2011-1254, -1284

United States Court of Appeals

for the

Federal Circuit

UNIQUE PRODUCT SOLUTIONS, LIMITED,,

Plaintiff-Appellant,

v.

HY-GRADE VALVE, INC.,

Defendant-Appellee,

and

UNITED STATES,

Defendant-Cross Appellant.

Appeals from the United States District Court for the Northern District of Ohio in Case No. 10-CV-1912, Judge Dan Aaron Polster.

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF NEITHER PARTY

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MAY 20, 2011

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.

2011-1254

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1. The full names of every party or amicus represented by me is: **Intellectual Property Owners Association**
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: **NONE**
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of *amicus curiae* represented by me are: **NONE**
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STATEMENT OF RELATED CASES

The *FFLMC, LLC v. Wham-O, Inc.*, No. 2011-1067 (Fed. Cir. Nov. 10, 2010), case currently pending before this Court and potentially any other false-marking case under 35 U.S.C. § 292 currently pending before this Court are "related cases" under Federal Circuit Rule 47.5(b).

INTEREST OF AMICUS CURIAE

Amicus curiae Intellectual Property Owners Association ("IPO") is a trade association founded in 1972 that represents companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights.[1] IPO's membership includes more than 200 companies and more than 11,000 individuals involved in the association either through their companies or as inventors, authors, executives, law firm or attorney members. IPO regularly represents the interests of its members before Congress and the U.S. Patent and Trademark Office ("PTO") and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the Appendix.[2]

INTRODUCTION

A series of recent Federal Circuit panel decisions has dramatically expanded the potential for liability under section 292 of the Patent Act related to false patent marking and greatly enhanced the incentive for plaintiffs to bring *qui tam* actions

[1] No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief.

[2] IPO procedures require approval of positions in briefs by a three-fourths majority of Directors present and voting.

to enforce section 292 irrespective of the actual merits of these cases. Indeed, these decisions have unsettled expectations under long-established precedent. Unprecedented numbers of false marking suits have followed, brought by private parties who have suffered no cognizable injury, against patent owners whose products are marked with expired, disclaimed or lapsed patents. Because of the threat of unpredictable and potentially enormous financial liability, and the cost of defending against such litigations, the defendants frequently have been forced to settle these false-marking actions for substantial sums regardless of their culpability.

The broad interpretation only recently given the statutory provisions, the relatively low burden of proof, the lack of any requirement that the plaintiff be an injured party and the purely punitive nature of the penalties it may impose have raised significant constitutional questions causing the district court in this case and other district court cases to hold the statute unconstitutional on different grounds. *See*, *e.g.*, *Stauffer v. Brooks Brothers, Inc.,* 615 F.Supp. 2d 248 (S.D.N.Y. 2009), *rev'd*, 619 F. 3d 1321(Fed. Cir. 2010); *FFLMC, LLC v. Wham-O, Inc.*, No. 10-435, 2010 U.S. Dist. LEXIS 78253 (W.D. Pa. Aug. 3, 2010), *appeal docketed*, No. 2011-1067 (Fed. Cir. Nov. 10, 2010).

IPO files this brief to request that this case and *Wham-O* be consolidated for purpose of argument, perhaps with any other false-marking cases pending before the Court, that the cases be heard *en banc*, and that the Court permit the parties and *amici* to submit briefs responding to several important issues relating to the construction and constitutionality of section 292 that have never been considered by this entire Court.[3]

BACKGROUND

Under section 292(a) of the Patent Act, whoever engages in false marking "[s]hall be fined not more than $500 for every such offense." False marking is defined in the Patent Act to include marking or using a patent number in advertising, with the intent to deceive the public, (i) in connection with a patented article without the consent of the patentee, (ii) in connection with an unpatented article, or (iii) to indicate that a patent is pending or applied for where no application has been made. Section 292(b) goes on to provide, in its entirety, 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."

