

**THE FEDERAL CIRCUIT CLARIFIES BURDEN OF PROOF FOR REBUTTING
INTENT TO DECEIVE IN FALSE PATENT MARKING CASES**

Last month, the Federal Circuit heard oral argument in *Pequignot v. Solo Cup*, a false marking case in which Matthew A. Pequignot, a patent attorney, sued Solo Cup for marking over 21 billion products, including plastic cup lids, with expired patents.¹ The primary issue argued by the parties was whether Solo Cup possessed the requisite intent required to violate the false marking statute, 35 U.S.C. § 292(a). In its June 10, 2010 decision, the Federal Circuit clarified the burdens of proof required in false marking cases and reiterated the high standard that plaintiffs must meet to prove that a patent owner acted with intent to deceive the public. The court also addressed whether a product marked with an expired patent constitutes an “unpatented” article.

The Marking and False Marking Statutes

Two provisions of the United States patent law govern patent marking. Under 35 U.S.C. § 287(a), a patentee can mark its articles with the applicable patent numbers to give constructive notice of the patents to the public. Patentees have a strong economic incentive to mark their products because otherwise they generally cannot recover pre-suit damages in an infringement action unless they gave the accused infringer actual notice of infringement.

However, a patentee must ensure that its marked article is within the scope of the patent claims and that the patent has not expired or been held invalid or unenforceable. If the marking fails to meet these requirements, the patentee is subject to a fine under the false marking statute, 35 U.S.C. § 292(a). The false marking statute imposes a fine of “not more than \$500 for every such offense” on “[w]hoever 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.”² Recently, the Federal Circuit clarified the application of the fine. In *The Forest Group, Inc. v. Bon Tool Co.*,³ the court interpreted the word “offense” to impose a fine for each falsely marked article. Depending upon the fine, this could result in lucrative awards for false marking plaintiffs. Indeed, over 225 false marking lawsuits have been initiated since the *Bon Tool* decision six months ago.⁴

¹ No. 2009-1547 (Fed. Cir. June 10, 2010).

² 35 U.S.C. § 292(a) (2006) (emphasis added).

³ 590 F.3d 1295 (Fed. Cir. 2009).

⁴ Gray on Claims, False Marking Case Information, <http://www.grayonclaims.com/false-marking-case-information/> (last visited June 14, 2010).

Factual Background

Solo Cup manufactures disposable products used to serve food and beverages, including coffee cups and lids. Solo Cup marked its cold drink cup lids with Reissue Pat. No. 28,797 (the “797 patent”), which expired in 1988, and its hot cup lids with U.S. Patent 4,589,569 (the “569 patent”), which expired in 2003. It also marked cups, bowls, and utensils that were not patented with a statement that the articles “may be covered” by pending or issued patents.⁵

When it learned of the expired 797 patent mark on its products in 2000, Solo Cup sought advice from outside counsel regarding whether to remove the 797 marking from its molds used to produce its cup lids. Although Solo Cup’s counsel acknowledged that the best solution would be to remove the number, he also advised that Solo Cup was not required to remove the expired patent number and that it should take steps to prevent any additional false marking if it retained the number in the molds. Solo Cup determined that updating the patent information in the molds, which typically last between 15 and 20 years, would have been costly and burdensome.⁶ Instead it implemented a policy under which it replaced worn molds with molds that were not marked with the expired patent. Solo’s counsel later advised it to use a statement that the product “may be covered” by a patent and directing the consumer to Solo Cup’s web site for additional information.

Solo Cup manufactured and sold over 21 billion products with false patent markings over a 20-year period.⁷ If Pequignot had succeeded, the United States could have collected up to \$5.4 trillion, which represents half of the total maximum fine.⁸ However, the district court has discretion to impose a fine of *up to but no more than* \$500 per falsely marked article. Given the low cost of each lid, the court would likely not have imposed the maximum fine.⁹

⁵ *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790, 792 (E.D. Va. 2009).

⁶ Solo Cup estimated that it would have cost about \$2 million to replace its molds. *Id.* at 793.

⁷ *Pequignot v. Solo Cup Co.*, No. 2009-1547, slip op. at 3, 5 (Fed. Cir. June 10, 2010).

⁸ A *qui tam* plaintiff who brings an action on behalf of the United States is entitled to half of the fine. 35 U.S.C. § 292(b) (2006) (“Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.”).

⁹ As the district court explained, under the current statute, “a court can now limit the total damages by minimizing the amount of the per-offense fine.” *Pequignot*, 646 F. Supp. 2d at 802. This allows for a fine proportionate to the cost of the article: “In the case of inexpensive, mass-produced articles, a court has the discretion to determine that a fraction of a penny per article is a proper penalty.” *The Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

Procedural History

The United States District Court for the Eastern District of Virginia acknowledged that Solo Cup had falsely marked its lids but found that Solo Cup lacked the requisite intent to “deceiv[e] the public” to establish a false marking violation.¹⁰ The court stated that although Solo Cup’s knowledge of the false marking created an inference of intent, the presumption was rebuttable. The court granted summary judgment for Solo Cup and Pequignot appealed. The Federal Circuit heard oral argument on April 6, 2010.¹¹

“Unpatented Article”

