

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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PUBLIC PATENT FOUNDATION, INC.	:	
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Plaintiff,	:	Civil Action 1:09-cv-05471-RJH
	:	
v.	:	
	:	
McNEIL-PPC, INC.,	:	ECF CASE
	:	
Defendant.	:	
	:	
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**PLAINTIFF'S MEMORANDUM OF LAW IN OPPOSITION TO
DEFENDANT'S MOTION FOR JUDGMENT ON THE PLEADINGS**

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INTRODUCTION

Plaintiff, Public Patent Foundation (“PUBPAT”), is a New York-based, non-profit legal services organization affiliated with the Benjamin N. Cardozo School of Law, where PUBPAT’s Executive Director is also a member of the faculty. PUBPAT exists to represent the public interest in the patent system. PUBPAT filed this case in June 2009 against defendant McNeil for falsely marking its Tylenol products as patented because PUBPAT believes the public interest is significantly harmed by such false patent marking. PUBPAT was deliberately induced to file this suit because Congress long ago included in the false marking statute a *qui tam* provision incentivizing private parties like PUBPAT to pursue violators on behalf of the Government. PUBPAT has refused all financial settlement offers by McNeil and seeks to continue prosecuting this action because that is what the public deserves.

More than two years after the filing of this matter, a new law called the “America Invents Act” made sweeping changes to the Patent Act. A mostly ignored and relatively unimportant provision buried deep in Section 16 of the America Invents Act amended the false marking statute to eliminate standing for third parties that have not suffered a competitive injury as a result of the false marking and to provide a safe harbor for the continued marking of a product with a patent number after the patent expired. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284, §§ 16(b)(2) and (3) (2011). Although disagreeing with the public policy merits of these changes, PUBPAT does not here take issue with them.

However, the America Invents Act also contains a provision that attempts to apply these substantive changes retroactively to all pending false marking cases, including this one. *Id.* at § 16(b)(4). Thus, defendant McNeil now moves for judgment on the pleadings, arguing that

PUBPAT fails to meet the brand new standing requirement and that the alleged false marking in this case is protected by the new safe harbor for continued marking of expired patents.

While PUBPAT agrees that the substantive changes, if applied to this case, would divest PUBPAT of standing, the attempted retroactive application of those changes violates the Due Process Clause of the Fifth Amendment to the Constitution by depriving PUBPAT of its property right in this matter without any legitimate legislative purpose. In short, to pull the rug out from under PUBPAT at this stage in the litigation would be fundamentally unfair. As a result, the retroactivity violates the Due Process Clause, meaning the America Invents Act's substantive changes to the false marking statute do not apply to this matter and McNeil's motion for judgment on the pleadings should, as a consequence, be denied.

ARGUMENT

I. RETROACTIVE APPLICATION OF CHANGES TO THE FALSE MARKING STATUTE TO THIS CASE WOULD VIOLATE DUE PROCESS

A. PUBPAT Has A Property Interest In This Matter That Would Be Deprived By The Retroactive Application Of Changes To The False Marking Statute

The Fifth Amendment's Due Process Clause provides that no person shall be “deprived of life, liberty, or property, without due process of law.” U.S. CONST. Amend. V. Causes of action are property protected by the Constitution. *See, e.g., Tulsa Prof'l Collection Servs. v. Pope*, 485 U.S. 478, 485 (1988) (“Little doubt remains that such an intangible interest [an unsecured claim, a cause of action] is property protected by the Fourteenth Amendment.”); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 428 (1982) (describing the doctrine as “settled” that “a cause of action is a species of property protected by the Fourteenth Amendment's Due Process Clause”).

While the claim underlying the cause of action in *qui tam* cases originally belongs to the United States, *qui tam* statutes perform a partial assignment of that claim to the *qui tam* plaintiff and the resulting cause of action is therefore partially the property of the *qui tam* plaintiff. See *Vt. Agency of Natural Res. v. United States ex rel. Stevens*, 529 U.S. 765, 773 (2000) (“[t]he [False Claims Act] can reasonably be regarded as effecting a partial assignment of the Government's damages claim.”); *Sprint Commc'ns Co v. APCC Servs., Inc.*, 554 U.S. 269, 289 (2008) (“assigning a claim ... confers a property right”); *Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321, 1325 (Fed. Cir. 2010) (saying in the false patent marking context, “a *qui tam* plaintiff, or relator, can establish standing based on the United States' implicit partial assignment of its damages claim”).

