

United States District Court
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

PROCONGPS, INC,
Plaintiff,
v.
STAR SENSOR LLC, *et al.*,
Defendants.

No. C 11-3975 SI

**ORDER GRANTING PLAINTIFF'S
MOTION TO DISMISS AND GRANTING
SKYPATROL LEAVE TO AMEND
THIRD COUNTERCLAIM**

Plaintiff's motion to dismiss defendant Skypatrol's third counterclaim is scheduled for a hearing on December 2, 2011. Pursuant to Civil Local Rule 7-1(b), the Court determines that the matter is appropriate for resolution without oral argument, and VACATES the hearing. For the reasons set forth below, the Court GRANTS plaintiff's motion and GRANTS Skypatrol leave to amend. Skypatrol's amended counterclaim must be filed by **December 22, 2011**.

DISCUSSION

On August 15, 2011, plaintiff ProconGPS, Inc. filed this lawsuit against several defendants, including defendant Skypatrol, LLC. Plaintiff alleges that defendants are infringing two patents owned by plaintiff.

Plaintiff moves to dismiss defendant Skypatrol's third counterclaim. The third counterclaim for unfair competition alleges,

On information and belief, Procon has represented and is representing to third parties, including but not limited to Skypatrol's existing and prospective customers, that Skypatrol is going out of business, at least in part due to Procon's litigation tactics. As an example, during the week of August 29, 2011, a Procon sales representative called one of Skypatrol's existing customers, The Best Choice Inc., and represented multiple

1 times that Skypatrol was going out of business and that Skypatrol’s efforts to sell
2 additional products were aimed at collecting as much money as possible before closing
or going bankrupt. These representations are false.

3 Skypatrol’s Amended Answer and Counterclaims ¶ 71. The third counterclaim also alleges, “[o]n
4 information and belief, Skypatrol has lost at least one customer based on Procon’s representations to
5 third parties that Skypatrol is going out of business.” *Id.* ¶ 72. In addition, Skypatrol alleges on
6 information and belief that Procon “is asserting patents that are not valid and not infringed,” and that
7 Procon’s conduct constitutes unfair competition under common law, California Business and
8 Professions Code § 17200 *et seq.*, and the Lanham Act, 15 U.S.C. § 1125(a). *Id.* ¶¶ 73-74.

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10 **I. Rule 9(b)**

11 Plaintiff moves to dismiss defendant’s counterclaim on numerous grounds. First, plaintiff
12 contends that Skypatrol failed to plead the counterclaim with heightened particularity as required by
13 Federal Rule of Civil Procedure 9(b). Plaintiff argues that Rule 9(b) applies because Skypatrol alleges
14 that Procon falsely misrepresented Skypatrol’s financial condition. Plaintiff contends that the
15 counterclaim does not meet the pleading requirements of Rule 9(b) because Skypatrol alleges that
16 unidentified Procon employees made false statements to unidentified third parties at unspecified times.

17 Skypatrol responds that Rule 9(b) does not apply because Skypatrol’s counterclaim does not
18 sound in fraud. Skypatrol asserts that the basis for its counterclaim is that Procon’s false statements are
19 unfair, not that they are fraudulent. Skypatrol also argues that even if Rule 9(b) applies, the
20 counterclaim meets that standard because Skypatrol alleges specific facts about Procon’s
21 misrepresentations to one of Skypatrol’s customers, The Best Choice, Inc.

22 The Court agrees with plaintiff that Rule 9(b) applies because Skypatrol’s unfair competition
23 counterclaim is based entirely on the allegation that Procon employees have and continue to falsely
24 represent Skypatrol’s financial condition; there is no other conduct that is alleged to be “unfair.” The
25 Court further finds that, with the exception of the allegations concerning misrepresentations made to The
26 Best Choice, Inc., the counterclaim does not meet Rule 9(b)’s pleading standard. Skypatrol alleges “on
27 information and belief” that Procon is falsely representing to unnamed third parties that Skypatrol is
28 going out of business “at least in part due to Procon’s litigation tactics.” These allegations are too vague

1 to provide Procon with notice of the particular misconduct with which it is charged. The Court grants
2 Skypatrol leave to amend to allege more specific details about the alleged misrepresentations. While
3 the Court does not expect Skypatrol to be able to allege the names of the persons who allegedly made
4 the misrepresentations, in order to provide Procon with adequate notice, Skypatrol must allege some
5 information about the person or persons who made the misrepresentations (such as if the person was a
6 sales representative), when the misrepresentations were made, and to whom. In addition, Skypatrol
7 must allege the substance of the false statements, and specify what it means by “at least in part due to
8 Procon’s litigation tactics.”

