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False Patent Marking Liability Avoided for Lack of Intent to Deceive

Last December, we reported the decision by the United States Court of Appeals for the Federal Circuit in *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, (Fed. Cir. Dec. 28, 2009), which interpreted the false patent marking statute, 35 U.S.C. § 292, to require a per article penalty for falsely marking goods. Recently, the Federal Circuit issued another false marking decision, shedding additional light on what minimal type of evidence may be presented to rebut a presumption of intent.

On June 10, 2010, the Federal Circuit issued its decision in *Pequignot v. Solo Cup* (No. 2009-1547), an appeal of a summary judgment finding for Solo by the United States District Court for the Eastern District of Virginia. At issue in *Solo Cup* was (1) whether a product marked with an expired patent is an “unpatented product” within the scope of 35 U.S.C. § 292, and (2) whether Solo presented sufficient evidence to rebut the presumption of its intent to deceive created by falsely marking products and knowing that the products were falsely marked. The Federal Circuit confirmed that a product marked with an expired patent (even though the expired patent previously covered the product marked) is still an “unpatented product” and falsely marked within the scope of § 292. However, the court decided in favor of Solo, accepting its arguments that the improper marking activities were tempered by its reliance on the advice of counsel and the economic desire to replace only worn-out product molds and did not manifest the requisite intent to deceive the public.

The decision will likely slow the recent wave of profiteering *qui tam* false marking lawsuits, and will lessen the need for rapid legislation, which had been proposed earlier this year to close the perceived loophole in the ability of any plaintiff to profit from the unintentional false patent marking of products. At the very least, *Solo Cup* requires that a *qui tam* plaintiff be able to provide more particular evidence of a defendant’s intent to deceive. In addition, a forthcoming Federal Circuit case, *Stauffer v. Brooks Brothers, Inc.*, and possible Congressional action, may further increase the burden for a plaintiff to provide injury in a false marking suit and possibly limit who may bring a suit.

Background

Solo owned two patents covering a cold drink lid and a hot drink lid, U.S. Reissue Patent No. RE 28,797 (“’797 patent”) and U.S. Patent No. 4,589,569 (“’569 patent”), respectively. The ’797 patent expired on June 8, 1998, and the ’569 patent expired on October 24, 2003. The patent numbers were included in the mold that forms the respective drink lids. Solo alleged that it became aware it was marking drink lids with the expired ’797 patent number at some time in June 2000. Its outside intellectual property counsel initially informed Solo that even after expiration a patent number need not be removed. After further investigation, its outside counsel indicated that the best scenario was to remove the expired patent number from the products, but that liability actually hinged on an intent to deceive, and that any falsities in product literature should be avoided. On the advice of its counsel, Solo implemented the policy that expired patent numbers (including the ’569 patent which subsequently expired) would be removed from molds and other tooling when the equipment was replaced due to wear or damage. However, Solo would

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not affirmatively replace tooling to remove expired patent numbers for that reason alone. Doing so would be costly and burdensome, Solo contended. As a result, molds including the '797 patent and '569 patent numbers were used to manufacture lids up until the district court decision in this case.

Articles Marked with Expired Patent Numbers Are Falsely Marked

The false marking statute creates liability to “[w]hoever marks upon . . . any *unpatented article*, the word ‘patent’ or any word or number importing that the same is patented . . .” 35 U.S.C. § 292(a). In *Solo Cup*, Solo attempted to argue that articles marked with expired patents that previously covered the articles are not “unpatented articles” within the statute. The Federal Circuit disagreed, stating that “an article covered by a now-expired patent is unpatented,” and explaining 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.” *Solo Cup*, at 9. Accordingly, it makes no difference whether the patent number marked on an article ever covered the article or not. If the article is not covered at the time of the alleged false marking, then the article is “unpatented” and possibly subject to false marking penalties under § 292.

