

## Patent False Marking Claims Require Evidence of Deceptive Intent

On June 10, 2010, the Federal Circuit handed down its decision in *Pequignot v. Solo Cup Company*<sup>1</sup> which provides important guidance on whether and when a failure to remove expired patent markings from a product will meet the requirement of an intent to deceive in a false marking case. This decision follows on the court's December 2009 decision in *Forest Group, Inc. v. Bon Tool Company*<sup>2</sup>, which held that the penalty of up to US\$500 for false patent marking should be imposed for each article that is falsely marked. As predicted by the Federal Circuit itself, the *Forest Group* decision sparked a wave of false patent marking lawsuits seeking to capitalize on the increased potential for false patent marking, including a substantial number of actions brought against companies for failure to remove references to expired patents from their product packaging.

The *Pequignot* decision now clarifies the standard to be applied in determining whether a patentee's failure to remove an expired patent mark can result in liability for false marking. According to the Federal Circuit, marking items with expired patent numbers can constitute false patent marking. However, a plaintiff in a false marking case must still prove that the false marking was done with the intent to deceive the public. Proof of intent requires more than mere knowledge that the patent marking is false, and likely will require in most instances a fact-intensive inquiry regarding the defendant's motivation for continuing to mark its products with the numbers of expired patents.

*Pequignot*, a licensed patent attorney, filed a *qui tam* action under 35 U.S.C. § 292 in September 2007 alleging that Solo had falsely marked several products with the numbers of expired patents related to lids for drinking cups. As noted by the Federal Circuit in its opinion, *Pequignot* sought damages for the false marking that, if calculated at US\$500 per falsely marked unit, would have been approximately US\$5.4 trillion.

Solo had imprinted the relevant patent numbers directly on the drink lids themselves by adding the numbers to its "mold cavities" used to create the drink lids. The first drink lid patent expired in 1988. Solo became aware that it was continuing to mark its drink lids with the expired patent number in 2000. At that time, it consulted with outside counsel about the expired patent marking and was advised to remove the number, if possible. Thereafter, based on the advice of counsel, Solo developed a policy under which, when mold cavities needed to be replaced due to wear or damage, the new molds would not include the

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<sup>1</sup> Case No. 2009-1547 (Fed. Cir. June 10, 2010).

<sup>2</sup> 590 F.3d 1295 (Fed. Cir. 2009).

expired patent marking. When the second of the subject patents expired in 2003, Solo adopted the same policy with respect to removal of its patent markings as it had for the earlier patent. In addition, Solo, again on advice of counsel, stated on its product packaging that its products “may be covered” by one or more patents, and advised consumers to go to Solo’s website for details.

The district court granted summary judgment in favor of Solo, finding that, while marking a product with expired patents could constitute false marking, *Pequignot* had not presented any evidence that Solo had marked its products with the required intent to deceive the public. Moreover, the lower court found that false marking, combined with knowledge of falsity, created a rebuttable presumption of intent to deceive. However, the district court determined that Solo had rebutted that presumption by demonstrating 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, as the mold cavities used to create Solo’s drink lids were very expensive and lasted for a long time.

The Federal Circuit affirmed the district court’s grant of summary judgment in Solo’s favor. At the outset, the court agreed with the district court that an article covered by a now-expired patent is “unpatented,” for the purposes of the statute. In addition to noting that the term “unpatented” is unambiguous, the court pointed out that, from a public policy perspective, an article bearing an expired patent number “imposes on the public the cost of determining whether the involved patents are valid and enforceable” in the same way that a never-patented article does. Accordingly, a reference to an expired patent on a product or product packaging could form the basis for a false marking claim.

Regarding the intent element, applying both Federal Circuit and Supreme Court precedent, the court held that the combination of a false statement with knowledge of the statement’s falsity creates a presumption of deceptive intent. In the case of expired patents, however, the presumption is weaker because “after all, the products were once patented.” The court also held that the bar for proving intent to deceive is “particularly high,” requiring not only knowledge but a “conscious desire” to deceive. A defendant can successfully rebut this admittedly weak presumption by showing, by a preponderance of the evidence, that it did

not consciously desire to deceive the public. In *Pequignot*, Solo met this burden by offering credible evidence that it relied in good faith on the advice of counsel and made its decisions based upon legitimate desires to reduce costs and avoid interruption of its manufacturing process.

While the *Pequignot* decision does not conclusively end liability for false patent marking claims based on expired patents, it does provide valuable guidance on steps a company can and should take to protect itself from liability for false marking. First and foremost, a company should consider whether patent marking is the right course of action for its business needs. Patent marking protects a company’s right to seek damages from infringers prior to giving notice of a claim. If a company does not intend to enforce its patents, or does not foresee significant competition, then patent marking may not provide any benefit and could expose the company to a false marking claim if done incorrectly. Moreover, defense of a false marking claim in the manner endorsed by *Pequignot*, on the basis of reliance on advice of counsel, likely would require waiver of the attorney-client privilege. If a company decides to mark, it should consult with legal counsel regarding its patent marking policies, adopt a policy to audit its patent markings for accuracy, and remove markings for expired patents from its products. Moreover, under *Pequignot*, a company should take steps to document its good faith business reasons for any phased or delayed approach to removal of expired patent markings to rebut any presumption that continued use of those markings was done for the purpose of deceiving the public.

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*We hope that you have found this advisory useful. If you have additional questions, please contact your Arnold & Porter attorney or:*

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