

Stemming the Tide of False Marking Cases

Bloomberg Law Reports
May 16, 2011



M. Andrew Holtman Ph.D.
202.408.4131



Zhenyu Yang Ph.D.
202.408.4471



Bart A. Gerstenblith
202.408.4274

Introduction

In December 2009, the Federal Circuit's *Forest Group* decision seemingly opened the flood gates for false marking complaints by interpreting the false marking statute,¹ to authorize fines up to \$500 for every falsely marked article.² Acknowledging the likely "cottage industry" that might result, the Federal Circuit construed the false marking statute as explicitly permitting *qui tam* false marking actions.³ The court went so far as to note that penalizing false marking on a per decision basis, rather than a per article basis, "would not provide sufficient financial motivation for plaintiffs . . . to bring suit."⁴

As predicted, the number of false marking complaints dramatically increased following *Forest Group*. In 2010 alone, almost 800 new false marking suits were filed. This contrasts with the roughly 30 suits filed in 2009.⁵ The trend continues, with approximately 200 new cases filed in the first quarter of 2011.⁶ It is noteworthy that a large proportion of the recent false marking complaints were filed by so-called "marking trolls"—litigants who bring such suits for personal gain rather than as a result of competitive harm or injury.

In light of the potential for extremely high penalties given the new per article basis for calculating fines, companies who find themselves on the defensive side of false marking suits have sought a variety of means for defending against them. These defenses include, *inter alia*, motions to dismiss for lack of standing, personal jurisdiction, failure to state a claim, and of primary importance to this article, challenges to § 292's constitutionality. Constitutional challenges have primarily focused on the "Take Care" and "Appointments" Clauses of Article II of the U.S. Constitution. As discussed below, the question of § 292's constitutionality under the "Take Care" Clause of Article II is of particular interest and is likely to be addressed by the Federal Circuit in the very near future.

Background

Title 35, United States Code, § 292 provides in relevant part:

- (a) Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word "patent"

or any word or number importing that the same is patented, for the purpose of deceiving the public . . . [s]hall be fined not more than \$500 for every such offense.

(b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.⁷

Section 292(b) is one of only a few federal *qui tam* provisions, *i.e.*, "a statute that authorizes someone to pursue an action on behalf of the government as well as himself."⁸ On its face, § 292 permits "any person" to sue for a penalty of \$500 for every false marking offense with the caveat that any recovery is equally split with the United States.⁹ The most well-known *qui tam* statute, the False Claims Act ("the FCA"),¹⁰ allows individuals to file actions against federal contractors claiming fraud against the government.¹¹ The act of filing such actions is informally called "whistleblowing." The premise of such actions is that the defendant has allegedly committed a violation of law that causes harm to the government.¹²

As mentioned above, defendants faced with false marking suits have raised various constitutional challenges to § 292. In particular, one such challenge that is garnering recent attention is the question of § 292's constitutionality under the "Take Care" Clause of Article II of the Constitution. The Take Care Clause requires that the President "shall take Care that the Laws be faithfully executed."¹³ Most questions regarding the statute's constitutionality focus on the specific provision that enables any person to sue for the penalty (*i.e.*, the *qui tam* provision). Until the U.S. District Court for the Northern District of Ohio's ("Northern District of Ohio") decision in *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*,¹⁴ no court, however, had found the statute unconstitutional under the "Take Care" Clause.

Section 292's Delegation of Authority and the "Take Care" Clause

Plaintiff Unique Product Solutions, Ltd. ("Unique Product Solutions") filed a false marking complaint as a *qui tam* relator¹⁵ against Defendant Hy-Grade Valve, Inc. ("Hy-Grade") in the Northern District of Ohio, in which it alleged that Hy-Grade falsely marked a series of industrial valve products with an expired patent number. After solicitation by the court, Hy-Grade filed a motion to dismiss in which it asserted that § 292 violates the Take Care and Appointments Clauses¹⁶ of the Constitution. Ultimately, the U.S. government moved to intervene, and the court granted its motion to do so. In a March 14, 2011 Memorandum of Opinion and Order,¹⁷ the court held that the *qui tam* provision of 25 U.S.C. § 292(b) was unconstitutional and dismissed Unique Product Solutions' complaint with prejudice.¹⁸

