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How a Pair of Stilts Could Lead to an Explosion in Patent Litigation

I have this, well, silly habit of turning over every floor mat I walk over at retail establishments. Why? I was once employed by one of the world's largest manufacturers of such products and I always look to see if the mat has specific physical attributes on its underside that indicate not only the manufacturer but also if the mat is related to any patents I authored. Call it pride in my past work, if you will. However, with a recent appellate court decision,[1] I may start looking at most every product I pass—and not because of any personal interests. A potential gold mine may be lurking there, and I have no obligation to buy anything to lay claim to it.

Patent marking is a way of providing potential infringers with constructive notice of a patented (or patent pending) article, composition, or device. Congress determined that patent owners must provide sufficient notice to alleged infringers of a patent violation in order for damages to accrue.[2] Such notice would either be direct (such as with a cease-and-desist communication) or constructive in nature. Direct notice would require contact with each and every potential patent infringer—presumably a rather taxing requirement. Thus, the statute allows a commercializing patent owner the ability to provide a proper indication—either on the product or packaging surface or within advertising—of either the number of each of the patent owner's U.S. patents that encompasses the commercial product itself or the notation of "patent pending" (or its equivalent) if an application has been filed but not yet issued. (Marking on packaging is permitted if the product is not conducive to surface marking—as, for example, for a chemical composition.)

Congress realized, however, that with patent marking possibilities, there also exists the potential for abuse in such a situation. Certainly, if a competitor were potentially subject to a very expensive patent infringement suit, avoidance of such an outcome at the commercial level would be pragmatic. Therefore, Congress included a separate statute dedicated to preventing false patent marking as an exercise in unfair competition.[3] Through patent marking, the ability to thwart patent litigation up front exists, but only if the patent owner is not deceptive in its actions. Any intent by a commercializing patent owner to deceive through improper (or false) patent marking could constitute a qui tam action brought by any person—not only a competitor—as a means to protect the public from misuse of fraudulent patents. In addition, in each instance, the deceptive patent owner could be fined up to $500 for every offense, and the penalty would be paid to both the plaintiff in such an action and the United States, with the proceeds evenly divided. In other words, Congress saw the benefits of permitting patent marking for constructive notice reasons but protected the public by allowing any person the ability to monitor the actions of commercializing patent owners in terms of policing the proper usage of all patent marking possibilities. Thus, if a patent owner decides to mark any products in such a manner, it is imperative to exercise due care in using the correct patent information. If a patent application has not been filed, or if an issued patent is inapplicable to the specific product—either in terms of subject matter claimed or because of the expiration of the patent itself—then false marking may exist and the patent owner could be subject to undesirable consequences.

The result of a $500 maximum fine per offense for false patent marking has been adjudicated on numerous occasions, with judges interpreting the fine provision of the statute as meaning "per decision" rather than the much broader possibility of "per product."[4] With *Forest Group v. Bon Tool*, the Court of Appeals for the Federal Circuit has finally provided a definitive reading of the 58-year-old statute.

The *Forest Group* decision pertained to two co-inventors who had gone their separate ways after patenting walking stilts. Both inventors started separate companies (Forest Group being one) for stilt construction, one of which—Southland Supply Company—sold stilts to Bon Tool. Bon Tool later rescinded its purchasing arrangement with Southland and sought out a foreign supplier (ironically referred to as Shanghai Honest Tool Co. Ltd.), which manufactured replicas of Southland's stilts without any license with Forest Group, leading to the infringement suit. Bon Tool brought a counterclaim for false patent

