

# Figuring the Fine for False Patent Marking: How Should a Court Determine the Amount?

By Sid Leach and Sean J. O'Hara

After decades out of the spotlight, there is renewed focus on the false patent marking statute, 35 U.S.C. § 292, which provides for a fine of “not more than \$500 for every such offense” and permits “any person” to sue for that fine and keep half of the fine, while the remainder goes to the federal government. In 2009, the Federal Circuit reversed a century of precedent and held that the fine must be imposed on a per-article basis, not on a per-“decision to falsely mark” basis. Prior to that decision, courts limited the amount of the fine by construing the term “offense” to apply to a decision to falsely mark, rather than to every sale of a falsely marked article. When patent markings applied to a large number of mass-produced goods are found to be false, the potential amount of the fine may be extraordinarily large if calculated at \$500 per article. The statute does not provide guidance on how a court should determine the amount of the fine. This article compares other statutory schemes in which courts are authorized to impose fines or damages without express guidance in the statute, and examines how the amounts are determined in those types of cases.

## Introduction

The false patent marking statute, 35 U.S.C. § 292, has enjoyed renewed prominence after decades out of the spotlight. Under the statute, whenever anyone marks an unpatented article with any word or number falsely indicating that the article is patented, for the purpose of deceiving the public, that person “[s]hall be fined not more than \$500 for every such offense.” In addition, “any person” may sue for that fine and is entitled to keep half of the fine, while the remainder goes to the federal government. Historically, courts limited the amount of the fine by construing the term “offense” to apply to a decision to falsely mark, rather than to every sale of a falsely marked article. In *Forrest Group, Inc. v. Bon Tool Co.*,<sup>1</sup> the Federal Circuit reversed a century of precedent and held that the fine must be imposed on a per-article basis, not on a per-“decision to falsely mark” basis. As a result of this decision, in some cases involving mass-produced goods, the defendants’ exposure suddenly escalated to millions of dollars.<sup>2</sup>

As a result of the *Forrest Group* decision, the number of false patent marking cases has exploded. In a recent decision in the Eastern District of Texas, the court noted that before the end of 2009, “filings of claims for false patent marking were relatively rare.”<sup>3</sup> After the *Forrest Group* decision, the filings of false patent marking cases in the same court “exploded” to

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over 100 filings in 2010.<sup>4</sup>

Although a showing of intent to deceive the public is required in order to impose liability, one commentator concluded that this “is not so great an obstacle as one might believe.”<sup>5</sup> Under current Federal Circuit law, “the combination of a false statement and knowledge that the statement was false creates a rebuttable presumption of intent to deceive the public, rather than irrebuttably proving such intent.”<sup>6</sup> And knowledge that the statement was false can be shown where there was a lack of “a reasonable belief that the articles were properly marked.”<sup>7</sup> However, the bar for proving deceptive intent under the false patent marking statute “is particularly high, given that the false patent marking statute is a criminal one, despite being punishable only with a civil fine.”<sup>8</sup> Because the statute requires that the defendant acted for the purpose of deceiving the public, “a purpose of deceit, rather than simply knowledge that a statement is false, is required.”<sup>9</sup> Mere knowledge that a marking is false is insufficient to prove intent if the defendant can prove that he “did not consciously desire the result that the public be deceived.”<sup>10</sup> “Intent to deceive, while subjective in nature, is established in law by objective criteria.”<sup>11</sup> It is measured by an objective standard, not a subjective one.

The recent change in how the statute is interpreted has swept aside prior statutory interpretations that effectively rendered any permissible fine de minimis. Now the question arises as to how a court is to determine the amount of the fine, if each article that is falsely marked constitutes a separate offense upon which a fine is to be imposed. As to the amount of the fine, the statute merely states that the fine shall be “not more than \$500” for every offense. Therefore, the statute sets an upper limit on the amount of the fine, but the amount of the fine can range anywhere from a fraction of a cent up to the maximum of \$500.<sup>12</sup> The statute contains no language to guide a court in determining the amount of the fine.

