



JONES DAY
COMMENTARY

IN RE BP LUBRICANTS: FALSE PATENT MARKING CLAIMS MUST BE PLED WITH PARTICULARITY, AND CONCLUSORY ALLEGATIONS OF FALSE MARKING ARE INSUFFICIENT

On March 15, 2011, the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) issued its long-awaited decision regarding a request for mandamus relief brought by BP Lubricants USA, Inc. (“BP”). In that case, BP was sued for alleged false marking violations under 35 U.S.C. § 292 (“Section 292”). The plaintiff/relator, Thomas A. Simonian, alleged that BP had falsely marked containers of its CASTROL motor oil with the number of a design patent that expired in 2005. BP moved to dismiss the complaint on the grounds that false marking is a species of fraud subject to the heightened pleading requirements of Federal Rule of Civil Procedure 9(b), and that Simonian’s conclusory allegations—that BP is a “sophisticated company” that “knew or should have known” that the patent had expired—failed to meet that standard. The district court denied BP’s motion to dismiss. Rather than accept the district

court’s decision, BP sought mandamus relief from the Federal Circuit, which agreed with BP:

This court holds that Rule 9(b)’s particularity requirement applies to false marking claims and that a complaint alleging false marking is insufficient when it asserts only conclusory allegations that a defendant is a “sophisticated company” and “knew or should have known” that the patent expired.¹

BACKGROUND

Section 292 creates liability for marking “unpatented” articles as patented, imposes a \$500 penalty for “every such offense,” and permits “any person” to sue for the

¹ *In re BP Lubricants USA, Inc.*, Misc. No. 960, slip op. at 2 (Fed. Cir. Mar. 15, 2011).

penalty (splitting any penalty with the government). Specifically, Section 292(a) provides that:

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 the same is patented, for the purpose of deceiving the public ... [s]hall be fined not more than \$500 for every such offense.²

Enacted in 1952, Section 292 has rarely been invoked, leading to scant interpretive case law.³ But a few years ago, a handful of patent attorneys began filing suits, mostly citing products allegedly bearing expired patent numbers, in an effort to reap rewards for alleged violations of Section 292. These cases have been percolating through the courts and began reaching the Federal Circuit in 2009. In the last 15 months, the Federal Circuit handed down four decisions dealing with Section 292: *Forest Group, Inc. v. Bon Tool Co.*; *Pequignot v. Solo Cup Co.*; *Stauffer v. Brooks Brothers*; and, most recently, *In re BP Lubricants USA, Inc.*

In the first of these four decisions, the Federal Circuit affirmed the district court's finding that the defendant had, with deceptive intent, marked 38 pairs of drywall stilts with a patent number that did not cover the marked product.⁴ Interpreting the penalty portion of the statute, the court held for the first time that the penalties for false marking should be assessed on a per-article basis.⁵

In the second decision, *Pequignot v. Solo Cup Co.*, the court considered the issue of deceptive intent under Section 292. It held that "[t]he bar for proving deceptive intent ... is particularly high, given that the false marking statute is a criminal one..."⁶ The court also held that an accused false marker may

rebut allegations of deceptive intent by relying on evidence of good faith, which in that case was the advice of counsel.⁷

In the third case, *Stauffer v. Brooks Brothers*, the court held that a private *qui tam* relator could satisfy the requirements of Article III and, therefore, had standing to bring false marking claims on behalf of the government.⁸

The net effect of these three decisions has been an exponential growth in the filing of false marking lawsuits by private parties accusing companies of falsely marking their products with expired patent numbers. Since the Federal Circuit's decision in *Forest Group*, approximately 900 false marking lawsuits have been filed in federal district courts across the country, and more than 100 of them were filed in the last 30 days. Thomas Simonian filed nearly 40 false marking suits himself.

While the full effect of this most recent, fourth decision remains to be seen, it could weed out unsupported false marking claims and curtail the filing of new false marking lawsuits.

DISTRICT COURT SPLIT ON THE PROPER PLEADING STANDARD

Before *BP Lubricants*, there was a split of authority at the district court level as to whether false marking claims were subject to the heightened pleading requirements of Rule 9(b) or the more liberal pleading requirements of Rule 8(a). As false marking defendants moved to dismiss unsupported allegations, their motions met with mixed results. Some district courts dismissed conclusory allegations, like those pled by Simonian, finding that they failed to satisfy either

2 35 U.S.C. § 292(a).

3 From its inception in 1982 until late 2009, the Federal Circuit only rarely gave meaningful attention to section 292. See *Arcadia Machine & Tool, Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124 (Fed. Cir. 1986) (Rich, J.); *Clontech Labs, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005).

