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FALSE MARKING UPDATE: THE BEGINNING OF THE END OR THE END OF THE BEGINNING?

In late 2009, the Federal Circuit’s unexpected opinion in *Forest Group, Inc. v. Bon Tool Co.*¹ spawned a flood of false marking cases. Since then, hundreds of false marking cases have plagued patent owners in virtually every industry segment, and case law in the area has developed at an accelerated rate.

New case law precedent and proposed legislation may put the final nails in the coffin of the false marking litigation fad. There is cautious optimism that the beginning of the end of false marking claims is at hand. Given these developments, a review of the law’s current status should be a part of your IP IQ.

Established Rules for False Marking Claims

To begin our discussion, let’s review the established rules relating to false marking—both longstanding rules and those that developed in the immediate aftermath of *Forest Group*.

- **Marking** -- Per 35 U.S.C. § 287(a), patent owners may “give notice to the public” that their products are patented by “marking” them with the word “patent” and the patent number.
- **False Marking** -- 35 U.S.C. § 292(a) (¶12), provides, “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 . . . Shall be fined not more than \$500 for every such offense.”
- **Penalty for False Marking** -- If false marking occurs, 35 U.S.C. § 292(b) provides, “Any person may sue for the penalty [not more than \$500 for every such offense], in which event, one-half shall go to the person suing and the other to the use of the United States.”
- **Per Article Penalty** -- As the Federal Circuit surprisingly announced in *Forest Group*, 35 U.S.C. § 292(b) requires penalties for false marking on a **per article** basis.² But this does not mean that a court must impose a fine of \$500 for every falsely marked article.³
- **Two False Marking Elements** -- A basic two-step test is used to determine false marking: “(1) marking an *unpatented* article and (2) *intent to deceive* the public.”⁴
- **Unpatented Article** -- An article is *unpatented* under § 292(a) when it is (1) not covered by at least one claim of each patent with which it is marked,⁵ or (2) marked with an expired patent.⁶

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1 590 F.3d 1295 (Fed. Cir. 2009).
 2 *Id.* at 1304.
 3 *Id.* at 1304 (citing 35 U.S.C. § 292(a)).
 4 *Id.* at 1300 (citing *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005)) (emphasis added).
 5 *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d at 1352.
 6 *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1361 (Fed. Cir. 2010).

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• **Intent to Deceive** -- A party asserting false marking must show by a preponderance of the evidence that the accused party did not have a reasonable belief that the articles were properly marked.⁷ Falsely marking an *unpatented* article, when combined with knowledge of the falsity, creates a rebuttable presumption of an intent to deceive the public.⁸ To rebut the presumption, the patent owner bears the burden of showing it did not have the requisite purpose to deceive.⁹ When the false markings are expired patents, the presumption of intent to deceive is weaker.¹⁰

• **Plaintiff's Standing to Sue** – False marking cases are *qui tam* actions.¹¹ A *qui tam* plaintiff (relator) must meet three requirements to establish Article III standing: (1) an "injury in fact" which is concrete and actual or imminent; (2) a "fairly traceable" connection between the injury in fact and defendant's conduct; and (3) a "substantial likelihood" that the requested relief will remedy the alleged injury in fact.¹² The Federal Circuit has opined that a plaintiff's standing arises from her status as "any person" under § 292(b), and she need not allege more for jurisdictional purposes.¹³

New Cases Alter the Playing Field

• **Heightened Pleading Requirements** – In March 2011, the Federal Circuit held that a false claims relator must meet the heightened pleading requirements of Rule 9(b), Fed. R. Civ. P.¹⁴ In the *BP Lubricants* complaint, plaintiff asserted, mostly "upon information and belief," that BP (1) "knew or should have known" that the patent had expired, (2) is a "sophisticated company" with "experience applying for, obtaining, and litigating patents," and (3) marked products with the patent numbers for the purpose of deceiving the public and its competitors.¹⁵ BP moved to dismiss the complaint, in part, for failure to adequately allege an "intent to deceive." When the district court denied the motion, BP petitioned the Federal Circuit for a writ of mandamus directing the district court to grant the motion to dismiss.¹⁶

Addressing an issue of first impression and granting the writ, the Federal Circuit held that "Rule 9(b)'s particularity requirement applies to false marking claims and 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."¹⁷

Elaborating on application of the Rule 9(b) standard to false marking cases, the Federal Circuit held, "Because the relator's complaint here provided only generalized allegations rather than specific underlying facts from which we can reasonably infer the requisite intent, the complaint failed to meet the requirements of Rule 9(b)."