Solo Cup first argued that it did not mark “unpatented articles” pursuant to the statute because its products were protected by the patents before they expired. The Federal Circuit rejected this argument, stating that regardless of whether an article is covered by an expired patent or lacks patent protection, the article is in the public domain and consumers are entitled to know its status. Expecting consumers to investigate whether a product is marked with an expired patent places an unwieldy burden on the public. The court noted that the patents’ expiration dates might be difficult to calculate in light of the 1994 revision of patent term length from (a) 17 years from issuance to (b) 20 years from filing.¹² Patent term adjustments and maintenance fee requirements further complicate calculation of the expiration date. The court concluded that “articles marked with expired patent numbers are falsely marked.”¹³

Intent to Deceive

Pequignot argued that he had proven intent to deceive by establishing that Solo knew that the patent numbers marking its products were expired or that the products were not covered by a patent. But the Federal Circuit rejected the idea that the presumption of intent to deceive the public is not rebuttable: “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.”¹⁴

The court explained that the plaintiff must meet a high standard to prove intent to deceive the public and distinguished between acting with knowledge and acting with intent. The court further clarified that to rebut a presumption of intent to deceive, the patent holder must prove by

¹⁰ *Pequignot*, 646 F. Supp. 2d at 800.

¹¹ For a description of the arguments presented before the court at the April 6 hearing, see *The Federal Circuit Interprets the False Marking Patent Statute* (April 30, 2010) written by Kelsey Nix & Laurie Stempler, available at <http://www.willkie.com/firm/pubs.aspx> (search within Intellectual Property department by date).

¹² 35 U.S.C. § 154(a)(2) (providing for a patent term “beginning on a date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States”).

¹³ *Pequignot v. Solo Cup Co.*, No. 2009-1547, slip op. at 11 (Fed. Cir. June 10, 2010).

¹⁴ *Id.*, slip op. at 11 (emphasis added).

a preponderance of the evidence that it did not have the requisite intent. The court noted that the party alleging false marking was required to prove the offense by a preponderance of the evidence and reasoned that the burden for rebutting the presumption should be the same.¹⁵ However, the court agreed with the district court that the presumption of intent is weaker in cases involving expired patents than in cases involving patents that do not cover the marked products, reasoning that “[a]fter all, the products were once patented.”¹⁶

The court also highlighted Solo Cup’s good faith. According to the court, patent owners can avoid a finding of false marking by establishing a good faith belief for the act of false marking, “*especially* when [that action] is taken for a purpose other than deceiving the public.”¹⁷ The court found that Solo Cup demonstrated that it acted with a purpose other than deceiving the public: it relied on advice of counsel, and it had business reasons for delaying the costly replacement of its molds. Therefore, there was no genuine issue of material fact to support a reversal of the district court’s grant of summary judgment.

Pequignot also failed to raise a genuine issue of material fact as to the articles marked with the statement that they “may” be covered by a patent. The court reasoned that this marking “stated exactly the true situation; the contents of some of the packaging were covered by patents, and the contents of some of the packaging were not covered.”¹⁸ The court concluded that it would be “highly questionable” whether this statement was made to deceive the public. Solo Cup explained that the language was chosen for financial reasons as a more convenient option than isolating specific products for marking. Moreover, the marking provided a web site that the public could visit to determine the status of a specific item. This evidence sufficed to establish Solo Cup’s good faith and to rebut the presumption that it intended to deceive the public.

¹⁵ *Id.*, slip op. at 13-14.

¹⁶ *Id.*, slip op. at 14. The district court explained that the chance of deceiving the public is greater if a product is marked with a patent that does not cover it:

When a product is marked with an expired patent number, any person with basic knowledge of the patent system can look up the patent and determine its expiration date Conversely, if a product is marked with an unexpired patent that does not cover it at all, the prospects for deceit . . . are higher because it is far more difficult for competitors and the public to determine whether the marking is false

Pequignot v. Solo Cup Co., 646 F. Supp. 2d 790, 798 (E.D. Va. 2009) (citation omitted).

¹⁷ *Pequignot*, No. 2009-1547, slip op. at 14 (emphasis added).

¹⁸ *Id.*, slip op. at 16. Interestingly, although the court accepted the language that an article “may be covered” by a patent, it added that this language “cannot satisfy the marking statute” unless it includes a patent number. *Id.*

Conclusion

The Federal Circuit has issued two key decisions affecting the application of the false marking statute in the past six months. The *Bon Tool* decision led to an onslaught of *qui tam* actions in the district courts.¹⁹ *Pequignot*, however, will now likely reduce the number of false marking cases. After *Pequignot*, although proof that a patentee knew of a false marking will raise a presumption of intent to deceive the public, the patentee can rebut the presumption with evidence of its good faith.²⁰ The *Pequignot* decision renders once potentially lucrative false marking cases less attractive because of the high standard for proving intent. Nevertheless, given the potential for a large fine after *Bon Tool* and the somewhat uncommon facts supporting the court's conclusion in *Pequignot*, prudent patent owners should carefully review their patent-marking practices.

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¹⁹ 590 F.3d 1295 (Fed. Cir. 2009); *see supra* note 4 and accompanying text.

²⁰ Solo Cup's reliance on advice of counsel, combined with the significant expense associated with correcting the false marking, led the court to conclude that Solo Cup had provided sufficient evidence to rebut the presumption of intent to deceive the public. The difficulty that patentees will face when attempting to establish good faith under different facts is not as clear.