

1 HARVEY SISKIND JACOBS LLP
D. PETER HARVEY (State Bar No. 55712)
2 IAN K. BOYD (State Bar No. 191434)
Three Embarcadero Center, Suite 1060
3 San Francisco, California 94111
Telephone: (415) 391-7112
4 Facsimile: (415) 391-7124

5 SHAW PITTMAN
LAWRENCE GOTTS (*pro hac vice*)
6 MARK KOEHN (*pro hac vice*)
JAMES M. ROSS (*pro hac vice*)
7 1650 Tysons Boulevard
McLean, Virginia 22102-4859
8 Tel: (703) 770-7900
9 Fax: (703) 770-7901

10 Attorneys for Plaintiff,
CDDDB, Inc. d/b/a Gracenote

11
12 IN THE UNITED STATES DISTRICT COURT
13 FOR THE NORTHERN DISTRICT OF CALIFORNIA
14 SAN JOSE DIVISION

15 _____)
16 CDDDB, INC.,)
d/b/a GRACENOTE,)

17 Plaintiff)

18 v.)

19)
20 ADAPTEC, INC., and ROXIO, INC.)

21 Defendants.)
22)
23)
24 _____)

Case No. C.01-20428 JW

**REPLY IN SUPPORT OF PLAINTIFF
GRACENOTE'S MOTION TO DISMISS
CERTAIN COUNTERCLAIMS, STRIKE
CERTAIN DEFENSES, AND REQUIRE A
MORE DEFINITE STATEMENT
OF CERTAIN COUNTERCLAIMS**

Date: October 15, 2001

Time: 9:00 am

Courtroom: Hon. James Ware

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page

I. DEFENDANTS FAIL TO STATE A CLAIM UNDER THE SHERMAN ACT 2

 A. Defendants Fail To Allege Antitrust Injury – Namely Injury To Competition 4

 B. Defendants Fail To Allege Monopoly Power Or A Dangerous Probability Of
 Acquiring Monopoly Power 7

 C. Defendants Fail To Allege Adequately Any Anticompetitive Conduct, Fraud
 Or Inequitable Conduct 9

II. DEFENDANTS FAIL TO STATE A CLAIM FOR SERVICE MARK
UNENFORCEABILITY 11

III. DEFENDANTS FAIL TO STATE A CLAIM FOR TORTIOUS INTERFERENCE
WITH EXISTING OR EXPECTED BUSINESS RELATIONSHIPS 12

IV. DEFENDANTS' AFFIRMATIVE DEFENSES MUST BE STRICKEN FOR
FAILURE TO GIVE FAIR NOTICE, AS REQUIRED BY FED. R. CIV. P. 8(B)..... 13

 A. Defendants Fail To Allege Adequately Their Patent Invalidity Defense 13

 B. Defendants Fail To Allege Adequately Their Patent Misuse, Service Mark
 Misuse, and Unclean Hands Defenses 13

 C. Defendants Fail To Allege Adequately Their Consent, Waiver, and Estoppel
 Defenses..... 14

V. DEFENDANTS MUST PROVIDE A MORE DEFINITE STATEMENT OF THEIR
SEVENTH AND TENTH COUNTERCLAIMS 14

VI. CONCLUSION 15

TABLE OF AUTHORITIES

Cases

Abbott Laboratories v. Brennan, 952 F.2d 1346 (Fed. Cir. 1991) 3, 4, 7

Advanced Cardiovascular Systems, Inc. v. Medtronic, Inc., No. 95-3577, 1996 U.S. Dist. LEXIS 11696 (N.D. Cal. July 24, 1996) 14

Advanced Cardiovascular Systems, Inc. v. Scimed Systems, Inc., 40 USPQ2d 1291 (N.D. Cal. 1996)..... 13

C.R. Bard, Inc. v. M3 Systems, Inc., 157 F.3d 1340 (Fed. Cir. 1998)..... 12

Chiron Corp. v. Abbott Labs, 156 F.R.D. 219 (N.D. Cal. 1994)..... 9, 10, 11

Cook, Perkiss & Liehe, Inc. v. Northern California Collection Service, Inc., 911 F.2d 242 (9th Cir. 1990)..... 14

Formula One Licensing v. PurpleInteractive Ltd., No. C00-2222MMC, 2001 U.S. Dist. LEXIS 2968 (N.D. Cal. Feb. 6, 2001) 11

Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979) 6, 10

Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318 (Fed. Cir. 1998) 15

Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 452 F.2d 579 (7th Cir. 1971) 8, 9

Khoury v. Maly's of Calif., Inc., 14 Cal. App. 4th 612 (1993)..... 12, 13

McGlinchy v. Shell Chemical Co., 845 F.2d 802 (9th Cir. 1988)..... 5, 6

Mikohn Gaming Corp. v. Acres Gaming, Inc., 165 F.3d 891 (Fed. Cir. 1998) 15

Moore North America, Inc. v. Poser Business Forms, Inc., No. 97-712-SLR, 2000 U.S. Dist. LEXIS 14651 (D. Del. Sept. 29, 2000)..... 15

MRO Communications, Inc. v. American Telephone & Telegraph Co., No. 98-16716, 1999 U.S. App. LEXIS 32372 (9th Cir. Dec. 13, 1999)..... 8

Pollenex Corp. v. Sunbeam, No. 92 C 98, 1992 U.S. Dist. LEXIS 11735 (N.D. Ill. August 7, 1992)..... 2, 3, 4, 9

Raines v. Switch Mfg., 44 USPQ2d 1195 (N.D. Cal. 1997)..... 10

Seattle Totems Hockey Club, Inc. v. National Hockey League, 783 F.2d 1347 (9th Cir. 1986)..... 5, 6

Sun Microsystems, Inc. v. Dataram Corp., No. 96-20708 SW, 1997 U.S. Dist. LEXIS 4557 (N.D. Cal. Feb. 4, 1997) 9

