March 16, 2011

False Patent Marking: Federal Circuit Determines Rule 9(b) Heightened Pleading Standard Applies

By Wesley E. Overson and Daniel P. Muino

In a significant decision that may lead to the dismissal of numerous false patent marking actions, the Federal Circuit ruled yesterday that (1) the heightened pleading standard of Fed. R. Civ. P. 9(b) applies to claims for false patent marking, and (2) such claims are not adequately pleaded if they only allege that a defendant "knew or should have known" that the marked patent had expired. *In re BP Lubricants USA Inc.*, Misc. Docket No. 960 (Fed. Cir. 2011).

The False Marking Statute, 35 U.S.C. § 292, prohibits the placement of a patent mark (e.g., "Protected by U.S. Patent X,XXX,XXX") on an "unpatented article" (or its associated packaging or advertising) with the intent to deceive the public. A large number of plaintiffs have brought claims under Section 292 alleging false marking because expired patent numbers appear on product packaging or advertising. The recent wave of lawsuits is the result of *The Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), which interpreted Section 292(a)'s penalty of "not more than $500 for every such offense" to mean up to $500 for each article marked, as opposed to counting multiple marked articles as a single offense.

Up until yesterday, the Federal Circuit had left unanswered the question of what pleading standard applies to false marking claims. Trial courts across the country have taken different approaches, with some applying the liberal pleading standard of Fed. R. Civ. P. 8(a) and others applying the heightened pleading standard of Fed. R. Civ. P. 9(b).

Yesterday's Federal Circuit ruling in *BP Lubricants* establishes that Rule 9(b) applies and clarifies the degree of specificity that is required to state a claim for false patent marking.

FACTS OF *BP LUBRICANTS*

BP's CASTROL products are distributed in a unique bottle design for which BP received a design patent. Thomas A. Simonian, a patent attorney, brought an action for false patent marking against BP in the Northern District of Illinois. Acting as a qui tam relator on behalf of the United States, Simonian alleged that BP's patent expired on February 12, 2005, but BP continued to mark its bottles with the patent number after the patent expired, in violation of Section 292.

The relator's complaint also alleged, mostly "upon information and belief," that: (1) BP knew or should have known that the patent expired; (2) BP is a sophisticated company with experience applying for, obtaining, and litigating patents; and (3) BP marked the CASTROL products with the expired patent numbers to deceive the public and its competitors into believing the products were covered by the expired patent.

The district court denied BP's motion to dismiss, holding that the complaint stated an actionable claim and satisfied Fed. R. Civ. P. 9(b). BP then petitioned the Federal Circuit for a writ of mandamus.

WHAT THE FEDERAL CIRCUIT HELD

The Federal Circuit in *BP Lubricants* granted the petition for writ of mandamus and directed the district court to dismiss the complaint with leave to amend.

Rule 9(b) provides in part that:

> In alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake.

In determining whether Rule 9(b) applied to false marking, the court looked to an analogous area of law, the False Claims Act. Every regional circuit has held that a relator must meet the requirements of Rule 9(b) to bring a claim under the False Claims Act. (Slip op. at 5.) Because Section 292, like the False Claims Act, targets fraudulent conduct, the Federal Circuit concluded there was no reason to treat Section 292 actions any differently. (Slip op. at 6.) "Permitting a false marking complaint to proceed without meeting the particularity requirement of Rule 9(b) would sanction discovery and adjudication for claims that do little more than speculate that the defendant engaged in more than negligent action." (*Id.*)

Next, the Federal Circuit looked to its decision in *Exergen Corp v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009), which held that a pleading that simply avers the substantive elements of a claim sounding in fraud, without setting forth the particularized factual bases for the allegations, does not satisfy Rule 9(b). (Slip op. at 6.) *Exergen* further held that while "knowledge" and "intent" may be averred generally and a plaintiff may plead upon information and belief under Rule 9(b), the pleadings must allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind. (Slip op. at 6-7.) The court in yesterday's ruling held that "*Exergen*'s pleading requirements apply to all claims under Rule 9(b), not just inequitable conduct cases." (Slip op. at 7.)