[3] Although at least the constitutionality of section 292 has been raised by the parties in this case, it is still within the Court's power to "consider issues that a party fails to raise on appeal," including any of the issues proposed herein for review *en banc*. *See Thomas v. Crosby*, 371 F.3d 782, 793 (11th Cir. 2004); *Singleton v. Wulff*, 428 U.S. 106, 121 (1976) ("The matter of what questions may be taken up and resolved for the first time on appeal is one left primarily to the discretion of the courts of appeals, to be exercised on the facts of individual cases."). Further, under the Federal Circuit's Internal Operating Procedure No. 14 (3), the Court may *sua sponte* order a hearing *en banc* following hearing by a panel of judges, but prior to the entry of judgment and opinion(s) by the panel.

Since 2005, this Court's panel decisions have greatly increased the incentives for parties to initiate section 292 actions. The Court has minimized the burden of proof required to establish the requisite deceptive intent, increased the amount of potential liability by a huge multiple into potentially billions of dollars, extended potential liability to include not only marking a product falsely but to include failure to remove a mark that was valid when made and expanded standing under section 292 to include essentially anyone. This has given rise to a landslide of plaintiffs' actions, and raised significant questions of constitutionality, as manifested by the decision below in this case. A brief history of those decisions that unsettled expectations follows.

In *Clontech Laboratories, Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005), a panel held that only a preponderance of the evidence is needed to show that the defendant knew that the product was not covered by the claims of a patent. This decision stands in striking juxtaposition to this Court's decisions on other questions involving an "intent to deceive."

Clontech was followed by *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), which construed the 1952 act and *sub silentio* overruled a string of precedents dating back to *London v. Everett H. Dunbar Corp.*, 179 F. 506 (1st Cir. 1910). The *Forest Group* court held that the sale of each individual article bearing the false mark, rather than the initial decision to mark the article, was a separate "offense" that could result in a separate fine of up to $500 for each and every individual article.

Six months later, in *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010), another panel held that, for purposes of section 292, an "unpatented article" included not only articles that had never been covered by a patent, but also included articles that were marked with a patent number where the patent had subsequently expired and the mark was not removed. Although the *Pequignot* decision sought to ameliorate the effect of the *Clontech* decision somewhat by holding that the presumption of intent to deceive was rebuttable by a showing that *the defendant* believed its conduct to be lawful, the decision left intact the rule that the plaintiff could still meet its burden by a mere preponderance of the evidence showing only that the defendant knew the patent had expired and failed to remove the mark. *Id*. at 1363. The court did so even though it recognized that the fine imposed was purely criminal in nature, and proof of intent to deceive in most civil actions requires "clear and convincing evidence."[4] *Id*. at 1363-64.

[4] A Federal Circuit panel in *In re BP Lubricants USA Inc*. recently held that the plaintiff in a section 292 action must plead with particularity. Misc. Docket No. 960, 2011 U.S. App. LEXIS 5015 (Fed. Cir. March 15, 2011). But, by maintaining the same burden of proof scheme outlined in *Clontech* and *Pequignot*, i.e., "some objective indication to reasonably infer that the defendant was aware that the patent expired," the panel still kept the bar relatively low for a plaintiff to bring and maintain an action under section 292.

Finally, in *Stauffer v. Brooks Brothers, Inc*., 619 F.3d 1321 (Fed. Cir. 2010), a panel held that anyone could maintain an action and recover 50% of the fine imposed under section 292(a) without regard to whether the plaintiff had suffered any actual or potential injury. This Court held that the statutory grant to the plaintiff of the right to receive 50% of the criminal fine under section 292(b) was, in itself, sufficient to give a plaintiff the requisite economic interest to confer standing under Article III of the Constitution.

The combined effect of these panel decisions has been to unleash hundreds of cases where previously virtually none were brought. To establish a *prima facie* case of intent to deceive, a plaintiff need only show, by a preponderance of the evidence, that the defendant was aware that the patent had expired, lapsed or been disclaimed. The defendant is then potentially liable for a fine of up to $500 for every single article it sold, regardless of the value of the article, the volume sold or the extent of any injury to anyone resulting from the marking. That this massive potential liability was created now is particularly unwarranted when anyone can readily determine from a quick internet search whether a patent has expired.

