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This Issue: Antitrust Issues in IP Litigation

Patent-Tying Decision Changes Antitrust Landscape

By Edward F. O'Connor

The U.S. Supreme Court's decision in *Illinois Tool Works, Inc. and Trident, Inc. v. Independent Ink, Inc.*, 126 S. Ct. 1281 (2006), a case in which I represented Independent Ink, has the potential of dealing a serious blow to the entire after-market industry.

The litigation was instituted on behalf of Independent Ink, partially as a defensive measure to an anticipated patent infringement suit and also as an offensive measure based on the fact that potential customers for Independent Ink's aftermarket ink were precluded, by contracts, from buying their ink supplies from anyone other

than the owners of the patents on the patented printhead technology sold by the defendants.

This case began as a classic antitrust tying case. The primary defendant, Trident (which was later acquired by defendant Illinois Tool Works), created an entire business model based around patents that it had obtained covering piezoelectric printhead technology. Under the model, Trident manufactured and sold printheads to a limited number of original equipment manufacturers (OEMs), who then agreed to make the actual printing machines that

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Sins of the Applicant: Walker Process and Successor Liability

By Russ Wofford and Candice Decaire

Imagine an alternative universe in which transactional lawyers actually consult with litigators to avoid problems before they materialize.¹ Assume that one such transactional lawyer comes to you on a sunny afternoon with this scenario:

Your firm's client has an opportunity to purchase from the original applicant a large and highly valuable patent portfolio—some of the patents in which are so innovative that they have enabled certain products to capture extremely large shares

of the national market. Proving that every silver lining has a cloud, however, these same patents also have attracted the attention of less than scrupulous imitators, whose attempts to market infringing products the current portfolio owner has had to counter with aggressive infringement litigation. Moreover, because the products incorporating these patents have proven popular in the marketplace, the portfolio's

Continued on page 21

Defending Against Allegations of Anticompetitive Conduct and the DMCA

By Gary L. Beaver

The Digital Millennium Copyright Act (DMCA) provides procedures a copyright owner can use to stop suspected infringements of its copyrights in materials posted on the Internet. For example, the owner may give written notice to the Internet service provider (ISP) for the website on which the infringing materials appear, asking that ISP to take down the infringing materials from its server. See 17 U.S.C. § 512(c). If the ISP receives a proper DMCA notice, the ISP must remove the infringing materials from the Internet and give the owner of the website notice of such removal. The website owner can then give a counter-notification that the owner has a good-faith belief that the allegedly infringing materials are not infringing. Upon receiving a proper counter-notification, the ISP can reinstate the allegedly infringing materials to the Internet.

Then the fireworks begin. The infringer may try to put the owner on the defensive by filing claims alleging anticompetitive activity (or counterclaims if the owner files first) for tortious interference with contract and with prospective economic advantage, common law unfair competition, or statutory unfair and deceptive trade practices (depending on what causes of action are available in the forum state) on the ground that the notice to the ISP interfered with the contract between the ISP and the infringer, interfered with contracts managed or performed through the infringing website that was taken off the Internet until the counter-notification was made, interfered with prospective contracts that were not made when Internet sales could not be made during the period that the website was shut down by the ISP, and was an unfair and deceptive method of competing. See, e.g., *Rossi v. Motion Picture Ass'n of America, Inc.*, 391 F.3d 1000 (9th Cir. 2004).

Such claims or counterclaims by the infringer based on a written notice given

to the ISP under the DMCA should be barred as a matter of law if the allegations are insufficient and, unless the copyright owner had no objective basis for sending the notice to the ISP, should be easily defeated on a summary judgment motion.