The question posed by Hy-Grade's challenge was whether the Executive Branch lacks sufficient control over litigation in which the United States is the real party in interest. The court noted that neither the U.S. Supreme Court nor the Federal Circuit has directly addressed this issue.¹⁹ To answer the question raised, the court looked to the Supreme Court's "sufficient control" test, discussed in *Morrison v. Olson*.²⁰ In *Morrison*, the Court examined the constitutionality of the Ethics in Government Act of 1978 ("the EGA")²¹ under the constitutional principle of separation of powers.²² Although the Court did not specifically address the Take Care Clause in finding the EGA constitutional, an important component of the Court's decision was features of the Act which "give[] the Executive Branch sufficient control over the independent counsel to ensure that the President is able to perform his constitutionally assigned duties."²³

To connect the Supreme Court's analysis in *Morrison* to the Take Care Clause, the district court relied on the U.S. Court of Appeals for the Sixth Circuit's decision in *United States ex rel. Taxpayers Against Fraud v. General Electric Co.*,²⁴ in which the Sixth Circuit applied the separation of powers analysis to the Take Care Clause in upholding the constitutionality of the *qui tam* provisions of the FCA.²⁵ Similar to the Court in *Morrison*, the Sixth Circuit relied on several features of the FCA in concluding that it was "crafted with particular care to maintain the primacy of the Executive Branch in prosecuting false-claims actions."²⁶

The FCA is "the benchmark for evaluating other statutes claimed to be *qui tam* statutes."²⁷ Thus, the *Unique Product Solutions* court compared the provisions of the FCA that permit Executive Branch control of the prosecutorial powers of *qui tam* relators with the provisions of § 292 in concluding that the false marking statute lacks the necessary safeguards constitutionally required by the Take Care Clause. Under the FCA, for example, the government retains the right (1) to be notified of the filing of the case before the defendant is served; (2) to intervene as a matter of right within 60 days of the commencement of the action or for good cause thereafter; (3) to take primary responsibility for prosecuting the action if it intervenes and to limit the relator's participation; (4) to move for dismissal or settlement and to prevent dismissal by the relator; and (5) to not be bound by the relator's actions if it intervenes.²⁸

In contrast to the FCA, § 292 contains no similar notice and control provisions: (1) there is no requirement that the government be served with the complaint or any relevant pleadings; (2) the Director of the U.S. Patent and Trademark Office is notified, but the statute under which the cause of action is brought is not a required component of the notice; (3) the case can be litigated without any control or oversight by the Department of Justice; (4) the government has no statutory right to intervene nor does it have a right to limit the participation of the relator; (5) the government does not have the right to stay discovery or dismiss the action; and (6) the relator may settle the case and bind the government without any involvement or approval by the Department of Justice.²⁹ Given the absence of any effective governmental control over an action arising under § 292, the court concluded that § 292 was unconstitutional under the Take Care Clause because it intrudes on the Executive's Article II power and interferes with the President's constitutionally assigned duties.³⁰

Other Steps to Limit False Marking Suits

In light of the Federal Circuit's *Forest Group* decision and the later-decided *Stauffer v. Brooks Brothers, Inc.* decision,³¹ it might appear that the Federal Circuit is encouraging false marking suits. The Federal Circuit's recent decision in *In re BP Lubricants USA Inc.*,³² applying Fed. R. Civ. P. 9(b)'s particularity requirement to false marking claims,³³ however, shows that such a conclusion may be an overstatement. In *In re BP Lubricants*, the Federal Circuit granted in part a writ of mandamus in which it ordered the district court to dismiss a false marking claim without prejudice because the plaintiff failed to allege any facts inferring that the defendant was aware of the patent's expiration.³⁴

