

Joyous Lawyers Bid Adieu To False Patent Marking Suits

By **Ryan Davis**

Law360, New York (September 14, 2011, 5:40 PM ET) -- The era of false patent marking lawsuits has come to an end with the passage of the America Invents Act, which restricts claims to such a degree that most pending cases are expected to be dismissed by the courts and few suits, if any, will ever be filed again, attorneys say.

"The changes in false marking will be well-received by virtually everyone except the leeches that are preying on the system," said Michael Murray of Winston & Strawn LLP, who called false marking suits "a plague."

The patent reform law alters the false marking statute to eliminate the standing of virtually all plaintiffs that have filed suits alleging a product is marked with an expired patent, and applies the changes retroactively to pending litigation.

That means the approximately 450 false marking suits that are now in the courts will be subject to immediate dismissal as soon as President Barack Obama signs the bill into law, according to Justin Gray of Foley & Lardner LLP, whose blog *Gray On Claims* has kept detailed records of false marking litigation.

Gray's statistics show that more than 400 settlements were reached in false marking cases before the law was passed, resulting in a total payout from defendants of more than \$20 million, an average of about \$48,000 per settlement. Half of the settlement money went to the government under the law's *qui tam* provision.

"I think Congress did a good thing," John Pratt of Kilpatrick Townsend & Stockton LLP said. "It will end this miniature industry that has popped up of people filing false marking cases."

Daniel Ravicher, executive director of the Public Patent Foundation, the plaintiff in several false marking suits, said that the new law essentially allows companies to lie about which patents cover their products and to say their products are covered by patents even if they aren't.

"The problem is that this is basically the Free Pass To Lie To The American People Act," he said. The government does not have the resources to police the issue, so removing the qui tam provision leaves the public with no ability to ensure that companies provide truthful information about their patents, he said.

The false marking statute, which has its origins in the Patent Act of 1870, contains a provision that allows anyone in the country to sue a company that marked its products with false patents, with half of any recovery being shared with the government.

The once-obscure statute was thrown into the spotlight in December 2009, when the Federal Circuit ruled in *Forest Group v. Bon Tool* that the law's \$500 fine applied to each falsely marked product, not each decision to mark.

The potential for huge recoveries under that interpretation prompted upwards of 1,000 false marking suits to be filed in the months after the ruling, virtually all by individuals or limited liability companies set up for the purpose of filing the suits.

The patent reform bill — which passed the Senate on Sept. 8 — takes direct aim at those plaintiffs by striking the qui tam provision and mandating that only the federal government or direct competitors can sue a company for false marking.

Moreover, only the government can sue for the \$500 per-item penalty under the law, while competitors can sue only for damages adequate to compensate for a competitive injury suffered as a result of the false marking.

Finally, the bill mandates that marking a product with an expired patent is not a violation of the false marking law, meaning that only products marked with patents that never covered the item at all count as false marking.

Almost none of the plaintiffs in false marking suits to date have been competitors of the defendants and nearly all of them have based their false marking allegations on the fact that the product was marked with expired patents. Once the bill is signed, attorneys said they expect defendants in those suits to swiftly file motions to dismiss.

"The bill really sort of runs the table for defendants," Richard Assmus of Mayer Brown LLP said. "We'll see a very steep dropoff of these suits, maybe to zero."

The fact that the bill makes the changes to the law retroactive to pending suits clearly indicates that Congress believes the claims have little merit, according to James Morando of Farella Braun & Martel LLP.

"It's unusual and remarkable and reflects a very strong policy statement on the part of Congress to enact something they know will eliminate several hundred cases from the courts' dockets," he said.

Lawmakers clearly made the right call, Pratt said, because false marking cases "had no commercial or social utility." The suits never involved situations in which anyone was misled in a harmful way about whether a product was covered by a patent, he said.

The basic premise that expired patents constitute false marking is "silly," according to Pratt, because all patents expire and even after they do, it is true that the product was once covered by the patent.

"None of the plaintiffs were actually damaged. It's a type of troll case that's an effort to make money with no benefit," he said. "I'm pleased Congress appears to have solved that problem."

False marking plaintiffs may not go quietly, though, with some legal experts saying that the retroactive elimination of the qui tam provision might be unconstitutional. It remains to be seen whether any plaintiff will pursue that avenue.

In a July letter to Sen. Tom Coburn, R-Okla., Duke University law professor Ernest Young argued that the provision ran afoul of the Constitution's prohibition on legislation that eliminates vested property interests.

"It is not only unfair, but also unconstitutional, to pull the rug out from under current qui tam plaintiffs who have invested in the enforcement of the false marking statute as provided for in current law," he wrote.

Ravicher, whose group is the plaintiff in three outstanding false marking suits, said that he has informed the defendants in those cases that the group has constitutional concerns about the patent reform law.

In addition to killing off the pending suits, Assmus said the patent reform bill would make it extremely difficult for anyone to file false marking suits in the future.

Clearly individuals seeking to cash in on the false marking craze are out of luck, but even competitors seeking to assert false marking claims will face a difficult road under the provision requiring them to show they suffered a competitive injury due to false marking.

"I'm not sure anyone can really ever prove they were injured by false marking," Assmus said. "It would involve a complicated set of facts to prove you were injured."

Despite the tight restrictions, he noted that the false marking law remains on the books and can be used by any competitors who believe they were injured and deems those injuries worth pursuing.

Still, the fact that competitors are now unable to seek the \$500 per item penalty and can only recover damages to compensate for their alleged injury will also make false marking suits unattractive, as will the provision that expired patents don't count as false marking.

Most of the current suits based their claims on expired patents because it was easy to find a product listing an expired patent on the label, Morando said. Identifying a product marked with a patent that had never covered it will be far more challenging.

Very few false marking suits have been filed by competitors, according to Gray, who said he could count them on one hand.

One of them, incidentally, was the case that started it all. Forest Group, which sells a spring-loaded stilt used in construction, accused Bon Tool of infringing its patent by selling a replica of the stilts. Bon Tool counterclaimed with allegations of false marking against Forest Group, setting up the Federal Circuit ruling.

Morando said that before the Forest Group decision, "I wasn't aware there was a strong public outcry" over false patent marking, so given the new restrictions on suits, the issue will most likely fade away.

While the government retains the right to file false marking suits under the bill, it has never done so up to this point, and Assmus said it was unlikely to start now.

"It's not an enforcement priority for any agency," he said.

It took less than two years after the Federal Circuit ruling launching the false marking wave for Congress to step in and put a stop to it, which was the result of a happy coincidence for defendants, Assmus said.

"If you look at the lapse of time between the Forest Group ruling and the law being passed, the turnaround was remarkably quick," he said. "It was lucky for defendants that patent reform was building momentum after many years and there was an opportunity to stick this into a substantive patent reform bill."

--Editing by Christine Caulfield and Eydie Cubarrubia.

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