Though the DMCA is not the exclusive remedy for copyright enforcement, it was enacted to "strengthen copyright protection in the digital age," *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 435 (2d Cir. 2001), so a counterclaim based on following DMCA procedures appears to

claims of unfair or anticompetitive activities early may not be easy if the infringer has artfully pled its claim. However, a court may be willing to dismiss such a claim on the basis that, under the *Noerr-Pennington* doctrine, First Amendment immunity protects the copyright owner's acts in sending the DMCA written notice to the ISP. To defeat a motion to dismiss based on *Noerr-Pennington*, the infringer will have to allege sufficient facts to show that, if taken as true, the doctrine may possibly be overridden. The infringer may

The DMCA provides a quick, inexpensive method of challenging a suspected copyright infringement.

be contrary to Congress's obvious intention that copyright owners make use of the DMCA procedures. The DMCA provides a quick, inexpensive method of challenging a suspected copyright infringement, even if the copyright is not registered. It also gives ISPs procedures to follow to avoid being pulled into a subsequent lawsuit by the copyright holder against the infringer. If a copyright holder wants to keep open its option to sue the ISP in addition to the infringer, the holder must give the required DMCA notice. If the ISP follows the procedures, the ISP is given a "safe harbor" to avoid being dragged into the copyright infringement lawsuit as a co-defendant with the infringer. The DMCA procedures provide an opportunity to cure copyright infringements without litigation and help to avoid adding ISPs as parties unless they fail to follow DMCA procedures after receiving a proper notice and takedown letter.

Convincing the court to dismiss such

not be able to make such allegations without violating Rule 11 of the applicable rules of civil procedure.

The First Amendment right to petition has been recognized by the U.S. Supreme Court as "one of the most precious of the liberties safeguarded by the Bill of Rights . . ." *BE & K Constr. Co. v. NLRB et al.*, 536 U.S. 516, 524 (2002) (quoting *Mine Workers v. Illinois Bar Assn.*, 389 U.S. 217, 222 (1967)). The courts have protected that petitioning right through the development of the *Noerr-Pennington* doctrine. *Baltimore Scrap Corp. v. David J. Joseph Co.*, 237 F.3d 394, 399 (4th Cir. 2001) ("[T]he rights of petition and association trump any anticompetitive effects that might occur from asking the government for redress. Any other rule would allow the specter of satellite litigation to restrict the primary right of citizens to seek justice from the judicial system.").

The right to petition includes the pursuit of litigation and parties' "use [of]

courts to advocate their causes and points of view respecting resolution of their business and economic interests vis-à-vis their competitors." *BE & K Construction*, 536 U.S. at 525 (quoting *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 511 (1972)). *Noerr-Pennington* immunity encompasses a copyright owner's prelitigation communications—whether called "notice letters," "demand letters," or "threat letters." See *Globe-trotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367, 136–77 (Fed. Cir. 2004) (prelitigation communications alleging patent infringement were protected); *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 128 (3d Cir. 1999); *South Dakota v. Kansas City S. Indus., Inc.*, 880 F.2d 40, 50–51 (8th Cir. 1989). The Second Circuit noted that

Courts have extended *Noerr-Pennington* to encompass concerted efforts incident to litigation, such as prelitigation "threat letters," see *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992) (holding that concerted threats of litigation [no less than the actual initiation of litigation] are protected under *Noerr-Pennington*); *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367–686 (5th Cir. 1983) (same); *Barq's, Inc. v. Barq's Beverages, Inc.*, 677 F. Supp. 449, 452–53 (E.D. La. 1987) (applying prelitigation rights to enforcement of trademark litigation) . . .

Primetime 24 Joint Venture v. National Broadcasting Co., 219 F.3d 92, 100 (2d Cir. 2000).

Noerr-Pennington applies to business tort claims by competitors:

[A]lthough originally developed in the antitrust context, the doctrine has now universally been applied to business torts. See, e.g., *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 128–29 (3d Cir. 1999) (doctrine applies to common law claims of malicious prosecution, tortious interference with contract, tortious [sic] interference with prospective economic advantage, and unfair competition). The application of *Noerr-Pennington* is a question of law. [citation omitted].

IGEN Int'l, Inc. v. Roche Diagnostics

GmbH, 335 F.3d 303, 310 (4th Cir. 2003).

In *Primetime 24*, the court upheld the federal district court with respect to whether *Noerr-Pennington* applied to challenges made under the Satellite Home Viewer Act (SHVA) (219 F.3d at 100) but reversed it with respect to whether the complained-about conduct fell within the scope of that doctrine. 219 F.3d at 101. The court held that challenges were authorized by federal statute and were a preliminary step to litigation if necessary; therefore, they are entitled to *Noerr-Pennington* protection if the complained-about actions fit within the scope of the immunity. *Id.* at 100. However, because the claims adequately alleged an exception to *Noerr-Pennington* immunity, the claims were not dismissed. *Id.* at 101.

