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US Court Rulings May End Plague of False Patent Marking Suits

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Companies doing business in the United States have, for the past 15 months, found themselves in the cross-hairs. Bayer, Nike, L'Oreal, Sony, Wal-Mart, Novo Nordisk and hundreds of other firms have been sued for making or selling products displaying incorrect or expired patent numbers. And the liability for such false patent marking can be astronomical, with a defendant potentially facing fines of billions or even trillions of dollars.

"Industry is viewing it as a plague," said Michael Murray, a partner in the law firm of Winston & Strawn. "I'm meeting with a number of clients in Japan, and everyone wants to talk about it."

The plague, however, could soon be over. On March 15, the Federal Circuit Court of Appeals (often called the country's "patent court") made it significantly harder for parties to successfully prosecute these false patent marking suits. The ruling in *In re BP Lubricants USA Inc.* [1] [pdf] could result in trial courts dismissing many of these lawsuits. And another case now before Federal Circuit could spell doom for all the false patent marking lawsuits – because the court could decide, in *FLFMC, LLC v. Wham-O, Inc.*, that the statute authorising all these suits violates the US Constitution.

"There is a very strong probability the court will find it unconstitutional," says Scott Dangler, a shareholder in the law firm of Gunster, Yoakley & Stewart.

If the epidemic of false marking litigation were to be cured by the Federal Circuit (sometimes called the country's "patent court"), that would be ironic. Because the Federal Circuit was responsible for unleashing the epidemic in late 2009.

The false patent marking statute, 35 U.S.C. § 292 [2], has been around for over a century in one form or another, but for most of its existence, the statute saw little use. It forbids anyone from deliberately deceiving the public by falsely advertising or marking a product as patented. Violators face a fine of up to $500 "for every such offense."

Federal authorities typically have more pressing concerns than policing patent marks on products, so the statute contains a "qui tam" provision that authorises private enforcement efforts. It empowers "any person" to sue violators. To encourage such private enforcement efforts, the statute grants the party bringing the qui tam action (the relator) half of any fines recovered in the lawsuit. The other half goes to the US government.

In 1910, however, a ruling by a US appellate court greatly weakened the incentive for anyone to bring a qui tam action under the statute. The First Circuit Court of Appeals held in *London v. Everett H. Dunbar Corp.* that each incorrectly marked product was not a separate offence under the statute. A single offence

was, instead, any continuous false marking – such as the entire production run of a product. If a violator produced a run of 100,000 falsely marked products, for instance, the relator could seek a maximum fine of only $500, not $50 million. Because violators faced minimal penalties, private parties rarely bothered to sue for violations of the statute.

That all changed on 28 December 2009, when the Federal Circuit handed down its ruling in Forest Group Inc. v. Bon Tool Co. [3] [pdf]. The court reversed decades of precedents and held that each individual wrongly marked product was a separate violation of the statute.

Suddenly, there was great incentive for private parties to bring these qui tam suits. And they did. Close to a thousand false patent marking suits have been filed since the Forest Group decision, and the number keeps rising.

The defendants in these false marking suits face potentially ruinous fines, so they have a strong incentive to settle. Nevertheless, many companies are fighting these suits, often on the basis that the complaints fail to satisfy Rule 9(b) of the Federal Rules of Civil Procedure. The rule mandates that when a complaint alleges fraud, it "must state with particularity the circumstances constituting fraud." The Federal Circuit recently held, in *In re BP Lubricants*, that this particularity requirement applies to lawsuits alleging false patent marking.

"We believe the Federal Circuit's decision will lead to dismissal of many of the hundreds of false marking suits now in district courts," says Herb Wamsley, executive director of the Intellectual Property Owners Association, a trade association representing many businesses.

But such dismissals may not end those lawsuits. The courts could give the relators leave to amend and refile their complaints.

Because of this possibility, Wham-O is not content to rely on this defense. Like a number of other defendants in false marking suits, Wham-O is attacking the statute head-on, alleging it violates the US Constitution. "[I]f we win on particularity, the relator may seek to amend complaint, and we should not be subject to any further litigation under an unconstitutional law," said Andrew Dhuey, a sole practitioner who is counsel for defendant Wham-O in a false marking suit now before the Federal Circuit. He is raising the particularity defense in that case, *FLFMC, LLC v. Wham-O, Inc.*, but he adds that the constitutional issue is "the focus of our brief."

