

**IN THE UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF VIRGINIA
ROANOKE DIVISION**

PONANI SUKUMAR, and individual, and)
SOUTHERN CALIFORNIA STROKE)
REHABILITATION ASSOCIATES, INC., a)
California corporation,)

Plaintiffs,)

v.)

NAUTILUS, INC., a Washington)
corporation,)

Defendant.)

Case No. 7:11-cv-00218-jct

**PLAINTIFFS' OPPOSITION TO DEFENDANT'S
MOTION TO STAY PROCEEDINGS**

I. INTRODUCTION

This present Motion to Stay brought by Defendant Nautilus, Inc. (“Defendant”), is yet another attempt to forestall consideration of the substantial merits of Plaintiffs Ponani Sukumar and Southern California Stroke Rehabilitation Associates’ (collectively, “Plaintiffs”) case. Defendant initially delayed this case by obstructing discovery and waiting five months to bring a motion to transfer the case here. Defendant now seeks to delay this case indefinitely, based on uncertain future events incapable of ending or even substantially streamlining this dispute. In contrast, Plaintiffs promptly initiated discovery and promptly filed for a summary judgment, which, if granted, would position this case for a speedy and efficient disposition. A stay is an extraordinary and disfavored remedy, and can only be granted upon a showing of severe hardship. Defendant has not even met its initial burden of demonstrating some significant hardship. For that reason alone, Defendant’s motion must be denied.

More fundamentally, though, the Motion must be denied because its central premise – that the entire case will end if Patent Reform Legislation is passed or if 35 U.S.C. § 292 (the “False Marking Statute”) is found unconstitutional – is simply incorrect. As Defendant is well aware, Plaintiffs are asserting related state law claims that will not be affected in any way whatsoever by Patent Reform Legislation or the Federal Circuit. Indeed, the parties recently submitted a

stipulated proposed order authorizing Plaintiffs to file their First Amended Complaint alleging related state law claims, which will be filed according to a schedule negotiated by the parties.¹ Thus, this case will go forward regardless of whether Congress or the Federal Circuit makes significant changes to the False Marking Statute. For this reason alone, there can be no basis for staying the case.

Even if the potential future elimination of only one of several claims could constitute a legal basis for staying an entire case, the Motion should still be denied. As for Patent Reform legislation, even it is passed – something that is far from certain – Plaintiffs false marking claim survives because Plaintiffs can establish that they have suffered a competitive injury as a direct result of Defendant’s false marking violations. Thus, Patent Reform legislation cannot form a basis for staying this case.

Nor can the challenges to the False Marking Statute pending before the Federal Circuit constitute a basis for staying the case. The likelihood of the Federal Circuit changing the law is low. Constitutional challenges to the False Marking Statute have been routinely rejected by the courts and it is extremely unlikely that the appeal in *Unique Products Solutions, Ltd. v. Hy-Grade Valve Inc.*, Fed Cir. Case No. 2011-1254 will result in a holding that the statute is

¹ The parties have also stipulated to allow Plaintiff to file an amended complaint asserting state law causes of action, provided that Plaintiff allows Defendant 30 days to file its responsive pleading and provided that Defendant’s responsive pleading is due after the deadline for responding to Plaintiffs’ Motion for Summary Judgment Pursuant to 35 U.S.C. § 292.

unconstitutional. For this and other reasons, courts have rejected similar pleas for a stay. *See, e.g., Blenheim Group, LLC v. JT USA*, No. 10-5986 JBS (D. N.J. May 27, 2011).²

Perhaps the most important reason for denying Defendant's Motion is the irreparable harm it will work on Plaintiffs. Key evidence in this case is perishable and in the hands of third parties that Defendant contends have no obligation to preserve it. Defendant has divested itself of many of the product lines that are at issue in this lawsuit. Many of the employees who were involved with these product lines and may have relevant information are no longer employed by Defendant. Indeed, Defendant listed 22 such individuals in its initial disclosures and relied heavily on arguments regarding the need for this third party evidence in making its motion to transfer this case to the Western District of Virginia. Highly relevant evidence rests with third parties, including parties that may be moving and are becoming more difficult to locate, or may be losing or inadvertently discarding relevant evidence. Indeed, Defendant's Intellectual Property Counsel testified at his deposition that the electronic server most likely to contain relevant evidence was transferred to a third party which, in Defendant's view, has no obligation to preserve that evidence. Exhibit D, Deposition of Mark Porter ("Porter Depo."),

² Plaintiffs also note that their Motion for Summary Judgment, if granted, would place the case in a position for a speedy resolution, with little left to be determined but the scope of the false marking and amount of the fine.

