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Patent Marking Requirements Post TransCore

Law360, New York (October 16, 2009) -- The patent marking limitation of 35 U.S.C. § 287(a) is becoming increasingly important. With more lawsuits being brought by patentees who do not make a product, but instead just license patents, there are many opportunities to raise this defense and, conversely, many instances where patentees need to be mindful of this important requirement. In light of a recent Federal Circuit case, the patent marking requirement may become more significant.

This article explains the patent marking requirement and examines the impact of *TransCore LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009) on the obligations to mark under agreements that contain covenants not to sue, and particularly on those agreements into which license rights are implied.

The Marking Requirement

In simplified terms, the patent marking statute requires one who makes a product to mark it with the patent number or forego damages for infringement that occurred before providing notice to the infringer. Section 287(a) of the Patent Act states as follows:

"Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word 'patent' or the abbreviation 'pat.', together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice.

"In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice ..." 35 U.S.C. § 287(a).

A patentee has the burden of pleading and proving compliance with section 287's marking and notice requirements.[1]

The Consequences of Failing to Mark

The consequences of overlooking this fundamental requirement can be severe. A patent owner who fails to mark its products, or fails to require its licensees to mark their products, cannot recover damages prior to the point in time that the patent owner provided the alleged infringer with notice of infringement.[2] Even a single licensee who fails to adequately mark its products can trigger the damage limitations of section 287(a).[3]

The notice requirement is stringent. The Federal Circuit in *Amsted Industries v. Buckeye Steel Castings Co.*, 24 F.3d 178 (Fed. Cir. 1994) held that a patent owner who fails to mark (or fails to require licensees to mark) must show "the affirmative communication of a specific charge of infringement by a specific accused product or device" to meet the notice requirement.[4] The letter at issue in *Amsted* stated in part:

"Accordingly, you should acquaint yourself with the ['269 patent] and refrain from supplying or offering to supply component parts which would infringe or contribute to the infringement of the patent[]. You should not offer to supply items which are copies of or designed to replace our LOW PROFILE center plate."[5]

The Federal Circuit held that because the letter did not specifically accuse the defendant of infringement by a specific accused product, it did not constitute notice under section 287.[6]

Given the high standards for the content of the notice to the infringer, it is common that the first adequate notice for the purposes of section 287 comes in the form of a complaint.

Unfortunately for the patent owner who has failed to require licensees to mark — an increasingly common occurrence with so many infringement suits being brought by patent owners who do not make a product — that means the only damages available are those that occur following commencement of the lawsuit.

In some cases, such as where a patent expires prior to the time of the lawsuit, the failure to require patent marking can mean dismissal of a patent infringement suit entirely.

Indeed, in *Lans v. Digital Equipment Corp.*, 252 F.3d 1320 (Fed. Cir. 2001), the Federal Circuit affirmed dismissal of the action when the patentee, Uniboard, did not inform the defendants of its infringement allegations, by filing suit, until after Uniboard's patent had expired.

Prior to bringing suit, Uniboard licensed its patent to various licensees, including IBM, and none of the licensees marked their products. The Federal Circuit affirmed the dismissal of Uniboard's complaint for failure to state a claim, and stated:

"Because Uniboard's licensees did not mark their products and because Uniboard did not inform the computer companies of infringement before expiration of the '986 patent, § 287(a) prevents Uniboard from collecting damages from the computer companies.

"Moreover, the district court cannot enjoin the computer companies from infringing an expired patent. Thus, the district court correctly ruled that Uniboard has not stated a claim on which relief may be granted.[7]

TransCore and Patent Marking Involving Covenants Not To Sue

In TransCore, the parties presented the Federal Circuit with the question of whether a covenant not to sue under a settlement agreement should have the same effect as a license.

The context of the analysis involved a prior settlement by TransCore of a patent suit against Mark IV that involved four patents. The settlement agreement was structured as a covenant not to sue. The covenant not to sue granted Mark IV immunity from suit on ten patents.[8]

TransCore later sued ETC, a downstream Mark IV customer, on three of those patents, plus a fourth that did not exist as of the time of the settlement.[9] ETC claimed patent exhaustion as to the first three.[10] Patent exhaustion had never been applied previously to a patent covenant not to sue.

To reach the conclusion that the covenant not to sue in favor of Mark IV exhausted TransCore's rights against ETC, the Federal Circuit stated that there was no difference between a covenant not to sue and a license.

The court held that because both a covenant not to sue and a license would authorize sales of the patented product, it would treat the two agreements as equivalent.

