

## Intellectual Property ADVISORY

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### Recent Cases Affect Risk of False Patent Marking Liability

Each year, patent owners and their manufacturers label billions of articles as being covered by one or more issued patents. The U.S. patent laws encourage such labeling, commonly referred to as “patent marking,” by tying the extent of infringement damages available to whether the article is labeled with a patent number.<sup>1</sup> One rationale for this correlation is that an accurate label provides the public with constructive notice of the existence of the issued patent. As a result, competitors can learn the coverage of the patent’s claims and avoid or design around them. Furthermore, patent marking advances the patent laws’ goal to encourage the disclosure of innovations. An accurate label leads the public to the text of the issued patent, which not only contains claims defining the scope of coverage of the patent, but also teaches how to make and use the invention, and perhaps will lead to improvements. However, while the U.S. patent laws highly incentivize patent marking, a pair of recent cases suggests that the benefits of the practice may be accompanied by significant risks of false marking liability.

### False Marking Liability

The patent laws permit patent owners and anyone making or selling a patented article to label that article as covered by its correlating issued patent.<sup>2</sup> Such labels should typically include the word “patent” or the abbreviation “Pat.” along with the number of the patent itself. Careful attention should be paid to ensure that such labels accurately list patents that indeed cover the labeled item. Labeling an “unpatented article” with the word “patent” or any word or number suggesting that the article is covered by an issued patent constitutes “a false marking” and may attract a private lawsuit resulting in liability of up to \$500 per “offense” (with half of the damages remitted to the federal government).<sup>3</sup> Notably, whether a false marking is actionable (i.e., could result in liability) hinges upon two elements: (1) marking of an “unpatented article” as patented (2) “for the purpose of deceiving the public.”<sup>4</sup>

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<sup>1</sup> 35 U.S.C. § 287(a) (2006).

<sup>2</sup> *Id.*

<sup>3</sup> 35 U.S.C. § 292 (a) (2006).

<sup>4</sup> *Id.*; 35 U.S.C. § 292 (b) (2006).

Though several courts have analyzed the two elements of false marking liability in various contexts, until recently little authority has existed on whether marking an item with an expired patent could, under any circumstances, constitute an actionable false marking. Of additional concern, various judicial approaches for defining what constitutes an “offense” under the false marking statute have prolonged uncertainty as to the extent of monetary liability that a party may incur. In this context, two recent patent cases have addressed, respectively, what qualifies as intent to deceive sufficient to incur liability, and upon finding such intent, what constitutes an “offense” for purposes of calculating the resulting false marking damages.

### Recent Case Law Developments

In *Pequignot v. Solo Cup*,<sup>5</sup> Pequignot alleged that Solo Cup was manufacturing disposable lids, cups, bowls, plates and utensils with a variety of patent numbers imprinted on them, despite knowing that the respective patents had previously expired. Solo Cup admitted to knowingly marking its lids with expired patents. The District Court for the Eastern District of Virginia treated this as creating a presumption that Solo Cup acted with intent to deceive the public, having concluded that an article marked with a patent number after expiration of the patent is an “unpatented article” for purposes of the false marking statute, whether or not the patents had covered the items prior to expiration. To overcome this presumption, Solo Cup provided evidence to the court that they had acted in good faith reliance on the advice of counsel and out of a desire to reduce costs. Solo Cup also provided copies of updated engineering drawings that removed the expired patent numbers from future product molds. Faced with cross-motions for summary judgment, the Eastern District of Virginia granted Solo Cup’s motion, finding that the evidence revealed that Solo Cup was genuinely concerned about adhering to the law and therefore had not acted with the intent necessary to incur liability.<sup>6</sup>

In *The Forest Group, Inc. v. Bon Tool Co.*,<sup>7</sup> the Federal Circuit ruled that the district court had erred in finding that Forest Group’s single decision to commission another production run of its commercial stilts constituted a single “offense” for purposes of calculating false marking damages. In finding deceptive intent, the district court determined that, as of November 15, 2007, Forest Group had received two separate district court claim construction rulings that made it clear the claims did not cover the marked articles. Subsequently, Forest Group’s patent litigation counsel had advised against continuing to imprint the patent number at issue on their commercial stilts. Yet, in 2008, Forest Group decided to place a new order for another production of its commercial stilts containing the imprinted patent number. After finding that Forest Group intended to deceive the public with this action, the district court proceeded to assess damages of \$500 for what it identified as a single “offense.”<sup>8</sup> Vacating this on appeal, the Federal Circuit held that the text of the false marking statute

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<sup>5</sup> 92 U.S.P.Q.2d 1495 (E.D. Va., 2009).

