

A Marked Improvement™

False Marking and the AIA

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“False marking” is the labeling of unpatented objects

with the type of mark, typically a patent number, used by patentees to indicate that the object is protected from copying by a U.S. patent. 35 U.S.C. § 292 makes such an act a criminal offense. Generally, in order to be liable for false marking under 35 U.S.C. § 292 (past and present), a party must (1) mark an unpatented article with a patent number or text suggesting the article is or may be patented and (2) intend to deceive the public.¹ Prior to passage of the America Invents Act (AIA) in 2011, section 292(b) provided a qui tam enforcement mechanism, whereby a private individual could sue to enforce the false-marking statute. The successful qui tam plaintiff was entitled to one-half of the penalty assessed to the defendant, which was “not more than \$500 for every such offense.”² Prior to 2009, these qui tam suits were fairly rare, due to the judicial interpretation most often given to the term “every such offense.” Then a 2009 Federal Circuit ruling changed the prevailing interpretation, giving rise to the potential for astronomical penalties and leading to an exponential increase in false-marking suits filed by qui tam plaintiffs. It was not until after the enactment of the AIA that false-marking lawsuits returned to historical levels.

Prior to 2009, courts had generally interpreted the “not more than \$500 for every such offense” language in § 292 as limiting recovery under the statute to \$500 for each “single and continuous act” of false marking. Under the “London test,” as it came to be known from the case in which it originated, “in order to recover more than a single penalty” a plaintiff must give proof “sufficiently specific as to time and circumstances to show a number of distinct offenses.”³ This approach provided little incentive to qui tam plaintiffs unimpressed by the possibility of recovering only \$500. In response, some courts actually tried to increase the number of such lawsuits using a time-based approach, breaking continuing production of a falsely marked good into separate offenses.⁴ However, even with the time-based approach, few false-marking cases were filed each year.⁵

This all changed in 2009 when the Federal Circuit decided *Forest Group Inc. v. Bon Tool Co.*⁶ In that case the Federal Circuit rejected

previous interpretations, which typically resulted in small penalties, and interpreted the “not more than \$500 for every such offense” false-marking penalty to mean a maximum penalty of \$500 *per falsely marked unit or object*. The *Forest Group* interpretation led to an immediate and dramatic increase in false-marking cases filed, as evidenced by the fact that one such case was filed in December 2009 (the month *Forest Group* was decided), six in January 2010, 65 in February 2010, and 66 in March 2010.⁷

The *Forest Group* decision created a potential for truly astronomical damage awards, which provided powerful incentives to future litigants. In one notable 2010 false-marking case, *Pequignot v. Solo Cup Co.*,⁸ Pequignot sued Solo, claiming that Solo produced more than 21.8 billion falsely marked units (i.e., plastic cups) with expired or invalid patent numbers. Under *Forest Group*, Pequignot sought an award of \$500 per cup, or approximately \$10.9 trillion. As the Federal Circuit noted in its decision, if such an award were granted, the United States’ portion would be \$5.4 trillion, or approximately 42 percent of the country’s national debt at the time. Fortunately for Solo, Pequignot was unable to prove that Solo falsely marked its products with an intent to deceive the public. Many false-marking cases followed a similar narrative, in which qui tam plaintiffs were unable to prove that the defendant’s false marking stemmed from a desire to intentionally deceive the public. Even so, the lure of the potential payday was sufficient to result in many similar qui tam lawsuits, requiring companies to either defend, incurring defense costs, or, as was more often the case, settle for an amount less than what it would cost to defend against the suit. In all, 674 false-marking cases were filed in the year following *Forest Group* (2010), whereas only 45 false-marking cases, in total, were filed between 2000 and the 2009 *Forest Group* decision.⁹

In 2011, Congress passed the AIA, which, among other things, revised the false-marking statute to remove the qui tam enforcement mechanism. Rather than permitting any person to bring a suit for false marking, only the United States government now has standing to sue for the penalty authorized in the subsection. Additionally, 35 U.S.C.

