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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

CHAMPION LABORATORIES, INC,

Plaintiff,

v.

PARKER-HANNIFIN CORPORATION, et
al,

Defendants.

1:10-CV-02371-OWW-DLB

MEMORANDUM DECISION RE:
DEFENDANTS PARKER-HANNAFIN
AND PARKER INTANGIBLES
LLC'S MOTION TO DISMISS
(Doc. 16)

I. INTRODUCTION.

Plaintiff Champion Laboratories, Inc. ("Champion") filed this action on December 20, 2010, alleging two violations of the False Marking Statute, 35 U.S.C. § 292, by Defendants Parker-Hannafin Corp. and Parker Intangibles, LLC (collectively "Parker"). The Complaint also alleges violations of the Lanham Act § 43(a), 15 U.S.C. § 1125(a), and California Business & Professions Code §§ 17200 et seq.

Defendants move to dismiss for lack of subject-matter jurisdiction pursuant to Fed. R. Civ. P. 12(b)(1) and for failure to state a claim pursuant to Fed. R. Civ. P. 12(b)(6). The substance of Parker's challenge is that a "first-to-file" limitation on false patent marking qui tam actions jurisdictionally bars Plaintiff's actions.

1 **II. BACKGROUND.**

2 The following background facts are taken from the parties'
3 submissions in connection with the motions and other documents on
4 file in this case.

5 Champion is a Delaware corporation that has its principal
6 place of business in Albion, Illinois. Compl. ¶ 1. Parker is a
7 Delaware corporation that has its principal place of business in
8 Cleveland, Ohio. Id. ¶ 2. Parker operates a division of its
9 filter business in Modesto, California (referred to as the "Racor
10 Division"). Id. ¶¶ 3, 22.

11 Both Champion and Parker are automotive suppliers engaged in
12 the business of producing and selling automobile parts to car
13 manufacturers. Both parties produce fuel filtration products for
14 Ford trucks equipped with the "Powerstroke" diesel engine. Parker
15 was designated as the original equipment supplier for Ford's
16 filtration system and its replacement filter is designated model
17 number "PF-L2016." Id. ¶ 11. Parker owns and licenses a number of
18 patents relevant to the PF-L2016 filter, including Patent No.
19 7,086,537 ("the '537 Patent") and Patent No. 6,837,993 ("the '993
20 Patent").¹ Parker also designs, makes and sells other components of
21 the filtration system and allegedly "has the ability to control the
22 design of the [filtration] system." Id. ¶ 30.

23 Champion's replacement filter is designated by the model
24 number "LP-2017." Id. ¶ 29.

26 ¹ Parker claims that its patents "disclose a new and unique
27 filter assembly that prevents an improper filter element from being
28 used," resulting in the "reduction of mess and environmental issues
that can occur during an elemental change."

1 This lawsuit presents one more chapter in the litigation
2 between Champion and Parker concerning alleged patent infringement
3 and anti-competitive business practices. A more thorough
4 recitation of the varied disputes between the parties is found in
5 *Parker-Hannifin Corp. v. Wix Filtration Corp.*, Nos. 1:07 CV 1374,
6 1:07 CV 1375, 2011 WL 976559 (N.D. Ohio Mar. 17, 2011),
7 *Parker-Hannifin Corp. v. Champion Laboratories, Inc.*, No.
8 1:06-CV-2616, 2008 WL 3166318 (N.D. Ohio Aug. 4, 2011) and *Champion*
9 *Laboratories, Inc. v. Parker-Hannifin Corp.*, 616 F. Supp. 2d 684
10 (E.D. Mich. 2009).²

11 The Complaint, filed on December 20, 2010 at 11:18 p.m. PST,
12 arises out of Champion's claims that Parker marked its product, the
13 Parker 2016 replacement filter, with the '537 and '993 patent
14 designations despite the fact that "the claims of the ['537 and
15 '993] Patent[s] are inapplicable to the Parker 2016 Filter."
16 Compl. ¶¶ 15-16. The complaint accuses Parker of "intentionally
17 includ[ing] the ['537 and '993] Patent[s] in the patent markings of
18 the Parker 2016 Filter in an attempt to deter competitors from
19 attempting to design, produce, market, or sell a competing filter."
20 *Id.* ¶¶ 59, 74. Champion brings this action as a qui tam proceeding
21 to recover civil fines on behalf of the United States Government.³

23 ² *Champion Laboratories, Inc. v. Parker-Hannifin Corp.*, 616 F.
24 Supp. 2d at 687, involved Champion's claims that Parker and/or its
25 Racor affiliate unlawfully "disparaged its product" to General
26 Motors "in an effort to recover the GM fuel filter business Racor
27 had previously lost to Champion."

28 ³ Pursuant to 35 U.S.C. § 292, Champion seeks, *inter alia*, an
award of monetary damages against Parker in the amount of \$500 per
false marking offense, one half which is to be paid to the United
States. *Id.* ¶¶ 15-16. Plaintiff also seeks injunctive relief and

1 Plaintiff's third and fourth claims allege violations of
2 federal and state unfair competition and false advertising laws,
3 predicated on Parker's alleged misrepresentations of the
4 applicability of the '537 and '993 patents to the Parker 2016
5 filter elements. Id. ¶¶ 85-106.⁴

6 Parker moves to dismiss this action based on a provision of
7 the False Claims Act, 31 U.S.C. § 3730(b)(5), which purportedly
8 creates a first-to-file limitation that jurisdictionally bars
9 Plaintiff's action. Parker claims that nearly three weeks before
10 Plaintiff filed the present suit, a different Plaintiff filed a
11 separate false patent marking qui tam action against Parker based
12 on the same material allegations.

13 Specifically, on December 2, 2010, Tex Pat, LLC ("Tex Pat")
14 filed a qui tam action against Parker as a relator on behalf of the
15 United States in the U.S. District Court for the Eastern District
16 of Texas, *Tex Pat, LLC v. Parker-Hannifin Corp.*, No. 5:10-CV-00202
17 (E.D. Tex.). Tex Pat's amended complaint, filed on December 20,
18 2010 at 9:35 p.m. PST, alleged that Parker's 2016 filter element
19 was falsely marked with the '537 and '993 patents. Parker
20 represents that the Tex Pat action was settled on December 21, 2010
21 and the action was dismissed with prejudice on January 11, 2011.⁵

22 _____
23 attorneys' fees pursuant to 35 U.S.C. § 285. Compl. ¶¶ 17, 69, 84.

24 ⁴ The unfair competition and false advertising claims are
25 brought on behalf of Plaintiff only.

26 ⁵ In determining whether a complaint states a claim upon which
27 relief can be granted, the Court can take judicial notice of the
28 docket and files in other judicial proceedings. See *Shaw v. Hahn*,
56 F.3d 1128, 1129 n. 1 (9th Cir. 1995) (when assessing whether a
complaint states a claim, courts may take judicial notice of

1 Doc. 16-2. Parker submits that the Tex Pat settlement was
2 acknowledged and accepted by Mr. John Fargo of the Commercial
3 Litigation Branch of the Department of Justice.

4 Champion opposed the motion on March 11, 2011, contending that
5 its false marking claims are not subject to the first-to-file bar.
6 According to Champion, the motion should be denied to "allow
7 discovery into the circumstances surrounding the negotiation of the
8 settlement."