As one might anticipate, the number of suits seeking substantial fines against companies who have products marked with expired, disclaimed, or lapsed patent has grown exponentially. *See*, *e.g.*, False Marking Case Information, *Gray on Claims*, http://www.grayonclaims.com/false-marking-case-information (last visited

May 9, 2011). The median settlement in these cases is $40,000. *See*, *e.g.*, False Marking Settlement Updates, *PatentlyO*, http://www.patentlyo.com/patent/2011/03/false-marking-settlement-updates.html (last visited May 9, 2011). Not surprisingly, the median settlement is lower than the typical costs of defendants to retain counsel and seek an early dismissal of such an action, which reflects the fact that plaintiffs are seeking settlements even in cases where defendants could ultimately succeed in proving no liability. One would expect that the median settlement amount will rise significantly over time, as those cases that have not settled yet are the ones like *Pequignot*, where the potential liability is the largest and hence the plaintiffs have made much larger demands.

Presently there are two cases before this Court that are appeals from district decisions questioning the power to enforce a purely penal statute, in violation of the provision of Article II that grants to the President the power to "take Care that the Laws be faithfully executed." U.S. Const. art. II, §3. The first case is *FFLMC, LLC, v. Wham-O, Inc.*, in which the district court held the statute unconstitutional for lack of standing before *Stauffer* was decided, but the Article II question was preserved for appeal. The second case is the present case, *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc*., No. 2011-1254, in which the district court expressly held section 292 unconstitutional on Article II grounds.

SUMMARY OF ARGUMENT

The recent series of decisions by individual Federal Circuit panels concerning section 292 has created a new litigation "cottage industry" in which private parties who have suffered no cognizable injury have brought hundreds of lawsuits.

IPO believes that the Federal Circuit's "per article" approach for potential liability under section 292, the broadening of the statute to encompass under the meaning of "unpatented article" articles that had been patented when the mark was first affixed, and the establishment of the low burden of proof placed on a plaintiff in section 292 actions are significant departures from, or expansions of, existing law that have had a substantial adverse impact on patent owners. As such, these questions of statutory interpretation should be reviewed by the Court *en banc*.

Further, the holdings in the recent panel decisions also implicate significant constitutional issues that merit consideration *en banc* by this Court. These include not only the Article II and III issues considered by the panel in *Stauffer* and the district court in this case, but also fundamental due process questions arising from the application of civil procedures to enforce a purely criminal penalty without any practical limitations on the exercise of this power.

In view of the significant effects of *Clontech*, *Forest Group*, *Pequignot*, and *Stauffer*, IPO believes that the time is ripe for the entire Court to examine these issues in the context of an *en banc* hearing. Rather than continuing the piecemeal development of the law of false patent marking, the parties and *amici* could be requested to address, in one place, the intertwined statutory, constitutional and public policy issues raised by section 292. This Court would have the opportunity to examine those issues in context and in relation to one another.

ARGUMENT: QUESTIONS FOR *EN BANC* REVIEW

I. SHOULD EVERY SALE OF A FALSELY MARKED ARTICLE BE DEEMED A SEPARATE OFFENSE WHICH INCURS A SEPARATE FINE?

As noted above, prior to the 2009 panel decision in *Forest Group*, the leading case on whether the statute's $500 criminal penalty should be imposed on a per article basis was the First Circuit decision in *London v. Everett H. Dunbar Corp*. In that case, the court construed the predecessor of section 292 to mean that the decision to affix the false mark, rather than the sale of individual articles bearing the mark, was the basis for the fine. Otherwise, basing liability solely on the volume of sales would lead to irrational results. Foreshadowing the potential for billions of dollars of liability in *Pequignot,* the *London* court explained that:

> Patented articles are so varied in kind and in value that, if we construe the statute to make each distinct article the unit for imposing the penalty, the result may follow that the false marking of small or cheap articles in great quantities will result in the accumulation of an enormous sum of penalties, entirely out of proportion to the value of the articles, while the marking of expensive

> machines used in limited numbers may result in the infliction of penalties which are comparatively slight in relation to the pecuniary value of the articles. . . . A fraudulent design maintained throughout the continuous marking of a number of articles cannot be divided into as many distinct fraudulent purposes as there are distinct overt acts of marking. Though the marking of each article makes a distinct instrument for the publication of a false statement, this cannot be a proper ground for multiplying penalties."

