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## Implementing Patent Marking Strategies After AIA

Law360, New York (October 04, 2012, 3:13 PM ET) -- Under U.S. patent law, patent owners are encouraged to mark their patented products with applicable patent numbers. The intent of this legislation, known as "the patent marking statute," is to protect the public from deceptive marking practices. As a result, there is liability for falsely marking nonpatented articles for the purpose of deceiving the public. In recent years, prominent court cases have brought notoriety to patent marking by greatly increasing potential damages for false marking and thereby creating a cottage industry of "false marking trolls."

The America Invents Act, which was signed into law on Sept. 16, 2011, represents the most significant change to the U.S. patent system in decades and includes amendments to the marking statute that make marking requirements more lenient and false marking litigation more difficult. There are many benefits to properly marking patented products, including increased damages in patent infringement litigation. However, marking may still create a risk of liability if done improperly.

### Expanding Use Under The Former False Marking Statute

The marking statute encourages patent owners to provide notice of their patent rights by marking patented articles with applicable patent numbers. The statute provides that anyone marking an "unpatented article" as patented with the intent to deceive the public "shall be fined not more than \$500 for every such offense."<sup>[1]</sup> False marking requires that there is marking of an "unpatented article" or advertising materials with a patent reference. An "unpatented article" is one that is not covered by at least one claim of a valid, enforceable U.S. patent. In addition, to violate the statute the marking must have been made with the intent to deceive the public.

Prior to the amendments made by the AIA, the false marking statute effectively deputized any member of the public to seek damages for products incorrectly marked, regardless of injury, if the false marking was for the purpose of deceiving the public. In interpreting this statute, the Court of Appeals for the Federal Circuit stated that "Congress intended the public to rely on the marking as 'a ready means of discerning the status of intellectual property embodied in an article of manufacture or design.'"<sup>[2]</sup> As a result, individuals bringing such suits under the former statute did not need to realize individualized injury or harm, but merely alleging violation of the statute was sufficient to confer standing.

In its Dec. 28, 2009, decision in *Forest Group Inc. v. Bon Tool Co.*, the Federal Circuit interpreted the false patent marking statute as requiring penalties on a per article basis.<sup>[3]</sup> One reason for this finding was because any potential fine is split with the U.S. government, and there would be no motivation for one to bring suit for half of a \$500 verdict. This decision spurred a cottage industry of "false marking trolls" seeking to profit on improper marking.

Since it is relatively easy to determine if a patent has expired, plaintiffs could allege false marking with minimal investigation. Following *Forest Group*, there was a steady increase in

the filing of false marking suits as individuals saw an opportunity for easy money. For example, more than 500 false patent marking cases were filed in 2010, compared to only 17 in 2009.[4]

In one such case, *Pequignot v. Solo Cup Co.*, the defendant was accused of falsely marking drink cup lids.[5] Solo Cup produced plastic lids using stamping machines with mold cavities that embossed its patent numbers. After consulting with intellectual property counsel, Solo Cup developed a policy to remove expired patent numbers when the mold cavities were replaced due to wear or damage. Because the mold cavities were costly and lasted many years, however, Solo Cup continued to use molds with expired patent numbers on over 21.7 billion lids.

The potential fine for Solo Cup of \$500 per lid totaled over \$10.8 trillion. Since the fine would be split, approximately \$5.4 trillion would have gone to the federal government, which the Federal Circuit characterized as "sufficient to pay back 42% of the country's total national debt." [6] The district court found and the Federal Circuit agreed that Solo Cup's products were falsely marked. However, the Federal Circuit held that this conclusion alone does not decide the question of liability under the statute. [7] Finding that there was no "deceptive intent" on the part of Solo Cup, the Federal Circuit affirmed the district court's grant of summary judgment in Solo Cup's favor.

