

Last Gasp for False Patent Marking Cases? The Public Patent Foundation Challenges the Constitutionality of the America Invents Act

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Few cases drew more ire from the business community than patent false marking cases. Filed as *qui tam* actions and purporting to be acting on behalf of the general public, plaintiffs sought to collect statutory damages (shared with the government) of up to \$500 per unit sold of products that were marked with numbers of expired patents or patents that did not cover the products. In practice, most cases settled with the defendant making a nuisance value payment to the plaintiff.

On September 16, 2011, President Obama signed into law the America Invents Act. Among its many provisions, the Act amended 35 U.S.C. § 292, which pertained to patent false marking, to (a) permit only the United States government to collect statutory damages for false marking, (b) limit the damages private plaintiffs can collect to actual damages from competitive injuries caused by the alleged patent false marking and (c) eliminate any causes of action based on marking products with expired patents. These provisions were made retroactive to any pending false marking cases. As a result, the Act effectively extinguished most pending cases. However, at least one plaintiff is not going down without a fight.

On November 11, the Public Patent Foundation ("PubPat"), a non-profit law firm associated with the Cardozo Law School in New York, responded to a motion to dismiss a false marking case by arguing that the amendments to Section 292 were unconstitutional. PubPat had filed suit against McNeil-PPC in 2009 for allegedly marking Tylenol bottles with expired patents. In September 2011, McNeil

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moved to dismiss the suit based on the America Invents Act's changes to the false marking statute.

PubPat argues that the retroactive provisions of the American Invents Act deprive it of its due process rights under the Fifth Amendment. PubPat argues that "while the claim underlying the cause of action in *qui tam* cases originally belongs to the United States, *qui tam* statutes perform a partial assignment of that claim to the *qui tam* plaintiff and the resulting cause of action is therefore partially the property of the *qui tam* plaintiff." *Public Patent Foundation, Inc. v. McNeil-PPC, Inc.*, Case No. 1:09-cv-5471-RJH, D.I. 55 at 3 (S.D.N.Y. Nov. 11, 2011). Thus, PubPat argues that if the America Invents Act is retroactively applied to this case, it "will be deprived of its property right in [the] cause of action" without due process of law because "the retroactive effect of [the] legislation . . . [lacks] a legitimate legislative purpose apart from the prospective substantive changes." *Id.* PubPat further argues it was deliberately induced by Congress to file this case due to the old language of Section 292.

PubPat's argument seems weak. In this author's view, the amendments plainly do not violate the due process rights of *qui tam* plaintiffs such as PubPat.

The relevant Supreme Court precedents do not support PubPat's arguments. Of the two main cases cited in PubPat's brief, one case (*Eastern Enterprises v. Apfel*, 524 U.S. 498 (1998)) merely addressed retroactive legislation under the Takings Clause of the Fifth Amendment rather than the Due Process Clause, and the other case (*United States v. Carlton*, 512 U.S. 26 (1994)) found that retroactive elimination tax deductions did not violate the affected taxpayers' due process rights.

More fundamentally, contrary to PubPat's argument, there was nothing arbitrary or illegitimate in Congress' decision to amend Section 292. Section 292 was first enacted in 1952 to stop companies from chilling competition by falsely representing that their products were patented. Actual damages were always possible, but it was long assumed that the statutory damages available for false marking were limited to \$500 per product, rather than \$500 per unit sold – until the Federal Circuit's 2009 decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295. That decision allowed counting statutory damages on a per unit basis, thus making false marking lawsuits more lucrative for *qui tam* plaintiff and sparking a flood of false marking suits in the past two years. The America Invents Act merely closes this newfound loophole in Section 292 that allowed entrepreneurial plaintiffs to use the threat of per unit statutory damages to collect settlements far out of proportion to any actual damage caused by patent false marking.

Closing this loophole does not deprive false marking plaintiffs of their due process rights. The amendments to Section 292 still allow plaintiffs that have been harmed by false marking to collect actual damages. Here, PubPat must concede that inadvertently marking a product with an expired patent causes no actual damages or public harm. PubPat also must concede that it has not been harmed by McNeil's alleged false marking. PubPat may argue that there is a public interest in a robust patent system that gives the public notice of patent coverage, but the amendments do not frustrate this policy goal. Section 292 continues to allow the United States government to collect statutory damages for patent false marking. Companies that falsely mark their products as patented and cause genuine harm to the public still risk government action.

In essence, PubPat's argument amounts to arguing that the windfall *qui tam* plaintiffs received after the *Forest Group* decision should be allowed to continue. This is not a due process violation or a basis to hold a statute unconstitutional.