



JONES DAY
COMMENTARY

***PEQUIGNOT v. SOLO CUP*: THE FEDERAL CIRCUIT CONTINUES TO DEFINE AND CLARIFY THE LAW OF FALSE MARKING**

Suing for false patent marking has become a hot new litigation trend. It started slowly in 2008, and nearly 250 new lawsuits have been filed since the beginning of 2010 by disinterested third parties purportedly suing on behalf of the government to enforce the prohibitions of 35 U.S.C. § 292 (“Section 292”) against false patent marking. In the previous 100 years, Section 292 and its predecessor statutes were rarely invoked; the vast majority of cases were brought by a patentee’s competitor, typically as a counterclaim in a patent infringement suit.

In the face of this new wave of *qui tam* false marking cases, district courts found themselves dealing with issues such as standing, intent to deceive, expired patents, and computation of the proper penalty without much precedent for guidance. Indeed, the Federal Circuit had addressed false marking only twice in its 27-year history until the end of 2009.¹

¹ See *Arcadia Machine & Tool Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124, 1125 (Fed. Cir. 1986); *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005).

As false marking cases work their way through the courts, however, these issues are being presented to the Federal Circuit. At the end of 2009, the Federal Circuit ruled on the proper method for calculating penalties under Section 292. This fall, that court will consider whether *qui tam* relators have Article III standing to bring false marking claims on behalf of the government. And, on June 10, 2010, the Federal Circuit held that marking with an expired patent can constitute false marking *if* that marking is done with the intent to deceive the public. These decisions have provided and continue to provide the trial courts with guidance as they deal with this new wave of “marking troll” litigation.

BACKGROUND

Section 292 is a provision of the U.S. patent laws that prohibits intentional false marking of patent numbers on unpatented products. If a party marks an “unpatented” article with a patent number, and such marking was done “for the purpose of deceiving the

public,” the party is liable for a fine of “not more than \$500 for every such offense.”² The statute also permits “[a]ny person” to “sue for the penalty,” although half of any recovery must be given to the U.S. government.³

A few years ago, some enterprising patent attorneys began to push the boundaries of Section 292 by filing *qui tam* suits on behalf of the government against large companies that make and sell large quantities of products in the hope of recovering a penalty of up to \$500 per article sold. These suits were working their way through the courts when the U.S. Court of Appeals for the Federal Circuit (the “Federal Circuit”) decided *Forest Group, Inc. v. Bon Tool Co.*⁴ at the end of 2009. That decision rejected the prior methods for calculating false marking penalties and held that the fine for “every such offense” under Section 292 would now be measured on a per-article basis. In so doing, the court created significant financial incentives for bringing *qui tam* false marking suits and inspired a new wave of “marking troll” litigation.

THE FEDERAL CIRCUIT’S DECISION IN *SOLO CUP*

In the wake of *Forest Group* and the subsequent onslaught of new false marking cases, the Federal Circuit handed down another false marking decision in *Pequignot v. Solo Cup*⁵ on June 10, 2010.

Solo Cup, which is in the business of making disposable cups, bowls, plates, and utensils, holds a number of patents. It marked its patents on covered products by incorporating the patent numbers into the molds used to make them. In 1988, one of those marked patents expired, and Solo Cup became aware of this fact two years later. Solo Cup sought the advice of counsel to determine whether it had an obligation to remove the expired patent number immediately, which would have required a wholesale replacement of its mold cavities—a costly and burdensome undertaking. Following

the advice of counsel, the company developed a policy that when mold cavities were in need of replacement due to wear or damage, the new molds would not include expired patent markings. As Solo Cup’s patents expired, the numbers continued to be marked on Solo Cup’s products until the old molds were replaced in the ordinary course of business.

In 2004, Solo Cup implemented an additional marking policy in an effort to combat any concerns that the public would be confused about its patent coverage. It began marking its packaging with the phrase, “This product may be covered by one or more U.S. or foreign pending or issued patents. For details, contact www.solocup.com.” Following its counsel’s advice, Solo Cup chose the phrase “may be covered” for this marking because the phrase was printed on a wide variety of packaging, some of which contained unpatented articles.

Putative relator Pequignot sued to recover a fine of \$500 per allegedly falsely marked product.⁶ The district court granted summary judgment to Solo Cup, finding no intent to deceive and hence no violation of law.⁷ Applying the rebuttable presumption of intent to deceive described in *Clontech*,⁸ the district court concluded that Solo Cup successfully rebutted the presumption with evidence that it had relied in good faith on the advice of counsel and had acted out of a desire to reduce costs and business disruption.⁹ The Federal Circuit affirmed.