Beyond the courts, members of Congress, whether out of concern for the constitutionality of the §292(b) or the increased volume of *qui tam* false marking suits, are weighing in too. On March 8, 2011, the Senate passed the Patent Reform Act of 2011 (S. 23). While the bill contains the perennial provisions on issues such as shifting to a first-to-file system, it also proposes two significant amendments to the false marking statute. First, "[o]nly the United States" would be able to "sue for the penalty authorized by . . . subsection" (a).³⁵ Second, subsection (b) would be replaced with a clause allowing any person "who has suffered a competitive injury as a result of a violation of this section" to "file a civil action . . . for recovery of damages adequate to compensate for the injury."³⁶

A similar bill with these same proposed amendments to § 292, H.R. 1249, was introduced in the U.S. House of Representatives on March 30, 2011.³⁷ On April 14, 2011, the House Judiciary committee voted in favor of the bill (with Manager's Amendment).³⁸ If passed, these amendments may change the *qui tam* nature of § 292 and thus, indirectly address the constitutionality issue. Even though it remains unclear whether the patent reform and proposed amendments of § 292 will become law, it appears that the pace of new false marking suit filings has recently slowed.³⁹

Further Division in the District Courts

As mentioned above, *Unique Product Solutions* was the first decision to hold § 292(b) unconstitutional under the Take Care Clause.

In so doing, the district court rejected the U.S. District Court for the Eastern District of Virginia's decision in *Pequignot v. Solo Cup Co.*,⁴⁰ in which the Eastern District of Virginia upheld the constitutionality of § 292 in the face of a constitutional challenge under the Take Care Clause. By rejecting the Eastern District of Virginia's rationale, the *Unique Product Solutions* court created a split among the district courts with respect to the constitutionality of § 292.

Recently, the U.S. District Courts for the Northern District of Illinois and the Southern District of New York indicated their disagreement with the *Unique Product Solutions* decision, choosing instead to uphold the constitutionality of § 292 under the Take Care Clause.⁴¹ In so doing, each court indicated that it agreed with *Pequignot's* rationale.⁴² Thus, while the constitutionality determination in *Pequignot* was not appealed to the Federal Circuit,⁴³ *Unique Product Solutions* is currently pending before the appellate court and a decision on § 292's constitutionality under the Take Care Clause should be forthcoming.⁴⁴

Conclusion

Interestingly, the Federal Circuit may not wait for *Unique Product Solutions* to address the question of § 292's constitutionality under the Take Care Clause. In *FLFMC, LLC v. Wham-O, Inc.*,⁴⁵ FLFMC, LLC ("FLFMC") appeals the district court's dismissal of its false marking case for lack of standing. Wham-O's motion to dismiss, however, raised arguments under Fed. R. Civ. P. 12(b)(6) for failure to state a claim, as well as challenges to the constitutionality of § 292 under the "Take Care" and "Appointments" Clauses of the Constitution.⁴⁶ In granting Wham-O's motion, the district court only addressed Wham-O's standing arguments, which were principally based on the rationale rejected by the Federal Circuit in *Stauffer*.⁴⁷ Recognizing that the district court's standing rationale was rejected by *Stauffer*, Wham-O relied primarily on its constitutionality challenge to § 292 in its appellate brief. Thus, while the Federal Circuit may address the constitutionality question as an alternative argument for affirmance, the court could also decide not to address the issue in the first instance on appeal and instead reverse and remand in light of *Stauffer*.⁴⁸

Accordingly, it may be a race between the Federal Circuit and Congress in deciding § 292's fate. Whether the statute may be the subject of Congressional amendments or whether the Federal Circuit will consider the constitutional question in *Wham-O* or wait for *Unique Product Solutions*, only time will tell. And, even if Congress amends § 292, an interesting question may still await as to whether such amendments remedy the potential constitutional infirmities under the Take Care Clause of the Constitution.

Endnotes

¹ 35 U.S.C. § 292.

² *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009).

³ *Id.* at 1303.

⁴ *Id.* at 1304.