This article delves deeper into the appropriate factors that may be considered in determining the amount of the fine for false patent marking. Some guidance in how a court should determine the amount of the fine may be obtained from other cases in which courts have determined the amount of penalties or statutory damages where a statutory scheme provides for a maximum amount, but includes no language in the statute concerning how the amount is to be determined. In such cases, courts have been guided by the purpose of the applicable statute and congressional intent. Therefore, it is appropriate to start with a discussion of the purpose, and the legislative history, of the false patent marking statute.

## The History and Purpose of the False Patent Marking Statute

The first false patent marking statute was enacted in 1842.<sup>13</sup> The statute made it a finable offense to mark an unpatented

article as patented with the intent to deceive the public. The legislative history indicates that the statute was enacted to protect the rights of patentees.<sup>14</sup> Early decisions described false patent marking as “a species of counterfeiting.”<sup>15</sup> The view that falsely marked products were a species of counterfeiting may explain how the purpose of the statute could be viewed as protecting the rights of patentees. The protection of patentees may have been grounded in the notion that a patentee selling an article that truly was patented should be entitled to the privilege of marking the article as patented in order to favorably impress potential customers that the article had a greater value as compared to a competing product that was not patented. An article marked as patented was viewed as creating the impression that the article is in some respects more useful or desirable than articles not so marked, and that the public was likely to be deceived as to the character and value of the article offered for sale.<sup>16</sup>

One of the earliest cases interpreting the statute expressed the purpose of the statute as follows:

To guard the public right to use such articles as have not been patented—to prevent deception on the public, by assertions that articles, not entitled to this privilege, have been patented . . . [t]his being the purpose of the law. . . .<sup>17</sup>

The purpose of protecting the rights of patentees appears to have faded and eventually was rarely mentioned. Courts instead focused on the purpose of protecting the public against deception. This is understandable because the statute has always required proof that an article was falsely marked for the purpose of deceiving the public.<sup>18</sup>

The present false patent marking statute has changed little from the original statute enacted in 1842, except in one important respect. The amount of the fine has been changed. In the beginning, the statute included a provision setting a minimum fine of \$100, and contained no limitation on the maximum amount of the fine. Specifically, the 1842 Act provided that a person guilty of false patent marking “shall be liable for such offense, to a penalty of not less than one hundred dollars, with costs. . . .”<sup>19</sup>

The fact that a court was required to impose a fine of not less than \$100 for “such offense” may provide additional historical context to the early decisions interpreting the term “such offense” as the decision to mark, instead of the act of marking each article.<sup>20</sup> Otherwise, a court would have no discretion as to the minimum amount of the fine but would be forced to impose a fine of at least \$100 per article in every case. Since the original statute did not place a maximum amount on the fine, the early interpretations of the statute actually gave a court broad discretion in setting the amount of the fine because the net result was that the fine could be any amount above \$100 that the court deemed appropriate. But when Congress amended the statute to change the fine to an amount “not more than \$500 for every such offense,” the early decisions interpreting the term “such offense” in a manner that gave a court broad discretion in deciding the amount of the fine now had the opposite effect.

The Federal Circuit’s decision in *Forrest Group*<sup>21</sup> now places courts back in the position they were in under the 1842 Act, where they had broad discretion in setting the amount of the fine, up to a certain limit. Courts now have discretion to set a fine anywhere between a fraction of a cent and the full

\$500 per article. In exercising its discretion, a court should “strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties.”<sup>22</sup> The policies and purposes underlying the statute should guide a court in setting the amount of a fine at a level that will effectuate and achieve those policies and purposes.

### **Court Decisions on Determining Statutory Damages in Analogous Contexts**

In analogous cases, courts have held that a discretionary decision on setting the amount of damages within a statutory range should be guided by the policies and purposes of the statute.

