



## ***STAUFFER v. BROOKS BROTHERS, INC.*: PRIVATE PARTIES HAVE STANDING TO SUE UNDER THE FALSE MARKING STATUTE**

On August 31, 2010, the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) issued its decision in *Stauffer v. Brooks Brothers, Inc.*, holding that private individuals or entities, known as relators, have standing to bring false marking claims under 35 U.S.C. § 292 (“Section 292”). That decision removes a significant procedural obstacle to the hundreds of false marking cases that are currently pending in federal courts across the United States. While the Federal Circuit found that the relators have standing to sue, it also indicated that Section 292 may be vulnerable to constitutionality challenges on other grounds, and that false marking complaints may be subject to challenges on the sufficiency of the pleadings under Rule 12(b)(6).

### **THE HISTORY OF SECTION 292 AND ITS *QUI TAM* PROVISION**

Section 292 creates liability for marking “unpatented” articles as patented, imposes a \$500 penalty for “every such offense,” and permits “any person” to sue for the penalty (splitting the reward with the government). Specifically, Section 292(a) provides that:

Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article the word ‘patent’ or any word or number importing the same is patented, for the purpose of deceiving the public ... [s]hall be fined not more than \$500 for every such offense.<sup>1</sup>

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<sup>1</sup> 35 U.S.C. § 292(a).

Section 292(b) permits “[a]ny person” to “sue for the penalty, in which event one-half shall go to the person and the other to the use of the United States.”<sup>2</sup>

Enacted in 1952, Section 292 has a terse legislative history.<sup>3</sup> As with its predecessors, Section 292 is primarily “a criminal provision.”<sup>4</sup> Section 292 introduced several changes in the previous statutory scheme, most notably eliminating a minimum penalty and replacing it with a \$500 maximum fine for every “offense” and adding a *qui tam* “informer action” provision (Section 292(b)) to complement the criminal action.<sup>5</sup> An informer action is a kind of *qui tam* action that creates a cause of action for a party with knowledge of a violation of the relevant substantive law.<sup>6</sup> Standing in a *qui tam* action is based on a theory of partial assignment of the United States government’s interest or injury to the private citizen bringing suit on the government’s behalf.<sup>7</sup>

Section 292 was rarely invoked, leading to scant interpretive case law.<sup>8</sup> But several years ago, a handful of enterprising patent attorneys began filing suits, mostly citing products allegedly bearing expired patents numbers, in an effort to reap rewards for alleged violations of Section 292. These cases have been percolating through the courts and began reaching the Federal Circuit in 2009. In the last eight months, the Federal Circuit has handed down three decisions

dealing with Section 292—*Forest Group, Inc. v. Bon Tool Co.*;  
*Pequignot v. Solo Cup Co.*; and, most recently, *Stauffer v. Brooks Brothers*.

In the first of these three decisions, *Forest Group, Inc. v. Bon Tool Co.*, the Federal Circuit affirmed the district court’s finding that the defendant had, with deceptive intent, marked 38 pairs of drywall stilts with a patent number that did not cover the marked product.<sup>9</sup> Interpreting the penalty portion of the statute, the court held that the penalties for false marking should be assessed on a per-article basis.<sup>10</sup>

In the second, *Pequignot v. Solo Cup Co.*, the court considered the issue of deceptive intent under Section 292. It held that “[t]he bar for proving deceptive intent ... is particularly high, given that the false marking statute is a criminal one....”<sup>11</sup> The court also held that an accused false marker may rebut allegations of deceptive intent by relying on evidence of good faith, which in that case was the advice of counsel.<sup>12</sup>

Until the third, and most recent, decision, however, courts had not addressed the question of whether, and under what circumstances, a *qui tam* relator could claim an injury-in-fact sufficient to satisfy the standing requirements of Article III.

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2 35 U.S.C. § 292(b).

3 P.L. 82-593, S. Rep. No. 82-1979, June 27, 1952, at \*2424.

4 *Id.* (“This is a criminal provision.”).

5 *Id.* (“The informer action is included as additional to an ordinary criminal action.”). *Qui tam* is an abbreviation for the phrase *qui tam pro domino rege quam pro se ipso*, which literally means “he who as much for the king as for himself.” Note, *The History and Development of Qui Tam*, 1972 Wash. U.L.Q. 81, 83 (1972).