If the America Invents Act's substantive changes are retroactively applied to this case, PUBPAT will be deprived of its property right in this cause of action, as PUBPAT concedes it does not satisfy the new standing requirement of having suffered competitive injury from McNeil's false patent marking. Thus, the question becomes whether that deprivation of PUBPAT's property is “without due process of law.” U.S. CONST. Amend. V.

B. The Deprivation Of PUBPAT's Property Is Not Supported By A Legitimate Legislative Purpose

Retroactive congressional action that deprives a private party of its property violates the Due Process Clause of the Fifth Amendment if it is not “supported by a legitimate legislative purpose.” *United States v. Carlton*, 512 U.S. 26, 30-31 (1994) (internal citations omitted). Further, the retroactive effect of legislation must separately have a legitimate legislative purpose apart from the prospective substantive changes. *Id.* (citing *Pension Benefit Guaranty Corporation v. R. A. Gray & Co.*, 467 U.S. 717, 729-730) (“that burden is met simply by

showing that the retroactive application of the legislation is itself justified by a rational legislative purpose.”).

In fact, “stricter limits may apply to Congress' authority when legislation operates in a retroactive manner” because “[r]etroactivity is generally disfavored in the law ... in accordance with 'fundamental notions of justice' that have been recognized throughout history.” *Eastern Enterprises v. Apfel*, 524 U.S. 498, 524, 532 (1998) (internal citations omitted). “Retroactive legislation,’ we have explained, 'presents problems of unfairness that are more serious than those posed by prospective legislation, because it can deprive citizens of legitimate expectations and upset settled transactions.’” *Id.* at 533 (citing *General Motors Corp. v. Romein*, 503 U.S. 181, 191 (1992)).

While the plurality in *Apfel* held the retroactive statute there unconstitutional under the Takings Clause of the Fifth Amendment and, therefore, did not see reason to reach the issue of whether the Due Process Clause was also violated, it nonetheless stated, “[o]ur analysis of legislation under the Takings and Due Process Clauses is correlated to some extent.” *Id.* at 537. Even more insightful is that the fifth vote in *Apfel*, Justice Kennedy, while concurring in the judgment, dissented precisely because the plurality did not address the Due Process issue. Thus, he wrote separately from the plurality to expressly say that the retroactive legislation in *Apfel*, “must be invalidated as contrary to essential due process principles, without regard to the Takings Clause of the Fifth Amendment.” *Id.* at 539 (Kennedy, J. *concurring in the judgment and dissenting in part*). Justice Kennedy continued to say:

Although we have been hesitant to subject economic legislation to due process scrutiny as a general matter, the Court has given careful consideration to due process challenges to legislation with retroactive effects. As today's plurality opinion notes, for centuries our law has harbored a singular distrust of retroactive

statutes. ...

These decisions treat due process challenges based on the retroactive character of the statutes in question as serious and meritorious, thus confirming the vitality of our legal tradition's disfavor of retroactive economic legislation. Indeed, it is no accident that the primary retroactivity precedents upon which today's plurality opinion relies in its takings analysis were grounded in due process.

Id. at 547-48 (internal citations omitted).

In *Carlton*, while finding the retroactive elimination of a tax deduction did not violate the Due Process Clause, the Supreme Court analyzed the issue as follows:

We conclude that the 1987 amendment's retroactive application meets the requirements of due process. First, Congress' purpose in enacting the amendment was neither illegitimate nor arbitrary. Congress acted to correct what it reasonably viewed as a mistake in the original 1986 provision that would have created a significant and unanticipated revenue loss. There is no plausible contention that Congress acted with an improper motive, as by targeting estate representatives such as Carlton after deliberately inducing them to engage in ESOP transactions. Congress, of course, might have chosen to make up the unanticipated revenue loss through general prospective taxation, but that choice would have burdened equally "innocent" taxpayers. Instead, it decided to prevent the loss by denying the deduction to those who had made purely tax-motivated stock transfers. We cannot say that its decision was unreasonable.

