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United States District Court
For the Northern District of California

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ORACLE CORPORATION, ET AL.,

Plaintiffs,

v.

DRUGLOGIC, INC.,

Defendant.

No. C 11-00910 JCS

ORDER GRANTING IN PART AND DENYING IN PART PLAINTIFFS' MOTION TO DISMISS AND STRIKE DRUGLOGIC'S SECOND AMENDED DEFENSES AND COUNTERCLAIMS [Docket No. 79]

I. INTRODUCTION

Plaintiffs Oracle Corporation and Oracle International Corporation ("Oracle") filed this action against Defendant DrugLogic, Inc. ("DrugLogic") alleging infringement by DrugLogic of Oracle's U.S. Patent No. 6,684,221 ("the '221 patent") and seeking a declaratory judgment of non-infringement and invalidity as to DrugLogic's U.S. Patent No. 6,789,091 ("the '091 patent"). In response, DrugLogic asserted various affirmative defenses and counterclaims, the sufficiency of which Oracle challenged in a motion to dismiss and strike filed in May 2011. The Court granted in part and denied in part Oracle's motion, dismissing certain counterclaims and affirmative defenses with leave to amend. See Docket No. 54 ("the August 8 Order"). Presently before the Court is Oracle's Motion to Dismiss and Strike Druglogic's Second Amended Defenses and Counterclaims ("the Motion"). The Court finds the Motion appropriate for disposition without oral argument pursuant to Civil Local Rule 7-1(b). For the reasons stated below, the Motion is GRANTED in part and DENIED in part.

1 **II. BACKGROUND¹**

2 **A. The Court’s August 8, 2011 Order**

3 In its August 8 Order, the Court addressed the adequacy of various affirmative defenses and
4 counterclaims asserted by DrugLogic in its original answer. With respect to DrugLogic’s
5 inequitable conduct affirmative defense and counterclaim, which was based on the theory that
6 Oracle had withheld material information from the patent examiner during the application process,
7 the Court found DrugLogic’s allegations were insufficient under *Exergen Corp. v. Wal-Mart Stores,*
8 *Inc.*, 575 F.3d 1312 (Fed. Cir. 2009) and Federal Rule of Civil Procedure 9(b). August 8 Order at
9 17. In particular, the Court held that DrugLogic had not sufficiently alleged the “what” and “where”
10 of the alleged inequitable conduct, stating that “[a]lthough DrugLogic identifies potentially material
11 information contained in the allegedly withheld references by noting that WHO-Drug, COSTART,
12 Read Codes, CPT, Unified Medical Language System, Metathesaurus, MeSH, and PubMed are all
13 ‘hierarchical relational medical thesauruses,’ some of which contain ‘clinical terms used in
14 conjunction with clinical studies,’ DrugLogic fails to allege where specifically in those references
15 that material information could be found.” *Id.* The Court went on to hold that DrugLogic had not
16 sufficiently alleged the “why” and “how” of its inequitable conduct defense. *Id.* at 18. In particular,
17 the Court found that DrugLogic had not alleged “any facts to support an inference that the
18 information allegedly withheld from the PTO is not cumulative of other information previously
19 disclosed to the examiner, particularly given that Oracle referenced WHO-Drug, COSTART, and
20 CPT in the ‘221 patent specification.” *Id.* As to the question of whether DrugLogic’s allegations
21 were sufficient to give rise to an inference of deceptive intent, the Court held: “[A]lthough this is a
22 close question, the Court finds that if DrugLogic has adequately pled knowledge as described above,
23 no additional pleading will be necessary with respect to deceptive intent.” *Id.* at 19. The Court
24 dismissed the counterclaim and struck the affirmative defense based on inequitable conduct and
25 granted DrugLogic leave to amend its inequitable conduct allegations. *Id.* at 25.

26 _____
27 ¹A more detailed overview of the procedural background of the case is included in the Court’s
28 August 8, 2011 Order.

1 **B. DrugLogic’s Second Amended Answer²**

2 In its Second Amended Answer, Defenses, Counterclaims and Demand for Jury Trial of
3 Defendant and Counterclaimant DrugLogic, Inc. (“SAA”), Druglogic offers more detailed
4 allegations regarding the patentee’s alleged failure to disclose material information to the patent
5 examiner and asserts a number of new state law counterclaims, including a counterclaim for unfair
6 competition.

7 DrugLogic’s amended inequitable conduct allegations including the following:

8 34. The provisional application from which the ‘221 Patent claims priority, U.S. Provisional
9 Application No. 60/132,926, filed by inventor Kim Rejndrup and his patent counsel Rodney
10 Johnson, identifies MedDRA, WHO-Drug, WHO-Art, ICD9, ICD10 and COSTART as
“hierarchical structured dictionaries.”

11 35. MedDRA, WHO-Art and COSTART were and are all hierarchical relational medical
12 thesauruses, and all of them contain clinical terms that are or have been used in or derived
13 from clinical studies. Inventor Kim Rejndrup and his patent attorneys Rodney Johnson and
Christopher Lutz knew that MedDRA, WHO-Art and COSTART were and are hierarchical
14 relational medical thesauruses, and that they contain clinical terms that are or have been used
in or derived from clinical studies.

15 ...

16 44. The information withheld -- that WHO-Art, COSTART, and MedDRA were and are
17 hierarchical relational medical thesauruses that contain clinical terms used in conjunction
18 with or derived from clinical studies -- is relevant to claims 1, 21, 51 and 53, and in
19 particular to the limitations of those claims that require (i) defining (or identifying) a
20 plurality of clinical terms for a clinical study and (ii) storing the plurality of terms in a
memory according to a hierarchy of relations. WHO-Art, COSTART, and MedDRA are
21 medical thesauruses, and each of them contain clinical terms used in conjunction with or
22 derived from clinical studies. In order for these clinical terms used in conjunction with or
23 derived from clinical studies to have been entered into WHO-Art, COSTART, and MedDRA,
24 the clinical terms for clinical studies were first identified and then stored in a memory
according to a hierarchy of relations.

