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High Tide For False Patent Marking Claims?

Paul W. Garrity and
Amanda Zablocki

SHEPPARD MULLIN RICHTER &
HAMPTON LLP

False patent marking claims under 35 U.S.C. § 292, claims that unpatented products or services have been mislabeled, have been the scourge of corporate counsel for the past two years. Recent rulings from the U.S. Court of Appeals for the Federal Circuit (the federal appeals court with exclusive jurisdiction over patent disputes), however, suggest that the recent flood of such litigation may be subsiding. The court in *In re BP Lubricants*, No. 2010-M960, 2011 WL 873147 (Fed. Cir. March 15, 2011) ruled that the heightened pleading requirements of Rule 9(b) apply to such claims. The Federal Circuit thereupon ruled that an amended complaint was properly dismissed without leave to amend where the district court applied Rule 9(b) in dismissing the plaintiff's original complaint. *Juniper v. Shipley*, No. 2010-1327, 2011 WL 1601995, at *6 (Fed. Cir. Apr. 9, 2011). Coupled with recent District Court rulings in *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 2011 WL 649998 (N.D. Ohio Feb. 23, 2011) and *Rogers v. Tristar*, No. 5:11-cv-01111 (E.D. Pa. June 2, 2011), which have ruled the false patent marking statute violates the Take Care and

Paul W. Garrity is a Partner in the Intellectual Property Practice Group in the firm's New York office, and Amanda Zablocki is an Associate in the Business Trial Practice Group in the firm's New York office.



Paul W.
Garrity



Amanda
Zablocki

Appointment clauses of Article II of the United States Constitution, holding that the statute improperly allows for a plaintiff to enforce the rights of the United States government without the government's participation or supervision (the *Hy-Grade Valve* case is on appeal to the Federal Circuit), the tide may be turning against this opportunistic litigation.

Opening The Floodgates

The false patent marking statute prohibits the use of the word "patent" or any word or number importing that an unpatented article is patented for the purpose of "deceiving the public." 35 U.S.C. § 292(a). The statute allows "any person" to sue for the penalty, which is a fine of not more than \$500 for every such offense, and provides that half of any such award is retained by the party bringing suit (the other half going to the federal government). 35 U.S.C. § 292(b). The first false patent marking statute was enacted in 1842. Historically, claims for false patent marking were relatively rare. *See Tex. Data Co. v. Target Brands, Inc.*, No. 2:10-269-TJW, 2011 U.S. Dist. LEXIS 2917, at *6 (E.D. Tex. Jan. 12, 2011).

The floodgates first opened when the Federal Circuit in *Forest Group, Inc. v. Bon Tool Co.*, 590 F. 3d 1295 (Fed. Cir. 2009) ruled that the false marking penalty of "\$500 for every such offense"

meant a fine of up to \$500 per falsely marked article. *Id.* at 1303-04. The Court thereupon ruled in *Stauffer v. Brooks Brothers, Inc.*, 615 F. Supp. 2d 248 (Fed. Cir. 2010) that a *qui tam* relator (the private plaintiff bringing the case on behalf of the United States) has standing even if the relator does not suffer any personal injury.

This immediately resulted in thousands of false patent marking cases being filed across the country. As *Bon Tool* gives courts discretion to award anything from pennies on the dollar to the maximum fine of \$500 per article marked, the potential exposure on these claims easily could run into the millions of dollars. Indeed, the Federal Circuit in *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010) noted that the defendant allegedly falsely marked 21,757,893,672 articles, for which plaintiff was seeking to recover *trillions* of dollars in fines. Weary of these potentially devastating fines, many defendants in 2010 opted for settlement. These early settlements and findings, in turn, bolstered the enthusiasm of the plaintiffs' bar.

Application Of Rule 9(b) Standard

On March 15, 2011, the Federal Circuit ruled that Rule 9(b) applies to false marking claims. In *BP Lubricants*, the Federal Circuit granted in part a petition for writ of mandamus to consider the applicability of Rule 9(b) particularity requirements to false marking claims. As a threshold matter, the Court determined that Rule 9(b) applies. The Court went further, however, to find that although "knowledge" and "intent" may be averred generally, "a complaint must in the § 292 context provide some objective indication to reasonably infer that the defendant was aware that the patent

Please email the authors at pgarrity@sheppardmullin.com and azablocki@sheppardmullin.com with questions about this article.

expired.” 2011 WL 873147 at *7. “Conclusory allegations,” such as the relator’s allegation that the defendant was a “sophisticated company” and “knew or should have known” that the patent had expired, are not sufficient and “are not entitled to an assumption of truth at any stage in litigation.” *Id.* at 8.

Most notably, the Court clarified its decision in *Pequignot v. Solo Cup*, which had ruled 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.” *Id.* at 10. The Federal Circuit held that making these allegations are a *factor* in determining whether Rule 9(b) is satisfied; “it does not, standing alone, satisfy Rule 9(b)’s particularity requirement.” *Id.* at 10.

