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7
8 **UNITED STATES DISTRICT COURT**
9 **NORTHERN DISTRICT OF CALIFORNIA**
10 **SAN JOSE DIVISION**

11 CDDDB, INC., d/b/a GRACENOTE,

12 Plaintiff,

13 v.

14 ADAPTEC, INC. and ROXIO, INC.,

15 Defendants.

Case No. C01-20428 JW

**OPPOSITION TO PLAINTIFF'S
MOTION TO DISMISS CERTAIN
COUNTERCLAIMS, STRIKE CERTAIN
DEFENSES, AND REQUIRE A MORE
DEFINITE STATEMENT OF CERTAIN
COUNTERCLAIMS**

Hearing Date: September 24, 2001
Time: 9:00 a.m.
Courtroom: Hon. James Ware

18 ROXIO, INC.

19 Counterclaimant,

20 v.

21 CDDDB, INC., d/b/a GRACENOTE,

22 Counterdefendant.

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STATUTES

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1 **I. INTRODUCTION.**

2 Before this litigation began, Roxio¹ tried to counsel Gracenote away from its threat
3 to sue Roxio if it refused to pay a \$10 million ransom to allow its customers continued access to a
4 service that Gracenote still advertises as a “free” service. Gracenote spurned that advice, filed its
5 lawsuit and asked for a temporary restraining order to stop Roxio from shipping its software
6 products. This Court denied Gracenote’s request because Gracenote could not show a likelihood
7 of success on the merits. Now Gracenote objects to having to answer for its own illegal conduct,
8 including its attempt to enforce a fraudulent patent to acquire monopoly power in the market for
9 Internet CD database services. Having filed this suit (asserting eight claims for relief), Gracenote
10 is hardly in a position to cry that the counterclaims threaten to “spiral the case out of control.”
11 But of course, neither Gracenote’s argument that the counterclaims will introduce more
12 complexity or its characterization of Roxio’s motivation has any relevance to the Motion.

13 The issue is whether Roxio adequately pleaded its claims. These *pleading* issues
14 are:

- 15 1) The Supreme Court’s decision in *Walker Process Equipment, Inc. v. Food*
16 *Machinery & Chemical Corp.* holds that § 2 of Sherman antitrust act precludes the
17 use of fraudulent patents to obtain monopoly power in relevant economic markets.
18 Has Roxio adequately pleaded an antitrust violation by alleging that Gracenote:
19 (a) obtained the ‘680 patent by fraud, (b) claimed to have monopoly power in the
20 market, and (c) sued Roxio for infringement of the patent to prevent Roxio from
21 doing business with any of Gracenote’s competitors?
- 22
- 23 2) The trademark laws of the United States do not allow trademark protection for
24 acronyms of generic terms. In applying for the trademark “CDDB” Gracenote told
25 the trademark office that “CDDB” was not an acronym, while at the same time it

26 ¹ Gracenote is suing both Adaptec, Inc. and Roxio, Inc. Roxio is a spin-off from Adaptec as of
27 May 14, 2001, and Adaptec no longer sells any of the software that is at issue in the Complaint.
28 For purposes of this Opposition, Roxio and Adaptec will be referred to collectively as “Roxio”
unless otherwise stated.

1 was publicly advertising that “CDDB” stood for (in its own words) “Compact Disc
2 DataBase.” Has Roxio adequately pleaded its Fourth Counterclaim by alleging
3 that Gracenote may not enforce trademark rights to the generic acronym “CDDB”,
4 that Roxio’s use of the mark is a fair use, and the registration of the mark was only
5 achieved by deceiving the trademark examiner?
6

7 3) Gracenote lured Adaptec into agreeing to provide its customers access to
8 Gracenote’s website based on the promise that such access would be “100%
9 royalty-free to developers.” After millions of copies of the software was sold,
10 Gracenote demanded \$10 million dollars to continue to provide the service to the
11 customers that had already purchased the software. When Roxio refused to pay
12 the ransom, Gracenote cut off access to Roxio’s customers and posted disparaging
13 remarks about Roxio and endorsing Roxio’s competitors that would be seen any
14 time Roxio’s customers attempted to access the site. Has Roxio adequately
15 alleged tortious interference with its customer relations and prospective business
16 advantage?
17

18 4) Patents procured through inequitable conduct are not enforceable. Inequitable
19 conduct may be established where an applicant intentionally fails to disclose
20 known, material prior art to the patent examiner. Did Roxio adequately plead this
21 defense by alleging that the applicants intentionally concealed prior art software
22 entitled “xmcd” that was written by one of the patent’s inventors and that covers
23 the exact same “invention” as that claimed in the patent?
24

25 6) Given that Roxio has alleged with specificity that Gracenote is seeking to enforce
26 a fraudulent patent and trademark, has Roxio adequately pleaded the defenses of
27 patent and trademark misuse and unclean hands?
28

1 7) Roxio alleges that it provided access in its software products to Gracenote's
2 website service only at *Gracenote's request* and in reliance on Gracenote's
3 published promises that the service was 100% royalty-free. Have the defendants
4 adequately pleaded the defenses of consent, waiver and estoppel?

5 The answer to each of these questions is that Roxio has clearly met its pleading
6 obligations, and thus, none of the arguments contained in Gracenote's Motion has any merit.

7 Gracenote's Motion largely ignores the standard for pleading motions under Rule
8 12. Not content to confine itself to the allegations of Roxio's pleading, Gracenote offers up a
9 self-serving counterstatement of facts (under the heading "Background"), purports to refer the
10 Court to matters outside the pleadings, purports to construe pleading language to draw inferences
11 in its favor rather than Roxio's, and continually invites the Court to find that Roxio cannot prove
12 what it has pleaded. None of this is proper on a motion to dismiss.² The counterclaims are more
13 than sufficient to state a claim under each theory presented and to sufficiently apprise Gracenote
14 of the basis for the claims.

15
16 **II. THE FACTS ALLEGED IN ROXIO'S ANSWER AND COUNTERCLAIMS MUST**
17 **BE ASSUMED TO BE TRUE.**

18 Gracenote sets forth its own version of the facts and the inferences it would have
19 the Court draw from its allegations.³ But that statement of the facts is wholly irrelevant to this
20 Motion. The facts upon which Gracenote's Motion must be decided are those pleaded by Roxio
21 in the Answer and Counterclaims, which must be assumed true. Gracenote agrees with this
22 standard in its memorandum, but then proceeds to ignore it. The facts as pleaded by Roxio
23 govern whether the pleading standards have been met. We turn now to a summary of those facts:

24 ² Similarly, Gracenote's argument that Roxio should be denied leave to amend is unsupported in
25 law. In the unlikely event that any of Gracenote's arguments are found by this Court to be
26 persuasive, Gracenote's request for dismissal with prejudice and without leave to amend is
27 beyond the pale of this Court's discretion. Gracenote does not support any argument that Roxio
28 cannot plead counterclaims, it just argues that such counterclaims will make the case more
 complicated. That is not a recognized reason for denying leave to amend.

³ Mot. at 3-5.

1 Gracenote operates an Internet service that that provides access to a database of
2 information about publicly available music CDs, which includes artist names and song titles.⁴
3 The software to compile and operate this database was released to the public under a General
4 Public License no later than 1993, by its author, Ti Kan, whom Gracenote describes as one of its
5 founders.⁵

6 Gracenote told Adaptec (Roxio's predecessor-in-interest) that Gracenote's service
7 was 100% royalty-free to encourage Adaptec to include the Gracenote service in Adaptec's
8 market leading CD writing software.⁶ A crucial aspect of Gracenote's business plan was to
9 increase the amount of traffic to its website by promoting the service with software developers,
10 thereby increasing its advertising revenue.⁷ Gracenote lured the software developers to provide a
11 link by promising that the service was royalty free.⁸ Based on Gracenote's representations,
12 Adaptec agreed to include a link to Gracenote's service in its CD-writing software.⁹

13 But at the same time Gracenote was making these public statements and luring
14 consumers and software developers into linking to its "free" Internet service, Gracenote was
15 secretly filing papers at the United States Patent Office to obtain a patent on the very software
16 "xmcld," which was written by one of Gracenote's founders and which had already been in the
17 public domain for several years before Gracenote filed its patent application.¹⁰ Because no patent
18 could issue on such public domain software, Gracenote concealed the existence of this software
19 from the patent office, despite a statutory obligation to disclose it.¹¹ Having withheld this
20 information, Gracenote received the '680 patent.

21
22 ⁴ Counterclaim at ¶¶143.

23 ⁵ Counterclaim at ¶¶144-45.

24 ⁶ Counterclaim at ¶¶163-165, 170

25 ⁷ Counterclaim at ¶163.

26 ⁸ Counterclaim at ¶165.

27 ⁹ Counterclaim at ¶¶169-170

28 ¹⁰ Counterclaim at ¶¶ 145, 149-154.

¹¹ Counterclaim at ¶¶ 151-154.

