



## Intent must be pleaded with particularity for false marking claim in use

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*In re BP Lubricants USA Inc.*, Misc. Dkt. No 960, US Court of Appeals for the Federal Circuit, 2011 US App. LEXIS 5015, 15 March 2011

### Abstract

Intent must be pleaded with particularity to state a false marking claim under 35 USC §292 in the USA.

### Legal context

Following *Forest Group, Inc. v Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), a cottage industry for so-called ‘patent marking trolls’ has proliferated. In that case, the US Court of Appeals for the Federal Circuit interpreted the US false marking statute (35 USC §292) as providing for up to \$500 in damages for each unit that has been falsely marked with a patent number. Previously, many had understood section 292 to impose the \$500 damages limit on the false marking claim as a whole, rather than for each unit that is falsely marked. Further, as reported in a previous Current Intelligence, in *Stauffer v Brooks Brothers, Inc.*, 619 F.3d 1321 (Fed. Cir. 2010), the Federal Circuit reaffirmed the broad scope of standing available to bring such lawsuits, finding that a violation of the statute is itself a sufficient harm to provide standing to a *qui tam* plaintiff for such an action (see Charles R. Macedo, ‘ANY’ person has standing for false marking claim in use, *jiplp* (2011) 6 (1): 12–4).

According to data compiled and reported by *Patently-O*, in 2008, and in 2009 before the 28 December 2009 decision in *Forrest*, there were fewer than a dozen complaints for false marking filed each year in US federal courts (<http://www.falsemarking.net/cases.php>, visited on 22 March 2011). After that decision, a tidal wave of false marking suits surfaced, including complaints filed on 29 and 30 December 2009, against more than a dozen entities. Since then, over 1300



entities have been sued in US federal courts based on claims of false marking.

While, according to *Patently-O*, the total settlement value associated with such lawsuits was just under \$10 million as of 15 March 2011 (see *False Marking Settlement Updates*, *Patently-O*, 15 March 2011), the sheer number of such lawsuits has clogged the courts and brought the issue to the forefront of corporate consciences.

In *BP Lubricants USA Inc.*, Misc. Dkt. No 960, 2011 US App. LEXIS 5015 (Fed. Cir. 15 Mar. 2011), the Federal Circuit granted the extraordinary remedy of mandamus to clarify the pleading standard with respect to such false marking actions. It is hoped that the high pleading standard set by *BP Lubricants* will curtail such assertions in future pleadings.

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## Facts

BP Lubricants USA Inc. manufactures motor oil products under the well-known brand name CASTROL<sup>®</sup>. These products are distributed in a unique bottle design for which BP received a design patent (US Design Patent No D314,509, issued on 12 February 1991).

In February 2010 Thomas A. Simonian, a patent attorney, filed a *qui tam* relator complaint on behalf of the USA under 35 USC §292 in the US District Court for the Northern District of Illinois. (Mr Simonian has brought many other false marking actions as a *qui tam* relator against a large number of companies.)

In the complaint, Simonian averred:

Defendant [BP Lubricants] has violated 35 U.S.C. § 292(a), by marking certain of its CASTROL<sup>®</sup> branded products with United States Patent Number D314,509 ('the '509 Patent'), even though the patent is expired, and has been expired since February 12, 2005. On information and belief, Defendant marks certain of its CASTROL<sup>®</sup> branded products with the '509 Patent with the intent to deceive the public and to gain a competitive advantage in the market.

The complaint included detailed pleadings as to the actual alleged false marking, including pictures of the product with the allegedly false marks. To support the intent element, the complaint included the following paragraphs:

19. Upon information and belief, Defendant is a sophisticated company and has experience applying for, obtaining, and litigating patents.

20. Defendant by itself or by its representatives cannot genuinely believe that a patent does not expire and that prospective patent rights apply even after its expiration.



21. Upon information and belief, Defendant knows, or should know (by itself or by its representatives), that the '509 Patent marked on the CASTROL<sup>®</sup> Products have expired and/or do not cover the products to which the marking is affixed.