London, 179 F. at 508.

The *London* decision was widely followed. The only substantive modification effected by the 1952 Patent Act in section 292 was to change the fine from a minimum of $100 to a maximum of $500 per offense. Nonetheless, the panel in the *Forest Group* case construed that modification as evidencing a congressional intent to impose liability based on the number of articles sold. *Forest Group*, 179 F. at 1302-1304.

The panel reasoned that "Congress' affirmative change of the statute's penalty from a minimum to a maximum fine eliminated the policy consideration expressed by the court in *London* of not imposing disproportionate fines for the false marking of small and inexpensive articles." *Id*. at 1302. The "per article" approach, however, served instead to exaggerate this disparity. The result, as in *Pequignot*, has been that the potential liability for an inexpensive article would "accumulate as fast as a printing press or stamping machine might operate" (*see*

London, 179 F. at 508), and, coupled with the cost of litigation, force defendants, regardless of their culpability, to settle a case simply to ensure some degree of certainty and reasonableness. IPO believes that the *Forest Group* panel's interpretation of section 292, being followed in many pending cases, coupled with the significant question of whether it accurately reflects the legislative intent of the 1952 Act, is sufficiently significant to merit review by the entire Court *en banc.*

II. SHOULD THE FAILURE TO REMOVE A MARK AFTER THE EXPIRATION OR OTHER LAPSE OF A PATENT BE DEEMED "FALSE MARKING"?

The *Pequignot* decision concluded that section 292 applies not only to someone who "marks upon, or affixes" a patent number on an unpatented article, as the statute states, but also someone who fails to remove the number from an article where the mark was proper when it was affixed, could be liable for false marking. *Pequignot*, 608 F.3d at 1362.

Viewed in light of the policy of the statute, as well as its language, however, that conclusion is hardly self-evident. If the purpose of marking is to advise the public at large that an article embodies inventions that are disclosed in patents, then a marking that identifies an expired patent would have the salutary effect of notifying the public of the patent's expiration. The public readily can determine through the internet whether patents are expired, lapsed or disclaimed. Thus, the existence of a patent marking not only provides persons contemplating reproducing the article with a guide to the inventions that are embodied in the article, but also facilitates a determination regarding whether those inventions are in the public domain. In fact, the landslide of false patent marking decisions based on the existence of an expired patent number on an article only demonstrates the ease with which the public has been able to determine that the patents are expired.

Further, consideration of the potential costs and burdens that result from requiring a patent owner to remove an expired mark counsels against the *Pequignot* holding. Pursuant to 35 U.S.C. § 287, a patent owner is required to mark its product if it desires to provide constructive notice of its rights to others. According to *Pequignot*, however, that patent owner must immediately remove that marking when the patent expires, regardless of the costs or burdens that may result from removing that mark. Those costs and burdens are only exacerbated in the common situations where a product is covered by numerous patents with varying expiration dates. Weighing the policy behind the marking statute, the relative ease in which the public can determine whether an expired patent is still in effect, and the potential costs and burdens associated with removing an expired mark, IPO believes that the holding in *Pequignot* is a sufficient expansion of the established law to merit review by the entire Court *en banc.*

III. WHAT SHOULD THE BURDEN OF PROOF BE FOR DECEPTIVE INTENT IN A SECTION 292(B) PROCEEDING, AND WHO SHOULD BEAR THAT BURDEN?

In order to fall under Section 292(a), the false marking of the article must be done "for the purpose of deceiving the public." The general rule in civil actions involving fraud, as well as claims of inequitable conduct in the prosecution of patents, is to require a plaintiff to prove deceptive intent by "clear and convincing evidence." *See Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008). "To successfully prove inequitable conduct, the accused infringer must present 'evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive the [PTO].' Further, at least a threshold level of each element — i.e., both materiality and intent to deceive — must be proven by clear and convincing evidence." *Id.* (citation omitted).