<sup>6</sup> *Pequignot v. Solo Cup Co.*, 92 U.S.P.Q.2d 1495 (E.D. Va., Aug. 25, 2009).

<sup>7</sup> No. 2009-1044, 2009 WL 5064353 (Fed. Cir., Dec. 28, 2009).

<sup>8</sup> *The Forest Group, Inc. v. Bon Tool Co.*, 2008 U.S. Dist. LEXIS 57134 (S.D. Tex. July 29, 2008).

requires imposition of damages on a “per article” basis as opposed to a “per decision to mark any number of articles” basis.<sup>9</sup>

### Defining an “Unpatented Article”

While most patentees readily think of the term “unpatented article” as applicable to products that are not and never were covered by a patent, the *Forest Group* and *Solo Cup* cases reveal several, perhaps less obvious, instances in which an article may be considered “unpatented” and thus falsely marked. In *Solo Cup*, for example, the court relied upon the way in which the Supreme Court has interpreted, in other contexts, the word “unpatented” to conclude that once a patent has expired, a product covered by that patent is “unpatented” for purposes of the false marking statute. In dicta, the court in *Solo Cup* went on to suggest that even conditional language that a product “may be covered” by one or more patents will not insulate a patentee from liability if no patents are found to cover the product.<sup>10</sup> Accordingly, patentees should diligently monitor the expiration dates of any patents to avoid attracting patent litigation based upon false marking liability. It is not clear whether other district courts will follow this decision or how the Federal Circuit will hold if the issue reaches the court on appeal.

The *Forest Group* case highlights another instance in which an article may be considered “unpatented” and falsely marked. In *Forest Group*, the Federal Circuit considered the district court’s claim construction finding that none of the claims of the listed patent actually covered the marked article, thereby making the article “unpatented.” Notably, while *Forest Group* involved a single patent, the Federal Circuit has likewise indicated that if a string of patents is marked onto an article, then the article is “unpatented” unless it is “covered by at least one claim of *each* patent with which the article is marked.”<sup>11</sup> Thus, patentees should diligently assess the impact of any pending litigation to ensure that patents marked on articles continue to cover the articles.

### Assessing “Deceptive Intent”

The *Forest Group* and *Solo Cup* cases reveal that the “deceptive intent” requirement can be a difficult hurdle for plaintiffs to overcome in proving false marking. For example, no deceptive intent existed in *Solo Cup*, where evidence revealed that the patentee, upon realizing that the patent identified on its plastic lids had expired, consulted outside counsel and followed their advice to replace the marked molds with unmarked ones as the original molds became worn and unusable.<sup>12</sup> A plaintiff will have a stronger case of deceptive intent when the facts are parallel to those that existed in *Forest Group*. There, standing out among the factors considered by the court was the fact that the patentee

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<sup>9</sup> *The Forest Group, Inc. v. Bon Tool Co.*, No. 2009-1044, 2009 WL 5064353 (Fed. Cir., Dec. 28, 2009).

<sup>10</sup> *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649 (E.D. Va., Mar. 24, 2009).

<sup>11</sup> *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005) (emphasis added). *Cf. Santa Anita Mfg. Corp. v. J. Lugash*, 369 F.2d 964 (9th Cir. 1966) (indicating that an article is not “unpatented” if covered by one claim of *one* of the listed patents).