22. Upon information and belief, Defendant knows, or should know (by itself or by its representatives), that CASTROL<sup>®</sup> Products are not covered by the '509 Patent marked on such products because an expired patent has no prospective patent rights.

23. As a sophisticated company with, upon information and belief, experience applying for, obtaining, and litigating patents, Defendant knows, or reasonably should know, of the requirements of 35 U.S.C. §292.

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25. Upon information and belief, Defendant intentionally included the '509 Patent in the patent markings of the CASTROL<sup>®</sup> Products, in an attempt to prevent competitors from using the same or similar bottle design.

26. Upon information and belief, Defendant marks the CASTROL<sup>®</sup> Products with the '509 Patent for the purpose of deceiving the public into believing that something contained in or embodied in the products is covered by or protected by the expired '509 Patent. ...

29. Upon information and belief, Defendant knows, or reasonably should know, that marking the CASTROL<sup>®</sup> products with false patent statements was and is illegal under Title 35 United States Code. At a minimum, Defendant had and has no reasonable basis to believe that its use of the false markings was or is proper and otherwise permitted under federal law.

In the prayer for relief, Simonian sought, inter alia, '[a]n award of monetary damages, pursuant to 35 U.S.C. §292, in the form of a civil monetary fine of \$500 per false marking "offense", or an alternative amount as determined by the Court, one half of which should be paid to the United States of America'.

In June 2010, BP brought a motion to dismiss Simonian's Complaint on the following grounds:

(1) These allegations are insufficient under Fed. R. Civ. P. 8(a) and 9(b), and do not support a false marking claim against BP Lubricants based on intent to deceive the public; and

(2) Plaintiff lacks Constitutional standing to bring this suit' since '[t]hese allegations are again entirely speculative and do not allege the existence of an injury sufficient to confer Constitutional standing'.

The first ground relied upon, inter alia, the Federal Circuit's decision in *Exergen Corp. v Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009), an inequitable conduct case, as



support. The second ground relied upon the district court's decision in *Stauffer v Brooks Brothers* since, when the motion was filed, the Federal Circuit's decision rejecting that theory (discussed above) had not yet issued.

In a Minute Order dated 25 August 2010, the court denied BP's motion to dismiss for the reasons explained in *Simonian v Oreck*, No 10 C 1224, 2010 US Dist. LEXIS 86832 (N.D. Ill. 23 August 2010).

In *Oreck*, cited by the 25 August 2010 Minute Order and issued by the court two days prior, the same District Judge Gettleman, wrote an extensive decision explaining why Mr Simonian had standing to bring suit against *Oreck*, and why the complaint against *Oreck* was pleaded with sufficient particularity. On the later point, the court explained with respect to the 'who, what, where, when and how' as follows:

Defendants assert that Simonian has failed to allege the who, what, when, where and how to satisfy Rule 9(b). The court disagrees. Simonian has alleged that defendants (who) have deliberately and falsely marked (how), at least the Oreck XL Classic Power Team vacuum cleaner (what) with an expired patent, and have marketed and are currently marketing the falsely marked product(s) (when) throughout the Northern District of Illinois and the rest of the United States (where). Simonian has alleged the deceptive intent generally, which conforms to the requirements of Rule 9(b). For the above-mentioned reasons, the court rejects defendants' argument that the complaint is insufficient under Rule 9(b).

Judge Gettleman continued:

Having sufficiently pled that defendants have falsely marked a product with an expired patent, Simonian needs only to have sufficiently alleged defendants' deceptive intent. '[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.' *Pequignot [v. Solo Cup Co.]*, 608 F.3d [1356,] 1362–63 [(Fed. Cir. 2010)]. Simonian's complaint specifically states that the '902 Patent and the '315 Patent are expired and falsely marked on products, and that defendants had knowledge that these patents were expired and therefore the marks are false. *By alleging that defendants had knowledge of their false marking and that the marks were false creates a rebuttable presumption of deceptive intent.* Because defendants have sufficiently, albeit generally, alleged deceptive intent and for the other reasons discussed herein, defendants' motion to dismiss pursuant to Fed. R. Civ. P. 12(b)(6) is denied (emphasis added).