9
10 III. LEGAL STANDARD

11 A. Motion to Dismiss

12 Under Federal Rule of Civil Procedure 12(b)(6), a motion to
13 dismiss can be made and granted when the complaint fails "to state
14 a claim upon which relief can be granted." Dismissal under Rule
15 12(b)(6) is appropriate where the complaint lacks a cognizable
16 legal theory or sufficient facts to support a cognizable legal
17 theory. *Balistreri v. Pacifica Police Dep't*, 901 F.2d 696, 699
18 (9th Cir. 1990).

19 To sufficiently state a claim to relief and survive a 12(b)(6)
20 motion, a complaint "does not need detailed factual allegations"
21 but the "[f]actual allegations must be enough to raise a right to
22 relief above the speculative level." *Bell Atl. Corp. v. Twombly*,
23 550 U.S. 544, 555 (2007). Mere "labels and conclusions" or a

24 _____
25 matters of public record); *MGIC Indemnity Corp. v. Weisman*, 803
26 F.2d 500, 504 (9th Cir. 1986) (same); Fed. R. Evid. 201(b) & (c)
27 (permitting judicial notice of adjudicative facts). Pursuant to
28 this rule, the Court takes judicial notice of the dockets, files,
and records in the "Tex Pat" litigation, *Tex Pat, LLC v. Parker-Hannifin Corp.*, No. 5:10-CV-00202 (E.D. Tex.).

1 "formulaic recitation of the elements of a cause of action will not
2 do." *Id.* Rather, there must be "enough facts to state a claim to
3 relief that is plausible on its face." *Id.* at 570. "To survive
4 a motion to dismiss, a complaint must contain sufficient factual
5 matter, accepted as true, to state a claim to relief that is
6 plausible on its face." *Ashcroft v. Iqbal*, --- U.S. ----, 129
7 S.Ct. 1937, 1949 (2009) (internal quotation marks omitted). "The
8 plausibility standard is not akin to a probability requirement, but
9 it asks for more than a sheer possibility that a defendant has
10 acted unlawfully. Where a complaint pleads facts that are merely
11 consistent with a defendant's liability, it stops short of the line
12 between possibility and plausibility of entitlement to relief."
13 *Id.* (internal citation and quotation marks omitted).

14 In deciding whether to grant a motion to dismiss, the court
15 must accept as true all "well-pleaded factual allegations." *Iqbal*,
16 129 S.Ct. at 1950. A court is not, however, "required to accept as
17 true allegations that are merely conclusory, unwarranted deductions
18 of fact, or unreasonable inferences." *Sprewell v. Golden State*
19 *Warriors*, 266 F.3d 979, 988 (9th Cir. 2001); *see, e.g., Doe I v.*
20 *Wal-Mart Stores, Inc.*, --- F.3d ----, 2009 WL 1978730, at *3 (9th
21 Cir. July 10, 2009) ("Plaintiffs' general statement that Wal-Mart
22 exercised control over their day-to-day employment is a conclusion,
23 not a factual allegation stated with any specificity. We need not
24 accept Plaintiffs' unwarranted conclusion in reviewing a motion to
25 dismiss.").

26 The Ninth Circuit has summarized the governing standard, in
27 light of *Twombly* and *Iqbal*, as follows: "In sum, for a complaint to
28 survive a motion to dismiss, the non-conclusory factual content,

1 and reasonable inferences from that content, must be plausibly
2 suggestive of a claim entitling the plaintiff to relief." *Moss v.*
3 *U.S. Secret Service*, 572 F.3d 962 (9th Cir. 2009) (internal
4 quotation marks omitted).

5
6 IV. DISCUSSION

7 A. False Marking Causes of Action (Claims 1 and 2)

8 1. Constitutionality of Qui Tam Actions Under 35 U.S.C. 292

9 On February 23, 2011, Judge Polster in the Northern District
10 of Ohio found the qui tam provision of 35 U.S.C. § 292(b)
11 unconstitutional.⁶ See *Unique Product Solutions, Ltd. v. Hy-Grade*
12 *Valve, Inc.*, --- F. Supp. 2d ----, No. 5:10-CV-1912, 2011 WL 649998
13 (N.D. Ohio Feb. 23, 2011). Applying the "sufficient control"
14 analysis set forth in *Morrison v. Olson*, 487 U.S. 654 (1988) and
15 applied in *United States ex rel. Taxpayers Against Fraud v. General*
16 *Electric Co.*, 41 F.3d 1032 (6th Cir. 1994), the Court found that
17 the qui tam provision of 35 U.S.C. § 292(b) violated the
18 Appointments and Take Care Clauses of Article II of the United
19 States Constitution by failing to give the Executive Branch
20 sufficient control over the litigation. The Court held that unlike
21 the False Claims Act, "the False Marking statute lacks any of the
22 statutory controls necessary to pass Article II Take Care Clause
23 muster" and represents "a wholesale delegation of criminal law
24 enforcement power to private entities with no control exercised by
25

26 ⁶ Section 292(b)'s constitutionality was first raised by the
27 Court during oral argument on March 28, 2011. Supplemental
28 briefing was requested at that time to allow the parties to address
the issue.

1 the Department of Justice [...] [i]t is unlike any statute in the
2 Federal Code with which this Court is familiar.”

3 Since *Unique Product Solutions* was decided, several federal
4 district courts have held that Section 292(b) is constitutional.
5 See *Ford v. Hubbell, Inc.*, No. 10-CV-513, 2011 WL 1259707, at 3
6 (S.D. Ill. Mar. 31, 2011); *Luka v. The Procter & Gamble Co.*, No.
7 10-CV-2511, 2011 WL 1118689, at 5-8 (N.D. Ill. Mar. 28, 2011); *Pub.*
8 *Patent Found., Inc. v. GlaxoSmithKline Consumer, Healthcare, L.P.*,
9 No. 09-CV-5881, 2011 WL 1142917, at 4 (S.D.N.Y. Mar. 22, 2011); *Hy*
10 *Cite Corp. v. Regal Ware, Inc.*, No. 10-CV-168, 2011 WL 1206768, at
11 4 (W.D. Wis. Mar. 15, 2011).

12 While the weight of the district court case law has found
13 Section 292(b) constitutional, a court need not “decide
14 constitutional questions where other grounds are available and
15 dispositive of the issues of the case.” See, e.g., *Northwest*
16 *Austin Mun. Utility Dist. No. One v. Holder*, --- U.S. ----, ----,
17 129 S.Ct. 2504, 2506, 174 L.Ed.2d 140 (2009). Here, the Court must
18 avoid if it can the issue of section 292(b)'s constitutionality,
19 because the complaint is jurisdictionally barred under the “first-
20 to-file” provision.⁷

21
22 2. First-to-File Bar

23 On December 20, 2010, at 11:18 p.m. PST, Champion filed this
24 qui tam action, alleging Parker marked certain of its filtration
25 product with two inapplicable patent numbers in violation of 35
26

27 ⁷ Section 292(b)'s constitutionality is presently pending
28 before the Federal Circuit in *FLFMC, LLC v. Wham-O, Inc.*, Case No.
11-1067.

1 U.S.C. § 292(a). It is undisputed that Tex-Pat filed an identical
2 lawsuit against Parker in the Eastern District of Texas several
3 weeks before Champion filed this action in the Eastern District of
4 California. Parker argues that because it had already been sued in
5 the Texas case, Champion lacked standing to bring his identical
6 action here.

7 Section 292(a) prohibits marking unpatented articles as
8 patented for the purpose of deceiving the public; each such false
9 marking offense is punishable by a \$500 fine. See *Forest Group,*
10 *Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1303-04 (Fed. Cir. 2009). The
11 statute provides that “[a]ny person may sue for the penalty, in
12 which event one-half shall go to the person suing and the other to
13 the use of the United States.” 35 U.S.C. § 292(b).