Townshend v. Rockwell Int'l Corp., 55 USPQ2d 1011 (N.D. Cal. 2000)..... 3, 4, 7

Ultradent Products, Inc. v. Life-Like Cosmetics, Inc., 924 F. Supp. 1101 (D. Utah 1996) 3, 4, 9

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) . 2, 3, 4, 9, 10

Statutes, Codes and Miscellaneous Citations

35 U.S.C. § 285..... 4, 7

35 U.S.C. §§ 101, 102, 103, 112, or 116 13

The Lanham Act 14, 15

1 In response to Gracenote's motion, Defendants have not amended their counterclaims or defenses, or
2 even offered to do so, in order to address the numerous defects identified by Gracenote. Presumably, this is
3 because they know that, within the bounds of good faith pleading, a proper factual basis cannot be mustered to
4 support their antitrust counterclaims, or to cure their other pleading deficiencies.

5 Suffice it to say that Gracenote vigorously disputes Defendants' depiction of Gracenote as some sort of
6 scheming evil-doer. Defendants' sensational remarks, charging that Gracenote "lured" Adaptec and other software
7 developers into submission and thereafter sought a "\$10 million ransom" (far-fetched as they are), have absolutely
8 no bearing on whether Defendants have pleaded sufficient facts to state a claim (or defense) for antitrust, fraud,
9 inequitable conduct, misuse, unclean hands, tortious interference or unfair competition. Even accepting such
10 allegations as true (they, of course, are not), they provide no basis for denial of Gracenote's motion.

11 The core dispute between the parties concerns the infringement, validity and enforceability of Gracenote's
12 intellectual property rights and the meaning and effect of the parties' 1999 database access agreement. Gracenote
13 is seeking no more than to prevent Defendants from getting a "free ride" from its intellectual property -- rather
14 than negotiating an appropriate royalty from Gracenote. In response to Gracenote's complaint, and presumably in
15 an effort to dissuade Gracenote from pursuing its *legitimate* claims, Defendants attempt to dress up ordinary
16 patent, trademark and contract defenses as antitrust and other tort causes of action, which have no basis in the
17 factual allegations.

18 Defendants' Sherman Act counterclaim warrants particular scrutiny, not only because of the tremendous
19 complexity and cost of antitrust disputes, but because of the context in which it is being raised. The market reality
20 is that Defendants are well-established, multi-million dollar software companies. The assertion that Gracenote, a
21 small, emerging, and not yet profitable company, has bullied Defendants, or has monopolized or is on the verge of
22 monopolizing the entire market for access to Internet CD databases, is implausible on its face, and cannot be
23 supported by the requisite allegations regarding injury to competition, market share, ability to control prices or
24 barriers to entry, among others. That same skepticism should permeate the Court's review of Defendants' other tort
25 claims, which have an equally inadequate basis in the factual allegations.

26 ///

27 ///

1 **I. DEFENDANTS FAIL TO STATE A CLAIM UNDER THE SHERMAN ACT**

2 To sustain their Sherman Act Counterclaim, Defendants agree they must “allege *sufficient facts* from
3 which the court can discern the elements of an injury resulting from an act forbidden by the antitrust laws.”
4 (Opposition at 6, emphasis added). Defendants do not dispute that conclusory recitations of the elements of a
5 cause of action are not sufficient. Nonetheless, Defendants fail to allege facts sufficient to discern any of the
6 *three key and requisite elements* of a Sherman Act, § 2 claim, namely (1) antitrust injury to *competition*,
7 (2) either monopoly power or a dangerous probability of acquiring monopoly power, and (3) anticompetitive
8 conduct. A failure to make adequate factual allegations on even one of these three elements is "enough to
9 doom the counterclaim." *Pollenex Corp. v. Sunbeam*, No. 92 C 98, 1992 U.S. Dist. LEXIS 11735 at *3 (N.D.
10 Ill. August 7, 1992).

11 Defendants criticize Gracenote's argument as reading "like it was cobbled together from a generic
12 antitrust treatise." (Opposition at 6.) This criticism, unwarranted as it is, reveals the greater flaw in
13 Defendants' opposition – namely their disregard of standard antitrust principles. Defendants emphasize that
14 their antitrust counterclaim is based upon *Walker Process*. Regardless of the nature of the alleged anti-
15 competitive conduct, however, Defendants are required to plead sufficient facts from which *all* of the elements
16 of a claim for monopolization or attempted monopolization may be discerned. Other than the heightened
17 pleading requirement applicable to Defendants' charges of fraud, the pleading requirements for a *Walker*
18 *Process*-type antitrust claim are no different than any other Section 2 antitrust claim. *All* elements of a Section
19 2 offense must be adequately pleaded. Thus, contrary to Defendants' intimations, "generic" antitrust law is
20 equally applicable to Defendants' *Walker Process* claim as to any other type of antitrust claim. Like any other
21 Sherman Act claimant, Defendants must plead sufficient facts from which an injury to competition and either
22 the existence or probability of acquiring monopoly power may be discerned. Defendants have not done so in
23 this case.