§ 292(b) was revised to explicitly enable lawsuits from plaintiffs that suffer competitive injury resulting from false marking. Further, Congress explicitly stated that the changes apply to all pending and future cases, instantly stripping most qui tam plaintiffs of any legal standing to sue under the false-marking statute.

In response to the changes to § 292, plaintiffs with then-pending false-marking claims made various arguments in hopes of retaining their legal standing to keep their cases from being dismissed. In *Presidio Components v. American Technical Ceramics Corp.*, the plaintiff argued that Congress did not actually intend the changes to the false-marking statute to apply to pending cases.¹⁰ In *Brooks v. Dunlop Manufacturing* the plaintiff attempted to argue that retroactive application violated the Due Process Clause of the United States Constitution.¹¹ The plaintiff in *Rogers v. Tristar Products Inc.*, on the other hand, argued that retroactive application violated both the Due Process Clause and the Takings Clause of the Constitution because qui tam plaintiffs had a vested property right in the suit in progress.¹² Finally, in *Stauffer v. Brooks Bros Group*, the plaintiff argued that retroactive application constituted a constitutionally impermissible pardon granted by Congress to false-marking defendants.¹³

In responding to the argument made by the plaintiff in *Presidio*, that Congress didn't actually intend for the false-marking amendments to be retroactive, the Federal Circuit cited *Landgraf v. USI Film Products*.¹⁴ In *Landgraf*, the Supreme Court held that an act must clearly indicate its retroactive application. The court concluded that there was clear intent for the AIA amendment to apply to pending cases, such as the one it dealt with in *Presidio*. The court came to its conclusion based on Congress's explicit statement that the false-marking amendments in the AIA "shall apply to all cases, without exception, that are pending on, or commenced on or after, the date of enactment."¹⁵ On that basis, the court in *Presidio* vacated the district court's judgment in favor of the qui tam plaintiff as moot.

In *Brooks*, the Federal Circuit dealt with the argument that retroactive application of the false-marking amendment violated the plaintiff's due process rights under the Constitution. The argument put forth by the plaintiff trying to maintain his qui tam cause of action was that, by filing suit against the defendant, he entered into a binding contract with the United States. Under this novel theory, the retroactive elimination of the qui tam action was a repudiation of the contract, which violated the plaintiff's due process rights. The plaintiff relied on a Ninth Circuit holding that qui tam provisions operate as unilateral contracts, but the Federal Circuit was not convinced. The court concluded that without "some clear indication that the legislature intended to bind itself contractually," the plaintiff's due process argument was unavailing.

The plaintiff in *Rogers* took a slightly different tack, arguing that he had acquired a property right in the suit upon filing it, and Congress's elimination of the qui tam action therefore amounted to a taking by the government. Rogers argued this retroactive application violated his due process rights. However, the Federal Circuit held that the AIA did not violate the Takings Clause because, under *McCullough v. Virginia*, a property right in a lawsuit does not vest until a "final, unreviewable judgment" is obtained.¹⁶ The court also rejected Rogers' due process claim, finding he had not explained how Congress acted irrationally when it amended the false-marking statute eliminating his claim. In fact, the court found that Congress had a legitimate justification for the amendment in attempting to reduce the flood of litigation that commenced after *Forest Group*.

The last argument attempted by plaintiffs hoping to maintain their

pending qui tam actions was that the retroactive elimination of such suits would amount to an impermissible pardon of false markers by Congress. This was the argument made by the plaintiff in *Stauffer*.¹⁷ In that case, the court rejected characterization of the amendments as a pardon, holding that they were more akin to repeal of the law, which is "an action undoubtedly within Congress's power." The court cited to *Landgraf* for the proposition that "it has long been held that Congress has the power to repeal a penal provision (whether criminal or civil) and that such repeals are understood to preclude punishment or acts antedating the repeal" (internal quotation marks omitted). Since Congress did not attempt to set aside finalized verdicts in making the false-marking amendments retroactive, its actions did not constitute an impermissible pardon.

