

Patent False Marking Litigation – A new kind of Patent Troll emerges



By: Alan B. Parker

Patent marking refers to the patent numbers commonly inscribed on products or printed on product packages or labels. Proper patent marking can be an important part of protecting against infringement. But once a patent expires, an application is finally rejected, or a patent is declared invalid, those references can amount to “false marking.” A recent case has caused a proliferation of false marking cases, and greatly increased the probable damage award in such cases.

False marking is the use of words on or affixed to an article, or used in advertising in connection with an article, which falsely indicates that the article is patented or that a patent application is pending. If the false marking is shown to be for the purpose of deceiving the public, the false marking statute, 35 U.S.C. § 292, provides a fine of “not more than \$500 for every such offense.” Until recently, courts typically imposed a single fine for the mismarking of whole series of articles, even when the production run or advertising campaign encompassed many thousands of individual units. This interpretation minimized the fine and, predictably, few lawsuits were filed under the false marking statute. Manufacturers that failed to retool the production line to remove the patent marking ran only a remote risk of incurring a nominal fine.

However, in *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed.Cir. 2009), the Federal Circuit revitalized the false marking statute by requiring that district courts impose penalties for each mismarked article. For mass-produced articles such a fine could be staggering. While the case explicitly stated that “this does not mean that a court must fine those guilty of false marking \$500 per article marked,” the Circuit clearly intends to energize enforcement of the statute and encourage private litigants to sue for false marking. The Court observed that financial motivation to litigate is intrinsic to the statute, and clearly implies that district courts should impose false marking fines in an amount sufficient to incentivize private enforcement. On remand the district court assessed the fine at the highest point of the mismarked product’s price range – more than depriving the manufacturer of the revenues for the product and fulfilling the deterrent goal of § 292’s fine provisions.

The false marking statute is one of the few provisions in federal law that allows a private litigant to sue on behalf of the government to further a public interest. Any recovery of the statutory fine is split between the private litigant and the United States. Virtually anyone can bring suit; the plaintiff needs not be injured by the wrongful conduct. This is in stark contrast to ordinary cases that compensate a litigant for damages sustained, or disgorge benefits wrongfully conferred upon a party.

Of course, one danger of such actions is that they are subject to abuse. A cottage industry has emerged to identify products bearing marks of expired patents, invalid or unenforceable patents, rejected patent applications, or patents that do not cover the specific product. Prior to the *Bon Tool* decision, fewer than ten false marking cases were usually filed annually and the claims tended to be ancillary to patent infringement disputes, not stand-alone cases. In the four months since *Bon Tool* was decided almost 250 false marking cases have been filed. The typical plaintiffs are entities that have been formed for the sole purpose of collecting false marking fines. Manufacturers, patent holders and licensors, and sellers of patented and patent-pending goods and services – as well as their insurers and advisors – should be aware of this growing exposure.

As a practical matter, the *Bon Tool* decision highlights the importance of proper intellectual property management. The failure to recognize, protect, register and record intellectual property is an obvious risk. But once established, IP rights must also be carefully tracked and maintained to avoid loss of ownership, or liability for abuse of those rights. Entities that manufacture or sell patented or patent-pending goods or services should ensure that their patent marking is compliant, and that such marking is removed when patent protection terminates.

For a copy of the opinion or to discuss the impact on the business strategy of your company, contact a member of our Intellectual Property, Internet and Technology practice group.

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