Vol. 2, at pp. 67:15 – 69:6. The delay caused by a stay of this action could result in substantive prejudice to Plaintiffs’ case that cannot realistically be remedied. This concern outweighs any concerns expressed by Defendant in support of its Motion for Stay. Thus, Defendant’s Motion should be denied.

II. THE CASE LAW REQUIRES DENIAL OF DEFENDANT’S MOTION

The factors that courts consider when evaluating a Motion to Stay include (1) the length of the stay; (2) the balance of harm to the parties; and (3) whether a stay will simplify issues and promote judicial economy. *Gunduz v. U.S. Citizenship and Immigration Servs.*, No. 07-780, 2007 WL 4343246, at *1 (W.D.Pa. Dec.11, 2007); *see also, Tolley v. Montesanto*, 591 F. Supp. 2d 837, 844 (S.D. W. Va. 2008) (evaluating motion to stay court considered the interest of judicial economy, hardship to the moving party if the case is not stayed, and potential prejudice to the non-moving party).

Courts have routinely denied essentially identical Motions to Stay. For example, on May 4, 2011, in the case of *Blenheim Group, LLC v. JT USA*, No. 10-5986 JBS, in the United States District Court for the District of New Jersey, a court rejected a motion to stay pending the outcome of an appeal regarding the constitutionality of the False Marking Statute in the matter of *FLFMC LLC v. Wham-O* (Fed. Cir. Case No. 2011-1067). Finding that a stay pending resolution of the appeal would not promote judicial economy, the Court held:

There is no way of predicting when the *Wham-O* decision will be issued and how it will impact this case. Further it is not prudent for the Court to stay the case while it waits for all potentially relevant appeals to be decided.

Exhibit F, at 6.

Indeed, multiple courts have now denied motions to stay based on the *Unique Products Solutions* case. See, e.g., *Tomkins v. Mag Instrument, Inc.*, No. 11-cv-80 (E.D. Tex. June 5, 2011); *Public Patent Foundation, Inc. v. McNeil-PPC, Inc.*, No. 09 Civ. 5471 (RJH) (S.D.N.Y. Jun. 1, 2011). These cases support a denial of Defendant's Motion.

III. DEFENDANT HAS NOT MET THE BURDEN OF ESTABLISHING THE NEED FOR A STAY

Defendant has not met its burden of showing that a stay is warranted in this case. A party requesting a stay "bears the burden of establishing its need." *Clinton v. Jones*, 520 U.S. 681, 708, 117 S.Ct. 1636, 137 L.Ed.2d 945 (1997). The Fourth Circuit Court of Appeals has stated:

The party seeking a stay must justify it by clear and convincing circumstances outweighing potential harm to the party against who it is operative. "The suppliant for a stay must make out a clear case of hardship or inequity in being required to go forward, if there is even a fair possibility that the stay for which he prays will work damage to someone else."

Williford v. Armstrong World Industries, 715 F. 2d 124, 127 (4th Cir. 1983)

(quoting, *Landis v. N. Am. Co.*, 299 U.S. 248, 57 S.Ct. 163, 81 L.Ed. 153 (1936)).

Defendant's motion does not demonstrate a "clear case of hardship or inequity," and, as set forth below, a stay would severely prejudice Plaintiffs. Defendant's motion makes an unspecific reference to the "substantial resources" involved in litigation, but does not establish or specifically reference any type of hardship, let alone one that would outweigh the prejudicial effect a stay would have on Plaintiffs in this matter.

A stay is an extraordinary and disfavored remedy that should only be granted in extraordinary circumstances. *Forrest v. Corzine*, 757 F.Supp.2d 473 (D.N.J. 2010) ("The stay of a civil proceeding is an extraordinary remedy and is not favored."); *In re Blood Reagents Antitrust litigation*, 756 F. Supp. 2d 623, 635-36 (E.D. Pa. 2010) ("The stay of a civil case is an extraordinary remedy appropriate for extraordinary circumstances."); *Walsh Securities, Inc. v. Cristo Prop. Mgmt., Ltd.*, 7 F. Supp. 2d 523, 526 (D. N.J. 1998) (stay of a civil proceeding is an extraordinary remedy). Defendant's motion does nothing to show that extraordinary circumstances exist here. Moreover, Defendant's motion seeks a stay for an indeterminate amount of time while Congress considers legislation that may or may not pass, that may or may not affect the present case, and while the Federal Circuit considers an appeal that is unlikely to succeed and has no predictable resolution date. The U.S. Supreme Court has stated that it would be an abuse of discretion to issue "a stay of indefinite duration in the absence of pressing

need.” *Landis v. N. Am. Co.*, 299 U.S. 248, 255, S. Ct. 163, 81 L. Ed. 153 (1936). Defendant’s motion does not show a pressing need or clear hardship. Therefore, the Court should deny it.