1 Gracenote did not stop at obtaining bogus patent rights, it sought bogus trademark
2 rights also. Gracenote registered the acronym “CDDDB,” which stands for **C**ompact **D**isk **D**ata
3 **B**ase. To register the trademark, Gracenote made false and misleading statements to the
4 trademark examiner that “CDDDB” was not descriptive of Gracenote’s services, and it withheld
5 information about the generic use of CDDDB and that Gracenote itself acknowledged publicly that
6 CDDDB is a descriptive acronym.¹²

7 Beginning in November 2000, Gracenote embarked on a campaign to enforce the
8 invalid and fraudulently procured patent.¹³ Gracenote threatened Roxio with enforcement of the
9 ‘680 patent if it dared to take its business to one of Gracenote’s competitors, such as FreeDB and
10 Music Brainz.¹⁴ And Gracenote suddenly demanded Roxio pay \$10 million for continued access
11 to the “free” Gracenote database, and then restricted access by Roxio’s customers when Roxio
12 refused to pay this supercompetitive price.¹⁵ And when such customers attempted to access the
13 database, they were treated to messages from Gracenote disparaging Roxio and its products.¹⁶

14 Gracenote then filed this action, claiming that its ‘680 patent precludes Roxio from
15 doing business with Gracenote’s competitors.¹⁷ But the ‘680 patent was fraudulently procured,
16 and no objective litigant could believe that Gracenote could enforce an invalid, fraudulently-
17 procured patent to keep its customers from doing business with its competitors.¹⁸

18 These and other facts pleaded in Roxio’s answer and counterclaims are more than
19 sufficient to overcome the objections raised by Gracenote’s Motion.
20
21
22

23 ¹² Counterclaim at ¶ 160.

24 ¹³ Counterclaim at ¶¶ 155-156.

25 ¹⁴ Counterclaim at ¶¶ 213-215.

26 ¹⁵ Counterclaim at ¶¶ 174-177.

27 ¹⁶ Counterclaim at ¶ 178.

28 ¹⁷ Counterclaim at ¶¶ 212-213.

¹⁸ Counterclaim at ¶ 219.

1 **III. ROXIO HAS ADEQUATELY PLEADED THAT GRACENOTE’S ATTEMPT TO**
2 **ENFORCE A FRAUDULENT PATENT TO ELIMINATE COMPETITION**
3 **VIOLATES SECTION 2 OF THE SHERMAN ANTITRUST ACT.**

4 In its Sixth Counterclaim, Roxio alleges that Gracenote seeks to enforce a
5 fraudulently procured patent to gain monopoly power in the relevant market for Internet access to
6 CD databases. Roxio satisfied the requirements for *pleading* an antitrust violation under the
7 Supreme Court decision in for a *Walker Process*.¹⁹ Dismissal is unwarranted.

8 In antitrust cases, “dismissals prior to giving the plaintiff ample opportunity for
9 discovery should be granted very sparingly.”²⁰ Indeed, the Ninth Circuit recently reiterated the
10 pleading standard on a motion to dismiss, which requires that all factual allegations in Roxio’s
11 counterclaim are to be taken as true and all reasonable inferences drawn in Roxio’s favor and
12 against Gracenote.²¹ Although Roxio has pleaded with particularity its allegations regarding
13 Gracenote’s scheme to fraudulently procure the ‘680 patent, no such heightened pleading
14 requirement exists for the remaining elements of Roxio’s *Walker Process* counterclaim. To the
15 contrary, “[a]ntitrust cases are not to be judged by a higher or different pleading standard than
16 other cases.... An antitrust plaintiff ‘need only allege sufficient facts from which the court can
17 discern the elements of an injury resulting from an act forbidden by the antitrust laws.’”²² In
18 light of that standard – a standard repeatedly misapprehended by Gracenote in its Motion – Roxio
19 has alleged sufficient facts in support of its antitrust claim to defeat Gracenote’s 12(b)(6) motion
20 to dismiss.

21 Gracenote’s attack on Roxio’s *Walker Process* counterclaim reads like it was
22 cobbled together from a generic antitrust treatise without concern for the nature of Roxio’s claim.
23 Indeed, of the 43 cases cited by Gracenote, only three deal with 12(b)(6) dismissals of *Walker*

24
25 _____
26 ¹⁹ *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

27 ²⁰ *Hospital Bldg. Co. v. Trustees of Rex Hospital*, 425 U.S. 738, 746 (1976).

28 ²¹ *Knevelbaard Dairies v. Kraft Foods, Inc.*, 232 F.3d 979, 984 (9th Cir. 2000).

²² *Id* (internal citations omitted).

1 *Process* antitrust claims.²³ Of those three, the controlling case, *Walker Process*, **supports Roxio’s**
2 **position, not Gracenote’s**, as the Supreme Court reversed the lower court’s granting of a motion
3 to dismiss.²⁴ Yet Gracenote quotes from *Walker Process* to imply a requirement that does not
4 exist at the pleading stage, saying: “to establish monopolization or attempt to monopolize... it
5 would... be necessary to appraise the exclusionary power of the illegal patent claim in terms of
6 the relevant market for the product involved.”²⁵ But on the very next page – in a passage not
7 cited by Gracenote – the Court made clear that such an appraisal was premature at the *pleading*
8 stage, concluding that “[t]his is a matter of proof... [therefore] we believe that the case should be
9 remanded for Walker to clarify the asserted violations of § 2 and to offer proof thereon.”²⁶

10 The overwhelming bulk of Gracenote’s argument is nothing more than an attempt
11 to obscure and inflate the pleading requirements applicable to Roxio’s *Walker Process* claim.
12 Fortunately, the true elements are readily stated. Generally speaking, “[i]n order to state a claim
13 for attempted monopolization, a plaintiff must prove: (1) specific intent to control prices or
14

15 ²³ In the roughly 10 pages devoted to attacking Roxio’s antitrust counterclaim, Gracenote cites to
16 43 different cases, of which only half are pleading cases, and of those, only three deal with a
17 *Walker Process* antitrust claim like the one at issue here – *Walker Process* itself, *Abbott*
18 *Laboratories, et al., v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991), and *Pollenex Corp. v. Sunbeam-*
Home Comfort, et al., 1992 U.S. Dist. LEXIS 11735 (N.D. Ill. 1992).

19 ²⁴ Neither *Abbott Labs* nor *Pollenex* advance Gracenote’s argument. In *Abbott Labs* the Federal
20 Circuit upheld a dismissal of a *Walker Process* claim because the antitrust plaintiff incorrectly
21 presumed that possession of a patent alone was sufficient to establish market power. As
22 explained *infra* in Section III.B, Roxio has not relied on any such presumption and has more than
23 adequately pleaded market power.

24 Similarly, *Pollenex* – an out-of-Circuit district court case – is distinguishable from the case at bar
25 since the *Pollenex* court was concerned about the lack of pleading regarding market power, and
26 after a prior dismissal, the antitrust plaintiff filed essentially the exact same deficient pleading.
27 Thus, *Pollenex* is doubly inapplicable here since this is Roxio’s first pleading of its counterclaim
28 and, as explained *infra*, it has adequately met its pleading requirements. Interestingly, after the
Pollenex case went to trial, the court found the asserted patent invalid due to inequitable conduct
and deemed the case “exceptional,” thereby supporting an award of attorney’s fees and costs
because the patent owner’s inequitable conduct was “egregious.” *Pollenex Corp. v. Sunbeam-*
Home Comfort, et al., 835 F. Supp. 403, 406 (N.D. Ill. 1993).

²⁵ Mot. at 11, quoting *Walker Process*, 382 U.S. at 177.

²⁶ 382 U.S. at 178.

1 destroy competition; (2) predatory or anticompetitive conduct to accomplish the monopolization;
2 (3) dangerous probability of success; and (4) causal antitrust injury.”²⁷ However:

3 In *Walker Process* the Court held that maintenance and
4 enforcement of a patent procured by knowing and willful fraud may
5 meet the intent and conduct elements of violation of the Sherman
6 Act, provided that the ability to lessen or destroy competition,
7 including market power in the relevant market, can also be shown.²⁸

8 As will be seen in the following sections, Roxio adequately pleaded each of these elements.

9 **A. Roxio has Pleaded with Particularity Facts Establishing that Gracenote**
10 **Engaged in a Knowing and Willful Scheme to Commit Fraud on the Patent**
11 **Office to Procure the ‘680 Patent that Gracenote is Now Attempting to**
12 **Enforce Against Roxio.**

13 Roxio has alleged with particularity the facts establishing Gracenote’s scheme to
14 procure the ‘680 patent by way of fraud on the Patent Office.²⁹ Patent fraud consists of a
15 “‘knowing, willful and intentional act, misrepresentation or omission before the PTO’ . . . [and] A
16 misrepresentation is material if the patent would not have issued ‘but for’ the omission.”³⁰

17 Roxio alleged that one of the named inventors on the ‘680 patent, Ti Kan,
18 previously produced a computer program known as “xmcd.” “The prior art xmcd software
19 disclosed the subject matter of all or many of the features claimed in the parent application and
20 the divisional application, and anticipated or rendered obvious some or all of the claims of those

21
22 ²⁷ *Cost Management Services, Inc. v. Washington Natural Gas Co.*, 99 F.3d 937, 950 (9th Cir.
23 1996).

