Federal Circuit Holds that "Any Person" Has Standing to Sue for False Patent Marking

In a much anticipated decision, the Court of Appeals for the Federal Circuit recently held in *Stauffer* v. *Brooks Brothers, Inc.*[1] that any individual has standing to bring a false patent marking action on behalf of the government, regardless of whether or not that individual suffered any personal harm and without any allegation of competitive harm to the marketplace from the false marking. Absent reversal by the Supreme Court or Congressional action, this decision definitively forecloses the standing defense asserted by many of the defendants named in the recent wave of false marking cases.

The statute at issue, 35 U.S.C. § 292, establishes a penalty for falsely marking an item as patented with deceptive intent. This *qui tam* statute authorizes "any person" to bring an action on behalf of the government as the government's assignee, and any penalty recovered is divided between the person bringing the suit and the government. In late 2009, the Federal Circuit ruled that the statutory penalty of "not more than $500" must be imposed for each offense of marking an unpatented article, leading to the possibility of significant awards. *See Forest Group, Inc.* v. *Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009). The *Forest Group* decision sparked the filing of hundreds of false marking litigations, primarily brought by individuals who had not suffered any personal injury but nonetheless sought to collect the penalty for falsely marking an item as patented.[2]

In *Stauffer*, a patent attorney acting on his own behalf sued Brooks Brothers for selling bow ties containing adjustment mechanisms that were marked with two patents that had been expired for over fifty years. Stauffer argued that continuing to mark the ties with expired patent numbers constituted false patent marking in violation of § 292. Brooks Brothers moved to dismiss Stauffer's complaint for lack of standing and for failure to allege an intent to deceive the public with sufficient specificity to meet the heightened pleading requirements for claims of fraud. *Id.* at *1. The district court held that Stauffer did lack standing to assert a false marking claim. Despite the *qui tam* nature of the false marking statute, the district court held that Stauffer still must possess Article III standing in order to assert a claim. Because Stauffer had not sufficiently alleged an injury in fact to the United States or to himself, the court granted Brooks Brothers' motion to dismiss Stauffer's claim for lack of standing. *Id.* at *2. The district court

1 Nos. 2009-1428, -1430, and -1453, 2010 WL 3397419 (Fed. Cir. Aug. 31, 2010).

2 For more information regarding the *Forest Group* decision and the rise in false patent marking litigation, see our earlier article "'False Patent Marking' Suits: How Judges and IP Rights Holders Can Respond to New Litigation Trend," *Washington Legal Foundation,* August 6, 2010.

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subsequently denied the government's motion to intervene in the case. *Id.* Both Stauffer and the government appealed the district court's decisions.

Reversing the district court, the Federal Circuit held that Stauffer had standing to sue Brooks Brothers. To demonstrate standing, a plaintiff must show "(1) that he has suffered an injury in fact, an invasion of a legally protected interest that is (a) concrete and particularized, and (b) actual or imminent, not conjectural or hypothetical, (2) that there is a causal connection between the injury and the conduct complained of, and (3) that the injury is likely to be redressed by a favorable decision." *Id.* at *3. Given the *qui tam* nature of § 292, Stauffer was required to allege that the United States suffered an injury in fact causally connected to Brooks Brothers' conduct that is likely to be redressed by the court. *Id.* at *4. According to the court, Congress' decision to enact § 292 reflected its determination that deceptive patent mismarking is harmful and should be prohibited, and a violation of § 292 inherently constitutes an injury to the United States. *Id.* Because the government would have standing to enforce its own law, Stauffer, as the government's assignee, also had standing to enforce § 292, even if Stauffer himself had not suffered a concrete injury. *Id.* The court expressed no opinion as to whether § 292 addressed a proprietary or sovereign injury of the United States or both, finding that either one conferred standing on the government, and therefore Stauffer. *Id.*

An additional challenge to Stauffer's claim was asserted by amicus curiae Ciba Vision Corporation. Ciba asserted that the government's assignment of a false marking claim without retaining control over the assignee's actions violated the "take Care" clause of Article II, § 3 of the Constitution. According to Ciba, § 292 strips the executive branch of its duty to "take Care that the Laws be faithfully executed" by giving such power to the public. *Id.* at *5. The Federal Circuit noted that Ciba raised "relevant points" but expressly declined to decide the constitutionality of § 292 because the issue had not been raised or argued by the parties. *Id.* at *5 n.3.

The court remanded the case to the district court with instructions to consider the merits of Stauffer's case, including Brooks Brothers' motion to dismiss pursuant to Rule 12(b)(6) "that the complaint fails to state a plausible claim to relief because it fails to allege an intent to deceive the public—a critical element of a section 292 claim—with sufficient specificity to meet the heightened pleading requirements for claims of fraud imposed by" Rule 9(b). *Id.* at *6. The court further ruled that the district court erred in denying the government's motion to intervene, as the government has an interest in enforcement of its laws and in one half of the penalty that Stauffer claims, and disposing of the matter would affect the government's ability to protect its interest. Under Rule 24(a)(2), the government had a right to intervene in Stauffer's case. *Id.* at *7.

The court's decision reflects a very expansive assessment of standing under § 292. According to the court, the government has a sovereign interest in seeing its laws enforced, and it has assigned the right to any person—regardless of whether that person has himself been injured in any way—to bring suit to enforce the false marking statute. Thus, the individuals who have filed the wave of false marking lawsuits will be permitted to adjudicate the merits of their cases absent Supreme Court review of the *Stauffer* decision[3] or Congressional action to amend § 292. Pending patent reform legislation in Congress would amend § 292 to permit only entities that have "suffered a competitive injury" to bring actions for false marking. Proponents of patent reform will undoubtedly cite the *Stauffer* decision as demonstrating the need to amend the false marking statute and pass comprehensive reform legislation.

At the same time, however, the Court's opinion appears to open the door to a constitutional challenge to the false marking statute. By giving ***any person*** the right to sue for false patent marking, did Congress violate the "take Care" clause of the Constitution, which states that the executive branch must see that laws are faithfully executed?

3 Given the recent nature of the *Stauffer* decision, it is not yet clear whether Brooks Brothers will petition the Supreme Court for review.

A defendant facing a false marking action may want to consider a direct attack on the constitutionality of § 292, a point that the court stated was "relevant" but was unwilling to decide in *Stauffer*, as that issue had neither been raised nor argued by the parties. *Id.* at *5.

In addition, false marking plaintiffs must also sufficiently allege that the defendant intended to deceive the public, an issue the district court in *Stauffer* has been directed to consider on remand. While the court did not say so expressly, it appears to have accepted Brooks Brothers' position that intent to deceive—"a critical element of a section 292 claim"—must meet the heightened pleading requirement for claims of fraud under Rule 9(b). It may be exceedingly difficult for false marking plaintiffs to meet that burden. Indeed, at least one district court has already dismissed two false marking suits on this basis. *See, e.g.*, *Brinkmeier* v. *Bic Corp.* and *Brinkmeier* v. *Bayer Healthcare LLC*, Nos. 09-860 and 10-01, 2010 WL 3360568 (D. Del. Aug. 25, 2010).

We hope that you have found this advisory useful. If you have any questions, please contact your Arnold & Porter attorney or:

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