IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

UNITED STATES OF AMERICA, *ex rel.* VANDEVER LLC,	§	
Plaintiff-Relator,	§	
v.	§	3:11-CV-202-P
INTERMATIC MANUFACTURING LTD.,	§	
Defendant.	§	

ORDER

Now before the Court is Defendant Intermatic Manufacturing Ltd.'s ("Intermatic") Motion to Dismiss pursuant to the Federal Rules of Civil Procedure 12(b)(2), and 12(b)(6) filed on March 22, 2011. (Doc. No. 7.) Plaintiff, Relator VandEver LLC ("VandEver") filed a Response on April 13, 2011. (Doc. No. 9.) Intermatic filed a Reply on April 26, 2011. (Doc. No. 10.) After reviewing the parties' briefing, the evidence, and the applicable law, the Court DENIES Intermatic's Motion to Dismiss.

I. Background

Under the "False Marking" statute ("FMS"), 35 U.S.C. § 292, entities may not mark unpatented articles with the word "patent" for the purpose of deceiving the public. 35 U.S.C. § 292(a). Pursuant to this provision, VandEver brings a qui tam false marking suit and seeks penalties under 35 U.S.C. § 292(b). (Pl.'s Compl. 4 ¶ 17.) VandEver alleges that since at least January 2008, Intermatic, a United Kingdom entity, has used the word "patented" in advertising connected with its cotton candy vending machines with the intention of deceiving the public. (*Id.*

at 1 ¶ 3, 3 ¶¶ 12-15.) VandEver also claims that Intermatic has entered into contracts for the sale of cotton candy machines in Texas. (*Id.* at 4 ¶ 19.) Intermatic did not obtain a patent until August 2010, when it acquired one in New Zealand. (*Id.* at 2 ¶ 5.) The specific patent in question is a cotton candy machine "that does not wet the stick on which cotton candy is placed." (*Id.* at 2–3 ¶ 8.)

Intermatic now moves to dismiss for failure to state a claim upon which relief can be granted pursuant to Rule 12(b)(6). (Doc. No. 7.) Intermatic claims that the qui tam provision in the FMS is unconstitutional and even if the provision is constitutional, VandEver has failed to state a claim in accordance with Federal Rule of Civil Procedure 9(b). In the alternative, Intermatic moves to dismiss for lack of personal jurisdiction pursuant to Federal Rule of Civil Procedure Rule 12(b)(2).

II. Legal Standard and Analysis

A. Motion to Dismiss: Rule 12(b)(6)

Intermatic makes two Motions to Dismiss under Rule 12(b)(6). First, Intermatic alleges that the qui tam provision in the FMS is unconstitutional because it violates Separation of Powers. (Def.'s Mot. to Dismiss Br. 1-2.) . It argues that the FMS should be analyzed as a criminal statute, instead of as a civil statute. (*Id.* at 1,7.) To support this argument, Intermatic relies solely on a district court case which has held the FMS unconstitutional. (*Id.* at 1-2.) Intermatic uses the analysis used to test the constitutionality of criminal statutes to support its claim that by giving Executive powers to private parties, the FMS violates the Take Care Clause of the Constitution. (*Id.* at 1-4.)

i. 12(b)(6) Legal Standard: Failure to State a Claim

Federal Rule of Civil Procedure 12(b)(6) provides for the dismissal of a complaint when a defendant shows that the plaintiff has failed to state a claim for which relief can be granted. "To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Iqbal v. Ashcroft*, 556 U.S. - - - 129 S. Ct. 1937, 1949 (2009) (*quoting Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). The factual matter contained in the complaint must allege actual facts, not legal conclusions masquerading as facts. *Id.* at 1949-50. Additionally, the factual allegations of a complaint must state a plausible claim for relief. *Id.* A complaint states a "plausible claim for relief" when the factual allegations contained therein infer actual misconduct on the part of the defendant, not a "mere possibility of misconduct." *Id.*

