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Patent Litigation Advisory

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Particularity Required For Pleading False Marking

Earlier this month, in a case of first impression, the Court of Appeals for the Federal Circuit held that complaints alleging false patent marking must satisfy heightened pleading standards. Under *In re BP Lubricants USA Inc.* (Fed. Cir. Mar. 15, 2011), general conclusory allegations are not sufficient for alleging an intent to deceive. Instead, false marking complaints must be pled "with particularity," as required by Rule 9 of the Federal Rules of Civil Procedure.

The false patent marking statute, 35 U.S.C. § 292, provides, in part, "Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word 'patent' or any word or number importing that the same is patented for the purpose of deceiving the public . . . [s]hall be fined not more than $500 for every such offense." Until two years ago, this provision was rarely the subject of litigation. Then, in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), the Federal Circuit interpreted "an offense" to occur each time an article is falsely marked. Thus, a company can be fined up to $500 *per article* even if each has identical marking. As a result, the potential fine increased exponentially and so did the number of cases.

Since January 2010, the number of false marking cases has exploded. Over 700 cases have been filed in federal district courts. Most, if not all, are being pursued by private parties on behalf of the United States as *qui tam* plaintiffs. Currently, anyone can file suit under Section 292 on behalf of the government. But this may not be true for long.

On March 8, 2011, the Senate passed the "America Invents Act," which would amend Section 292 to require that private parties demonstrate a "competitive injury" as a result of the alleged false marking. Such a revision would limit the number of potential plaintiffs. Further, the legislation would have sweeping effect because it "appl[ies] to all cases, without exception, pending on or after the date of the enactment of this Act." Consideration has now shifted to the House of Representatives where the House bill (H.R. 243) currently also requires a "competitive injury." This bill would also undue *Forest Group* and cap the fine at $500 for all falsely marked goods.

The complaint in *BP Lubricants* is illustrative of the new cases. In support of its Section 292 claims, it alleged that the defendant (i) knew or should have known of its patent's expiration, (ii) "is a sophisticated company with experience applying for, obtaining, and litigating patents," and (iii) marked its product "for the purpose of deceiving the public." The defendant moved to dismiss under Rule 9(b), which provides that a complaint "must state with particularity the circumstances constituting fraud or mistake." The Northern District of Illinois denied the motion, holding that the complaint met this heightened standard.

The defendant immediately sought review by the Federal Circuit, which granted the "extraordinary remedy" of a writ of mandamus to reverse the trial court. In its decision, the Federal Circuit held that the complaint failed as a matter of law to satisfy Rule 9(b) because its allegations lacked objective and specific facts that would allow a court to reasonably infer the requisite intent of the defendant.

In its decision, the Federal Circuit explained that "[a] complaint alleging false marking is insufficient when it only asserts conclusory allegations that a defendant is a 'sophisticated company' and 'knew or should have known' that the patent expired." Instead, "a [false marking] complaint must . . . provide some objective indication to reasonably infer that the defendant was aware that the patent expired." For example, a "bare assertion" that the defendant is a "sophisticated company and has experience applying for, obtaining, and litigating patents … provides no more of a basis to reasonably distinguish a viable complaint than merely asserting the defendant should have known the patent expired."

The significance of *BP Lubricants* is three-fold. First, it removes any doubt that the heightened standard of Rule 9(b) governs false patent marking cases. Second, future false marking cases will survive motions to dismiss only if the allegations identify specific facts with particularly. Third, as a result, the flood of cases is likely to abate.

Nonetheless, the Federal Circuit's decision did not alter Section 292 or disturb the holding in *Forest Group* that fines can be imposed on a per article basis. Accordingly, companies must continue to use care in their marking practices.