## The Effects Of Failure To Mark

One of the major benefits of conforming to the marking statute is increased damages in patent litigation. There are typically two types of damages in patent infringement litigation, a reasonable royalty applied to the sale of the infringing products, and the more lucrative lost profits on the lost sales of a patentee's patented product. Under U.S. patent law, a patentee may seek damages for up to six years prior to the filing of a claim for patent infringement. [8] However, if the patentee makes a patented product it can only seek damages after the infringer has received notice of its infringement. Proper marking by a patentee of its patented product provides constructive notice. [9]

The Federal Circuit has stated that "[i]n determining whether the patentee marked its products sufficiently to comply with the constructive notice requirement, the focus is not on what the infringer actually knew, but on whether the patentee's actions were sufficient, in the circumstances, to provide notice in rem." [10] In lieu of constructive notice, a patentee must give the infringer actual notice, which means that the patentee could lose as much as six years of damages if the patentee fails to mark and the filing of the complaint is the first notice to the infringer.

The difference in potential recovery of damages for failure to mark could be significant. Patent terms are limited to 20 years and there may only be a short period of enforcement left upon the filing of an infringement claim. The patentee could, therefore, lose damages for nearly a third of the patent term, going back six years from filing the complaint due to a failure to mark. In a recent case, *Versata Software Inc. v. SAP America Inc.*, the patentee's damages award was reduced by over \$16 million due to failure to comply with the marking statute. [11]

In another case, *Von Holdt v. A-1 Tool Corp.*, the patentee sought past damages over a period of four years for infringement of a patent that had since expired. [12] However, because it had failed to properly mark or otherwise provide notice to the alleged infringer, the patentee was precluded from recovering any damages and the case was dismissed.

In yet another recent case between two consumer giants in New Jersey, *Bed Bath and Beyond Inc. v. Sears Brands LLC*, Sears was precluded from seeking damages prior to the date it gave actual notice to Bed Bath and Beyond. [13] The patent issued in 1999 and claimed a gift registry system. Sears was aware of its obligation to mark and displayed the

patent number on its website and in stores for a brief period of time. However, the markings were subsequently removed. As a result, the court found that "Sears did not mark the patent consistently and continuously as required by the statute" and ruled that Sears was precluded from collecting damages prior to July 2008 when actual notice was given.

The benefits of proper marking extend beyond potential damages in patent litigation, as marking may act as a deterrent to others from offering a competing product. Marking also aids assertions of "willful" infringement, which may result in treble damages and awarding of attorneys' fees[14], as well as establishing "inducing" infringement assertions. There are also marketing benefits to marking, as it identifies a product as unique to the consuming public.

## **Implementing Marking Policies After The America Invents Act**

While the decision in *Pequignot v. Solo Cup Co.* made it easier to defend against false marking allegations, it did not put a stop to false marking lawsuits. However, in 2011 the AIA was enacted with provisions to inhibit the growth of false marking litigation by providing a number of amendments to the marking statute. Effective Sept. 16, 2011, the law now requires a plaintiff suffer a "competitive injury" as a result of the false marking.[15] Previously, "any person" was entitled to bring a false patent marking lawsuit.[16]

This amendment has effectively eliminated the threat of false marking trolls created by Forest Group. In addition, expiration of a patent cannot serve as the basis for a false marking claim.[17] Instead, a safe harbor for expired patents has been explicitly carved out. A virtual marking provision also provides much-needed flexibility in conforming to marking requirements.

To comply with this provision, a product must be marked with a website address where the product is associated with appropriate patent numbers. When marking needs to be updated, the patent owner only needs to make changes to the website and can avoid the expense of making changes to the product itself. Seemingly, patentees can now return to marking without fear of false marking lawsuits from "false marking trolls."

The changes in law instituted by the AIA have reduced the risks and burdens associated with marking, and should encourage patentees that have discontinued patent marking, or never marked at all, to institute a new marking policy. In doing so, patentees should consider taking advantage of the new "virtual marking" provisions, especially for products covered by multiple patents.

Virtual marking avoids having to monitor and change patent markings on the products themselves, but the law requires that the product marking reference a website where patent information can be found. Cases involving the new virtual marking provisions are scarce, but at least one court has held that virtual marking requires the patentee to both list patent numbers on a website and to mark the protected product with the word "patent" and the website address.[18]

Regular audits should also be performed in cooperation with intellectual property counsel. Patentees should make an inventory of patents that cover applicable products, and remove patents from the inventory when they expire. Product markings should be evaluated to make sure that the patents have not expired, not lapsed for failure to pay maintenance fees, and have not been found invalid by a court or in a patent office proceeding.