In deciding whether *Noerr-Pennington* immunity extended to SHVA challenges, the lower court noted that while no court had yet addressed whether such challenges were protected by *Noerr-Pennington*:

. . . courts have found analogous conduct, such as the sending of trademark policing letters and demand letters, to be related to litigation and therefore subject to *Noerr* immunity. See, e.g., *Matsushita*, 974 F. Supp. at 359 (patent holder's letters to potential infringers warning them of possible infringement were protected under *Noerr*); *Thermos*, 1995 WL 842002, at *3 (*Noerr* doctrine protects prelitigation rights such as the sending [of] trademark policing letters to alleged infringers); *Barq's*, 677 F. Supp. at 452 (finding that defendants' writing of demand letters preceding trademark infringement lawsuit was protected activity under *Noerr*).

21 F. Supp. 2d at 357. The district court in *Primetime 24* noted that "the case for immunity is particularly strong" because Congress had specifically provided, by statute, for the challenge procedures used and under attack in that case as a means of resolving copyright disputes between copyright owners and satellite carriers through a system of voluntary cooperation and self-policing. *Id.* The Second Circuit agreed. 219 F.3d at 100.

The DMCA is similar to the SHVA at issue in *Primetime 24* in setting forth procedures for the enforcement of copyright

rights prior to the commencement of litigation through notice, voluntary cooperation, and self policing. "It would be particularly anomalous to deny immunity to [here, the copyright owner's] conduct on the ground that it was independent of or unnecessary to litigation where Congress envisioned such conduct as a means of resolving disputes without litigation." See 21 F. Supp. 2d at 357.

In order to state a proper claim and avoid dismissal, the infringer must make allegations by which it could possibly sidestep *Noerr-Pennington* petitioning immunity. See *IGEN*, 335 F.3d at 311 (burden is on claimant opposing application of *Noerr-Pennington* to allege facts sufficient to show that it does not apply) (*dicta* citing *McGuire Oil*, 958 F.2d at 1558 n.9); *Primetime 24*, 21 F. Supp. 2d at 355 (citing *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 135–36 (1961)). Immunity under the *Noerr-Pennington* doctrine is subject to an exception for "sham" litigation. *IGEN*, 335 F.3d at 312. To be considered "sham" litigation, prelitigation activity must meet a two-part test:

First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr* . . . Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals "an attempt to interfere directly with the business relationships of a competitor," *Noerr, supra*, 365 U.S., at 144, 81 S. Ct. at 533 (emphasis added), through the "use [of] the governmental process—as opposed to the outcome of that process—as an anti-competitive weapon," *Omni*, 499 U.S., at 380, 111 S. Ct., at 1354 (emphasis in original).

Professional Real Estate Investors, Inc. ("PRE") v. Columbia Pictures Indus., 508 U.S. 49, 60–61 (1993) (emphasis added); *IGEN*, 335 F.3d at 312. Therefore, to survive

a Rule 12(b)(6) motion to dismiss, the infringer must allege that sending the DMCA notice and filing the subsequent lawsuit were objectively baseless and constituted “sham” litigation and also that the plaintiff copyright owner’s subjective motivation was an attempt to interfere directly with the infringer’s business relationships.

The nature of allegations necessary to defeat a Rule 12(b)(6) motion to dismiss based on *Noerr-Pennington* was demonstrated in *Brotech Corp. v. White Eagle International Technology Group*, 2003 WL 22797730 (E.D. Pa. 2003). The *Brotech* court found the following allegations sufficient to allege that the lawsuit was “sham” litigation and that the copyright owner’s subjective motivation was improper:

The Counterclaim alleges that: Plaintiffs’ claims in this action are objectively baseless (Countercl. ¶¶ 5, 34); Plaintiffs’ motivation in filing suit was not to obtain a judgment, but to pressure RenalTech into ceding control of its intellectual property in a coerced settlement (Countercl. ¶¶ 6, 36); Plaintiffs’ claims are “an undisguised effort to coerce RenalTech into ceding control of the core of its intellectual property to [Plaintiffs] so that they can unlawfully monopolize the market” (Countercl. ¶ 33); and, this is a sham lawsuit (Countercl. ¶¶ 33, 35).