Oreck settled before an appeal of this order was taken. Thereafter, BP filed a Petition for Mandamus to the Federal Circuit, which is the subject of *BP Lubricants*.



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## Analysis

On the petition, the Federal Circuit granted the extraordinary remedy of mandamus and found:

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 only asserts conclusory allegations that a defendant is a 'sophisticated company' and 'knew or should have known' that the patent expired. The petition is granted in part.

Section 292 provides in relevant part:

(a) 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.

(b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.

The Federal Circuit first addressed the 'predicate question, one of first impression for this court: whether or not Fed. R. Civ. P. Rule 9(b)'s particularity requirement applies to false marking claims under § 292'. Fed. R. Civ. P. 9(b) provides:

In alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake. Malice, intent, knowledge, and other conditions of a person's mind may be alleged generally.

The Federal Circuit explained the purpose of Rule 9(b) as follows:

The Rule acts as a safety valve to assure that only viable claims alleging fraud or mistake are allowed to proceed to discovery. By eliminating insufficient pleadings at the initial stage of litigation, Rule 9(b) prevents relators using discovery as a fishing expedition. See *Braden v Wal-Mart Stores, Inc.*, 588 F.3d 585, 598 (8th Cir. 2009).

In deciding that Rule 9(b) did apply to claims under §292, the Federal Circuit analogized false marking claims to claims brought under the False Claims Act, another *qui tam* statute: '[E]very regional circuit has held that a relator must meet the requirements of Rule 9(b) when bringing complaints on behalf of the government' under the False Claims Act. *Id.* The *BP Lubricants* court concluded:

We see no sound reason to treat §292 actions any differently. Like the False Claims Act, §292



condemns fraudulent or false marking. 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.

Having decided that Rule 9(b) applied to claims under §292, *BP Lubricants* considered the standard for determining whether Rule 9(b) was met. The court turned to the Federal Circuit precedent *Exergen* (the same authority relied upon by BP Lubricants at the district court level), and noted that '*Exergen's* pleading requirements apply to all claims under Rule 9(b), not just inequitable conduct cases'. With respect to the pleading requirements under *Exergen*, *BP Lubricants* explained:

In *Exergen*, this court held that a pleading that simply avers the substantive elements of a claim sounding in fraud or mistake, without setting forth the particularized factual bases for the allegations, does not satisfy Rule 9(b). See *Exergen*, 575 F.3d at 1326–27. We further held that although 'knowledge' and 'intent' may be averred generally and that a plaintiff may plead upon information and belief under Rule 9(b),

our precedent, like that of several regional circuits, requires that the pleadings allege sufficient underlying facts from which a court may reasonably infer that a party acted with the requisite state of mind.

In particular, the *BP Lubricants* court found that the district court's reliance 'on the relator's general allegation that BP knew or should have known that the patent expired', while nonetheless failing 'to allege any facts inferring that BP was aware of the patent's expiration' to be 'clearly incorrect'. As the court explained:

A plaintiff is not empowered under the Rules 'to plead the bare elements of his cause of action, affix the label "general allegation", and expect his complaint to survive a motion to dismiss'. *Ashcroft v Iqbal*, 129 S. Ct. 1937, 1954 ... (2009). Instead, a complaint must in the §292 context provide some objective indication to reasonably infer that the defendant was aware that the patent expired.

Thus, the Federal Circuit concluded, '[b]ecause 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)'.

The Federal Circuit then considered (and rejected as 'unpersuasive') the specific positions articulated by the relator Simonian as to why his Complaint nonetheless met the obligations of Rule 9(b).