Wham-O is arguing that the qui tam provision of the false patent marking statute violates the "take care" provision of Article II of the US Constitution, which mandates that the executive branch "shall take care that the laws be faithfully executed."

"The 'take care' clause requires that enforcement of the laws be vested in the executive branch. It can be shifted to non-executive parties only if the executive retains discretion and control over the actions of the non-executive party," said Prof. Michael Risch of Villanova University School of Law.

The US government, however, has little discretion or control over relators and their qui tam suits under the false patent marking statute. The government receives notice of these suits, but not in a manner that enables it to quickly and efficiently intervene in the litigations. If the government does intervene, it becomes a mere co-plaintiff; it does not control the lawsuit. And the relator can settle the suit despite the government's objection. If the relator and the government disagree over a proposed settlement, both parties must make their arguments to a court, which will decide whether or not to approve the settlement.

Despite these relatively weak government controls, three federal district courts have ruled that the qui tam provision of the false marking statute satisfies the "take care" clause. A fourth district court has found the statute unconstitutional.

In *Zojo Solutions, Inc. v. The Stanley Works* [4] [pdf], a federal district court in Illinois upheld the qui tam provision against constitutional attack, but did so largely by punting the issue to the Federal Circuit. The district court stated in May 2010 that because the Federal Circuit didn't mention any constitutional infirmity when it interpreted the false marking statute in Forest Group, the statute was apparently constitutional – and that any ruling on the "take care" issue would be better determined by the Federal Circuit.

In *Pequignot v. Solo Cup Co.* [5], a federal district court in Virginia expressed much stronger support for the statute. The court admitted, in its March 2009 ruling, that the US government had only limited control over qui tam lawsuits filed under the false patent marking statute. And it noted that the leading US Supreme Court case in this area, Morrison v. Olson [6], stated that in order to satisfy the "take care" clause, the executive must have "sufficient control over the [outside actors] to ensure that the President is able to perform his constitutionally assigned duties."

But the district court found that the false patent marking statute authorises civil lawsuits, not criminal prosecutions like the one at issue in *Morrison*. "Because civil actions do not 'cut[ ] to the heart of the Executive's constitutional duty to take care that the laws are faithfully executed,' the Executive Branch need not wield the same level of control over civil litigation as over criminal prosecutions," the court stated. Thus, it held "the constitutional mandate that the Executive Branch 'take care that the laws be faithfully executed' can be satisfied with a significantly lesser degree of control than the Supreme Court required in *Morrison*." Applying this lower standard, the court concluded that government had sufficient control over false marking qui tam suits to satisfy the "take care" clause.

A federal district court in California adopted this reasoning in *Shizzle Pop, LLC v. Wham-O, Inc.* [7] [pdf]. The court held, in August 2010, that the statute satisfied the "take care" clause.

The most recent court ruling on the issue, however, goes the other way. In *Unique Product Solutions Ltd. v. Hy-Grade Valve, Inc.* [8] [pdf], a federal district court in Ohio found the reasoning in *Pequignot* flawed and held, in February 2011, that the qui tam provision of the false marking statute violates the "take care" clause.

The Ohio court noted that when *Pequignot* was appealed to the Federal Circuit, the appellate court (which didn't rule on the constitutional issue) declared [9] that "the false marking statute is a criminal one, despite being punishable only with a civil fine." Because it is a criminal statute, the Ohio court held, the *Morrison* standard should be used to determine whether the "take care" clause is satisfied. (The court added, in a footnote, that even if the false marking statute was civil instead of criminal, the court would still apply the *Morrison* standard because its presiding appellate court, the 6th Circuit Court of Appeals, had previously applied *Morrison* to a civil statute.) Finally, applying the *Morrison* standard, the Ohio court found that the qui tam provision of the false marking statute failed to satisfy the "take care" clause.

This constitutional issue is now before the Federal Circuit, in *FLFMC, LLC v. Wham-O, Inc.* The Federal Circuit may sidestep the issue, however, because US courts are traditionally reluctant to decide cases on constitutional grounds. But with district courts split on the "take care" issue and litigants throughout the country raising the issue, the court may decide it needs to address the matter now.

“We are all hoping the Federal Circuit will rule on it,” Murray said. “I think they will. It has become enough of an issue.”

The Federal Circuit is expected to hear oral arguments on the case this summer. The court is likely to issue its ruling in the autumn.