Brotech, 2003 WL 22797730 at *4. For another example, see *Jarrow Formulas, Inc. v. International Nutrition Co.*, 175 F. Supp. 2d 296, 311 (D. Conn. 2001).

Some courts apply a heightened pleading standard requiring more specific allegations where claims may have chilling effects on the exercise of First Amendment petitioning rights. *Kottle v. Northwest Kidney Ctrs.*, 146 F.3d 1056, 1063 (9th Cir. 1998). Insufficient factual allegations should result in dismissal of the infringer’s claims. See, e.g., *Kottle*, 146 F.3d 1056; *Barnes Foundation v. Township of Lower Merion*, 927 F. Supp. 874 (E.D. Pa. 1996); *Spanish Int’l Comm. Corp. v. Leibowitz*, 608 F. Supp. 178, 181–82 (S.D. Fla. 1985).

Concomitantly, allowing infringers too much leeway in claiming that following the DMCA’s procedure is anticompetitive behavior could have a chilling effect on good faith use of the DMCA by copyright

owners. Cf. *DIRECTV, Inc. v. Cephas*, 294 F. Supp. 2d 760, 767 (M.D.N.C. 2003).

Even if a motion to dismiss is not granted, the owner may be able to win on a Rule 12(c) motion for judgment on the pleadings. Under Rule 12(c), the court examines not just the infringer’s allega-

over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law.”).

If the court does not grant dismissal or judgment on the pleadings and the copying evidence is not attached to the pleadings, a summary judgment motion should

Conclusory allegations about the owner’s motives for sending the notice to the ISP are irrelevant.

tions but all of the pleadings made by both parties, including all exhibits that are appended to the pleadings. See *Eagle Nation, Inc. v. Market Force, Inc.*, 180 F. Supp. 2d 752, 754 (E.D.N.C. 2001). The court may enter judgment on the pleadings if the infringer has not sufficiently countered the plaintiff’s allegations about the basis for sending the DMCA notice to the ISP and for bringing the lawsuit. The DMCA notice letter to the ISP or subsequent correspondence with the ISP should assert that the notice is sent pursuant to the DMCA and contain examples of the infringements. If such correspondence is attached to the complaint or reply and the infringer does not dispute authenticity, then it may be possible to show that, as a matter of law, the plaintiff copyright owner had an objectively reasonable basis for using the DMCA notice provision and that, therefore, the infringer’s claims must be dismissed under the *Noerr-Pennington* doctrine. Conclusory allegations about the owner’s motives for sending the notice to the ISP are irrelevant. See *PRE*, 508 U.S. at 60 (“Only if challenged litigation is objectively meritless may a court examine the litigant’s subjective motivation.”).

For purposes of *Noerr-Pennington* immunity analysis, the *PRE* court equated the analysis of objective reasonableness of litigation action to a determination that one had probable cause to file a lawsuit. *PRE*, 508 U.S. at 63. The contents of the notice letter are usually indisputable so the court can perform the probable cause analysis. *Id.* (“Where . . . there is no dispute

not be difficult to win because the infringer will unlikely be able to carry its burdens of showing lack of objective reasonableness if there is any plausible evidence of unauthorized copying.

The DMCA does not give anyone a blank check to send takedown notices to ISPs as the DMCA provides for a right of recovery against “[a]ny person who knowingly materially misrepresents under this section—(1) that material or activity is infringing . . .” 17 U.S.C. § 512(f). It is not necessary as a policy matter to allow suspected infringers to use claims of anti-competitive behavior to attack those who assert their copyrights through the DMCA because the DMCA provides them with adequate protection. See, e.g., *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195 (N.D. Cal. 2004). However, if the copyright owner acted in good faith (subjective standard) that infringement was occurring, there is no cause of action under Section 512(f). See *Dudnikov v. MGA Entertainment, Inc.*, 410 F. Supp. 2d 1010, 1013 (D. Colo. 2005).