14 The false marking statute is one of four qui tam statutes
15 remaining on the books; all were enacted over a century ago. See
16 *Vermont Agency of Natural Resources v. U.S. ex rel. Stevens*, 529
17 U.S. 765, 768 n. 1, 120 S.Ct. 1858, 146 L.Ed.2d 836 (2000). Qui
18 tam laws permit private citizens to file enforcement actions on
19 behalf of the government, in return for a bounty. See *U.S. ex rel.*
20 *Hall v. Tribal Dev. Corp.*, 49 F.3d 1208, 1212 (7th Cir. 1995). “By
21 permitting members of the public to sue on behalf of the government
22 [under 35 U.S.C. § 292], Congress allowed individuals to help
23 control false marking.” *Forest Group, Inc.*, 590 F.3d at 1303-04.

24 Parker argues that only one private individual can assert a
25 cause of action on behalf of the government in a qui tam action
26 under 35 U.S.C. § 292, and that subsequent filers, such as
27 Champion, lack standing to bring the same claims against the same
28 defendant.

1 The few cases analyzing the false marking statute support
2 Parker's interpretation. On similar facts, *Simonian v. Quigley*
3 *Corp.*, No. 10-C-1259, 2010 WL 2837180 (N.D. Ill. July 19, 2010)
4 held that the plaintiff lacked standing to assert a qui tam false
5 marking claim because the operative complaint was identical to an
6 earlier-filed action against the same defendant. The district
7 court in *Simonian* relied on *United States v. B.F. Goodrich Co.*, 41
8 F. Supp. 574, 575 (S.D.N.Y. 1941), which recognized a first-to-file
9 limitation in an earlier version of the False Claims Act. The
10 court compared § 292(b)'s qui tam provision to the qui tam
11 provision analyzed in *B.F. Goodrich*, finding the provisions
12 substantially similar, and then applied the *B.F. Goodrich* reasoning
13 to hold that the plaintiff lacked standing to bring a false marking
14 claim:⁸

15 When confronted with multiple similar actions brought
16 against the same defendant, the B .F. Goodrich court
17 noted that "[o]bviously, under the general rule well
18 known and so long adhered to, one plaintiff should not
19 be permitted to bring and maintain at the same time more
20 than one action for the same relief." *Id.* Because the
statute provided for "but one action and one division"
of any proceeds, the court concluded that "[t]he first
plaintiff has sole control of the action" and "second or

21 ⁸ *Simonian* identified the similarities between the qui tam
provisions of False Claims Act and the false marking statute:

22 [An action] may be brought and carried on by any
23 person, as well for himself as for the United States;
24 the same shall be at the sole cost and charge of such
25 person The person bringing the suit and
26 prosecuting it to final judgment shall be entitled to
27 receive one-half the amount of such forfeiture, as well
as of damages recovered and collected, and the other
one-half shall belong to and be paid over to the United
States

28 *Id.* at 1 (citing *B.F. Goodrich Co.*, 41 F. Supp. at 575).

1 subsequent attempts by others can have no standing.”
2 Id. Congress later amended the False Claims Act to add
3 an explicit “first-to-file” provision, see 31 U.S.C. §
4 3730(b)(5); the Act's legislative history explains that
5 “[w]hile there are few known instances of multiple
6 parties intervening in past qui tam cases ..., the
7 Committee wishes to clarify in the statute that private
8 enforcement under the civil False Claims Act is not
9 meant to produce class actions or multiple separate
10 suits based on identical facts and circumstances.”
11 S.Rep. No. 99-345, at 25 (1986).

12 *Id.* at 1.

13 The court held that “[a]s in the False Claims Act, the false
14 marking statute contains no provision allowing for multiple private
15 plaintiffs to share in a recovery.” *Id.* at 2. The qui tam
16 provision of false marking statute “contemplates only a single
17 action brought by a private individual on behalf of the United
18 States” and “[j]ust as the United States could not bring multiple
19 identical actions against a defendant under the false marking
20 statute, multiple private plaintiffs cannot do so on the
21 government's behalf.” *Id.*

22 Here, Champion does not dispute that Tex-Pat filed an
23 identical false marking action against Parker in the Eastern
24 District of Texas several weeks before Champion filed this action
25 in the Eastern District of California. Tex Pat's lawsuit was filed
26 nearly three weeks prior to December 20, 2010, when Champion filed
27 this qui tam action. It is without disputed that Tex Pat's amended
28 complaint, filed several hours before this lawsuit, alleged that
the Parker 2016 replacement filter was falsely marked with the '537
and '993 patent numbers. Instead, Champion argues that the current
state of the law is unsettled and that a “competitor” is the proper
party to advance a qui tam false marking case.

1 Champion's contention the case law is unsettled is erroneous.
2 *Simonian v. Hunter Fan Co.*, No. 10-C-1212, 2010 WL 2720749 (N.D.
3 Ill. July 8, 2010), on which Champion's opposition centers, never
4 reached the issue whether the reasoning behind the first-to-file
5 limitation of 31 U.S.C. § 3730(b)(5) applies with equal force to
6 false patent marking qui tam actions. *Hunter Fan* refused to
7 consider these arguments because they were first raised in the
8 defendant's reply brief:

9 [I]n its reply, Defendant argues that "[35 U.S.C. § 292]
10 only provides for a single lawsuit and a single
11 recovery" and that "even assuming that the
12 'first-to-file' rule for qui tam actions is not directly
13 applicable to false marking suits, the reasoning behind
14 the 'first-to-file' rule applies equally to [a] qui tam
15 action under 35 U.S.C. § 292 and further supports the
16 plain language of § 292 as only authorizing a single qui
17 tam action for false marking." . 24, Def.'s Reply at
18 2-4.) Defendant, however, has waived these arguments by
19 raising them for the first time in its reply brief.
20 *London v. RBS Citizens, N.A.*, 600 F.3d 742, 747 (7th
21 Cir. 2010).

22 *Id.* at 3.

23 The only other district court to reach the issue, *Simonian v.*
24 *Quigley Corp.*, 2010 WL 2837180, found the reasons for the
25 first-to-file limitation of 31 U.S.C. § 3730(b)(5) apply with equal
26 force to false patent marking qui tam actions. Champion's false
27 marking claims are barred under the "first-to-file" rule.

28 Assuming, *arguendo*, that Champion's lawsuit is not barred
under the "first-to-file rule," Parker alternatively contends that
the dismissal with prejudice in the Texas action has claim
preclusive effect. Champion disagrees, relying on *In re Schimmels*,
127 F.3d 875 (9th Cir. 1997) for the proposition that a prior
judgment needs to satisfy due process considerations to have

1 preclusive effect. Champion relies on *In re Schimmels*, 127 F.3d
2 875 (9th Cir. 1997), asserting that a prior judgment needs to
3 satisfy due process considerations to have preclusive effect.
4 Specifically, the Tex Pat judgment is not binding against it until
5 the five "due process" factors prescribed by *Schimmels* are
6 satisfied.

7 Champion's argument is a non-starter. It fails to address the
8 formal prerequisites for claim preclusion and erroneously assumes
9 that it has standing against Parker to challenge the Tex Pat
10 judgment validity.⁹ However, the government is the real party in
11 interest in a qui tam suit and its interest was represented in the
12 Tex Pat litigation. See *Stauffer v. Brooks Bros., Inc.*, 619 F.3d
13 1321, 1329 (Fed. Cir. 2010) (holding that claim preclusion precludes
14 the government from bringing duplicative false marking claims
15 against the same defendant from the same markings); see also
16 *Simonian v. Irwin. Indus. Tool Co.*, No. 10-1260, 2010 WL 3488129
17 (N.D. Ill. Jan. 18, 2011) (denying motion to amend complaint because
18 of preclusive effect of prior settlement). The qui tam statute
19 provides for a *single claim* for false marking, not multiple claims
20 for multiple penalties. See, e.g., *Simonian v. Quigley Corp.*, 2010
21 WL 2837180 at 2. The government has exercised and relinquished its
22 right to seek damages from Parker for alleged false markings at
23 issue in this case.