6 *Vermont Agency of Natural Resources v. United States, ex rel. Stevens*, 529 U.S. 765, 775 (2000) (noting that in 14th century England, there were two types of *qui tam* actions: “those that allowed injured parties to sue in vindication of their own interests (as well as the Crown’s) ... and ... those that allowed informers to obtain a portion of the penalty as a bounty for their information even if they had not suffered an injury themselves....”).

7 See *id.* at 774.

8 From its inception in 1982 until late 2009, the Federal Circuit only rarely gave meaningful attention to section 292. See *Arcadia Machine & Tool, Inc. v. Sturm, Ruger & Co., Inc.*, 786 F.2d 1124 (Fed. Cir. 1986) (Rich, J.); *Clontech Labs. Inc. v. Invitrogen Corp.*, 406 F.3d 1347 (Fed. Cir. 2005).

9 590 F.3d 1295, 1300 (Fed. Cir. 2009). See “*Forest Group, Inc. v. Bon Tool Co.*: Opening the Floodgates for a New Wave of Suits by ‘Marking Trolls,’” Kenneth R. Adamo, David M. Maiorana, Susan M. Gerber and John C. Evans, *Intellectual Prop. Magazine* 68 (May 2010), reprinted in AIPPI e-News No. 12 (May 2010).

10 590 F.3d at 1304.

11 608 F.3d 1356, 1363 (Fed. Cir. 2010). See “*Pequignot v. Solo Cup*: The Federal Circuit Continues to Define and Clarify the Law of False Marking,” Kenneth R. Adamo, David M. Maiorana, Susan M. Gerber, and John C. Evans, *Jones Day Commentary* (June 2010), available at <http://www.jonesday.com/files/Publication/bf30d571-2e5a-4852-ab45-2ceae82e5cd1/Presentation/PublicationAttachment/feed5ce7-05c2-4da7-b217-5f0a24f9ff7d/Pequignot%20v%20Solo%20Cup.pdf> (last visited Sept. 3, 2010).

12 608 F.3d at 1363-64.

## DISTRICT COURT SPLIT ON *QUI TAM* STANDING REQUIREMENTS UNDER SECTION 292

Before *Stauffer*, there was a split of authority at the district court level as to whether a private individual or entity had standing to bring a suit under Section 292.

On the one hand, in *Pequignot v. Solo Cup Co.*, the district court held that “§ 292(b) is indeed a *qui tam* statute, and therefore, that [a private party] has Article III standing, as a partial assignee of the government’s claims, to sue [] for violations of § 292.”<sup>13</sup> The court rejected the argument that the relator’s allegations of actual or imminent personal injury were insufficient.<sup>14</sup> Instead, the court relied on the idea that an injury to the United States’ “sovereign interest” in seeing that its laws are not violated was sufficient to confer standing: “[M]isuse of a patent marking does not involve a proprietary injury to the United States that must be vindicated through the actions of private prosecutors; rather, the injury to the United States is only to its sovereignty.”<sup>15</sup> While the court acknowledged that “some scholars have argued that the government can assign only proprietary, and not purely sovereign interests,” it concluded that “the Supreme Court made no such distinction ... and this Court declines to adopt this distinction.”<sup>16</sup>

The district court in *Stauffer v. Brooks Brothers, Inc.* took the opposite view. There, the court dismissed Section 292 claims because the relator did not plead an injury-in-fact sufficient to support Article III standing.<sup>17</sup> The relator alleged that defendants’ conduct “ha[d] ‘wrongfully quelled competition

with respect to [the marked products] thereby causing harm to the economy of the United States[.]” and that defendants “wrongfully and illegally advertis[ed] patent monopolies that they do not possess” and “ha[d] ‘benefitted [sic] in at least maintaining their considerable market share....”<sup>18</sup>

The court held that these allegations were “insufficient to establish anything more than the sort of ‘conjectural or hypothetical’ harm that the Supreme Court instructs is insufficient.”<sup>19</sup>

To the contrary, the court explained, “[t]hat some competitor might somehow be injured at some point, or that some component of the United States economy might suffer some harm through defendants’ conduct, is purely speculative and plainly insufficient to support standing.”<sup>20</sup>