24 ²⁸ *Abbott Labs*, 952 F.2d at 1354.

25 ²⁹ Since inequitable conduct is a “lesser offense” to a charge of patent fraud, the adequacy of
26 Roxio’s allegations regarding patent fraud is more than sufficient to sustain its related allegations
27 of inequitable conduct in Roxio’s Fourth Affirmative Defense. See *Nobelpharma AB v. Implant*
28 *Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998) (“Inequitable conduct in fact is a lesser
offense than common law fraud, and includes types of conduct less serious than ‘knowing and
willful’ fraud.”)

³⁰ *Nobelpharma*, 141 F.3d at 1070 (internal citations omitted).

1 applications, making those claims unpatentable.”³¹ This allegation, assumed to be true, as
2 required on a motion to dismiss, establishes the “but for” materiality of the xcmd prior art.

3 Roxio further alleged that Gracenote knowingly and willfully concealed this “but
4 for” material prior art from the PTO:

5 Roxio is informed and believes, and on that basis alleges, that the
6 applicants breached their duty of candor to the PTO and ***acted with***
7 ***the intent to deceive the PTO*** in failing to disclose xcmd and its
8 related database, and prior public use of xcmd and the database,
over one year before the priority date of the ‘680 patent. Thus,
Gracenote obtained the ‘680 patent by committing fraud on the
PTO.³²

9 These allegations are sufficient to establish Gracenote’s intentional fraud by deliberately omitting
10 any reference to the prior art xcmd program, which, had it been disclosed to the examiner, would
11 have resulted in the disallowance of the ‘680 patent.

12 In response, Gracenote complains that it is impossible to allege the examiner’s
13 reliance and but for materiality without “taking into account the other prior art that was before the
14 USPTO.”³³ Yet an “appraisal” of the relative relevance of the prior art disclosed by Gracenote
15 versus that which it consciously chose to conceal is, again, a question of proof which cannot be
16 decided on a motion to dismiss.³⁴

17 Similarly, Roxio’s allegations regarding Gracenote’s sham patent infringement
18 litigation are sufficient to survive the instant motion to dismiss. As Gracenote concedes,
19 litigation is a sham if it is: (1) “objectively baseless in the sense that no reasonable litigant could
20 realistically expect success on the merits” and (2) “the baseless lawsuit conceals ‘an attempt to
21 interfere directly with the business relationships of a competitor’ ... through the ‘use [of] the
22 governmental process – as opposed to the outcome of that process – as an anticompetitive
23 weapon.”³⁵ Roxio has alleged that “Gracenote’s attempts to enforce the [‘680] patent, knowing

24 ³¹ Counterclaim at ¶ 153.

25 ³² Counterclaim at ¶ 154.

26 ³³ Mot. at 14, lines 1-4.

27 ³⁴ *Walker Process*, 382 U.S. at 178.

28 ³⁵ *Professional Real Estate Investors, Inc., et al., v. Columbia Pictures Indus., Inc., et al.*, 508
U.S. 49, 60-61 (1993) (internal citations omitted) (hereinafter “PRE”).

1 it to be invalid and unenforceable, are in bad faith, constitute sham litigation, and violate federal
2 antitrust law and the laws against unfair competition.”³⁶ That allegation, coupled with the related
3 allegations of fraudulent procurement for the ‘680 patent, satisfy the first, objective prong of the
4 *PRE* sham litigation test, since no reasonable litigant could expect to prevail on the merits in
5 litigation to enforce a fraudulently procured patent.

6 Roxio has also satisfied the second, subjective prong of the *PRE* test by alleging
7 that:

8 Gracenote has made public statements that are likely to deceive
9 Roxio’s customers as to the merits of Gracenote’s claims. Roxio is
10 informed and believes, and based thereon alleges, that Gracenote is
11 aware that in addition to retail customers, Roxio markets its
12 products to many original equipment manufacturing (“OEM”) companies. Roxio is informed and believes, and on that basis
13 alleges, that Gracenote is aware that OEM companies are highly sensitive to disruption of their businesses and that *Gracenote intended that its public statements influence these companies to either avoid or cease doing business with Roxio.*³⁷

14 These allegations are sufficient to establish that Gracenote intended the filing of this lawsuit to
15 interfere with Roxio’s business relationships – independent of the ultimate outcome – thereby
16 satisfying the subjective prong as well.

17
18 **B. Roxio has Adequately Alleged that Gracenote has Market Power in the**
19 **Relevant Market and has a Dangerous Probability of Succeeding in**
20 **Monopolizing that Market.**

21 Roxio has identified both the relevant market and geographic area applicable to its
22 antitrust counterclaim – specifically, the relevant market is “access to Internet CD databases that
23 contain CD title and song track information for downloading by end users” and the United States
24

25
26 ³⁶ Counterclaim at ¶ 156.

27 ³⁷ Counterclaim at ¶ 178 (emphasis added).
28

1 is the geographic area.³⁸ Contrary to Gracenote’s assertion, Roxio has also identified Gracenote’s
2 competitors in the relevant market as including “FreeDB and MusicBrainz.”³⁹

3 Monopoly or market power in a relevant market is “the power to control prices or
4 exclude competition.”⁴⁰ As part of its scheme to wield the fraudulent ‘680 patent, Gracenote told
5 Roxio (and Roxio has so alleged in its counterclaim) that the price of the basic CDDDB1 service –
6 which had been previously provided to Roxio and its customers for nothing – would now cost \$10
7 million for the next two years.⁴¹ Only under the threat of its fraudulently procured ‘680 patent
8 could Gracenote expect to succeed in such an exorbitant and supracompetitive price demand.
9 Furthermore, Roxio has alleged that “Gracenote specifically intended its anticompetitive conduct
10 to give it monopoly power in the relevant market.”⁴²

11 Roxio’s allegations are more than sufficient to state a Section 2 claim against
12 Gracenote for monopolizing or attempting to monopolize the market for Internet CD data base
13 services through the fraudulent procurement of a patent, which Gracenote itself claims excludes
14 all competition in the relevant market.⁴³ As a matter of law, a patent confers on its owner an
15 absolute power of exclusion.⁴⁴ Indeed, a patent is commonly described as a statutory monopoly.⁴⁵
16 While a patent monopoly is not *ipso facto* an economic monopoly subject to Section 2 scrutiny, a
17 patent can confer control over a significant economic market.⁴⁶

18 Here, Gracenote simply asserts that merely having a patent does not establish
19 barriers to entry such that the monopolist can exclude competition in the relevant market, but in
20 doing so, Gracenote ignores the allegation that is determinative of this issue on a motion to

21 ³⁸ Counterclaim at ¶¶ 209-210.

22 ³⁹ Mot. at 10, lines 22-23; Counterclaim at ¶ 211.

23 ⁴⁰ *United States v. Grinnell Corp., et al.*, 384 U.S. 563, 571 (1966).

24 ⁴¹ Counterclaim at ¶ 174.

25 ⁴² Counterclaim at ¶ 212.

26 ⁴³ Counterclaim at ¶ 213.

27 ⁴⁴ *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574, 1578 (Fed. Cir. 1991).

28 ⁴⁵ *See SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981).

⁴⁶ *Walker Process*, 382 U.S. at 177-78.

1 dismiss. Roxio alleged that *Gracenote told Roxio that Gracenote could keep competitors out of*
2 *the relevant market by virtue of its '680 patent.* Specifically, Roxio alleged:

3 Beginning in or about November 2000, Gracenote threatened Roxio
4 with the enforcement of the '680 patent if it sought to obtain CD
5 database access service from Gracenote's competitors, and *claimed*
6 *that the '680 patent prohibits Roxio from providing software in its*
products that would enable users to access competing Internet CD
databases, including FreeDB and MusicBrainz.⁴⁷

7 If developers, such as Roxio, cannot use competitors' services because of Gracenote's '680
8 patent, that patent would allow Gracenote to exclude competitors from the relevant market by
9 simply threatening to sue their customers – as they have already done in this case. Indeed, Roxio
10 has alleged that “Gracenote brought this objectively baseless action with the intent to monopolize
11 access to CD databases containing musical album information [i.e., the relevant market] and
12 through this action, has created a dangerous probability of success.”⁴⁸ Gracenote's patent claim
13 against Roxio in this action is based *entirely* on Roxio having provided a link for its customers to
14 access the Internet service of Gracenote's competitor, FreeDB.⁴⁹

15 If, as Gracenote claims, its '680 patent provides Gracenote the power to exclude
16 all competition in the relevant market, it necessarily has the power to control price as well. As
17 then-Judge (now Justice) Stevens has observed:

18 There can be no doubt that the power to require all competitors either to accept
19 licenses and therefore incur royalty costs or abandon production of any
20 machines infringing the broadened [patent] claims would have an impact on
price and output in the relevant market [for the underlying machines].⁵⁰

21 As a matter of pleading, Roxio's allegations regarding market power in the
22 relevant market are more than sufficient to make Gracenote answerable under Section 2.⁵¹

23 _____
24 ⁴⁷ Counterclaim at ¶ 213.

