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## District Court Allows False Marking to be Re-pleaded as Consumer Protection Claim

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The Leahy-Smith America Invents Act bars suits for false marking of patent rights except those brought by the federal government or in which a competitor can establish competitive injury. Now a district court in Virginia has allowed a claim arising from a false patent marking to be re-pleaded as consumer protection claims under California and Washington state law. The court in *Sukumar v. Nautilus, Inc.* denied defendant's motion to dismiss the state law claims on preemption grounds, holding that federal patent law, as amended by the America Invents Act, did not preempt the plaintiff's consumer protection claims. Other competitors may resort to this route as claims under the patent laws are cut off.

Plaintiffs Ponani Sukumar and Southern California Stroke Rehabilitation Associates, Inc. originally filed a complaint against defendant Nautilus Inc. accusing it of falsely marking a number of products (representing unpatented items as covered by a patent, with the intent to deceive the public) in violation of 35 U.S.C. § 292. After President Barack Obama signed into law the America Invents Act, which, among other things, amended Section 292, plaintiffs amended their complaint, modifying their false marking claim to allege explicitly that they suffered a competitive injury as a result of Nautilus's alleged false marking, and that defendants acted in bad faith. Plaintiffs also added three additional state law claims: false advertising in violation of California law, unfair competition in violation of California law, and unfair competition in violation of Washington law. Nautilus responded with a Partial Motion to Dismiss, arguing that federal patent law preempted the state law claims.

The court denied defendant's motion, holding that none of the three doctrines of preemption - express, field and conflict - required a finding that federal patent law preempted plaintiffs' state law claims. Among other reasons, the court found unconvincing Nautilus's argument that the AIA altered patent law so significantly that it showed that Congress intended the law to occupy exclusively the field of false marking law. While the AIA did change federal law on false marking, the "major objective" of the patent reform law was not false marking but rather implementing the "first-to-file" application system. The legislative history on the false marking aspect of the reform focused on eliminating the qui tam remedy and whether the reform would be retroactive. The court concluded that no evidence existed to support the contention that Congress intended the law to impose upon the traditional authority of the states to regulate areas of consumer protection.

The court likewise rejected the argument that Section 262, as amended by the AIA, preempted plaintiffs' consumer protection claims under the doctrine of conflict preemption because the state law claims required different elements and provided for different remedies. To the contrary, in other contexts, the Federal Circuit has held that the existence of different elements is a reason *not* to preempt state law, if the claims include additional elements not found in the federal patent law cause of action and are not an impermissible attempt to provide patent-like protection to subject matter already addressed by federal law. Finally, the court dismissed Nautilus's "obstacle preemption" argument - that allowing state law unfair competition claims would serve as an obstacle to Congress's intent in passing the AIA, including addressing the recent surge in false marking litigation. Congress was concerned with qui tam cases alleging expired patents, which wasn't the case at hand, and with claims by "unrelated, private third parties," which plaintiffs were not. Rather, plaintiffs alleged that they competed with Nautilus and were deterred from designing certain rehabilitation equipment because of the false marking. In a footnote, the



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court did suggest, however, that a suit by a private plaintiff who does not allege competitive injury might not survive the conflict preemption analysis.

The plaintiffs' allegation that defendant had acted in bad faith proved key to the court's finding of no preemption. The court acknowledged and distinguished past precedent recognizing that federal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patent holder acted in bad faith. At its core, plaintiffs' false marking claim - alleging that Nautilus placed patent numbers on its products that didn't cover those products - was an attempt to hold Nautilus liable for "publicizing a patent in the marketplace" and, under controlling precedent, would be preempted unless Nautilus acted in bad faith." Although none of the consumer protection laws at issue required bad faith as an element, plaintiffs' amended complaint adequately alleged bad faith and therefore their claims escaped preemption. In a footnote, the court also commented that the fact that the state laws at issue didn't require bad faith as an element was immaterial. Under Federal Circuit precedent, even where the state law tort at issue lacks a bad faith element, plaintiff must allege and ultimately prove bad faith conduct to avoid preemption.

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