IV. JUDICIAL ECONOMY REQUIRES DENIAL OF THE MOTION: PLAINTIFFS’ RELATED STATE LAW CLAIMS WILL NOT BE AFFECTED BY PATENT REFORM LEGISLATION OR THE FEDERAL CIRCUIT, AND PLAINTIFFS FALSE MARKING CLAIM SURVIVES PATENT REFORM

The central rationale of Defendant’s Motion is supposed judicial economy. They contend that the case should be stayed pending patent reform and a challenge to the constitutionality of the False Marking Statute because either of the events will end this dispute altogether and thus render this litigation moot. Defendant’s Motion must be denied because its central premise is simply incorrect.

As Defendant is well aware, Plaintiffs are asserting related state law claims that will not be affected in any way whatsoever by Patent Reform Legislation or the Federal Circuit. Indeed, the parties recently submitted a stipulated proposed order authorizing Plaintiffs to file their First Amended Complaint alleging related state law claims.

The First Amended Complaint that Defendant has stipulated to allow Plaintiffs to file includes state law causes of action including (1) false advertising in violation of California Business & Professions Code § 17500; (2) unlawful, unfair, and fraudulent business practices in violation of California Business &

Professions Code § 17200, and (3) violation of the Washington Consumer Protection Act (Wash. RCW §19.86.020). Each of these causes of action involves elements that differ from the False Marking Statute, and these causes of action are independent of the False Marking Statute. Plaintiffs' false advertising claim pertains to Nautilus's bad faith dissemination on labels containing false information regarding its products. Regardless of whether Nautilus falsely marked patents in violation of the False Marking Statute, it disseminated labels that contained false information regarding the technology included in its products. Plaintiffs' § 17200 claim is similar in that it alleges that Nautilus's false labeling of its products (not its false patent marking) is an unlawful, unfair, or fraudulent business practice. The Washington Consumer Protection Act claim likewise pertains to false labeling of products under state law, and not false patent marking under federal law.

Because Plaintiff's state law claims are independent of the False Marking Statute, this case will go forward regardless of what actions Congress or the Federal Circuit take with respect to false patent marking. Even if one cause of action were affected by a contingent, uncertain event involving Congress or the Federal Circuit, this case would still go forward on three well-established state law causes of action. Thus, a stay is unwarranted and would only delay, to Plaintiffs prejudice, a case that will inevitably go forward on multiple other claims.

Moreover, even if the proposed amendments to the False Marking Statute did pass, Plaintiffs will still continue to pursue their false marking claim against Defendant (in addition to the state law claims). The proposed amendments allow a plaintiff to sue to recover actual damages resulting from the false marking.

Specifically, the proposed amendments state:

A person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for injury.

S. 23, 112th Cong. (2011).³ Plaintiffs have alleged competitive injuries in this lawsuit.⁴ Therefore, even if Congress passes the proposed amendments to the False Marking Statute, Plaintiffs will still be able to continue this case to recover damages to compensate for their injuries. Thus, no basis exists to stay this matter.

V. STAYING THE CASE WILL IRREPARABLY HARM PLAINTIFFS

Because staying this case will irreparably harm Plaintiffs, the Motion to Stay must be denied. *Ford Motor Credit Co. v. Chiorazzo*, 529 F. Supp. 2d 535, 542 (D.N.J. 2008) (denying motion to stay, finding that plaintiff would be prejudiced);

³ Defendant's motion also references H.R. 243, which would limit damages for a violation of the False Marking Statute to \$500 in the aggregate. However, this House Resolution has made no progress in the committee to which it was assigned months ago and appears likely to "die in committee."

⁴ Plaintiffs' injuries, as set forth in the Complaint, include payments for the purchase of equipment from Nautilus and other equipment while under the belief that Plaintiffs could not design around the patents Nautilus listed on its products, lost profits from being unable to open a stroke rehabilitation facility for the same reason, and other damages including amounts Plaintiffs spent attempting to license Nautilus's patents when no such license was needed.

see also, Gerald 4 Chamales Corp. v. Oki Data Americas, Inc., 247 F.R.D. 453 (D.N.J.2007) (denying motion for a stay of discovery, finding that nonmoving party would be prejudiced). Plaintiffs will be irreparably prejudiced if the Court grants the Motion to Stay because, according to Defendant, the majority of the key evidence resides in personnel that no longer work for Defendant and on an electronic server, formerly owned by Defendant and now in the possession of a third party, Med-Fit Systems, Inc., a company that is refusing to cooperate in discovery. Exhibit B, Letter from Reynolds to Tomasulo, dated March 1, 2011.