25 ⁴⁸ Counterclaim at ¶ 219.

26 ⁴⁹ Complaint at ¶ 64.

27 ⁵⁰ *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 598 n.49 (7th Cir. 1971)
(Stevens J.) (sustaining Section 2 claim against patentee who induced patent office via improper
28 means to reissue patent with broader claims).

⁵¹ “Gracenote has created a dangerous probability of success in monopolization of the relevant

1 **C. Roxio has Adequately Alleged Causal Antitrust Injury, not Only to Itself, but**
2 **to Competition Generally.**

3 Antitrust injury has been defined as “injury of the type the antitrust laws were
4 intended to prevent and that flows from that which makes defendants’ acts unlawful.”⁵² Roxio
5 has alleged injury to itself in its business and property, injury to the true competitors of
6 Gracenote, such as FreeDB and MusicBrainz, and injury to end users — all as a result of
7 Gracenote’s illegal conduct. Those allegations are more than sufficient to survive a motion to
8 dismiss.

9 Roxio alleged the antitrust violations of Gracenote – specifically, their unlawful
10 assertion of the fraudulently procured ‘680 patent and the bringing of this sham litigation – and
11 Roxio has alleged that as a direct consequence of that conduct, Gracenote harmed Roxio:

12 If Gracenote’s anticompetitive conduct is allowed to continue,
13 Roxio will be injured by paying supracompetitive prices for Internet
14 CD database access. As a direct and proximate result of
15 Gracenote’s anticompetitive conduct, Roxio has been injured in its
16 business and property and has suffered and continues to suffer
17 irreparable harm to its customer relationships and business
18 reputation...⁵³

19 While Gracenote’s Motion seeks to cast Roxio in the role of a competitor outfoxed
20 by a more adept market participant,⁵⁴ in fact, Roxio does not compete directly with Gracenote in
21 the relevant market at all. To the contrary, Roxio is a *consumer* in that market.⁵⁵ Thus, the
22 injury alleged by Roxio, directly to Roxio, is injury to a consumer in the relevant market resulting
23 from Gracenote’s unlawful conduct.

24 market...Gracenote claims the right by virtue of the sham ‘680 patent and the sham ‘CDDB’
25 service mark to restrict access to Internet CD databases and to control prices.” Counterclaim at
26 ¶ 221.

27 ⁵² *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., et al.*, 429 U.S. 477, 489 (1977).

28 ⁵³ Counterclaim at ¶ 222.

⁵⁴ *See* Mot. at section I.A.1.

⁵⁵ Of course, injured consumers have standing to bring Sherman Act claims. *See Blue Shield of Virginia v. McCready*, 457 U.S. 465, 484 (1982).

1 Roxio has also alleged injury to itself as a result of Gracenote's sham lawsuit and
2 injury to Gracenote's direct competitors in the relevant market – namely FreeDB and
3 MusicBrainz:

4 Gracenote's anticompetitive conduct has included attempted
5 enforcement of its sham '680 patent. Beginning in or about
6 November 2000, Gracenote threatened Roxio with the enforcement
7 of the '680 patent if it sought to obtain CD database access service
8 from Gracenote's competitors, and claimed that the '680 patent
9 prohibits Roxio from providing software in its products that would
10 enable users to access competing Internet CD databases, including
11 FreeDB and MusicBrainz. And after Roxio refused to pay
12 Gracenote an exorbitant and supracompetitive fee for Internet CD
13 database access, Gracenote sought to enforce the fraudulently
14 procured '680 patent. Thus, on May 10, 2001, Gracenote sued
15 Roxio claiming that Roxio infringes the '680 patent by selling
16 software that allows its end users to access a CD database that
17 competes with Gracenote's service.⁵⁶

18 Roxio must defend itself against Gracenote's claim of infringement of a
19 fraudulently procured patent. The Ninth Circuit has long recognized that litigation costs incurred
20 in the defense of bad faith enforcement of an invalid patent is an antitrust injury which "flows"
21 from an antitrust wrong.⁵⁷ Thus, this allegation alone is sufficient to defeat the motion to dismiss.
22 But moreover, the reasonable inference from this allegation is that if Gracenote is successful in its
23 present sham litigation seeking to enforce the fraudulently procured '680 patent, all other
24 providers of CD-burning software will avoid using any of Gracenote's competitors out of fear of
25 also being sued. The inevitable end result is that competitors such as FreeDB and MusicBrainz
26 will be driven from the market – certainly an impact on competition generally and not just harm
27 to an individual competitor.

28 Finally, Roxio has also alleged direct injury to the end user consumers in the
relevant market as a direct result of Gracenote's anticompetitive scheme:

Having deceived the public, the PTO, Adaptec, Roxio, and other
software developers, CDDDB has sought to obtain a monopoly on
providing access to database services featuring factual, public
information about CDs. Using this power and its illegally-obtained

⁵⁶ Counterclaim at ¶ 213.

⁵⁷ *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 997 (9th Cir. 1979).

1 and sham intellectual property, CDDDB now seeks to exclude its
2 competitors from the market, to the detriment of consumers of such
services.⁵⁸

3 Collectively, Roxio has more than met its burden of alleging antitrust injury sufficient to survive
4 Gracenote's motion to dismiss.

5
6 **IV. GRACENOTE'S MOTION DOES NOT PROVIDE GROUNDS FOR DISMISSING**
7 **ROXIO'S COUNTERCLAIM FOR DECLARATORY RELIEF OF TRADEMARK**
8 **NON-INFRINGEMENT, INVALIDITY AND UNENFORCEABILITY.**

9 In its Fourth Counterclaim, Roxio seeks declaratory relief that it does not infringe
10 any trademark of Gracenote, that Gracenote's "CDDDB" is invalid, that the mark is unenforceable,
11 and that Roxio's use of "CDDDB" constitutes fair use.⁵⁹ Gracenote says it is moving to dismiss
12 Roxio's Fourth Counterclaim for failure to state a claim under Rule 12(b)(6).⁶⁰ But Gracenote's
13 actual argument does not challenge the claim.

14 Instead, Gracenote's motion actually complains about a single paragraph of the
15 counterclaim:

16 As *part* of their Fourth Counterclaim, defendants seek a declaratory
17 judgment of trademark unenforceability based on the allegation
18 that "Gracenote obtained the registration of 'CDDDB' by making
false and misleading statements to the PTO, and by withholding
material information from the PTO, as alleged above."⁶¹

19 Gracenote's motion thus appears to ask the Court just to strike the particular factual allegation
20 contained in Paragraph 200. But this request is pointless because the claim is viable even without
21 that allegation, and that allegation is relevant to the claim. The allegation gives one reason why
22 the mark is invalid and unenforceable: Gracenote registered the CDDDB mark by denying to the
23

24
25 _____
⁵⁸ Counterclaim at ¶ 166.

26 ⁵⁹ Counterclaim at ¶¶ 196-202.

27 ⁶⁰ Mot. at 5.

28 ⁶¹ Mot. at 16, *quoting* Counterclaim at ¶ 200 (emphasis added).

1 trademark examiner that CDDDB was an acronym for Compact Disc Data Base, while concealing
2 its own press releases saying exactly the opposite.

3 Even if we assume that Roxio’s Fourth Counterclaim related solely to fraud on the
4 trademark office, the pleading would still be adequate to state a claim. Trademark registration
5 may be cancelled if it was fraudulently obtained.⁶² “Fraud in procuring a trademark registration
6 or renewal occurs when an applicant knowingly makes false, material representations of fact in
7 connection with his application.”⁶³ Further, such fraud occurs in the case of “a willful
8 withholding from the [USPTO] by an applicant or registrant of material information or facts
9 which, if transmitted and disclosed to the examiner, would have resulted in the disallowance of
10 the registration sought.”⁶⁴ Roxio alleges that Gracenote obtained registration of the service mark
11 Serial No. 2.361.355 to the abbreviation “CDDDB” only by committing fraud on the Patent and
12 Trademark Office.⁶⁵

13 Gracenote claims that Roxio has not properly alleged Gracenote’s intent to defraud
14 the Patent and Trademark Office. Gracenote says Roxio “cannot possibly allege facts tending to
15 show specific intent to deceive” because all of Gracenote’s statements and omissions were
16 “simply arguments submitted in support of the application.”⁶⁶ But Gracenote’s argument is
17 wrong.

