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April 12, 2011

Dear Member,

We are writing to urge you to oppose the anti-consumer false marking provisions in H.R. 1249, the "America Invents Act" that would amend the false patent marking statute, 35 U.S.C. § 292, in a way that will harm consumer interests and undermine competition. H.R. 1249 would completely remove the incentive to stop intentional false labeling of products as patented. It would stifle innovation and mislead consumers simultaneously by undercutting enforcement of the false marking law and deceptive product labeling of expired patents. This bill also would have retroactive application to already filed and pending patent marking enforcement cases, promoting a terrible precedent and harmful public policy.

The false marking statute, 35 U.S.C. § 292, serves to protect consumers from the risk of being deceived by false or expired patent markings, to promote truth in advertising for product labeling and to protect the integrity of the patent system.

Currently, the patent system confers a 20-year monopoly on rights to use of an invention. It is part of a social bargain between inventors and the public. Central to that bargain is that the patent monopoly exists for a limited term. By allowing businesses to claim patents where none exist, or claim that expired patents remain in effect, false markings undermine the bargain at the heart of the patent system.

The false marking statute, 35 U.S.C. § 292, was written to protect consumers from the risk of being deceived by false or expired patent markings. Without the protections of 35 U.S.C. §292, manufacturers may falsely claim a product is or remains patent protected in order to obtain a "halo effect" -- the benefit from consumers' belief that a patent provides a mark of quality or safety. False markings may also discourage innovation and competition, with would-be competing small enterprises deterred from introducing new or improved products.

In 2009, the Federal Circuit Court of Appeals determined that the false marking statute authorized a fine of up to $500 per instance applied to each article that was mismarked, but the fine can be as little as "fractions of a penny." This holding resulted in vigorous enforcement efforts being launched by consumers around the country on behalf of the public. The practical impact of these cases has been to clean up the market and protect consumers while not imposing an undue burden on manufacturers. Only those who intended to mislead the public are liable under the law. Mere mistake or oversight is not a basis for a false marking award, and the Federal Circuit has already said that bar is a high one to prove. In fact, just a few weeks ago, the

Federal Circuit held that merely initiating a lawsuit for false marking required substantial specific facts showing that the manufacturer had purposefully intended to deceive the American public. As a result, currently pending false marking lawsuits which don't allege sufficient facts to support a claim of intentional misconduct or reckless disregard, will be dismissed or must be amended with the proper factual showing.

The result of the efforts undertaken by private individuals on behalf of consumers, since the December 2009 court decision allowing reasonable fines, has been both impressive and balanced. The potential for nontrivial fines has motivated companies to take their marking obligations seriously. The resolution of the cases has also been measured and reasonable. The average false marking case has been resolved for well under $100,000, with the vast majority of cases being resolved for half that amount. Indeed, the total amount paid in 2010 on false marking cases has only been $3,410,000 each to the government and to private individuals– hardly an economic hardship that would justify radically redrafting the patent marking statute.[1]

The current system is working. The courts are filtering out non-substantive suits, but allowing those where there was intentionally misleading conduct to continue.

The proposed bills would gut these modest but critically important protections for consumers and the public. And they would undermine private sector incentives that promote innovation and invention, one of the stated purposes of the patent reform legislation.

Marketing a product with a false or expired patent is a violation of the law and deceptive labeling. It injures consumers and undermines the effective working of the market. We urge you to let the cleanup of expired patents continue, and not pass this anti-consumer, retroactive legislation. We urge you to let competition thrive, spur new product innovation, and support accurate patent labeling of products and the removal of expired patent labeling. It is surely reasonable to require manufacturers to let consumers and innovators know when a patent has expired and opportunity may be ripe for building on once patented technology. We urge you to reject the false marking provisions in H.R. 1249, but also enclosed for your consideration is an alternative proposal.