The undisputed facts demonstrate that key evidence will be lost forever if the case is stayed. As explained in the Complaint and Plaintiffs' Motion for Summary Judgment, Defendant has falsely marked at least its commercial-grade strength product lines (e.g. Nitro, Nitro Plus, Nautilus One) and cardio product lines (e.g. elliptical trainers). All of the commercial-grade strength product lines, and some of the cardio lines, were manufactured in Defendant's facility in Independence, Virginia. According to Defendant's C.F.O., David Fish, in February 2010, "Nautilus reached an agreement to sell certain assets of its Commercial cardio and strength business to a third party unaffiliated company named Med-Fit Systems, Inc. Under the terms of those agreements Med-Fit agreed to purchase the Independence manufacturing plant and real estate, and also secured a licensing agreement to manufacture strength and cardio equipment using the

Nautilus trademark.” See Declaration of Kenneth Fish in Support of Defendant Nautilus Inc.’s Motion to Transfer (D20-4), at ¶ 10. As part of the deal with Med-Fit Systems, Defendant transferred ownership and operation of the commercial division and the Independence, Virginia facility to Med-Fit Systems. *Id.* Defendant terminated the employment of almost all of its commercial division employees, though some of them were re-hired by Med-Fit Systems. *Id.* According to Defendant, these former Defendant employees and Defendant’s former server house the most significant evidence in the case.

Defendant confirms, and indeed cannot dispute, that these former employees are potentially the key witnesses in the case. Defendant’s Rule 26 Disclosures list 22 such individuals; and Defendant relied heavily on arguments regarding the need to take testimony from them in making its motion to transfer this case to the Western District of Virginia. In fact, in granting Defendant’s Motion to Transfer the case to this Court the Court in the Central District of California specifically referenced Defendant’s argument that a

substantial majority of potential witnesses, including those with the most pertinent information relating to Plaintiffs’ false marketing claims, are located in Virginia and are currently employees of Med-Fit Systems in Independence, Virginia.

Order Re Defendant’s Motion to Transfer, at p. 7. The Court also stated that the ability to compel the testimony of these witnesses “strongly favored” transfer. *Id.* at p. 8.

Defendant's Intellectual Property Counsel, Mark Porter, confirmed the significance of these witnesses. For instance, he testified that former employee Dominic Lovely was "officially responsible for the patent labels" and that Mr. Porter does not know where Mr. Lovely now works. Exhibit C, Porter Depo., Vol. 1, at pp. 18:4-15; 48:1-5. Mr. Porter also testified:

We haven't identified who created the label, who put, who chose the patent numbers to go on it or why they put this label on this product. . . . So as to the purpose for why this label got on this product, I can't testify to that and I don't think there's anyone at Nautilus who can.

Id. at pp. 132-133. Thus, individuals who are no longer at Nautilus possess information that goes to the heart of the issue of intent to deceive under the False Marking Statute regarding why certain patents were chosen and the purpose of Nautilus's false labels. With the passage of time, Mr. Lovely and the many others in Nautilus's initial disclosures may become more difficult to locate, their memories may fade, or they may lose or destroy documentary evidence pertinent to this matter. It will also take an extensive period of time to depose or obtain documents and information from the 22 third parties that Defendant has identified. A later start on this process due to a stay would also likely result in more lost witnesses and lost evidence

Far more critical, though, is the imminent danger that the documents and electronic files transferred from Nautilus to Med Fit Systems will be destroyed

during a stay. A key component of proving a false marking case is proving that the false marker acted with an intent to deceive the public. Like proving fraud, proving this intent often requires electronic discovery to find the key evidence. Of course, electronic evidence is highly perishable, and the threat of its imminent destruction is significant enough in and of itself to warrant denial of Defendant's motion.

Certain key electronic evidence resides on an electronic server that was transferred from Defendant to Med-Fit Systems. This server almost certainly includes the most significant evidence in the case. Exhibit D, Porter Depo., Vol 2 at pp. 67:15 – 69:6. Mr. Porter testified that the server, located at Med-Fit's offices in Independence, Virginia, contains files from Greg Webb, a former employee that Nautilus states on its initial disclosures has "substantial information" regarding Nautilus's patent labels and procedures for applying those labels. *Id.* Mr. Porter also testified that Mr. Webb's electronic communications with outside counsel regarding patents and patent marking "would have been on [the] server at Independence." *Id.*, at pp. 66:2 – 67:24. Communications with other employees regarding Nautilus's patent marking would also be on that same server that Mr. Webb used for communications regarding patents and patent marking. Therefore, key information regarding Nautilus's patent marking and its intentions regarding patent marking on located on the server in Independence.

