

KEY IDEAS:

Avoiding and Defending False Marking Claims3

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WHAT TO DO UNTIL THE LIFE GUARD ARRIVES
FALSE MARKING CLAIMS AFTER *FOREST GROUP*.
AND *SOLO CUP* (PART II)

Just when we thought it was safe to go back in the water ... another court decision stirs up the false-marking sharks. Since May's issue of *IpQ*, the Federal Circuit's decision in *Pequignot v. Solo Cup Co.*¹ has answered some open questions. But with corrective legislation pending and multiple cases dealing with the issue in the works, it likely will be some time before the waters settle and a predictable legal regimen is in place.

The pertinent question for savvy patent owners now is, "What do I do about false-marking claims until certainty returns?" In this issue of *IpQ*, we will recap the *Solo Cup* case and explore nine "must consider" rules for preventing and defending false marking claims.

Pequignot v. Solo Cup Co.

The false-marking statute, 35 U.S.C. § 292(a) (¶12), says patentees that mark an "unpatented" article for "the purpose of deceiving the public" are subject to a fine of not more than \$500 for each offense. The statute allows any person to sue for the penalty, and then splits any award with the United States.²

On June 10, 2010, the Federal Circuit delivered its opinion in *Pequignot v. Solo Cup Co.*³ Answering one key question, the court held that an article marked with a now-expired patent is unpatented under the statute.⁴

The *Solo Cup* facts are helpful to our understanding of the new false-marking rules. Solo, the manufacturer of disposable cups, bowls, plates, and utensils, owned two patents on cup lids for plastic hot drinks ('569, which issued in 1986 and expired in October 2003) and cold drinks ('797, which issued in 1976 and expired in June 1988) and began to mark its products with those patent numbers soon after the patents issued.⁵

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The cup lids covered by the two patents are manufactured by a molding process using thermoforming stamping machines. The patent numbers were added to the molds used in the manufacturing process. The molds can last for 15 to 20 years.⁶

Twelve years after the '797 patent expired, Solo became aware that its products were being marked with an expired patent. Solo contacted counsel who advised that (1) when a patent expires you don't have to remove the old number; (2) there isn't a problem with adding an *already* expired number to a product as long as the products would have been covered by the expired patent; (3) while false marking creates liability for the offender, that liability hinges on

1 ___ F.3d ___, 2010 WL 2346649 (Fed. Cir., June 10, 2010).

2 35 U.S.C. § 292(b).

3 2010 WL 2346649 (Fed. Cir., June 10, 2010).

4 *Id.* at *5.

5 *Id.* at *1.

6 *Id.*

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“... the district court held that false marking, when combined with knowledge of the falsity, creates a rebuttable presumption of intent to deceive and that Solo had successfully rebutted that presumption.”

“... Solo had properly relied on the advice of counsel on ‘an issue of first impression’ in adding the ‘may be covered’ language.”

an “intent to deceive the public;” (4) the “best case scenario” is to remove the patent number, if possible; and (5) if the false marking cannot or is not removed, it is important that Solo not further any unintentional falsity in product literature or the like.⁷

Based on this advice, Solo developed a fiscally prudent policy to remove the expired-patents references on molds as they were replaced.⁸ This same policy was followed in 2003 when the ‘569 patent expired.⁹

In 2004, concerned about adequacy of the notice, Solo’s outside counsel suggested the following additional language be added to the lids: “This product may be covered by one or more U.S. or foreign pending or issued patents. For details, contact www.solocup.com.”¹⁰ Solo duly added the “may be covered” language to packaging used for both patented and unpatented products.¹¹

In 2007, plaintiff Pequignot entered the scene. A licensed patent attorney, he brought a *qui tam* action under 35 U.S.C. § 292 alleging false marking using expired patents and by use of the “may be covered” language for products not covered by any patents. He sought \$500 for each of the 21,757,893,672 articles he alleged were falsely marked.¹² (As noted by the Federal Circuit, this would have resulted in an award of more than \$10.8 trillion with half, a tidy \$5.4 trillion, going to Mr. Pequignot and the other half to the U.S. Treasury.)¹³

Solo admitted knowing the patents were expired and that some of the products with the “may be covered” language were not patented.¹⁴ Still, Solo moved to dismiss the case. The district court denied the motion, holding that both (1) marking with an expired patent and (2) marking with the “may be covered” language could constitute false marking.¹⁵

Later, the district court granted summary judgment in Solo’s favor, finding no intent to deceive and hence no violation of the marking statute.¹⁶ Relying on the Federal Circuit’s opinion in *Clontech Laboratories, Inc. v. Invitrogen Corp.*,¹⁷ the district court held that false marking, when combined with knowledge of the falsity, creates a rebuttable presumption of intent to deceive and that Solo had successfully rebutted that presumption.¹⁸