25 45. The withheld information -- that WHO-Art, COSTART, and MedDRA are hierarchical
26 relational medical thesauruses that contain clinical terms used in conjunction with or derived
27 from clinical studies – is present at, and can be found in, any portion of WHO-Art,
28 COSTART, and MedDRA. That is, just as the fact that Roget’s Thesaurus is a thesaurus
containing English-language words can be ascertained from virtually any page in Roget’s
Thesaurus, the fact that WHO-Art, COSTART and MedDRA are hierarchical relational
medical thesauruses containing clinical terms used in or derived from clinical studies would

²On September 2, 2011, DrugLogic filed a First Amended Answer. See Docket No. 71. Following a meet and confer, the parties stipulated to the filing of a Second Amended Answer to address certain concerns expressed by Oracle relating to the sufficiency of the amended counterclaims and defenses. See Docket No. 75. The Second Amended Answer was filed on September 23, 2011.

1 be immediately perceived by someone reviewing any portion of the contents of WHO-Art,
2 COSTART or MedDRA. For example, if one were to look up in MedDRA the clinical term
3 “cardiac flutter,” a term associated with certain clinical studies, one would find that the term
4 is categorized in a hierarchical structure, with synonyms (reflecting that MedDRA is a
5 thesaurus) and related terms having the same level of detail or specificity categorized at the
6 same level, and with related terms having broader meanings (reflecting that MedDRA is
7 relational) categorized at correspondingly “higher” levels (reflecting that MedDRA is
8 hierarchical). One would find similar clinical terms and organization with COSTART and
9 WHO-ART. Inventor Kim Rejndrup and his patent lawyers were aware of the content and
10 organization of WHO-Art, COSTART and MedDRA, specifically that they were relational
11 medical thesauruses containing clinical terms, and they knew that this information was
12 material to the claims of the ‘221 Patent.

13 46. The information withheld is material because if the patent examiner had been aware of
14 the actual nature of the withheld information, that is, that WHO-Art, COSTART, and
15 MedDRA are each a hierarchical relational medical thesaurus that contains clinical terms
16 used in conjunction with or derived from clinical studies, the examiner would not have
17 allowed the claims to issue in their present form. Instead, the examiner would have found
18 that the withheld information provides a teaching that was absent from the prior art relied
19 upon by the examiner, and he would have rejected the claims instead of allowing them.

20 47. Specifically, the examiner allowed the claims only after the words “clinical terms” and
21 “clinical studies” were added to the claims. If the examiner had been told that WHO-Art,
22 COSTART, and MedDRA were medical thesauruses that contain clinical terms from clinical
23 studies, the examiner would have maintained the rejections and not allowed the claims to
24 issue.

25 48. The information withheld is not cumulative to other information provided to the
26 examiner because neither inventor Kim Rejndrup nor his patent attorneys Rodney Johnson
27 and Christopher Lutz provided any prior art to the USPTO, and because the incomplete
28 disclosure of WHO-Drug, COSTART and CPT in the specification of the ‘221 Patent fails to
make any reference to WHO-Art or to MedDRA, and it fails to state that any of them are
thesauruses of medical or clinical terms. The incomplete description and disclosure of the
prior art materially misrepresents its nature and scope and fails to put the examiner on notice
of its relevance. Indeed, it undoubtedly led the examiner to the conclusion that this prior art
was not relevant.

49. The information withheld is not cumulative to other information cited by the examiner
because none of the prior art cited by the examiner was or disclosed a medical thesaurus
containing clinical terms, in which medical (including clinical) terms are stored according to
a hierarchy of relations, including relations indicative of associations between medical
(including clinical) terms.

50. On information and belief, the failure of inventor Kim Rejndrup and his patent attorneys
Rodney Johnson and Christopher Lutz, to provide copies of or excerpts from one or more of
the WHO-Art, COSTART, and MedDRA hierarchical relational medical thesauruses to the
U.S. Patent and Trademark Office, and their failure to advise the U.S. Patent and Trademark
Office that WHO-Art, COSTART, and MedDRA contain clinical terms used in conjunction
with or derived from clinical studies, were intentional acts or omissions, done with deceptive
intent.

SAA, ¶¶ 34-35, 44-50.

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C. The Motion

In the Motion, Oracle argues that: 1) Druglogic’s counterclaim and affirmative defense of inequitable conduct should be dismissed (as to the counterclaim) and stricken (as to the affirmative defense) on the basis that the specific allegations addressing what was not disclosed to the Patent and Trade Office (“PTO”) show that Oracle did not, in fact, withhold any material information from the PTO and therefore, the allegations do not give rise to an inference of deceptive intent; 2) DrugLogic’s allegation of common law unfair competition in its Sixth Claim for Relief should be dismissed because under *Bank of the West v. Superior Court*, 2 Cal. 4th 1254 (1992), unfair competition claims asserted under common law are limited to the act of “passing off,” and no passing off has been alleged here; and 3) DrugLogic’s requests for damages on its unfair competition counterclaim and for injunctive relief on its breach of contract counterclaim should be stricken because these remedies are not available on DrugLogic’s claims. Motion at 2-3.