⁵ See <http://www.falsemarking.net/district.php>.

⁶ See *id.*; see also <http://www.grayonclaims.com/false-marking-case-information/>.

⁷ 35 U.S.C. § 292 (2006).

⁸ *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010) (internal quotation marks omitted). In addition, such statutes typically authorize the individual to receive all or part of whatever penalty is imposed. See *id.* (citation omitted).

⁹ 35 U.S.C. § 292(b) (2006).

¹⁰ 31 U.S.C. §§ 3729-3733.

¹¹ See 31 U.S.C. §§ 3729-33 (2006).

¹² See *SKF USA, Inc. v. U.S. Customs & Border Prot.*, 556 F.3d 1337, 1379 (Fed. Cir. 2009).

¹³ U.S. Const. art. II, § 3.

¹⁴ *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-CV-01912, 2011 BL 65636 (N.D. Ohio Mar. 14, 2011).

¹⁵ *Qui tam* relator is the phrase used to describe an individual who brings a *qui tam* suit in the name of the United States. See *Vt. Agency of Natural Res. v. United States ex rel. Stevens*, 529 U.S. 765, 768 (2000).

¹⁶ The court focused its analysis on the Take Care Clause, noting that it was unnecessary to address the Appointments Clause arguments although it was likely the statute did not offend that Clause. *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-CV-01912, Memorandum of Opinion and Order n.8 (N.D. Ohio Feb. 23, 2011), *vacated by but incorporated by reference in Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-CV-01912, 2011 BL 65636 (N.D. Ohio Mar. 14, 2011).

¹⁷ The court's March 14, 2011 Memorandum of Opinion and Order was the second decision issued on Hy-Grade's motion. In a February 23, 2011, decision, the court similarly concluded that the *qui tam* provision was unconstitutional. See *Unique Prod. Solutions*, No. 10-CV-01912, Memorandum of Opinion and Order. Following the court's decision, however, the government moved to intervene and for the court to reconsider its decision. The court granted both of the government's motions, but ultimately maintained its conclusion regarding the statute's unconstitutionality, incorporating its February 23, 2011 Memorandum of Opinion and Order by reference. *Id.* Accordingly, some citations herein refer to the February 23, 2011 Memorandum of Opinion Order as incorporated by the March 14, 2011 Memorandum of Opinion and Order.

¹⁸ *Id.*

¹⁹ *Unique Prod. Solutions*, 2011 BL 65636 (discussing *Vermont Agency of Natural Resources*, 529 U.S. at 778 n.8, and noting that the issue may be currently on appeal to the Federal Circuit in *United States ex rel. FLFMC, LLC v. Wham-O, Inc.* No. 11-01067)). *Wham-O* is discussed further herein.

²⁰ 487 U.S. 654 (1988).

²¹ The EGA allows Congress to appoint independent counsel to investigate and prosecute high ranking government officials for violations of federal criminal law. *Id.* at 660.

²² *Id.*

²³ *Id.* at 696.

²⁴ 41 F.3d 1032 (6th Cir. 1994).

²⁵ The district court acknowledged that the false marking statute can be construed as "criminal, civil, or . . . a civilcriminal hybrid," but that under any of those interpretations, *Morrison's* "sufficient control" analysis would apply because the analysis is not limited to criminal statutes. *Unique Prod. Solutions*, 2011 BL 65636 (citing *Taxpayers*, 41 F.3d 1032 (6th Cir. 1994) (applying *Morrison's* "sufficient control" analysis to a civil statute)). Highlighting the confusion regarding the civil/criminal classification of the statute, the district court noted that the Federal Circuit previously stated that "a *qui tam* action is civil in form, even though it arises under a criminal statute." *Id.* (quoting *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363 (Fed. Cir. 2010)).