Contrary to this general rule, the combined effect of the panel decisions in *Clontech* and *Pequignot* is to eliminate any practical requirement that the plaintiff prove deceptive intent. Instead, the plaintiff need only show that the defendant was aware that the article was not covered by an unexpired patent by a preponderance of evidence, in which case a "rebuttable presumption" is established. Once the "rebuttable presumption" is established, the defendant is faced with the Hobson's choice of running the risk of an uncertain result after burdensome discovery and a trial to rebut that presumption, or paying off the plaintiff. Not surprisingly, many defendants will simply pay regardless of the ultimate merits of the claim.

The *Pequignot* panel placed the burden on the defendant to show that it did not "consciously desire the result that the public be deceived . . . ." *Pequignot*, 608 F.3d at 1363. Ironically, the decision of shifting the burden from the plaintiff to the defendant was reached even though the panel correctly recognized that "the statute requires that the false marker act 'for the purpose of deceiving the public,' a purpose of deceit, rather than simply knowledge that a statement is false . . . ." *Id*.

Given that the fine imposed by section 292 is a purely punitive, criminal penalty, bearing no demonstrable relation to an actual injury to the government or any private party, the panel decisions imposing a relatively slight burden of proof on the plaintiff, and then shifting the burden of proof to disprove deceptive intent to the defendants, also merit consideration by the Court *en banc.*

IV. TO THE EXTENT PRESENT INTERPRETATIONS ARE RETAINED, ARE THE *QUI TAM* PROCEDURES OF SECTION 292(B) CONSTITUTIONAL?

Qui tam proceedings have existed in the common law for centuries, and the constitutionality of at least one of those procedures, the False Claims Act, was recently upheld by the Supreme Court. *See Vermont Agency of Natural*

Resources v. United States ex rel. Stevens, 529 U.S. 765 (2000). Section 292(b), particularly as it has been construed in the recent panel decisions by this Court, however, differs from the False Claims Act and other *qui tam* proceedings in a number of critical ways. For example, section 292(b) contains no provision for notice to or approval or participation by the Government; it imposes a purely criminal penalty with no realistic boundary; and that penalty has no relationship to any actual damages incurred either by the United States or the relator. These differences from the False Claims Act give rise to several substantial constitutional questions which merit *en banc* review by this Court.

A. Does the Plaintiff in a Section 292(b) Action Have Sufficient Standing to Satisfy the "Case or Controversy" Requirement of Article III?

In *Stauffer*, the panel rejected the argument that the plaintiff in a section 292(b) action must demonstrate some injury to confer standing. Instead, the panel relied primarily on the Supreme Court decision in *Vermont Agency* to support its conclusion that, even though the relator in a *qui tam* action under section 292(b) has no interest of its own in the subject matter of the proceeding, the statutory grant of a 50% interest in any fines the relator collects is constitutionally sufficient to confer standing.

Vermont Agency upheld the constitutionality of *qui tam* actions brought under the False Claims Act, which previously was the most common use of *qui* *tam* proceedings that survived into the modern era. In upholding the statute, however, the Court in *Vermont Agency* set forth three criteria as the "irreducible constitutional minimum" requirement for standing under Article III: (i) "'injury in fact' – a harm that is both 'concrete' and 'actual or imminent, not conjectural or hypothetical,'" (ii) "causation – a 'fairly … trace[able]' connection between the alleged injury in fact and the alleged conduct of the defendant," and (iii) "redressability – a 'substantial likelihood' that the requested relief will remedy the alleged injury in fact." *Vermont* Agency, 529 U.S. at 771.