<sup>12</sup> *Pequignot v. Solo Cup Co.*, 92 U.S.P.Q.2d 1495 (E.D. Va., Aug. 25, 2009).

continued to order marked articles after receiving two separate district court claim construction rulings that made it clear the claims did not cover the marked articles, followed by the advice of outside counsel to stop marking the articles as patented. The patentee in *Forest Group* could produce no documentation supporting their contention that they had indeed requested the manufacturers to remove the marked patent number.<sup>13</sup>

While neither case defines a definite rule for what actions constitute “deceptive intent” in all situations, both cases identify the necessary inquiry as fact-specific, meaning detailed records and documentation maintained by patentees may often prove critical to a court’s determination of intent. Accordingly, reasonably diligent patentees acting in good faith should be able to maintain sufficient documentary evidence to prevent a court from finding “deceptive intent.” Even so, with little judicial precedent on the appropriate level of intent necessary for a finding of purposeful deception, it is not clear whether other district courts will follow this decision or how the Federal Circuit will hold if the issue reaches the court on appeal.

### Calculating False Marking Penalties

While the hurdle of establishing deceptive intent may deter some parties from filing false marking litigation against patentees, the holding of the *Forest Group* case has greatly increased the potential scope of available damages. Specifically, the Federal Circuit in *Forest Group* has reversed the course of the majority of district court cases and made it clear that the \$500 maximum penalty for each “offense” is statutorily determined on a “per article” basis.<sup>14</sup> Obviously, this interpretation increases a patentee’s exposure to business-impacting liability for false marking to a degree greater than previously thought possible. Fortunately, the court in *Forest Group* made it clear that in cases involving inexpensive mass-produced articles, discretion exists to assess a lower per article penalty, even to a fraction of a penny.<sup>15</sup> It may not be wise, though, for a patentee to rely solely on such judicial discretion as a means of minimizing future liability. Accordingly, to avoid potentially astronomical penalties following *Forest Group*, patentees should diligently monitor their patent marking practices.

Consider, for example, the *Solo Cup* case, in which the district court discussed the scope of damages available if, in the alternative, deceptive intent had been found. Recall that the court in *Solo Cup* identified, at most, three offenses. As a result, prior to *Forest Group*, Solo Cup would have faced, at most, a \$1,500 penalty. Applying the *Forest Group* case to *Solo Cup* reveals its impact. Evidence in *Solo Cup* suggested that the patentee had marked billions of lids with the expired patents, meaning, at up to \$500 per offense, Solo Cup could have faced an extravagant penalty for false marking. Following *Forest Group*, the court could have, within its discretion, reduced the penalty for each offense, but even so, Solo Cup could have been facing much more than a mere \$1,500 penalty.

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<sup>13</sup> *The Forest Group, Inc. v. Bon Tool Co.*, 2008 U.S. Dist. LEXIS 57134 (S.D. Tex. July 29, 2008).

<sup>14</sup> See *The Forest Group, Inc. v. Bon Tool Co.*, No. 2009-1044, 2009 WL 5064353 (Fed. Cir., Dec. 28, 2009) (stating that “[t]he statute prohibits false marking of ‘any unpatented article,’ and it imposes a fine for ‘every such offense.’”).

<sup>15</sup> See *id.*

Similarly, when the district court in *Forest Group* revisits the issue of damages on remand from the Federal Circuit, the patentee will likely face a much larger penalty than the initially awarded \$500. With this significant change in mind, reasonably diligent patentees should regularly revisit their patent marking practices to eliminate or minimize the number of articles mismarked. Failure to do so could result in damaging penalties avoidable only by evidence revealing a lack of deceptive intent.

### Tips for Avoiding False Marking Liability

Going forward, companies owning patents or dealing with patent owners may consider several steps to aid in avoiding false marking liability:

- Periodically assess whether patents identified on marked articles have expired, or have been the subject of an adverse court ruling suggesting that a patent identified on a marked article does not cover that article, and if so, seek and follow the advice of counsel on how to minimize risk in determining the best way to respond. Another trigger for such an assessment may be an adversary's position that the claims do not cover a similar article.
- Transition away from any use of multiple patent lists where not all the patents cover the article being marked, unless the propriety of such practice is revisited by the Federal Circuit.
- Do not rely on conditional language (i.e., "This article may be covered by Patent No. 1, 234,567") to attempt avoiding false marking liability.
- Actively involve patent counsel in decisions on how articles may properly be marked, and to help identify any practices likely to draw an allegation of false marking.
- Fully document and maintain all records (i.e., e-mail, letters, opinions, purchase orders, etc.) showing good faith in making patent marking decisions, whether involving internal parties only or outside counsel.