ii. Analysis

a. Qui Tam Causes of Action Under the FMS

Qui tam is short for the Latin phrase *qui tam pro domino rege quam pro se ipso in hac parte sequitur*, meaning a person "who pursues this action on our Lord the King's behalf as well as his own." *Vt. Agency of Natural Res. v. United Slates ex rel. Stevens*, 529 U.S. 765, 769, 120 S. Ct. 1858, 146 L. Ed. 2d 836 (U.S. 2000). "Qui tam lawsuits have been used throughout American and English history as a means to discover and to prosecute fraud." *Riley v. St. Luke's Episcopal Hosp.*, 252 F.3d 749, 752 (5th Cir. 2001). In a qui tam action, a private individual, known as a "relator" sues as "a partial assignee of the United States." *Vt. Agency*, 529 U.S. at 774 n.4 (emphasis omitted). Furthermore, a qui tam action "is strictly a creature of statute" with no common law right to bring suit otherwise. *Stalley v. Catholic Health Initiatives*, 509 F.3d 517, 521 (8th Cir. 2007) (*quoting United Seniors Ass'n, Inc, v. Philip Morris USA*, 500 F.3d 19, 23

(1st Cir. 2007)). Thus, a specific statute must give a private entity a right not otherwise available to seek relief on behalf of the government.

The FMS provides in relevant part:

> (a) . . . 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 that the same is patented, for the purpose of deceiving the public . . .
>
> . . . Shall be fined not more than $500 for every such offense.
>
> (b) Any person may sue for the penalty, in which event one-half shall go to the person suing and the other to the use of the United States.

35 U.S.C. § 292. Consistent with these provisions, a party may pursue a qui tam action under this statute. *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1303-04 (Fed. Cir. 2009).

The purpose of the FMS is to protect the public by stabilizing an otherwise under-enforced area of the law. *Id.* ("Acts of false marking deter innovation and stifle competition in the marketplace."). "By permitting members of the public to sue on behalf of the government, Congress allow[s] individuals to help control false marking." *Id.*

Intermatic argues that the constitutionality of the FMS should be tested under the "sufficient control test" outlined in *Morrison v. Olson*, 487 U.S. 654 (1988). (Def.'s Mot. to Dismiss Br. 3.) However, to determine whether a statute violates the Take Care Clause of the Constitution by intruding on the Executive's powers, a court must first determine whether the statute in question is civil or criminal. *See Riley v. St. Luke's Episcopal Hosp.*, 252 F.3d 749, 754-56 (5th Circuit 2001). If it is civil, then the constitutionality test set by *Morrison* does not apply to the statute. *Riley*, 252 F.3d 749 at 754-56. Instead, *Riley* should guide the court in its constitutional analysis.

Intermatic's argument that the FMS is unconstitutional is based primarily on a recent decision by the Northern District Court of Ohio. (Def.'s Mot. to Dismiss Br. 3, 6.) The court in *Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc.*, held that the FMS's qui tam provision is a criminal statute that does not pass the *Morrison* "sufficient control" test and is therefore unconstitutional. No. 10-1912, 2011, U.S. Dist. LEXIS 18237 (N.D. Ohio February 23, 2011) (vacated and reaffirmed after allowing the government to intervene by *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, No. 10-1912, 2011 U.S. Dist. LEXIS 25328 (N.D. Ohio March 14, 2011)). However, that decision is not binding on this Court; nor has it been followed by other courts. *See Public Patent Found., Inc. v. Glaxosmithkline Consumer Healthcare, L.P.*, No. 09-5881, 2011 U.S. Dist. LEXIS 30676, at *6 (S.D. N.Y. Mar. 22, 2011); *Luka v. The Procter & Gamble Co.*, No. 10-5111, 2011 U.S. Dist. LEXIS 32895, at *22 (N.D. Ill. Mar. 28, 2011); *Buehlhorn v. Universal Valve Co., Inc.* No. 10-559, 2011 U.S. Dist. LEXIS 34429, at *10 (S.D. Ill. Mar. 31, 2011). Furthermore, both the Federal Circuit and this Court have stated that the FMS is criminal in nature and civil in form. *Patent Compliance Group, Inc., Relator, v. Interdesign, Inc.*, No. 10-202, 2010 U.S. Dist. LEXIS 69082, at *3 (N.D. Tex. June 28, 2010) (Solis, J.) (*citing Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1363-64 (Fed. Cir. 2010)).