24 Defendants further criticize Gracenote's argument as lacking sufficient case law support. (Opposition
25 at 6-7.) Defendants' criticism is both inaccurate and misplaced. Gracenote cites five (not three as Defendants
26 wrongly assert) patent antitrust cases – all of which support Gracenote’s motion. In addition to *Walker*
27
28

1 | *Process, Abbott Labs, and Pollenex*,¹ Gracenote also relies upon *Townshend v. Rockwell Int'l Corp.*, 55
2 | USPQ2d 1011, 1019 (N.D. Cal. 2000) (dismissing infringement defendant's sham patent litigation antitrust
3 | counterclaim) and *Ultradent Products, Inc. v. Life-Like Cosmetics, Inc.*, 924 F. Supp. 1101, 1116 (D. Utah
4 | 1996) (dismissing infringement defendant's antitrust counterclaim), neither of which is addressed by
5 | Defendants. Moreover, the non-patent cases which address the elements of antitrust injury and monopoly
6 | power are just as pertinent as the so-called *Walker Process* cases, because these elements must be pled in the
7 | same manner in patent cases as in any other antitrust case. The irony in Defendants' silly "case counting"
8 | exercise is that Defendants themselves have ***not cited a single case*** in which an antitrust counterclaim filed in
9 | response to a patent infringement complaint has survived a motion to dismiss. This reflects the serious
10 | scrutiny given these types of counterclaims, and the fact that far more than the typical patent defenses are
11 | required to support an antitrust claim.

12 | Finally, in a failed effort to find support for their counterclaim, Defendants completely mischaracterize
13 | the Supreme Court's decision in *Walker Process*, as well as Gracenote's reliance on that decision. The *Walker*
14 | *Process* Court stated: "[t]o establish monopolization or attempt to monopolize . . . it would . . . be necessary to
15 | appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product
16 | involved. . . ." 382 U.S. at 177 (remanding counterclaim for clarification of antitrust allegations).
17 | Defendants' argument that "[t]his is a matter of proof," not a pleading requirement, is a distortion of the
18 | *Walker Process* opinion. (Opposition at 7, quoting *Walker Process*, 382 U.S. at 178.) Contrary to Defendants,
19 | a reading of the entire paragraph of the Supreme Court's decision makes clear that what "is a matter of proof"
20 | is whether there are effective non-infringing substitutes for the patented device, not whether the patent-in-suit
21 | dominates the relevant market. Indeed, at least one district court has relied upon the very same *Walker*
22 | *Process* language to impose a pleading requirement. *Pollenex*, 1992 U.S. Dist. LEXIS 11735 at *4 (relying

25 |
26 | ¹ *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965); *Abbott Laboratories v.*
27 | *Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (affirming dismissal of antitrust counterclaim); *Pollenex Corp. v.*
28 | *Sunbeam Corp.*, No. 92 C 98, 1992 U.S. Dist. LEXIS 11735 at *3 (dismissing antitrust counterclaim). Contrary to
Roxio's arguments, *Walker Process* did not address the sufficiency of defendant's antitrust pleading, but merely remanded
the case to allow the defendant to attempt to adequately plead his counterclaim. As explained in greater detail below,
Roxio's attempts to distinguish the *Pollenex* and *Abbott Labs*. cases miss the mark.

1 upon above quote from *Walker Process* and dismissing antitrust counterclaim for failure to allege dominance
2 of plaintiff's patent).

3 Defendants' counterclaim, like those in *Townshend*, *Abbott Labs*, *Pollenex* and *Ultradent*, is devoid of
4 factual allegations reflecting any real world anti-competitive effects and is nothing more than a futile attempt
5 to transform ordinary patent defenses into a claim under the antitrust laws. The patent statute provides
6 adequate redress for Defendants' assertions of invalidity and inequitable conduct, if proven. Indeed, if
7 Gracenote's suit is as baseless as Defendants (incorrectly) assert, then Defendants may seek their attorneys'
8 fees and costs pursuant to 35 U.S.C. § 285. But there is no factual basis, in the allegations of Defendants'
9 counterclaim or elsewhere, for bogging down this lawsuit in the morass of antitrust. The Defendants antitrust
10 claim, which only serves to obfuscate the real issues in this case, should be dismissed.

11 **A. Defendants Fail To Allege Antitrust Injury – Namely Injury To Competition**

12 The antitrust laws were designed to protect consumers and competition, and not to address injuries to
13 individual market participants where the alleged conduct has no effect on overall market conditions.
14 Defendants have not, and cannot, allege any increase in prices, decrease in output, elimination of competitors,
15 increase in Gracenote's market share, or any other adverse impact on competition in the relevant market.
16 While Defendants allege that Gracenote's attempts to enforce its '680 patent are anti-competitive, there is no
17 allegation that these efforts have had any effect on prices, output or the level of competition in the market for
18 access to Internet CD databases. Indeed, there is nothing in Defendants' pleadings to indicate that prices have
19 risen above the zero dollar level set forth in Gracenote's 1999 contract with Adaptec. In fact, there is nothing
20 in Defendants' counterclaim to indicate that the market has done anything but simply ignore Gracenote's
21 assertion of its patent and other intellectual property rights and continue to operate as if no such assertion had
22 ever been made. Significantly, Defendants acknowledge that they are *not* Gracenote's competitors
23 (Opposition at 13), and fail to include any allegations of any impact on Gracenote's "true" competitors in the
24 relevant market. To the contrary, the allegations of the counterclaim indicate that Gracenote's *competitors are*
25 *now benefiting* from Defendants' diversion of their business *from Gracenote to them*.

26 Defendants group their allegations of injury into three categories: (1) injury to themselves in their
27 business and property, (2) injury to some of Gracenote's alleged competitors, FreeDB and MusicBrainz, and
28 (3) injury to end users. (Opposition at 13.) None of these allegations is sufficient to sustain Defendants'

1 antitrust counterclaim.