²⁶ *Id.* at 1041. In fact, the U.S. Courts of Appeals for the Ninth and Tenth Circuits have also applied the "sufficient control" test in analyzing whether the False Claims Act ("FCA") violates the Take Care Clause. See, e.g., *United States ex rel. Kelly v. Boeing Co.*, 9 F.3d 743, 751 (9th Cir. 1993) ("*Morrison* provides a baseline against which [courts] may assess whether Congress has unconstitutionally diminished executive power by permitting private plaintiffs to sue in the name of the United States."); *Id.* at 757. ("[T]he FCA affords the Executive Branch a degree of control over *qui tam* relators that is not distinguishable from the degree of control the *Morrison* Court found the Executive Branch exercises over independent counsels."); *United States ex rel. Stone v. Rockwell Int'l Corp.*, 282 F.3d 787, 807 (10th Cir. 2002) (noting with approval the Sixth Circuit's reliance on *Morrison's* "sufficient control" test to uphold the constitutionality of the FCA in light of a challenge under the Take Care Clause). Even the U.S. Court of Appeals for the Fifth Circuit, despite its conclusion that *Morrison* was "inapplicable" in analyzing the constitutionality of the *qui tam* statutes, essentially applied the "sufficient control" test sans the label. See *Riley v. St. Luke's Episcopal Hosp.*, 252 F.3d 749, 753-57 (5th Cir. 2001) (en banc) (observing that "the Executive [Branch] retains significant control over litigation pursued under the FCA by a *qui tam* relator" and upholding the statute "given the control mechanisms inherent in the FCA to mitigate" any intrusion in the Executive's Article II powers).

²⁷ *Stalley v. Methodist Healthcare*, 517 F. 3d 911, 917 (6th Cir. 2008).

²⁸ See 31 U.S.C. § 3730 (2006).

²⁹ See 35 U.S.C. § 292 (2006); *Unique Prod. Solutions*, 2011 BL 65636. The district court noted that even though the government may be able to intervene as a matter of right pursuant to Fed. R. Civ. P. 24, that does not "guarantee that the government will receive timely notice of a False Marking Suit such that it will be able to intervene prior to the suit settling and the government being foreclosed from bringing its own suit." *Unique Prod. Solutions*, 2011 BL 65636. In fact, in *FLFMC, LLC v. Wham-O, Inc.*, discussed further herein, no notice was given to or received by the Patent Office, likely because FLFMC listed the nature of the suit as a "Forfeiture/Penalty." See Appellee Wham-O's brief at 20 (No. 11-01067). Similarly, the government was never notified that it could split the potential \$10.8 trillion fine in *Pequignot v. Solo Cup Co.*, because the relator in that case listed the case as "Other Statutory Action." *Id.* at 20-21.

³⁰ The district court also rejected the argument that *qui tam* statutes' long tenure in American jurisprudence confirms their constitutionality because the issue under consideration was not the constitutionality of such statutes in general; rather, it was the constitutionality of § 292 in particular. *Unique Prod. Solutions*, 2011 BL 65636.

³¹ In *Stauffer v. Brooks Brothers, Inc.*, the Federal Circuit held that a relator can establish standing based on the United States' implicit assignment of its damages claim to "any person." 619 F.3d 1321, 1325 (Fed. Cir. 2010). "In other words, even though a relator may suffer no injury himself, a *qui tam* provision operates as a statutory assignment of the United States' rights, and 'the assignee of a claim has standing to assert the injury in fact suffered by the assignor.'" *Id.* (quoting *Vermont Agency*, 529 U.S. at 773). In reaching the holding, the Federal Circuit "express[ed] no view as to whether section 292 addresses a proprietary or a sovereign injury of the United States, or both." *Id.* at 1326. It is unclear whether courts, when analyzing the constitutionality of § 292,

will make any distinction from whether standing is predicated on the government's sovereign interest versus its proprietary interest.

³² *In re BP Lubricants USA Inc.*, No. 10-00960, 97 U.S.P.Q. 2d 2025, 2011 BL 67441 (Fed. Cir. Mar. 15, 2011).

