VENABLE LLP

IP alert

www.Venable.com
JANUARY 2010

Federal Circuit Decision Greatly Increases Potential Fines for False Patent Marking

Please contact any of the attorneys in our Intellectual Property Group if you have any questions regarding this IP Alert.

AUTHORS:

Clifton McCann
cemccann@Venable.com
202.344.8162

Rae Fischer
rfischer@Venable.com
202.344.4495

Claiming that a product is patented when it is not has suddenly become very risky, and potentially very expensive, for many manufacturers, sellers and advertisers. On December 28th, the U.S. Court of Appeals for the Federal Circuit decided *Forest Group v. Bon Tool Company*. The decision gives a district court the ability to impose a fine for false patent marking of up to $500 for each individual item that is mismarked.

Patent marking is one way to give legal notice of patent protection, and legal notice in turn can be essential in recovering damages for infringement. Patent marking can consist of affixing the word "patent" (or "pat.") and the patent number to the product, or where necessary, affixing a label with such marking to the product or its packaging. Without marking, a patentee can not recover damages unless it can prove that the infringer was actually notified of the infringement, such as by sending the infringer a cease and desist letter. In that case, however, the patentee is only entitled to recover damages for any infringement occurring *after* the actual notice was given.

False patent marking can be committed by anyone, not just a patentee. False patent marking occurs when, with an intent to deceive the public, someone more generally marks an article, package or advertisement with words or numbers that falsely indicate that the item sold or advertised was subject to patent protection or was the subject of a pending patent application. Courts have held that mere use of the word “patented” on a product that is only patented outside the United States does not constitute false marking. But incorrect patent marking is generally subject to penalties where an intent to deceive the public is shown. False marking may in some cases also give rise to unfair competition claims under the federal Lanham Act.

Historically, courts have almost uniformly imposed only a single statutory fine from a fraction of a cent to $500 for each continuous false marking, regardless of how many mismarked items resulted from the marking. For example, they have applied a fine of up to $500 for each run or shipment of falsely marked products, or a fine of up to $500 for each day the mismarked products were produced. In *Forest*, however, the Federal Circuit concluded for the first time that the false marking statute requires that the fine be assessed for *each* incidence of false marking of *every single article* – thus, a fine from a fraction of a cent to $500 can, at the court's discretion, be multiplied by the sometimes vast numbers of individual products that are distributed with false patent markings.

Forest leaves questions as to exactly how much of a fine should be imposed for each mismarked product, but two things are clear. First, the total fine is no longer limited to $500 times the number of runs, shipments, days of production, or the like. Where, for example, a million products are intentionally mismarked, the total fine could theoretically be $500 million. The Federal Circuit explained that the application of fines on a per article basis will give courts the needed discretion to achieve equity and the desired deterrent effect, and it can be expected that most courts will reasonably assess total fines. But the possibility of considerably increased monetary penalties dramatically increases the risks for those who falsely mark.

Of additional concern to those who falsely mark is that the false marking statute allows any person to bring suit for false marking, as a kind of whistle-blower, and receive half of the fines assessed (with the balance going to the federal government). There has been a concern that potentially high fines could encourage "troll"-like behavior and spawn an undesirable cottage industry. But the Federal Circuit reasoned that the statute was designed to enlist the public to prevent false marking, and a per-product fine will help achieve that goal. In one of the first false marking lawsuits to be filed on behalf of the public after the *Forest* decision, San Francisco Technology sued Adobe Systems, Inc., Brita Products, Delta Faucet Co., and others on December 30.

Practice Tips

The *Forest Group v. Bon Tool* decision makes it very important to apply patent markings with greater care. The following practice tips may help avoid large fines for a false marking claim:

1. Thoroughly document all findings and decisions regarding patent marking. This should include retention of correspondence, written capture of decisions and the rationale behind them, and memorialization of any evaluation of products relative to the patents at issue.

2. Conduct an audit of all articles, packages and advertising that, in any way, indicate protection by patent or patent application. This review should consider whether the designated patents are still valid and unexpired and whether the designated patent applications are still pending. In addition, evaluate

whether the articles still exhibit all of the elements necessary for them to be covered by the patent or application in question.

3. Immediately take steps to correct any marking errors that are already known or are uncovered in the audit, and advise licensees, distributors, advertisers, and vendors of such errors. Again, be certain to document fully all steps and retain any correspondence with business partners.

4. Institute a procedure for periodic audit and review of these articles, packages and advertising, with a program for remediation.

5. Change standard operating procedures to provide that every modification to an existing product, package or advertisement or release of a new product, package or advertisement initiates an evaluation for proper marking.

Venable invites you to contact us with any questions, comments or concerns you may have.

CALIFORNIA MARYLAND NEW YORK VIRGINIA WASHINGTON, DC

1.888.VENABLE | www.Venable.com