For example, the determination of statutory damages for copyright infringement involves an analogous situation where a statute provides a range with a maximum amount, without any statutory language instructing a court on how to determine what amount within that range is appropriate in a given case. A copyright owner may elect to recover, instead of actual damages, an award of statutory damages “in a sum of not less than \$750 or more than \$30,000 as the court considers just.”<sup>23</sup> If the infringement was willful, “the court in its discretion may increase the award of statutory damages to a sum of not more than \$150,000.”<sup>24</sup>

Under the statutory damages provisions of the Copyright Act, a court has wide discretion in determining the amount of statutory damages to be awarded, constrained only by the specified maxima and minima.<sup>25</sup> Statutory damages under the Copyright Act are “designed to discourage wrongful conduct” and “to sanction and vindicate the statutory policy.”<sup>26</sup> In order to achieve the underlying policies and purposes of the Copyright Act, a court, in awarding statutory damages, “may take into account the attitude and conduct of the parties” and “should consider both the willfulness of the defendant’s conduct and the deterrent value of the sanction imposed.”<sup>27</sup>

The determination of statutory damages under the Anticybersquatting Consumer Protection Act provisions of the Lanham Act involves the interpretation of statutory language very similar to the provisions of the copyright statute discussed above. Under 15 U.S.C. § 1117(d), statutory damages are awarded “in the amount of not less than \$1,000 and not more than \$100,000 per domain name, as the court considers just.” Under the Lanham Act, statutory damages serve the purpose of deterrence and as a sanction against wrongful conduct.<sup>28</sup> In view of the underlying purpose that statutory damages serve as a sanction to deter wrongful conduct, a court’s discretion should be guided by a determination of what amount of statutory damages is necessary to achieve deterrence.<sup>29</sup> To this end, a court may consider the defendant’s prior conduct in other cases as an indication that the amount of statutory damages should be set higher in the permitted range in view of lack of deterrence demonstrated in other cases.<sup>30</sup> In general, a court may consider any “behavior by the defendant evidencing an attitude of contempt towards the court or the proceedings.”<sup>31</sup> Because one purpose of statutory damages is to serve as a sanction against wrongful conduct, it is appropriate to consider the egregiousness of the defendant’s conduct in setting the amount of statutory damages.<sup>32</sup>

As a remedy for trademark infringement, the Lanham Act allows a trademark owner to recover, subject to the principles of equity, the defendant’s profits and the plaintiff’s damages.<sup>33</sup>

In addition, the statute gives a court the discretion to award “any sum above the amount found as actual damages, not exceeding three times such amount.”<sup>34</sup> Moreover, if the court finds that “the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.”<sup>35</sup> The statute provides a court with discretion to increase or decrease the amount of profits awarded, and provides no other language on how to determine such an adjustment other than that the sum must constitute compensation and not a penalty.<sup>36</sup>

Courts examining the exercise of discretion under 15 U.S.C. § 1117(a) have held that the court’s award of profits must be guided by what remedy is required to effectuate the policies of the Lanham Act.<sup>37</sup> Thus, where there is willful trademark infringement but no competition between the parties and no diversion of sales, a court should nevertheless award the defendant’s profits under an unjust enrichment theory.<sup>38</sup> In order to effectuate the purposes of the Lanham Act, in cases of willful infringement, a court’s primary function should center on awarding an amount sufficient to make violations of the Lanham Act unprofitable.<sup>39</sup> This is yet another example of an instance where the court’s discretion in setting the amount that the defendant is required to pay is guided by the policies and purposes of the overall statutory scheme.