The Federal Circuit has already applied the Rule 9(b) standard to dismiss another false marking case in *Juniper Networks, Inc. v. Shipley*, 2011 WL 1601995 (Fed. Cir. Apr. 29, 2011). At minimum, applying a heightened pleading standard at the outset of the complaint requires plaintiffs to conduct a more rigorous pre-filing investigation, which will result in fewer false marking claims being filed.

Constitutional Challenges In The District Courts

Recent challenges to the false marking statute have been brought under the Take Care and the Appointments Clauses of Article II of the U.S. Constitution. The Appointments Clause states that the Executive “shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the Supreme Court, and all other Officers of the United States.” U.S. Const. Art. II, §2. The Take Care Clause states that the Executive shall “take care that the Laws be faithfully executed.” U.S. Const. Art. II, § 3. Litigants challenging Section 292(b)’s *qui tam* provisions contend that the statute does not afford the Executive Branch sufficient control over the conduct of false marking relators to ensure that the President is able to perform his constitutionally assigned duties.

The Supreme Court has explained the proper analysis for courts to apply when assessing whether Congress has uncon-

stitutionally diminished executive power by permitting private plaintiffs to sue in the name of the United States. *See Morrison v. Olson*, 487 U.S. 654 (1988). The Supreme Court found that statutory delegation of the Executive Branch’s law enforcement authority is only permissible when the relevant statute grants the Executive Branch “sufficient control over the [third party] to ensure that the President is able to perform his constitutionally assigned duties” under the Appointments and Take Care Clauses. *Id.* at 696. Critical to the *Morrison* decision was that the independent counsel provided for under the statute at issue in the case were appointed and removed at the request of the Attorney General, had their jurisdiction limited by the Attorney General, and had to abide by Department of Justice policies. *Id.* at 655-56, 671-72. Thus, a statute granting authority to sue on behalf of the government to a non-governmental body must give the President sufficient control to allow the President to comply with his duties under the Appointments and Take Care Clauses.

Earlier this year, in *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 2011 WL 649998 (N.D. Ohio Feb. 23, 2011), a district court ruled for the first time that the false marking statute fails to meet this constitutional standard. The court held that, while the false patent marking statute assigns authority to sue and provides for distribution of any proceeds, it contains no safeguards or controls allowing for governmental oversight of any case filed. For example, a plaintiff in a false patent marking case is not required to notify the government of the initiation of the action, to allow the government to intervene, or to provide the government with oversight or some measure of control. There are no provisions allowing the government to limit a relator’s participation or to prevent the dismissal of an action by the relator. Indeed, according to *Hy-Grade Valve*, “the False Marking statute essentially represents a wholesale delegation of criminal law enforcement power to private entities with no control exercised by the Department of Justice.” 2011 WL 649998 at *6 (*citing Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010)).

Most recently, on June 2, 2011, the

Eastern District of Pennsylvania ruled that the false marking statute violated the U.S. Constitution. *Rogers v. Tristar*, No. 5:11-cv-01111, 2011 WL 2175716, *10-12 (E.D. Pa. June 2, 2011). While the court in *Rogers* identified several cases rejecting the constitutional challenge to 35 U.S.C. § 292, the court arrived at the same conclusion as *Hy-Grade Valve*. Applying the *Morrison* “sufficient control” test, the court in *Rogers* found that “the United States is not able to effectively exercise even a basic degree of control over a section 292(b) relator case” to pass constitutional muster. *Id.* at *11.

After The Flood?

With the debate getting increasingly heated at the district court level, the Federal Circuit is poised to take on the constitutionality of the false marking statute. In just a few weeks, the Federal Circuit will hear oral argument in *U.S. ex rel. FLMC v. Wham-O*, No. 2011-1067 on this precise issue. In *Wham-O*, the plaintiff appeals the dismissal of its complaint accusing Wham-O of marking Frisbees with expired patents. *See U.S. ex rel. FLMC v. Wham-O*, No. 10-0435, 2010 WL 3156162, at *8 (W.D. Pa. Aug. 3, 2010). Wham-O has raised the argument that the statute violates the Take Care clause of Article II of the U.S. Constitution. The Intellectual Property Owner’s Association (IPO) has requested that all of the false marking cases pending on the issue of constitutionality before the Federal Circuit be considered *en banc*. Oral argument on the constitutionality of the false marking statute in *Wham-O* has been scheduled for July 7, 2011.

With pleadings standards heightened and constitutionality challenged, the attraction of false patent marking claims may be on the wane. The Justice Department has recently published a compendium of recent settlement figures for false marking cases (found at http://www.justice.gov/civil/common/F OIA_frr.html). Notably, the average settlement in 2011 is about a third less than the average settlement in 2010, indicating that with or without the help of the Federal Circuit, false marking litigation is rapidly losing momentum. The Federal Circuit will have a number of opportunities in the months to come to close the tap on this long-dormant statute for good.