2 First, Defendants allege injury to themselves, including "harm to customer relationships and business
3 reputation," and the costs of defending the lawsuit. (Opposition at 13, 14.) Controlling precedent from the
4 Ninth Circuit and this Court (cited in Gracenote's opening brief but not addressed in Defendants' opposition)
5 holds that these types of alleged injury are *not* sufficient to state a claim under Sherman Act, Section 2.
6 Defendants stress that they are a *consumer*, not a competitor in the alleged relevant market for access to
7 Internet CD databases. But regardless of the role Defendants play in the relevant market, the mere allegation
8 of injury to *an individual market participant* is *not* by itself sufficient to support an antitrust claim. "It is
9 injury to the market or to competition in general, *not merely injury to individuals or individual firms* that is
10 significant." *McGlinchy v. Shell Chemical Co.*, 845 F.2d 802, 812 (9th Cir. 1988) (affirming judgment on the
11 pleadings for failure to allege antitrust injury) (emphasis added); *see also Seattle Totems Hockey Club, Inc. v.*
12 *National Hockey League*, 783 F.2d 1347 (9th Cir. 1986), 1350 (9th Cir. 1986) ("[a] plaintiff has the burden to
13 plead and prove that the defendant's actions harmed competition, not that the actions harmed plaintiff in its
14 capacity as a competitor").

15 Like Defendants, the unsuccessful antitrust claimant in each of these cases was *not* a competitor of
16 defendant. *McGlinchy*, 845 F.2d at 812 (terminated sales representative unable to sustain antitrust claim based
17 upon allegations of injury to its own business); *Seattle Totems*, 783 F.2d at 1350 (disappointed applicant for
18 NHL franchise unable to state antitrust claim based on allegations of injury to itself). In upholding these
19 dismissals, the Ninth Circuit stressed that an allegation of injury to *competition* in the relevant market is
20 necessary to state an antitrust claim. *McGlinchy*, 845 F.2d at 812-13 ("impact upon competitive conditions in
21 a definable market . . . distinguishes the antitrust violation from the ordinary business tort"); *Seattle Totems*,
22 783 F.2d at 1350 ("allegations of wrongful conduct by the NHL do not establish that competition in the
23 relevant market was injured by those acts").

24 Like the plaintiffs in *McGlinchy* and *Seattle Totems*, Defendants have alleged nothing more than
25 injury to themselves. There is no allegation that Gracenote's allegedly wrongful assertion of its patent has had
26 any adverse repercussions in the relevant market. Construing the pleadings in a light most favorable to
27 Defendants, they allege injury "beginning in or about November, 2000" when "Gracenote threatened
28 enforcement of the '680 patent." (Opposition at 14; Answer, ¶ 213.) But Defendants allege no change in

1 competitive conditions since that time. There is no allegation that FreeDB, MusicBrainz or any other provider
2 of access to Internet CD databases has ceased operating or cut back its operations as a consequence of
3 Gracenote's conduct or otherwise. Nor is there any allegation that prices for such access have increased, or
4 that the availability of access has been curtailed. Nor is there any allegation that any competitor has increased
5 its market share or that the number of competitors has changed. In short, no cognizable injury to competition
6 has been alleged.

7 Defendants rely upon *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 997 (9th Cir. 1979), to assert that
8 their litigation costs are cognizable as "antitrust injury." Defendants' reliance on *Handgards* is wholly
9 misplaced, confusing the issue of damages with the requirement to plead "injury to competition." While
10 *Handgards* discusses (in dicta) the *types of damages recoverable* by a successful claimant, it does not address
11 the sorts of injuries to competition that are sufficient to state a claim for an antitrust violation. *Handgards*, 601
12 F.2d at 997 (reversing damages award). As is clear from *McGlinchy* and *Seattle Totems*, pleading and proof of
13 *injury to competition* is a prerequisite to recovery of *any* type of damages. While one could imagine cases in
14 which litigation costs are one of many factors that result in injury to competitive conditions, there are no such
15 allegations here. There is no allegation (nor can there be) that Defendants' litigation costs are causing
16 decreased competition, increased prices or lower output among competitors in the relevant market. Indeed,
17 Defendants' status as a *consumer, rather than a competitor*, in the relevant market makes any such allegation
18 highly improbable, if not impossible. Defendants' bare allegation of litigation costs does not distinguish this
19 from any other patent infringement case. If Defendants' argument were accepted, then virtually *every* patent
20 infringement defendant could state an antitrust counterclaim, relying upon defense costs as the alleged injury.

21 The threshold for antitrust injury is far higher. While Defendants' litigation costs might be recoverable
22 under the patent statute, 35 U.S.C. § 285, they do not equate to the adverse market effects necessary to state a
23 cause of action under the Sherman Act. *Townshend*, 55 USPQ2d at 1019 ("[defendant's] allegations that
24 [plaintiff] initiated a patent infringement suit -- without any additional allegation of anti-competitive aspects of
25 this suit -- does not state an antitrust injury . . .").

26 Defendants' second and third categories of injury (injury to FreeDB and MusicBrainz and injury to end
27 users) are likewise insufficient. Defendants allege that "*if Gracenote is successful* [in the litigation], . . .
28 competitors such as FreeDB and MusicBrainz will be driven from the market," and *if such competitors* are

1 driven from the market, then consumers will be injured. (Opposition at 14-15, quoting Answer, ¶¶ 213, 166.)
2 These allegations are specious on their face, because *if Gracenote is successful* in the litigation, then by
3 definition, the '680 patent has been found *valid, enforceable and infringed*. Obviously, there can be no
4 antitrust violation, unless the '680 patent is found to be invalid or unenforceable. (Indeed, Defendants'
5 allegations of anticompetitive conduct are premised on allegations of invalidity and unenforceability.)
6 Defendants make no allegation of injury to competitors or end users that is not conditioned on Gracenote's
7 legitimate *success* in the litigation. Accordingly, no cognizable allegation of injury to competitors or end users
8 has been made. Indeed, Gracenote's assertion of its intellectual property rights has actually had the effect of
9 *increasing competition*, in view of Defendants' diversion of their business to Gracenote's competitor, FreeDB.

