

## False Marking Suits More Bark Than Bite, Stats Show

By **Ryan Davis**

Law360, New York (February 11, 2011) -- Fears that the wave of false patent marking suits will result in significant liability for defendants may be overblown, intellectual property attorneys say, with government statistics showing that the total dollar value of settlements reached so far is a modest \$7 million.

More than 100 false patent marking suits have been settled to date, at an average of about \$60,000 each, a figure that attorneys say is smaller than they expected and provides useful guidance for defendants involved in settlement negotiations.

Richard Assmus, a partner at Mayer Brown LLP, called some of the settlements "shockingly low" given the theoretical potential for colossal damages under the false marking statute.

"The first thing to be learned from these figures is that for plaintiffs, this is a volume business," he said. "They're looking for a quick settlement so they can move on to the next case."

After an appeals court ruled in 2009 that companies can face penalties of up to \$500 for each product marked with an expired patent, 752 complaints were filed in 2010 under the once-obscure false marking statute. Because anyone can file suit under the law, the plaintiffs are often companies set up by patent attorneys expressly for that purpose.

The unique nature of the false marking law, in which complaints are filed by qui tam plaintiffs nominally on behalf of the federal government, means that the value of the settlements in such cases is a matter of public record.

In response to a Freedom of Information Act request by attorneys from Farella Braun & Martel LLP, the government reported that from May 10 through the end of 2010, it had received \$3.4 million from false marking settlements.

Because recovery is split evenly between the qui tam relator that filed the suit and the federal government, that means the settlements totaled \$6.8 million.

The number of settlements increased considerably in the final weeks of 2010, the records showed, with almost the same number of settlements recorded from Nov. 1 through Dec. 31 as from May through Oct. 31.

The 114 settlements reported by the government ranged in size from \$2,000 to \$350,000.

Major corporations accused of falsely marking numerous popular products have paid the largest settlements to date, government records said.

In June, Sanofi-Aventis US LLC reached what appeared to be the largest settlement to date in a false marking case. The drugmaker agreed to pay \$350,000 to settle a suit by frequent false marking plaintiff Promote Innovation LLC accusing it of using expired patents on several products, including osteoporosis drug Actonel and acne treatment BenzaClin.

The next-largest settlement was reached by S.C. Johnson & Son Inc. in December, when it agreed to pay \$300,000 to resolve a suit by San Francisco Technology Inc. over Edge shaving gel and Ziploc bags.

Two other major companies settled false marking suits for amounts closer to the average.

In one, Panasonic Corp. agreed in December to pay \$100,000 to settle claims by Patect LLC that it had falsely marked over 20 products like DVD players and cell phones with dozens of expired patents.

And in September, Takeda Pharmaceuticals America Inc. agreed to pay \$50,000 to settle a suit by Promote Innovation alleging that it falsely marked heartburn drug Kapidex with three expired patents.

Often, the settlements cover many more products and patents than the plaintiff listed in the original complaint, in an effort by the defendants to ward off future suits. In those cases, the plaintiffs file an amended complaint at the same time as the settlement listing all the items covered.

James Morando, a partner at Farella Braun who requested the government data, noted that the settlement figures were a small percentage of the potential damages under the false marking statute.

In a June ruling in a case involving drinking cup lids allegedly marked with expired patents, the U.S. Court of Appeals for the Federal Circuit pointed out that the plaintiff had accused Solo Cup Co. of falsely marking nearly 22 billion items.

The appeals court observed that if the maximum damages of \$500 per item were imposed, the government's share alone would be \$5.4 trillion, enough to pay off 42 percent of the national debt.

To date, no false marking case has settled for even half a million dollars, and that information can provide some leverage for defendants, Morando said.

"If a plaintiff is demanding a lot of money, you can argue that no one has paid that much," he said. "Many are nuisance value settlements."

Arthur Gollwitzer, a partner at Floyd & Buss LLP, said that the settlement numbers indicated that the false marking phenomenon may be overblown.

"The numbers show that this isn't as big a deal as its being made out to be," Gollwitzer said. "The settlement numbers seem lower than people expect, given the amount of attention the cases have been getting."

While there has been frequent talk about legislative efforts to halt false marking cases, the settlements seem to show that courts have the ability to manage them without help from Congress, he said.

For Gollwitzer, the small settlements belie the claim that the false marking law has created a lucrative cottage industry.

"It doesn't appear plaintiffs are getting rich on these cases," he said.

Roderick Thompson of Farella Braun noted that plaintiffs would often request sales data from the defendant in order to justify their demands. But the settlements show that those time-consuming requests are essentially a negotiating game, he said.

"In the end, the plaintiffs will take what they can get," Thompson said.

The cases resolved so far have effectively established parameters for typical false marking settlements, Robert Riddle of Baker Botts LLP said.

"If I had to advise a client about an acceptable settlement range, it would be tough to go above the high point on this list," Riddle said.

Still, defense counsel should keep in mind that the settlements are fact-specific, so a large company accused of falsely marking millions of products can't realistically point to a \$10,000 settlement as an example, attorneys said.

For the same reason, it's possible that a company with a long history of egregious false marking aimed at deceiving consumers about a popular product that sells millions of units could eventually agree to a much higher settlement, they said.

However, the settlements reached so far have more or less set a going rate for run-of-the-mill false marking cases, according to experts.

Beyond giving information about the general settlement climate, the list can also provide information about individual plaintiffs, Thompson said. Several have resolved a number of cases, so the figures can give a sense of what they are willing to settle for, he said.

So far, the federal government has provided little input about the settlements. The one major exception is a case in which a company called P.F. Harris Manufacturing Co. settled a suit by Patent Group LLC over roach-killing tablets for \$10,000.

The U.S. Department of Justice objected to a provision of the settlement that prevented P.F. Harris from facing future suits over the same product, even if the company continued to falsely mark it. The settlement was then amended to eliminate the provision.

Attorneys cited a few possible reasons for the year-end rush of settlements, including a desire to get the cases off the books by Dec. 31 for tax purposes and the fact that many false marking cases were filed early in 2010 and became ripe for settlement by year's end.

Pending legislative and legal action could mean the false marking wave may not continue much longer, and that in turn, could increase the number of settlements in the coming months, attorneys said.

Rather than allowing anyone to bring false marking cases, bills have been introduced in Congress that would permit only a company's competitors or the U.S. itself to serve as plaintiffs. That would shut out the sort of shell companies that have filed many of the suits thus far.

Some defendants have also asked the courts to address whether the false marking statute is unconstitutional, and a ruling to that effect would eliminate the cause of action.

"There's a mentality that this will end soon, so you should get in while the getting is good," Thompson said. "This bonanza for LLCs formed by lawyers could be over before long."

--Editing by Christine Caulfield and Chris Giganti.

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