Immediately after *BP Lubricants*, some false marking cases were dismissed. But the long-term effect is less clear. First, even though it granted the petition for writ of mandamus, the *BP Lubricants* court directed the district court to dismiss the complaint with leave to amend in accordance with Rule 9(b) requirements.¹⁸ Leave to amend may be the rule rather than the exception in these types of cases, as Rule 15(a)(2), Fed. R. Civ. P., provides that the court "should freely give leave [to amend] when justice so requires."

7 *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d at 1300.

8 *Pequignot v. Solo Cup Co.*, at 1362-63.

9 *Id.* at 1363, 1364.

10 *Id.* at 1364.

11 *Vermont Agency of Natural Res. v. U.S. ex rel. Stevens*, 579 U.S. 765, 768 n.1 (2000); *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010).

12 *Vermont Agency of Natural Res. v. U.S. ex rel. Stevens*, 579 U.S. at 771 (citations omitted).

13 *Stauffer v. Brooks Bros., Inc.*, 619 F.3d at 1327.

14 *In re BP Lubricants USA Inc.*, No. 960, 2011 WL 873147, at *1 (Fed. Cir., Mar. 15, 2011) (fraud or mistake must be pleaded with "particularity").

15 *Id.*

16 *Id.*

17 *Id.*

18 *Id.* at *5.

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... in February 2011, a district court judge in Ohio expressly found that § 292 is an unconstitutional violation of the Constitution's Take Care Clause and granted the defendant's motion to dismiss on that ground.

But the district courts are not uniform in their false marking statute analysis. Two recent cases specifically addressed the issue and found the statute constitutional.

Second, some courts have already found allegations sufficient, even under the Rule 9(b) standard. In *Hollander v. Ortho-McNeil-Janssen Pharmaceuticals, Inc.*,¹⁹ a district court found the false marking allegations adequate. Initially, the court observed that the plaintiff "must plead the who, what, when, where, and how of the fraud."²⁰ Then, the district court concluded that allegations that defendant had a working knowledge of the patents based on (1) active involvement in litigation involving the patents, (2) applications by generic drug manufacturers to the Center for Drug Evaluation and Research to produce drugs after the patents expired, and (3) multiple post-expiration packaging revisions, were not conclusory and were sufficient to meet the pleading requirements.²¹

Similarly, in *Luka v. Procter and Gamble Co.*,²² the district court found that allegations of false marking against some defendants were adequate while allegations against others were not based on case-specific facts.

Based on this precedent, it seems unlikely that the Rule 9(b) pleading standard will, by itself, prove to be the end of false marking claims.

• **Qui Tam Provision Unconstitutional** – Constitutional challenges to § 292 may yield a more permanent fix. In *Stauffer v. Brooks Bros., Inc.*, the Federal Circuit acknowledged an *amicus* argument that the government cannot constitutionally assign any claim without retaining control over the relator's actions because such an assignment violates the Take Care Clause of Article II, Section 3 of the U.S. Constitution.²³ But, declining to take up the issue in that case, the Federal Circuit noted that the district court did not decide, and the parties did not appeal, the constitutionality of § 292.²⁴

Addressing the issue head-on in February 2011, a district court judge in Ohio expressly found that § 292 is an unconstitutional violation of the Constitution's Take Care Clause and granted the defendant's motion to dismiss on that ground.²⁵ After a lengthy analysis of precedent, the district court concluded that (1) § 292 is a criminal statute,²⁶ (2) it was bound by the "sufficient control" analysis adopted by the U.S. Supreme Court in *Morrison v. Olson*,²⁷ and (3) the government lacks sufficient control under § 292 to enable the executive branch to "take Care that the Laws be faithfully executed."²⁸ After allowing the government's belated motion to intervene, the *Unique Product Solutions* court nonetheless reaffirmed its earlier order.²⁹

But the district courts are not uniform in their false marking statute analysis. Two recent cases specifically addressed the issue and found the statute constitutional.³⁰

Ultimately, the Federal Circuit will address the constitutional issue. In addition to the expected appeal of *Unique Product Solutions*, the appeal of *FLFMC, LLC v. Wham-O, Inc.*,³¹ presents the same constitutional issues that were raised by the defendant/appellee when the plaintiff/appellant appealed the dismissal of its claims. Briefing in *FLFMC* is expected to be completed this spring with argument likely this fall. The government has intervened to protect the statute.