*This advisory was written by [Chris Lightner](#).*

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For further information, please contact any of the attorneys in Alston & Bird’s Intellectual Property Group.

Blas P. Arroyo  
[blas.arroyo@alston.com](mailto:blas.arroyo@alston.com)  
704.444.1012

Christopher J. Gegg  
[chris.egg@alston.com](mailto:chris.egg@alston.com)  
704.444.1024

Lance A. Lawson  
[lance.lawson@alston.com](mailto:lance.lawson@alston.com)  
704.444.1114

Walter Scott  
[walter.scott@alston.com](mailto:walter.scott@alston.com)  
212.210.9518

William M. Atkinson  
[william.atkinson@alston.com](mailto:william.atkinson@alston.com)  
704.444.1026

Jonathan M. Gordon  
[jonathan.gordon@alston.com](mailto:jonathan.gordon@alston.com)  
213.576.1165

Robert L. Lee  
[bob.lee@alston.com](mailto:bob.lee@alston.com)  
404.881.7635

Benjamin F. Sidbury  
[ben.sidbury@alston.com](mailto:ben.sidbury@alston.com)  
704.444.1056

William H. Baker  
[bill.baker@alston.com](mailto:bill.baker@alston.com)  
212.210.9487

Guy R. Gosnell  
[guy.gosnell@alston.com](mailto:guy.gosnell@alston.com)  
704.444.1029

Christopher P. Lightner  
[chris.lightner@alston.com](mailto:chris.lightner@alston.com)  
404.881.7882

Frank G. Smith  
[frank.smith@alston.com](mailto:frank.smith@alston.com)  
404.881.7240

Phillippe Bennett  
[philippe.bennett@alston.com](mailto:philippe.bennett@alston.com)  
212.210.9559

Gregory T. Gronholm  
[greg.gronholm@alston.com](mailto:greg.gronholm@alston.com)  
404.881.7968

Todd McClelland  
[todd.mcclelland@alston.com](mailto:todd.mcclelland@alston.com)  
404.881.4789

Andrew T. Spence  
[andy.spence@alston.com](mailto:andy.spence@alston.com)  
704.444.1411

Keith E. Broyles  
[keith.broyles@alston.com](mailto:keith.broyles@alston.com)  
404.881.7558

Robert E. Hanlon  
[robert.hanlon@alston.com](mailto:robert.hanlon@alston.com)  
212.210.9410

Michael D. McCoy  
[mike.mccoy@alston.com](mailto:mike.mccoy@alston.com)  
704.444.1011

W. Murray Spruill, Ph.D.  
[murray.spruill@alston.com](mailto:murray.spruill@alston.com)  
919.862.2202

Michael S. Connor  
[mike.connor@alston.com](mailto:mike.connor@alston.com)  
704.444.1022

John D. Haynes  
[john.haynes@alston.com](mailto:john.haynes@alston.com)  
404.881.7737

Richard M. McDermott  
[rick.mcdermott@alston.com](mailto:rick.mcdermott@alston.com)  
704.444.1045

George M. Taulbee  
[george.aulbee@alston.com](mailto:george.aulbee@alston.com)  
704.444.1023

Jason W. Cook  
[jason.cook@alston.com](mailto:jason.cook@alston.com)  
214.922.3407

Steven D. Hemminger  
[steve.hemminger@alston.com](mailto:steve.hemminger@alston.com)  
650.838.2029

Robin L. McGrath  
[robin.mcgrath@alston.com](mailto:robin.mcgrath@alston.com)  
404.881.7923

David Teske  
[david.teske@alston.com](mailto:david.teske@alston.com)  
404.881.7935