1. Inequitable Conduct Allegations

Oracle argues that the new details added to DrugLogic’s allegations do not save the defense and counterclaim but instead reveal that they are factually implausible under the standard set forth in *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) and *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1950 (2009). *Id.* at 5. According to Oracle, DrugLogic’s theory – that the inventor and others who prosecuted the patent hid from the Patent Office the fact that prior art systems described in the ‘221 specification “were and are all hierarchical relational medical thesauruses . . . [that] contain clinical terms that are or have been used in or derived from clinical studies” – is demonstrably false on the face of the ‘221 patent because it is clear from the specification that all of the prior art references are: 1) medical thesauruses; 2) “hierarchical”; and 3) relational. *Id.* It is also clear from the specification, Oracle argues, that they contain clinical terms derived from clinical studies. *Id.*

To show that it would have been apparent to the patent examiner that the systems described in the prior art referenced in the ‘221 patent were medical thesauruses, Oracle points to the titles of the systems used in the specification. *Id.* (citing ‘221 Pat., col. 4, lines 4-10 (“Common vendor-supplied dictionaries include WHO-Drug (World Health Organization Drug Dictionary) by the

1 World Health Organization, COSTART (Coding Symbols for a Thesaurus of Adverse Reaction
2 Terms) by the Drug Information Association, and CPT (Current Procedural Terminology) by the
3 American Medical Association”). *Id.* Oracle rejects DrugLogic’s suggestion that the nature of the
4 systems referenced in the specification would not have been apparent to the patent examiner because
5 they were referred to as dictionaries rather than thesauruses, *id.* (citing SAA ¶¶ 34-35), pointing out
6 that one of the systems contains the word “thesaurus” in its title; to the extent that the other systems
7 are referred to as dictionaries, Oracle asserts, this is an accurate description of these systems as they
8 contain the word “dictionary” in their titles, and therefore, no deceptive intent can be inferred from
9 referring to this prior art as such. *Id.*

10 It is also clear from the face of the specification that the prior art systems were hierarchical,
11 Oracle argues. *Id.* at 7. Oracle points to Figures 1 and 2 and the accompanying text in the
12 specification that describes these figures in support of its position. *Id.* (citing ‘221 Pat., col. 4, lines
13 12-16 (“Fig. 1 shows the various entities that interact with the classification and mapping system,
14 and Fig. 2 shows the structure of a vendor-supplied dictionary used with such a system. Referring to
15 Figs. 1 and 2, the hierarchical structure of the WHO-Drug dictionary 44 is shown”).

16 Oracle further contends that it is was apparent from the specification that the prior art
17 systems contained clinical terms that are or have been used in or derived from clinical studies. *Id.*
18 In particular, Oracle argues that the “patent explicitly states that the purpose of the prior art systems
19 in the claimed invention is to load clinical terms into that invention [and therefore] those systems
20 must contain clinical terms.” *Id.* (citing ‘221 Pat., col 3, lines 40-43 (“The *clinical terms* are
21 initially transmitted to the thesaurus database 18 from an external media source, such as a CD-ROM
22 40, from a loader 42”); col. 4, lines 16-18 (“*Clinical terms* are read from the CD-ROM 40 and
23 stored in the content table 20”); col. 5, lines 10-12 (“Referring to Figs. 1 and 5, a dictionary of
24 *clinical terms* is loaded into the thesaurus database 18”) (emphasis added in Motion)).

25 Finally, Oracle argues that the ‘221 specification disclosed that the prior art systems were
26 relational, quoting the following language in the specification:

1 FIG. 1 shows the various entities that interact with the classification and mapping system,
2 and FIG. 2 shows the structure of a vendor supplied dictionary used with such a 15 system.
3 Referring to FIGS. 1 and 2, the hierarchical structure of the WHO-Drug dictionary 44 is
4 shown. Clinical terms are read from the CD-ROM 40 and stored in the content table 20.
5 ***Relations between the clinical terms are also read*** and stored in the relation table 22 to
6 define relations between terms on different levels 46, as defined by the hierarchy. In this
7 manner, both the content and the hierarchical structure of the dictionary 44 are transmitted to
8 the thesaurus database 18 via the loader 42 and stored in the content table 20 and the relation
9 table 22.

10 *Id.* (quoting ‘221 Pat., col. 4, lines 12-24)(emphasis added in Motion).

11 Because all of the allegedly withheld information was in fact disclosed to the patent
12 examiner in the specification, Oracle argues, DrugLogic has failed to allege a material omission or
13 misrepresentation; therefore, its inequitable conduct claim should be dismissed. *Id.* at 9 (citing
14 *Funai Elec. Co. v. Daewoo Elecs. Corp.*, 2006 WL 3780715, at * 3-4 (N.D. Cal. Dec. 20, 2006),
15 *Chiron Corp. v. Genentech, Inc.*, 286 F. Supp. 2d 1126, 1137 (E.D. Cal. 2002)). Oracle further
16 asserts that in the absence of any factual allegations showing a material misrepresentation or
17 omission, DrugLogic’s allegations also do not support a plausible inference of intent to deceive. *Id.*
18 Oracle points out that under *Exergen*, to state a claim for inequitable conduct, DrugLogic’s factual
19 allegations must “plausibly suggest ‘[a] deliberate decision to withhold a known material reference
20 or to make a knowingly false misrepresentation.’” *Id.* (quoting *Exergen*, 575 F.3d at 1331 (internal
21 quotations omitted)).

22 **2. Unfair Competition Counterclaim**

23 Oracle argues that DrugLogic has improperly combined in Counterclaim Six a statutory
24 unfair competition claim under Cal. Bus. & Prof. Code §§ 17200 *et seq.* with a common law unfair
25 competition claim. *Id.* at 10. The latter claim fails, Oracle asserts, because the California Supreme
26 Court has limited unfair competition claims under common law to the act of “passing off” one’s
27 goods as those of another. *Id.* (citing *Bank of the West v. Superior Court*, 2 Cal. 4th 1254, 1263
28 (1992)). Oracle contends that because there is no allegation that Relsys or Oracle engaged in
“passing off” their goods as those of DrugLogic, DrugLogic’s claim for common law unfair
competition should be dismissed.