³³ The Federal Circuit has previously indicated that it would apply Rule 9(b). See *Stauffer*, 619 F.3d at 1328 (instructing the district court to address "Brooks Brothers' motion to dismiss pursuant to Rule 12(b)(6) on the grounds that the complaint fails to state a plausible claim to relief because it fails to allege an 'intent to deceive' the public—a critical element of a section 292 claim—with sufficient specificity to meet the heightened pleading requirements for claims of fraud imposed by Rule 9(b)" (internal quotation marks omitted)).

³⁴ *In re BP Lubricants*, No. 10-00960, 97 U.S.P.Q. 2d 2025, 2011 BL 67441 at *2. The Federal Circuit concluded that the relator's allegations that defendant: (1) "knew or should have known that the patent expired;" (2) "is a sophisticated company and has experience applying for, obtaining, and litigating patents;" and (3) marked its products "with the patent numbers for the purpose of deceiving the public and its competitors into believing that something contained or embodied in the products is covered or protected by the expired patent[.]" were insufficient to withstand Rule 9(b)'s particularity requirement. *Id.*

³⁵ S. 23, Section 2, Subsection (k).

³⁶ *Id.* This amendment will likely alter the Federal Circuit's interpretation in *Stauffer* regarding standing to bring false marking suits.

³⁷ See H.R. 1249, Sec. 15 (b).

³⁸ In addition, another bill, the Patent Lawsuit Reform Act of 2011 (H.R. 243) was also recently introduced in the House. With respect to potential monetary recovery, H.R. 243 limits the aggregate fine under subsection (a) to \$500 "for all offenses in connection with [falsely marking] such articles" and limits subsection (b) such that only "[a] person who has suffered a competitive injury as a result of a violation of this section" can bring suit and, even in the case of an individual suit, such person's recovery is also limited to "not more than \$500 in damages to compensate for the injury." See H.R. 243, Section 2.

³⁹ In March, there were approximately 58 new false marking cases as compared to only seven in the first three weeks of April. See <http://www.grayonclaims.com/false-markingcase-information/> (as updated on Apr. 20, 2011).

⁴⁰ 640 F. Supp. 2d 714 (E.D. Va. 2009).

⁴¹ *Public Patent Found., Inc. v. GlaxoSmithKline Consumer Healthcare, L.P.*, No. 09-CV-05881 (S.D.N.Y. Mar. 22, 2011); *Luke v. Procter & Gamble Co.*, No. 10-CV-02511, 2011 BL 81029 (N.D. Ill. Mar. 28, 2011).

⁴² *Public Patent Found.*, No. 09-CV-5881; *Luke*, No. 10-CV-02511, 2011 BL 81029 at *14.

⁴³ The Eastern District of Virginia's *Pequignot* decision was the subject of an appeal to the Federal Circuit, but the Federal Circuit only addressed the district court's summary judgment decision of no liability for false marking; it did not address the constitutionality question. See *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010).

⁴⁴ At the date this article was written, PACER indicates that the appellants' briefs are due May 16, 2011. See *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, Nos. 11-01254, -01284 (includes a cross-appeal by the United States).

⁴⁵ No. 11-01067.

⁴⁶ *United States ex rel. FLFMC, LLC v. Wham-O, Inc.*, No. 10-CV-00435, 2010 BL 177764 at *2-3 n.2 (W.D. Pa. Aug. 3, 2010).

⁴⁷ The district court's *Wham-O* decision issued on August 3, 2010, whereas the Federal Circuit's *Stauffer* decision issued on August 31, 2010. Thus, the district court did not have the benefit of the Federal Circuit's standing interpretation in *Stauffer* when granting Wham-O's motion to dismiss.

⁴⁸ As of the date this article was written, PACER indicates that a corrected reply brief by FLFMC is due April 27, 2011, and it appears that oral argument has not yet been scheduled.

©Bloomberg Finance L.P. 2011. Originally published by Bloomberg Finance L.P. Reprinted by permission. This article is for informational purposes, is not intended to constitute legal advice, and may be considered advertising under applicable state laws. This article is only the opinion of the authors and is not attributable to Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, or the firm's clients.