The real question, then, is not whether an agreement is framed in terms of a "covenant not to sue" or a "license." The difference is only one of form, not of substance — both are properly viewed as "authorizations."

Rather, the pertinent question here is not whether but what the [covenant not to sue] authorizes. More specifically, does [it] authorize sales? We conclude that it does.[11]

Given this holding, it seems possible, or perhaps likely, that the Federal Circuit would also hold that the marking requirement of section 287(a) applies to sales of products "authorized" under a covenant not to sue, just as it would apply to sales by a licensee.

According to the Federal Circuit, both situations involved “authorized” sales of patented products. Therefore, patentees who resolve lawsuits by providing covenants not to sue to the accused infringer should require that accused infringer to mark the products with the patent number.

Likewise, those covenants that fail or have failed to contain a marking provisions may limit the ability of the patentee to collect past damages.

TransCore and Patent Marking Involving Implied Licenses

The most significant impact of the Federal Circuit’s decision in TransCore does not result from the equating of a license with a covenant not to sue, but instead may result from the implied license ruling.

The Federal Circuit ruled that where asserting a later or different patent relative to those in an earlier settlement agreement would “derogate” from the rights granted in that earlier agreement, an implied license exists that precludes the assertion of those later or different patents against the beneficiary of the rights in the earlier agreement.[12]

Specifically, the fourth patent asserted by TransCore against ETC did not even exist at the time that TransCore settled with Mark IV. Yet, because TransCore contended that ETC infringed this patent, along with the three patents that had been asserted in the prior suit against Mark IV, the Federal Circuit held that Mark IV, and thus ETC, had an implied license to this fourth patent.[13]

The basis of the implied license ruling was that TransCore had “derogated” from its bargain with Mark IV in the settlement agreement by asserting the later-issued patent against ETC given that TransCore’s rights to assert the first three patents against ETC had been exhausted.[14] As a result of this implied license on the fourth patent, TransCore was legally estopped from asserting it.[15]

Several scenarios illustrate the potentially harsh implications of TransCore’s implied license holding. Consider the case of a patentee that has a portfolio of a number of patents covering an infringing product. It is not uncommon for such a patentee to sue on a subset of the patents in the portfolio deemed to be the strongest patents.

If such an infringement suit settles, the patentee may give a covenant not to sue on the asserted patents. Under TransCore’s implied license holding, however, the patentee may be deemed to have authorized sales of the infringing product under not just the asserted patents, but also the other non-asserted patents in the portfolio that cover the infringing product.

Thus, if in a settlement agreement, the accused infringer is not compelled to mark the products at issue in the suit with the number of both the asserted and non-asserted patents, the patentee may lose the right to collect pre-suit damages against other infringers on the non-asserted patents in later litigation.

Obviously, if the suit is settled with a covenant not to sue on the entire portfolio, then the accused infringer should be compelled in the settlement agreement mark all of the patent numbers in the portfolio in view of TransCore's holding that a license and covenant not to sue are the same.

The TransCore holding may also impact patents that did not even exist at the time the license or covenant not to sue was granted. Suppose that a patentee sues an accused infringer on patent 1 relative to a product and they settle with the patentee giving the accused infringer a covenant not to sue on patent 1.

A year later, patent 2 issues to the patentee and covers the product. Under TransCore, the accused infringer has an implied license to patent 2. But the accused infringer would not be marking its product with patent 2 because it did not even exist when the covenant not to sue was granted.

As a result, the patentee may not be able to collect pre-filing/pre-notice damages under patent 2 because of the failure to mark. This harsh result could be mitigated by a provision in the settlement agreement requiring the accused infringer to mark the product with those patent numbers the patentee later provides him to the extent that a patentee has a good faith belief that the later patents cover the product.

Another TransCore inspired provision patentees and accused infringers should consider adding to covenants not to sue concerns protection against satellite litigation over "false marking." 35 U.S.C. § 292(a), second paragraph provides:

"Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word 'patent' or any word or number importing that the same is patented, for the purpose of deceiving the public ... Shall be fined not more than \$500 for every such offense."

An accused infringer who settles a case with a license or covenant not to sue with a patent marking provision but is not certain that the patent covers his product may wish to avoid litigation regarding alleged false marking.

To preempt an argument that the accused infringer marked the patent number "for the purpose of deceiving the public," the license or covenant not to sue should recite that the purpose of the accused infringer's marking is to protect the patentee's right under the patent marking statute and not to deceive the public.

