The Demise of Patent Qui Tam Suits

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As discussed earlier in *Patent Qui Tam Actions Clarified,* the Federal Circuit has viewed 35 U.S.C. § 292(b) actions favorably. Support may have waned, however, since the number of pending suits has skyrocketed. They now exceed one hundred, but three factors could diminish enthusiasm for continuing such suits or for filing more.

Most potent is a recent addition to S.515, the patent reform bill. Section 2(k)(1) would amend § 292(b) to read, "A person who has suffered a competitive injury… may file… for recovery of damages adequate to compensate….;" and § 2(k)(2) would apply that amendment to "all cases, without exception, pending" at the time of enactment.

Plaintiffs who soldier on will find their continued investments to be for naught if § 292(b) is retroactively abolished by S.515 or otherwise. Although the Supreme Court has held "that vested rights created by statute cannot be abridged by a subsequent statute," *see* Hammond v. U.S., 786 F.2d 8, 11 (1st Cir. 1986), the Court has also held "that a court must apply the law in force at the time of its decision, even if it is hearing the case on appeal from a judgment entered pursuant to a prior law," *id.* at 12. The upshot is that any success in pending litigation is unlikely to vest "until a final, unreviewable judgment is obtained," *id.*

Should such legislation not be enacted, however, a second factor to consider is how the Federal Circuit might refine its test for establishing deceptive intent. It has said, "false marking misleads the public into believing that a patentee controls the article in question… [and] externalizes the risk of error…, placing it on the public rather than the manufacturer or seller," Clontech Laboratories, Inc. v. Invitrogen Corp., 406 F.3d 1347, 1356 (Fed. Cir. 2005). But that contributes nothing to resolving the tension between that proposition and patentees' often facially credible justifications for providing literally false notice.

In Pequignot v. Solo Cup Co., 646 F.Supp.2d 790, 793-94 (E.D. Va. 2009), liability was denied based on Solo's reliance on legal advice that it was obligated only to phase out equipment containing expired patent numbers and "not otherwise manifest an intent to deceive the public." The Federal Circuit may well agree.

Third, even when justification is lower or lacking, the Federal Circuit could turn instead to the approach in Stauffer v. Brooks Bros., Inc., 615 F.Supp.2d 248 (S.D.N.Y. 2009). Although defendant's merchandise was marked with patents that had expired in the mid-50s, evidence of deceptive intent was far from clear, *id.* at 255. The district court did not reach that issue, however. Rather, the complaint was dismissed because plaintiff "fails to allege with any specificity an actual injury to any individual competitor, to the market for bow ties, or to any aspect of the United States economy. That some competitor might somehow be injured at some point, or that some component of the United States economy might suffer some harm through defendants' conduct, is purely speculative and plainly insufficient to support standing," *id.* On the same grounds, it later rejected a government motion to intervene; 2009 WL 1675397 *4: "Arguably, the government has an *interest* in resolution of Stauffer's claim…. But an interest in the outcome of litigation is not itself a 'claim or defense' especially where, as here, the interest is premised on issues and legal questions not actually presented or decided by the Court."

The effective abolition of § 292(b) by S.515 could therefore prove unnecessary. Should that be pursued, however, Congress should consider alternatives to what is proposed in § 2(k)(1). First, the cause of action created there would merely duplicate one that already exists. Second, it would fail to advance apparently sound objectives now served by § 292(b). Those points can be illustrated by considering, respectively, Zenith Electronics Corp. v Exzec, Inc., 182 F.3d 1340 (Fed. Cir. 1999), and Icon Health & Fitness, Inc. v. The Nautilus Group, Inc., 2006 WL 753002 (D.Utah 2006).

In *Zenith,* defendant allegedly interfered with plaintiff's business opportunities by falsely representing its patent rights. As the court explains, state law already addresses such tortious interference, but "to avoid patent law preemption of such state law tort claims, bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an element of the tort claim;" Zenith, 182 F.3d at 1355. If such suits already secure the goal of § 2(k)(1), it is difficult to imagine what it would accomplish. Were it to supplant current tort recoveries, it would also eliminate possible punitive damages for particularly egregious misrepresentations.

It is useful also to consider a situation where recovery, both possible and warranted under current § 292(b), would henceforth be impossible. In *Icon,* a jury found that Nautilus had made wholly fictitious patent claims in a variety of media for more than ten years. Conduct found to be both deliberate and willful also infringed a trademark; 2006 WL 753002 at *7.

Those findings were supported by a preponderance of evidence, but the court was unable to find clear and convincing evidence of conduct sufficiently egregious to justify an award of attorney fees; *id.* at *8. Although § 292(b) as amended by S.515 would limit competitors to recovery of damages, the court finds “no sufficiently persuasive evidence indicating that Icon suffered damages as a result of the false advertising;” *id.* (citation omitted).

Only under § 292(b) did Icon recover anything. The basis for the award was flawed, for example, because it was based on time, a factor later rejected in Forest Group. A properly based award could nevertheless have been as large or larger.

When, as in that case, a firm’s false claims target no particular competitor, it should come as no surprise that the court found no damage — something that is usually impossible to show in such circumstances. Thus, under § 292(b) as amended, Icon would have recovered nothing.

It would also lack standing to seek an injunction under § 292(a). But injunctions to halt false advertising or promotion would continue to be available under Lanham Act § 43(a)(1)(B). Those who bear the costs of obtaining them, and thereby benefit all competitors as well as consumers, however, rarely recover even their expenses.

Most false advertising does not carry criminal penalties. Yet those who engage in patent-based deception are, and will remain subject to being “fined not more than $500 for every such offense.” 35 U.S.C. § 292(a). The existence of such liability implies a strong public interest exceeding that for most false advertising.

If that is so, competitors such as Icon should be encouraged to halt deception forbidden under § 292(a). As amended by § 2(k) of S.515, however, such competitors, unable to show damages unique to themselves, would be unable to sue under that section, much less recover costs. If that amendment is intended merely to cut off qui tam suitors, § 2(k)(1) should read simply, “35 U.S.C. § 292(b) is repealed.” If it is intended to accomplish more, it warrants further attention.