The panel in *Stauffer* held that these three requirements were met in section 292(b) by the government's grant to the relator of an interest in a portion of its claim, but failed to recognize the substantial differences between the nature of the claims and the remedy afforded under the False Claims Act and section 292(b). The False Claims Act provides a civil remedy to recover damages for the actual injury caused by fraudulent claims against the United States. Section 292(b), on the other hand, allows for a suit to be brought in the absence of any injury to the government or anyone else. And, since there may be no injury in fact in the first place, the other two "constitutional minimum" requirements – that the injury be "caused by the alleged act of the defendant" and that the action will "remedy the alleged injury in fact" are also lacking. In fact, as the panel in *Pequignot* recognized, section 292 is a purely "criminal statute" that imposes a "fine" or "penalty" without regard to whether there is an injury to the government or any other party. *See Pequignot*, 608 F.3d at 1364.

Thus, IPO believes that there is, at the very least, a substantial question as to whether section 292 meets the "irreducible minimum" requirements that the Supreme Court has imposed for the standing under Article III of the Constitution.

B. Does the Absence of Governmental Participation in Actions Under Section 292(b) Violate the "Take Care" Clause of Article II?

Although the Federal Circuit has yet to reach the question of whether section 292(b) violates the "take Care" clause of Article II, this question was expressly left open by the panel in *Stauffer*. *See Stauffer*, 619 F.3d at 1327 ("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."). Since *Stauffer*, the district court in this case held that the statute effects an unconstitutional delegation of the powers of the executive branch to a private party which violates the constitutional mandate that it is the president's responsibility to "take Care that the laws be faithfully executed":

> It is unlike any statute in the Federal Code with which this Court is familiar. Any private entity that believes someone is using an expired or invalid patent can file a criminal lawsuit in the name of the United States, without getting approval from or even notifying the Department of

> Justice. The case can be litigated without any control or oversight by the Department of Justice. The government has no statutory right to intervene nor does it have a right to limit the participation of the relator. The government does not have the right to stay discovery which may interfere with the government's criminal or civil investigations. The government may not dismiss the action. Finally, the relator may settle the case and bind the government without any involvement or approval by the Department of Justice.
>
> There are very practical policy reasons why the *Take Care Clause* vests federal law enforcement power in the hands of the President, and why delegation of that power to a private entity must be sufficiently controlled by the Attorney General. Prosecutors are granted the power not given to private parties, and with that power comes the responsibility to use it to benefit the public welfare, and not some private interest. The doctrine of prosecutorial discretion vests each attorney with the responsibility to determine whether or not a particular enforcement action is fully supported by the law and the facts, and whether it is in the public interest to initiate it.

See Unique Products Solutions, Ltd. v. Hy-Grade Valve, Inc., No. 10-1912, 2011 U.S. Dist. LEXIS, at *22-*23 (N.D. Ohio Feb. 23, 2011).

Without the government's involvement in bringing and pursuing these section 292(b) actions, there is no check on plaintiffs bringing these actions merely for the purpose of extracting a settlement irrespective of the merits of a particular action. Indeed, the one-sidedness of the litigation burdens typically placed on the defendants in these section 292(b) actions, including the costs of litigation and the liability exposure created by *Forest Group*, puts the defendants in a situation where the cost of defending against the actions often outweighs the costs of settlement even in cases that totally lack merit. Plaintiffs know this and seek settlements with that end-point in mind. The panel's comment in *Forest Group* that *qui tam* plaintiffs in section 292 actions need sufficient incentive to counter the potentially "enormous expense of patent litigation" overlooks that in practice, the costs to the plaintiffs is modest. It costs virtually nothing to institute a suit, and the costs to prosecute are relatively modest given that the defendant possesses all the relevant information. Moreover, once the plaintiff triggers the presumption of deceptive intent, burden shifts to the defendant to rebut that presumption of deceptive intent. The consequence has been that the litigation process itself is being used as a punishment in the sense that the process pressures the defendant into a settlement whether or not the defendant in fact violated section 292.

IPO believes that these considerations, which are also raised in the pending appeal in the *Wham-O* case, are sufficiently significant to merit plenary consideration by the entire Court sitting *en banc*.