As Mr. Porter testified, Nautilus believes it does not have an obligation to preserve documents that are not in its possession custody or control and has done nothing to preserve the key evidence on the server in Independence or other files now in the possession of third parties. *Id.*, at pp. 68:25 – 69:14. Thus, Mr. Webb’s files and other files related to patent marking could be overwritten or deleted during the time that this case is stayed. *Id.* Mr. Porter admitted that the data on the server is perishable because it “can be deleted either in its entirety or simply by removal of . . . position in the file allocation table.” *Id.*, at p. 69:7-14. Thus, time is of the essence in obtaining these documents that Plaintiff just learned about in Mr. Porter’s deposition, and other similarly documents and information that may be lost or destroyed during the time that this case is stayed.

Nautilus makes the statement that “evidence lost has been lost for some time,” but provides no support for this assertion. The reality is that this case was filed over eight months ago, and with each passing month the danger increases that documents will go missing or be inadvertently destroyed, and that witnesses will move away or become more difficult to locate.

VI. DENYING THE STAY WILL NOT HARM DEFENDANT

No prejudice will result to Defendant if the Court denies Defendant’s Motion to Stay. As stated above, Defendant will have to litigate this case regardless of what happens in Congress or at the Federal Circuit. Plaintiff will

shortly file an amended complaint that includes state law claims for false advertising, unfair business practices and the violation of consumer protection laws. These claims cannot be affected by the legislation Congress is considering, or by the Federal Circuit's decision in *Unique Products Solutions*.

Even if the False Marking Statute were found unconstitutional, which is highly unlikely, Defendant would have to proceed and present nearly the same evidence to defend itself against Plaintiffs' independent state law claims that pertain to Nautilus's false labeling of its products, that it would have to present to defend itself against Plaintiffs' claim under the False Marking Statute. All of the claims pertain to Nautilus's listing on labels of patents that do not apply to the products to which the labels are affixed. Thus, the case will involve essentially the same time and expense for Nautilus that it otherwise would have, and a stay would do nothing to prevent prejudice to Defendant.

VII. THE LENGTH OF DEFENDANT'S REQUESTED STAY IS INDEFINITE

Defendant repeatedly uses the phrase "short time" to describe the stay it seeks, but Defendant's motion asserts no basis for its belief that the Federal Circuit will issue its decision in the *Unique Products Solutions* case within a "short time," or that Congress will make a decision whether to pass amendments to the false marking statute any time soon. *Hy Cite Corp v. Regal Ware, Inc.*, No. 10-cv-168 WMC, 2010 WL 2079866, at *1 (W.D. Wis. May 19, 2010) ("Although

defendants contend that plaintiff will not be prejudiced by a “short stay” pending decisions in *Stauffer*, *Pequignot* or *Brule Research*, they do not and cannot know how long the stay would need to be in place because there are no set dates for decisions in any of those three cases.”).

Indeed, the median length of time for a Federal Circuit case to go from docketing to disposition is 11.7 months.⁵ The *Unique Products Solutions* appeal was docketed on March 16, 2011. Thus, it likely will not be decided by the Federal Circuit until February 2012. Mr. Sukumar could have his entire case decided by this Court before then. A stay of eight months (until February 2010) is hardly a “short time,” and the decision may even take longer. Moreover, the Federal Circuit’s decision could then be appealed to the United States Supreme Court, resulting in even a much longer time period before the matter is resolved.

There is also no telling when Congress will vote on the proposed amendments to the False Marking Statute. Patent Reform Legislation has been discussed for nearly a decade, yet has never passed. The House of Representatives has not scheduled a vote on the House floor yet, and the House’s changes to the bill may result in new debate in the Senate and a conference committee that may or may not be able to reconcile the differences in the House and Senate versions of

⁵ Exhibit E, Data obtained from the website for the United States Court of Appeals for the Federal Circuit, available at http://www.ca9c.uscourts.gov/images/stories/the-court/statistics/Median_Dispositon_Time_for_Cases_Terminated_after_Hearing_or_Submission_Detailed_Table_of_Data_2001-2010.pdf

patent reform that include the proposed amendments. Thus, defendant's prediction that the stay will be a "short time" is not a credible projection and creates an indefinite time period for a stay.⁶ Consequently, Defendant's motion should be denied. *Id.* at *2 ("defendants' vague prediction is, therefore, far from a comforting projection for plaintiff; nor is it sufficient for this court. Instead, it creates an indefinite time period for the stay.").