The infringer may argue that discovery is necessary before the court can decide a motion to dismiss because the issues of “motive and intent” have been put in issue. The argument fails for two reasons. First, with respect to Rule 12(b)(6) dismissal, the court cannot address issues of motive and intent until it determines whether the infringer alleged sufficient facts to claim that the owner’s communications with the ISP were “objectively baseless in the sense that no reasonable litigant could reason-

ably expect success on the merits." *PRE*, 508 U.S. at 63. The *PRE* Court rejected a similar argument that summary judgment was premature because discovery was needed on issues unrelated to objective reasonableness. *See* 508 U.S. at 65.

Second, even if the court does not dismiss the counterclaims under Rule 12(b)(6), the court then must determine under Rule 12(c) whether the pleadings show that the letters were not "objectively baseless." The court can simply analyze the cease-and-desist letters, the comparison of web pages, or other verified allegations or attachments to the pleadings to decide whether or not the notice to the ISP was "objectively baseless." The parties do not need to waste time and money conducting discovery on issues unrelated to determining objective baselessness.

Do not forget that in addition to asserting the *Noerr-Pennington* doctrine, you also must determine whether the infringer properly alleged all of the elements of tortious interference claims. For such claims, the infringer is unlikely to be able to properly allege that the copyright owner acted without justification where the undisputed

allegations show that the notice to the ISP invokes the DMCA and provides some plausible evidence of unauthorized copying as the burden of showing that the acts were without justification is normally very high. *See, e.g., Shapiro & Son Bedspread Corp. v. Royal Mills Assoc.*, 764 F.2d 69, 75 (2d Cir. 1985) (seeking to protect copyright by alerting a third party of infringement constitutes justification defense to tortious interference with contract); *Filmar Racing, Inc. v. Stewart*, 141 N.C. App. 668, 674, 541 S.E.2d 733,738 (2001) (the "complaint must admit of no motive for interference other than malice"). Even if the infringer makes such allegations, it will likely lose on summary judgment. *See, e.g., Rossi*, 391 F.3d 1000 (compliance with DMCA's notice and takedown procedures based on good faith belief of copyright infringements being present on websites met standard for "justification").

For tortious interference with prospective advantage, the infringer may not be able to allege identities of specific third parties or of specific contracts that the specific third parties would have entered into if the DMCA notice had not been

sent, or that the owner had any contact whatsoever with the infringer's prospective customers. *See, e.g., Burgess v. Busby*, 142 N.C. App. 393, 404, 544 S.E.2d 4, 10 (2001) (claim dismissed for failing to allege "any particular prospective relationships with which defendant tortiously interfered"). Moreover, even if properly alleged, it is unlikely that any evidence of such information exists to defeat a summary judgment motion. ●

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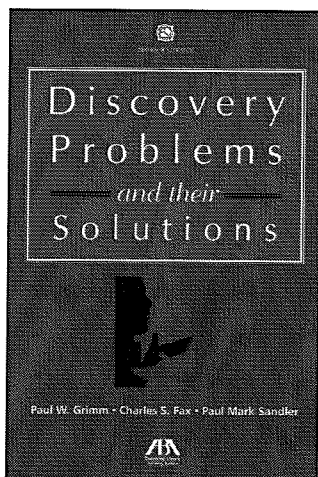
Endnotes

¹ The *McGuire* court held that given that petitioning immunity protects joint litigation, it would be absurd to hold that it does not protect those acts reasonably and normally attendant upon effective litigation. The litigator should not be protected only when he strikes without warning. If litigation is in good faith, a token of that sincerity is a warning that it will be commenced and a possible effort to compromise the dispute. 694 F.2d at 1366.

New

Discovery Problems and their Solutions

Paul W. Grimm, Charles S. Fax, and Paul Mark Sandler



Lawyers and clients today devote enormous time, effort, and expense to discovery. More often than not, discovery, and not trial, is the central battleground of a case. This concise handbook, written by a federal judge and two experienced practitioners, describes the problems that civil litigators encounter most frequently in pretrial discovery and presents suggestions and strategies for solving these problems. Following a background discussion on the scope and types of discovery, discovery problems are presented as hypotheticals (many of which the authors have encountered in their experience) followed by a discussion that includes the law and helpful practice tips.

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