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LEGAL ALERT

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Any Person Can Sue for False Patent Marking

The false patent marking statute, 35 U.S.C. § 292, permits any person to bring a *qui tam* suit on behalf of the United States against a patent holder and to share in the recovery of any penalties assessed on the falsely-marked articles. In 2009, the U.S. Court of Appeals for the Federal Circuit found that the false-patent-marking statute allows for recovery of up to $500 per article as a penalty, rather than the up to $500 per-decision penalties previously imposed by lower courts.[1] Since this change in the law, plaintiffs (or "relators" in false-marking suits) have filed a plethora of false-marking suits seeking large damages awards from defendants in numerous technology areas. In response, patent holders have asserted a wide variety of defenses, including that non-practicing relators lack standing to sue because they have not suffered any competitive injury. In late August 2010, the Federal Circuit undermined this standing defense in *Stauffer v. Brooks Brothers, Inc.* by interpreting 35 U.S.C. § 292 to permit broad standing for any person to bring a false-marking action.[2]

Stauffer is a patent attorney who brought a false-patent-marking action against Brooks Brothers in the Southern District of New York. Stauffer alleged that Brooks Brothers violated the false-marking statute by selling men's bow ties marked with two patents that expired in the 1950s. The district court dismissed Stauffer's complaint for lack of standing, reasoning that Stauffer had not suffered any injury traceable to Brooks Brothers. After this decision, the U.S. government moved to intervene, but the district court denied the motion, finding no basis for such intervention. The Federal Circuit reversed both decisions.

With respect to standing, the Federal Circuit applied the test from *Vermont Agency of Natural Resources v. United States ex rel. Stevens*, which requires a plaintiff to show that (1) he has suffered an injury-in-fact that is both concrete and particularized, and actual or imminent, not conjectural or hypothetical; (2) there is a causal connection between the injury and the conduct complained of; and (3) the injury is likely to be redressed by a favorable decision.[3] Under the *Vermont Agency* test, the Federal Circuit reasoned that any person can establish standing under the false-patent-marking statute based on the government's implicit partial assignment of its damages claim and the government's interest in enforcing the law, which the relator does on the government's behalf. Because the government has standing to sue, Stauffer also has standing to enforce the false-patent-marking statute.[4]

The lower court did not rule on Brooks Brothers' motion to dismiss Stauffer's complaint for failure to sufficiently allege intent to deceive the public, because it found that Stauffer did not have standing. After finding that Stauffer did have standing, the Federal Circuit remanded the case to the district court to address whether Stauffer's complaint alleges " '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)."[5]

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[1] *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1301 (Fed. Cir. 2009).

[2] Nos. 09-1428, -1430, -1453, slip op. at 13 (Fed. Cir. Aug. 31, 2010).

[3] *Id.* at 8 (citing *Vermont Agency of Natural Resources v. U.S. ex rel. Stevens*, 529 U.S. 765, 771 (2000)).

[4] The Federal Circuit also rejected the district court's conclusion that Stauffer's standing depended on whether the alleged injury to the government was sovereign (*i.e.*, a violation of law) or proprietary (*i.e.*, a monetary harm), because the Supreme Court considered both types of injuries sufficient in *Vermont Agency*. *Id.* at 10.

[5] *Id.* at 14 (internal quotations omitted).

The Federal Circuit also found that the district court erred by denying the government's motion to intervene in Stauffer's case, reasoning that the government has an interest both in enforcement of the law and in half of any fine that may be awarded. Furthermore, because *res judicata* would prevent the government from re-litigating the false-marking claim concerning these patents if Stauffer loses, the Federal Circuit found that the government's ability to protect its interest would be impaired unless the government was permitted to intervene.[6]

The *Stauffer* decision limits the ability of patent holders to challenge a false-patent-marking plaintiff's standing. Accordingly, the filing of false-patent-marking suits will likely continue. Patent holders should continue to consult patent attorneys to ensure that they are implementing an effective patent-marking strategy.

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If you have any questions about this development, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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[6] *Id.* at 16.