10 **B. Defendants Fail To Allege Monopoly Power Or A Dangerous Probability Of Acquiring**
11 **Monopoly Power**

12 Defendants agree that to prevail on their Sherman Act Counterclaim they must plead Gracenote's "ability
13 to lessen or destroy competition, including market power in the relevant market" or a dangerous probability of
14 gaining such power. (Opposition at 8, lines 4-5, quoting *Abbott Labs*, 952 F.2d at 1354.) Defendants have
15 alleged that the relevant market is "access to Internet CD databases," but have utterly failed to allege that the '680
16 patent confers Gracenote with monopoly power, or even a probability of acquiring monopoly power in that
17 market. "The commercial advantage gained by new technology and its statutory protection by patent do not
18 convert the possessor thereof into a prohibited monopolist." *Abbott Labs*, 952 F.2d at 1354 (affirming dismissal of
19 antitrust counterclaim for failure to allege sufficient facts tending to show existence of market power).

20 Defendants argue that "Gracenote itself claims [the '680 patent] excludes *all* competition in the relevant
21 market." (Opposition at 11, lines 13-14, emphasis added.) This is a gross mischaracterization of Defendants'
22 pleadings, which refer only to FreeDB and MusicBranz, and not to *all* competition. (*Compare* Opposition at 11,
23 lines 13-14 *with* Answer, ¶ 213.) In fact, Gracenote has expressly disclaimed any assertion that *all* competition is
24 excluded by its patent. (*See* motion at 11-12.) Even assuming the truth of Defendants' allegations that Gracenote
25 has asserted both FreeDB and MusicBrainz are using its intellectual property, this is a far cry from an allegation
26 that the '680 patent excludes *all* competitors in the relevant market. Defendants define the relevant market as
27 "*including*" FreeDB and MusicBrainz, but nowhere have Defendants alleged that these are Gracenote's *only*
28 competitors (nor can they). Indeed, as set forth in Gracenote's opening memorandum, "the relevant market as

1 defined by defendants . . . is much broader than the '680 patent . . ." and "[t]here are countless ways to make, use
2 and market an Internet-accessible database containing CD title and track information, without infringing
3 Gracenote's intellectual property rights." (Motion at 11, 12.)

4 More importantly, it is not sufficient to simply make allegations regarding *Gracenote's* contentions
5 concerning the scope of its patent. Rather, to support its antitrust counterclaim, Defendants must affirmatively
6 allege that the '680 patent confers market power, *i.e.*, the power to exclude all competition in the relevant market
7 (e.g., that there are no non-infringing substitutes). Defendants' counterclaim contains no such allegations. Indeed,
8 Defendants' counterclaim fails to allege that FreeDB, MusicBrainz, or any other competitor, let alone all such
9 competitors, are covered by Gracenote's patent. *To the contrary, Defendants affirmatively deny that FreeDB's*
10 *database system is covered by the '680 patent.* (See, e.g., Answer, ¶ 50.)

11 Gracenote is a small emerging company, struggling to enforce its intellectual property rights, and has yet
12 to record any profits whatsoever on its CD database service. Any allegation that a company of Gracenote's size
13 and status is likely to achieve market power must be met with extreme skepticism. Defendants rely on the
14 allegation that Gracenote allegedly *asked* for \$10 million for a two-year service agreement as indicative of market
15 power. Nowhere, however, have Defendants alleged that anyone actually *paid* this amount, or anything close to it,
16 for Gracenote's CD database services. Indeed, there is nothing in Defendants' allegations to indicate that
17 Gracenote or any of its competitors has been able to charge anything for providing access to an Internet CD
18 database, let alone supra-competitive prices. Nor is there any allegation that Defendants or any other market
19 participant has ceased using or providing access to an Internet CD database service as a result of Gracenote's
20 efforts to enforce its patent. See *MRO Communications, Inc. v. American Telephone & Telegraph Co.*, No. 98-
21 16716, 1999 U.S. App. LEXIS 32372 at *1 (9th Cir. Dec. 13, 1999) ("an inference of monopoly power from a high
22 market share is inappropriate where there is evidence of the defendant's inability to control prices or exclude
23 competitors"). Defendants fail to plead any facts supporting a probability that Gracenote might achieve market
24 power, such as dominance of Gracenote's patent, an actual ability to control prices or output, a shift in market
25 power, or any other economic indicia of Gracenote's ability to lessen or destroy competition.

26 Defendant's sole authority is readily distinguishable. In *Kearney & Trecker Corp. v. Giddings & Lewis,*
27 *Inc.*, 452 F.2d 579, 598 n.49 (7th Cir. 1971), which does not address the issue of sufficiency of the pleadings, the
28 court's finding of market power was based on a number of factors not present here. First, a competitor of the

1 patentee admitted that the patent-in-suit was "broad enough to cover . . . not only every tool changing system now
2 in use, but also every tool changing system that might be conceived in the future." *Kearney*, 452 F.2d at 598
3 (internal quotations omitted). Here, Defendants make no such allegation with respect to the breadth of Gracenote's
4 patent. Second, the *Kearney* court relied upon the patentee's "impressive" size, "representing one-third of the
5 industry," the fact that at least one significant competitor was a licensee under the patent-in-suit, and that the
6 patentee's "sale and license arrangements were highly profitable." *Kearney*, 452 F.2d at 598. No similar
7 allegations are present or even possible here. Defendants' quote from *Kearney* is inapplicable because there is no
8 allegation, nor can there be, that any of Gracenote's competitors have accepted licenses, incurred royalty costs or
9 abandoned their operations as a result of Gracenote's patent or enforcement efforts.

10 Absent a sufficient allegation of market power or dangerous probability, Defendants' antitrust
11 counterclaim must fail. *Ultradent*, 924 F. Supp. at 1116 (dismissing antitrust counterclaim for failure to allege
12 facts that would show a dangerous probability of achieving monopoly power); *Pollenex*, 1992 U.S. Dist. LEXIS
13 11735 at *3-5 (dismissing antitrust counterclaim that failed to allege market dominance of patent-in-suit, or that
14 enforcement of patent would enable patentee to increase market share).