1 **3. Improper Remedies**

2 **a. Injunctive Relief for Breach of Contract**

3 Oracle argues that DrugLogic’s requested relief on Counterclaim II, for breach of contract,
4 improperly includes a request for injunctive relief. *Id.* at 11 (citing SAA Counterclaim II Requested
5 Relief, ¶ B (“seeking “[a]n injunction prohibiting Oracle . . .from further use of DrugLogic’s
6 confidential information and the software created through Relsys’s impropert reverse engineering
7 and decompiling’’)). According to Oracle, injunctive relief is available on a breach of contract claim
8 only where a plaintiff adequately alleges entitlement to specific performance under the contract. *Id.*
9 (citing Cal Civ. Code Section 3423(e) (“[a]n injunction may not be granted . . .[t]o prevent the
10 breach of a contract the performance of which would not be specifically enforced’’), *Golden West*
11 *Baseball Co. v. City of Anaheim*, 25 Cal. App. 4th (1994) (“[a]n injunction to enforce the terms of a
12 contract may only be issued if the contract is specifically enforceable’’)). Because DrugLogic has
13 not alleged specific facts showing that it is entitled to specific enforcement and in particular, has not
14 alleged any ongoing conduct that would be subject to specific performance, Oracle contends that this
15 relief should be stricken from DrugLogic’s breach of contract counterclaim. *Id.* (citing *Tamarind*
16 *Lithography Workshop, Inc. v. Sanders*, 143 Cal. App. 3d 571, 575 (1983) for elements required for
17 specific performance).

18 **b. Compensatory Damages for Unfair Competition**

19 Oracle argues that the Court should strike DrugLogic’s request for “an award disgorging any
20 benefit received by Oracle as a result of its unfair competition” as a remedy on Counterclaim VI, for
21 unfair competition. *Id.* at 12. Oracle argues that California’s statutory unfair competition law
22 (“UCL”), only authorizes “two forms of equitable relief: *preventive*., i.e., an injunction, and
23 *restorative*, ie., an order for restitution.” *Id.* (citing *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App.
24 4th 210, 244 (2010) and Cal. Bus. & Prof. Code Section 17203). The UCL does not authorize
25 compensatory relief, Oracle contends. *Id.* Moreover, Oracle argues, California courts have
26 expressly limited “restitution” to “orders compelling a [Section 17200] defendant to return money
27 obtained through an unfair business practice to those persons in interest from whom the property
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1 was taken, that is, to persons who had an ownership interest in the property or those claiming
2 through that person.” *Id.* (quoting *Krause v. Trinity Mgmt. Servs., Inc.*, 23 Cal. 4th 116, 126-27
3 (2000)). Because the monetary relief requested by DrugLogic falls outside the scope of the
4 monetary relief available under the UCL, Oracle contends, the request for disgorgement should be
5 stricken.

6 **C. Opposition**

7 In its Opposition, DrugLogic contends that: 1) its amended inequitable conduct allegations
8 are sufficient to remedy the deficiencies identified by the Court in its August 8 Order; 2) its unfair
9 competition claim does not fail to the extent it is based on common law because the *Bank of the West*
10 case does not apply; 3) DrugLogic’s request for an order disgorging benefits under its unfair
11 competition claim does not fail because it is based on its common law unfair competition claim and
12 not its statutory claim under Cal. Bus. & Profs. Code §§ 7200 *et seq.*; and 4) DrugLogic’s request for
13 an injunction under its claim for breach of contract is proper.

14 **1. Inequitable Conduct Allegations**

15 DrugLogic asserts that inequitable conduct is adequately alleged because DrugLogic has
16 included in the SAA detailed allegations showing that the patentees misled the examiner by
17 mischaracterizing the prior art referenced in the specification and failing to provide copies of the
18 prior art to the examiner, which would have revealed to the examiner that any one of the prior art
19 references disclosed the full scope of the invention claimed in the ‘221 patent. Opposition at 2, 5
20 (*citing Advanced Ion Beam Tech., Inc. v. Varian Semiconductor Equip. Assoc.*, 721 F. Supp. 2d 62,
21 79 (D. Mass. 2010); *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co., Inc.*, 837 F.
22 Supp. 1444 (N.D. In. 1992)). According to DrugLogic, Oracle mischaracterized the prior art at issue
23 by failing to disclose to the examiner that “*each* of [th]e prior art references contain[ed] each of the
24 four elements of the invention,” namely 1) a thesaurus, 2) a hierarchy, 3) relations, and 4) clinical
25 terms. *Id.* at 7 (emphasis in original). DrugLogic further points to the Manual of Patent Examining
26 Procedures (“MPEP”), which requires that inventors and their attorneys disclose information
27 material to patentability, include such information in their information disclosure statement and
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1 provide a “legible copy” of each publication listed in the information disclosure statement. *Id.* at 8
2 (citing MPEP § 1.56 and 37 C.F.R. 1.98).

3 DrugLogic rejects Oracle’s assertion that it fully disclosed in the specification that the prior
4 art at issue contained the elements of the claimed inventions, arguing that “these references to the
5 prior art were scattered throughout the specification in an attempt to hide the fact that the invention
6 claimed in the ‘221 Patent was unpatentable.” *Id.* at 9. “More importantly,” DrugLogic asserts,
7 “even when viewed together, the information contained in the specification does not disclose the
8 true nature and scope of each piece of prior art.” *Id.* This omission is particularly significant,
9 DrugLogic contends, because the examiner initially rejected each of the claims and only allowed the
10 ‘221 Patent to issue when the limitation of clinical terms was added. *Id.* at 9-10 & Ex. A (Notice of
11 Allowability).

12 With respect to Oracle’s argument that DrugLogic has not alleged facts sufficient to show
13 deceptive intent, DrugLogic contends that the Court already ruled on this question when it found that
14 so long as DrugLogic adequately alleged knowledge of the prior art at issue by those who had a duty
15 of disclosure, deceptive intent would also be adequately alleged. *Id.* at 5-6 (quoting August 8 Order
16 at 18-19 (“the Court finds that if DrugLogic adequately pleads knowledge as described above, no
17 additional pleading will be necessary with respect to deceptive intent under *Exergen*”)).