Qui tam relators do not act as the government itself, such as the independent counsel analyzed in *Morrison*. *Riley*, 252 F.3d at 755. They are civil litigants, not criminal prosecutors carrying out the Executive's Article II duties. *Id.* In *Riley*, the Fifth Circuit held that statutory provisions central to a civil lawsuit should not be analyzed according to *Morrison*'s "sufficient control" test. *Riley*, 252 F.3d at 755. Instead, the Executive can exercise a different type of control to civil statutes to ensure that its duty to "take care that the laws are faithfully executed" is not impinged by any of the other two branches. *Id.*

The *Riley* court held that the qui tam provisions of the Federal Claims Act ("FCA") were constitutional because the statute included control mechanisms that made their intrusion into the Executive's power modest in comparison to the powers given to a prosecutor. *Id.* at 756. Control mechanisms within the FCA include the government's power "to veto settlements by a qui tam plaintiff even when it remains passive in the litigation." *Id.* at 753. The government may "take over a case within [sixty] days of notification [and] it may also intervene at a date beyond the [sixty-day] period upon a showing of good cause." *Id.* Furthermore, the government has "the unilateral power to dismiss an action" even if the relator objects. *Id.* Thus, the qui tam provisions of the FCA ensure that the Executive retains its powers to "take care" that the laws of this country are enforced. *Id.*

In contrast, the text of the FMS does not include any of the control mechanisms included in the FCA. The only text that suggests any control by the Executive states that one half of the penalties given to violators of the FMS shall go "to the use of the United States." 35 U.S.C. § 292. However, the court takes note of the brief filed by the government in support of the qui tam provision of the FMS in *Promote Innovation LLC v. Medtronic, Inc.*, No. 2:10-cv-00233 (E.D. Tex. Feb. 2, 2011) (LEXIS, District Court Dockets). This Court agrees with the government's rationale that the FMS is subject to control mechanisms not listed in the statute.

First, just as any other qui tam suit, the FMS is civil in nature and is therefore subject to the Federal Rules of Civil Procedure. *See United States ex re. Marcus v. Hess*, 317 U.S. 537, 549-50 (1943) (partially superseded by statute on other grounds, Act of Dec. 23, 1943, ch. 377, § 1, 57 Stat. 609); *see also* 8 Federal Procedure, Lawyer's Edition § 20:638. Therefore, Rule 24(a)(2) gives the government a controlling mechanism through its right to intervene, protecting

the government from being bound by the relator's actions and against the preclusive effects of res judicata. *See Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321, 1328 (Fed. Cir. 2010).

Further, the division of the fines imposed on violators of the FMS between relators and the government provides another control mechanism. *See* 35 U.S.C. § 292(b).Without notifying the government of its suit, relators cannot seek their portion of the civil penalty. *Id.* Moreover, relators are incentivized to notify the government of their suits as soon as possible because doing so can avoid private costs of litigating FMS suits by having the government investigate the violations. Also, the Commercial Litigation Branch of the Department of Justice is consistently notified of FMS litigation and reviews resulting settlement agreements. *See* Settlement Payments Received for Section 292 Cases – 2010, THE UNITED STATES DEPARTMENT OF JUSTICE, http://www.justice.gov/civil/common/elecread/2010/292%20Payment%20Chart%202010%20through%20Dec%2031%202010.pdf (last visited June 16, 2011) (presenting a list of 2010 FMS settlement agreements).

Finally, the government's brief in *Promote Innovation LLC v. Medtronic, Inc.*, states that the government reserves the right to intervene if it does not agree with a relator's settlement. No. 2:10-cv-00233 (E.D. Tex. Feb. 2, 2011) (LEXIS, District Court Dockets) (*citing* Statement of Interest at 3-4, Docket No. 17, *San Francisco Tech., Inc. v. Unilock, Inc.*, No. 5:10-cv-01656 (N.D. Calif. Jan. 20, 2011) (LEXIS, District Court Dockets)). Thus, although the text of the FMS does not grant many control mechanisms to the Executive, its nature and its enforcement practices ensure that the Executive retains control over its enforcement as required by *Riley*.