15 **C. Defendants Fail To Allege Adequately Any Anticompetitive Conduct, Fraud Or**
16 **Inequitable Conduct**

17 Defendants agree that they are required to plead their claim of *Walker Process*-type fraud and inequitable
18 conduct with particularity. The opposition glosses over the most glaring deficiency in Defendants' allegations of
19 fraud. Defendants identify the "xmcd" software as prior art that was not disclosed to the USPTO, but their
20 pleadings fail to identify which of the many *versions* of that software were allegedly material to patentability, and
21 which *features* rendered it material. While Defendants go to great lengths to distinguish the *Sun Microsystems* and
22 *Chiron* cases,² they ignore the central point relied upon by Gracenote: In *Chiron*, defendants identified a seven-
23 page affidavit as being the source of the inequitable conduct, yet this Court found that their inequitable conduct
24 defense was not adequately pleaded because defendants failed to specify *which portion* of the affidavit was
25 fraudulent. *Chiron*, 156 F.R.D. at 223 ("[i]f Abbott cannot specify what about Dr. Steimer's seven-page declaration
26

27 ² *Sun Microsystems, Inc. v. Dataram Corp.*, No. 96-20708 SW, 1997 U.S. Dist. LEXIS 4557 (N.D. Cal. Feb. 4,
28 1997); *Chiron Corp. v. Abbott Labs*, 156 F.R.D. 219 (N.D. Cal. 1994).

1 is deceptive, then Abbott may not allege that it is fraudulent"). The magnitude of the xgcd software renders
2 Defendants' pleadings far more vague and indefinite.

3 A single version of the xgcd software contains over 400 files and over 1500 pages of computer code, and
4 at least 13 such versions were released prior to the effective filing date of the '680 patent. Defendants have failed
5 to identify which of the 13 versions, let alone which specific portion of the 400 files and 1500 pages of such
6 version, is alleged to be material and to render the claims unpatentable. Defendants also fail to identify which
7 *claims* of the pending applications they believe were rendered unpatentable, and why the xgcd software was *not*
8 *cumulative* of the other prior art considered by the USPTO.³ Further, Defendants' continued reliance upon
9 Gracenote's request to remove Ti Kan as an inventor as basis for their fraud and inequitable conduct allegations
10 defies all logic. Defendants allege fraud and inequitable conduct *before the USPTO*, yet Gracenote's request to
11 correct inventorship has been made *solely to this Court*. No information, misleading or otherwise, has been
12 submitted to the USPTO on this issue.

13 Simply stated, if Defendants have a specific basis for asserting fraud, it must be particularized in their
14 pleadings. Gracenote should not be required to somehow divine what aspect of the 1500 pages from each of the
15 13 versions of the xgcd software that Defendants somehow believe is material and non-cumulative, and in respect
16 of what claim element. If Defendants are unable to particularize the fraud at this time, they should not be
17 permitted to levy this serious allegation until such time (if ever) that they can.

18 Defendants' assertion of sham litigation is similarly inadequate. Defendants' unsupported and conclusory
19 allegation that Gracenote knew its patent "to be invalid and unenforceable," is insufficient to overcome the
20 presumption that Gracenote's infringement suit is brought in good faith. *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157
21 F.3d 1340 (Fed. Cir. 1998) (recognizing presumption); *Handgards*, 601 F.2d at 996 ("a patentee's infringement suit
22 is presumptively in good faith"). Under this Court's precedent, such conclusory allegations cannot form the basis
23 for a claim or defense based on a sham litigation theory. *Raines v. Switch Mfg.*, 44 USPQ2d 1195, 1200 (N.D. Cal.
24 1997) ("if a bare allegation of bad faith litigation were sufficient to defeat the Noerr-Pennington bar, every
25

26
27 ³ Defendants' citation of *Walker Process* for the proposition that "an 'appraisal' of the relative relevance of the prior
28 art" is "a question of proof" is a gross misapplication of authority. (Opposition at 9 n. 34.) As discussed above, the
"appraisal" language in *Walker Process* relates to the issue of market power, and says nothing about the requirement to
plead that allegedly withheld prior art is not cumulative of that already considered by the USPTO.

1 claimant would be able to avoid the intent of the Supreme Court merely by alleging bad faith on the part of the
2 party seeking to enforce the patent"); *see also Formula One Licensing v. PurpleInteractive Ltd.*, No. C00-
3 2222MMC, 2001 U.S. Dist. LEXIS 2968 at *6 (N.D. Cal. Feb. 6, 2001) (allegations of sham litigation "must be
4 pleaded with specificity").

5 **II. DEFENDANTS FAIL TO STATE A CLAIM FOR SERVICE MARK UNENFORCEABILITY**

6 As correctly noted by Defendants, Gracenote seeks dismissal of only that *portion* of Defendants'
7 fourth counterclaim that seeks a declaratory judgment of service mark unenforceability. Defendants'
8 counterclaim is devoid of any allegation of specific intent to deceive the USPTO, an essential element of
9 trademark unenforceability. Moreover, no allegation of deceptive intent can possibly be made because there is
10 no dispute that the matters allegedly misrepresented or withheld *were already known to the USPTO*.

11 Defendants rely upon the following alleged misstatements and omission: (1) Gracenote's arguments to
12 the trademark examiner that "[CDDDB] is not descriptive of the services" and "[n]either 'Compact Disc
13 Database' nor CDDDB is a [c]ommon [d]escriptive term[.]" and (2) Gracenote's alleged failure to disclose
14 information regarding "multiple instances in which Gracenote . . . had used 'CDDDB' as a descriptive term for
15 its services."⁴ (Answer, ¶ 160.) Gracenote's statements to the USPTO are not statements of fact, but mere
16 conclusory arguments as to the ultimate issue of descriptiveness. No trademark examiner would ever rely
17 upon such statements as a basis for allowing a registration. Moreover, as Defendants concede, the trademark
18 examiner was already aware of the pertinent facts because he "rejected [Gracenote's] application on the basis
19 that CDDDB was an abbreviation of Compact Disk and Data Base." (Opposition at 17, lines 5-6.) In view of
20 this admitted knowledge of the Trademark Examiner, nothing was concealed or misrepresented that the
21 USPTO did not already know, and no allegation of intent to deceive the USPTO can plausibly be made.