19 No. 10-00836, 2011 WL 1288676 (E.D. Pa., April 5, 2011).

20 *Id.* at *2.

21 *Id.* at *4, *6.

22 No. 10-2511, 2011 WL 1118689 (N.D. Ill., March 28, 2011).

23 619 F.3d 1321, 1327 (Fed. Cir. 2010).

24 *Id.*

25 *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-1912, 2011 WL 649998 (N.D. Ohio, Feb. 23, 2011).

26 *Id.* at *8 (citing *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010)).

27 *Id.* at *8 (citing *Morrison v. Olson*, 487 U.S. 654 (1988)).

28 *Id.* at *6.

29 *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-1912, 2011 WL 924341, at *3 (N.D. Ohio, March 14, 2011).

30 *Luka v. Procter and Gamble Co.*, No. 10-2511, 2011 WL 1118689 (N.D. Ill., Mar. 28, 2011); *Hy Cite Corp. v. Regal Ware, Inc.*, No. 10-168, 2011 WL 1206768 (W.D. Wis., Mar. 15, 2011).

31 No. 10-0435, 2010 WL 3156162 (W.D. Pa., Aug. 2, 2010).

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Proposed Legislation Would End the Game

If enacted, pending legislation would put an end to virtually all false marking claims. Recall that, in *Stauffer v. Brooks Bros., Inc.*, the Federal Circuit held that standing under § 292 arises from the relator's status as "any person."³² Pending legislation would reverse this ruling.

• **America Invents Act**³³ – The latest iteration of Senate patent reform legislation was introduced January 25, 2011. The pertinent portion of the bill would amend § 292 as follows:

- By adding the following language at the end of subsection (a) (which provides for a \$500 per article penalty), "Only the United States may sue for the penalty authorized by this subsection";
- By deleting old subsection (b) (which authorizes "any person" to sue), and inserting, "Any person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury";
- By providing that, "The amendments made by this subsection shall apply to all cases, without exception, pending on or after the date of the enactment of this act."

Enjoying bipartisan support, the bill passed in the Senate by a 95-5 vote on March 8, 2011, and was sent to the House of Representatives.

• **House Resolution 1249**³⁴ -- The House bill contains essentially the same false marking language as its Senate counterpart. The House Judiciary Committee passed the bill on April 14, 2011. The bill now awaits consideration by the entire House. Assuming the House passes the bill before the August recess and it is promptly sent to the Conference Committee, it may become law before the end of the year. A delay into 2012 and the distractions of an election year may mean that the legislation will not become law during this congressional session.

If passed as part of broader patent reform legislation, the foregoing provisions would eliminate false marking lawsuits except for those the U.S. government files or those filed by a competitor who can prove competitive injury. This would effectively end the "cottage industry" for false marking claims.

Conclusion

The end of false marking claims is likely at hand. A combination of judicial and legislative fixes is likely to put an end to these claims once and for all. Keep an eye out for the following:

- Passage of the America Invents Act later this year. This act would effectively end false marking claims.
- A Federal Circuit opinion on the constitutionality of § 292. Such a bold move may not be likely in light of the pending legislation and the Federal Circuit's prior pronouncements, but one never knows.
- Cases further delineating pleading requirements and potentially raising the bar for those who would seek to bring false marking claims based on nothing more than a mark involving an expired patent.

One can only wonder, "What's next?"

³² 619 F.3d 1321, 1327 (Fed. Cir. 2010).

³³ Previously the Patent Reform Act of 2011, S. 23, 112th Cong. § 2(k) (2011).

³⁴ America Invents Act, H.R. 1249, 112th Cong. § 15(b) (2011).