4 590 F.3d 1295, 1300 (Fed. Cir. 2009). See "*Forest Group, Inc. v. Bon Tool Co.*: Opening the Floodgates for a New Wave of Suits by 'Marking Trolls,'" *Intellectual Prop. Magazine* 68 (May 2010), reprinted in AIPPI e-News No. 12 (May 2010) and available at http://www.jonesday.com/files/Publication/bf8ed9ed-74eb-4931-8164-07f3a5b9f2e4/Presentation/PublicationAttachment/a9dfcef6-c821-444f-9979-157b03fbid26/AIPPI_e-News_NO12.pdf (last visited Mar. 15, 2011).

5 590 F.3d at 1304.

6 608 F.3d 1356, 1363 (Fed. Cir. 2010). See "*Pequignot v. Solo Cup*: The Federal Circuit Continues to Define and Clarify the Law of False Marking," *Jones Day Commentary* (June 2010), available at http://www.jonesday.com/pequignot_v_solo_cup/ (last visited Mar. 15, 2011).

7 608 F.3d at 1363-64.

8 619 F.3d 1321 (Fed. Cir. 2010). See "*Stauffer v. Brooks Brothers, Inc.*: Private Parties Have Standing To Sue Under the False Marking Statute," *Jones Day Commentary* (September 2010), available at <http://www.jonesday.com/istauffer-v-brooks-brothers-inci-private-parties-have-standing-to-sue-under-the-false-marking-statute-09-03-2010/> (last visited Mar. 15, 2011).

Rule 8(a)⁹ or Rule 9(b).¹⁰ Some other courts found that Rule 8(a) was the proper standard and that it was satisfied by the relator's bare bones pleading.¹¹ And still other district courts declined to decide which rule applied because they found the allegations sufficient under either standard.¹²

For those district courts that decided the issue of what standard to apply, the majority concluded that Rule 9(b) was the proper standard for assessing the sufficiency of a false marking claim. The U.S. government agreed. While the BP mandamus petition was pending, the government filed an amicus brief supporting *petitioner*, BP. The government argued, against its own apparent interest, that Rule 9(b) should be applied in false marking cases: "The position of the United States is that, consistent with other cases 'sounding in fraud,' False Marking cases should be subject to the pleading requirements of Rule 9(b)."

Not only did the government advocate in favor of the heightened pleading requirements of Rule 9(b), it criticized Simonian's threadbare pleadings: "The conclusory allegations pled in this case, *i.e.*, that a defendant is a 'sophisticated company' which 'knows, or should know' that the patent at issue had expired, are insufficient to satisfy Rule 9(b)'s pleading standard, even under its relaxed standard for pleading intent." And later in that same brief, the government reiterated this point, labeling Simonian's claims as "bare bones allegations."

THE FEDERAL CIRCUIT PUTS TO REST THE ISSUE OF THE PROPER PLEADING STANDARD FOR FALSE MARKING CLAIMS

In granting the mandamus relief sought by BP, the Federal Circuit first considered whether Rule 9(b) applies to false marking claims. The court concluded that it did for two reasons.

First, the court acknowledged that in all cases sounding in fraud or mistake, Rule 9(b) requires that the plaintiff plead its claims with particularity. The court noted that the purpose of Rule 9(b) is to "act as a safety valve to assure that only viable claims alleging fraud or mistake are allowed to proceed to discovery,"¹³ and it endorsed the idea that by eliminating insufficient pleadings at the initial stages of litigation, Rule 9(b) prevents relators from using discovery as a fishing expedition.

Second, the court looked to the False Claims Act for guidance. The court found that every regional circuit has held that a relator must satisfy Rule 9(b) when bringing a claim under the False Claims Act on behalf of the government. In light of this analogous case law, the court concluded:

We see no sound reason to treat § 292 actions any differently. Rule 9(b)'s gatekeeping function is also necessary to assure that only viable § 292 claims reach discovery and adjudication. 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.¹⁴

THE FEDERAL CIRCUIT HOLDS THAT CONCLUSORY ALLEGATIONS OF FALSE MARKING ARE INSUFFICIENT

Applying the 9(b) standard to the false marking claims brought by Simonian, the court looked to its prior decision in *Exergen Corp. v. Wal-Mart Stores, Inc.*¹⁵ In *Exergen*, the court held that when pleading the substantive elements of a claim sounding in fraud or mistake, a plaintiff must set forth the factual bases for the allegations with particularity. The court further held that while knowledge and intent may

9 See, e.g., *Brinkmeier v. Graco Children's Prods. Inc.*, 684 F. Supp. 2d 548 (D. Del. 2010).

10 See, e.g., *Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009).

11 See, e.g., *United States ex rel. FLPMC, Inc. v. Ace Hardware Corp.*, No. 2:10-cv-00229-AJS, 2010 WL 1904023 (W.D. Pa. May 7, 2010).

