Analysis
As of: May 24, 2011

GLOBESPANVIRATA, INC., Plaintiff, v. TEXAS INSTRUMENT, INC., THE LELAND STANFORD JUNIOR UNIVERSITY and its BOARD OF TRUSTEES, and STANFORD UNIVERSITY OTL, LLC, Defendants.

Civ. No. 03-2854 (GEB)

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

2006 U.S. Dist. LEXIS 8860; 2006-1 Trade Cas. (CCH) P75,229

March 3, 2006, Decided

NOTICE: [*1] NOT FOR PUBLICATION

PRIOR HISTORY: Globespanvirata, Inc. v. Tex. Instrument, Inc., 2006 U.S. Dist. LEXIS 242 (D.N.J., Jan. 3, 2006)

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For TEXAS INSTRUMENTS, INC., LELAND STANFORD JUNIOR UNIVERSITY, BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY, STANFORD UNIVERSITY OTL, LLC, Defendants: LIZA M. WALSH, AGNIESZKA ANTONIAN, CONNELL FOLEY LLP, ROSELAND, NJ; ROBERT A. ROSENFELD, DAVID M. GOLDSTEIN, DAVID E. JONES, RIMA J. ALAILY, BRENDAN T. MANGAN, JOHN A. JURATA, JR., APPEARING PRO HAC VICE, HELLER EHRMAN, LLP, MENLO PARK, CA.

For TEXAS INSTRUMENTS, INC., LELAND STANFORD JUNIOR UNIVERSITY, THE, BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY, STANFORD UNIVERSITY OTL, LLC, Counter Claimants: LIZA M. WALSH, AGNIESZKA ANTONIAN, CONNELL FOLEY LLP, ROSELAND, NJ.

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JUDGES: GARRETT E. BROWN, JR., U.S.D.J.

OPINION BY: GARRETT E. BROWN, JR.

OPINION

BROWN, District Judge

This matter comes before the Court upon Defendants

Texas Instruments, Inc., The Leland Stanford Junior University and its Board of Trustees, and Stanford [*2] University OTL, LLC's (collectively "Defendants") motion to dismiss, with prejudice, Counts in, V, VI and VII, and the *per se* tying claims in Counts I and II, in plaintiff Globespanvirata, Inc.'s ("Plaintiff") Second Amended Complaint ("SAC"). The Court, having considered the parties' submissions and decided the matter without oral argument pursuant to Federal Rules of Civil Procedure Rule 78, and for the reasons set forth below, will grant Defendants' motion in its entirety.

I. BACKGROUND

Plaintiff is a corporation in the business of providing integrated circuits, software and system designs for Digital Subscriber Line ("DSL") applications. (SAC P9.) Plaintiff alleges that Defendants own numerous patents related to Asymmetric Digital Subscriber Line ("ADSL") technology, which technology enables high-speed telecommunication services to be provided over ordinary telephone lines. (*Id.* P2.) Included among those patents are ones that are necessary for manufacturing products that comply with certain national and international ADSL standards. (*Id.*) According to Plaintiff, only standards-compliant ADSL products are commercially [*3] viable. (*Id.*)

On June 12, 2003, Plaintiff brought suit against Defendants for their alleged antitrust violations in various ADSL-related markets. Plaintiff filed its First Amended Complaint ("FAC") on July 6, 2004. On July 30, 2004, Defendants filed their Answer to the FAC and asserted counterclaims against Plaintiff for its alleged patent infringement.

On June 24, 2005, Defendants moved to dismiss Counts III, V, VI and VII of the FAC. On September 12, 2005, the Court granted Defendants' motion and allowed Plaintiff to amend the FAC with respect to the dismissed counts. On September 26, 2005, Plaintiff filed the SAC.

On October 11, 2005, Defendants moved to dismiss Counts III, V, VI and VII, as well as the *per se* tying claims in Counts I and II, of the SAC. In Counts I and II, Plaintiff alleges that Defendants violated Section 1 of the Sherman Act through conduct that was unlawful both *per se* and under the "rule of reason." (SAC PP101, 105, 115, 122.) With respect to the *per se* tying claims in Counts I and II, Plaintiff alleges that Defendants unlawfully agreed to pool and/or tie patents for ADSL Standards Technology with those for ADSL Non-Standards Technology. [*4] (*Id.* PP101-16, 122-28.)

In addition, Plaintiff alleges in Counts III, V, VI and VII that Defendants violated Section 2 of the Sherman Act based on their alleged monopolization, conspiracy to monopolize and/or attempts to monopolize various ADSL-related markets. Specifically: (1) Count III alleges that Defendants monopolized or conspired to monopolize the market for ADSL Non-Standards Technology; (2) Count V alleges that Defendants monopolized or conspired to monopolize the market for ADSL Technology; (3) Count VI alleges that Defendants attempted to monopolize the market for ADSL Technology; and (4) Count VII alleges that Defendants attempted to or conspired to monopolize the market for ADSL Systems. Each of these counts are based on allegations that Defendants used their alleged monopoly power with respect to ADSL Standards Technology to establish monopoly power in the relevant markets. (SAC PP131-33, 146-48, 153-55, 160-62.)

