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Stauffer Paves Way For New False Marking Defenses

By Erin Coe

Law360, New York (September 08, 2010) -- While the U.S. Court of Appeals for the Federal Circuit's Stauffer ruling is not going to deter individual plaintiffs from taking their false patent marking suits to the courthouse, it gives defendants a few extra arguments that could help knock out cases earlier, experts say.

The Federal Circuit on Aug. 31 reversed a district court's dismissal of patent attorney Raymond Stauffer's suit accusing Brooks Brothers Inc. of falsely marking its adjustable ties with expired patents, finding the plaintiff had qui tam standing to enforce Section 292 of the Patent Act.

"The Stauffer decision takes away one 'easy out' for defendants by clarifying that the plaintiff can sue for the harm inflicted on the United States even if the plaintiff does not have significant individual harm," said George M. Tompkins, a Tompkins PC attorney who is representing his wife in a false marking suit against Wal-Mart Stores Inc. and several other defendants in Texas.

Many experts said the Federal Circuit's ruling would continue to encourage false marking litigation against corporations, which has been on the rise since the Federal Circuit ruled in December in *Forest Group Inc. v. Bon Tool Co.* that false marking could result in a judgment of up to \$500 per item marked, instead of per decision to mark. If a suit is successful, the award is split between the qui tam relator and the U.S. government.

"We're going to see a significant growth in new filings, and the numbers of cases put on hold to wait for the decision in the Stauffer case are going to come back to life as well," said James E. Malackowski, CEO of Ocean Tomo LLC, which focuses on intellectual property valuation and research.

From January to the end of August, 364 false marking suits had been filed, and out of the

113 filings in July and August, 83 percent of the cases alleged that patents on products had expired and nearly 12 percent claimed a product was not covered by a patent, according to an analysis by Ocean Tomo.

But even though the ruling gave false marking plaintiffs a boost on the issue of standing, defendants did not come away empty-handed because the Federal Circuit gave them some key pointers on what they should be arguing next, according to experts.

The Federal Circuit repeatedly noted in its decision that the district court did not rule on Brooks Brothers' motion to dismiss for failure to allege an intent to deceive the public with sufficient specificity and invited the district court to address that issue, according to Joseph J. Berghammer, a Banner & Witcoff Ltd. shareholder and an adjunct professor at Northwestern University Law School.

"The Federal Circuit is clearly showing that it would like to see challenges to the sufficiency of the complaint for failure to plead fraud with particularity, and the ruling is a strong telegraph to defendants not using this tactic to use this approach," said Berghammer, whose firm represents defendants in false marking litigation.

While the Federal Circuit's June ruling in *Pequignot v. Solo Cup Co.* determined that the plaintiff has to prove that the defendant acted with deceptive intent, it did not touch on demonstrating intent at the pleading stage, which if required, would make filing complaints more difficult for plaintiffs, he said.

District courts have been split on whether the plaintiff has to meet fraud standards at the pleading stage, and it's only a matter of time before the Federal Circuit weighs in, according to Ronald J. Schutz, chair of Robins Kaplan Miller & Ciresi LLP's IP litigation group, which has advised companies on avoiding or mitigating false marking liability.

"I expect that the Federal Circuit is going to view the false marking statute's reference to an intent to deceive like a fraud case, where pleading requirements of civil procedures apply," he said. "When a plaintiff files a suit out of the box, the complaint has to do more than merely recite the words of the statute. There will need to be more specificity and the burden out of the box will be higher."

The Federal Circuit is going to find a way to narrow false marking cases just as it has issued decisions over the past several years putting limits on proving damages for patent infringement cases and making it easier to invalidate patents, according to Schutz.

"I think when the Federal Circuit gets the appropriate case, it's going to make clear that it's an important element to prove deceptive intent, and if you don't, you won't be able to prevail," he said.

In the Stauffer decision, the Federal Circuit also noted that Ciba Vision Corp. raised relevant points in its amicus brief that challenged the constitutionality of the qui tam provision in the false marking statute by arguing that Congress stripped the executive branch of its duty to "take care that the laws be faithfully executed" by giving such power to the public.

However, the district court did not decide, nor did the parties appeal, the constitutionality of Section 292, according to the appeals court.

Ciba claimed that in false marking cases, the government should be notified of a suit before the defendant is served and should be able to intervene and seek dismissal of the case over the objection of the qui tam relator, said William J. Marsden Jr., founder and managing principal in Fish & Richardson PC's Delaware office.

"The Stauffer ruling eliminated one possible ground for dismissal related to standing of an individual consumer, but there still may be a basis to challenge that standing by going after the constitutionality of Section 292(b)," Marsden said. "I suspect defendants will raise this argument."

Defendants may also be able to argue lack of standing in light of a U.S. District Court for the Northern District of California's ruling in July that dismissed San Francisco Technology Inc.'s qui tam case against Exergen Corp. because a false marking suit that was inclusive of the plaintiff's claims had previously been filed in a Delaware court by a different relator, according to Marsden, whose firm represents Exergen.

"The judge found that the government's interests were adequately represented by the first filed case," he said. "The decision shows that a defendant should not have to face multiple suits for the same marked goods, and there still may be an opportunity to knock out a false marking case based on lack of standing when an earlier case is filed."

In addition to giving defendants some guidance, the Stauffer ruling could encourage corporations to rally for the passage of the Patent Reform Act, or at least the measure that would require plaintiffs bringing false marking suits to show they suffered a competitive injury, according to Malackowski.

"Corporate manufacturers may push harder for the false marking and virtual marking provisions to be extracted from the bill and added as a rider to current legislation," he said.

The decision also may drive more companies to stop marking altogether and consider alternatives, such as getting an opinion of counsel to show a patent covers a product or sending letters that notify others of one's patents, experts said.

However, receiving a letter could be perceived as a threat by some companies and prompt declaratory judgment actions, according to Marsden.

Patent owners are also showing a greater interest in sites like patentmarking.com, Ocean Tomo's notification platform that links products and services to the patents that cover them, in a move to reduce the expense and inefficiency of traditional marking, according to Malackowski.

"We're starting to see movement in the market for a more efficient, 21st-century solution," he said.

The litigation has had at least one beneficial effect, according to Marsden, who said it was "leading companies to adopt better practices of monitoring and ensuring communication with their manufacturing and packaging people so that the information in the marketplace is current and correct."

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