Finally, after concluding that the AIA applied retroactively to all pending cases and was not unconstitutional for any of the reasons argued by plaintiffs, some courts evaluated whether plaintiffs had standing under the amended false-marking statute of the AIA. Even though qui tam standing was removed, "a person who has suffered a competitive injury as a result of a violation" may still pursue a claim for "recovery of damages adequate to compensate for the injury." If a plaintiff satisfied this requirement, some courts allowed the claim to survive. By contrast, other courts dismissed qui tam claims regardless of whether the plaintiff could prove a "competitive injury," stating that the plaintiff was free to refile a new false-marking complaint, if applicable.

The changes to the false-marking statute enacted by the AIA ultimately had the desired effect. Prior to *Forest Group*, there were, on average, seven or eight false-marking claims per year. In the two years between *Forest Group* and the enactment of the AIA, the average jumped to approximately 430 cases per year. Following the enactment of the AIA, the average returned to six or seven claims per year. Additionally, of the 865 false-marking claims that were filed between *Forest Group* and the enactment of the AIA, only about 20 false-marking claims remained pending one year after the AIA was enacted. Overall, the AIA resulted in a marked improvement. ☉

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Endnotes

¹*Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005).

²35 U.S.C. § 292(a) (1994).

³*London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910).

⁴See e.g., *Icon Health & Fitness Inc. v. Nautilus Group Inc.*, 2006 U.S. Dist. LEXIS 24153 (D. Utah 2006); *Krieger v. Colby*, 106 F. Supp. 124 (S.D. Cal. 1952).

⁵See Nicholas W. Stephens, *From Forest Group to the America Invents Act: False Patent Marking Comes Full Circle*, 97 IOWA L. REV. 1003, 1007 (2012).

6590 F.3d 1295 (Fed. Cir. 2009).

⁷See Justin E. Gray, *2010 False Marking Year in Review, Looking Forward*, GRAY ON CLAIMS (Jan. 28, 2011), www.grayonclaims.com/home/2011/1/28/2010-false-marking-year-in-review-looking-forward.html (last visited Aug. 14, 2014).

⁸608 F.3d 1356 (Fed. Cir. 2010).

⁹Gray, *supra* note 7; *False Marking Case Information*, www.grayonclaims.com/false-marking-case-information/ (last updated Dec. 20, 2011).

¹⁰702 F.3d 1351 (Fed. Cir. 2012).

¹¹702 F.3d 624 (Fed. Cir. 2012).

¹²559 Fed. Appx. 1042 (Fed. Cir. 2012).

¹³2014 U.S. App. LEXIS 13014 (Fed. Cir. 2014).

¹⁴511 U.S. 244 (1993).

¹⁵Leahy-Smith America Invents Act, 112 P.L. 29, § 16(b)(4), 125 Stat. 284 (2011).

¹⁶172 U.S. 102, 123-24 (1917).

¹⁷*Stauffer*; *supra* note 13, at 3.

TEETH continued from page 49

Act, 75 J. Pat. & Trademark Off. Soc'y 161, 216 (1993); 98 Cong. Rec. 9097 (1952) (statement of Sen. Wiley) (noting that 1952 bill "simply constitutes a restatement of the patent laws of the United States"); 98 Cong. Rec. at 9323 (statement of Sen. McCarran) (indicating that bill would "codif[y] the present patent laws"); 7 Donald S. Chisum, Chisum on Patents § 20.03[4][c] [i], at 20-464 (1999) (noting that "no change in meaning was intended" by the 1952 amendments).

²⁵In 1974, Congress added an identical attorneys' fee provision to the Lanham Act, which governs trademarks and false advertising. See 15 U.S.C. § 1117(a).