The court noted, but rejected, the *Solo Cup* court’s decision that the government’s “sovereign interest” could support the plaintiff’s standing.<sup>21</sup> The *Stauffer* court held that the relator had not alleged a violation of the law because he had not alleged that any member of the public was deceived: “[A]llegations such as plaintiff’s that a defendant improperly marked an unpatented article as patented, standing alone, neither alleges a violation of Section 292 nor pleads an injury in fact to the sovereign interest assignable to a *qui tam* plaintiff.”<sup>22</sup> And the court expressed “doubt[] that the Government’s interest in seeing its laws enforced could alone be an assignable, concrete injury in fact sufficient to establish a *qui tam* plaintiff’s standing.”<sup>23</sup>

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13 640 F. Supp. 2d 714, 724 (E.D. Va. 2009). Neither party appealed this decision.

14 *Id.* at 718-19. See also *id.* at 728 (“To the extent that there is any real injury caused by false marking, it is to competitors of the entity abusing patent markings.”).

15 *Id.*

16 *Id.* at 724 n.15 (citing Myriam E. Gilles, *Representational Standing: U.S. ex rel. Stevens and the Future of Public Law Litigation*, 89 Cal. L. Rev. 315, 342-44 (2001)).

17 615 F. Supp. 2d 248, 255 (S.D.N.Y. 2009).

18 *Id.* at 254.

19 *Id.* at 255 (citing *Summers v. Earth Island Inst.*, 129 S. Ct. 1142, 1151-52 (2009); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992)).

20 *Id.* at 255.

21 *Id.* at 254 n.5.

22 *Id.*

23 *Id.* (quoting *FEC v. Akins*, 524 U.S. 11, 24 (1998)).

## THE FEDERAL CIRCUIT'S DECISION IN *STAUFFER*

The Federal Circuit reversed the *Stauffer* court's decision and remanded the case for further proceedings.<sup>24</sup> In broad terms, the court held that the injury to the United States was defined in Section 292 such that it could be assigned to private *qui tam* relators:

Congress has, by enacting section 292, 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. In passing the statute prohibiting deceptive patent mismarking, Congress determined that such conduct is harmful and should be prohibited. The parties have not cited any case in which the government has been denied standing to enforce its own law. Because the government would have standing to enforce its own law, *Stauffer*, as the government's assignee, also has standing to enforce section 292.<sup>25</sup>

The court rejected Brooks Brothers' reliance on *Lujan v. Defenders of Wildlife*. In *Lujan*, the court reasoned, Article III standing was not met because a citizen-suit provision of the statute in question permitted any person to sue the government for violations of the statute.<sup>26</sup> Section 292(b), however, "operates not to allow individuals to sue the government, but to allow individuals to stand in the government's stead, as assignees of the government's own claims."<sup>27</sup> As such, *Lujan* did not bar the government's assignment of its ability to sue for violations of Section 292 to "any person."<sup>28</sup>

The court also concluded that the distinction between proprietary and sovereign injury to the United States was irrelevant: "Stauffer's standing as the United States' assignee does not depend on the alleged injury to the United States being proprietary, as opposed to sovereign."<sup>29</sup> Instead, the court held that either injury to the United States could be assigned to a private party.<sup>30</sup> The court declined to consider whether the alleged personal injuries or injuries to competition had any impact on standing: "Stauffer's standing arises from his status as 'any person,' and he need not allege more for jurisdictional purposes."<sup>31</sup>

The court also considered the argument, raised by a third-party *amicus* brief, that "the government cannot constitutionally assign any claim without retaining control over the relator's actions, arguing that such assignment violates the 'take Care' clause of Article II, § 3 of the Constitution."<sup>32</sup> The *amicus* "contrast[ed] section 292 with the False Claims Act, which provides the government with, *inter alia*, the right to be notified of a case before the defendant is served, the right to intervene, and the right to seek dismissal or settlement of the action by the relator."<sup>33</sup> Although the Federal Circuit acknowledged these arguments as "relevant points," the court refused to address them because "the district court did not decide, and the parties did not appeal, the constitutionality of section 292."<sup>34</sup>

The Federal Circuit then remanded the case "for the [district] court to address the merits..., including Brooks Brothers' motion to dismiss pursuant to Rule 12(b)(6) 'on the grounds

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24 *Stauffer v. Brooks Brothers, Inc.*, No. 2009-1428, -1453, slip op. (Fed. Cir. Aug. 31, 2010). Interestingly, the Federal Circuit issued its decision only four weeks after it heard oral argument on August 3, 2010.