The Federal Circuit stated that a complaint alleging a Section 292 claim must provide "some objective indication to reasonably infer that the defendant was aware that the patent expired." (Slip op. at 7.) The relator's complaint included only generalized allegations rather than specific underlying facts from which one could infer the requisite intent. (Slip op. at 8.) Thus, the complaint failed to meet the requirements of Rule 9(b). *Id.*

The court addressed and rejected several arguments made by the relator: *First*, the relator asserted that its allegation that BP is a "sophisticated company and has experience applying for, obtaining, and litigating patents" should be enough to satisfy Rule 9(b). (Slip op. at 8.) The court determined that this conclusory allegation was not sufficient to support the relator's claim. (*Id.*)

Second, the relator asserted that a false patent marking inherently shows the requisite scienter. (Slip op. at 9.) The Federal Circuit rejected this argument, finding that in situations where the relationship between factual falsity and state of mind is not apparent, more than a mere statement of falsity is required. (*Id.*)

Third, the relator asserted that unlike the inequitable conduct claim in *Exergen*, false marking is anonymous and not an individualized fraud requiring identification of actual individuals who knew the patent expired. (Slip op. at 9.) The Federal Circuit explained that naming specific individuals is not the only way to set forth facts upon which an intent to deceive can be reasonably inferred. (*Id.*) If, for instance, the defendant had sued a third party for infringement of the patent after the patent expired, but left the expired patent number on its product, then an intent to deceive might be inferred. (*Id.*) But no such facts were alleged by the relator.

Fourth, the relator argued that scienter in false marking is determined through the use of a rebuttable presumption. (Slip op. at 9.) In *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362-63 (Fed. Cir. 2010), the Federal Circuit held that "the combination of a false statement and knowledge that the statement was false creates a rebuttable presumption of intent to deceive the public, rather than irrebuttably proving such intent." (Slip op. at 10.) As noted in *Pequignot*, "'[t]he bar for proving deceptive intent [in false marking cases] is particularly high,' requiring that the relator show 'a purpose of deceit, rather than simply knowledge that a statement is false.'" (*Id.*) The Federal Circuit observed that pleading the facts necessary to activate the *Pequignot* presumption is simply a factor in determining whether Rule 9(b) is satisfied, but it does not, standing alone, satisfy Rule 9(b)'s particularity requirement. (*Id.*)

CONCLUSION

The *BP Lubricants* decision settles the disagreement among trial courts regarding which pleading standard applies to false marking claims under Section 292. The decision helps false marking defendants by requiring application of the heightened pleading standard of Rule 9(b), under which claims must be pleaded with greater particularity. The Federal Circuit made clear that claims that merely allege that a defendant is sophisticated and "knew or should have known" that its marked patent had expired are not sufficient to state a claim for false patent marking. Given the large number of false marking complaints that are pleaded in this manner, it is likely that many will be dismissed with leave to amend. Amendment of such complaints may be unavailing if the relator cannot muster sufficient facts to show an intent to deceive.

It should be noted, however, that the applicability of Rule 9(b) to false marking claims does not guarantee that such claims will be dismissed. The Federal Circuit signaled to plaintiffs that pleading, for example, that the defendant made revisions to the product packaging after the patent expired, but did not remove the expired patent number, may be enough to meet the standard.

While *BP Lubricants* will assist defendants in getting complaints dismissed at the pleadings stage, it is still important for companies to take steps to mitigate their exposure to false patent marking claims. Companies should continue to monitor the expiration date of patents that are marked on their products, with the goal of removing patent numbers when they expire. In light of *BL Lubricants*, it is especially important for companies to correct any mismarked products before asserting the marked patent in litigation or when revising the packaging of a marked product.

Contact:

Wesley E. Overson
(415) 268-6096
woverson@mofo.com

Daniel P. Muino
(415) 268-7475
dmuino@mofo.com

About Morrison & Foerster:

We are Morrison & Foerster—a global firm of exceptional credentials in many areas. Our clients include some of the largest financial institutions, investment banks, Fortune 100, technology and life science companies. We've been

included on *The American Lawyer*'s A-List for seven straight years, and *Fortune* named us one of the "100 Best Companies to Work For." Our lawyers are committed to achieving innovative and business-minded results for our clients, while preserving the differences that make us stronger. This is MoFo. Visit us at www.mofo.com.

Because of the generality of this update, the information provided herein may not be applicable in all situations and should not be acted upon without specific legal advice based on particular situations.