



Litigation Update - Qui Tam Provision of Patent False Marking Statute Declared Unconstitutional by Federal District Court

April 13, 2011

The U.S. District Court for the Northern District of Ohio-Eastern Division recently issued a groundbreaking decision, in which it declared the qui tam provision of the Patent False Marking Statute (35 U.S.C. § 292(b)) (the "Act") unconstitutional on the grounds that it violates Article II, Section 3, of the United States Constitution (the "Take Care Clause"). *Unique Prod. Solutions, LTD. v. Hy-Grade Valve, Inc.*, No. 5:10-CV-1912, 2011 U.S. Dist. LEXIS 18237 (N.D. Ohio, Feb. 23, 2011). This decision may have significant implications for the hundreds of Patent False Marking Statute cases currently pending in federal courts around the country.

Background

The Plaintiff, Unique Product Solutions, Ltd. ("Unique") filed a complaint against defendant, Hy-Grade Valve, Inc. ("Hy-Grade"), for violating the Patent False Marking Statute. The False Marking Statute is a federal criminal statute which makes it unlawful to mark an article or advertise using a patent number attached to a product that is not patented. The plaintiff alleged that the defendant had violated the False Marking Statute by marking its products with an expired patent.

A violation of the statute is punishable by a civil fine or a penalty of up to \$500 for each false mark. The statute also contains a qui tam provision that 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." 35 U.S.C. § 292 (b). The False Marking Statute contains no express provisions that require government control or oversight over the enforcement of the statute.

Unique brought its action as a qui tam relator. Hy-Grade moved for dismissal on the ground that the qui tam provision in the statute is unconstitutional.¹

Question of Constitutionality

The Take Care Clause of Article II of the Constitution provides that the president shall faithfully execute the laws of the United States. Most qui tam statutes support this constitutional mandate by providing for specific controls over the litigation by the Executive Branch. The Unique Product court determined that the



constitutionality of the Act's qui tam provision rested squarely on whether the statute provided for sufficient control over the litigation by the Executive Branch. In coming to its decision, the Unique Product court relied on the Supreme Court's discussion of Article II in *Morrison v. Olsen*, 487 U.S. 654 (1988).

The issue in *Morrison* was whether the Ethics in Government Act of 1978 (the EGA) violated the Constitution by allowing Congress to appoint independent counsel to prosecute high ranking government officials for violations of federal criminal laws. Though the court did not make a specific finding regarding the Take Care Clause, the court did say that the EGA did not violate the Take Care Clause, because it allowed the Executive Branch to retain sufficient control of the litigation in the following four ways: 1) permitting the Attorney General to remove independent counsel for good cause; 2) appointing independent counsel only upon a specific request by the Attorney General; 3) circumscribing jurisdiction; and 4) requiring independent counsel to abide by the Department of Justice's policies. Essentially, the *Morrison* decision suggested that the Executive Branch must maintain sufficient control over litigation involving qui tam statutes to ensure that the Executive Branch is fulfilling its constitutional duties.

Using the *Morrison* decision as a guide, the Unique Product court found that the Patent False Marking Statute failed to provide any mechanism of control for the Executive Branch. In fact, the Act essentially permits any private citizen to bring a criminal lawsuit in the name of the United States without even notifying the Department of Justice, much less allowing them to intervene or have a right to participate in the action. In addition, the Unique Product court found that the Act allows private citizens to settle it cases and bind the government to the settlements without any approval, oversight, or involvement by the Department of Justice. Most notably, the Unique Product court stated that the civil penalty alone, which provides for a fine of up to \$500 for each falsely marked article, could result in a significant penalty to the defendants. The Unique Product court wrote that the involvement of the Department of Justice would ensure, among other things, that the amount of the penalty would be tailored to the type of defendant, product, and/or competitive harm that the false marking caused, and not determined simply by a plaintiff motivated by financial gain.

Future Implications

This decision may have a significant impact on the hundreds of false marking cases that have been filed since January 2010. As the first federal district court to declare the False Marking Statute unconstitutional, this decision may provide a basis for dismissal of many of the cases currently pending in federal courts and affect future litigation involving the Patent False Marking Statute. Further, the decision may cause a decrease in the number of such cases filed. The constitutionality of the Patent False Marking Statute is also being briefed at the Federal Circuit in *U.S. v. Wham-O, Inc.*, so there may soon be additional guidance regarding this issue. See *U.S. v. Wham-O, Inc.*, No. 10-cv-0435, 2010 U.S. Dist. LEXIS 78253 at *1 (W.D. PA Aug. 3, 2010).



About Gray Plant Mooty

Gray Plant Mooty's Patent Litigation team vigorously represents its clients in several types of matters, ranging from substantive issues—infringement, invalidity, unenforceability, inequitable conduct, and false patent marking—to procedural questions, including declaratory relief, motions to dismiss, and mediation.

¹ The Department of Justice (the DOJ) did not intervene until after the Unique Product Court issued its decision granting the defendant's motion to dismiss. After subsequently allowing the intervention by the DOJ, the Court reaffirmed its decision to dismiss.

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