Federal Circuit Finds Statute Provides Sufficient Injury in Fact to Confer Standing to Sue in False Marking *Qui Tam* Actions

On August 31, 2010, a unanimous Federal Circuit panel in *Stauffer v. Brooks Brothers, Inc.* held that virtually anyone has standing to bring a false patent marking *qui tam* action pursuant to 35 U.S.C. § 292, enhancing the ability of plaintiffs, and plaintiffs' lawyers, to bring these actions. *Stauffer v. Brooks Bros., Inc*., 2010 U.S. App. LEXIS 18144 (Fed. Cir. Aug. 31, 2010). At issue was whether the plaintiff had pled sufficient facts creating an actual case or controversy to satisfy Article III of the Constitution; that is, whether plaintiff had shown sufficient injury that was causally connected to the alleged wrongful conduct, and that the injury is likely to be redressed by a favorable decision. The Federal Circuit held that "Stauffer has sufficiently alleged (1) an injury in fact to the United States that (2) is caused by Brooks Brothers' alleged conduct, attaching the [allegedly false] markings to bow ties, and (3) is likely to be redressed, with a statutory fine, by a favorable decision."

The facts are very straightforward. Stauffer purchased bow ties manufactured by Brooks Brothers that contain an "Adjustolox" mechanism manufactured by a third party, J.M.C. Bow Company, Inc., which was marked with two U.S. patent numbers that expired in the 1950s. Stauffer subsequently brought a false marking *qui tam* action under § 292, which provides in pertinent part, "Any 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," against Brooks Brothers, based on the marking with the expired patents. Brooks Brothers brought motions to dismiss for lack of standing and for failure to allege an intent to deceive the public with sufficient specificity. The district court ruled that, because the case was a *qui tam* action, Stauffer's standing must be evaluated as an assignee of the United States, but that Stauffer's allegations that there would be injury "to any individual competitor, to the market for bow ties, or to any aspect of the United States economy" from Brooks Brothers' alleged false marking, were "purely speculative and plainly insufficient to support standing." 651 F. Supp. 2d 255 (S.D.N.Y. 2009). The lower court did not consider Stauffer's motion to dismiss for failure to allege sufficient facts with respect to Brooks Brothers' alleged intent to deceive.

On appeal of the grant of the motion to dismiss for lack of standing, Judge Lourie, writing for the Federal Circuit, first made clear that a *qui tam* provision, such as § 292 of the patent statute, "operates as a statutory assignment of the United States' rights." Thus, a false marking plaintiff, or relator, who "may suffer no injury himself," "must allege that the United States has suffered an injury in fact causally connected to the defendants' conduct that is likely to be redressed by the court." The Court further found that by enacting § 292, Congress "defined an injury in fact to the United States. In other words, a violation of that statute inherently constitutes an injury to the United States." Congress in effect has already alleged injury sufficient to confer standing, and no further particularized injury need be pled by the plaintiff. "Because the government would have standing to enforce its own law, Stauffer, as the government's assignee, also has standing to enforce section 292."

The Federal Circuit also rejected an argument that to confer standing, the injury to the United States must be proprietary (*e.g.*, an injury that affects its treasury) rather than sovereign (*e.g.*, an injury to the interest of having its laws obeyed). The Court, relying on *Vermont Agency of Natural Resources v. United States*

ex rel. Stevens, 529 U.S. 765, 776-77 (2000), found that either type of injury to the government, proprietary or sovereign, is sufficient to confer standing on the government, and by extension the *qui tam* plaintiff. Therefore, the Court need not decide whether § 292 defines a proprietary or sovereign injury of the United States, or both.

The Court noted that *amicus* CIBA Vision Corporation had argued that § 292 was also unconstitutional in that, by giving the power to enforce the statute to any person, "Congress has stripped the executive branch of its duty," contained in Article II § 3 of the Constitution, to "take Care the Laws be faithfully executed." CIBA Vision contrasted § 292 with the False Claims Act, which provides the government with the right to be notified of the case before the defendant is served, the right to intervene, and the right to seek dismissal or settlement over the objection of the relator or prevent dismissal of the action by the relator. While noting that CIBA Vision "raises relevant points," the Court did not decide this issue because the district court did not decide, and the parties did not appeal, the constitutionality of § 292. It is likely this potential argument will be raised in future false marking actions.

The Court also reversed the denial by the district court of the U.S. government's motion to intervene in the case. Applying Second Circuit law, the Court found that the government is permitted to intervene as of right pursuant to Rule 24(a)(2) of the Federal Rules of Civil Procedure because "the government has an interest in enforcement of its laws and in one half the fine that Stauffer claims," and the defendant does not contest that the plaintiff "does not adequately represent the United States' interest in this case." Therefore, the Court concluded that the government's "ability to protect its interest *in this particular case* would be impaired by disposing of the action without the government's intervention." (emphasis in original). Furthermore, the government would not be able to recover a fine from Brooks Brothers if Stauffer loses, as *res judicata* would attach to claims against Brooks Brothers for the particular markings at issue.

The finding in *Stauffer* that virtually anyone has standing to bring a false marking *qui tam* action pursuant to § 292 of the patent statute is likely to continue the trend of new filings alleging false marking, particularly in light of the Federal Circuit's decision last December in *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009), in which the Court held that *each sale* of a falsely marked product with an intent to deceive constitutes a separate offense under the false marking statute, which provides a fine of up to $500 for each offense. Together, these decisions could lead to significant potential exposure for false marking. In fact, as of September 1, 2010, over 375 false patent marking cases have been filed since the Federal Circuit's decision in *Bon Tool*. Companies that mark their products with patents to provide notice in order to recover for infringement should be diligent in making sure only valid patents covering the products are marked, and that the marks are removed when the patents expire.

Chicago Office
+1.312.583.2300

Frankfurt Office
+49.69.25494.0

London Office
+44.20.7105.0500

Los Angeles Office
+1.310.788.1000

Menlo Park Office
+1.650.319.4500

New York Office
+1.212.836.8000

Shanghai Office
+86.21.2208.3600

Washington, DC Office
+1.202.682.3500

West Palm Beach Office
+1.561.802.3230