25 *Id.* at 9.

26 *Id.* (quoting *Lujan*, 504 U.S. at 577.)

27 *Id.*

28 *But see* Tara Leigh Grove, "Standing as an Article II Nondelegation Doctrine," 11 U. Pa. J. Const. L. 781 (2009) (explaining that Article III reinforces Article II's nondelegation doctrine by prohibiting private prosecutorial discretion for violations of law, except for those private parties who can show a cognizable injury-in-fact).

29 *Stauffer*, slip op. at 10. *But see, e.g., United States ex rel. FLMC, LLC v. Wham-O, Inc.*, No. 2:10-cv-00435, 2010 WL 3156162, at \*2 (W.D. Pa. Aug. 3, 2010) ("[N]either [relator] nor the United States of America has suffered any concrete injury-in-fact, and the government cannot assign its 'sovereign injury' to a private plaintiff; consequently, plaintiff cannot establish an injury-in-fact sufficient to establish Article III standing.")

30 *Stauffer*, slip op. at 11-12. On this basis, the court distinguished between cases in which a private party seeks to vindicate an abstract interest in seeing that the laws are faithfully obeyed, see *Akins*, 524 U.S. at 24, and "the government's interest in seeing that its own law is obeyed." Slip op. at 11. The court cited a footnote in *Vermont Agency surveying historical qui tam statutes*, in which "[o]ne statute ... allowed informers to conduct a criminal prosecution and receive half the fine ... which would redress an injury that the Court explicitly found to be sovereign...." *Id.*

31 *Id.* at 13.

32 *Id.* at 12.

33 *Id.*

34 *Id.*

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).”<sup>35</sup>

## WHAT *STAUFFER* MEANS GOING FORWARD

At first glance, the Federal Circuit’s decision in *Stauffer* appears to favor the growing number of *qui tam* relators bringing false marking claims. But perhaps not. The Federal Circuit left open several important issues that could affect the ability of relators to prevail on their false marking claims. Consider the following:

**Does Section 292 Violate the “Take Care” Clause of Article II?** Possibly so. The court expressly declined to answer this question. While the district court in *Solo Cup* rejected an Article II challenge to Section 292,<sup>36</sup> the issue was not addressed by the Federal Circuit in that appeal. In *Stauffer*, the Federal Circuit expressly acknowledged that Section 292 might be vulnerable to such a constitutionality challenge.

**Pleading Deficiencies?** While *Stauffer* has resolved the standing issue, speculative or otherwise insufficient pleadings are still susceptible to dismissal under Rule 8 and/or Rule 9(b).<sup>37</sup> In remanding *Stauffer*, the Federal Circuit

expressly advised the district court to turn to the alleged merits of the case, including a previously unaddressed motion to dismiss under Rules 12(b)(6) and 9(b) (even if the court did not expressly endorse the applicability of Rule 9(b) to false marking claims).<sup>38</sup>

Regardless of whatever standard applies, this recent wave of false marking complaints generally includes only a few factual allegations. Most follow a familiar theme: They allege that the presence of an expired patent on a product offered for sale, coupled with the sophistication of the defendant, should lead to an inference that the marking was done for the purpose of deceiving the public.

District courts are split regarding what level of factual detail is sufficient. Some courts have dismissed under the default standards of Rule 8, without regard to whether Rule 9(b) applies.<sup>39</sup> Other courts have held that Rule 9(b) applies, and dismissed because an intent to deceive does not necessarily follow from the vague, generalized allegations pled.<sup>40</sup> Still other courts have held that Rule 9(b) does not apply, and declined to dismiss the claims.<sup>41</sup>

**Duplicative Claims.** With the onslaught of these false marking cases, a number of relators have filed suits alleging the same false marking claims as those previously brought by another relator. These copycat cases are working their way through the courts. The majority of courts to address the

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35 *Id.* at 14. The court also reversed district court’s denial of the government’s request to intervene as a party below. Because “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,” intervention was justified. *Id.* at 15 (quoting Fed. R. Civ. P. 24(a)(2)). Res judicata effects of a relator’s loss on the merits also supported government intervention. *Id.* at 15-16.