512 U.S. at 32. Thus, *Carlton* makes it clear that retroactive statutes are without question subject to Due Process challenge and, to survive such a challenge, Congress must have had a legitimate purpose for the retroactivity itself, above and beyond its purpose for the underlying substantive changes. *Id.* (discussing Congress' analysis of the policy choice between retroactivity and prospectivity, which "would have burdened equally 'innocent' taxpayers").

Further, *Carlton* expressly states that if the retroactivity was intended to "target" certain private parties who undertook actions that they were "deliberately induced" by Congress to engage in, then that would be an "improper motive." *Id.* ("There is no plausible contention that Congress acted with an improper motive, as by targeting estate representatives such as Carlton

after deliberately inducing them to engage in ESOP transactions.”)

Lastly, the retroactivity in *Carlton* applied to an amendment made to a statute that was itself merely a year old. *Id.* (“the 1987 amendment [to] the original 1986 provision”). The Supreme Court in *Carlton* found this to be of critical importance to the Due Process Clause analysis, saying, “Second, Congress acted promptly and established only a modest period of retroactivity.” *Id.* This was evidence that Congress' intent in applying the retroactivity was to “correct what it reasonably viewed as a mistake .. that would have created a significant and unanticipated revenue loss.” *Id.* Thus, the age of the retroactively amended statute is important to the Due Process Clause analysis, as is whether the amendment is a change in policy or instead merely a correction of a “mistake” in the original statute causing “unanticipated” results.

The America Invents Act cites no legitimate purpose for its retroactive application of the substantive changes to the false marking statute to pending cases. Public Law 112-29, Sec. 16, (b). In fact, it cites no purpose at all; it is completely silent as to why the substantive changes are to be applied retroactively. The only portion of the America Invents Act that speaks to Congressional intent is Sec. 30, which says succinctly:

Sec. 30. SENSE OF CONGRESS. It is the sense of Congress that the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country which includes protecting the rights of small businesses and inventors from predatory behavior that could result in the cutting off of innovation.

Public Law 112-29, § 30. However, retroactively eliminating PUBPAT's standing in this case to pursue McNeil for falsely marking an *unpatented* product as patented cannot in any way be described as “promoting industries to develop new technologies.” *Id.* To the contrary, allowing parties like McNeil to continue to intentionally deceive the public about whether their

unpatented products are innovative is likely to have the exact opposite effect, by making it harder for truly innovative companies to receive the marketplace respect they deserve when they legitimately mark their new patented products introduced into the marketplace to compete with McNeil's *unpatented* product. While having no relation whatsoever to the retroactive application of changes to the false marking statute, the “Sense of Congress” contained in the America Invents Act unquestionably aligns with the more than two-dozen other substantive provisions of the Act that do indeed aim to help “small businesses and inventors.” *Id.*

Indeed, Congressman John Conyers, Jr., a member of the House Judiciary Committee from which the America Invents Act came, said there was “absolutely no reason” for the retroactive application of the changes to the false marking statute:

I am also opposed to the section dealing with false markings cases. I say this as a member who has expressed concerns in the past with the Federal Circuit decision in *Forest Group Inc. v. Bon Tool Co.* The legislation, in essence, would change the rules of the game for cases that are currently being litigated. To the extent legislation is needed, I support applying the new rules going forward because these rules would be implemented and cases would be adjudicated in conjunction with the new broader reforms of the entire patent system the bill proposes, creating balance and fairness for all parties. Moreover, based on recent court decisions that have already imposed more restrictive standards concerning present claims, *there is absolutely no reason for Congress to interfere in these claims which are before the courts.*

U.S. House, Committee on the Judiciary. America Invents Act (H. Rpt. 112-98 at 163) (internal citations omitted) (emphasis added). It is a critical distinction to note that Congressman Conyers did not say he believed the substantive changes themselves lacked a legitimate Congressional purpose, but merely that “there is absolutely no reason” for them to be applied retroactively.

Senator McCaskill also voiced her concerns over the lack of any legitimate reason for the retroactive application of the changes to the false marking statute:

The underlying bill alters the false marking provision by stipulating that the statute may only be privately enforced by a person who has suffered a competitive injury. In addition, damages would be limited to those that are adequate to compensate for the injury.

