated enough to obtain a patent and mark it on its products is competing with parties of at least equal sophistication? Such competitors would not likely be deceived by such marking, much less deterred and, in any event, are well equipped to analyse the patent (which they probably would have done even without the marking), including the easy-to-determine question of whether it is still in term.

Second, what impact do patent markings really have on individuals? Probably none. Markings usually appear in fine print in obscure locations on products – far removed from the bright colours and attractive packaging designed to attract consumers' attention.

Third, is there any factual support for the claim that false marking is really a problem that needs to be fixed? The Federal Circuit described a parade of horrors, but did not identify a single, real-world, concrete example where any actually occurred.

Fourth, as the oft-cited potential effects of false marking are couched in terms of "some day harms" when, if ever, is there a concrete and particularised injury sufficient to support Article III standing? In *Stauffer v Brooks Brothers, Inc.*, the Federal Circuit will consider this issue. There, the district court dismissed a complaint that alleged conclusory and speculative injuries to the public, to competitors, and to the US economy²³. The district court held that an injury based solely on an alleged violation of the laws, a so-called "sovereign interest," could not satisfy Article III standing requirements²⁴. As with the *Solo Cup* appeal, the *Stauffer* appeal is currently pending and fully briefed.

What's next? False marking no longer languishes in obscurity. Changes are coming fast, both in district courts and the Federal Circuit. Given the recent surge in false marking suits and the continuing lack of clarity in the law, this is a rapidly-evolving area that bears close attention.

Footnotes

1. 35 U.S.C. § 287(a).
2. *Id.*
3. See, e.g., *Hewlett-Packard Co. v Acceleron LLC*, 587 F.3d 1358, 1364 (Fed. Cir. 2009).
4. 179 F. 506, 508 (1st Cir. 1910) (interpreting a predecessor of Section 292).
5. See, e.g., *Mainland Indus., Inc. v Standal's Patents Ltd.*, 229 U.S.P.Q. 43 (D. Or. 1985), *aff'd*, 799 F.2d 746 (Fed. Cir. 1986) (when defendant removed misleading language from its advertising brochures, but put it back in later editions, district court imposed a fine for three separate "offenses").
6. In *Brose v Sears, Roebuck & Co.*, for example, the Fifth Circuit rejected a proposed per-article fine of "a tidy 17 1/2 million dollars," finding that calculating the penalty on a periodic basis would prevent an unjustified windfall. 455 F.2d 763, 766 n.4 (5th Cir. 1972).
7. 786 F.2d 1124, 1125 (Fed. Cir. 1986) (Rich, J.).
8. *Id.*
9. 406 F.3d 1347, 1352 (Fed. Cir. 2005) (emphasis added).
10. 590 F.3d 1295 (Fed. Cir. 2009).
11. No H-05-4127, 2008 U.S. Dist. LEXIS 57134, at *13-*14 (S.D. Tex. July 29, 2008).
12. *Id.* at *22.
13. 590 F.3d 1295, 1301 (Fed. Cir. 2009).
14. *Id.* at 1301.
15. *Id.* at 1302-03 (citation omitted).
16. *Id.*
17. *Id.* (citation omitted).
18. *Id.*
19. *Id.*
20. *Id.*
21. See Justin E. Gray, "Patent Marking Police" Out in Full Force, available at <http://www.grayonclaims.com/home/2010/2/17/patent-marking-police-out-in-full-force.html> (Feb. 17, 2010) (last visited Feb. 25, 2010).
22. 646 F. Supp. 2d 790 (E.D. Va. 2009).
23. 615 F. Supp. 2d 248, 254-55 (S.D.N.Y. 2009).
24. *Id.* at 254 n.5.



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