â€˜ANYâ€™ Person Has Standing for False Marking Claim in Use

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Stauffer v Brooks Brothers, Inc., Nos 2009-1428, -1430, -1453, US Court of Appeals for the Federal Circuit, 2010 US App. LEXIS 18144, 31 August 2010.

Abstract

Violation of the statute is sufficient to state a false patent-marking claim under 35 USC §292 for a *qui tam* action in the US.

Legal Context

Last December, the US Court of Appeals for the Federal Circuit created a cottage industry for so-called ‘patent marking trolls’ when it issued its decision in *Forest Group, Inc. v Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009). There, the Federal Circuit interpreted the US false marking statute (35 USC §292) as providing for up to $500 in damages for each unit that has been falsely marked with a patent number. Prior lower court interpretations of the statute had been inconsistent, with some courts levying the fine for each continuous act of false marking while others awarded the fine on a per-unit basis. Under the statute, any member of the public may bring an action for false marking, but must share the fine with the US government. *Forest Group* effectively increased the possibility of a plaintiff obtaining a higher award, and gave rise to the large number of patent troll actions that have been filed and are being pursued in US courts. Now, in *Stauffer v Brooks Brothers, Inc.,* Nos. 2009- 1428, -1430, 1453, 2010 US App. LEXIS 18144 (Fed. Cir. 31 Aug. 2010), the Federal Circuit has reaffirmed the broad scope of standing available to bring such lawsuits and the fact that a violation of the statute is itself a sufficient harm to provide standing to a *qui tam* plaintiff for such an action.

Certain statutes in the US, including 35 USC §292, specifically authorize so-called qui tam actions, in which members of the public may sue to enforce a statute on behalf of the government. *Qui tam* actions encourage public enforcement of statutes in situations where the US government might not otherwise prosecute an action. If the US government declines to intervene, the *qui tam* plaintiff (known as the ‘relator’) prosecutes the action alone, and in the case of the false marking statute, shares any proceeds with the government.

Facts

Brooks Brothers, Inc. and its parent Retail Brand Alliance, Inc. (collectively, 'Brooks Brothers') manufacture and sell men's bow ties, including some bow ties that contain an 'Adjustolox' mechanism manufactured by a third party. These mechanisms are marked with, inter alia, US patents no. 2,083,106 and 2,123,620, which expired in 1954 and 1955.

Mr Stauffer, a patent attorney, bought some bow ties from Brooks Brothers, and brought a qui tam action in the US District Court for the Southern District of New York in December 2008, alleging that Brooks Brothers falsely marked the bow ties under 35 USC §292.

Brooks Brothers moved to dismiss the complaint on several grounds, including lack of standing under Fed. R. Civ. P. 12(b)(1) and failure to state a claim under Fed. R. Civ. P. 12(b)(6) for failing to plead intent with sufficient particularity.

The district court dismissed the complaint for lack of standing on the grounds that it failed to plead sufficiently that the US government had suffered an injury in fact due to Brooks Brothers' purported false marking and that Mr Stauffer did not plead any injury to himself. The district court did not address the other grounds for dismissal.

Thereafter, the US government sought to intervene on the grounds that the district court's decision called into question the constitutionality of 35 USC §292. The district court denied the motion to intervene.

Mr Stauffer appealed.

Analysis

On appeal the Federal Circuit reversed the district court on both grounds.

First, the Federal Circuit found that Mr Stauffer had standing to bring a qui tam action on behalf of the US government for Brooks Brothers' alleged violation of the false marking statute. The Federal Circuit confirmed that Mr Stauffer did not need to allege an injury in fact to himself, but instead 'Stauffer must allege that the United States has suffered an injury in fact causally connected to Brooks Brothers' conduct that is likely to be redressed by the court.' (2010 US App. LEXIS 18144, at *11.) Since 'a violation of th[e] statute inherently constitutes an injury to the United States', and 'the government would have standing to enforce its own law', 'Stauffer, as the government's assignee, also has standing to enforce section 292' (*Id*. at *12.). In other words, all that a *qui tam* plaintiff need allege to have standing to bring a false marking action in the US is that the defendants violated 35 USC §292 by false marking.

The Federal Circuit found it unnecessary to address whether Mr Stauffer needed to allege any injury to himself from Brooks Brothers' alleged violations of the statute, since 'Stauffer's standing arises from his status as "any person," and he need not allege more for jurisdictional purposes'. The Federal Circuit summarized the facts sufficient for Mr Stauffer to plead to have standing for his action as follows:

(1) an injury in fact to the United States that (2) is caused by Brooks Brothers' alleged conduct, attaching the markings to its bow ties, and (3) is likely to be redressed, with a statutory fine, by a favorable decision.

(*Id*. at *19.) Second, the Federal Circuit reversed the district court's order refusing to allow the US Government to intervene. In particular, the Federal Circuit found:

Contrary to Brooks Brothers' position, the government has an interest in enforcement of its laws and in one half the fine that Stauffer claims, disposing of the action would "as a practical matter impair or impede the [government's] ability to protect its interest," and Stauffer may not adequately represent that interest.

(*Id*. at *21.) The Federal Circuit further recognized that the US government would be bound by the results of the *Stauffer* action and, if Mr Stauffer were unsuccessful, would not be able file another action in the hope of achieving a better result:

Thus, even though, as the district court noted, "the issue of the government's ability to bring an action pursuant to section 292" in general was not presented, the United States' ability to protect its interest *in this particular case* would be impaired by disposing of this action without the government's intervention.

(*Id*. at *22, citation omitted, emphasis in the original judgment).

However, the Federal Circuit, as part of its remand order, left open a significant potential defence for Brooks Brothers and other similar defendants. Specifically, the Federal Circuit remanded the case to address the merits of Mr Stauffer's claim, 'including Brooks Brothers' motion to dismiss pursuant to Rule 12(b)(6) "on the grounds 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 *19, citation omitted.).

Practical Significance

In *Stauffer* the Federal Circuit rejected one potential ground of defence against the large number of false patent marking cases that have been filed since Forest Group created the 'patent marking troll' industry. The remand in Stauffer, however, provides hope that under heightened pleading standards for claims of fraud under Rule 9(b), such as evidenced in *Exergen Corp. v Wal-Mart Stores, Inc.,* 575 F.3d 1312 (Fed. Cir. 2009), the failure of *qui tam* plaintiffs to plead intent with sufficient particularity in the first instance should prevent the prosecution of many of these cases.

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