marking because of one patent claim requirement (a "resiliently lined yoke") that was omitted from Forest Group's marked commercially available stilts. In the interim, another entity, Warner Manufacturing Company, brought a declaratory judgment action against Forest Group seeking adjudication of noninfringement because of the same omitted patent claim requirement (Warner Manufacturing's identical stilt construction did not include a resiliently lined yoke). In its declaratory judgment, the district court agreed with Warner Manufacturing, thus not only defeating any possible infringement suit for Forest Group against Warner but also creating the patent marking problem pointed out by Bon Tool in the contemporaneous suit. Basically, Forest Group marked its stilts with a patent number that included a claim requirement that was not reflected in the stilt construction of its commercialized product. Although it was apparent to the district judge that Forest Group had the necessary intent to deceive the public, particularly because of the result in the underlying Warner declaratory judgment litigation and the failure of Forest Group to subsequently alter its stilt construction—not to mention its failure to remove its patent marking from its commercialized stilts—Forest Group convinced the judge that the false marking statute meant that the decision to mark stilts, rather than each pair of stilts that was commercially available, should be considered in assessing any fine for false marking. The judge thus assessed the maximum fine of $500, leaving Bon Tool with a mere $250 in recovery damages (with the remainder going to the U.S. government, of course) for its counterclaim.

On appeal, as noted above, the Federal Circuit determined that congressional intentions in enacting the false marking statute were clearly on a "per product" basis, instead of the one employed at the lower court level. Although the court realized the potential for increased litigation on this very issue, it was clarified in the opinion that Congress had intended such a result in order to protect the public and competitors from unscrupulous actors in the marketplace. In addition, the fact that the fine that may be imposed in such a situation is "up to $500 per offense" and the availability of qui tam expressly by statute did not prevent the court from construing the statute in such a manner. The court remanded the case to the lower court for assessment of the proper fine level. Of course, the district judge may decide the "per product" amount should be much lower than the $500 maximum; therefore, Bon Tool may be celebrating yet another Pyrrhic victory.

In any event, however, the expansion of the term "per offense" in this statute gives rise at least to the potential genesis of patent marking actions (if not a new cottage industry) throughout the country, with, theoretically, any person looking at every available product on every shelf in every retail establishment for improper patent information. With some products numbering in the millions in the marketplace, the potential for significant fines does exist if patent marking is not handled properly. Admittedly, however, there is great uncertainty in terms of proving intent—for example, another appeal currently awaiting decision before the Court of Appeals for the Federal Circuit concerns the lower court's decision that failure to provide updated molds for marked products having expired patents was not considered an intentional deception due to financial constraints[5]—as well as the possibility that a district judge can levy any fine up to the $500 maximum (thus, the potential exists for fractions of a penny as a penalty per product). Even so, in all likelihood, any possible fines imposed in this manner are not factored into the overall costs of commercial products, and any findings of intent are generally left to the fact finder. The possibility of such cases going to trial, particularly without much guidance to district courts about levying fines at this point, presumably creates a great deal of uncertainty. As such, the old adage, "an ounce of prevention is worth a pound of cure," certainly rings true here. If an audit of a company's patents and related products was not standard in the past, it should be now.

Not that I own any myself, but I will never look at a pair of stilts in the same way again; actually, I will be focusing on patent marking information, no doubt, if any stilts come into view. After the Federal Circuit's decision in this case, I am certain many people will be looking more closely at more than stilts. They may be looking for a needle in a haystack, but that needle could be solid gold for someone out there if the needle seller does not do his diligent patent marking homework. **TFL**

Bill Parks is counsel with the law firm of Wyatt, Tarrant & Combs, LLP in their Memphis office. Bill is a former patent examiner with more than 19 years experience in the patent field, including 10 years as an in-house patent attorney. He is a member of the intellectual property service team and counsels in all aspects of patent, trademark, and copyright law.

Endnotes

[1]*The Forest Group Inc. v. Bon Tool Company*, 590 F.3d 1295 (Fed. Cir. 2009).

[2]35 U.S.C. § 287.

[3]35 U.S.C. § 292.

[4]*Undersea Breathing Sys. Inc. v. Nitrox Techs. Inc.*, 985 F. Supp. 752 (N.D. Ill. 1997); *Sadler-Cisar Inc. v. Commercial Sales Network Inc.*, 786 F. Supp. 1287 (N.D. Ohio 1991); *Joy Mfg. Co. v. CGM Valve 7 Gauge Co.*, 730 F. Supp. 1387 (S.D. Tex. 1989).

[5]*Peguignot v. Solo Cup*, 640 F. Supp. 2d 714 (E.D. Va. 2009).