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Federal Circuit Patent Bulletin: *Sukumar v. Nautilus, Inc.*

May 4, 2015

"§ 292(b) extends standing to sue for a violation of § 292(a) to [a potential competitor that has manifested] intent to enter the market and action to enter the market."

On May 4, 2015, in *Sukumar v. Nautilus, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Prost,* Newman, Reyna) affirmed the district court's summary judgment that Sukumar lacked standing to assert a false marking claim. The Federal Circuit stated:

Title 35 section 292(a) prohibits, in part, "mark[ing] upon . . . in connection with any unpatented article, the word 'patent' or any word or number importing that the same is patented, for the purpose of deceiving the public." Section 292(b) provides a private right of action to enforce § 292(a) to any "person who has suffered a competitive injury as a result of a violation of this section." The district court granted Nautilus summary judgment on Sukumar's false marking claim because it found that Sukumar had not suffered a competitive injury, and thus lacked standing to enforce § 292(a).

Section 292(b)'s "competitive injury" standing requirement was added in 2011 by the AIA. The parties do not dispute that Sukumar was not selling products in competition with Nautilus at the time this suit was filed. This case thus presents the question of whether (or to what extent) an entity that has not entered the relevant market can suffer "competitive injury." Nautilus argues that an entity cannot suffer competitive injury unless it actively sells products in the market. Sukumar contends that a potential competitor may suffer competitive injury if it intends to enter the market. We hold that a potential competitor may suffer competitive injury if it has attempted to enter the market. An attempt is made up of two components: (1) intent to enter the market with a reasonable possibility of success, and (2) an action to enter the market.

This court has yet to address the meaning of "competitive injury," so we begin with its plain meaning. Black's Law Dictionary defines "competitive injury" as "[a] wrongful economic loss caused by a commercial rival, such as the loss of sales due to unfair competition; a disadvantage in a plaintiff's ability to compete with a defendant, caused by the defendant's unfair competition." This definition, while hardly conclusive, lends some support for Sukumar's position. A potential competitor would generally not be considered a "commercial rival," but a potential competitor may suffer "a disadvantage in [its] ability to compete" if another's actions impair its ability to enter the market. Still, this definition does not include all potential competitors. To suffer a disadvantage in the "ability to compete," an entity must have some present ability to compete-if only in part-that is disadvantaged. Therefore, Black's Law Dictionary defines "competitive injury" to encompass some potential competitors, but only those that suffer "a disadvantage in [their] ability to compete." . . .

We also find persuasive Sukumar's argument that "competitive injury" in § 292 must include what is arguably the most egregious type of competitive injury: the prevention of market entry altogether. The rule Nautilus proposes would exclude this important circumstance. Indeed, competition is certainly harmed when a market participant's false marking deters a would-be competitor from attempting to enter the market. This was recognized as one of the original rationales for allowing qui tam actions to remedy false marking. The AIA's removal of qui tam claims for false marking did not indicate disapproval of this rationale. Rather, the AIA recalibrated the enforcement mechanism for false marking in response to a flood of false marking claims that did little to achieve the original objective of minimizing anticompetitive conduct.

From the above review of the statutory text, legislative history, analogous areas of law, and policy rationale, we conclude that § 292(b) extends standing to sue for a violation of § 292(a) to some potential competitors. Nevertheless, it is equally clear that the amended statute does not confer standing upon any entity that claims a subjective intent to compete. Rather, § 292 limits standing to entities that have "suffered a competitive injury as a result of a violation of [section 292(a)]." A potential competitor can only suffer a competitive injury if it engages in competition. Dreaming of an idea but never attempting to put it into practice is insufficient. Otherwise, market entry is too speculative and, thus, competition cannot be harmed by the false marking. Likewise, sometimes a falsely marked product is also properly marked with other patents. In that case, a potential competitor must show that the falsely marked patents deterred market entry, but that-for some reason-the properly marked patents did not deter market entry. Therefore, an injury is only a "competitive injury" if it results from competition, and a potential competitor is engaged in competition if it has attempted to enter the market, which includes intent to enter the market and action to enter the market. And, for the sake of completeness, an entity has standing under § 292(b) if it can demonstrate competitive injury that was caused by the alleged false marking. . . .

Sukumar points to numerous activities he has undertaken since the district court found that some of Nautilus' machines were falsely marked as evidence of his earlier intent to compete with Nautilus. As an example, Sukumar has recently commissioned the development of a business plan and design of a prototype, and engaged in discussions to purchase land for a manufacturing facility. However, the district court did not err in finding that this evidence has minimal probative value for several reasons. First, crediting it would allow parties in litigation to manufacture evidence after the suit has been filed. Second, in this case Sukumar's logic makes little sense. Sukumar says he was deterred from entering the market by Nautilus' patent labels. Apparently now that a court has confirmed that some of the patent labels on some of Nautilus' machines were inappropriate, Sukumar is no longer deterred, even though the vast majority of Nautilus' machines-including all those released prior to 2006-have not been adjudicated as falsely marked. In sum, we agree with the district court that Sukumar's evidence of his intent to compete with Nautilus is weak. . . . Consistent with the district court, we conclude that, even if Sukumar subjectively intended to enter the market for fitness machines, he took insufficient action to pursue that intent. [T]he undisputed evidence establishes that, at the time Sukumar filed the suit, Sukumar had not taken sufficient action to enter the market for fitness machines. Therefore, Sukumar was not engaged in competition with Nautilus and did not suffer a competitive injury. Accordingly, the district court properly granted summary judgment for Nautilus because Sukumar lacks standing to bring a claim for false marking under § 292.