However, the legislation would also apply the newer rules to pending claims. These include claims that are now in the court system and under negotiation. By changing the rules in pending claims, the legislation allows potential wrongdoers to use the new law to protect themselves from past conduct.

This sets a bad precedent for our legal system and could absolve potential wrongdoers. My amendment would simply require that the changes to false marking provisions to apply only to prospective cases going forward. Small businesses and inventors that have expended considerable resources to protect themselves should not be penalized by a provision that retroactively eliminates pending claims.

My amendment is not an attempt to gut or strike the false markings provision. It is simply a modification to address the concerns of current litigants, consumers and small businesses. I urge my colleagues to strongly consider this issue going forward.

157 Cong Rec S 1545 (March 11, 2011).

Without being overly cynical, the only honest explanation for the America Invents Act's retroactive elimination of *qui tam* false marking suits is that it was the result of lobbying efforts by corporations like McNeil who wished to deliberately eliminate the rights of private parties like PUBPAT to continue to pursue pending *qui tam* cases for false patent marking. This targeting of those who were deliberately induced to file false marking suits is an expressly improper purpose under *Carlton* and any potential "public good" argument that McNeil or the United States might proffer for the retroactivity would surely be pretextual, further indicating its impropriety. See *Kelo v. City of New London*, 545 U.S. 469, 478 (2005) ("Nor would the City be allowed to take property under the mere pretext of a public purpose, when its actual purpose was to bestow a private benefit.").

The only Congressperson to speak in favor of retroactivity was Senator Kyl, who said:

Finally, because the Federal Circuit's recent decision in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, Fed Cir. 2009, appears to have created a surge in false-marking *qui tam* litigation, the changes made by paragraph (1) of section 2(k) of the bill are made fully retroactive by paragraph (2).

157 Cong Rec S 1360, 1372 (March 8, 2011). While he at least provides a reason for the retroactivity (to deprive *qui tam* plaintiffs of their causes of action because of a decision by the Federal Circuit interpreting the false marking statute), that reason is not a legitimate legislative purpose, because it does nothing but bestow a benefit on private defendants in pending cases. As Senator McCaskill said, it “allows potential wrongdoers to use the new law to protect themselves from past conduct.” If Congress did not like the Federal Circuit's interpretation of the false marking statute in *Forest Group* (even Rep. Conyers expressed concern over it), the legitimate step to take was to amend the statute, which Congress did. Applying those changes retroactively to current cases was vindictive and spiteful to parties, like PUBPAT, who were merely doing what the statute encouraged by filing *qui tam* suits against false markers.

Unlike the retroactive statute in *Carlton*, which applied to a law that was only one year old, the false marking statute upon which PUBPAT relied to bring this case was nearly sixty years old, having been included in the comprehensive 1952 Patent Act. The America Invents Act was not Congress acting “promptly” as it did in *Carlton*, and PUBPAT's reliance on the false marking statute was both much greater and more reasonable than the reliance by the plaintiff in *Carlton*. 512 U.S. at 32. Also unlike in *Carlton*, where “Congress acted to correct what it reasonably viewed as a mistake,” the changes here were not intended by Congress to fix an “unanticipated” error in the original statute, but rather purposefully meant to radically change the statute so as to deprive private parties like PUBPAT of their property right in pending false

marking cases. *Id.* The “surge in false-marking qui tam litigation,” complained about by Senator Kyl, was not an “unanticipated” result of a “mistake” in the false marking statute, but rather precisely the result that was intended, as the Federal Circuit explained expressly:

Forest argues that interpreting the fine of § 292 to apply on a per article basis would encourage "a new cottage industry" of false marking litigation by plaintiffs who have not suffered any direct harm. This, however, is what the clear language of the statute allows. Section 292(b) 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). As noted by Forest, an amicus brief was filed in this case by an individual who created a holding company to bring qui tam actions in false marking cases. Commentators have discussed a surge of such actions in recent years, noting the possible rise of "marking trolls" who bring litigation purely for personal gain. See Donald W. Rupert, *Trolling for Dollars: A New Threat to Patent Owners*, 21 No. 3 *Intell. Prop. & Tech. L.J.* 1 (2009) (citing five false marking cases filed since 1997); A. Justin Poplin, *Avoiding False Patent Marking Claims*, *Law360*, October 9, 2009, <http://www.law360.com/articles/116798> ("Sensing a new source of revenue, individuals have begun suing large corporations for false patent marking when an expired patent number appears on a product.").