18 Gracenote did not have a legal right to withhold material information and make
19 false statements because they were “simply arguments submitted in support of the application.”
20 Gracenote’s arguments were intended to induce the trademark examiner to rely on the statements
21 to allow trademark registration. While Gracenote was entitled to try to phrase arguments to the
22 trademark examiner that defended its position, it was required to do so with “a reasonable and

23 _____
⁶² 15 U.S.C. § 1064(c).

24 ⁶³ *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986) (affirming cancellation of
25 trademark registration).

26 ⁶⁴ *J.G. Hook, Inc. v. David H. Smith, Inc.*, 214 U.S.P.Q. 662, 666 (T.T.A.B. 1982); *Knorr-*
Nahrungsmittel Aktiengesellschaft v. Havland Int’l, Inc., 206 U.S.P.Q. 827, 834 (T.T.A.B. 1980).

27 ⁶⁵ Counterclaim at ¶ 200.

28 ⁶⁶ Mot. at 17, lines 8, 12-14.

1 honest belief” that its statements were true.⁶⁷ To knowingly make a false statement of fact to
2 induce reliance and action based on the statement is fraud.⁶⁸ Roxio has clearly alleged that
3 Gracenote made false statements and that it knew they were false when it made them.⁶⁹

4 When Gracenote first attempted to obtain a registration to the CDDB abbreviation,
5 the Trademark examiner rejected the application on the basis that CDDB was an abbreviation of
6 Compact Disk and Data Base.⁷⁰ Roxio has specifically alleged facts demonstrating that
7 Gracenote knew that CDDB was generic or merely descriptive of “Compact Disk and Data Base”
8 and that it and others had been using the term as such for some time.⁷¹ As Roxio has alleged,
9 “[m]ultiple publications by Gracenote itself and by its co-founder Ti Kan use “CDDB” as the
10 generic or merely descriptive term for a compact disc database.”⁷² In fact, Gracenote also knew
11 that in at least two prior trademark applications the Patent and Trademark Office had already
12 forced Gracenote to disclaim the words “CDDB” and “CDDB-ENABLED” as merely
13 descriptive.⁷³ Yet despite this clear knowledge, Gracenote defrauded the new trademark
14 examiner by making the false statements of fact that “[CDDB] is not descriptive of the services”
15 and that “[n]either ‘Compact Disk Database’ nor CDDB is a [c]ommon [d]escriptive [t]erm.”⁷⁴
16 Gracenote’s failure to disclose that the Patent and Trademark Office had already forced
17 Gracenote to disclaim the acronym on two separate occasions was an additional deliberate
18 attempt to mislead the PTO into registering the mark.⁷⁵

19 The pleading of these facts is sufficient to withstand a motion to dismiss under
20 Rule 9(b) and all applicable pleading standards.

21 ⁶⁷ *Oreck Corp. v. Thomson Consumer Electronics, Inc.*, 796 F. Supp 1152, 1159 (S.D. Ind.1992).

22 ⁶⁸ *eCash Technologies, Inc. v. Guagliardo*, 127 F. Supp. 2d 1069, 1079 (C.D. Cal. 2000).

23 ⁶⁹ Counterclaim at ¶¶ 148, 158-160.

24 ⁷⁰ Mot. at 17, lines 11-12.

25 ⁷¹ Counterclaim ¶ 159.

26 ⁷² *Id.*

27 ⁷³ *Id.*

28 ⁷⁴ Counterclaim ¶ 160.

⁷⁵ Counterclaim ¶ 159.

1 **V. ROXIO HAS ADEQUATELY PLEADED ITS CAUSE OF ACTION FOR**
2 **TORTIOUS INTERFERENCE WITH EXISTING AND PROSPECTIVE**
3 **BUSINESS RELATIONSHIPS.**

4 Roxio's Eighth Counterclaim seeks redress for Gracenote's tortious interference
5 with Roxio's business relations. Gracenote does not contest the adequacy of Roxio's allegations
6 regarding the existence of Roxio's ongoing business relationships with its installed customer
7 base,⁷⁶ and by its admission of conduct intended to disrupt the rights of those customers to access
8 the CDDDB data base, Gracenote has conceded its knowledge of those relationships.⁷⁷ Because
9 Roxio has adequately pleaded the remaining elements of its Eighth Counterclaim, Gracenote's
10 motion to dismiss should be denied.

11 The remaining three elements of the tort of intentional interference with an
12 existing or prospective business relationship are:

- 13 • the defendant intentionally engaged in wrongful conduct designed to
14 interfere with or disrupt the relationship;
- 15 • the economic relationship was actually interfered with or disrupted; and
- 16 • the defendant's wrongful conduct, which was designed to interfere with or
17 disrupt the relationship, caused damage to the plaintiff.⁷⁸

18 In *Della Penna*, the California Supreme Court declined to define what "wrongful conduct"
19 means, other than to say that it must be "wrongful by some legal measure other than the fact of
20 interference itself."⁷⁹ Here, Roxio has alleged Gracenote's wrongful conduct not only in cutting
21 off Roxio's customers from accessing the CDDDB data base in violation of the parties'
22 Agreement,⁸⁰ but also by Gracenote's intentional "public statements that were likely to deceive
23

24 ⁷⁶ Mot. at 18, line 17.

25 ⁷⁷ Reply to Counterclaims at ¶ 205.

26 ⁷⁸ See BAJI 7.82 (1996 revision), noting change prompted by the case cited by Gracenote, *Della*
Penna v. Toyota Motor Sales, U.S.A., Inc., 45 Cal. Rptr. 2d 436, 11 Cal. 4th 376 (1995).

27 ⁷⁹ *Della Penna*, 11 Cal. 4th at 393.

28 ⁸⁰ Counterclaim at ¶ 205.

1 Roxio’s customers, including OEM customers, who are very sensitive to business disruptions,
2 and to influence them to either avoid or cease doing business with Roxio.”⁸¹ Thus, Roxio has
3 alleged breach of the parties Agreement and Lanham Act violations as the wrongful conduct –
4 conduct which is clearly “wrongful by some legal measure other than the fact of interference
5 itself.”

6 Gracenote tries to rely upon *Khoury* to argue that Roxio’s allegations regarding the
7 denial of CDDDB access are nothing more than Roxio’s breach of contract claim in a different
8 guise, but *Khoury* is inapplicable.⁸² In *Khoury*, the respondent allegedly breached an oral contract
9 to supply beauty products to appellant. The trial court found, and the Court of Appeal affirmed,
10 that there was no direct interaction between the respondent and appellant’s customers so as to
11 support a claim of interference with appellant’s customer relationships.⁸³ Here, Roxio alleged –
12 and Gracenote conceded – that its conduct in terminating access to the CDDDB data base was
13 directed at Roxio’s customers.⁸⁴ That fact, coupled with Gracenote’s deceptive messages directed
14 at Roxio’s customers claiming that Roxio was responsible for the service interruption,⁸⁵ makes
15 this a very different case from *Khoury*, and suffices as an allegation of wrongful conduct aimed at
16 Roxio’s business relationships.

17 Gracenote also complains that Roxio has not alleged actual interference or
18 disruption – but that is precisely what Roxio alleged by claiming: “As a direct and proximate
19 result of Gracenote’s conduct, **Roxio has suffered and will continue to suffer irreparable harm**
20 **to its customer relationships...**”⁸⁶ Gracenote’s curious contention that because Roxio’s products

22 ⁸¹ Counterclaim at ¶ 232.

23 ⁸² *Khoury v. Maly’s of Calif., Inc.*, 14 Cal. App. 4th 612, 618 (Cal. App. 2d Dist. 1993).

24 ⁸³ *Khoury*, 14 Cal. App. 4th at 618 (“The sole alleged conduct of respondent was the breach of
25 contract to supply the JPM products to appellant. The effect on appellant’s customers (with
26 whom respondent had no relations) and the damage to appellant’s business were simply
27 consequences of breach of contract.”)

28 ⁸⁴ Reply to Counterclaims at ¶ 205.

⁸⁵ Counterclaim at ¶ 177.

⁸⁶ Counterclaim at ¶ 234.

1 continue to be the best selling CD-burning software in the industry, it cannot show interference or
2 disruption with its business relationships is a *non sequitur*. For one thing, a substantial number of
3 the disrupted customer relationships are with existing customers – individuals whose prior
4 purchases made Roxio’s products number one, but who are now harmed in their use of those
5 products – and hence may be deterred from purchasing future Roxio products – as a result of
6 Gracenote’s conduct. Moreover, the OEM relationships disrupted by Gracenote’s conduct
7 interferes with Roxio’s ability to make future sales. In short, Roxio has alleged harm to these
8 business relationships as a result of Gracenote’s conduct, and that is sufficient on a motion to
9 dismiss.

10 Roxio has also alleged damage as a result of Gracenote’s conduct: “As a direct and
11 proximate result of Gracenote’s conduct alleged above, Roxio has been damaged, and will
12 continue to sustain damage, in an amount to be proven at trial or in other appropriate
13 proceedings.”⁸⁷ At this stage, nothing more is required – and Gracenote’s motion to dismiss
14 should be denied.