First, the *BP Lubricants* court 'disagree[d]' with the relator's contention that



‘asserting in the complaint that BP is a “sophisticated company and has experience applying for, obtaining, and litigating patents” is enough under Rule 9(b)’. The Federal Circuit explained, ‘[t]hat 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. *Ashcroft*, 129 S. Ct. at 1952’.

Next, the *BP Lubricants* court rejected the contention that ‘a false marking inherently shows scienter’ as ‘also unpersuasive’. In particular, the court distinguished this type of factual falsity from a false statement like ‘I am not married’ when the speaker is married, since in the case of false marking, the ‘relationship between factual falsity and state of mind is not nearly as apparent’. As the Federal Circuit concludes, ‘[t]his situation [the assertion of false marking] clearly falls into the latter category, requiring more than a mere statement’.

Third, in response to the relator's contention ‘that unlike the inequitable conduct claim featured in *Exergen*, false marking is “anonymous” and is not an individualized fraud’, the court explained that ‘[o]verlooked by the relator is that the naming of specific individuals is not the only way to set forth facts upon which intent to deceive can be reasonably inferred. In an amicus brief, the United States points out that a relator can, for example, allege that the defendant sued a third party for infringement of the patent after the patent expired or made multiple revisions of the marking after expiration. None of these or similar assertions are present in the complaint here’.

Finally, the *BP Lubricants* court addressed the relator's attempt to invoke the rebuttable presumption of scienter, based on the decision in *Pequignot v Solo Cup Co.*, 608 F.3d 1356, 1362–3 (Fed. Cir. 2010), which 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’. In particular, the *BP Lubricants* court pointed to the fact that “[t]he bar for proving deceptive intent [in false marking cases] is particularly high”, requiring that relator show “a purpose of deceit, rather than simply knowledge that a statement is false”. Thus, the Federal Circuit explained, ‘[t]hat 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’.

Concluding that the pleadings were insufficient under §292, *BP Lubricants* considered ‘whether the circumstances of this case warrant this court's issuance of a writ of mandamus’ and noted that the question raised was one of first impression for the Federal Circuit and the subject of contradictory decisions in the district courts, thus ‘[c]onsiderations presented in this case, however, warrant the extraordinary remedy of mandamus’.

The court thus granted mandamus in part to direct the district court to dismiss the complaint for failure to state a claim, with leave to amend in accordance with the pleading requirements set forth in the decision.



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## Practical significance

In my earlier Current Intelligence regarding *Stauffer*, it was predicted that, '[t]he remand in *Stauffer*, however, provides hope that under heightened pleading standards for claims of fraud under Rule 9(b), such as evidenced in *Exergen Corp. v Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009), the failure of *qui tam* plaintiffs to plead intent with sufficient particularity in the first instance should prevent the prosecution of many of these cases'. In *BP Lubricants*, the Federal Circuit confirmed that the heightened pleading requirements would indeed apply.

On a separate note, while not a subject of the Petition for Mandamus in *BP Lubricants*, BP has also filed a Notice of Constitutional Challenge to the *qui tam* provisions of 35 USC §292(b), which may be the subject of a future Current Intelligence either in further proceedings, assuming the relator can marshal sufficient facts to plead a claim, or in another case likely to raise this issue. Compare *Unique Prod. Solutions, Ltd. v Hy-Grade Valve Inc.*, No 5:10-CV-01912, 2011 US Dist. LEXIS 25328 (N.D. Ohio 14 Mar 2011) with *Pub. Patent Found., Inc. v GlaxoSmithKline Consumer Healthcare, L.P.*, No 09 Civ. 5881, 2011 US Dist. LEXIS 30676, at \*8–11 (SDNY, 22 Mar 2011).

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## Footnotes

<sup>1</sup>Charles R. Macedo, Amster, Rothstein & Ebenstein LLP, New York, NY. Charles Macedo is author of [The Corporate Insider's Guide to US Patent Practice](#), published by Oxford University Press in 2009. Mr. Macedo may be reached at [cmacedo@arelaw.com](mailto:cmacedo@arelaw.com).