Conclusion

Whether the agreement is a license, covenant not to sue, or any agreement that triggers implied license rights, it is critically important for the patentee to keep the marking obligation in mind. For those patentees who have or will fail to do so, a defendant in a patent case may have a very good defense against pre-suit damages.

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[1] See *Tech Licensing v. Thomson*, No. Civ. S-03-1329 WBS PAN, 2005 WL 1562225, at *1 (E.D. Cal. June 30, 2005) (“The patentee in an infringement case has the burden of ‘pleading and proving at trial that [patentee] complied with the statutory requirements [of § 287(a)]’.”) (quoting *Maxwell v. J. Baker Inc.*, 86 F.3d 1098, 1111 (Fed. Cir. 1996)); *On Command Video Corp. v. Lodgenet Entertainment Corp.*, No. C 95-546 SBA, 1995 U.S. Dist LEXIS 20192, at *7 (N.D. Cal. Nov. 28, 1995); see also *Dunlap v. Schofield*, 152 U.S. 244, 248 (1894) (finding that the duty of alleging and the burden of proving either actual or constructive notice is upon the patentee, under Revised Statute 4900, the then-current marking statute); *Amsted Indus. v. Buckeye Steel Castings*, 24 F.3d 178, 187 (Fed. Cir. 1994) (stating that *Dunlap* is “highly persuasive, if not controlling, on the meaning of the notice requirement of section 287,” and finding that the notice requirement of Revised Statute 4900 was essentially identical to the present section 287(a)); *Motorola Inc. v. United States*, 729 F.2d 765, 769-70 (Fed. Cir. 1984) (finding that Revised Statute 4900 was the predecessor of section 287, and that it required that “[t]he patent owner-plaintiff must plead before trial and then show at trial that he had complied with the requirements of the statute.”).

[2] See, e.g., *Devices for Medicine Inc. v. Boehl*, 822 F.2d 1062, 1066 (Fed. Cir. 1987) (damages limited under § 287(a) where “[plaintiff’s] licenses did not require its licensees to mark the introducer product and there was no evidence that any product ever bore a patent marking.”); *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.* 906 F. Supp. 813, 817-818 (E.D.N.Y. 1995) (Rader, J., sitting by designation) (finding that plaintiff’s failure to contend that it required its licensees to mark, and the absence of any marking requirement in plaintiff’s license agreement with its licensee or evidence that the licensee did mark, barred plaintiff from recovering pre-suit damages); *Inline Connection Corp. v. AOL Time Warner*, 465 F. Supp. 2d 312, 323 (D. Del. 2007) (limiting damages based on § 287(a) where “[plaintiff] Inline made no attempt to mark, in that it never required its licensee, CAIS, to mark tangible articles of the system.”).

[3] See *American Med. Sys. Inc. v. Med. Eng’g Corp.*, 6 F.3d 1523, 1537 (Fed. Cir. 1993) (finding that compliance with section 287 required that the patentee marked “substantially all of [the patentee’s] patented products, and it was no longer distributing unmarked products.”).

[4] *Amsted*, 24 F.3d at 187.

[5] Id. at 186.

[6] Id. at 187. See also *Crown Packaging Tech. Inc. v. Rexam Beverage Can Co.*, 498 F. Supp. 2d 718, 728-729 (D. Del. 2007) (finding that a letter which identified a patent and stated that licenses were available, but failed to identify specific products accused of infringement, was not sufficient to comply with section 287); *Soverain Software v. Amazon.Com Inc.*, 383 F. Supp. 2d 904, 908, 910-11 (E.D. Tex. 2005) (holding that a meeting regarding a licensing agreement is not sufficient to comply with section 287, where there was no evidence that infringement accusations were made or that infringing products were identified); *Uniboard Aktiebolag v. Acer America Corp.*, 118 F. Supp. 2d 19, 26 (D.D.C. 2000), *aff'd sub nom Lans v. Digital Equip. Corp.*, 252 F.3d 1320 (Fed. Cir. 2001) (finding that a letter containing a general statement that the defendant infringed, without identifying any specific accused products, “lacked the required level of specificity contemplated by section 287(a) and *Amsted*”).

[7] *Lans*, 252 F.3d at 1328.

[8] *TransCore*, 563 F.3d at 1273.

[9] Id.

[10] Id. at 1274.

[11] Id. at 1276.

[12] Id. at 1279.

[13] Id.

[14] Id.

[15] Id.