36 640 F. Supp. 2d at 728.

37 Rule 9(b) requires that “[i]n alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake.” Fed. R. Civ. P. 9(b).

38 The court’s recent decision in *Exergen Corp. v. Wal-Mart Stores, Inc.* indicates its willingness to scrutinize deceptive intent pleadings under the heightened Rule 9(b) standard. 575 F.3d 1312, 1326-31 (Fed. Cir. 2009). Indeed, *Exergen* was the court’s first formal acknowledgment that Rule 9(b) applies to such claims, which in that case involved claims of inequitable conduct. *Id.*

39 See, e.g., *Brinkmeier v. Graco Children’s Prods. Inc.*, No. 09-262-JJF, 2010 WL 545896, at \*4 (D. Del. Feb. 16, 2010); *Shizzle Pop, LLC v. Aviva Sports, Inc.*, No. 2:10-cv-02574-RGK-SS, slip op. (C.D. Cal. Aug. 5, 2010).

40 See, e.g., *Simonian v. Global Instruments, Ltd.*, No. 10-c-01293, slip op. (N.D. Ill. Aug. 26, 2010); *Brinkmeier v. BIC Corp. et al. and Brinkmeier v. Bayer Healthcare LLC*, Nos. 09-860-SLR, 10-01-SLR, slip op. (D. Del. Aug. 25, 2010); *Juniper Networks v. Shipley*, No. C09-0696 SBA, 2009 WL 1381873, at \*4 (N.D. Cal. May 14, 2009) (“The false marking statute is a fraud-based claim, which is subject to the pleading requirements of [Rule] 9(b).”); *Aviva Sports*, slip op.; *Shizzle Pop, LLC v. Wham-O, Inc.*, No. 2:10-cv-03491-PA-FFM, slip op., at \*3 (C.D. Cal. Aug. 2, 2010); *Hollander v. Etymotic Research, Inc.*, No. 1:10-cv-01615, 2010 WL 2813015, at \*5 (E.D. Pa. July 14, 2010); *Simonian v. Cisco Sys., Inc.*, No. 10 C 1306, 2010 WL 2523211, at \*3 (N.D. Ill. June 17, 2010).

41 See, e.g., *Heathcote Holdings Corp., Inc. v. Revlon Inc., et al.*, No. 10-cv-1936, slip op. (N.D. Ill. Sept. 1, 2010); *Astec Am., Inc. v. Power-One, Inc.*, No. 6:07-cv-464, 2008 U.S. Dist. LEXIS 30365, at \*33 (E.D. Tex. Apr. 11, 2008); *Third Party Verification, Inc. v. SignatureLink, Inc.*, 492 F. Supp. 2d 1314, 1327 (M.D. Fla. 2007).

issue have dismissed the duplicate case because the *qui tam* cause of action belongs to the government and can, therefore, be asserted only once.<sup>42</sup>

**What's Next?** *Stauffer* is the third Federal Circuit decision dealing with Section 292 in the last 12 months. Given the increase in "marking troll" litigation, the court will likely see many more appeals of issues relating to false marking, and soon. The possibility of United States Supreme Court consideration also looms. At the least, as the law develops, the previously murky contours of false marking law are, by fits and starts, starting to become clearer.

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<sup>42</sup> See, e.g., *Akbar v. Procter & Gamble Co.*, No. 10-cv-105, slip op. (E.D. Tex. Aug. 18, 2010); *San Francisco Tech., Inc. v. Glad Prods. Co.*, No. 10-CV-00966 JF (PVT), 2010 WL 2943537, at \*4 (N.D. Cal. July 26, 2010); *Simonian v. Quigley Corp.*, No. 10 C 1259, 2010 WL 2837180, at \*1 (N.D. Ill. July 19, 2010); see generally Robert A. Matthews, Jr., "When Multiple Plaintiffs/Relators Sue for the Same Act of Patent False Marking," 2010 Patently-O Patent L.J. 95; but see *Simonian v. Hunter Fan Co.*, No. 10 C 1212, 2010 WL 2720749 (N.D. Ill. July 8, 2010) (denying dismissal of duplicative action because movant failed to raise persuasive arguments in opening motion).