24 Champion's argument contains an additional flaw by incorrectly
25

26 ⁹ Claim preclusion applies whenever there is (1) an identity
27 of claims, (2) a final judgment on the merits, and (3) privity
28 between parties." *Tahoe-Sierra Pres. Council, Inc. v. Tahoe Reg'l
Planning Agency*, 322 F.3d 1064, 1077 (9th Cir. 2003) (footnote and
internal quotation marks omitted).

1 analyzing the *Schimmels'* factors from its own perspective, not that
2 of the government.¹⁰ Although Champion is a "competitor" of Parker,
3 Champion cites no legal authority that competitor status controls
4 the analysis.¹¹ In *Schimmels*, the Ninth Circuit applied the five
5 factors to the government's position, not from that of the
6 subsequent relator. See *id.* at 885 ("the government was fully
7 aware of its right under the False Claims Act to intervene in the
8 relators' adversary proceeding [...] [i]n addition, the government
9 participated in the relators' suit through the presence of its
10 counsel [...]") (emphasis added). The only case citing *Schimmels*

11
12 ¹⁰ At oral argument, Champion argued the settlement changed,
13 which does not alter that the government received notice.

14 ¹¹ Similar "competitor only" arguments were unsuccessfully
15 advanced to challenge Article III standing of a non-competitor
16 relator in *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714 (E.D. Va.
2009):

17 Solo urges the Court to avoid the constitutional
18 question by construing § 292(b) narrowly. Under this
19 narrow construction, a suit by a plaintiff like
20 Pequignot, who is not a competitor of the company
21 alleged to have engaged in false patent marking, would
22 be barred. Solo supports this argument by citing to
23 several decisions that have restricted false advertising
24 suits under section 43(a) of the Lanham Act, 15 U.S.C.
25 § 1125(a), to actions by competitors.

26 [...]

27 Together with the overwhelming authority explicitly
28 describing § 292(b) as a qui tam statute, these factors
are more than sufficient to conclude that § 292(b) is
indeed a qui tam statute, and therefore, that Pequignot
has Article III standing, as a partial assignee of the
government's claims, to sue Solo for violations of §
292.

Id. at 717.

1 for its due process holding, *U.S. ex rel. Williams v. Bell*
2 *Helicopter Textron Inc.*, 417 F.3d 450 (5th Cir. 2005), a qui tam
3 case, did not apply the five due process factors and is factually
4 distinguishable from this case. See *id.* at 455 (holding that
5 “dismissal with prejudice as to the United States was unwarranted
6 where, as here, the relator's claims were dismissed on a Rule
7 12(b)(6) motion based on a lack of specificity in the complaint as
8 required by Rule 9(b).”). *Bell Helicopter* also analyzed res
9 *judicata* from the government's perspective. *Id.* at 456 (“our
10 ruling would in fact *give the government* further opportunity to
11 look into the allegations of the relator.”) (emphasis added). There
12 is similarly no requirement that a business notify its competitors
13 of pending litigation and/or settlements involving its allegedly
14 falsely-marked products. Champion's attempts to expand the qui tam
15 jurisprudence to include a “competitor” exception are unavailing.

16 In *Schimmels*, the Ninth Circuit held that a summary judgment
17 order against a relator in a qui tam action precluded the
18 government from bringing its own successive False Claims Act case
19 against the defendants for the same claims. Five factors were
20 balanced to determine that preclusion was fair under the
21 circumstances of that case:

22 [1] participation by the precluded party in the prior
23 proceeding through intervention, combined discovery,
24 amicus submissions, presence of counsel at hearings,
testifying as a witness, advising previous parties;

25 [2] the extent of congruence between the legal interests
26 and positions of the party to the earlier suit and those
of the precluded party;

27 [3] the quality of representation of the precluded
party's interests;

28 [4] the burdens relitigation poses on the judicial

1 system; and

2 [5] the cost and harassment that relitigation poses to
3 the parties.

4 *Id.* at 885 (citing *Southwest Airlines Co. v. Texas International*
5 *Airlines, Inc.*, 546 F.2d 84, 101 (5th Cir.), cert. denied, 434 U.S.
6 832, 98 S.Ct. 117, 54 L.Ed.2d 93 (1977).)

7 Parker has submitted substantial and undisputed evidence to
8 satisfy the *Schimmels'* factors in this case. The first and second
9 factors are met because the government was provided with a copy of
10 the false marking claims advanced by Tex Pat, as well as the
11 proposed settlement and the terms of dismissal. The government
12 acknowledged the settlement between Tex Pat and Parker, and
13 accepted settlement remuneration. The government's confirmation
14 letter to Parker, headed *Tex Pat, LLC v. Parker-Hannifin*
15 *Corporation, et al*, Civil No. 5:10-cv-00202 (E.D. Texas), reads:

16 This letter confirms that we have received your check
17 numbered 5138504 in the amount [redacted] payable to John
18 Fargo in the settlement of the above captioned case. The
check was received on Thursday, December 23, 2010, by
Federal Express.

19 Decl. of R. Clark, Exh. D., Pg. 1.¹²

20 The endorsed settlement check, made out to "John Fargo, Comm
21 Litig[.] Branch, Civil Div[.] United States Dept[.] of Justice,"
22 reveals that the funds were deposited in a government account after
23
24

25
26 ¹² Mr. Robert Clark's declaration was filed under seal on
27 February 4, 2011. The sealed documents were the subject of a
28 status conference on February 23, 2011, when the Court ruled that
documents would remain under seal for purposes of Parker's Rule
12(b) motion. Doc. 27.

1 December 22, 2010.¹³ The acceptance of this check by the government
2 represents satisfaction and participation in the settlement to
3 raise estoppel against the government's knowledgeable and binding
4 role in the settlement.

5 The United States' legal interests and positions are identical
6 as both Tex Pat and Champion seek damages based on the false
7 marking of Parker's filter elements. Champion incorrectly invokes
8 the *Schimmels'* factors based on its competitor status. This
9 misapplication is fatal to the arguments supporting the second
10 *Schimmels'* factor.

11 The third factor is met based on Tex Pat's specific
12 allegations of false marking - which are identical to Champion's -
13 and the government's acceptance of the settlement's terms and
14 amount. As to the fourth factor, the burden of re-litigating the
15 merits of the false marking claims is significant given that the
16 case was dismissed with prejudice and no inequitable facts exist.
17 Patent litigations are among the most complex, intricate and
18 expensive civil actions, settlements have a "particular value."
19 *See Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6th Cir.),
20 cert. denied, 429 U.S. 862 (1976) ("Settlement is of particular
21 value in patent litigation, the nature of which is often
22 inordinately complex and time consuming. Settlement agreements
23 should therefore be upheld whenever equitable and policy
24 considerations so permit.").

26 ¹³ A copy of the government's endorsed settlement check was
27 attached to Mr. Robert Clark's declaration (Exh. "E"), filed on
28 February 4, 2011. Mr. Robert Clark purportedly serves as Associate
General Counsel for Parker Hannafin Corporation.