VIII. PATENT REFORM IS UNCERTAIN, WILL NOT RESULT IN DISMISSAL OF THE FALSE MARKING CLAIM, AND THE CONSTITUTIONAL CHALLENGES TO THE FALSE MARKING STATUTE ARE LIKELY TO FAIL

A. Patent Reform Is Uncertain

Patent Reform is unlikely to pass. On June 7, 2011, the Wall Street Journal reported that the patent reform pending in Congress, which includes the proposed amendments to the False Marking Statute "could be derailed" by a dispute over the use of fees paid to the U.S. Patent & Trademark Office.⁷ The same article notes that during the first week of June "[a]nother potential roadblock emerged . . . when 50 House members called for a debate" on the constitutionality of the proposed

⁶ Defendant alternatively requests a stay of between 120 and 180 days. Such a stay does not promote judicial economy because *Unique Products Solutions* may not be decided during that period. Further, for the reasons set forth herein, such a stay would be highly prejudicial to Plaintiffs.

⁷ Tom Barkley, House Republicans Threaten Patent Bill, *Wall St. J.*, June 7, 2011, <http://online.wsj.com/article/SB10001424052702304432304576371722123551908.html?KEYWORDS=patent+reform>.

patent reform bill. Thus, the fate of the patent reform, including the proposed amendments to the False Marking Statute, is dubious.

B. Courts Have Repeatedly Rejected Arguments Against the Constitutionality of the False Marking Statute

Courts hearing false marking cases are rejecting motions to stay based on the *Unique Products Solutions* appeal on the grounds that the moving party failed to show “that the issues on appeal have a likely chance of success in [the moving party’s] favor.” *Tomkins v. Mag Instrument, Inc.*, No. 11-cv-80 (E.D. Tex. June 5, 2011). Defendant’s motion similarly does not show any likelihood that the constitutional challenge to the False Marking Statute will succeed.

Indeed, since *Unique Products Solutions* was decided, several federal district courts have held that Section 292(b) is constitutional. *Ford v. Hubbell, Inc.*, No. 10-CV-513, 2011 WL 1259707, at 3 (S.D. Ill. Mar. 31, 2011); *Luka v. The Proctor & Gamble Co.*, No. 10-CV-2511, 2011 WL 1118689, at 5 – 8 (N.D. Ill. Mar. 28, 2011); *Pub. Patent Found, Inc. v. GlaxoSmithKline Consumer, Healthcare, L.P.*, No. 09-CV-5881, 2011 WL 1142917, at 4 (S.D.N.Y. Mar. 22, 2011); *Hy Cite Corp. v. Regal Ware, Inc.*, No. 10-CV-168, 2011 WL 1206768, at 4 (W.D. Wis. Mar. 15, 2011). The *Unique Products Solutions* decision is also inconsistent with Federal Circuit case law and directly at odds with several district court decisions that have expressly rejected arguments that the False Marking Statute is unconstitutional under the Take Care and Appointments clauses.

In recent years the Federal Circuit Court of Appeals has heard multiple cases involving Section 292 without raising any concern regarding its constitutionality. The most recent of these cases pertained to the constitutional issue of Article III standing: *Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321 (Fed. Cir. 2010). The Federal Circuit and district courts addressing the constitutionality of Section 292 have consistently upheld the statute. *See, e.g., Zojo Solutions, Inc. v. The Stanley Works*, 712 F. Supp. 2d 756 (N.D. Ill. 2010) (the court rejected Defendant's argument that Take Care clause of U.S. Const. art. II, § 3 is violated by Section 292(a) because that statute "vest[s] the authority to enforce a penal law in a private plaintiff with absolutely no oversight or control by the Executive Branch of the U.S. government"). And the *Zojo* court found that the Federal Circuit had already "effectively rejected" the defendant's Article II argument.

At least two other district courts have similarly rejected the argument that Section 292 violates the Take Care and Appointments clauses: *Pequignot v. Solo Cup Company*, 640 F. Supp. 2d 714 (E.D. Va. 2009) (Exhibit "A") and *Shizzle Pop, LLC v. Wham-O, Inc.*, 2010 WL 3063066, at *3 (C.D.Cal. Aug. 2, 2010). In *Pequignot*, the court found several bases for concluding that Section 292 does not violate Article II, including (1) the long history of *qui tam* statutes in the United States; (2) the fact that Section 292 is only a minor intrusion into the executive branch's power (*e.g.*, it only authorizes a private party to bring one type of suit at

its own expense, and does not prevent the government from conducting its own investigation or bringing its own lawsuit); and (3) the executive branch maintains the ability to assert its own interests in the *qui tam* lawsuit. *Id.* at 726. The court in *Shizzle Pop* also concluded that Section 292 does not violate Article II, based on the same reasoning. 2010 WL 3063066, at *3.