Rather than discourage such activities, the false marking statute explicitly permits qui tam actions. By permitting members of the public to sue on behalf of the government, Congress allowed individuals to help control false marking. The fact that the statute provides for qui tam actions further supports the per article construction. Penalizing false marking on a per decision basis would not provide sufficient financial motivation for plaintiffs--who would share in the penalty--to bring suit. It seems unlikely that any qui tam plaintiffs would incur the enormous expense of patent litigation in order to split a \$ 500 fine with the government. Forest's per decision construction is at odds with the clear language of the statute and, moreover, would render the statute completely ineffective.

Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295, 1303-04 (Fed. Cir. 2009).

Thus, because there was no legitimate legislative purpose for depriving PUBPAT of its property right in this action more than two years after it was filed, the retroactive application of the changes to the false marking statute to this case violates the Due Process Clause of the Fifth Amendment. This conclusion comports with fundamental notions of fairness and justice, as

PUBPAT filed this case in good faith and has expended significant resources in preparing and litigation it, including defending against McNeil's various motions for dismissal and judgment on the pleadings. PUBPAT has done nothing wrong and was in fact encouraged to file this case by the false patent marking statute. The America Invents Act is principally about improving patent quality and the Patent Office. The false marking changes are a very small portion of the law, and were not Congress' focus or motivation. Even though the substantive changes raise no Constitutional concerns, applying them retroactively to this case unquestionably does.

McNeil cites a couple non-Federal Circuit Court of Appeals decisions in support of its motion on this point. McNeil Mem. at 4. Not only are those decisions non-binding precedent, they more importantly do not contradict PUBPAT's arguments, as PUBPAT is not suggesting that all retroactive legislation *per se* violates the Due Process Clause. PUBPAT agrees, for example, that "retroactive laws are not [categorically] prohibited by the Constitution." McNeil Mem. at 4 (*citing Fisch v. Gen. Motors Corp.*, 169 F.2d 266, 271-72 (6th Cir. 1948)). All PUBPAT suggests is that retroactive statutes can violate the Due Process Clause and that the America Invents Act's retroactive application of substantive changes to the false marking statute in a way that does nothing but deprive PUBPAT of its property interest in order to bestow a private benefit on McNeil is an example of precisely such a violation.

Indeed, the primary case in McNeil's brief, *Ileto v. Glock, Inc.*, 565 F.3d 1126, 1138 (9th Cir. 2009), cites Supreme Court precedent stating there are "particular concerns" about retroactive statutes that may cause them to violate the Constitution's Due Process protections:

We note at the outset that "retroactive statutes raise particular concerns." *Landgraf v. USI Film Prods.*, 511 U.S. 244, 266, 114 S. Ct. 1483, 128 L. Ed. 2d 229 (1994). Indeed,

[t]he Legislature's unmatched powers allow it to sweep away settled expectations suddenly and without individualized consideration. Its responsiveness to political pressures poses a risk that it may be tempted to use retroactive legislation as a means of retribution against unpopular groups or individuals.

Id.

The 9th Circuit continued in *Ileto* to find the retroactive statute did not violate Due Process because Congress expressed rational reasons for its decision in the statute itself. *Id.* at 1140. As discussed above, the America Invents Act contains no statement as to why Congress decided to make the changes to the false marking statute retroactive and, in reality, no legitimate legislative purpose exists. The retroactivity was meant simply to target private parties like PUBPAT and divest them of their property right in *qui tam* false marking cases that they were deliberately induced by Congress to undertake. Senator Kyl's statement makes it clear that *qui tam* plaintiffs like PUBPAT were an "unpopular group" and the retroactivity was intended to get "retribution against" them. This is an illegitimate purpose, even under McNeil's precedent. *Id.*

CONCLUSION

For these reasons, McNeil's motion for judgment on the pleadings should be denied.

Respectfully submitted,

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November 11, 2011

CERTIFICATE OF SERVICE

This is to certify that all known counsel of record who are deemed to have consented to electronic service are being served with a copy of this document via the Court's CM/ECF system on November 11, 2011.

/s/ Daniel B. Ravicher

Daniel B. Ravicher (DR-1498)