Sincerely,

Robert Weissman	Joan Claybrook	Sally Greenberg
President	President Emeritus	Executive Director
Public Citizen	Public Citizen	National Consumers League

Professor Daniel Ravicher
Executive Director and Lecturer in Law
Public Patent Foundation
Benjamin N. Cardozo School of Law

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[1] Searcy, Dionne ,"Expired Patent Costs Defy Forecasts", *Wall Street Journal*, 15 February 2011; Ryan Davis, "False Marking Suits More Bark Than Bite, Stats Show", *Law 360*, 11 February 2011.

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Note to Members Re H.R. 1249, Section 15:

Some of us participated in a roundtable discussion on false marking earlier this week at the request of Rep. Issa. During the course of this meeting we were shocked to learn that many of the industry proponents literally do not see anything wrong with the placement of false patent markings on product labels. This remarkable attitude speaks volumes toward the true goal of the proposed amendment, which is the dismissal of virtually all pending false patent marking cases by retroactively eliminating the current consumer based enforcement mechanism that has proved so effective. As a reminder, only intentional acts of false marking are actionable under the law. A party that makes a mere mistake is not liable and will never have to pay any fine. Only those companies who intend to mislead the public can be found guilty of false marking.

Although we oppose the amendment in total, we offered at the meeting a number of proposals to address concerns that were raised, and strike a meaningful compromise. Those proposals include:

- Eliminating the retroactive effect of the proposed amendment. Many consumers have, at the request of the United States, invested a substantial amount of time, energy and resources to identify and eliminate intentional false marking. These efforts have created a substantial public benefit, so we find it particularly outrageous, and perhaps unconstitutional, that after the investment has been made and many of the benefits enjoyed, the United States would enact retroactive legislation.

- Amending the penalty from the current regimen of a maximum fine of $500 per article to a maximum fine equal to 25% of the revenue derived from the intentionally falsely marked products; and

- Adding, for all future claims, many of the procedural safeguards found in the false claims act, such as, for example providing notice to the United States of the parties intention to bring a claim.

For over 150 years it has rightly been illegal to abuse the patent system by placing false patent claims on products but there has been little to no enforcement of violators until the December 2009 court decision allowing a reasonable fine. The proponents of Section 15 do not want this law enforced and, as a consequence, they propose that the United States---but not consumers on behalf of the United States---may seek to have a fine imposed. However, this would gut enforcement because the United States has never previously on its own brought such a claim. The proponents of the amendment also propose to grant to competitors the right to recover provable damages caused by false patent marking, a right that competitors have long enjoyed under Section 1125 of the Lanham Act. Yet competitors rarely exercise this right for business and other reasons. Thus, Section 15 would result in little to no enforcement of anyone breaking this law.

We ask that you give this matter your utmost consideration.

For more information please contact:

Joy Howell, 202-828-7838

Consumers, Competitors, Innovators and Taxpayers ALL Lose With the Retroactive False Marking Provision in the "America Invents Act," Patent Bill H.R. 1249

(Wasn't the Bill's Purpose to Narrow the Budget Deficit and Promote Innovation?)

H.R.1249 seeks to amend 35 U.S.C.§ 292, which prohibits the intentional false marking of products with patent designations that do not apply. The amendment would drastically undercut the purpose of 35 U.S.C.§ 292, which is to prevent consumer confusion, encourage competition in the market place, and protect the integrity of the US patent system.

H.R. 1249 eliminates lawsuits by consumers and only allows i) those persons who have sustained a "competitive injury" to bring suit, and ii) the US. Government to bring suit. **The consumer lawsuits pending (of which the US Treasury gets one half of all judgments) would be nullified on the date of this act because it is retroactive.** This would effectively halt the market clean up, and cost the US Treasury and US taxpayers the revenue lost from fines that would have been paid by companies which intentionally let expired patents remain on their products, a major burden of proof for the plaintiffs.

The History of 35 U.S.C.§ 292 and Events Leading to the Introduction of H.R. 1249

- False patent marking legislation was first passed into law in 1842, when Congress made it a fineable offense. The goal of the law was to protect consumers, encourage competition, and protect the integrity of the patent system.