### **Guidance for Determining the Amount of the Fine Under the False Patent Marking Statute**

The central purpose of the false patent marking statute is deterrence.<sup>40</sup> But the policy of deterrence must be part of a balancing analysis. A court must “strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties.”<sup>41</sup> Or in the words of a district court in a recent case, “[i]n determining the amount of the fine, the Court must strike an appropriate balance between enforcing the public policy embodied in the statute and not imposing a disproportionately large fine for relatively small violations.”<sup>42</sup> Courts have said that a disproportionate liability should not be imposed for what appears to be an inexpensive mass-produced article.<sup>43</sup>

According to the Federal Circuit, “Congress intended the public to rely on marking as a ready means of discerning the status of intellectual property embodied in an article of manufacture or design.”<sup>44</sup> Potential competitors may be dissuaded from entering the market if an article within the public domain is falsely marked.<sup>45</sup> False patent marking may deter innovation and stifle competition in the marketplace.<sup>46</sup>

False patent marking may involve a degree of unjust enrichment in some cases. In at least one case, evidence was presented that “competitive rewards . . . can inure to a manufacturer who is able to present an image to the public that it is the sole legal retailer of a patented product.”<sup>47</sup>

The prohibition against false marking is naturally related to the patent marking requirement—if a patented article must be marked as such to provide notice to potential infringers, an article marked as patented (when in fact it is not) provides inaccurate notice to potential inventors or competitors that might prevent them from bringing a similar product to market.<sup>48</sup> While the marking requirement (and prohibition against false marking)

played a more important role in earlier years when access to the records of the Patent and Trademark Office was not as easy to come by, the prohibition against false patent marking remains today as an effort to prevent deception in marketing inventions.<sup>49</sup>

Therefore, the amount of the fine should be set at a level sufficient to achieve deterrence, without over-penalizing the defendant. In striking such a balance, the court may consider a number of factors, including the following:

1. Whether the false marking was material, or was likely to deceive. In the case of *Symbol Technologies, Inc. v. Proxim, Inc.*,<sup>50</sup> a label with patent markings was attached to a circuit board inside of the sealed housing of certain PC cards. The false marking was not material because the offending labels were not visible to the public. In the old case of *Smith v. Walton*,<sup>51</sup> crates containing dishes were falsely marked with patent numbers. However, the dishes were taken out of the crates before they were sold to consumers. Since consumers never saw the patent markings, the false patent marking was not material.
2. Whether competitors were harmed or competition was stifled. “If the intent of the statute is to penalize parties who falsely mark items for the harm caused, penalties relative to the actual harm suffered must be assessed.”<sup>52</sup> Of course, the statute is penal, not compensatory. However, the degree to which a defendant is penalized by a fine should bear some proportion to the amount of harm caused by the defendant’s false marking.
3. Whether the defendant was unjustly enriched. If the defendant received an unfair advantage as a result of the false patent markings, this is an appropriate factor to take into account in setting the amount of the fine. In order to achieve deterrence, it is appropriate to consider the degree to which the defendant may have achieved a competitive advantage.
4. The degree of intent or bad faith, and the egregiousness of the defendant’s conduct. If the defendant’s conduct was in bad faith, or there was a high degree of intent, then that is some indication that the remedy necessary to achieve deterrence needs to be adjusted upwardly.
5. The profits realized by the defendant from the falsely marked articles. In order to achieve deterrence, the acts of false patent marking should be made unprofitable. As the Ninth Circuit said in the context of determining appropriate remedies under the Lanham Act, if a profit-seeking businessperson, not unwilling to violate federal law, would pay the “judicial expense” of the amount of the fine imposed by the court in order to make a net profit (after the judicial expense was deducted from the profits realized), then the level of the fine is too low and fails to achieve deterrence.<sup>53</sup> On the other hand, if the defendant made only a small profit on an inexpensive mass-produced article, then the amount of the fine necessary to achieve deterrence would be commensurately less. In a recent case, the court imposed a fine of \$0.35 per article where that represented 32% of the overall sales price of \$1.07 for each article. This level of a fine was found to be sufficient under the circumstances to achieve deterrence.<sup>54</sup>

Similar to the approach taken under the Lanham Act, a court's primary function should center on imposing a fine in an amount sufficient to make violations of the false patent marking statute unprofitable.<sup>55</sup>