Companies should reevaluate their marking activities at various milestones, such as when the claims of the patent are construed or the patent holder proffers claim constructions, when the scope of the patent claims change during prosecution of related applications, or when the design of the product changes. In addition, it is important to remove "patent pending" once the patent application is no longer pending.

Marking requirements become more complex in the context of patent licensing. The marking statute applies to anyone making or selling a patented article "for or under" the patent owner. Therefore, in defending a damages claim based upon a licensee's failure to mark, a defendant may have to prove both that the licensee's product is covered by the patent and that it was made "for or under" the patentee.

Where a third party that practices the invention does not have a relationship with the patentee, a "rule of reason" approach is applied.[19] Thus, a more liberal approach is used to evaluate compliance in considering the licensee's marking efforts. Factors to be considered may include the terms of the license agreement, the patentee's diligence in enforcing marking, and the percentage of products that have been properly marked.

In addition, the marking statute is directed to "patented articles," which creates further complications in the field of software inventions. This is because software inventions are typically claimed using both apparatus and method claims. The Federal Circuit has expanded the realm of cases to which marking requirements do not apply, holding that the patent marking statute generally does not apply if only method claims have been asserted against the defendant.[20] However, in cases where the patent contains both apparatus and method claims, a patentee may be obliged to mark to the extent that there is a tangible item to mark by which notice can be given.[21]

Accordingly, the marking requirements can vary depending on the nature of the patent and the product. Thus, the best advice for patentees is to consult intellectual property counsel in order to determine the marking obligations that apply under the given circumstances.

## Conclusion

The amendments to the marking statute afforded by the AIA provide far more flexibility in conforming with the statute. And, given the potential damages accrual of six years preceding the filing of a patent infringement claim, it behooves the patent owner to properly mark patented articles. Companies that stopped marking their patented products due to the recent growth of false marking litigation should reconsider their patent marking policies.

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[1] 35 U.S.C. § 292.

[2] *Clontech Laboratories Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356 (Fed. Cir. 2005) (quoting *Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 489 U.S. 141, 162 (1989)).

[3] 590 F.3d 1295 (Fed. Cir. 2009).

[4] See False Marking Case Information, Gray on Claims: a claim construction and patent law blog, <http://www.grayonclaims.com/false-marking-case-information/>.

[5] *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359 (Fed. Cir. 2010).

[6] *Pequignot*, 608 F.3d at 1359 n1.

[7] Pequignot, 608 F.3d at 1362.

[8] 35 U.S.C. § 286.

[9] 35 U.S.C. § 287.

[10] Nike Inc. v. Wal-Mart Stores Inc., 138 F.3d 1437, 1446 (Fed.Cir.1998).

[11] Civ. No. 2:07-CV-153 CE, (E.D. Tex. Sept. 9, 2011).

[12] 714 F.Supp.2d 863 (N.D. Ill. 2010).

[13] Civ. No. 08-5839 (SDW)(MCA), (D.N.J. June 4, 2012).

[14] 35 U.S.C. §§ 284, 285.

[15] Leahy-Smith America Invent Act, Pub. L. No. 112-29, §16(b), 125 Stat. 284, 329 (2011).

[16] 35 U.S.C. § 292(b) (former).

[17] Id. at 329.

[18] A to Z Machining Service LLC v. National Storm Shelter LLC, \*3-\*4 (W.D. Okla. 2011) ("The statute's language is clear: the website 'together with' either the word 'patent' or 'pat.' must be marked on the item.")

[19] Maxwell v. J. Baker Inc., 86 F.3d 1098, 1111 (Fed.Cir.1996) (holding that marking requirement was satisfied even though 5% of product that was sold by licensees was not marked).

[20] Hanson v. Alpine Valley Ski Area Inc., 718 F.2d 1075, 1083 (Fed. Cir. 1983).

[21] Am. Med. Sys. Inc. v. Med. Eng'g Corp., 6 F.3d 1523, 1538-39 (Fed.Cir.1993).

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