- 35 U.S.C. § 292 enables any person to bring a claim on behalf of the United States government against anyone who intentionally marks a product with a false patent designation and provides for a fine to be imposed of up to $500 per product.

- The current version of 35 U.S.C. § 292 was initially interpreted by the Federal Circuit as providing a maximum fine of $500. This decision was revisited in December 2009 when the Federal Circuit clarified that the available fine can be much larger as the clear language of the statute provides for a fine of up to $500 per article marked, that is, per copy**. Yet the settlements that have occurred and the court judgments that have been handed down by judges have been measured and balanced, with the average amount of fines of less than $100,000, and a majority resolved for half that amount. (see note 1)**

  In fact, false marking cases have resulted in fines paid to the U.S. government and private individuals of $3,410,000 through December 31, 2010, certainly not the bonanza that some attorneys had predicted, but a modest source of revenue to the government and an incentive for companies to clean up product labels. The market is getting cleaned up, consumers are getting accurate product labeling, and competitors are getting notice of opportunities for innovation.

- H.R. 1249 specifically seeks to revise the "persons" who can bring a false patent case to only those persons who have suffered a "competitive injury." This change would end all current efforts to clean up deceptive product packaging, and make future claims highly unlikely. This is because i) competitors would have limited incentive to sue, as such cases invariably attract counter suits, (and they may be falsely marking their products as well) and ii) the proposed amendment creates an entirely new evidentiary burden, i.e., the burden of proving "competitive injury."

- By seeking to impose a competitive injury requirement, H.R. 1249 fundamentally confuses the role of the person who brings a false patent marking claim. The claim is not being brought for harm to the **particular** person bringing the case, the claim is being brought on behalf of the United States government for the purpose of preventing damage to consumers generally, to encourage competition, and to preserve the integrity of the patent system. Much like reckless driving laws, the United States government does not have to wait for the damage to actually occur prior to taking action and the same holds true here. Patent monopolies grant significant pricing power to companies, but the grant of a patent monopoly and the patent regime in general also comes with responsibilities, with one of those responsibilities being the obligation to not engage in false patent marking.

How The False Marking Provisions in H.R. 1249 Hurt Innovation, Competition and Consumers

- Causes consumers to be less likely to buy less expensive competing products. Patents are monopolies that grant tremendous pricing power to those who own them. When a product is presented to the consuming public as being protected by a "patent," the public relies on that information to make purchasing decisions, such as whether to pay more for brand "X" that is purportedly protected by a patent versus brand "Y" that is generic and has no patent protection. False patent marking creates, in the mind of the consumer, a false sense of exclusivity, or uniqueness, that results in the patent abuser having additional market power to increase (or maintain elevated) prices.

- Would end all efforts to curtail false marking.

- Restricts the power to enforce the false marking statute to a limited class of corporate competitors who have little or no incentive to take action.

- Eliminates the signal, through removal of the words "patent" from the label, that tells inventors and competitors that a product may be ripe for technological improvement and innovation, working at cross purposes with the stated purpose of the "American Invents Act".

- Eliminates incentives for consumers and other members of the public to pursue these claims on behalf of the United States. This is similar to other statutes that reward taxpayers who expose tax fraud and those who bring "whistleblower" claims against corporations.

How H.R. 1249 Will Change Current Law

- The bill is a gift to corporations that falsely label their products in violation of the U.S. Patent Act, because it limits the right to file a civil action in a U.S. District Court to persons who have suffered a competitive injury as a result of a violation of the prohibition against false product patent marking.

- H.R. 1249 also acts **retroactively** to eliminate pending lawsuits against companies that have used expired patents on their product labels.

- The U.S. Treasury will be denied the revenue for these violations which it would otherwise enjoy, and the payment of which would have served as a deterrent to corporations who fail to adhere to U.S. patent laws by observing product patent expirations accordingly.