The explosion of false patent marking cases in the wake of the *Forrest Group* decision may subside once courts establish guidelines for determining the amount of the fine that provides some level of predictability on the amount of the fine likely to be imposed in a given case. Cases like *Pequignot v. Solo Cup Co.*,<sup>56</sup> seeking fines of \$5.4 trillion, should hopefully become a thing of the past. Instead, courts should weigh the above factors to fashion an appropriate fine that, on a case-by-case basis, will further the goals of the false patent marking statute. ■

## Endnotes

1. 590 F.3d 1295 (Fed. Cir. 2009).
2. In *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010), the Federal Circuit noted that the defendant allegedly falsely marked 21,757,893,672 articles, and that at the plaintiff's requested fine of \$500 for each article, "such an award to the United States, or approximately \$5.4 trillion, would be sufficient to pay back 42% of the country's total national debt." *Id.* at 1359 n.1.
3. *Tex. Data Co. v. Target Brands, Inc.*, No. 2:10-269-TJW, 2011 U.S. Dist. LEXIS 2917, at \*6 (E.D. Tex. Jan. 12, 2011).
4. *Id.*
5. Timothy G. Ackermann, *False Patent Marking: The Forrest Group Bull's-Eye*, 2:5 LANDSLIDE 32 (May/June 2010).
6. *Pequignot*, 608 F.3d at 1362-63; *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005).
7. *Clontech Labs.*, 406 F.3d at 1352-53 & n.2.
8. *Pequignot*, 608 F.3d at 1363.
9. *Id.*
10. *Id.*
11. *Clontech Labs.*, 406 F.3d at 1352.
12. *Forrest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).
13. Patent Act of 1842, ch. 263 § 5, 5 Stat. 543, 544 (1842).
14. CONG. GLOBE, 27th Cong., 2d Sess. 833 (1842) ("[T]he bill was intended to . . . protect the rights of patentees.").
15. *Oliphant v. Salem Flouring Mills Co.*, 18 F. Cas. 647, 648 (D. Or. 1878) (No. 10,486).
16. *Id.* ("The impression which the fact ordinarily makes upon the mind is, that the article marked 'patent' is in some respects more useful or desirable than articles of the same general kind or use which are not so marked. If, then, a person marks an unpatented article with the word 'patent,' the public are thereby liable to be deceived as to the character and value of the article. The act is a species of counterfeiting.").
17. *Nichols v. Newell*, 18 F. Cas. 199, 199-200 (C.C.D. Mass. 1853).
18. *See Wilson v. Singer Mfg. Co.*, 30 F. Cas. 223, 224 (N.D. Ill. 1879) (No. 17,836) ("The mischief which this statute was intended to punish, can hardly be stated more concisely than in the words of the law itself: 'The purpose of deceiving the public,' that is, stating falsely that an article is then the subject-matter of a patent."), *aff'd*, 12 F. 57 (C.C.N.D. Ill. 1882).
19. Patent Act of 1842, ch. 263 § 5, 5 Stat. 543, 544 (1842).
20. *See London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910) ("[T]he marking of . . . different articles . . . in the course of a single and continuous act" did not constitute multiple "distinct offenses.").
21. 590 F.3d 1295 (Fed. Cir. 2009).
22. *Id.* at 1304.
23. 17 U.S.C. § 504(c)(1).
24. *Id.* at § 504(c)(2).
25. *Columbia Pictures Tel., Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001).
26. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952).
27. *Cable/Home Commc'n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 852 (11th Cir. 1990).