In fact, the district court found that, when it related to expired patents that previously covered the marked products, the presumption of an intent to deceive is weaker.¹⁹ Similarly, the district court found that, although a closer case, Solo had properly relied on the advice of counsel on “an issue of first impression” in adding the “may be covered” language.²⁰

At the Federal Circuit, Mr. Pequignot won a key battle but ultimately lost the war when the district court’s summary judgment award was affirmed. Agreeing with Pequignot, the Federal Circuit held that an article covered by a now expired patent is “unpatented” within the meaning of § 292(a).²¹ The Federal Circuit referenced the district court’s statement that, “[a]n article that was once protected by a now-expired patent is no different [from] an article that has never received protection from a patent. Both are in the public domain.”²²

⁷ *Id.*

⁸ *Id.* at *2.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*, n.1. In light of the ultimate outcome, there’s an old saying that may have some application to this case--“Pigs get fed, hogs get slaughtered.”

¹⁴ *Id.* at *6.

¹⁵ *Id.* at *2 (citing *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 654 (E.D. Va. 2008)).

¹⁶ *Id.* at *3 (citing *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790, 796-800 (E.D. Va. 2009)).

¹⁷ 406 F.3d 1347 (Fed. Cir. 2005).

¹⁸ *Pequignot v. Solo Cup Co.*, 2010 WL 2346649, at *3 (citing *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d at 797-98).

¹⁹ *Id.*

²⁰ *Id.* (citing *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d at 800).

²¹ *Id.* at *5.

²² *Id.* at *4 (citing *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d at 652).

“The bar for proving deceptive intent here is particularly high, given that the false marking statute is a criminal one, despite being punishable only with a civil fine. . . . Because the statute requires that the false marker act ‘for the purpose of deceiving the public,’ a purpose of deceit, rather than simply knowledge that a statement is false, is required. 35 U.S.C. § 292(a).”

“The good news is that proving ‘intent to deceive’ poses a substantial hurdle for *qui tam* plaintiffs.”

Agreeing with Solo, the Federal Circuit held that, under *Clontech*, the combination of false marking with knowledge of the falsity creates a rebuttable presumption of the intent to deceive. The court observed, “The bar for proving deceptive intent here is particularly high, given that the false marking statute is a criminal one, despite being punishable only with a civil fine. . . . Because the statute requires that the false marker act ‘for the purpose of deceiving the public,’ a purpose of deceit, rather than simply knowledge that a statement is false, is required. 35 U.S.C. § 292(a).”²³

The court held, “Thus, the mere knowledge that a mark is false is insufficient to prove intent if Solo can prove that it did not consciously desire the result that the public be deceived.”²⁴

The Federal Circuit finally agreed with Solo that it had successfully rebutted the presumption.²⁵ The court first concluded that it was Solo’s burden to prove by a preponderance of the evidence that it did not have the requisite purpose to deceive.²⁶ As to the expired patents, the court said that Solo had shown good faith reliance on counsel, and it had not removed references to expired patents out of a desire to reduce costs and avoid disruption of its business.²⁷

As to the “may be covered language,” the court said it was highly questionable whether the language would deceive the public, that Solo had relied on the advice of counsel, that Solo had provided a process for verifying patent coverage through a Website, and that Pequignot had failed to raise a genuine issue of material fact.²⁸

Avoiding and Defending False Marking Claims

Obviously, recent rulings in *Forest Group* and *Solo Cup* have changed the landscape of the threat from false-marking claims in subtle and profound ways. The good news is that proving “intent to deceive” poses a substantial hurdle for *qui tam* plaintiffs.

Still, these cases can prove costly and time consuming to defend, and relief in the form of legislation may be a long way off. Patent owners are well advised to understand the new law and develop a strategy to avoid or defend false-marking claims. Here are nine rules to consider for avoiding or defending false marking claims:

1. Understand Legal Ground Rules.

Rules governing false marking established by *Clontech*, *Forest Group* and *Solo Cup* are clear:

- A two-step test is used to determine false marking: (1) marking an *unpatented* article; and (2) an *intent to deceive* the public.²⁹
- An article is *unpatented* under § 292(a) when it is not covered by at least one claim of each patent with which it is marked.³⁰
- An article is *unpatented* under § 292(a) when it is marked with an expired patent.³¹
- False marking (mismarking an *unpatented* article), when combined with knowledge of the falsity, creates a rebuttable presumption of an intent to deceive the public.³²

²³ *Id.* at *6.

²⁴ *Id.*

²⁵ *Id.* at *7.

²⁶ *Id.*

²⁷ *Id.* at 8.

