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Fighting False Marking Through Gov't Settlements

Law360, New York (November 02, 2010) -- Since the Federal Circuit's decision in The Forest Group Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009), there has been a surge in false patent marking lawsuits. Indeed, over 500 such lawsuits have been filed since the Forest Group decision.[1]

Typically, these lawsuits are initiated by a new breed of "troll" who surfs the Internet or store shelves looking for products that are labeled with expired patent numbers. Cf. Pequignot v. Solo Cup Co., 608 F.3d 1356, 1362 (Fed. Cir. 2010) ("[A]rticles marked with expired patent numbers are falsely marked."). These lawsuits are a drain on companies, especially in the struggling economy. However, relief may be available from the U.S. government.

The United States is the Real Party in a False Marking Lawsuit

The false marking statute provides that "[a]ny 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." Such statutes are commonly referred as qui tam statutes, short for the Latin phrase "qui tam pro domino rege quam pro se ipso in hac parte sequitur," or "who pursues this action on our Lord the King's behalf as well as his own." These statutes date back to at least the Middle Ages. However, few qui tam statutes remain active today.

Qui tam actions are brought on behalf of the government, not the relator. U.S. v. George Washington University, 26 F. Supp. 2d 162, 168 (D.D.C. 1998) ("[T]he true plaintiff in a qui tam action is the government ..."). Given this fact, can a company settle a potential or actual false marking claim directly with the U.S. government? At least one district court has hinted that the answer to this question is, yes. See Pequignot v. Solo Cup Co., 640 F. Supp. 2d 714, 727 (E.D. Va. 2009) ("[T]he United States may apply for a protective order if the relator's action interferes with a government investigation or prosecution.").

As the real party, the federal government has authority to settle false marking claims.

Pre-Suit False Patent Marking Claims

With false patent marking becoming a more visible issue after the Forest Group decision, companies are searching to identify potential false marking problems. Companies that identify problems often struggle over how to resolve them. Many companies take corrective steps, for example, by removing expired patent numbers from their products. However, such corrective steps do not eliminate past problems with mismarked articles.

Here, many companies take a wait-and-see approach, hoping to avoid being sued before the statute of limitations for bringing a false marking claim expires. Cf. Seirus Innovative Accessories Inc. v. Balboa Mfg. Co., No. 09-CV-2274, (S.D. Cal., opinion issued 4/26/10) (dismissing in part false marking counterclaim for products sold five years before filing of the complaint); see also Arcadia Mach. & Tool Inc. v. Sturm, Ruger & Co., 786 F.2d 1124, 1125 (Fed. Cir. 1986) (applying statute of limitations for government fines, 28 USC § 2462, to false marking claims).

This wait-and-see approach has potential pitfalls. First, it lacks certainty because it requires the company's products to stay "under the radar" of the false-marking trolls until the limitations period expires. Second, the false marking problem remains until a company has completely exhausted its inventory of mismarked products, because the limitations period runs anew whenever a mismarked article is sold or advertised. See Seirus Innovative, No. 09-CV-2274.

Depending on the extent and seriousness of the false marking issue, another approach is to contact the intellectual property staff at the U.S. Department of Justice and seek a government settlement. This approach is attractive for several reasons.

First, defending a false marking lawsuit may be far more costly than a government settlement. Second, a government settlement is attractive where the scope of potential damages, and thus the settlement value of the case to a false marking troll, is large.

Third, a government settlement can include provisions giving the company a reasonable time to sell its remaining inventory of mismarked products.

Fourth, the government may be more sympathetic to a company that can demonstrate a lack of any intent to deceive the public, such as through internal correspondence showing that the problem was quickly identified and resolved.

Indeed, when a company can show a lack of intent to deceive the public, the best approach may be to seek a government settlement. The government's interest in false patent marking is protection of the public. A company that has acted quickly and effectively to eliminate mismarked products should be viewed favorably by DOJ. Indeed, corrective action may be all that is needed to resolve a tenuous marking claim with the DOJ.

Conversely, a false marking troll will not view the same company as favorably. Unlike the government, a troll simply wants money from the company. And, the mere threat of litigation costs gives settlement value to even a frivolous false marking claim. Even if a defendant chooses the strategy of filing initial motions to dismiss, this action still comes at a cost. The resources dedicated to initial motions practice can be shifted to working to resolve the case with the DOJ.

Also, a government settlement provides certainty and predictability that is lacking in the wait-and-see approach. While there has not yet been a false marking government settlement, such a proposal likely will be brought to the DOJ in the near future as the threat of being sued for false patent marking continues to grow. Indeed, the authors proposed the concept of government settlements several months ago. See "Is Your Company Safe From False Marking," Foley & Lardner webinar (Mar. 17, 2010).