18 DrugLogic rejects Oracle’s reliance on *Funai Elec. Co. v. Daewoo Elecs. Corp.*, 2006 WL
19 3780715 at * 3-4 (N.D. Cal. Dec. 20, 2006), arguing that that case is factually distinguishable
20 because the material aspects of the prior art that the applicant allegedly failed to disclose to the
21 examiner – a Japanese patent application – were, in fact, disclosed in an English translation of the
22 Japanese Patent Office’s evaluation of the application, which was provided to the Examiner. *Id.* at
23 10. DrugLogic also contends that Oracle’s reliance on *Chiron Corp. v. Genentech, Inc.*, 268 F.
24 Supp. 2d 1126, 1137 (E.D. Cal. 2002) is misplaced. *Id.* at 11. According to DrugLogic, that case is
25 not on point because it was decided after discovery and full development of the record, at which
26 point the court concluded that there was no evidence that the information at issue was “intentionally
27 obscured.” *Id.* at 11.

1 **2. Unfair Competition Counterclaim**

2 DrugLogic rejects Oracle’s assertion that under *Bank of the West*, common law unfair
3 competition claims are limited to claims for “passing off.” *Id.* at 12. According to DrugLogic, the
4 central holding of the *Bank of the West* decision was that an insurance policy did not cover claims
5 for advertising injury under California’s Unfair Business Practices Act, Cal. Bus. & Prof. Code §§
6 17200 *et seq.*, and therefore, the statements in that case about common law unfair competition
7 claims were dicta. *Id.* DrugLogic cites to a decision by this Court, *Hewlett-Packard Co. v. Cigna*
8 *Prop. & Cas. Ins. Co.*, 1999 U.S. Dist. LEXIS 20655 (N.D. Cal. Aug. 24, 1999), in which the court
9 held that in the context of an insurance coverage dispute, claims for “unfair competition” would be
10 understood by a lay person to include claims not only for “passing off” but also for false advertising
11 and other tortious conduct. DrugLogic also points to a decision by the Ninth Circuit issued after the
12 *Bank of the West*, *Duncan v. Stuezle*, 76 F.3d 1480 (9th Cir. 1996). According to DrugLogic, in this
13 case the Ninth Circuit held “that a plaintiff properly asserted a claim for common law unfair
14 competition where he claimed that the defendant misappropriated certain proprietary information
15 regarding, among other things, marketing strategy, revenue and methods by which a particular
16 product was produced.” *Id.* at 13.

17 **3. Improper Remedies**

18 **a. Compensatory Damages for Unfair Competition**

19 DrugLogic does not dispute that compensatory damages are unavailable under the UCL and
20 therefore, that disgorgement of profits is not an available remedy under the UCL. *Id.* It argues,
21 however, that this remedy is available under its California’s common law unfair competition claim,
22 which survives for the reasons stated above. *Id.* (citing *Duncan*, 76 F.3d at 1489-1490).

23 **b. Injunctive Relief for Breach of Contract**

24 DrugLogic argues that it has adequately alleged that pecuniary compensation is not adequate
25 to remedy Oracle’s alleged breach of contract and therefore, its request for an injunction under this
26 claim is proper. *Id.* at 14. In particular, DrugLogic points to a number of allegations in its SAA,
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1 including its allegations that Oracle “continues to make, import, use, sell, and offer to sell Argus
2 Perceptive (the improperly reverse engineered product) to customers . . . , which is a violation of the
3 prohibition in the Co-Marketing Agreement from selling, transferring, publishing, disclosing or
4 otherwise making available any portion of DrugLogic’s confidential information to a third party.”
5 *Id.* at 14-15 (citing SAA, ¶¶103, 119, 121, 125 and p. 29 ¶ B). Based on these allegations,
6 DrugLogics argues that it is merely requesting that “Oracle be compelled to specifically perform its
7 continuing obligations under the Co-Marketing Agreement to refrain from certain activities.” *Id.* at
8 15.

9 **D. Reply**

10 In its Reply brief, Oracle reiterates its argument that DrugLogic’s allegations of inequitable
11 conduct fail because they are implausible under *Twombly* and *Iqbal* in light of the disclosures in the
12 specification. Reply at 2-3. Oracle rejects as “demonstrably wrong” DrugLogic’s assertion that the
13 disclosures in the specification are “scattered” throughout the specification and further asserts that
14 the specification “makes clear that its description of each alleged prior art system applies to *all* of
15 the alleged prior art systems.” *Id.* at 4-6. Oracle also argues that the cases cited by DrugLogic –
16 *Advanced Ion Beam* and *Golden Valley* – do not support DrugLogic’s position. *Id.* at 7-8. Oracle
17 argues that reliance on the patent prosecution guidelines in the MPEP misses the point because while
18 those guidelines set forth the types of information an applicant is required to disclose, they do not
19 address the types of facts that are sufficient to give rise to a reasonable inference that the applicant
20 intended to deceive the patent examiner. *Id.* at 8. Finally, as to the intent to deceive, Oracle rejects
21 DrugLogic’s contention that this question has already been decided by the Court. *Id.* at 2. Rather,
22 Oracle argues that the Court’s holding regarding deceptive intent simply meant that “if DrugLogic
23 adequately pled that the patent applicants knew about and withheld certain specific pieces of
24 information about the allegedly withheld prior art, then they would also have adequately pled
25 deceptive intent.” *Id.* at 2.

26 As to the common law claim for unfair competition, Oracle argues neither *Hewlett-Packard*
27 *Co. v. Cigna Prop. Cas. Ins. Co.* nor *Duncan v. Stuetzle* – the two cases cited by DrugLogic in
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1 support of its contention that it has stated a claim for common law unfair competition – redefined
2 common law unfair competition as set forth in *Bank of the West*. *Id.* at 9. Oracle also points out that
3 DrugLogic does not dispute that compensatory damages are not available for statutory unfair
4 competition under Cal. Bus. & Prof. Code §§ 17200 and therefore, to the extent the common law
5 unfair competition counterclaim fails, so too does DrugLogic’s request for disgorgement of profits
6 on its unfair competition counterclaim.