²⁸ *Id.*

²⁹ *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300, 1352 (Fed. Cir. 2009) (citing *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005)) (emphasis added).

³⁰ *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005).

³¹ *Pequignot v. Solo Cup Company*, ___ F.3d ___, 2010 WL 2346649, *3 (Fed. Cir., June 10, 2010).

³² *Id.* at *6.

- When the false markings are expired patents, the presumption of intent to deceive is weaker.³³
- To rebut the presumption, the patent owner bears the burden of showing it did not have the requisite purpose to deceive.³⁴
- Where the patent owner has knowledge of mismarking, blind assertions of good faith are insufficient to defeat the inference of intent to deceive.³⁵
- The patent owner may show a good faith reliance on advice of counsel to establish absence of intent to deceive.³⁶
- When false marking is found, 35 U.S.C. § 292(b) requires courts to impose penalties for false marking on a per article basis.³⁷

2. Be Sure the Patent Covers the Marked Product and Has Not Expired.

"An ounce of prevention is worth a pound of cure."³⁸ Taking this aphorism to heart, a wise patent owner will enact policies and procedures to ensure (1) marked products fall within at least one of the claims with which they are marked, and (2) marking patents have not expired. Given the "intent to deceive" standard, patent owners face two important issues:

- How certain must a patent owner be that the marked products are covered by one or more claims of the patent with which they are marked? It seems unlikely that an opinion of counsel is required, but the patent owner should be able to articulate a sound basis that the marked article is covered by the patent.
- How much leeway does a patent owner have to alter the marking once the patent has expired? There is no clear answer to this question. Prudence dictates that altering product marking to delete expired patents should be done in the ordinary course as quickly as possible. Taking into account the cost of production line changes and the rate of inventory turnover, a good faith effort to match the patent expiration date with the revised marking should be acceptable, even if some products are mismarked. Under the current state of the law, it seems unwise to wait 12 years after the patent expired to adopt and implement a changeover process as Solo did.

3. Consider "Intent to Deceive" Element and Benefit of Obtaining Advice of Counsel.

As the cases demonstrate, the "intent to deceive" element of the false-marking claim is now a critical consideration. In the *Solo Cup* case, reliance on the advice of counsel proved to be a potent defense to claims that the patent owner had an intent to deceive the public. But given the new-found clarity of the rules, that defense may no longer be readily available. Consider the following:

- Given the new rules outlined above, there is less room for ambiguity that will require advice of counsel.
- While case law suggests that a "reasonable" and financially pragmatic approach to product marking is acceptable, nothing in the statute allows for this. So advice on a reasonable approach may be worth less than it once was.
- Counsel may be able to suggest language for the "interim" period between patent expiration and revised marking that will rebut the "intent to deceive." The use of a Website to confirm

³³ *Id.* at *7.

³⁴ *Id.*

³⁵ *Id.* at *8.

³⁶ *See id.*

³⁷ *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d at 1304.

³⁸ Attributed to Benjamin Franklin.

product marking, or inclusion of the actual date the patent expires may be effective ways to accomplish this end.

- Opinions of counsel may be most valuable to verifying that marked products fall under the patent where there are questions, or to determine the precise date of patent expiration.

4. Develop and Implement a Sound Patent Marking Policy and Process.

Whatever you do, develop, adopt and implement a clear policy and process regarding product marking.

Once the policy is fully developed, implement it. Then make sure the policy implementation is monitored. Do not allow the good intentions of a well-fashioned policy, which is either poorly implemented or not unimplemented at all, come back to haunt the company when a *qui tam* plaintiff alleges an intent to deceive based on a “sham” marking policy.

5. Do You Want to Mark at All?

35 U.S.C. § 287 provides that a patent owner may mark its product, and failing to do so will limit the recovery of infringement damages to those occurring after actual notice is given (i.e., suit is filed). Thus, a patent owner is under no obligation to mark its products. The risk of false marking arises only when the patent owner exercises the option to mark its products. Before marking products, ask the following questions:

- Are there potential infringers that we want to notify of our patent rights? How can we best notify them of our rights given the *Medimmune*³⁹ case?
- In the event of infringement, how important is it for the company to recover damages for infringements occurring before the filing of suit? How easy is it to monitor for infringement of this patent? How likely will it be that infringement will go on for a long time without being detected?
- Is our primary objective in litigation an injunction or money damages? Will the failure to mark materially affect our ability to obtain a preliminary or permanent injunction given the *eBay*⁴⁰ decision?

If you face a false-marking claim, notwithstanding your best efforts, here are steps to defend the claim and minimize risk.