²⁶736 F.2d 688, 691-92 & n.5 (Fed. Cir. 1984); see also, e.g., *Yamanouchi Pharm. Co. v. Danbury Pharmaca Inc.*, 231 F.3d 1339, 1347 (Fed. Cir. 2000) ("In assessing whether a case qualifies as exceptional, the district court must look at the totality of the circumstances.").

²⁷United States Amicus Brief, *supra* note 9, at *17-18 (citing *Epcon Gas Sys. Inc. v. Bauer Compressors Inc.*, 279 F.3d 1022, 1034 (Fed. Cir. 2002); *Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1365 (Fed. Cir. 2000); *Eltech Sys. v. PPG Indus. Inc.*, 903 F.2d 805, 807 (Fed. Cir. 1990); *Mathis v. Spears*, 857 F.2d 749, 754, 755 (Fed. Cir. 1988)).

²⁸393 F.3d 1378 (2005).

²⁹*Id.* at 13.

²⁸Randall R. Rader, Colleen V. Chien & David Hricik, *Make Patent Trolls Pay in Court*, N.Y. TIMES, June 4, 2013, www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html.

²⁹*Id.*

³⁰See *Octane Fitness*, 134 S. Ct. at 1758.

³¹*Id.*

³²*Id.* at 1755-56.

³³*Id.* at 1756.

³⁴*Id.* at 1756, n.6 (quoting *Fogerty v. Fantasy*, 510 U.S. 517, 524, n.19 (1994)).

³⁵*Id.* at 1756-57 (citations omitted).

³⁶*Id.* at 1758.

³⁷*Id.*

³⁸*Highmark*, 134 S. Ct. at 1748-49.

³⁹No. 2013-1537, 2014 WL 4400184 (Fed. Cir. Sept. 8, 2014).

⁴⁰*Id.* at *1.

⁴¹*Id.* at *3.

⁴²*Id.* at *1.

⁴³*Id.* at *3.

⁴⁴*Id.*

⁴⁵*Id.*

⁴⁶No. 08-cv-00576, 2014 WL 2861759 (W.D.N.C. June 24, 2014).

⁴⁷*Precision Links Inc. v. USA Prods. Group Inc.*, 527 Fed. App'x 852, 853-57 (Fed. Cir. 2013).

⁴⁸*Id.* at 856.

⁴⁹*Id.* at 858.

⁵⁰2014 WL 2861759 at *4.

⁵¹No. 10-cv-020566, 2014 WL 3956703 (N.D. Cal. Aug. 12, 2014).

⁵²*Id.* at *8.

⁵³*Id.*; see also *Kilopass Tech. Inc. v. Sidense Corp.*, 738 F.3d 1302 (Fed. Cir. 2013).

⁵⁴*Id.* at 1314, 1317.

⁵⁵2014 WL 3956703 at *14.

⁵⁶*Id.*

⁵⁷*Id.*

⁵⁸*Id.* at *14 n.15.

⁵⁹No. 10-cv-759, 2014 WL 2508386 (D. Del. Sept. 25, 2014).

⁶⁰*Id.* at *4.

⁶¹*Id.*

⁶²*Id.* at *5.

⁶³No. 12-cv-0147, 2014 WL 1904228 (E.D. Tex. May 12, 2014).

⁶⁴*Id.* at *2.

⁶⁵*Id.*

⁶⁶*Id.*

⁶⁷*Id.*

⁶⁸No. 06-cv-6329, 2014 WL 3724797 (N.D. Ill. July 28, 2014).

⁶⁹*Id.* at *2.

⁷⁰*Id.*

⁷¹*Id.*

⁷²No. 11-cv-6635, 2014 WL 2508386 at *13 (N.D. Cal. June 3, 2014).

⁷³No. 13-cv-0152, slip op. at 33-37 (S.D.N.Y. Oct. 7, 2014).

⁷⁴*Id.* at 34-35.

⁷⁵*Id.* at 37.