While the Court acknowledges that the FMS might be changed by Congress sometime in the near future, the statute is interpreted as it currently stands. *See* America Invents Act, S. 23, 112th Cong. § 146(k) (2011) (The bill passed by the Senate states that the qui tam provision of

the FMS will be changed by adding at the end of 35 U.S.C. § 292(a), "Only the United States may sue for the penalty authorized by this subsection.''). Because there is no way of determining the final version of the statute, the current statute controls.

The qui tam provision of the FMS does not infringe on the Executive's duty to "take care" that the laws of this country are enforced. An analysis of the FMS control mechanisms reveals that the Executive retains the control necessary to hold the civil statute constitutional. With no binding authority holding otherwise, VandEver's Motion to Dismiss under Rule 12(b)(6) is denied.

B. Motion to Dismiss: Rule 9(b)

Intermatic makes a Motion to Dismiss under Rule 9(b), alleging that even if the FMS is constitutional, VandEver has only stated conclusory allegations to satisfy the legal elements of a violation under the FMS. (Def.'s Mot. To Dismiss Br. 8.) Intermatic claims that VandEver's allegations are general and "fail to state a claim upon which relief can be granted" in accordance with the "particularized pleading standards of Fed. R. Civ. P. 9(b). (Def.'s Mot. To Dismiss Br. 8)

i. Rule 9(b) Legal Standard

Recently, the Federal Circuit determined that "Rule 9(b)'s particularity requirement applies to false marking claims . . ." *In re BP Lubricants USA Inc.*, Misc. Case No. 960, 2011 U.S. App. LEXIS 5015, at *2, (Fed. Cir. Mar. 15, 2011). Rule 9(b) requires that "[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity." Fed. R. Civ. P. 9(b). The Federal Rules require a higher standard of pleading in matters of fraud to ensure that the plaintiff properly investigates the facts giving rise to the claim and to prevent the plaintiff from filing baseless claims in an attempt to uncover

wrongdoing through discovery. *Guidry v. Bank of LaPlace*, 740 F. Supp. 1208, 1216 (E.D. La. 1990). The Federal Circuit has held that "in pleading inequitable conduct in patent cases, Rule 9(b) requires identification of the specific who, what, when, where, and how of the material misrepresentation or omission committed before the [U.S. Patent and Trademark Office]." *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1327 (Fed. Cir. 2009). "A complaint alleging false marking is insufficient when it only asserts conclusory allegations that a defendant is a "sophisticated company" and "knew or should have known" that the patent expired." *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *2.

ii. The False Marking Statute

A plaintiff must establish two elements for a false marking action: 1) the defendant marked an unpatented article; 2) with the intent to purposefully deceive the public. *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009); *See also Clontech Labs. Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005). Because the defendant must act with "the purpose of deceiving the public," mere knowledge of falsely marked articles is not enough–the statute requires purposeful deceit. 35 U.S.C. § 292(a); *see also Pequignot v. Solo Cup Co.*,608 F.3d 1356 (Fed. Cir. 2010).

Because the FMS provides for a civil remedy within a criminal statute, a person acts purposefully "if he consciously desires that result, whatever the likelihood of that result happening from his conduct, while he is said to act knowingly if he is aware that that result is practically certain to follow from his conduct, whatever his desire may be as to that result." *Id.* (*citing United States v. Bailey*, 444 U.S. 394, 404 (1980) (quotations and punctuation omitted). Even so, the combination of a false statement with knowledge that the statement was false creates an inference and rebuttable presumption of the defendant's intent to deceive the public.

Pequignot v. Solo Cup Co.,608 F.3d 1356 (Fed. Cir. 2010); *see also Clontech Labs.*, 406 F.3d at 1352-53. ("[T]he fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the *inference* that there was a fraudulent intent.").