Knowledge of False Marking Alone Can Be Rebutted by Proving There Was No Desire to Deceive the Public

In addition to falsely marking an unpatented article, the false marking statute also requires that the false marking was “for the purposes of deceiving the public.” 35 U.S.C. § 292(a). Citing *Clontech Labs, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005), the Federal Circuit in *Solo Cup* confirmed that “the combination of a false statement and a knowledge that the statement was false creates a rebuttable presumption of intent to deceive the public,” but does not irrebuttably prove intent to deceive. *Solo Cup* at 11. In an attempt to explain that intent is a highly contextual and subjective analysis, the Federal Circuit states that when the false markings are expired patents that once covered the marked articles, the presumption of intent to deceive is weaker. In addition, the *Solo Cup* decision explained that “a good faith belief that an action is appropriate, especially when it is taken for a purpose other than deceiving the public, can negate the inference of a purpose of deceiving the public.” *Id.* at 12-14.

Solo presented at least two key arguments to rebut the presumption that it intended to deceive the public by falsely marking the lids. First, Solo argued that it specifically relied upon the advice of counsel that its actions and phasing-out policy would avoid false marking liability. Second, Solo alleged that its true intent was not to deceive the public about what was or was not covered by the patents. Instead its actions were for the sake of economic efficiency in order to reduce costs and to avoid business interruption. In response, the Federal Circuit found this evidence sufficient to rebut the presumption of intent, stating that “Solo’s leaving the expired patent numbers on its products after the patents had expired, even knowingly, does not show a ‘purpose of deceiving the public.’” *Solo Cup* at 15. Accordingly, the Federal Circuit affirmed summary judgment for Solo, finding that Solo effectively rebutted the presumption that it intended to deceive, and thus was not liable for false marking under 35 U.S.C. § 292.

In addition, although the court’s decision in *Solo Cup* did not turn on what constitutes an “offense” under 35 U.S.C. § 292(b), it did take the opportunity to mention the precedent of *Forest Group*, in which it held that the statute requires a per article penalty.

Therefore, it is possible that the *Solo Cup* decision may pose difficulties for the numerous false marking suits that have recently been filed after *Forest Group* and may slow the rate of new filings. Proving intent to deceive appears to require a significant amount of evidence that is more than just inferential. False

marking plaintiffs may, therefore, have difficulties proving such intent according to the standards of rebutting the presumption set forth in *Solo Cup*. Practically, it seems that having an actual plan in place for removing expired patent markings from products or packaging, which is tied to a simple economic or business motivation, no matter how long it takes, and which is confirmed by counsel, may provide good evidence of a lack of intent to deceive the public. Although, as the attorney for Solo indicated, the most reliable plan would be to remove expired patent markings as soon as practically possible.

Forthcoming Federal Circuit Decision in *Stauffer v. Brooks Brothers, Inc.* to Decide Standing and Injury

On appeal to the Federal Circuit from the United States District Court for the Southern District of New York, the case of *Stauffer v. Brooks Brothers, Inc.* (No. 2009-1428) presents the question of standing and injury in fact. Stauffer sued Brooks Brothers under 35 U.S.C. § 292 as a *qui tam* plaintiff, alleging Brooks Brothers falsely marked bow ties with patents expired more than 50 years ago. The lower court dismissed the case for lack of standing, holding that Stauffer, who is not a competitor to Brooks Brothers, cannot show injury in fact and did not allege any injury of the United States whose interest he represents as a *qui tam* plaintiff. Interestingly, the lower court acknowledged in a footnote that the lower court judge in *Solo Cup* did indicate that standing for a *qui tam* plaintiff under § 292 can be based solely on the United States government's "sovereign interest" in seeing its laws followed and the injury accompanying any violation of the law. Notwithstanding, the judge in *Stauffer v. Brooks Brothers* dismissed the case, still concluding that sufficient injury was not alleged by the plaintiff, and that, at the very least, injury to the United States was not alleged. Accordingly, *Stauffer v. Brooks Brothers* may provide further clarity as to who may bring a false marking suit and what type of injuries must be alleged for standing.



If you have any questions about this alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

William L. Warren
Brian J. Decker

404.853.8081
404.853.8130

bill.warren@sutherland.com
brian.decker@sutherland.com