Given similar settlements in the False Claims Act context, government settlements for false patent marking should occur in the near future.

When attempting to settle a false patent marking claim with the DOJ, a company should be prepared to provide detailed information, including the scope and type of articles that have been mismarked, the selling price of the mismarked articles, the location of the patent notice, the reason the article is mismarked (e.g., patent expiration), and how the patents were used in advertising and promotion of the mismarked articles.

The company also should be prepared to demonstrate its lack of intent to deceive the public. These factors likely will be considered in determining how the matter should be resolved.

False Marking Claims that have not Reached a Final Judgment

The government also can settle false marking claims initiated by a qui tam plaintiff. For the government's authority to do so, one need only look to the FCA. Indeed, the FCA has express provisions for government dismissal and settlement of pending actions, even over objections of the relator. See 31 U.S.C. § 3730(c)(2)(A) and (c)(2)(B).

Certainly, an issue arises over whether the government has the same settlement authority under the false marking statute, since 35 U.S.C. § 292 has no provisions for government intervention.

Nonetheless, the government's ability to intervene and ultimately control an existing false patent marking lawsuit should be part of 35 U.S.C. § 292. Otherwise, this statute may be unconstitutional. Cf. Pequignot, 640 F. Supp. 2d at 804 ("It is unnecessary to decide whether, on different facts, Article II might be violated.").

Specifically, Article II, Section 3 of the Constitution provides that the president "shall take Care that the Laws be faithfully executed." This clause places law enforcement responsibility upon the executive branch.

If § 292 does not allow for government involvement in a pending false marking action, then Congress has stripped the executive branch of its Constitutional law enforcement duties.

This issue was left for deciding another day in Stauffer:

"Amicus Ciba asserts that the government cannot constitutionally assign any claim without retaining control over the relator's actions, arguing that such assignment violates the "take care" clause of Article II, § 3 of the Constitution. According to Ciba, in enacting section 292(b), Congress has stripped the executive branch of its duty to "take Care that the Laws be faithfully executed" by giving such power to the public.

"In support of that position, Ciba contrasts section 292 with the False Claims Act, which provides the government with, inter alia, the right to be notified of a case before the defendant is served, the right to intervene, and the right to seek dismissal or settlement over the objection of the relator or to prevent dismissal of the action by the relator.

"While Ciba raises relevant points, the district court did not decide, and the parties did not appeal, the constitutionality of section 292. Thus, we will not decide its constitutionality without the issue having been raised or argued by the parties." Stauffer v. Brooks Brothers Inc., 619 F.3d 1321 (Fed. Cir. 2010).

Courts have rejected similar challenges to the FCA because the FCA gives "the Executive Branch sufficient control over qui tam actions ..." Ridenour v. Kaiser-Hill Co. LLC, 397 F.3d 925, 942-43 (10th Cir. 2005). Thus, absent some right of government intervention and control over a false patent marking action, there are constitutional issues raised by 35 U.S.C. § 292.

As such, to the extent that § 292 is constitutional, there should be an implied right of the federal government to control, at some level, false patent marking cases pending in the federal courts. For this reason, government settlements in pending false marking cases should be a viable option.

The federal government's ability to settle false marking claims may be restricted once a final decision is rendered in a false marking action.

Finally, while the government can settle unfiled and pending false patent marking claims, its ability to settle post-final judgment false marking claims may be restricted. While this issue has yet to be litigated in the false patent marking context, an older case addressed this issue in the FCA context.

In U.S. v. Griswold, 30 Fed. Rep. 762 (Cir. Ct., D. Ore. 1887), the government attempted to settle a FCA claim with a defendant that had already been adjudged liable by a court under the statute.

The court rejected the settlement, reasoning that "[w]hen this judgment was recovered and became final, the title to one-half of it became absolutely vested in [the relator], as his property. It was what he earned by performing the statutory conditions." Id. at 763; see also Killingsworth v. Northrop Corp., 25 F.3d 715, 721 (9th Cir. 1994).

Although Griswold is nonbinding, it raises the issue of whether a relator acquires vested property interests when prosecuting a § 292 claim to final judgment. Accordingly, there are questions regarding the government's ability to settle a post-final judgment false marking claim.

Conclusion

Companies should consider government settlements as an option when faced with a potential or actual false patent marking claim. The government's authority to settle pre-complaint false marking claims goes without question.

The government also must have the ability to intervene and control, at least to some extent, existing false marking suits, otherwise 35 U.S.C. § 292 may be unconstitutional for violating Article II, section 3 of the U.S. Constitution. The government, however, may have only limited settlement authority when a final judgment has been rendered by a federal court on a false patent marking claim.

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[1] See IP blog, Gray on Claims: www.grayonclaims.com