1 The fifth *Schimmels'* factor applies for similar reasons,
2 namely the false marking claims were resolved to the satisfaction
3 of the "first filer" (Tex Pat), the government, and the District
4 Court for the Eastern District of Texas. The government also
5 deposited the settlement funds from the Tex Pat case, raising a
6 number of practical and procedural concerns not discussed in
7 Champion's briefing.

8 Courts have recognized that in some circumstances a dismissal
9 with prejudice of a later filed action may not bar an earlier-filed
10 action. See, e.g., *Marin v. HEW, Health Care Fin. Agency*, 769 F.2d
11 590, 593 (9th Cir. 1985) ("Even without a determination which is
12 literally on the merits, a denial with prejudice may be a final
13 judgment with a res judicata effect as long as the result is not
14 unfair."). However, those are different cases.¹⁴ Not according
15 claim preclusive effect to the dismissal with prejudice would be
16 error in this case because Champion has not raised a single fact
17 demonstrating unfairness or inequity. The government was afforded
18 a full and fair opportunity to litigate the initial qui tam claim
19 against Parker. The "with prejudice dismissal" from the Eastern
20 District of Texas has claim preclusive effect in this case.

21 Champion suggests that the circumstances surrounding the Tex
22

23 ¹⁴ See *Kremer v. Chem. Constr. Corp.*, 456 U.S. 461, 480-81, 102
24 S.Ct. 1883, 72 L.Ed.2d 262 (1982) ("the judicially created doctrine
25 of collateral estoppel does not apply when the party against whom
26 the earlier decision is asserted did not have a 'full and fair
27 opportunity' to litigate the claim or issue"); *Clements v. Airport
28 Auth.*, 69 F.3d 321, 328 (9th Cir. 1995) ("[W]e do not give
preclusive effect to judgments rendered in proceedings that fail to
comply with the minimum standards of due process. In other words,
the party against whom preclusion is urged must have had a 'full
and fair opportunity' to litigate his claim.").

1 Pat settlement be reopened and dissected. It argues that the
2 settlement was "staged" and lacks transparency, submitting the
3 publicly-available settlement terms of a recent qui tam false
4 marking case in the District of Arizona. While it is unclear if
5 public disclosure is required to finalize a qui tam settlement and
6 voluntary dismissal with prejudice, many of Champion's general
7 concerns are recognized in *Unique Product Solutions, Ltd. v.*
8 *Hy-Grade Valve, Inc.* There, the qui tam provision of 35 U.S.C. §
9 292(b) was found to violate the Appointments and Take Care Clauses
10 of Article II of the United States Constitution by failing to give
11 the Executive Branch sufficient control over the litigation:

12 Applying the Morrison "sufficient control" analysis to
13 the False Marking statute, it is clear the government
14 lacks sufficient control to enable the President to
15 "take Care that the Laws be faithfully executed." As
16 discussed, *supra*, unlike the FCA, the False Marking
17 statute lacks any of the statutory controls necessary to
18 pass Article II Take Care Clause muster. The False
19 Marking statute essentially represents a wholesale
20 delegation of criminal law enforcement power to private
21 entities with no control exercised by the Department of
22 Justice [...]

23 Any private entity that believes someone is using an
24 expired or invalid patent can file a criminal lawsuit in
25 the name of the United States, without getting approval
26 from or even notifying the Department of Justice. The
27 case can be litigated without any control or oversight
28 by the Department of Justice. The government has no
statutory right to intervene nor does it have a right to
limit the participation of the relator. The government
does not have the right to stay discovery which may
interfere with the government's criminal or civil
investigations. The government may not dismiss the
action. Finally, the relator may settle the case and
bind the government without any involvement or approval
by the Department of Justice.

It is therefore essential that the government have
control over when such cases are brought, and most
importantly, how they are settled. Such decisions
should be made by government attorneys who have no

1 financial stake in the outcome of the litigation or
2 settlement, not by private parties motivated solely by
3 the prospect of financial gain.

4 *Id.*

5 Champion's arguments incorporating *Unique Product Solutions'*
6 reasoning are not persuasive. District courts in the Southern
7 District of New York and Northern District of Illinois have
8 determined that the government maintains a sufficient level of
9 control over qui tam actions brought under Section 292(b). *Public*
10 *Patent Found., Inc. v. GlaxoSmithKline Consumer Healthcare, L.P.*,
11 2011 WL 1142917 (S.D.N.Y. Mar. 22, 2011) found Section 292
12 constitutional because, "the Executive Branch is not without the
13 ability to assert its interests in a [Section 292] qui tam action."
14 *Id.* at 4 (citation omitted). *Simonian v. Allergan, Inc.*, No. 10-C-
15 02414, 2011 WL 1599292 (N.D. Ill. April 28 ,2011) specifically
16 profiled the government's involvement in § 292(b) qui tam actions:¹⁵

17 [T]he law obliges the district court clerk to apprise the
18 Director of the PTO – a member of the Executive Branch –
19 "of an action under" Title 35 of the U.S.Code. 35 U.S.C.
20 § 290. Such notice must include, as far as known, the
21 names and addresses of the parties, the name of the
22 inventor, and the designating number of the patent upon
23 which the relator has brought the action. *Id.* A qui tam
24 action for false marking arises under Title 35, and so the
25 Court determines that, contrary to Allergan's argument, the
26 Executive Branch receives notice of qui tam false-marking
27 claims.

28 In addition, the government may request intervention in
false-marking cases. See Fed. R. Civ. P. 24(b)(2).

25 ¹⁵ Because the constitutionality of § 292(b) need not be
26 determined to resolve Parker's motion, it is unnecessary to resolve
27 the conflict between *Unique Product Solutions* and *Public Patent* and
28 *Allergan*. The holdings are discussed because Champion advanced the
lack of government involvement as grounds to deny the motion. This
is consonant with the district court's duty to avoid reaching a
constitutional issue if possible.

1 Moreover, in the event that the government intervenes, the
2 relator may not voluntarily dismiss the case without the
3 government's agreeing to stipulate to the same. See Fed.
4 R. Civ. P. 41(a)(1)(A)(ii).

5 *Id.* at 5.

6 While discussed in the context of § 292(b)'s
7 constitutionality, the *Public Patent* and *Allergan* holdings belie
8 Champion's assertions that the Tex Pat proceeding was a "sham" or
9 lacked legally acceptable levels of government engagement.¹⁶ The

10 ¹⁶ Champion's "government participation" arguments are
11 nonsensical. Champion argues that § 292(b)'s qui tam provision is
12 constitutional while also insisting that the Tex Pat action is
13 invalid because "the government's interests were [not] adequately
14 represented by Tex Pat." Champion, however, fails to distinguish
15 this case from the false marking claims in *Public Patent* and
16 *Allergan*, two cases finding that the government maintains adequate
17 control over § 292(b) qui tam actions. Champion further suggests
18 that the Court invalidate the Tex Pat settlement because Parker did
19 not disclose to the government how each false marking claim was
20 settled. Champion, however, does not cite any authority for this
21 position and the Court has found none. Champion refuses to
22 acknowledge that the government received the settlement documents,
23 which included the amended complaint alleging false marking of the
24 '537 and '993 patent numbers, reviewed them, and then approved the
25 Tex Pat litigation/settlement.