C. Does the Use of Civil Procedures to Enforce a Purely Criminal Penalty Violate the Due Process Clause?

Section 292(a) provides that a person who violates its provisions "shall be fined not more than $500 for every such offense." The fine, which is referred to in section 292(b) as a "penalty," is a purely criminal penalty, bearing no relationship to any actual damages. As the panel in *Pequignot* acknowledged, “a *qui tam* action is civil in form, even though it arises under a criminal statute.” 608 F.3d at 1363; *see also* S. Rep. No. 82-1979, 1952 U.S.C.C.A.N. 2394, 2424 (1952) (“This is a criminal provision.”). Nevertheless, the *Pequignot* court proceeded to follow the decision of the panel in *Clontech* that the plaintiff in a section 292(b) action is not required to provide any evidence of a specific “intent to deceive” beyond a preponderance of the evidence showing only that the defendant knew that a patent no longer covered the marked article. In contrast, as a fundamental element of due process, the prosecution in a criminal case is required to prove guilt “beyond a reasonable doubt” for all elements of a crime, including scienter. *In re Winship*, 397 U.S. 358, 364 (1970). By subjecting a defendant to a criminal penalty based on the plaintiff’s preponderance of evidence showing that the defendant was aware that a patent expired, without any showing that it actually had the requisite “intent to deceive,” the statute may well violate the defendant’s due process rights.

The fact that the fine is imposed on every single article that is marked, and bears no relation to any actual damages, may also violate the defendant’s due process rights. In *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408 (2003) and *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996), the Supreme Court recognized that, because punitive damages “serve the same purposes as criminal penalties [but] defendants subject to punitive damages in civil cases have not been accorded the protections applicable in a criminal proceeding," due process requires such award to be subject to judicial scrutiny to assure that any punitive damage award is "both reasonable and proportionate to the amount of harm to the plaintiff and the general damages recovered." *State Farm*, 538 U.S. at 418, 426.

In a case brought under section 292(b), however, even if one views the "plaintiff" as the United States, there is not the slightest relationship between the amount of the fine and any injury to anyone. A court has the discretion, in a civil action, where neither the burden of proof nor any of the protections of the rules of criminal procedure apply, to impose a fine of up to $500 for every single article marked with an expired patent, without any evidence that anyone has been, or could be, harmed thereby.

Even if all judges ultimately exercise their discretion fairly, and this Court accepts responsibility for reviewing their decisions to assure that they do, the uncertainty resulting from the mere possibility of a wildly disproportionate fine is sufficient to justify constitutional concern. "Elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice of not only the conduct that will subject him to punishment, but also of the severity of the penalty that a State may impose." *BMW*, 517 U.S. at 574. Indeed, depending on the article, a "per article" calculus for damages adopted by the

Forest Group panel imposes an upper limit for this criminal penalty that could exceed trillions of dollars. For example, as the panel in *Pequignot* itself noted, the penalty sought by the plaintiff in that case for 21,757,893,672 cold drink cup lids that were marked with expired patents was ***$10.8 trillion***. *Pequignot*, 608 F.3d at 1359 n.1. Put into context, the United States' potential award "would be sufficient to pay back 42% of the country's total national debt." *Id*. Granted, such liability exposure is unrealistic, and any district court would almost certainly reduce the amount to some unknown number after a finding of liability. But relying on that process fails to give the defendant "fair notice" of its liability exposure.

With the potentially enormous criminal penalties that may result from a slim showing of evidence by the plaintiff in a section 292(b) action — where no actual damage was caused to the plaintiff or the United States, and with the only check on these enormous penalties residing in the court's discretion, there is a significant question whether section 292 violates the Due Process clause of the Constitution which merits this Court's consideration *en banc*.

CONCLUSION

For all of the foregoing reasons, IPO believes that there are significant questions concerning the construction, application and constitutionality of section 292 of the Patent Act, particularly as it has been applied by the panel decisions in *Clontech, Forest Group, Pequignot,* and *Stauffer*. As a result, this case and the *Wham-O* case should be consolidated for the purpose of argument and a hearing *en banc* should be ordered in which the parties and *amici* should be invited to submit briefs responding to specific questions relating to those issues as set forth above.

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APPENDIX

APPENDIX[1]

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United States Court of Appeals
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