7 Finally, as to the request for injunctive relief on DrugLogic’s breach of contract claim,
8 Oracle asserts that DrugLogic has not made any attempt to allege facts showing that the
9 requirements for specific performance have been alleged. *Id.* at 10.

10 **III. ANALYSIS**

11 **A. Legal Standard³**

12 **1. Motion to Dismiss**

13 Federal Rule of Civil Procedure 8(a)(2) provides that a pleading must contain a “short and
14 plain statement of the claim showing that the pleader is entitled to relief.” The complaint must give
15 the defendant “fair notice of what the claim is and the grounds upon which it rests.” *Bell Atlantic*
16 *Corp. v. Twombly*, 550 U.S. 544, 555 (2007). To meet this requirement, the complaint must be
17 supported by factual allegations. *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1950 (2009). “While legal
18 conclusions can provide the framework of a complaint,” neither legal conclusions nor conclusory
19 statements are themselves sufficient, and such statements are not entitled to a presumption of truth.
20 *Id.* at 1949-50.

21 Under Federal Rule of Civil Procedure 12(b)(6), a complaint may be dismissed for failure to
22 state a claim on which relief can be granted. A complaint may fail to show a right to relief either by
23 lacking a cognizable legal theory or by lacking sufficient facts alleged under a cognizable legal
24 theory. *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9th Cir. 1990).

26
27 ³The Court applies the same standards it applied on Oracle’s previous motion to dismiss and
28 strike, which is repeated here for the convenience of the reader.

1 In order to survive a motion to dismiss under Rule 12(b)(6), a complaint must “contain either
2 direct or inferential allegations respecting all the material elements necessary to sustain recovery
3 under *some* viable legal theory.” *Twombly*, 550 U.S. at 562 (quoting *Car Carriers, Inc. v. Ford*
4 *Motor Co.*, 745 F.2d 1101, 1106 (7th Cir. 1984)) (internal quotations omitted; emphasis in original).
5 Together, *Iqbal* and *Twombly* represent “a two-step process for evaluation of motions to dismiss.
6 The court first identifies the non-conclusory factual allegations, and the court then determines
7 whether these allegations, taken as true and construed in the light most favorable to the plaintiff,
8 ‘plausibly give rise to an entitlement to relief.’” *Fallcochia v. Saxon Mortg., Inc.*, 709 F. Supp. 2d
9 860, 865 (E.D. Cal. 2010) (citing *Iqbal*, 129 S. Ct. at 1950; *Erickson v. Pardus*, 551 U.S. 89 (2007)).
10 Plausibility, as used in *Twombly* and *Iqbal*, refers to whether the non-conclusory factual allegations,
11 when assumed to be true, “allow the court to draw the reasonable inference that the defendant is
12 liable for the misconduct alleged.” *Iqbal*, 129 S. Ct. At 1949. “The plausibility standard is not akin
13 to a ‘probability requirement,’ but it asks for more than a sheer possibility that a defendant has acted
14 unlawfully.” *Id.* (quoting *Twombly*, 550 U.S. at 557).

15 Where a court dismisses for failure to state a claim pursuant to Rule 12(b)(6), it “should
16 grant leave to amend . . . unless it determines that the pleading could not possibly be cured by the
17 allegation of other facts.” *Cook, Perkiss & Liehe v. N. Cal. Collection Serv.*, 911 F.2d 242, 247 (9th
18 Cir. 1990).

19 2. Motion to Strike

20 Under Rule 12(f) of the Federal Rules of Civil Procedure, the court may strike from any
21 pleading “any insufficient defense or any redundant, immaterial, impertinent or scandalous matter.”
22 “The function of a 12(f) motion to strike is to avoid the expenditure of time and money that must
23 arise from litigating spurious issues by dispensing with those issues prior to trial . . .” *Whittlestone,*
24 *Inc. v. Handi-Craft Co.*, 618 F.3d 970, 973 (9th Cir. 2010) (internal quotations omitted; citations
25 omitted). However, motions to strike are generally disfavored. 5C Charles Alan Wright & Arthur
26 R. Miller, Federal Practice and Procedure § 1380 (3d ed. 2004).

1 In its August 8 Order, the Court held that: 1) DrugLogic had not adequately alleged the
2 “what” and “where” of Oracle’s alleged material omission; and 2) if DrugLogic, in its amended
3 answer and counterclaims adequately alleged that the patent applicants knew about and withheld
4 certain specific information about the allegedly withheld prior art, then they would also have
5 adequately pled deceptive intent. DrugLogic’s amended allegations of inequitable conduct are
6 inadequate because DrugLogic has not identified any specific information that was not disclosed in
7 the specification. Rather, the applicants disclosed all four of the claim elements to which the prior
8 art is relevant in the two paragraphs of the specification that address this prior art, as well as the
9 accompanying figures. *See* ‘221 Patent, co. 4, lines 2-24 & Figs. 1, 2. Under *Exergen*, the court
10 may infer deceptive intent when the facts alleged suggest a “deliberate decision” to withhold known
11 material information. *Exergen*, 575 F.3d at 1331. Here, the allegations do not support an inference
12 that the applicants deliberately decided to withhold material because Oracle specifically disclosed in
13 the specification not only the existence of the prior art references at issue but also that these
14 references were hierarchical relational medical thesauruses; nor has DrugLogic identified any
15 specific information in these references that was not disclosed. *See Fiskars, Inc. v. Hunt MFG. Co.*,
16 221 F. 3d 1318, 1327 (Fed. Cir. 2000) (affirming district court’s dismissal of inequitable conduct
17 counterclaim following bench trial on basis that allegedly withheld information had been disclosed
18 to examiner and stating that “[a]n applicant can not be guilty of inequitable conduct if the reference
19 was cited to the examiner, whether or not it was a ground of rejection by the examiner”); *Chip-*
20 *Mender, Inc. v. Sherwin-Williams Co.*, 2006 WL 13058, at *7 (N.D. Cal. Jan. 3, 2006) (holding that
21 defendant’s counterclaim for *Walker Process* fraud based on allegation that patent applicant
22 disclosed prior art reference to patent examiner but did not disclose certain details about that
23 reference failed to state a claim because allegations did not support inference of intent to deceive);
24 *Transclean Corp. v. Bridgewood Servs., Inc.*, 2000 WL 33175724, at *8 (D. Minn. Nov. 1, 2008)
25 (holding after a bench trial that inequitable conduct counterclaim failed because allegedly withheld
26 information had been disclosed in patent application and rejecting as “implausible, if not perverse”
27 the defendant’s contention that the applicants had only referenced the allegedly withheld prior art in
28

1 their application to “shield the substantive pertinence of that [prior art] from the Examiner’s
2 attention”).