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10 **II. Lanham Act**

11 Plaintiff contends that Skypatrol has not stated a claim for unfair competition under the Lanham
12 Act because Skypatrol has not alleged any facts showing that plaintiff acted in bad faith. Plaintiff relies
13 on *Zenith Electronics Corporation v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir. 1999), in which the Federal
14 Circuit held,

15 [B]efore a patentee may be held liable under § 43(a) for marketplace activity in support
16 of its patent, and thus be deprived of the right to make statements about potential
17 infringement of its patent, the marketplace activity must have been undertaken in bad
18 faith. This prerequisite is a function of the interaction between the Lanham Act and
19 patent law, and is in addition to the elements required by § 43(a) itself, as § 43(a) alone
20 does not require bad faith [citations].

21 *Id.* at 1353.

22 The parties dispute whether Skypatrol has alleged “marketplace activity in support of [Procon’s]
23 patent.” *Id.* Plaintiff argues that Skypatrol fails to allege that Procon made statements about Skypatrol’s
24 business outside the context of informing customers of patent infringement, while Skypatrol contends
25 that Procon’s false statements about Skypatrol’s financial condition and business operations are distinct
26 from its claims of patent infringement.

27 The Court concludes that, as currently pled, it is unclear whether Skypatrol’s Lanham Act
28 counterclaim seeks to hold plaintiff liable for marketplace activity in support of its patent. The Court
agrees with Skypatrol that Procon’s alleged misstatements about Skypatrol going out of business, on
their own, do not constitute marketplace activity in support of Procon’s patent. However, the

1 counterclaim alleges that Procon has represented, and is representing that “Skypatrol is going out of
2 business, at least in part due to Procon’s litigation tactics.” Counterclaim ¶ 71. It is unclear what
3 Skypatrol means by “Procon’s litigation tactics.” If Skypatrol is alleging that Procon told third parties
4 that Skypatrol is going out of business because Skypatrol is infringing Procon’s patents, such conduct
5 would appear to constitute “marketplace activity in support of its patent.” *Zenith Elecs.*, 182 F.3d at
6 1353; *see id.* at 1354 (patent holder’s statement that alleged infringer could not design around patent
7 was marketplace activity in support of patent).

8 The Court will grant Skypatrol leave to amend to clarify the nature of its Lanham Act
9 counterclaim. In amending this claim, Skypatrol should take care to allege all of the elements of a such
10 a claim: “(1) that the defendant . . . made a false or misleading statement of fact in commercial
11 advertising or promotion about the plaintiff’s goods or services; (2) that the statement actually deceives
12 or is likely to deceive a substantial segment of the intended audience; (3) that the deception is material
13 in that it is likely to influence purchasing decisions; (4) that the defendant caused the statement to enter
14 interstate commerce; and (5) that the statement results in actual or probable injury to the plaintiff.”
15 *Zenith Elecs.*, 182 F.3d at 1348. If Skypatrol’s amended counterclaim alleges conduct by Procon in
16 support of its patent such that the bad faith requirement of *Zenith* applies, Skypatrol must also allege
17 facts in support of its allegation that Procon is asserting patents it knows are not valid and not infringed;
18 it is not sufficient to simply make such an allegation “on information and belief.”
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20 **III. UCL**