12 See, e.g., *Simonian v. Irwin Indus. Tool. Co.*, No. 1:10-cv-01260, 2010 WL 3488129 (N.D. Ill. Aug. 27, 2010).

13 *In re BP Lubricants USA, Inc.*, slip op. at 5.

14 *Id.* at 6.

15 575 F.3d 1312 (Fed. Cir. 2009).

be averred generally and pled on information and belief, the plaintiff must nonetheless “allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind.”¹⁶ The court in *BP Lubricants* confirmed that “*Exergen’s* pleading requirements apply to all claims under Rule 9(b), not just inequitable conduct cases.”¹⁷

Applying the teachings of *Exergen*, the court criticized the district court’s reliance on Simonian’s general allegation that BP knew or should have known that the patent expired, calling it “clearly incorrect.” Instead, the court instructed that “a complaint must in the § 292 context provide some objective indication to reasonably infer that the defendant was aware that the patent expired.”¹⁸

Simonian argued in the alternative that *Exergen* is distinguishable or that his complaint met the standards in *Exergen*. The court rejected each of Simonian’s arguments in turn.

First, Simonian argued that by alleging that BP is a sophisticated company with experience applying for, obtaining, and litigating patents, he had satisfied the Rule 9(b) standard. The court disagreed:

That bare assertion provides no more of a basis to reasonably distinguish a viable complaint than merely asserting the defendant should have known the patent expired. Conclusory allegations such as this are not entitled to an assumption of truth at any stage in litigation.¹⁹

Second, Simonian argued that false marking inherently shows scienter. Again, the court disagreed. Simonian had relied on the Supreme Court’s recent decision in *Merck & Co. v. Reynolds* as support for this argument, citing the example of one claiming “I am not married” when in fact the person is married. The court pointed out that *Merck* recognized other contexts where the relationship between factual

falsity and state of mind is not nearly as apparent. False patent marking, the court held, “clearly falls into the latter category, requiring more than a mere statement.”²⁰

Third, Simonian argued that false marking is “anonymous,” and it would not be reasonable to require the relator to identify particular individuals. The court rejected this argument because “naming of specific individuals is not the only way to set forth facts upon which intent to deceive can be reasonably inferred.”²¹ The court noted that the government suggested in its *amicus* brief some potential allegations that might pass muster under Rule 9(b)—that the defendant sued a third party for infringement after the patent expired or made multiple revisions to the marking after expiration—but Simonian had made no such allegations.

Fourth, Simonian emphasized that a rebuttable presumption applies in false marking cases, unlike securities fraud and inequitable conduct. While the court acknowledged the applicability of the rebuttable presumption set forth in *Pequignot v. Solo Cup*, it rejected the idea that Simonian could rely on the presumption to avoid the requirements of Rule 9(b):

“[T]he 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.” This court agrees that the *Pequignot* presumption informs the determination of whether a false marking plaintiff has met Rule 9(b). However, as we noted in *Pequignot*, “[t]he bar for proving deceptive intent [in false marking cases] is particularly, high, requiring the relator show “a purpose of deceit, rather than simply knowledge that a statement is false.” That relator pled the facts necessary to activate the *Pequignot* presumption is simply a factor in determining whether Rule 9(b) is satisfied; it does not, standing alone, satisfy Rule 9(b)’s particularity requirement.²²

¹⁶ *Id.* at 1327.

¹⁷ *In re BP Lubricants USA, Inc.*, slip op. at 7.

¹⁸ *Id.*

¹⁹ *Id.* at 8.

²⁰ *Id.* at 9.

²¹ *Id.*

²² *Id.* at 10 (internal citations omitted).

WHAT *BP LUBRICANTS* MEANS GOING FORWARD

The Federal Circuit's decision in *BP Lubricants* has the potential to affect most, if not all, of the hundreds of currently pending false marking cases. The vast majority of the defendants have moved to dismiss the false marking complaints for failing to satisfy the requirements of Rule 9(b). Some of these motions have been denied and may need to be reconsidered.

In any event, the Federal Circuit has confirmed that district courts have a means to weed out poorly pled false marking lawsuits that have been plaguing manufacturers of every conceivable tangible good—from pharmaceuticals to toothbrushes, electronics to chewing gum, and Thanksgiving turkey to golf balls. No longer can false marking relators rely on conclusory allegations based on information and belief without pleading specific facts that can reasonably support the inference that the marking was false *and* that the defendant knew it was false.

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