26 *Pequignot v. Solo Cup Co.*, 640 F. Supp. 2d 714, a qui tam
27 case, stated that any arguments against § 292(b) based on policy
28 concerns are "addressed to the wrong forum." The Fourth Circuit
similarly stated concerning the FCA:

[P]erhaps Congress should have taken note of the
possibility that [defendants] would be harassed by
vexatious qui tam suits in federal courts. Perhaps it
did, but decided that the benefits of the qui tam scheme
outweighed its defects. In any event, we have no
inclination or power to delve into the wisdom of the
balance Congress struck ... Congress has let loose a
posse of ad hoc deputies ... [Defendants] may prefer the
dignity of being chased only by the regular troops; if
so, they must seek relief from Congress.

1 government received a part of the settlement consideration.

2 The dismissal with prejudice from the Eastern District of
3 Texas precludes this case.¹⁷ 28 U.S.C. § 1738.

4 Parker's motion to dismiss is GRANTED WITH PREJUDICE as to
5 Champion's false marking claims.

6
7 B. Unfair Competition and False Advertising (Claims 3 and 4)

8 Champion alleges claims for federal law unfair competition and
9 false advertising under the Lanham Act § 43(a) and state law unfair
10 competition and unfair business practices under Business &
11 Professions Code § 17200.

12 Champion's third claim for violations of the Lanham Act, 15
13 U.S.C. § 1125(a) alleges:

14 86. Parker has attempted to suppress competition from
15 Champion by making false and misleading statements regarding
16 the Parker 2016 Filter, including that it is protected by the
17 '537 Patent and the '993 Patent.

18 87. Parker has asserted, both on the product itself and, on
19 information and belief, in promotional materials, that the
20 '537 Patent and the '993 Patent apply to the Parker 2016
21 Filter.

22 88. Neither the '537 Patent nor the '993 Patent apply to the
23 Parker 2016 Filter.

24 89. Parker's misrepresentations regarding the applicability
25 of the '537 Patent and the '993 Patent to the Parker 2016
26 Filter are material. These misrepresentations have caused,
27 or are likely to cause confusion and mistake by consumers of
28 these products.

24
25 *U.S. ex rel. Milam v. Univ. of Tex. M.D. Anderson Cancer Ctr.*, 961
26 F.2d 46, 49 (4th Cir. 1992).

27 ¹⁷ Parker also argues that the doctrine of accord and
28 satisfaction bars Champion's false marking claims. Since there is
sufficient reason to grant Parker's motion to dismiss on other
grounds, these arguments need not be resolved.

1 90. Parker's misrepresentations regarding the applicability
2 of the '537 Patent and the '993 Patent to the Parker 2016
3 Filter are material in that they influence or are likely to
4 influence a consumer's purchasing decisions.

5 91. Parker's misrepresentations regarding the applicability
6 of the '537 Patent and the '993 Patent to the Parker 2016
7 Filter is made on the filter itself, which is sold in
8 interstate commerce.

9 92. Parker has publicized such false and misleading
10 descriptions and representations of fact in violation of the
11 Lanham Act § 43(a), 15 U.S.C. § 1125(a). On information and
12 belief, Parker's aforesaid acts are deliberate and willful.

13 93. Champion has suffered and, absent judicial relief, is
14 likely to continue to suffer injury as a result of Parker's
15 false and misleading designations and representations
16 concerning the applicability of the '537 Patent and the '993
17 Patent to the Parker 2016 Filter.

18 94. Parker's conduct alleged herein is irreparably damaging
19 to Champion and will continue to so damage Champion until
20 restrained by this Court, and, therefore, Champion is without
21 an adequate remedy at law.

22 95. Champion is entitled, pursuant to 15 U.S.C §§ 1117 and
23 1125(a), to recover its reasonable attorney's fees and
24 litigation expenses incurred in connection with remedying
25 Parker's false and misleading designations and
26 representations concerning the applicability of the '537
27 Patent and the '993 Patent to the Parker 2016 Filter.

28 Compl. ¶¶ 86-95.

Champion's fourth claim for violations of Business &
Professions Code § 17200:

97. Parker has attempted to suppress competition by making
false and misleading statements regarding the Parker 2016
Filter, including that it has the characteristic of being
protected by the '537 Patent and the '993 Patent.

98. Parker has asserted that the '537 Patent and the '993
Patent apply to the Parker 2016 Filter.

99. Neither the '537 Patent nor the '993 Patent apply to the
Parker 2016 Filter.

100. Parker's misrepresentations regarding the applicability
of the '537 Patent and the '993 Patent to the Parker 2016
Filter are unlawful under 35 U.S.C. § 292 and/or the Lanham
Act § 43(a), 15 U.S.C. § 1125(a).

1 101. Parker's misrepresentations regarding the applicability
2 of the '537 Patent and the '993 Patent to the Parker 2016
3 Filter are material in that such representations cause or are
4 likely to cause confusion and mistake in the market in which
5 Parker and Champion compete, cause or are likely to cause
6 deception amongst consumers and other market participants,
7 and influence or are likely to influence the deceived
8 consumer's purchasing decisions.

9 102. Parker's misrepresentations regarding the applicability
10 of the '537 Patent and the '993 Patent to the Parker 2016
11 Filter are shown on the filter itself, which is sold in
12 interstate commerce.

13 103. Parker has further attempted to suppress competition by
14 changing the filtration system to prevent use of competitors'
15 non-infringing replacement filter elements, including
16 Champion's long core adapter version.

17 104. Parker's persistent and continuous acts and conduct in
18 incorporating features that serve no functional or aesthetic
19 purpose are unfair in that the economic harm flowing to
20 consumers and competition clearly outweighs its benefits,
21 constituting unfair competition pursuant to Cal. Bus. Prof.
22 Code § 17200.

23 105. Parker's conduct as alleged above has damaged, and will
24 continue to damage, Champion and has resulted in losses to
25 Champion and an illicit gain of profit to Parker in an amount
26 to be proven at trial in excess of \$75,000.

27 106. The harm caused by Parker's unfair competition is
28 continuing and irreparable at law. Champion has no adequate
remedy at law that will compensate it fully for the
continuing and irreparable harm it will suffer if the
wrongful conduct of Parker is not enjoined.

Id. ¶¶ 97-106.

"Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a),
prohibits, *inter alia*, the use of any symbol or device which is
likely to deceive consumers as to the association, sponsorship, or
approval of goods or services by another person." *Wendt v. Host*
Int'l, 125 F.3d 806, 812 (9th Cir. 1997). "An express purpose of
the Lanham Act is to protect commercial parties against unfair
competition." *Abdul-Jabbar*, 85 F.3d at 410 (quoting *Waits*, 978
F.2d at 1108).

1 California's unfair competition law prohibits "any unlawful,
2 unfair or fraudulent business act or practice." *Cel-Tech*
3 *Communic'ns, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal. 4th
4 163, 180 (1999). "By proscribing 'any unlawful' business practice,
5 section 17200 'borrows' violations of other laws and treats them as
6 unlawful practices that the unfair competition law makes
7 independently actionable." *Id.* (citation omitted); *Farmers Ins.*
8 *Exch. v. Superior Court*, 2 Cal. 4th 377, 383 (1992). A "defendant
9 cannot be liable under § 17200 for committing unlawful business
10 practices without having violated another law." *Ingles v. Westwood*
11 *One Broadcasting Servs., Inc.*, 129 Cal. App. 4th 1050, 1060 (2005)
12 (internal quotations omitted).

13 The legal framework used to analyze state law unfair
14 competition claims is substantially the same as the framework used
15 to evaluate Lanham Act claims under federal law. *See Denbicare*
16 *U.S.A., Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1152 (9th Cir. 1996)
17 ("[S]tate common law claims of unfair competition and actions
18 pursuant to California Business and Professions Code § 17200 are
19 substantially congruent to claims made under the Lanham Act.")
20 (internal citations and quotations omitted).