C. Arguments that the False Marking Statute is Unconstitutional Under the “Take Care Clause” are Without Merit

1. *Qui Tam* Actions are Civil in Form and the Government May Intervene

Simply stated, the arguments against the constitutionality of the False Marking Statement are without merit. The government clearly does have sufficient control of *qui tam* actions brought under the False Marking Statute. Because *qui tam* actions are civil in form, they are subject to the Federal Rules of Civil Procedure. *See United States ex rel. Marcus v. Hess*, 317 U.S. 537, 549-50 (1943) (partially superseded on other grounds); *see also* Federal Procedure, Lawyers Edition § 20:637 (*qui tam* actions are subject to Federal Rules of Civil Procedure). Therefore, the government *does* have control over the suit, because it may intervene as a matter of right pursuant to Fed. R. Civ. P. 24(a)(2). *Stauffer v. Brooks Brothers, Inc.*, 619 F.3d 1321, 1328 (2010); *see also Shizzle Pop, LLC v. Wham-O, Inc.*, No. CV 10-3491 PA (FFMx), 2010 WL 3063066, at *3 (C.D. Cal. Aug. 2, 2010). Consequently, the government’s right to intervene can protect it

from being bound by the actions of the relator, and the effects of res judicata.

Stauffer at 1329 (citing *United States ex rel. Mergent Servs. v. Flaherty*, 540 F.3d 89, 94 (2d Cir. 2008) (“[T]he United States might become bound by res judicata or collateral estoppel as a result of the actions of a *pro se* in bringing and losing a qui tam action”) (citing *Stoner v. Santa Clara County Office of Educ.*, 502 F.3d 1116, 1126-27 (9th Cir. 2007) (“ [Q]ui tam relators are not prosecuting only their ‘own case’ but also representing the United States and binding it to any adverse judgment the relators may obtain”))).

The civil form of actions brought under the False Marking Statute is further reflected in the requirement that only a preponderance of the evidence (rather than a standard of “clear and convincing evidence” or “beyond a reasonable doubt”) is required to establish the “intent to deceive” element necessary under the statute to assign liability for false patent marking. *See Forest Group, Inc. v. Bon ToolCo.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009) (citing *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352-53 (Fed. Cir. 2005)). Furthermore, although the penalty imposed by the False Marking Statute is punitive in nature, it remains a civil fine, rather than a criminal sanction. *Hess*, 317 U.S. at 549; *Pequignot*, 608 F.3d at 1363. The imposition of punitive fines or damages is not inconsistent with a civil action. *See, e.g., Day v. Woodworth*, 54 U.S. 363 (13 How.) 371 (1851) (“By the common as well as by statute law, men are often punished for aggravated

misconduct or lawless acts, by means of a civil action, and the damages, inflicted by way of penalty or punishment, given to the party injured.”).

Because actions brought pursuant to the False Marking Statute are civil lawsuits in form, and are not criminal prosecutions, they do not cut to the “heart of the Executive’s constitutional duty to take care that the laws are faithfully executed.” *Riley v. St. Luke's Episcopal Hosp.*, 252 F.3d 749, 755 (5th Cir. 2001). *Qui tam* relators like Plaintiffs, are merely civil litigants, and are not criminal prosecutors. *Id.* Relators do not conduct or direct criminal investigations and do not seek criminal sanctions; they sue only to recover one-half of a civil penalty. Furthermore, although the Take Care Clause states that the Executive must “take Care that the Laws be faithfully executed,” it does not require Congress to prescribe litigation by the Executive as the exclusive means of enforcing federal law. *Riley*, 252 F.3d at 753; U.S. Const. art. II, § 3. As the Fifth Circuit has stated, “even though Congress has historically allowed alternative mechanisms of fraud enforcement against the federal government, this state of affairs does not therefore mean that the Executive’s functions to control such litigation are necessarily impinged.” *Riley*, 252 F.3d at 753. Moreover, because the government may intervene as a matter of right to protect its interest in a *qui tam* suit, the government retains the means to control the action.