22
23 ⁴ In their brief, Defendants make additional factual assertions that are not only false, but find no support in their
24 counterclaim. First, Defendants assert that "Gracenote registered the CDDDB mark by denying to the trademark examiner
25 that CDDDB was an acronym for Compact Disc Data Base." (Opposition at 15-16.) Defendants provide no citation to
26 their pleadings in support of this utter falsehood. Second, Defendants assert that "in at least two *prior* trademark
27 applications the patent and Trademark Office had *already* forced Gracenote to disclaim the words 'CDDDB' and 'CDDDB
28 ENABLED' as merely descriptive." (Opposition at 17, emphasis added.) These assertions, and the further assertions of
fraud based thereon, are gross distortions of the facts and are unsupported by the pleadings. The public record reveals
that the applications in which Gracenote submitted the disclaimers were filed on January 18, 2000, *long after* the filing
date of the CDDDB application and nearly four months after submission of the response containing the alleged
misstatements regarding the CDDDB mark. (*See* 5/23/01 Koehn Decl. (Dkt. Item #21), Ex. 2; 10/1/01 Koehn Decl., Exs.
1-2.)

1 **III. DEFENDANTS FAIL TO STATE A CLAIM FOR TORTIOUS INTERFERENCE**
2 **WITHEXISTING OR EXPECTED BUSINESS RELATIONSHIPS**

3 In a futile attempt to support their tortious interference claim, defendants point to nothing more than a
4 conclusory allegation of disruption of customer relationships. Defendants make no specific factual allegations
5 from which any such interference may be inferred. For example, Defendants argue that existing customers
6 "may be deterred" from purchasing future Roxio products (Opposition at 20), but Defendants make no specific
7 allegation of declining sales. In fact, Defendants allege the contrary -- that Roxio's software products continue
8 to be "the best selling CD-burning software on the market." (Answer, ¶¶ 2, 142.) Defendants also argue that
9 "OEM relationships [are] disrupted" (Opposition at 20), yet their counterclaim contains no specific allegation
10 that any OEM customer has ceased to do business with Defendants or even threatened such action as a result
11 of Gracenote's conduct.

12 Further, under *Khoury v. Maly's of Calif., Inc.*, 14 Cal. App. 4th 612 (1993), Defendants must
13 specifically allege that actual disruption of customer relationships has occurred as a result of some interaction
14 between Gracenote and Defendants' customers, not merely as a result of an alleged breach of contract.
15 *Khoury*, 14 Cal. App. 4th at 618 (sustaining demurrer to tortious interference claim where "[t]he effect on
16 appellant's customers . . . were simply consequences of breach of contract"). The *Khoury* court's reasoning is
17 applicable here:

18 If a contract plaintiff could plead in a conclusory way that the defendant
19 maliciously intended to drive the plaintiff out of business, the tort of
20 interference with prospective business advantage would be routinely pleaded
in breach of contract cases. . . . Allowing such conclusory pleading would be
contrary to the cautious policy of the courts about extending tort remedies to
ordinary commercial contracts.

21 *Khoury*, 14 Cal. App. 4th at 618 (citations omitted). Defendants make a hollow attempt to distinguish *Khoury*
22 on the theory that Gracenote's conduct in terminating access to the CDDDB® database was somehow "directed
23 to Roxio's customers." (Opposition at 19, line 13.) In reality, Gracenote's conduct is no different from that of
24 the beauty products distributor in *Khoury* who ceased supplying plaintiff with the brand name products desired
25 by plaintiffs' customers. As in *Khoury*, the effect on Defendants' customers was simply a consequence of the
26 alleged breach of the parties' database access agreement. Even if, as Defendants argue, Gracenote's alleged
27 transmission of messages to past purchasers of Roxio's software products qualifies as direct interaction with
28 Defendants' customers (and not merely a breach of contract), Defendants have nevertheless failed to make any

1 particularized allegation of actual lost sales or severed customer relationships resulting from the alleged
2 messages. Defendants face an obvious difficulty in making any such allegation, since the only customers
3 receiving such messages were those who had *already* purchased Defendants' software.

4 **IV. DEFENDANTS' AFFIRMATIVE DEFENSES MUST BE STRICKEN FOR FAILURE TO GIVE**
5 **FAIR NOTICE, AS REQUIRED BY FED. R. CIV. P. 8(B)**

6 **A. Defendants Fail To Allege Adequately Their Patent Invalidation Defense**

7 Defendants have pleaded no factual predicate for patent invalidity based upon 35 U.S.C. §§ 101, 112, and
8 116. The only factual basis Defendants identify for their invalidity defense is their allegation of fraud on the patent
9 office. (Opposition at 29.) Fraud, however, is not a cognizable basis for any invalidity defense under sections of
10 the patent law that Defendants cite, namely: 35 U.S.C. §§ 101, 102, 103, 112, or 116. (Answer, ¶ 115.) To the
11 extent Defendants allege that the "xmcđ" software is prior art that renders the claims of the '680 patent
12 unpatentable, Defendants may have provided a sufficient factual predicate for the defense of invalidity under §§
13 102(a) or (b) and 103, *but not the remaining sections and subsections* of Title 35 relied upon by Defendants.
14 Defendants should therefore be required to amend their pleading to delete reference to 35 U.S.C. §§ 101, 102(c)-
15 (g), 112 and 116 because their pleadings are devoid of any factual basis for any defense of invalidity under these
16 sections. *See Advanced Cardiovascular Systems, Inc. v. Scimed Systems, Inc.*, 40 USPQ2d 1291, 1293 (N.D. Cal.
17 1996) (striking invalidity defense, stating "[d]efendant's general reference to a series of statutory provisions does
18 not provide plaintiff with fair notice of the basis for this defense," but approving a proposed amendment that
19 limited the scope of the defense to 35 U.S.C. §§ 102 and 103).