21 Parker argues that Champion's Lanham Act and UCL claims are
22 precluded because they are predicated on false marking claims that
23 are barred under the "first-to-file" rule. In the alternative,
24 Parker argues that Plaintiff cannot plead or prove the prerequisite
25 conduct that is required to state a claim.

26 Parker's arguments are well-taken. To the extent that
27 Champion's claims are premised only on the false marking of the PF-
28 L2016 filter with the '993 and/or '537 patent numbers, they are

1 preempted. *Compare Semiconductor Energy Lab. Co. v. Samsung Elecs.*
2 *Co.*, 204 F.3d 1368, 1382 (Fed. Cir. 2000) ("If the conduct
3 constituting inequitable conduct, without more, could be considered
4 predicate acts under federal or state RICO law, then every accused
5 infringer asserting an inequitable conduct defense would also bring
6 such a RICO counterclaim [...] [a]n additional state cause of
7 action predicated so squarely on the acts of inequitable conduct
8 would be 'contrary to Congress' preemptive regulation in the area
9 of patent law.'") with *Rodime PLC v. Seagate Technology, Inc.*, 174
10 F.3d 1294, 1303-04 (Fed. Cir. 1999) ("the patent laws do not preempt
11 Rodime's state law claims [...] Rodime based its claims on
12 Seagate's alleged efforts to dissuade other disk drive companies
13 from taking a license from Rodime [...] [t]he patent laws will not
14 preempt such claims if they include additional elements not found
15 in the federal patent law cause of action and if they are not an
16 impermissible attempt to offer patent-like protection to subject
17 matter addressed by federal law.") (citation omitted);' accord *Veto*
18 *Pro Pac, LLC v. Custom Leathercraft Mfg. Co., Inc.*, No.
19 3:08-cv-302-VLB, 2009 WL 276369, 2 (D.Conn. Feb. 5, 2009) (federal
20 patent law preempts state law claims that merely incorporate by
21 reference two counts of patent infringement and assert that the
22 infringement also constitutes unjust enrichment and unfair
23 competition under Connecticut law). Parker correctly observes that
24 Champion's unfair competition claims are preempted if they are
25 based entirely on the allegation of false marking and unexpired
26 patent numbers.

27 Champion does not dispute this general rule, rather it asserts
28 that "courts have found that patent laws do not preempt other laws

1 directed to policing 'bad faith misconduct in the marketplace.'"
2 Relying on *King Tuna, Inc. v. Anova Food, Inc.*, No. CV-07-07451-
3 ODW-AJWx, 2011 WL 839378 (C.D. Cal. Feb. 24, 2011) and *DP Wagner*
4 *Mfg., Inc. v. Pro Sys., Inc.*, 434 F. Supp. 2d 445, 461 (S.D. Tex.
5 2006), Champion argues that its unfair competition claims survive
6 because it adequately pleaded that Parker acted in "bad faith."
7 Champion points to paragraphs 58, 59, 63, 73 and 74 of its
8 complaint to support an allegation of "bad faith in the
9 marketplace":

10 58. Upon information and belief, Parker knows, or
11 should know (by itself or by its representatives), that
12 the '537 Patent marked on the Parker 2016 Filter does
13 not apply to the Filter. The individually packaged
14 Parker 2016 Filter does not include "a separate annular
15 end piece [that is] located in sealing relation with
16 the first end cap," an element as required by the '537
17 Patent.

18 59. Upon information and belief, Parker, with knowledge
19 that patents have a specific scope and that a patent
20 confers no rights outside the scope of the patent
21 claims, intentionally included the '537 Patent in the
22 patent markings of the Parker 2016 Filter in an attempt
23 to deter competitors from attempting to design,
24 produce, market, or sell a competing filter.

25 63. Upon information and belief, Parker knows, or
26 reasonably should know, that marking the Parker 2016
27 Patent with false patent statements was and is illegal
28 under Title 35 of the United States Code. At a
minimum, Parker had and has no reasonable basis to
believe that its marking was or is proper or otherwise
permitted under federal law.

73. Upon information and belief, Parker knows, or
should know (by itself or by its representatives), that
the '993 Patent marked on the Parker 2016 Filter does
not apply to the Parker 2016 Filter. The individually
packaged Parker 2016 Filter sold by Parker does not
include one or more of the following elements required
by the '993 Patent: a filter housing, a central support
core, a locking assembly, and a main spring.

74. Upon information and belief, Parker, with knowledge
that patents have a specific scope and that a patent
confers no rights outside the scope of the patent

1 claims, intentionally included the '993 Patent in the
2 patent markings of the Parker 2016 Filter in an attempt
3 to deter competitors from attempting to design,
produce, market, or sell a competing filter.

4 Compl. ¶¶ 58, 59, 63, 73-74.

5 It is unclear how paragraphs 58, 59, 63, 73 and 74 adequately
6 allege marketplace bad faith to support Champion's unfair
7 competition claims. *DP Wagner Mfg., Inc. v. Pro Sys., Inc.* was
8 decided pre-*Iqbal* and paragraphs 58, 59, 63, 73 and 74 fail to
9 satisfy the applicable pleading standard. *See, e.g., CardioNet,*
10 *Inc. v. LifeWatch Corp.*, No. 07-C-6625, 2008 WL 567031, at 2 (N.D.
11 Ill. Feb. 27, 2008) ("Claims that allege [] false advertising under
12 the Lanham Act are subject to the heightened pleading requirements
13 of Fed. R. Civ. P. 9(b).").¹⁸ According to Champion, if a party
14 alleges false marking was performed "intentionally" or "with
15 knowledge that the patent was inapplicable to the product," the
16 unfair competition claim survives a pleading challenge. That is
17 not the law, especially considering that the complaint's only
18 factual assertions refer to Parker's false marking of its filter
19 element with the '537 and '993 patent numbers.

20 Champion rejoins that it has adequately pleaded unfair
21 competition because it alleged that Parker incorporated a non-
22 essential plastic structure into its filter design to "thwart
23 competition from Champion's competing replacement filter." Compl.

24
25 ¹⁸ The parties have not addressed Rule 9(b) in the context of
26 alleging unfair competition claims involving "bad faith" or
27 "fraud." Noteworthy is that the Federal Circuit in *In re BP*
28 *Lubricants USA Inc.*, No. 960, 2011 WL 873147, at 2 (Fed. Cir. Mar.
15, 2011), recently held that Rule 9(b)'s particularity requirement
applied to false marking claims.

1 ¶¶ 45-46.¹⁹ However, the "plastic structure" design allegations are
2 similarly nonspecific under *Iqbal*; more critically, the
3 allegations fall short of the "marketplace bad faith" discussion in
4 *Rodime PLC v. Seagate Technology, Inc.*, 174 F.3d 1294, the
5 principal authority relied upon by Champion. There, the Federal
6 Circuit held that federal patent laws did not preempt the
7 plaintiff's unfair competition claim because "[plaintiff] based is
8 claims on [defendant's] alleged efforts to dissuade other disk
9 drive companies from taking a license from Rodime." *Id.* at 1306.
10 Based on this alleged *affirmative* marketplace place manipulation,
11 the Court held the unfair competition claim survived a preemption
12 challenge: "The patent laws will not preempt such claims if they
13 include *additional elements* not found in the federal patent law
14 cause of action and if they are not an impermissible attempt to
15 offer patent-like protection to subject matter addressed by federal
16 law." *Id.* (citation omitted) (emphasis added). Subsequent Federal
17 Circuit decisions similarly hold that "marketplace bad faith"
18 requires more than conclusory allegations of false marking/patent
19 infringement and alleged (and unexplained) anti-competitive design
20

21 ¹⁹ Paragraphs 45 & 46 of Champion's complaint provide:

22 45. On information and belief, this plastic structure
23 added to the Core serves no design or engineering purpose
24 other than to thwart the competitive use of the long core
25 adapter, an otherwise non-infringing and lawfully
26 competing product.