2. The Department of Justice Reviews Settlements and May Intervene

Finally, the Intellectual Property Staff of the Department of Justice Commercial Litigation Branch is routinely apprised of false marking litigation, very often by the relators (including the relator in this case), and routinely reviews settlement agreements in those cases. In those cases in which the settlement does not meet with the approval of the government, the government has the right to intervene. Because a false marking lawsuit is a civil action and is consequently subject to the Federal Rules of Civil Procedure, the government may, as of right, intervene in the case under Fed. R. Civ. P. 24(a)(2). *Stauffer*, 619 F.3d at 1328-29. Therefore, the government retains sufficient authority over the case to satisfy the obligation of the Take Care Clause.

Because Defendant cannot demonstrate any likelihood that the constitutional challenge to the False Marking Statute will succeed in the Federal Circuit, Defendant's Motion to Stay must be denied.

IX. THE COURT SHOULD DISREGARD NAUTILUS'S PERSONAL ATTACK ON PLAINTIFF AND MISCHARACTERIZATION OF PRIOR LITIGATION

Nautilus's description of the other litigation between Plaintiffs and Defendant is inflammatory and irrelevant to the instant motion. Defendant's only purpose in including this description is to portray Plaintiff Ponani Sukumar as an unreasonable litigant, thereby shifting focus away from the substantial merits of

Plaintiffs' case. Despite Defendant's mischaracterization, Plaintiffs' prior claims against Defendant have had legitimate legal merit.

In 1998 and 1999, Plaintiff Sukumar ordered from Defendant a number of medical-grade fitness machines that were customized for rehabilitation purposes. Defendant failed to deliver machines that complied with the contract specifications, and on February 11, 2000, Plaintiff Sukumar filed a complaint against Nautilus or, *inter alia*, breach of contract and specific performance, in an action captioned *Sukumar v. Direct Focus, Inc.*, U.S.D.C. Southern District Case No. 00 CV 0304 LAB (AJB) (the "Direct Focus" matter).⁸ **The Direct Focus matter resulted in a judgment in Plaintiff's favor.** The court found that Defendant had breached the parties' contract and ordered Defendant to specifically perform Sukumar's purchase orders by delivering the equipment in accordance with the contract specifications. Although there was post-judgment litigation in the Direct Focus case regarding whether Defendant complied with the judgment, that case has terminated and is no longer pending.

Only one other case is now pending between Plaintiffs and Defendant: *Southern California Stroke Rehabilitation Associates, Inc. v. Nautilus, Inc.*, Case No. 09-CV-744 JLS (AJB) in the United States District Court for the Southern District of California. This lawsuit is a breach of warranty case based on defects

⁸ Nautilus was then known as Direct Focus, Inc.

that are covered by the extended or lifetime warranties, as applicable, given by Defendant on the machines delivered as part of the Direct Focus case. The court recently denied Defendant's motion for summary judgment in that matter and granted in part Plaintiff's cross-motion for summary adjudication. The matter will be set for trial some time in late 2011 or early 2012. Plaintiffs note that Defendant was sanctioned in excess of \$9,000 for discovery violations in this matter, certainly suggesting that the court in that case did not agree with Defendant's characterization that Plaintiffs are the parties engaging in unreasonable litigation tactics. Plaintiffs do not want to belabor this irrelevant point. However, Plaintiffs believe that the record is clear that they are not unreasonable or vexatious litigants, or that they have ever asserted any claim against Nautilus that lacked merit.

Further, not only is the prior litigation between the parties irrelevant, but this case is also different because Plaintiffs have brought this litigation as *qui tam* relators on behalf of the U.S. Government. As the Federal Circuit succinctly put it: "Acts of false marking deter innovation and stifle competition in the marketplace....Congress' interest in preventing false marking was so great that it enacted a statute which sought to encourage third parties to bring *qui tam* suits to enforce the statute." *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1302-03 (Fed. Cir. 2009). Given Defendant's extensive false marking, which stifles innovation and competition and causes consumers to pay more for fitness

equipment, this *qui tam* action is of particular interest to the public and the fitness industry. Thus, this case has been brought for the benefit of the public and the U.S. Government, not solely to make Plaintiffs whole for injuries that Defendant has caused, as was the case in the prior litigation.

X. CONCLUSION

Based on the foregoing, Plaintiffs request that the Court deny Defendant's Motion to Stay. Plaintiffs intend to ask the Court to establish a trial date early next year. The period of time between the denial of the Motion to Stay and the trial will, in and of itself, provide Congress and the Federal Circuit reasonable time to pass such legislation or pronounce such judicial doctrine as they deem appropriate.

Dated: June 20, 2011

By: s/ Lawrence R. LaPorte

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