Jason P. Cooper  
[jason.cooper@alston.com](mailto:jason.cooper@alston.com)  
404.881.4831

Donald M. Hill, Jr.  
[donald.hill@alston.com](mailto:donald.hill@alston.com)  
704.444.1006

George Douglas Medlock, Jr.  
[george.medlock@alston.com](mailto:george.medlock@alston.com)  
404.881.7765

Kevin C. Trock  
[kevin.trock@alston.com](mailto:kevin.trock@alston.com)  
650.838.2004

Sean P. DeBruine  
[sean.debruine@alston.com](mailto:sean.debruine@alston.com)  
650.838.2121

Yitai Hu  
[yitai.hu@alston.com](mailto:yitai.hu@alston.com)  
650.838.2020

Kristen L. Melton  
[kristen.melton@alston.com](mailto:kristen.melton@alston.com)  
404.881.7980

Katherine M. Wallace  
[katherine.wallace@alston.com](mailto:katherine.wallace@alston.com)  
404.881.4706

Martin J. Elgison  
[martin.elgison@alston.com](mailto:martin.elgison@alston.com)  
404.881.7167

Angela Payne James  
[angela.james@alston.com](mailto:angela.james@alston.com)  
404.881.7449

Deepro R. Mukerjee  
[deepro.mukerjee@alston.com](mailto:deepro.mukerjee@alston.com)  
212.210.9501

Alan L. Whitehurst  
[alan.whitehurst@alston.com](mailto:alan.whitehurst@alston.com)  
202.756.3491

Brian C. Ellsworth  
[brian.ellsworth@alston.com](mailto:brian.ellsworth@alston.com)  
704.444.1265

Madison C. Jellins  
[madison.jellins@alston.com](mailto:madison.jellins@alston.com)  
650.838.2047

Michael J. Newton  
[mike.newton@alston.com](mailto:mike.newton@alston.com)  
214.922.3423

Jeffrey E. Young  
[jeff.young@alston.com](mailto:jeff.young@alston.com)  
404.881.7857

J. Patrick Elsevier, Ph.D.  
[patrick.elsevier@alston.com](mailto:patrick.elsevier@alston.com)  
404.881.7683

Louis A. Karasik  
[lou.karasik@alston.com](mailto:lou.karasik@alston.com)  
213.576.1148

Thomas J. Parker  
[thomas.parker@alston.com](mailto:thomas.parker@alston.com)  
212.210.9529

Patrick J. Flinn  
[patrick.flinn@alston.com](mailto:patrick.flinn@alston.com)  
404.881.7920

S.H. Michael Kim  
[michael.kim@alston.com](mailto:michael.kim@alston.com)  
650.838.2100

Bruce J. Rose  
[bruce.rose@alston.com](mailto:bruce.rose@alston.com)  
704.444.1036

## ATLANTA

One Atlantic Center  
1201 West Peachtree Street  
Atlanta, GA 30309-3424  
404.881.7000

## CHARLOTTE

Bank of America Plaza  
Suite 4000  
101 South Tryon Street  
Charlotte, NC 28280-4000  
704.444.1000

## DALLAS

Chase Tower  
Suite 3601  
2200 Ross Avenue  
Dallas, TX 75201  
214.922.3400

## LOS ANGELES

333 South Hope Street  
16th Floor  
Los Angeles, CA 90071-3004  
213.576.1000

## NEW YORK

90 Park Avenue  
New York, NY 10016-1387  
212.210.9400

## RESEARCH TRIANGLE

Suite 600  
3201 Beechleaf Court  
Raleigh, NC 27604-1062  
919.862.2200

## SILICON VALLEY

Two Palo Alto Square  
Suite 400  
3000 El Camino Real  
Palo Alto, CA 94306-2112  
650.838.2000

## VENTURA COUNTY

Suite 215  
2801 Townsgate Road  
Westlake Village, CA 91361  
805.497.9474

## WASHINGTON, D.C.

The Atlantic Building  
950 F Street, NW  
Washington, DC 20004-1404  
202.756.3300

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