Jackson Walker

Qui Tam, Quo Vadis II

December 16, 2010 | Insights

By John Jackson and Sara Hollan

Judge Ward in the Eastern District of Texas recently determined that the intent to deceive element of a false marking claim need not be plead with particularity under Rule 9(b). *See Texas Data Co., L.L.C. v. Target Brands, Inc. and Target Corp.*, No. 2:10-cv-269, Dkt. 30 (E.D. Tex. Nov. 23, 2010). This ruling is notable because, as explained in "Qui Tam, Quo Vadis?," many commentators predicted that language in the Federal Circuit's ruling in *Stauffer vs. Brooks Brothers, Inc.*, 619 F.3d 1321 (Fed. Cir. 2010), would lead lower courts to conclude that Rule 9(b)'s heightened pleading standard applies to the intent to deceive element in a false marking claim. This is so because, in *Stauffer,* the Federal Circuit remanded a false marking lawsuit and directed the district court to specifically consider the defendant's motion to dismiss on the grounds that the complaint failed to allege an intent to deceive the public "with sufficient specificity to meet the *heightened pleading requirements for claims of fraud*." *Id.* at 1323 (emphasis added).

In *Target,* the plaintiff alleged that Target made and sold up&up Training Pants marked with expired patent numbers. *Target Brands, Inc.,* No. 2:10-cv-269, Dkt. 1, ¶ 13. The plaintiff's attempts to satisfy the intent-to-deceive element were typical of the allegations found in most false marking cases. Specifically, the plaintiff alleged that defendants (1) were "large, sophisticated companies;" (2) "have, or regularly retain, legal counsel;" (3) "have experience applying for patents, obtaining patents, licensing patents and/or litigating in patent-related lawsuits;" (4) have knowledge "that a patent expires and that an expired patent cannot protect any product;" (5) knew the patents had expired; (6) "marked or caused to be marked" the up&up Training Pants with the expired patents; and (7) "intended to deceive the public by marking (or causing to be marked)" the up&up Training Pants with the expired patents. *See id.* 20, 21, 22, 23, 27, 33-36, 37, 39, 40.

In response to these allegations, the defendants filed a motion to dismiss on the grounds that the plaintiff's complaint failed to plead deceptive intent with the particularity required by Rule 9(b) and that it also failed to meet the minimal pleading standard of Rule 8. In their motion, the defendants cited to several district court cases invoking Rule 9(b). In addition, while defendants acknowledged that the Federal Circuit had not squarely addressed the issue, they also cited to *Pequignot v. Solo Cup Co.,* 608 F.3d 1356, 1363 (Fed. Cir. 2010) (holding that the bar for proving deceptive intent in a false marking claims is particularly high given that the false marking statute is a criminal statute), and *Stauffer* to argue that the Federal Circuit would require compliance with Rule 9(b) in a false marking claim. The defendants recognized that the Eastern District of Texas twice before had denied motions to dismiss for failure to comply with Rule 9(b),[1] but explained that those decisions were made before the Federal Circuit had provided guidance on the issue.

On November 23, 2010, Judge Ward signed an order denying the defendants' motion to dismiss in *Target.* In doing so, he adopted the analyses from the earlier *Astec* and *Promote* decisions.

Although the Federal Circuit has not directly addressed the Rule 9(b) issue, it may do so soon in *In re BP Lubricants USA, Inc.,* 2010-M960 (Fed. Cir.). In that case, the petitioner seeks a writ of mandamus vacating the district court's denial of petitioner's motion to dismiss and setting forth the pleading requirements necessary to state a false marking claim. Both the Intellectual Property Owners Association and the United States Department of Justice have filed amicus briefs in support of the mandamus petition.

The Intellectual Property Owners Association's brief makes a compelling argument to end the uncertainty, as it explains:

> Patent owners are left facing an incoherent legal landscape. Depending on where the relator has chosen to file suit and what judge was randomly assigned to the case, substantially identical complaints may be dismissed or may force defendants to bear the burden and costs of proving a negative—that they had no deceptive intent. As conflicting decisions continue to issue, hundreds of defendants are faced with uncertainty and inconsistency, and patent owners face the prospect of forum shopping by plaintiffs seeking the easiest pleading requirements. This balkanization of the law of false marking pleadings is rapidly coming to resemble the very situation this Court's formation was intended to prevent.
>
> Brief for Intellectual Property Owners Ass'n. as Amicus Curiae Supporting Petitioner at 3-4, *In re BP Lubricants USA, Inc.,* No. 2010-M960 (Fed. Cir. Oct. 10, 2010).

Similarly, the Department of Justice writes:

> Congress has determined, in the explicit language of the statute, that false marking under 35 U.S.C. § 292(a) should be found and punished only in those cases where there was an actual intent to deceive. Requiring a factual allegation supporting an intent to deceive, as opposed to and distinguishable from mere negligence, will support the integrity of the law and preserve the legislature's intentions by curtailing lawsuits that are little more than "fishing expeditions" by potential relators seeking expired patent markings as a basis for initiating a lawsuit without any evidence of an intent to deceive. The approach urged here would bring some degree of uniformity in this area where conflicting district court decisions have sown confusion and encouraged venue shopping.
>
> Response of the United States as Amicus Curiae in Support of the Petitioner at 18, *In re BP Lubricants USA, Inc.,* No. 2010-M960 (Fed. Cir. Oct. 20, 2010).

Until the Federal Circuit explicitly determines that Rule 9(b)'s heightened pleading standard applies to the intent-to-deceive element in false marking claims, given Judge Ward's ruling in *Target,* it is unlikely that motions to dismiss for failure to comply with Rule 9(b) will succeed in false marking lawsuits pending in the Eastern District of Texas.

[1] *See Astec Am., Inc. v. Power-One, Inc.,* No. 07-cv-464, 2008 WL 1734833, at *9 (E.D. Tex. Apr. 11, 2008) (applying Rule 8); *Promote Innovation LLC v. Ranbaxy Labs., Inc.*, No. 2:10-CV-00121-TJW-CE, 2010 WL 3120042, at *1 (E.D. Tex. Aug. 9, 2010) (adopting magistrate's recommendations to apply Rule 8).

The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or any of its or their respective affiliates. This article is for informational purposes only and does not constitute legal advice