The Federal Circuit first considered whether marking with an expired patent number is false marking. The court rejected Solo Cup’s legislative history and other policy arguments, and held unequivocally that “articles marked with expired patent numbers are falsely marked” because “an article that is no longer protected by a patent is not ‘patented,’ and is more aptly described as ‘unpatented.’”¹⁰

2 35 U.S.C. § 292.

3 35 U.S.C. § 292(b).

4 590 F.3d 1295 (Fed. Cir. 2009).

5 Appeal No. 2009-1547, slip op. (Fed. Cir. June 10, 2010).

6 The Federal Circuit noted that United States’ share of Pequignot’s demand would have amounted to “an award to the United States of approximately \$5.4 trillion, [which] would be sufficient to pay back 42% of the country’s total national debt.” *Solo Cup*, slip op. at 5-6, n. 1.

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

8 406 F.3d 1347, 1352-53 (Fed. Cir. 2005).

9 *Id.* at 798-800.

10 *Solo Cup*, slip op. at 9 and 11.

Concerning the issue of intent to deceive, Pequignot argued that intent to deceive had been proven if he proved that Solo Cup's statements were false and that Solo Cup knew they were false.¹¹ The court rejected this formula, finding that at most "the combination of a false statement and knowledge that a statement was false creates a rebuttable presumption of intent to deceive the public, rather than irrebuttably proving such intent."¹² The court further explained that "[t]he bar for proving deceptive intent here is particularly high, given that the false marking statute is a criminal one," and "a purpose of deceit, rather than simply knowledge that a statement is false, is required."¹³ The court concluded: "Thus, mere knowledge that a marking is false is insufficient to prove intent if Solo can prove that it did not consciously desire the result that the public be deceived."¹⁴ Finally, the court noted that Pequignot's burden to prove intent to deceive was by a preponderance of the evidence and that Solo Cup's burden to rebut intent to deceive should be no higher than what was needed to create the presumption.¹⁵

Applying these principles to the facts at bar, the court held that Solo Cup had successfully rebutted the presumption of intent to deceive. Solo Cup introduced evidence that it relied in good faith on the advice of counsel. Pequignot argued that such reliance cannot excuse liability, but the court disagreed: "Here, the required intent is not intent to perform the act, *viz.*, falsely mark a product, but instead intent to deceive the public. Thus, 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."¹⁶ The court agreed that Solo Cup could not defeat the inference of bad intent with "blind assertions of good faith," but held that Solo Cup raised more than such blind assertions:

11 *Id.* at 11.

12 *Id.*

13 *Id.* at 12.

14 *Id.* at 13.

15 *Id.* at 13-14.

16 *Id.* at 14.

Instead, Solo has cited the specific advice of its counsel, along with evidence as to its true intent, to reduce costs and business disruption. Moreover, the policy Solo adopted conforms with its stated purpose. Rather than continuing to manufacture mold cavities with the expired patent markings, Solo took the good faith step of replacing worn out molds with unmarked molds. Solo also provided un rebutted evidence that it implemented and followed the policy.¹⁷

As to the "may be covered" language marked on Solo Cup's packaging, the court affirmed the lower court's finding that this alleged mismarking was also done without the requisite intent to deceive because the statement was true; it was added at the suggestion of Solo Cup's counsel to provide notice to the public of Solo Cup's patents, and it was added to all packaging because the alternative was inconvenient from a logistical and financial perspective.¹⁸

WHAT THE FUTURE HOLDS FOR FALSE MARKING LITIGATION

Forest Group's impact was immediately clear: With the prospect of recovering a fine for each falsely marked article, actions for false marking became and continue to be a hot new U.S. litigation trend. The number of actions filed continues to grow, although the pace has decreased in recent weeks.¹⁹ Further, while *Solo Cup* answered the question of whether marking with an expired patent is false marking and gave some guidelines for proving the requisite level of intent to deceive, many important questions remain unanswered. What follows are several points to consider.

17 *Id.* at 15.