3 Accordingly, DrugLogic’s inequitable conduct counterclaim is dismissed with prejudice
4 under Rule 12(b)(6). The Court strikes under Rule 12(f) DrugLogic’s inequitable conduct
5 affirmative defense.

6
7 **C. DrugLogic’s Unfair Competition Counterclaim and Availability of
Compensatory Damages on that Claim**

8 Oracle seeks dismissal of DrugLogic’s Unfair Competition counterclaim to the extent it is
9 based on common law, citing the California Supreme Court’s *Bank of the West* decision for the
10 proposition that under common law, “unfair competition” is limited to passing off. The Court
11 agrees.

12 The Court notes at the outset that *Bank of the West* addresses the meaning of common law
13 unfair competition under California law in the context of an insurance coverage dispute, as do many
14 of the cases that address the nature of common law unfair competition. In particular, in *Bank of the*
15 *West*, the court addressed whether a general liability insurance policy providing coverage for
16 damages arising out of unfair competition covered damages that were paid by Bank of the West in
17 an action that was based on alleged unfair business practices in connection with a loan program. 2
18 Cal. 4th at 1258-1259. The court reasoned that because damages are not available for statutory unfair
19 competition under Cal. Bus. & Prof. Code § 17203, the provision provided coverage only for
20 common law unfair competition, on which damages are available. *Id.* at 1265-1266. In that
21 context, the court stated as follows:

22 The common law tort of unfair competition is generally thought to be synonymous with the
23 act of “passing off” one’s goods as those of another. The tort developed as an equitable
24 remedy against the wrongful exploitation of trade names and common law trademarks that
25 were not otherwise entitled to legal protection. (See generally 1 Callmann, Unfair
26 Competition Trademarks & Monopolies (4th ed. 1981) §§ 2.01–2.03.) According to some
27 authorities, the tort also includes acts analogous to “passing off,” such as the sale of
28 confusingly similar products, by which a person exploits a competitor’s reputation in the
market. (See Rest., Torts, §§ 711–743; see also 1 Callmann, supra, § 2.04.)

Id. at 1263.

1 While arguably dicta, the California Supreme Court’s characterization of common law unfair
2 competition in *Bank of the West* has been followed by the Ninth Circuit in the context of a motion
3 dismiss. *See, e.g., Sybersound Records, Inc. v. UAV Corp.*, 517 F.3d 1137, 1153 (9th Cir. 2008)
4 (affirming dismissal of common law unfair competition claim under *Bank of the West* on the basis
5 that no passing off was alleged); *Southland Sod Farms v. Stover Seed Co.* 108 F.3d 1134, 1147 (9th
6 Cir. 1997) (same). These decisions undermine DrugLogic’s assertion that the Court should follow
7 *Hewlett-Packard Co. v. Cigna Prop. & Cas. Ins.*, 1999 U.S. Dist. LEXIS 20655 (N.D. Cal. Aug. 24,
8 1999), in which the court concluded, in an insurance coverage context, that common law unfair
9 competition is not limited to passing off. In *Hewlett Packard*, the court addressed whether an
10 insurer had a duty to defend and indemnify under a policy that covered “unfair competition” where
11 the claims for unfair competition in the underlying litigation were not based on allegations of
12 passing off. 1999 U.S. Dist. LEXIS 20655, at * 13 (N.D. Cal. Aug. 24, 1999). Following *Bank of*
13 *the West*, the court reasoned that coverage extended only to common law unfair competition, which
14 can support a claim for damages. *Id.* However, it rejected as dicta the California Supreme Court’s
15 characterization of common law unfair competition as limited to passing off. *Id.* Instead, it
16 addressed how a layperson would understand the term “unfair competition,” looking beyond
17 California law to general treatises and the law of other jurisdictions. *Id.* For example, the court
18 quoted the statement in Prosser and Keaton on Torts that “[u]nfair competition . . . can be found
19 when the defendant engages in any conduct that amounts to a recognized tort and when that tort
20 deprives the plaintiff of customers or other prospects.” *Id.* (quoting 1013 (5th Ed. 1984)). The Ninth
21 Circuit has not adopted a similar approach in cases decided after the *Hewlett-Packard* case,
22 including in *Sybersound Records*, cited above. Therefore, the Court concludes that DrugLogic fails
23 to state a claim for common law unfair competition.

24 The Ninth Circuit’s decision in *Duncan v. Stuetzle* does not stand for a contrary result. In
25 that case, the complaint was filed in California state court and asserted claims for “1)
26 misappropriation of proprietary information, 2) unfair competition, and 3) civil conspiracy.” 76 F.3d
27 at 1483-1484. The complaint did not specify whether the claims were being asserted under state or
28

1 federal law. *Id.* The defendant removed to federal district court and the court had to determine
2 whether any of the claims were federal claims for the purposes of determining whether removal was
3 proper. *Id.* at 1484. The district court found that the complaint stated a claim under the Lanham Act
4 and concluded on that basis that federal jurisdiction existed. *Id.* On appeal, the Ninth Circuit held
5 that the district court had erred, concluding that each of the claims asserted – including the claim for
6 unfair competition – existed under California state law. *Id.* at 1486. In that context, the court held
7 that the plaintiff’s claim for unfair competition was not a federal claim because “California provides
8 both statutory and common law causes of action for unfair competition.” *Id.* at 1489. The court
9 further held that to the extent the plaintiff requested monetary damages, which are not available
10 under the UCL, this did not mean that the claim was a federal Lanham Act claim (which allows for
11 damages) because damages are also available on a California common law claim for unfair
12 competition. *Id.* at 1489.

