Patent Law Update: Stauffer v. Brooks Brothers

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Federal Circuit Closes Off Possible Standing Defense to False Marking Defendants

By: Timothy J. Rechtien

On August 31, 2010, the Court of Appeals for the Federal Circuit handed down its third major decision in the last nine months on the issue of false marking in *Stauffer v. Brooks Bros., Inc*. In the first of these three decisions, *Forest Group, Inc. v. Bon Tool Co.*, the Federal Circuit ushered in a wave of false marking cases when it clarified the law regarding the penalty provision of the false marking statute, and held that the false marking statute "clearly requires a per article fine" of up to $500 per article. In the follow-up decision, *Pequignot v. Solo Cup Co.*, the Federal Circuit again analyzed the false marking statute, this time finding that marking a product with either an expired patent or with the phrase "may be covered by one or more patents," can give rise to false marking liability. In *Brooks Brothers*, the Court examined the issue of false marking from yet another angle—whether an individual plaintiff has constitutional standing to bring a false marking suit. The Court answered this in the affirmative.

Importantly, although the Court found that an individual plaintiff has standing to bring a false marking lawsuit, the Court nevertheless indicated that it would be potentially receptive to other defense arguments. Indeed, the Court explicitly left open for another day the issue of whether the false marking statute is constitutionally sound. Similarly, the Court expressly instructed the district court to, on remand, address the issue of whether the false marking complaint fails to allege intent to deceive with sufficient specificity to meet the heightened pleading requirements for claims of fraud.

Turning to the case, the main issue in *Brooks Brothers* centered on the "*qui tam*" provision of the false marking statute, which provides that "Any person may sue for the [$500 per article] penalty, in which event one-half shall go to the person suing and the other to the use of the United States." Thus, any individual plaintiff (known as a "relator") can bring a lawsuit for a false marking violation so long as the person who initiates the litigation shares any recovery with the government. With no Federal Circuit precedent on the subject, some defendants in these cases have been arguing that individual false marking plaintiffs—as opposed to the government or direct competitors—lack standing to bring these lawsuits. With *Brooks Brothers*, the issue finally made its way to the Federal Circuit.

This case began in 2008, when Raymond Stauffer, filed suit alleging that Brooks Brothers, Inc. had falsely marked some of its bow ties with two patents that had expired in 1954 and 1955, respectively. In response, Brooks Brothers moved to dismiss the complaint based on a lack of standing and on Stauffer's failure to allege that Brooks Brothers intended to deceive the public with sufficient specificity to meet the heightened pleading requirements for claims of fraud.

The district court granted Brooks Brothers' motion based on a lack of standing, and in doing so, did not reach the pleading issue. The district court found that, Stauffer, as a *qui tam* plaintiff, stepped into the shoes of the government, and thus, was required to prove that the government—not Stauffer—satisfied the standing requirements. This, according to the district court, Stauffer could not do. Rather, the court found that Stauffer had not sufficiently alleged that the United States had suffered an injury in fact from Brooks Brothers' alleged false marking.

On appeal, the Federal Circuit reversed. In doing so, the Court first reaffirmed that the false marking statute is in fact a *qui tam* statute. The Court then explained that, "even though a relator may suffer no injury himself, a *qui tam* provision operates as a statutory assignment of the United States' rights, and 'the assignee of a claim has standing to assert the injury in fact suffered by the assignor.'" As a result, Stauffer was required to allege that the United States suffered an "injury in fact" that was "causally connected" to Brooks Brothers' alleged conduct. According to the Court, Stauffer made such a showing.

The Court explained that, by enacting the false marking statute, Congress expressly "defined an injury in fact to the United States." Put simply, "a violation of that statute inherently constitutes an injury to the United States." Thus, because the government would have standing to sue Brooks Brothers to enforce its own law, so too, it follows, does Stauffer, the government's assignee.

As a collateral issue, the Court also reversed the district court's decision denying the United States motion to intervene in the case, finding that the United States had interests—interests which Stauffer may not adequately represent—in the enforcement of its laws and in recovering one-half of any fine that Stauffer claimed.

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