18 *Id.* at 16. Interestingly, the court noted *in dicta* that Solo Cup's legend directing the public to its web site would not satisfy the marking requirements of Section 287 because it did not reference a specific patent number. *Id.*

19 See Justin E. Gray, "'Patent Marking Police' Out in Full Force," available at <http://www.grayonclaims.com/home/2010/2/17/patent-marking-police-out-in-full-force.html> (Feb. 17, 2010) (last visited June 16, 2010).

What is a “Proper” Penalty? No one knows. In *Forest Group*, the Federal Circuit did not give much, if any, guidance for calculating a proper penalty or what factors should be considered in the analysis. Instead, the court remanded the case to the district court to determine the proper penalty. On April 27, 2010, the district court issued its decision setting the fine for Forest Group’s false marking at \$6,840.²⁰ The court imposed a per-article fine of “\$180.00 for each set of the 38 stilts for which there was evidence at trial of false marking.”²¹ Excluding those stilts sold during the period when Forest Group had a genuine belief that they were covered by the patent, the court arrived at the \$180 fine by considering evidence that the mismarked stilts were sold at prices between \$103 and \$180 per unit and choosing the highest point in the range for the fine.²² The court justified this penalty because, “This will deprive Forest of more than it received from the falsely-marked stilts, fulfilling the deterrent goal of § 292’s fine provision.”²³

Shortly before the district court imposed its fine in *Forest Group*, a district court in California imposed a false marking fine in the case of *Presidio Components Inc. v. American Technical Ceramics Corp.*²⁴ Like *Forest Group*, *Presidio* involved a situation where the patentee continued to mark its capacitors with the patent number after learning that they were not covered by its patent.²⁵ Because the patent number was used both in advertising as well as being marked on the product, the court rejected *Presidio*’s proposal that the fine should be based on only those capacitors that were actually shipped with the falsely marked label, and instead applied the fine to all capacitors shipped during the relevant time period.²⁶ Turning to the amount of the fine, the

court attempted to “strike an appropriate balance between enforcing the public policy embodied in the statute and not imposing a disproportionately large fine for relatively small violations.”²⁷ The court found that a fine of \$0.35 per unit suggested by American Technical’s expert was appropriate, which was about 32 percent of *Presidio*’s overall average sales price of \$1.07 per capacitor.²⁸ The court explained that “the fine is substantial enough to enforce the public policy embodied in the statute and to deter any similar violations in the future. On the other hand, by not imposing a disproportional liability for what appears to be an ‘inexpensive mass-produced article,’ the fine serves its deterrent function without over-penalizing *Presidio*.”²⁹ The court levied a fine of \$0.35 per unit for a total of \$228,086.25.

The precedential value of these two decisions remains to be seen. Both cases involved marking with patents after the patentee knew that the patent claims did not cover the product. These specific facts make the cases distinguishable from situations involving, for example, expired patents. Further, both district courts approached the penalty calculation differently and applied very different formulations (100 percent of the highest sales price vs. 32 percent of the average sales price), suggesting that the method for computing penalties under Section 292 remains very much unsettled.

Do the Potential Harms from False Marking Cited by the Federal Circuit in *Forest Group* Survive Real-World Scrutiny? Maybe not. First, how do inventors and competitors respond to patent markings? Isn’t it likely that a party sophisticated enough to obtain a patent and mark it on its products is competing with parties of at least equal sophistication? Such competitors would not likely be deceived by such marking, much less deterred, and, in any event, are well equipped to analyze the patent (which they probably would have done even without the marking), including the easy-to-determine question of whether it is still in term.

20 *The Forest Group, Inc. v. Bon Tool Co.*, No. H-05-4127, slip op. (S.D. Tex. Apr. 27, 2010).

21 *Id.* at 1-2. The district court denied Bon Tool’s motion to reopen discovery. *Id.* at 3-4.

22 *Id.* at 5.

23 *Id.*

24 2010 WL 1462757 (S.D. Cal. Apr. 13, 2010).

25 *Id.* at *40-*41. Just as in *Forest Group*, the district court did not impose a penalty for the goods sold during the period when *Presidio* had a good faith belief that its products were covered by the patent. *Id.*

26 *Id.* at *42.

27 *Id.*

28 *Id.*

29 *Id.*

Second, what impact do patent markings really have on individuals? Probably none. Markings usually appear in fine print in obscure locations on products—far removed from the bright colors and attractive packaging designed to attract consumers’ attention.

Third, is there any factual support for the claim that false marking is really a problem that needs to be fixed? The Federal Circuit described a parade of horrors, but it did not identify one single, real-world, concrete example where any one actually occurred.