21 With regard to the UCL, plaintiff argues that Skypatrol has not alleged any facts depicting any
22 deception of Skypatrol’s customers or any facts to support an inference that plaintiff committed an
23 unfair practice that broke or violated the spirit of antitrust laws. “When a party sues an ostensible
24 competitor under the ‘unfair’ prong of § 17200, the claim may be proven only on the basis of ‘conduct
25 that threatens an incipient violation of an anti-trust law, or violates the policy or spirit of one of those
26 laws because its effects are comparable to or the same as a violation of the law, or otherwise
27 significantly threatens or harms competition.’” *Watson Labs, Inc. v. Rhone-Poulenc Rorer, Inc.*, 178 F.
28 Supp. 2d 1099, 1118 (C.D. Cal. 2001) (quoting *Cel-Tech Commn’s, Inc. v. Los Angeles Cellular Tel.*

1 Co., 20 Cal.4th 163, 187 (1999).

2 Skypatrol contends that under *Watson Labs* and *Cel-Tech* it need not allege an antitrust violation,
3 and instead can state a claim under the “unfair” prong by alleging conduct that harms or threatens
4 competition. While Skypatrol is correct in its statement of the law, Skypatrol’s counterclaim does not
5 actually allege that plaintiff’s conduct “significantly threatens or harms competition.” Instead, the
6 counterclaim only alleges that Skypatrol has lost at least one customer based on Procon’s alleged
7 misrepresentations. Harm to a competitor is not the same as harm to competition, and Skypatrol must
8 allege conduct that significantly threatens or harms competition in order to state a claim. *Watson Labs*,
9 178 F. Supp. 2d at 1118-19. In addition, if Skypatrol’s UCL claim is based on Procon’s marketplace
10 activity in support of its patent, Skypatrol must allege facts showing bad faith on the part of Procon.
11 See *Zenith Elecs.*, 182 F.3d at 1355. Accordingly, the Court GRANTS plaintiff’s motion and GRANTS
12 Skypatrol leave to amend.

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14 **IV. Litigation privilege**

15 Plaintiff also contends that Skypatrol’s counterclaim fails because Procon’s alleged
16 misrepresentations are protected by California’s litigation privilege. The litigation privilege, codified
17 at California Civil Code § 47, “applies to any publication required or permitted by law in the course of
18 a judicial proceeding to achieve the objects of the litigation, even though the publication is made outside
19 the courtroom and no function of the court or its officers is involved.” *Jacob B. v. County of Shasta*,
20 154 P.3d 1003, 1007 (Cal. 2007) (citation omitted). The privilege bars all tort causes of action other
21 than malicious prosecution and applies to any communication “(1) made in judicial or quasi-judicial
22 proceedings; (2) by litigants or other participants authorized by law; (3) to achieve the objects of the
23 litigation; and (4) that have some connection or logical relation to the action.” *Silberg v. Anderson*, 50
24 Cal.3d 205, 219-220 (1990).

25 In light of the Court’s dismissal of the counterclaim with leave to amend, the Court finds it
26 unnecessary to decide whether the alleged misrepresentations to Skypatrol’s current and potential
27 customers are protected by the litigation privilege. However, the Court notes that “[s]tatements to
28 nonparticipants in the action are generally not privileged under section 47, subdivision (b), and are thus

1 actionable unless privileged on some other basis.” *Rothman v. Jackson*, 49 Cal. App. 4th 1134, 1141
2 (1996). In addition, in order for the litigation privilege to apply, “the communicative act – be it a
3 document filed with the court, a letter between counsel or an oral statement – must function as a
4 necessary or useful step in the litigation process and must serve its purposes.” *Id.* at 1146. While it is
5 unclear what Skypatrol means by its allegation that Procon has represented that Skypatrol is going out
6 of business “at least in part due to Procon’s litigation tactics,” the other alleged statements – that
7 Skypatrol is going out of business, and that Skypatrol’s efforts to sell additional products were aimed
8 at collecting as much money as possible before closing or going bankrupt – do not function as a
9 necessary or useful step in the process of litigating plaintiff’s claims of patent infringement.
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11 **CONCLUSION**

12 For the foregoing reasons, the Court GRANTS plaintiff’s motion and GRANTS Skypatrol leave
13 to amend. The amended counterclaim must be filed by **December 22, 2011**.

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15 **IT IS SO ORDERED.**

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17 Dated: November 29, 2011



18 SUSAN ILLSTON
19 United States District Judge
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