15
16 **VI. ROXIO HAS ADEQUATELY PLEADED THE AFFIRMATIVE DEFENSE OF**
17 **INEQUITABLE CONDUCT.**

18 The adequacy of Roxio’s affirmative defense of inequitable conduct – being a
19 subspecies of the fraud that underlies Roxio’s *Walker Process* claim – has already been
20 established in section III, *supra*. However, for the Court’s convenience, Roxio will reprise that
21 argument in the specific context of its inequitable conduct affirmative defense.⁸⁸

22 The defense of inequitable conduct is established where an applicant fails to
23 discharge its duty of candor and intends to deceive the patent office:

24 Applicants for patents have a duty to prosecute patent applications
25 in the PTO with candor, good faith, and honesty. A breach of this
26 duty, which breach can include affirmative misrepresentations of

26 _____
27 ⁸⁷ Counterclaim at ¶ 235.

28 ⁸⁸ In pleading its Fourth Defense of Unenforceability based on inequitable conduct, Roxio
included by reference all allegations contained in its counterclaims. Counterclaim at ¶ 117.

1 material facts, failure to disclose material information, or
2 submission of false material information, coupled with an intent to
3 deceive, constitutes inequitable conduct.⁸⁹

4 Roxio's allegations regarding Gracenote's intentional failure to disclose material information for
5 the express purpose of defrauding the Patent Office into issuing the '680 patent, are more than
6 sufficient to defeat Gracenote's motion to strike.

7 **A. Roxio has Alleged with Particularity that Gracenote Concealed from the**
8 **Patent Office "But For" Material Prior Art Which, If it had been Disclosed,**
9 **the '680 Patent Could Not Have Issued; Thereby Satisfying the Materiality**
10 **Prong.**

11 Roxio alleged specifically that Gracenote failed to disclose material prior art in the
12 form of a computer program, known as xmcd, authored by one of the named inventors on the
13 '680 patent, Ti Kan.⁹⁰ Roxio further alleged that the "prior art xmcd software disclosed the
14 subject matter of all or many of the features claimed in the parent application and the divisional
15 application, and anticipated or rendered obvious some or all of the claims of those applications,
16 making those claims unpatentable."⁹¹ In other words, Roxio specifically alleged that the patent
17 office could not have allowed the '680 patent if it had known that the subject matter was already
18 contained in Mr. Kan's prior art, public domain xmcd software. That is "but for" materiality, and
19 as such, those allegations are more than sufficient to satisfy the materiality prong.

20 Gracenote complains that Roxio has not identified which of several different
21 versions of the xmcd program Roxio claims would have rendered the claims of the '680 patent
22 unpatentable. Essentially, Gracenote goes beyond the pleadings to allege that there is
23 substantially *more* prior art that it concealed from the patent office, and that as a pleading matter,
24 Roxio was required to discover and allege all of it. But such an admission cannot be a basis for

25
26 ⁸⁹ *Li Second Family Ltd. Partnership v. Toshiba Corp.*, 231 F.3d 1373, 1378 (Fed. Cir. 2000)
(internal citations omitted).

27 ⁹⁰ Counterclaim at ¶ 152.

28 ⁹¹ Counterclaim at ¶ 153.

1 striking Roxio’s Fourth Defense, particularly given that all reasonable inferences are to be drawn
 2 in Roxio’s favor and motions to strike are disfavored.⁹² Roxio pleads that all referenced versions
 3 of the xgcd program disclose sufficient features in common with the claims of the ‘680 patent to
 4 have rendered those claims unpatentable.

5 The two cases from which Gracenote extracts lengthy quotes do nothing to
 6 advance its argument. In *Sun Microsystems*,⁹³ the quoted passage stands in sharp contrast to what
 7 Roxio has alleged:

<i>Sun Microsystems</i> ⁹⁴	Roxio’s Allegations
Amended answer “does not set forth with any detail or clarity when the misrepresentations or omissions took place,”	“During the prosecution of both the parent application and the divisional application, the applicants failed to comply with this duty of candor.” ⁹⁵
“Who made or failed to make them,”	“The <i>applicants</i> [for the ‘680 patent] were aware that this prior-art xgcd software was highly material...the <i>applicants</i> breached their duty of candor to the PTO and acted with the intent to deceive the PTO in failing to disclose xgcd and its related database” ⁹⁶

22 ⁹² See, e.g., *S.E.C. v. Sands*, 902 F. Supp. 1149, 1165 (C.D. Cal. 1995) (“To strike an affirmative
 23 defense, the moving party must convince the court ‘that there are no questions of fact, that any
 24 questions of law are clear and not in dispute, and that under no set of circumstances could the
 defense succeed”).

25 ⁹³ *Sun Microsystems, Inc. v. Dataram Corp.*, 1997 U.S. Dist. LEXIS 4557 (N.D. Cal. 1997)
 (striking inequitable conduct defense, but with leave to amend).

26 ⁹⁴ *Id.* at *13.

27 ⁹⁵ Counterclaim at ¶ 151.

28 ⁹⁶ Counterclaim at ¶¶ 153-154

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<i>Sun Microsystems</i> ⁹⁴	Roxio's Allegations
“Which patents [of five] were before the PTO at the time of the alleged misrepresentations or omissions.”	The only patent under discussion in this case is the ‘680 patent (6,061,680).

Unlike the situation in *Sun Microsystems* where five patents were at issue but the pleading did not specify what conduct affected which patent, here there is only one patent at issue, and the timing of the omission, the source of the omission and its impact have all been alleged clearly.

Similarly, the *Chiron*⁹⁷ case is unavailing to Gracenote. Again turning to the passage quoted by Gracenote, it is easy to distinguish the pleading found faulty by the court from the allegations provided by Roxio:

⁹⁷ *Chiron Corp. v. Abbott Laboratories*, 156 F.R.D. 219 (N.D. Cal. 1994) (striking inequitable conduct defense, but with leave to amend).

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<i>Chiron</i> ⁹⁸	Roxio’s Allegations
“[plaintiff] must be afforded fair notice as to whether [defendant] alleges that Dr. Steimer willfully concealed material prior art or whether she deliberately misstated her expert opinion, and”	Roxio alleged that “the ‘680 patent is unenforceable because of inequitable conduct by one or more of the named inventors... in failing to disclose known material prior art... ” ⁹⁹
“ what prior art or opinions are misstated.”	“applicants breached their duty of candor to the PTO and acted with the intent to deceive the PTO in failing to disclose xmcd and its related database and prior public use of xmcd and the database , over one year before the priority date of the ‘680 patent.” ¹⁰⁰

Gracenote is on fair notice as to what Roxio alleges that they did – Gracenote withheld “but for” material prior art – and specifically what that prior art was – the xmcd program and database and its public disclosure four years before Gracenote filed for a patent on it.

Gracenote’s final argument – that Roxio has not shown why the xmcd program is not cumulative of other prior art provided to the examiner – is a question, yet again, of proof, and not something to be decided on the pleadings.

B. Roxio has Alleged Sufficient Facts as to Gracenote’s Intent to Defraud the Patent Office; Thereby Satisfying the Intent Prong.

Gracenote attacks the sufficiency of Roxio’s intent allegations on the specious grounds that Roxio has “alleged no facts whatsoever that would support such an inference.”¹⁰¹

⁹⁸ *Id.* at 222-223.
⁹⁹ Counterclaim at ¶ 118.
¹⁰⁰ Counterclaim at ¶ 154.
¹⁰¹ Mot. at 24, line 6.

1 Yet a review of the facts alleged shows quite the opposite: (1) one of the named ‘680 inventors,
2 Ti Kan, created a public domain program known as xmcd four years before the priority date of
3 the ‘680 patent;¹⁰² (2) the xmcd program discloses the subject matter of many of the features
4 claimed in the ‘680 patent, such that its disclosure to the Patent Office would have disallowed one
5 or more of those claims;¹⁰³ (3) the applicants for the ‘680 patent, though fully aware of the xmcd
6 program and data base, failed to disclose the existence of the xmcd program, its associated data
7 base or its prior public use.¹⁰⁴ Certainly the inference of intent is a reasonable inference to draw
8 from those factual allegations, and coupled with the specific allegation that the ‘680 applicants
9 “acted with the intent to deceive the PTO,” it is sufficient to withstand Gracenote’s disfavored
10 motion to strike.