26 46. On information and belief, Parker engineers knew that
27 incorporating this plastic structure served no design or
28 engineering purpose, but instead designed and
incorporated this change solely to thwart competition
from Champion's competing replacement filter.

1 features. See *Serio-US Industries, Inc. v. Plastic Recovery*
2 *Technologies Corp.* 459 F.3d 1311 (Fed. Cir. 2006) (holding that
3 courts "will impose [unfair competition] liability on a patentee
4 for marketplace statements only if the *statements* [were] made in
5 bad faith.") (emphasis added). The allegations/arguments in *Rodime*
6 *PLC* and *Serio-US Industries* materially differ from Champion's
7 allegations.

8 At oral argument, Champion asserted that its false advertising
9 claim (Lanham Act only) survived because it alleged that Parker
10 "wrongfully and illegally" marketed its patent rights "[t]hrough
11 its product packaging and other promotions."²⁰ Champion's latest
12 contention fails for three reasons. One, the advertising
13 allegations are conclusory, abridged and, as a result, unclear:
14 Champion fails to clearly allege that the alleged "advertisement"
15 is found *inside the filter package*.²¹ Champion also fails to allege
16

17 ²⁰ "The elements of a Lanham Act § 43(a) false advertising
18 claim are: (1) a false statement of fact by the defendant in a
19 commercial advertisement about its own ... product; (2) the
20 statement actually deceived or has the tendency to deceive a
21 substantial segment of its audience; (3) the deception is material,
22 in that it is likely to influence the purchasing decision; (4) the
23 defendant caused its false statement to enter interstate commerce;
24 and (5) the plaintiff has been or is likely to be injured as a
25 result of the false statement, either by direct diversion of sales
26 from itself to defendant or by a lessening of the goodwill
27 associated with its products." *Southland Sod Farms v. Stover Seed*
28 *Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997) (citations omitted).

²¹ This lack of explanation concerning the "advertisement"
resulted in substantial confusion and a nearly sixty-minute oral
argument; the parties even introduced demonstrative evidence - the
actual filter box - during the Rule 12 motion hearing. Further
complicating matters, the parties' briefing spanned several hundred
pages, many documents filed under seal, and focused on the first-
to-file jurisdictional bar and *In re Schimmels*, 127 F.3d 875, not

1 how the consumer views the "advertisement" or how it directly
2 impacts consumer choice. Two, the allegations rely solely on
3 Parker's alleged false marking of its filter element with the '537
4 and '993 patent numbers, nothing more.²² Three, the allegations do
5 not meet the *Iqbal* pleading threshold; facts, not labels or black
6 letter restatements, plead actionable claims in federal court. See
7 *Twombly*, 550 U.S. at 570 (2007) (holding that a "plaintiff's
8 obligation to provide the 'grounds' of his 'entitlement to relief'
9 requires more than labels and conclusions, and a formulaic

10 _____
11 the unfair competition claims. Neither party requested enlarged
12 page limits or extended oral argument. See E.D. Local Rule 78-
13 230(g) ("Any party that believes that extended oral argument, more
14 than 10 minutes per side or 20 minutes in the aggregate, will be
15 required shall notify the courtroom deputy clerk so that the
16 hearing may be rescheduled if deemed appropriate by the Court.").

17 ²² In a patent infringement case decided in the Northern
18 District of California, *Hull v. Rothhammer Intern., Inc.*, No. C
19 05-03538-WHA, 2006 WL 988818 (N.D. Cal. Apr. 13, 2006), the
20 plaintiff's state law claims were dismissed because "the
21 unfair-competition claim is based on the same set of transactional
22 facts as the first patent infringement claim":

23 As a basis for the Section 17200 claim, plaintiffs
24 "reallege[d] and incorporate[d] by reference the
25 allegations" underlying the new patent-infringement claim."
26 Beyond this, plaintiffs merely have alleged that "RII's
27 deliberate copying and imitation of Plaintiffs' training
28 fin devices is an act of unfair competition." Essentially,
29 plaintiffs have re-clothed their patent-infringement claim
30 under a different legal theory. "It will remain as clear
31 as ever that a mere change in legal theory does not create
32 a new cause of action."

33 *Id.* at 5 (citations omitted); see also *Delano Farms Co. v. Cal.*
34 *Table Grape Comm'n*, 2010 WL 2952358, at 26 (E.D. Cal. 2010)
35 (finding that "where a state law cause of action hinges on a
36 finding that implicates federal patent law (such as the scope of a
37 patent), the state law must yield.") (citation omitted).

1 recitation of the elements of a cause of action will not do.").

2 There are additional concerns as to the plausibility of Champion's
3 arguments that need not be addressed at this time.²³

4 As currently pled, Champion's unfair competition allegations
5 are conclusory, incomplete and primarily refer to the scope of
6 Parker's false marking of its filter element with the '537 and '993
7 patent numbers. Supreme Court authority requires that Champion
8 plead facts to appropriately identify with particularity the
9 conduct undertaken by Parker that violates unfair competition laws.
10 Champion has not done so. Parker's motion is GRANTED.

11 Champion's complaint inadequately alleges Lanham Act
12 violations and unfair competition under Section 17200. Parker's
13 motion to dismiss Champions's unfair competition claims is granted
14 with leave to amend. Champion is afforded the opportunity to amend
15 its complaint to explain the basis for its Lanham Act and Section
16 17200 claims, with greater particularity and focus on Parker's
17 alleged unfair competitive business practices, including any
18 alleged bad faith and/or improper advertising. Any amended
19 pleading shall conform with Rules 8 and 11 of the Federal Rules of
20 Civil Procedure.

21
22 ²³ It is uncertain if the "inside of the filter box" is the
23 same class/type of advertisement prohibited by the Lanham Act. See
24 *Sanderson v. Spectrum Labs, Inc.*, 227 F.Supp.2d 1001, 1008 (N.D.
25 Ind. 2000) ("If a written publication is not advertising material,
26 or distributed to the general public for the purpose of promoting
27 a product, it does not constitute commercial advertising under the
28 Lanham Act."); see also *Gillette Co. v. Norelco Consumer Products
Co.*, 946 F.Supp. 115, 134 (D. Mass. 1996) ("Statements made inside
the product's packaging, available to consumers only after the
purchase has been made, do not affect the choice to purchase, that
choice having been made at an earlier point.").

1 V. CONCLUSION.

2 For the reasons stated:

- 3 1. Champion's false marking claims against Parker are
4 DISMISSED WITH PREJUDICE;
- 5 2. Champion's Lanham Act claim against Parker is DISMISSED
6 WITHOUT PREJUDICE; and
- 7 3. Champion's Section 17200 claim against Parker is
8 DISMISSED WITHOUT PREJUDICE.

9

10 Defendant Parker shall submit a form of order consistent with,
11 and within five (5) days following electronic service of, this
12 memorandum decision.

13 Any amended complaint shall be filed within twenty ("20") days
14 following date of electric service of this decision. Defendant
15 shall have twenty (20) days to respond.

16 IT IS SO ORDERED.

17 **Dated:** May 16, 2011

/s/ Oliver W. Wanger
UNITED STATES DISTRICT JUDGE