6. Seize the High Ground by Raising Constitutional Defenses.

False-marking cases are *qui tam* actions.⁴¹ A *qui tam* plaintiff must demonstrate the presence of three requirements to establish Article III standing: (1) an “injury in fact,” which is concrete and actual or imminent, not conjectural or hypothetical; (2) a “fairly traceable” connection between the injury in fact and defendant’s conduct; and (3) a “substantial likelihood” that the requested relief will remedy the alleged injury in fact.⁴²

In *Stauffer v. Brooks Bros., Inc.*, plaintiff, a practicing patent attorney and sometimes purchaser of defendants’ bow ties, brought a *qui tam* action under § 292 alleging false marking with regard to expired patents on defendants’ bow ties.⁴³ Defendants moved to dismiss, arguing that plaintiff lacked standing. The court agreed and dismissed the case, finding that plaintiff had “failed to allege that defendants’ conduct has caused actual or imminent injury in fact to competition, to the

39 *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

40 *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

41 *Stauffer v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248, 253 (S.D.N.Y. 2009).

42 *Vermont Agency of Natural Res. v. U.S. ex rel. Stevens*, 579 U.S. 765, 771 (2000) (citations omitted).

43 *Stauffer*, 615 F. Supp. 2d at 250.

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U.S. economy or to the public that could be assigned to his a *qui tam* plaintiff or be vindicated through this litigation.⁴⁴ The case is now on appeal to the Federal Circuit, and oral argument is scheduled for August 3.

While other courts have not been so receptive to Article III standing arguments,⁴⁵ the Federal Circuit's decision in the *Stauffer* case could prove to be a watershed event in limiting the ability of non-practicing entities to pursue false-marking claims.⁴⁶

7. Level the Playing Field by Moving to Transfer.

False-marking cases may provide excellent opportunities for 28 U.S.C. § 1404(a) motions to transfer venue.⁴⁷ One court in the Northern District of California considered and granted a motion to transfer venue in a false-marking case.⁴⁸

8. Remove the Financial Incentive by Limiting Damages Exposure.

Courts are not obligated to award \$500 for every falsely marked article.⁴⁹ At least one has awarded far less.⁵⁰ While the standards for assessing the amount of the penalty for false marking remain ill-defined, as a last line of defense consider how to limit the amount of such penalties. The penalty assessed may be mitigated by even unsuccessful efforts to avoid disseminating mismarked goods and deceiving the public, if the court is persuaded that the patent owner acted in ways it thought were reasonable. Subterfuge and disingenuous excuses are to be avoided at all costs.⁵¹ Think ahead and make plans—excuses concocted after the fact are a recipe for disaster.

9. Fight Back by Making a Record for an "Exceptional Case."

Although patent owners have faced limited success in seeking treatment of false marking wins as an "exceptional case" under 35 U.S.C. § 285,⁵² the new-found clarity in the rules may work to your advantage. If you have adopted a rational, transparent and effective program to avoid mismarking products but a few have still made it into the marketplace, consider positioning the matter for treatment as an exceptional case. Make your position clear in a polite but firm manner early and often. There is nothing like putting your opponent at risk to get a matter resolved.

Happy swimming!

44 *Id.* at 255.

45 *See, e.g., Juniper Networks v. Shipley*, 2010 WL 986809 (N.D. Cal., March 17, 2010); *Pequignot v. Solo Cup Co.*, 540 F. Supp. 2d 649, 654 (E.D. Va. 2008) (constitutional issue was not raised on appeal to Federal Circuit).

46 In addition, an amendment to the Patent Reform Act (S.B.515) in the U.S. Senate is designed not only to preclude future § 292 lawsuits by parties with no competitive injury, but also would apply retroactively to bar those lawsuits that are currently pending. *See* H.R. 4954 (March 25, 2010).

47 For a discussion of the rules relating to motions to transfer venue, *See IpQ: Enhancing Your IP IQ*, Vol. II, No. 4 (April 2010), "Untangling a Mess in Texas: Lessons Learned from Transferring Venue in the Eastern District."

48 *San Francisco Tech. Inc. v. Adobe Sys. Inc.*, 2010 WL 1463571 (N.D. Cal, April 13, 2010).

49 35 U.S.C. § 292(a) ("... not more than \$500 for every such offense."); *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

50 *Presidio Components Inv.v. Am. Tech. Ceramics Corp.*, 2010 WL 1462757 (S.D. Cal., April 13, 2010) (awarding \$.35 per unit on 651,675 offenses for sales of capacitors for a total of \$228,068.25).

51 *Compare Forest Group, Inc. v. Bon Tool Co.*, 2008 WL 2962206, *6 (S.D. Tex., July 29, 2008) (where the court declined to credit exculpatory testimony) *with Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790 (E.D. Va. 2009) (where Solo admitted mismarking).

52 *See, e.g., Stauffer v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248, 256 (S.D.N.Y. 2009).