11
12 **C. Roxio’s Allegation of Further Fraud Based on Gracenote’s Attempt to Delete**
13 **Ti Kan as a Named Inventor from the ‘680 Patent is Pertinent to this Matter**
14 **and Should Not Be Stricken.**

15 Gracenote’s half-hearted, footnote-buried plea to strike Roxio’s allegations about
16 Gracenote’s further fraud in attempting to delete Ti Kan as an inventor, cannot withstand even
17 glancing scrutiny. Roxio alleges that Gracenote’s purpose in attempting to delete Mr. Kan as an
18 inventor is to somehow separate the ‘680 patent from Mr. Kan’s prior art xmcd program. Such
19 allegations are clearly pertinent to Roxio’s allegations of fraud on the Patent Office and, contrary
20 to Gracenote’s assertion, obviously involve an allegation of “the submission of false material
21 information to the USPTO.”¹⁰⁵ Accordingly, Gracenote’s request to strike these allegations
22 should be denied.

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¹⁰² Counterclaim at ¶¶ 144-146

26 ¹⁰³ Counterclaim at ¶ 153.

27 ¹⁰⁴ Counterclaim at ¶ 154.

28 ¹⁰⁵ Mot. at 22, n. 8.

1 **D. Gracenote’s Litany of Paragraphs it Claims Should be Stricken Due to**
2 **“Information and Belief” Pleading is Without Merit.**

3 Even while acknowledging that information and belief pleading is exempted from
4 the strictures of Rule 9(b) when the subject matter is within the knowledge of the defendant,¹⁰⁶
5 Gracenote argues that eight paragraphs from Roxio’s counterclaim should be stricken because
6 they are pleaded based on information and belief. In seeking to strike the allegations in
7 paragraphs 148, 149, 153, 154, 157, 158, 162 and 167, Gracenote claims that “none of which
8 stem [sic] from underlying facts peculiarly in Gracenote’s knowledge, but rather are apparently
9 based upon public record information and public documents.”¹⁰⁷ Gracenote’s argument is
10 entirely without merit as even a casual review of the accused paragraphs reveals subject matter
11 that is peculiarly within Gracenote’s knowledge.

12 1. Paragraph 148

13 Roxio alleges in paragraph 148 that “Roxio is informed and believes, and on that
14 basis alleges, that, at a time unknown but no later than 1999, Gracenote embarked on a fraudulent
15 scheme....” While Roxio can observe Gracenote’s reprehensible conduct, Gracenote is peculiarly
16 situated to know about its own fraudulent schemes – thus, information and belief pleading is
17 appropriate here.

18 2. Paragraph 149

19 Roxio alleges in paragraph 149 that “Roxio is informed and believes, and on that
20 basis alleges, that one important component of Gracenote’s fraudulent scheme....” Once again,
21 Gracenote is peculiarly situated to know the components of its own fraudulent scheme and the
22 relative importance of those components to the overall scheme. Thus, information and belief
23 pleading is appropriate.

24 3. Paragraph 153

25 _____
26 ¹⁰⁶ See *Neubronner v. Milken*, 6 F.3d 666, 672 (9th Cir. 1993) (information and belief pleading is
27 acceptable under Rule 9(b) “with respect to matters within the opposing party’s knowledge. In
28 such situations, plaintiffs can not be expected to have personal knowledge of the relevant facts.”).
See also, Mot. at 24, citing *Neubronner*.

¹⁰⁷ Mot. at 24, lines 14-16.

1 Roxio alleges in paragraph 153 that “Roxio is informed and believes, and on that
2 basis alleges, that the applicants were aware that this prior-art xmcd software was highly
3 material....” What Gracenote’s patent applicants knew is peculiarly within the knowledge of
4 Gracenote’s employees – thus, making information and belief pleading proper.

5 4. Paragraph 154

6 Roxio alleges in paragraph 154 that “Roxio is informed and believes, and on that
7 basis alleges, that the applicants breached their duty of candor to the PTO and acted with the
8 intent to deceive the PTO in failing to disclose xmcd...” There can be no doubt that the
9 applicants – Gracenote’s employees – have personal knowledge of their intent, not Roxio. Under
10 such circumstances, information and belief pleading is not only appropriate, it is necessary.

11 5. Paragraph 157

12 Roxio alleges in paragraph 157 that “On information and belief, Gracenote and
13 one or more of the applicants are now attempting a further fraud...” While Roxio can directly
14 allege the observed conduct – removing Ti Kan as an inventor from the ‘680 patent – the motive
15 behind that action, furthering the existing fraud, is knowledge uniquely possessed by Gracenote.

16 6. Paragraphs 158 & 162

17 Roxio alleges in both paragraphs 158 and 162 that “Roxio is informed and
18 believes, and on that basis alleges, that another component of Gracenote’s fraudulent scheme...”
19 As before in paragraph 149, the components of Gracenote’s fraudulent scheme is knowledge
20 peculiar to Gracenote – thereby making information and belief pleading appropriate.

21 7. Paragraph 167

22 Roxio alleges in paragraph 167 that “Roxio is informed and believes, and on that
23 basis alleges, that Gracenote’s dealings with Roxio and its predecessor-in-interest Adaptec have
24 reflected Gracenote’s fraudulent scheme as alleged above.” Again, since Gracenote is uniquely in
25 possession of all knowledge as to its fraudulent scheme, information and belief pleading is
26 entirely appropriate.

1 Thus, contrary to Gracenote’s claim, in each and every one of the accused
2 paragraphs, the portion pleaded under information and belief concerns facts peculiarly – if not
3 exclusively – within Gracenote’s knowledge.

4
5 **VII. ROXIO’S AFFIRMATIVE DEFENSES ARE SUFFICIENTLY PLEADED.**

6 Gracenote argues that Roxio’s affirmative defenses of waiver, consent and
7 estoppel are not adequately pleaded. But Gracenote only makes this argument by ignoring most
8 of Roxio’s answer.

9 Although Gracenote quotes case law to suggest that Roxio’s Third, Fifth and
10 Eighth through Twelfth affirmative defenses should be stricken because they are “insufficient as a
11 matter of law,” Gracenote makes no attempt at such a showing.¹⁰⁸ Motions to strike, in general,
12 are disfavored.¹⁰⁹ An affirmative defense, in particular, should not be stricken on grounds of
13 *legal* insufficiency unless it is patently defective and cannot succeed under any circumstance.¹¹⁰
14 Gracenote does not even begin to argue that Roxio’s defenses have no chance of success as a
15 matter of law.

16 All Gracenote really argues is that the defenses are *insufficiently pleaded* under
17 Federal Rule of Civil Procedure 8(a). Of course, with limited exceptions, all the Federal Rules
18 require is “a short and plain statement” sufficient to apprise the other party of the nature of the
19 claim or defense pleaded and its basis.¹¹¹ And it almost goes without saying that on a motion to

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21 ¹⁰⁸ Mot. at 25, lines 1-4, *citing Chiron*, 156 F.R.D. at 820 & *Naton v. Bank of California*, 72
22 F.R.D. 550, 551 n.4 (N.D. Cal. 1976).

23 ¹⁰⁹ *Lazar v. Trans Union LLC*, 195 F.R.D. 665, 669 (C.D. Cal. 2000); *Naton*, 72 F.R.D. at 551
24 n.4.

25 ¹¹⁰ *Purex Corp., Ltd. v. General Foods Corp.*, 318 F. Supp. 322, 323 (C.D. Cal. 1970) (a Court
26 should be “slow to grant motions to dismiss affirmative defenses;” “a defendant should be given
27 the opportunity to prove his allegations if there is any possibility that the defense might succeed
28 after full hearing on the merits”); *see also Conley v. Gibson*, 355 U.S. 41, 48 (1957)(“The Federal
Rules reject the approach that pleading is a game of skill in which one misstep by counsel may be
decisive to the outcome and accept the principle that the purpose of pleading is to facilitate a
proper decision on the merits.”); *Rennie & Laughlin, Inc. v. Chrysler Corp.*, 242 F.2d 208, 213 (9th
Cir. 1957)(stating the “basic precept” that a case should be tried on proof, not on the pleadings).

¹¹¹ *See Conley*, 355 U.S. at 48; *see also, e.g., Application of Castner*, 518 F.2d 1234 (C.C.P.A.

1 strike the Court must view the pleadings under attack in the light most favorable to the pleader.¹¹²
2 Each of Gracenote's defenses meets the pleading standard.

3
4 **A. Roxio's Patent Invalidity Defense is Adequately Pleaded**

5 Roxio pleads that Gracenote's patent is invalid for failure to meet the requirements
6 for patentability set forth in 35 U.S.C. §§ 101, 102, 103, 112 and 116. While those code sections
7 might provide numerous *legal* grounds for finding a patent invalid, Roxio's pleading makes
8 abundantly clear the *factual* basis for its defense – specifically, Gracenote's knowing and willful
9 scheme to commit fraud on the patent office to procure the '680 patent by failing to disclose
10 material prior art. Indeed, Roxio's pleading is even more factually specific than that in *Advanced*
11 *Cardiovascular Systems*¹¹³ – which was held sufficient – because it identifies precisely the prior
12 art that was concealed (the xmcD program and data base and the public use of it), the fact that the
13 inventor of the prior art was one of the inventors named on the patent (Ti Kan), and all other
14 elements of the fraud as discussed in detail *supra*.