Fourth, as the oft-cited potential effects of false marking are couched in terms of “some day harms,” when, if ever, is there a concrete and particularized injury sufficient to support Article III standing? In *Stauffer v. Brooks Brothers, Inc.*, the Federal Circuit will consider this issue. There, the district court dismissed a complaint that alleged conclusory and speculative injuries to the public, to competitors, and to the U.S. economy.³⁰ The district court held that an injury based solely on an alleged violation of the laws, a so-called “sovereign interest,” could not satisfy Article III standing requirements.³¹ The *Stauffer* appeal is currently pending before the Federal Circuit.

How Will the Policies Behind Section 287 and Section 292 Be Reconciled? This remains to be seen. Section 287 provides strong incentives to mark and imposes consequences on practicing patentees that don’t mark. Patentees now face a triple tension between the consequences of failing to mark (the inability to recover damages for past infringement if practicing the patent), the disadvantages of trying to protect their patent rights via actual notice (the choice between litigation as a first option and declaratory judgment retaliation), and the potential penalties if found to have intentionally falsely marked (a per-article fine).

30 615 F. Supp. 2d 248, 254-55 (S.D.N.Y. 2009).

31 *Id.* at 254 n.5.

Interestingly, a recent district court decision found testimony about a patentee’s policy and practice, without any other evidence of compliance with the marking requirement during the relevant time period, was *insufficient* to establish compliance with the marking requirements of Section 287.³² In an attempt to satisfy its burden of proving compliance with Section 287, the patentee offered only testimony from a corporate officer that “company policy and practice required that pails sold in the United States that had patented features be marked with the applicable patent.”³³ Because the patentee offered no other proof, such as photographs, affidavits, testimony, or supplementary declarations from any of the patentee’s customers to establish that the company policy had, in fact, been followed, the district court granted summary judgment for the defendant.³⁴ Will courts impose a similarly high standard on relators seeking to prove false marking based on a handful of allegedly representative products?

HOW ARE DEFENDANTS FIGHTING BACK AGAINST THE “MARKING TROLLS”?

Defendants have successfully challenged the pleadings in “marking troll” suits. False marking allegations have been dismissed because of insufficient factual pleadings under Rules 8, 9(b), and 12(b)(6), and lack of Article III standing under Rule 12(b)(1). Another theory, challenging Section 292 under Article II of the Constitution, has met stiffer resistance from litigants and the U.S. Department of Justice (intervening to defend Section 292’s constitutionality). To date, no Article II challenges have been successful. One defendant asserted as an affirmative defense that the United States was an indispensable party, but the district court struck the defense *sua sponte*.³⁵ The district courts are taking these

32 See *von Holdt v. A-1 Tool Corp.*, 1-04-cv-04123 (N.D. Ill. May 17, 2010).

33 *Id.* at 12.

34 *Id.* at 16. The patent expired two years before the patentee filed suit, and the patentee failed to give the defendant actual notice of the patent before it expired. *Id.* at 8.

35 *ZOJO Solutions Inc. v. The Stanley Works*, 1-10-cv-01175 (N.D. Ill. May 27, 2010).

challenges seriously, and many are staying false marking cases to wait for the Federal Circuit's guidance on the question of standing.³⁶

How Are Relators Trying to Exert Pressure on Defendants?

A relator in the Northern District of Ohio has moved for preliminary injunctions in several related false marking cases, asking not only for an injunction requiring the defendants to take the patent numbers off their products immediately, but also asking the court to force the defendants to recall any products shipped bearing the alleged false markings.³⁷

What's Next? False marking no longer languishes in obscurity. Changes are coming fast, both in district courts and the Federal Circuit. Given the recent surge in false marking suits and the continuing lack of clarity in the law, this is a rapidly evolving area that bears close attention.

36 As of June 11, 2010, at least 11 cases were stayed over relators' objections, at least nine cases were stayed on unopposed motions, and at least two cases were stayed on the court's own motion.

37 See, e.g., *Perfection Product Management, LLC v. Allway Tools, Inc.*, No. 5:10-cv-00459-DAP (N.D. Ohio May 20, 2010).

LAWYER CONTACTS

Jones Day has been representing defendants in false marking cases since 2008 and has a vast amount of experience in this area. If you have questions about patent marking and false marking issues, contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our "Contact Us" form, which can be found at www.jonesday.com.

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