20 **B. Defendants Fail To Allege Adequately Their Patent Misuse, Service Mark Misuse,**
21 **and Unclean Hands Defenses**

22 Defendants concede that their patent misuse, service mark misuse, and unclean hands defenses are based
23 entirely upon Defendants' allegations of fraudulent procurement and bad faith litigation. (Opposition at 30.)
24 Because these defenses are already separately pleaded (*see* Fourth and Eighth Affirmative Defenses), Defendants
25 generalized allegations of misuse are by their own admissions duplicative and not otherwise supportable. In any
26 event, for the reasons stated above and in Gracernote's Memorandum of Points and Authorities, these defenses
27 must be stricken for failure to allege fraud with specificity and failure to allege a factual basis the allegation that
28 Gracernote filed this action knowing its patent to be invalid and unenforceable. *See, e.g., Advanced Cardiovascular*
Systems, Inc. v. Medtronic, Inc., No. 95-3577, 1996 U.S. Dist. LEXIS 11696 at *41 (N.D. Cal. July 24, 1996)

1 (striking patent misuse and unclean hands defenses, stating "defendant must provide a factual basis for alleging
2 that [plaintiff] knew that [patents-in-suit] were invalid or unenforceable at the time the action was filed").

3 **C. Defendants Fail To Allege Adequately Their Consent, Waiver, and Estoppel Defenses**

4 Defendants have recast the entirety of ¶¶ 162 through 174 of their Answer, in an effort to explain the
5 factual basis for their affirmative defenses of consent, waiver and estoppel. In so doing, Defendants rely upon at
6 least one factual allegation nowhere contained in their pleadings. In particular, defendants now allege in their
7 opposition (but not in their pleadings) that "Gracenote induced Roxio . . . to include a link in its software products
8 to Gracenote's CDDDB service by promising that access to the service was royalty-free and would remain so."
9 (Opposition at 30-31.) This new allegation forms an essential part of the factual basis for Defendants' estoppel
10 defense. Defendants should therefore be required to amend their pleadings either to strike the defense or include
11 this factual allegation – and should thereafter be held accountable for the factual basis (or absence thereof) for
12 such allegation.

13 **V. DEFENDANTS MUST PROVIDE A MORE DEFINITE STATEMENT OF THEIR SEVENTH
14 AND TENTH COUNTERCLAIMS**

15 Defendants have asserted nothing more than a conclusory allegation of violation of Lanham Act, Section
16 43(a). A more definite statement of the factual basis for the claim, including the substance of the alleged false
17 statement of fact, is necessary to enable Gracenote to answer the counterclaim. Vague and generalized statements,
18 such as that alleged by Defendants, are not actionable under the Lanham Act. *Cook, Perkiss & Liehe, Inc. v.*
19 *Northern California Collection Service, Inc.*, 911 F.2d 242, 246 (9th Cir. 1990) ("detailed or specific factual
20 assertions . . . are necessary to state a false advertising cause of action under the Act"). While the *Cook* case deals
21 with so-called "puffery," the requirement for pleading more than a detailed statement of fact is equally applicable
22 here.

23 In addition, Defendants fail to allege that Gracenote made the alleged statements in bad faith, as is
24 required when the alleged false advertisement concerns patent rights. *Mikohn Gaming Corp. v. Acres Gaming,*
25 *Inc.*, 165 F.3d 891, 897 (Fed. Cir. 1998) ("communication to possible infringers concerning patent rights is not
26 improper if the patent holder has a good faith belief in the accuracy of the communication"); *Hunter Douglas, Inc.*
27 *v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336 (Fed. Cir. 1998) ("federal patent law bars the imposition of liability
28 for publicizing a patent in the marketplace unless [it can be shown] that the patentholder acted in bad faith");

1 | *Moore North America, Inc. v. Poser Business Forms, Inc.*, No. 97-712-SLR, 2000 U.S. Dist. LEXIS 14651 at *17
2 | (D. Del. Sept. 29, 2000) ("for defendant to prevail on its counterclaims under the Lanham Act, it must show that
3 | plaintiff acted in bad faith").

4 | Defendants likewise identify no factual basis for their UBPA claim other than that relied upon to support
5 | their Sherman Act, Lanham Act, tortious interference, patent unenforceability, patent misuse, service mark
6 | unenforceability, and service mark misuse counterclaims and affirmative defenses. (Opposition at 32, lines 12-17.)
7 | Defendants' UBPA claim must therefore fail for the same reasons (and to the same extent) as their other
8 | counterclaims and defenses.

9 | **CONCLUSION**

10 | For all of the foregoing reasons, and the reasons set forth in Gracenote's Memorandum of Authorities,
11 | Gracenote's motion to dismiss Defendants' counterclaims and strike Defendants' affirmative defenses must be
12 | granted.

13 | Dated: October 1, 2001

Respectfully submitted,

14 |
15 | /s/ Ian K. Boyd
16 | D. Peter Harvey
17 | Ian K. Boyd
18 | HARVEY SISKIND JACOBS LLP

19 | Lawrence J. Gotts
20 | Mark Koehn
21 | James M. Ross
22 | SHAW PITTMAN

23 | Attorneys for Plaintiff
24 | CDDDB, Inc. d/b/a Gracenote
25 |
26 |
27 |
28 |