15 Gracenote's criticism of Roxio's pleading is particularly inapt since the Northern
16 District's local rules governing patent cases provide that the specific identification of all
17 invalidity contentions is not even required until 45 days after Gracenote serves its (1) Disclosure
18 of Asserted Claims; and (2) Preliminary Infringement Contentions and produces documents
19 related to conception, reduction to practice, offers for sale and file histories.¹¹⁴ Indeed, it is
20 pretrial procedures such as this, and the liberal opportunity for discovery under the Federal Rules,
21 that make notice pleading possible.¹¹⁵

22
23 1975) ("The purpose of the pleadings is satisfied when they are sufficiently informative to the
24 parties that they are able to present their case to the court for a decision on the merits of the
25 issues.").

26 ¹¹² *Lazar*, 195 F.R.D. at 669; *California ex rel. State Lands Com. v. United States*, 512 F.Supp.
27 36, 39 (N.D. Cal. 1981).

28 ¹¹³ *Advanced Cardiovascular Systems, Inc v. Scimed Systems, Inc.*, 1996 U.S. Dist. LEXIS 11702,
40 U.S.P.Q.2d 1291 (N.D. Cal. 1996).

¹¹⁴ Local Patent Rule 3-3

¹¹⁵ *Conley*, 355 U.S. at 48 ("notice pleading" is made possible by the liberal opportunity for

1 **B. Roxio’s Patent Misuse, Service Mark Misuse and Unclean Hands Defenses**
2 **are Adequately Pleaded.**

3 Roxio’s pleadings also give Gracenote abundant notice of the bases for its patent
4 misuse, service mark misuse and unclean hands defenses. Indeed, Gracenote reiterates them in its
5 own motion: “(1) [Gracenote’s] *Walker* Process-type fraudulent procurement of the ‘680 patent
6 and CDDB service mark registration; and (2) bad faith or sham litigation under *PRE*.”¹¹⁶
7 Contrary to Gracenote’s assertion, Roxio does not rest its defenses on conclusory allegations of
8 misuse. As already discussed *supra* in Sections III & IV, Roxio very specifically pleads that
9 Gracenote intentionally and willfully concealed material prior art from the PTO to procure its
10 patent and trademark registration and is now using that illegally procured intellectual property in
11 an attempt to control public-domain data and technology, and as the foundation for this suit, in
12 violation of the Sherman and Lanham Acts. There can be little doubt that Gracenote has notice of
13 Roxio’s contentions in this regard.

14
15 **C. Roxio’s Consent, Waiver and Estoppel Defenses are Adequately Pleaded.**

16 Finally, Roxio’s pleadings adequately notify Gracenote of the factual
17 underpinnings of its consent, waiver and estoppel defenses – which are closely related. He who
18 consents to an act is not wronged by it.¹¹⁷ Thus, consent to an act waives objections to the act.¹¹⁸
19 When consent is coupled with detrimental reliance, an estoppel arises.¹¹⁹ It is not unusual,
20 therefore, that these defenses spring from the same facts.

21 Here, Roxio pleads that Gracenote induced Roxio, as well as other software
22 developers, to include a link in its software products to Gracenote’s CDDB service by promising

23
24 discovery and the other pretrial procedures established by the Rules to disclose more precisely the
25 basis of both claim and defense and to define more narrowly the disputed facts and issues”).

25 ¹¹⁶ Mot. at 26, lines 18-21.

26 ¹¹⁷ *Pinney & Topliff v. Chrysler Corp.*, 176 F. Supp. 801, 810 (S.D. Cal. 1959).

27 ¹¹⁸ *S.E.C.*, 902 F. Supp. at 1166.

28 ¹¹⁹ *See, e.g., Hayden v. Chalfant Press, Inc.*, 177 F. Supp. 303, 311 (S.D. Cal. 1959) *aff’d* 281
F.2d 543 (9th Cir. 1960).

1 that access to the service was royalty-free and would remain so.¹²⁰ Gracenote never even
2 suggested that a patent license was, or would ever be, required. For years it consented to Roxio’s
3 link, without the slightest hint that accessing the CDDDB might infringe any patent or someday
4 require a patent license from Gracenote. Indeed, Gracenote concealed that it had sought to obtain
5 patent rights on the means of accessing the a CD data base, even though the technology was in the
6 public domain. Gracenote lay in the weeds until the link was fully integrated into Roxio’s
7 software – and fully incorporated into Roxio’s customer base relying on that software – and only
8 then demanded exorbitant royalties for the supposed use of its patented technology.¹²¹

9 Having induced Roxio to include the CDDDB link in its software by representing
10 that access to the database was free and would remain so, Roxio wants to enforce patent and
11 trademark rights now that the software has been sold. By its conduct, it has waived that right.
12 The link was included at Gracenote’s request, establishing its consent. And Roxio’s reliance on
13 Gracenote’s representations to its detriment in creating a software link that its customers can no
14 longer use is grounds for estoppel.¹²² The defenses are properly pleaded.

15
16 **VIII. ROXIO ADEQUATELY PLEADED LANHAM ACT AND UNFAIR**
17 **COMPETITION CLAIMS.**

18 Roxio has adequately alleged that Gracenote violated the Lanham Act when it
19 “made false and misleading statements in interstate commerce that misrepresent the nature,
20 characteristics, and qualities of Roxio’s products by falsely asserting, without limitation, that they
21 infringe patent rights, trademark rights, or copyrights of Gracenote’s.”¹²³ That allegation alone
22

23
24 ¹²⁰ Counterclaims at ¶¶162-171 (“Gracenote . . . misled users and developers into believing that
free public access would continue . . .”)

25 ¹²¹ Counterclaim at ¶¶ 171-174.

26 ¹²² *See, e.g., S.E.C.*, 902 F. Supp. at 1166 (denying motion to strike waiver and estoppel defenses:
27 “The Court should not weigh the evidence for purposes of a motion to strike an affirmative
defense”).

28 ¹²³ Counterclaim at ¶ 226.

1 adequately alleges a violation of the Lanham Act.¹²⁴ Nothing more was required at the pleading
2 stage.

3 Gracenote cites no authority for a heightened pleading standard, or that Roxio's
4 *pleading* is inadequate. Neither case cited by Gracenote even purports to address the issue of
5 how specifically a claim under the Lanham Act must be stated. *Avery Dennison*, which
6 Gracenote cites, was a summary judgment case holding that undisputed evidence showed that the
7 claimed false statements were mere opinion "puffery" rather than actionable false statements.¹²⁵
8 Similarly, *Cook, Perkins* and *Atari Corp* both address the entirely different substantive legal issue
9 of what constitutes "puffery," an issue not present in this litigation.¹²⁶ Gracenote's request for a
10 more definite statement should be denied.

11 Next, Gracenote argues that Roxio's California Business and Professions Code
12 §17200 claim is not adequately pleaded. Gracenote acknowledges a §17200 claim can be based
13 on any claim for violation of federal, state or local law.¹²⁷ Gracenote then says that Roxio has not
14 alleged any factual basis "other than that relied upon which it relies to support its Sherman Act,
15 Lanham Act, tortious interference, patent unenforceability, patent misuse, service mark
16 unenforceability, and service mark misuse, and affirmative defenses."¹²⁸ But—as Gracenote
17 acknowledges— if any of those claims or defenses are properly pleaded, then so is the §17200
18 claim. As we have shown, each of those claims is properly pleaded, and Gracenote's motion
19 concerning directed to this claim should be denied as well.

20 _____
21 ¹²⁴ *Saine v. AIA*, 582 F. Supp 1299 (D. Colo. 1984) (allegation that defendant "made false
22 statements of fact about its product... is enough to state a claim for relief under § 43(a) of the
23 Lanham Act").

24 ¹²⁵ *Avery Dennison Corp. v. Acco Brands, Inc.*, No. 99-1877 DT, 2000 LEXIS 3938 (C.D.Cal
25 Feb. 23, 2000).

26 ¹²⁶ See *Cook, Perkiss & Liehe, Inc. v. Northern California Collection Service, Inc.*, 911 F.2d 242
27 (9th Cir. 1990) (analyzing puffery claim but expressly not addressing the post-1989 amended
28 version of the Lanham Act relevant to this case); *Atari Corp. v. 3DO Co.*, 31 U.S.P.Q.2d 1636
(N.D. Cal. 1994) (analyzing "puffery" and addressing the issue of whether a particular statement
could be considered false, not whether a false statement had been properly alleged).

¹²⁷ Mot. at 30.

¹²⁸ Mot. at 30.

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IX. CONCLUSION

Despite obtaining leave to file an oversize brief in support of its motion, Gracenote managed to present no meritorious arguments. Roxio's pleadings are plainly adequate to support its counterclaims, its affirmative defense pleadings are clearly sufficient to give Gracenote notice, and the claims are sufficiently definite to allow Gracenote to respond.

Gracenote's motion should be denied entirely.

Dated: August 31, 2001

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