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Federal Circuit Decision Likely to Limit Patent Owner Liability For False Marking

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On June 10, 2010, the Federal Circuit affirmed the Eastern District of Virginia's grant of summary judgment of no liability for false patent marking in favor of defendant Solo Cup Company in *Pequignot v. Solo Cup Co.*, No. 2009-1547 (Fed. Cir. 2010). The decision should help to limit exposure of patent owners to the flood of *qui tam* false marking lawsuits filed since last year's decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. Dec. 28, 2009).

The Federal Circuit's decision in *Forest Group* held that the false patent marking statute, 35 U.S.C. § 292, authorizes damages of up to \$500 per product sold with a false mark. This overturned decades of precedent starting from *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910), which held that the "\$500 per offense" language of the statute defines "offense" by each decision to mark products, rather than for each individual product sold. For example, a company might make a mold for an assembly line that falsely stamps a product with a patent number, and then make a million products. Prior to *Forest Group*, that company would have faced up to \$500 in damages; after *Forest Group*, that company could face up to \$500 million in damages. The possibility of obscenely high damages combined with the fact that a false patent marking action is a *qui tam* action that can be brought by any person in the United States led to a flood of false marking lawsuits. Through the first four months of 2010, over 130 new false marking cases were filed; only 10 false marking cases were filed in all of 2009.

Solo Cup Company ("Solo"), the well-known maker of disposable paper and plastic cups, had marked its plastic cold drink cup lids with U.S. Patent Re. 28,797 (the '797 patent) and U.S. Patent No. 4,589,569 (the '569 patent). The '797 patent expired on June 8, 1988; Solo discovered it was continuing to mark its lids with the '797 patent in 2000. On the advice of its outside counsel, who informed Solo that a false marking claim required a showing of "intent to deceive the public" with the false mark, Solo decided on a policy where it would allow the false mark to

remain on its molds, and remove the mark when they replaced the molds. These molds lasted for many years; so many products were marked with expired patents. Matthew Pequignot, a licensed patent attorney, discovered these lids marked with expired patents and filed suit against Solo in the Eastern District of Virginia. His claim, concerning over two billion lids, exposed Solo to damages possibly reaching over ten trillion dollars.

The district court granted summary judgment of no liability for Solo. Solo had attempted to defend itself on three different grounds: (1) products marked with expired patent were not "unpatented" articles under the statute, (2) its use of a mark stating "this product may be covered by one or more U.S. patents," being literally true, was not a false mark, and (3) it had no intent to deceive the public with its marks. The court rejected the first two arguments, but held that Solo had rebutted any presumption of intent to deceive with its evidence that it had relied in good faith on the advice of counsel and had acted out of a desire to reduce costs. The district court also, before the Federal Circuit's *Forest Group* decision, held that Solo's continuous marking of cup lids constituted a single offense, not multiple "distinct offenses". Pequignot appealed to the Federal Circuit.

The Federal Circuit affirmed the district court in all respects, except for its definition of "offense". In particular, the Federal Circuit noted that because Section 292 is a criminal statute, there is a high bar for proving deceptive intent. A false marking plaintiff therefore must show "a purpose of deceit, rather than simply knowledge that a statement is false." *Pequignot* at 13. Where a party has falsely marked products, it creates a rebuttable presumption of intent to deceive; the defendant's burden of proof in rebutting that presumption is a mere preponderance of the evidence. Because the statute requires a showing of deceptive intent, the court held that advice of counsel and good faith were appropriate defenses.

As the Federal Circuit affirmed the district court's summary judgment of no liability, it vacated the

district court's finding regarding the meaning of "offense" as moot. However, the panel of Judges Rader, Lourie, and Gajarsa may have indicated some interest in moving away from the potentially exorbitant damages allowed by the earlier *Forest Group* decision, since a footnote indicated that the requested award in this case was so large that it would have been sufficient to pay back 42% of the United States' national debt.