28. *See E. & J. Gallo Winery v. Spider Webs Ltd.*, 286 F.3d 270, 278 (5th Cir. 2002) (the statutory damages provisions are "designed to discourage wrongful conduct").
29. *See St. Luke's Cataract & Laser Inst., P.A. v. Sanderson*, 573 F.3d 1186, 1206 (11th Cir. 2009) ("[D]eterrence is a proper consideration in a statutory damages award.").
30. *See Elecs. Boutique Holdings Corp. v. Zuccarini*, No. Civ.A. 00-4055, 2000 U.S. Dist. LEXIS 15719, 2000 WL 1622760, at \*5 (E.D. Pa. Oct. 30, 2000) (awarding maximum statutory damages in view of the defendant's pattern of conduct in other cases, and the significant number of cases brought by other trademark owners for the same type of infringement); *Lahoti v. Vericheck, Inc.*, No. C06-1132JLR, 2007 U.S. Dist. LEXIS 91997, 2007 WL 4269791, at \*14 (W.D. Wash. Dec. 3, 2007) (concluding that plaintiff was entitled to the maximum amount of statutory damages based, in part, on the defendant's pattern and practice of registering domain names that incorporate the trademarks of others); *Citigroup Inc. v. Malik*, Civ. No. 1:07cv1168, 2009 WL 874497, at \*6 (E.D. Va. Mar. 24, 2009) (awarding maximum statutory damages where the defendants were "serial cybersquatters, whose prior conduct indicates a pattern of wrongfully registering domain names designed to infringe on trademarks").
31. *Verizon Cal. Inc. v. Onlinenic, Inc.*, No. C 08-2832 JF (RS), 2009 U.S. Dist. LEXIS 84235, at \*9 (N.D. Cal. Aug. 25, 2009).
32. *Id.* at \*9-10; *Citigroup, Inc. v. Chen Bao Shui*, 611 F. Supp. 2d 507, 513 (E.D. Va. 2009) (the defendant's conduct was "sufficiently willful, deliberate, and performed in bad faith to merit the maximum statutory award of \$100,000").
33. 15 U.S.C. § 1117(a).
34. *Id.*
35. *Id.*
36. *See Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 121 (9th Cir. 1968) (the statute "confers a wide scope of discretion upon the district judge in the fashioning of a remedy for a violation of the Act"), *cert. denied*, 391 U.S. 966 (1968).
37. *Id.* at 123.
38. *Id.*
39. *Playboy Enters., Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1274 (9th Cir. 1982).
40. *See Texas Data Co. v. Target Brands, Inc.*, No. 2:10-269-TJW, 2011 U.S. Dist. LEXIS 2917, at \*14 (E.D. Tex. Jan. 12, 2011) ("Congress enacted 35 U.S.C. § 292 to deter false marking.").
41. *Forrest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).
42. *Presidio Components Inc. v. Am. Tech. Ceramics Corp.*, 723 F. Supp. 2d 1284, 1334 (S.D. Cal. 2010).
43. *Id.* at 1335.
44. *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356 (Fed. Cir. 2005) (citation and internal quotes omitted).
45. *Forrest Group.*, 590 F.3d at 1302-03.
46. *Id.* ("Acts of false marking deter innovation and stifle competition in the marketplace.").
47. *Mohawk Indus., Inc. v. Interface, Inc.*, No. 4:07-CV-212-HLM, 2008 WL 5210418, at \*8 (N.D. Ga. Dec. 3, 2008).
48. *See generally* Elizabeth I. Winston, *The Flawed Nature of the False Marking Statute*, 77 TENN. L. REV. 111, 119-20 (2009).
49. *Id.*
50. No. Civ.A.01-801-SLR, 2002 WL 1459476 (D. Del. June 25, 2002).
51. 51 F. 17, 19 (S.D.N.Y. 1892).
52. Winston, *supra* note 48, at 140.
53. *Playboy Enters., Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1274 (9th Cir. 1982).
54. *Presidio Components Inc. v. Am. Tech. Ceramics Corp.*, 723 F. Supp. 2d 1284, 1335 (S.D. Cal. 2010).
55. *Playboy Enters.*, *supra* note 53, at 1274.
56. 608 F.3d 1356, 1359 n.1 (Fed. Cir. 2010).