- The bill allows civil action by a competitor to recover damages adequate to compensate for the injury, a remedy which a competitor already has under other Federal statutes, including 15 USC 1125. This is essentially a duplicative remedy for competitors, an example of bad public policy that has unintended consequences far beyond the supposed problem it is intended to fix.

This bill is offered as a fix to a problem that does not exist. It is an example of special interest legislation that enables companies to continue falsely marking their products without financial repercussions. **And it flies in the face of the stated purpose of the America Invents Act which is to spur innovation and competition---by doing just the opposite.**

<u>Answers to Common Questions</u>

- **Within the consumer products industry, does false patent marking result in limiting generic competition?**

  Indirectly competition is limited. False patent marking enables the branded product to maintain a sense of exclusivity longer than would be otherwise enjoyed. Not all consumers understand, for example, that the Aleve branded product has a generic equivalent that is ***identical*** down to the molecular level. By continuing to mark the Aleve packaging with an expired patent, Bayer Healthcare, enjoys a "halo" effect that encourages consumers to continue to pay more for its branded version. By holding on to market share that would otherwise shift to a lower priced generic competitor, Bayer Healthcare is discouraging vigorous generic competition.

- **Will H.R. 1249 help spur innovation or reduce innovation?**

  The false marking provision as interpreted by recent court judgments spurs innovation because inventors and competitors can easily see whether a product is patent protected. If it is not, then it is a signal that a technological edge may exist for that product and it is ripe for improvement or innovation.

- **Does false patent marking result in dangerous, unsafe products?**

  False patent marking is not the cause of dangerous, unsafe products; but may cause consumers to purchase dangerous, unsafe products. For example, a patent mark directly suggests that a product contains the attributes of the claims contained in the patent. If the attributes of the claimed invention relate to safety, and that patent is falsely marked on a product, the consumer may be misled into believing those safety attributes are present in the product. False patent marking also signals to the consumer that the product has enjoyed a positive response from the technical review provided as part of the application process by the United States Patent Office, when that may not be true at all.

- **Why in a time of an unbridled federal budget deficit would anyone want to eliminate a source of revenue to the federal government? How will the lost revenue be offset?**

  Good questions! Answers?

- **Have any academic sources rendered an opinion that false patent marking causes harm to consumers?**

  Yes. One example is a law review article written by Elizabeth I. Winston of the Columbus School of Law, entitled *The Flawed Nature of the False Marking Statute,* which exhaustively argues for greater fines to stamp out the problem (which was recently adopted by the Court as noted above), the importance of allowing consumers to prosecute violations, and the harm caused to consumers and the patent system in general by the practice. As stated in the Columbus Law Review article:

  "***False patent markings, which not only can create incorrect conclusions about whether a particular product is controlled by a single party, but can also lead consumers to erroneously attribute innovative, quality, or performance characteristics to the falsely marked products. For these reasons, the false marking statute protects the interest of consumers in not being misled into thinking that a certain product---falsely marked as patented---is controlled by a single party, or is better.*** "Tennessee Law Review, "Flawed Nature of the False Marking Statute" Vol.77-111.

  "False marking hurts the patent system by perpetrating fraud on the public. Articles bearing the term "patent" or "patent pending" are presumed to be novel, non-obvious, useful and innovative…False marking perpetrates a fraud on the public and on the patent system…Enforcement of the statute has limited the statute's punitive effect by rarely assessing damages in excess of $500."--- Tennessee Law Review, "Flawed Nature of the False Marking Statute" Vol.77-111.

  Another example, are statements made by The Public Patent Foundation, run by a law school professor, who stated in an amicus brief to the Federal Circuit that: False Marking is a Serious Violation of the Public Interest: ***"The false marking statute aims to protect consumers from this risk of being misled by or more innovative than other products available to them in the marketplace."***

Footnote1-Searcy, Dionne, "Expired Patent Costs Defy Forecasts", Wall Street Journal, Feb. 15, 2011.