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False Marking Revisited: Proof Of An "Intent To Deceive" Is Required, Even When The Product Was Knowingly Falsely Marked

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The Federal Circuit's decision last week in *Pequignot v. Solo Cup Co.* (Case No. 2009-1547, June 10, 2010) ("*Solo")* allows defendants in *qui tam* false marking cases to rebut the presumption that they acted with an "intent to deceive" when knowingly falsely marking their products. This ruling should provide a potentially effective defense for companies accused of falsely marking their products with patent numbers.

Late last year, in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), the Federal Circuit opened up a potential floodgate for *qui tam* litigation by ruling that each sale of an unpatented article that was falsely marked with a patent number was a separate offense under 35 U.S.C. § 292(a).[1] As of June 1, 2010, over 150 lawsuits alleging false marking have been filed in the wake of the *Forest Group* decision.

In the *Solo* case, the defendant produced cup lids using a thermoforming stamping machine. *Solo*, at 3-5. Solo included the number of its '797 patent, which expired in 1988, on its cup lids. *Id.* In 2000, Solo realized it was marking its lids with an expired patent number. The molds used to form the lids can last for 15 to 20 years, and would be expensive to replace. *Id.* Eventually, based upon advice from its outside counsel, Solo developed a policy under which it would not replace a mold solely to remove the number of the expired patent, but would omit the expired patent number when a new mold was manufactured. *Id.* Later on, Solo followed this policy with its '569 patent, when that patent expired in 2003. *Id.* The following year, Solo's outside counsel advised Solo to include the following language on its packaging: "This product may be covered by one or more U.S. or foreign pending or issued patents. For details, contact www.solocup.com."

The U.S. District Court for the Eastern District of Virginia granted summary judgment to Solo, finding no intent to deceive. The District Court interpreted *Clontech Labs Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005) as holding that false marking combined with knowledge of the falsity creates a *rebuttable* presumption of an intent to deceive, then concluded that Solo had rebutted that presumption.

The Federal Circuit agreed with the District Court's interpretation and application of *Clontech*. It held that, although Solo knew it was still producing cups bearing the expired patent numbers, it did not have the requisite "intent to deceive" the public, because it did so for financial reasons (replacing molds bearing the expired patent numbers would have been expensive), and it acted in good faith by replacing worn-out molds with unmarked molds in reliance on advice of counsel.

The Court also held that:

- Marking with an expired patent number is false marking, even if the patent did cover the product before the patent expired. The Federal Circuit did, however, reject the District Court's reasoning that listing expired patents had less potential for harm because any person with basic knowledge

of the patent system could look up a patent and determine its expiration date, and this would reduce the potential for being deceived. The Federal Circuit pointed out that determining the expiration date on a patent is not necessarily clear-cut, and may be difficult at times.

- In rebutting the *Clontech* presumption of intent to deceive, the accused false marker need only establish that its intent was not to deceive the public by a preponderance of the evidence.

- Solo's legend on its packaging, that its products "may be covered by one or more of U.S. or foreign pending or issued patents. For details, contact www.solocup.com," was an acceptable way of providing notice to potential infringers. The Court held that because this language was literally true, and because Solo provided a convenient way for a consumer to verify whether a specific product was covered, it was "highly questionable" that the statement was made with an "intent to deceive."

While the *Solo* case provides a potentially effective defense for the large number of companies accused of falsely marking their products, careful attention to marking policies should still be paid. Solo benefitted from its early caution in seeking advice of counsel and demonstrating good faith even though it was found to have knowingly falsely marked its products. In essence, Solo's financial reason for continuing to use incorrectly marked cup lids helped negate the "intent to deceive" element of the action. However, if an accused marker presented a *post hoc* argument primarily relying upon the costs required to remove a patent number from a product, without any documentation explaining its rationale for continuing to falsely mark, it may be less likely to succeed.

Somewhat surprisingly, neither the Court of Appeals nor the District Court appears to have inquired as to Solo's initial marking practices. For example, if Solo had immediately scrapped all of its molds when the '797 and '569 patents issued and ordered an entirely new set of molds marked with the patent numbers, the company's argument that it was too expensive *now* to replace the falsely marked molds would have rung hollow. Although neither published decision addresses this issue, a company's best practice might be to follow the same procedures and undergo the same level of expenses when removing expired or no longer applicable patent numbers as it did when it initially started marking its products.

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[1] Paul Hastings Client Alert, "False Marking Bears Its Teeth: The Federal Circuit Mandates Potentially Huge 'Per Article Damages Calculation'" (January 2010).