VandEver has satisfied Rule 9(b) in accordance with *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d at 1327 and *In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *4. VandEver has identified Intermatic as the "who" in its Complaint. *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *4; (Pl.'s Compl. 4 ¶ 2.) Further, VandEver's Complaint states that Intermatic has used the word "patented" in its advertising in connection with its cotton candy vending machine, therefore identifying the "how." *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *4; (Pl.'s Compl. 4 ¶ 3.) Moreover, the Complaint's allegations that these activities have occurred since at least January 2008, and that Intermatic did not obtain a patent anywhere in the world until August 2010, when it acquired one in New Zealand, establishes the "when." *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *4; (Pl.'s Compl. 4 ¶¶ 3-4.) Finally, the Complaint identifies the "where" by stating that these advertisements took place in Texas. *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *4-5; (Pl.'s Compl. 4 ¶ 19.)

Intermatic's actions as stated in the Complaint are very similar to those in the example the Federal Circuit gives of a false statement made with knowledge that it was false, creating an inference and rebuttable presumption of intent to deceive. By using the word "patent" in its advertisements connected with the sales of its cotton candy machines, when it had no such patent, Intermatic has acted as someone who says, "I am not married," when indeed, they are. *See In re BP Lubricants USA Inc.*, 2011 U.S. App. LEXIS 5015, at *11. (*citing Merck & Co. v.*

Reynolds, 130 S. Ct. 1784, 1793 (U.S. 2010)). As such, VandEver has shown enough facts in its Complaint to support its claim that Intermatic combined a false statement with knowledge that its statement was false, thus creating an inference and rebuttable presumption of Intermatic's intent to purposely deceive the public. VandEver's Complaint satisfies Rule 9(b)'s requirements to establish a prima facie case for a violation of the FMS. Therefore, Intermatic's Motion to Dismiss for Failure to State a Claim is denied.

C. Motion to Dismiss: 12(b)(2)

Intermatic filed a Motion to Dismiss VandEver's Complaint for lack of personal jurisdiction pursuant to the Federal Rule of Civil Procedure 12(b)(2). (Def.'s Mot. to Dismiss Br. 1.) Intermatic argues that VandEver has not established Intermatic's minimum contacts with Texas. (*Id.*) However, Intermatic cites neither authority nor analysis to support its challenge. Intermatic's Reply Brief in Support of its Motion to Dismiss does not even address VandEver's response to Intermatic's challenge of personal jurisdiction.

A court has personal jurisdiction over a defendant if he personally availed himself of the protection of the forum state's laws by establishing "minimum contacts" with the forum state. *Int'l Shoe Co. v. Wash.*, 326 U.S. 310, 316 (1945). Specific jurisdiction over a nonresident defendant is proper if the plaintiff's claims arise out of the defendant's purposeful contact with the forum. *Helicopteros Nacionales de Colombia, S.A.*, 466 U.S. at 413-415. When a court determines personal jurisdiction based solely on written materials absent an evidentiary hearing, the plaintiff only needs to make out a *prima facie* showing personal jurisdiction. *Elecs. For Imaging, Inc. v. Coyle*, 340 F.3d 1344, 1349 (Fed. Cir. 2003).

VandEver's Complaint states that Intermatic sells cotton candy vending machines and has entered into contracts for the sale of these machines in Texas. (Pl.'s Compl. 4 ¶ 19.) Intermatic's

sales and contracts demonstrate it purposefully directed its activities and contracts toward Texas, so it "reasonably anticipated" to be haled into this court. *See World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980); *see also Int'l Shoe Co. v. Wash.*, 326 U.S. 310, 316 (1945). VandEver's cause of action results from Intermatic's deception of the public through its advertisements, sales, and contracts in Texas. (Pl.'s Compl. 3 ¶¶ 10-15.) *See Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985)). Therefore, VandEver has sufficiently pled minimum contacts with the state of Texas. Accordingly, the court finds there is Personal Jurisdiction.

III. Conclusion

For the foregoing reasons, the Court DENIES Defendant's Motions to Dismiss pursuant to Rules 12(b)(2), 12(b)(6), and 9(b).

IT IS SO ORDERED.

Signed this 20th day of June, 2011.

Jorge A. Solis

JORGE A. SOLIS
UNITED STATES DISTRICT JUDGE