13 The holding of *Duncan v. Stuezle* does not support DrugLogic’s position for two reasons.
14 First, the court did not address whether common law unfair competition, under *Bank of the West*, is
15 limited to passing off; nor did it address whether the plaintiff’s allegations were consistent with the
16 characterization of common law unfair competition claims under California law in *Bank of the West*.
17 See 76 F.3d at 1489-1490. Rather, the court merely stated that “[e]ach of these causes of actions
18 [statutory and common law unfair competition] provides a *theoretical* state law basis for Duncan’s
19 requested relief.” *Id.* at 1489 (emphasis added). Second, the allegations in *Duncan v. Stuezle* suggest
20 that the unfair competition claim in that case, though not expressly referred to as “passing off,” did
21 *in fact* fall within the scope of common law unfair competition as set forth in *Bank of the West*. In
22 particular, the plaintiff in *Duncan v. Stuezle* included the following allegations in support of her
23 unfair competition claim:

24 20. On or about the month of January, 1990, in the County of San Luis Obispo, the
25 Defendants obtained proprietary information regarding the “Footsie Wootsie” foot massage
26 chair, regarding, without limitation, the product’s exterior and mechanical design, the
27 Plaintiffs’ company’s marketing strategy, the product’s recent income, and the methods by
28 which the machine was produced. The Defendants afterward began to produce their own foot
massage chairs which closely resemble the chairs produced by Plaintiffs, and do not carry
any identifying labels or machine numbers to distinguish them from Plaintiffs’ product.

1 Subsequently, the Defendants began manufacturing and distributing these duplications or
2 reproductions of the “Footsie Wootsie” foot massage chair throughout, as far as is known at
present, the Southern California area.

3 21. The foot massage chairs manufactured, distributed, and sold by the Defendants are
4 designed and calculated to deceive and mislead purchasers and consumers of Plaintiffs' foot
5 massage chair. Further, the Defendants' produce has actually deceived, and continues to
deceive consumers, and caused them to use the chairs sold by the Defendants, believing that
the chairs were manufactured, sold and distributed by the Plaintiffs.

6 *Id.* at 1484. *Bank of the West* recognized that a common law unfair competition claim may include
7 claims such as the one asserted in *Duncan v. Stuezle*, namely, claims that are “analogous to ‘passing
8 off,’ such as the sale of confusingly similar products, by which a person exploits a competitor’s
9 reputation in the market.” 2 Cal. 4th at 1263. In contrast, no such analogous claim is alleged here.

10 Accordingly, the Court concludes that DrugLogic’s claim for unfair competition fails to state
11 a claim because no passing off, or any analogous claim, is alleged. Further, because it is undisputed
12 that a statutory unfair competition claim under the UCL cannot give rise to compensatory damages,
13 the Court strikes DrugLogic’s request for disgorgement of profits on Counterclaim Six.

14 **D. Availability of Injunctive Relief on Breach of Contract Claim**

15 Oracle asserts that DrugLogic’s request for injunctive relief on its breach of contract
16 counterclaim should be stricken, citing to the elements required under California law for specific
17 performance that are set forth in *Tamarind Lithography Workshop, Inc. v. Sanders*, 143 Cal. App. 3d
18 571, 575 (1983). In *Tamarind Lithography*, the court of appeals held that the trial court had erred in
19 denying a request for specific performance in addition to an award of damages by a jury following a
20 jury trial. 143 Cal. App. 3d at 575. The court stated as follows:

21 (1)The availability of the remedy of specific performance is premised upon well established
22 requisites. These requisites include: A showing by plaintiff of (1) the inadequacy of his legal
23 remedy; (2) an underlying contract that is both reasonable and supported by adequate
24 consideration; (3) the existence of a mutuality of remedies; (4) contractual terms which are
sufficiently definite to enable the court to know what it is to enforce; and (5) a substantial
similarity of the requested performance to that promised in the contract.

25 *Id.* Oracle contends that DrugLogic has not adequately pled each of these specific elements. It has
26 not, however, cited case law establishing that it is appropriate to strike a request for specific
27 performance at the pleading stage of the case, especially where, as here, a party has included general
28

1 allegations that a contract was breached and that there is a threat of continued harm that renders
2 legal remedies inadequate. Given that motions to strike are disfavored, the Court declines to strike
3 DrugLogic's request for specific performance on its breach of contract claim.

4 **IV. CONCLUSION**

5 For the reasons stated above, Oracle's Motion is GRANTED IN PART and DENIED IN
6 PART as follows:

7 1) The Motion is GRANTED as to DrugLogic's inequitable conduct counterclaim
8 (Counterclaim X) and affirmative defense (Third Affirmative Defense) which are, respectively,
9 dismissed under Rule 12(b)(6) and stricken under Rule 12(f).

10 2) The Motion is GRANTED as to DrugLogic's unfair competition counterclaim
11 (Counterclaim VI) as follows: to the extent that claim is based on common law unfair competition, it
12 is dismissed under Rule 12(b)(6); the Motion is also GRANTED as to DrugLogic's request for
13 disgorgement of profits on DrugLogic's unfair competition counterclaim, which is stricken under
14 Rule 12(f).

15 3) The Motion is DENIED as to DrugLogic's request for specific performance on its breach
16 of contract counterclaim (Counterclaim II).

17 IT IS SO ORDERED.

18
19 Dated: November 16, 2011

20
21 
22 _____
23 JOSEPH C. SPERO
24 United States Magistrate Judge
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28