In managing this case, the Court bifurcated Plaintiff's antitrust claims and Defendants' patent infringement counterclaims, staying the antitrust phase of the litigation until the infringement claims were resolved. Trial of the patent infringement counterclaims [*5] began on January 4, 2006. On February 6, 2006, the jury returned a verdict in favor of Defendants with respect to their counterclaims. Having resolved the patent infringement portion of this case, the Court will now address Defendants' motion to dismiss.

II. DISCUSSION

A. Standard of Review for Motions to Dismiss

In considering a Rule 12(b)(6) motion to dismiss, this Court "must accept all well pleaded allegations in the complaint as true and view them in the light most favorable to plaintiff." *Angelastro v. Prudential-Bache Sec., Inc.,* 764 F.2d 939, 944 (3d Cir.), *cert. denied,* 474 U.S. 935, 106 S. Ct. 267, 88 L. Ed. 2d 274 (1985). *See also Langford v. City of Atl. City,* 235 F.3d 845, 847 (3d Cir. 2000); *Oran v. Stafford,* 226 F.3d 275, 279 (3d Cir. 2000); *Nami v. Fauver,* 82 F.3d 63, 65 (3d Cir. 1996). The Court may dismiss a complaint only if the plaintiff can prove no set of facts that would entitle him to relief. *Conley v. Gibson,* 355 U.S. 41, 45-46, 78 S. Ct. 99, 2 L. Ed. 2d 80 (1957); *Trump Hotels & Casino Resorts, Inc. v. Mirage Resorts Inc.,* 140 F.3d 478, 483 (3d Cir. 1998);

Ford v. Schering-Plough Corp., 145 F.3d 601, 604 (3d Cir. 1998); **[*6]** *Jordan v. Fox, Rothschild, O'Brien & Frankel*, 20 F.3d 1250, 1261 (3d Cir. 1994); *Markowitz v. Ne. Land Co.*, 906 F.2d 100, 103 (3d Cir. 1990).

With respect to antitrust claims, "facts must be pleaded with reasonable particularity . . . in order to permit an inference that a Federal antitrust claim is cognizable." *Syncsort Inc. v. Sequential Software, Inc.*, 50 F. Supp. 2d 318, 328 (D.N.J. 1999). "It is not . . . proper to assume that [a plaintiff] can prove facts that it has not alleged or that the defendants have violated the antitrust laws in ways that have not been alleged." *Associated Gen. Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 526, 103 S. Ct. 897, 74 L. Ed. 2d 723 (1983). The trial court has "the power to insist upon some specificity in pleading before allowing a potentially massive factual controversy to proceed." *Id.* at 528 n.17.

B. Plaintiff's Allegations of Monopoly Power for Counts III, V, VI and VII

Defendants argue that Counts III, V, VI and VII of the SAC should be dismissed because Plaintiff has failed to allege specific facts showing that Defendants had monopoly **[*7]** power, or a dangerous probability of achieving it, in the relevant markets. In particular, they point to Plaintiff's failure to allege Defendants' share of those markets. For purposes of this motion, the relevant markets are the markets for: (1) ADSL Non-Standards Technology (Count III); (2) ADSL Technology (Counts V and VI); and (3) ADSL Systems (Count VII).

In response, Plaintiff argues that market share is only one method by which it may prove that Defendants possess monopoly power, and that its allegations support a claim that Defendants possessed such power. Specifically, Plaintiff has alleged that for each of the disputed counts, Defendants had monopoly power, or a dangerous probability of achieving it, as a result of their alleged control of ADSL Standards Technology. (Pl.'s Opp. Br. at 5 ("the starting point for Defendants' monopoly power in all of the relevant markets is their ownership of patents alleged to be essential for compliance with the ADSL Standards and their resulting monopoly power in the ADSL Standards-Compliant Technology market").) The Court will consider whether the facts alleged in the SAC are sufficient to state a claim with respect to each of the disputed **[*8]** counts.

1. Requirements for Section 2 Claims

Plaintiff claims that Defendants violated Section 2 of the Sherman Act by monopolizing, conspiring to monopolize and/or attempting to monopolize various markets for ADSL technology and products. To state a claim pursuant to Section 2, a plaintiff must allege that the defendant enjoys monopoly power in the relevant market. *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S. Ct. 1698, 16 L. Ed. 2d 778 (1966). For a claim of either attempted monopolization or conspiracy to monopolize, a plaintiff must allege that the defendant has a dangerous probability of achieving monopoly power. *Crossroads Cogeneration Corp. v. Orange & Rockland Utilities, Inc.*, 159 F.3d 129, 141 (3d Cir. 1998) (citing *Schuylkill Energy Res. v. Pennsylvania Power & Light Co.*, 113 F.3d 405, 413 (3d Cir. 1997)); *Urdinaran v. Aarons*, 115 F. Supp. 2d 484, 491 (D.N.J. 2000). To adequately state its claims, then, Plaintiff must allege facts showing that Defendants either have monopoly power or a dangerous probability of achieving it with respect to the relevant markets.

a. Proof of a Defendant's Monopoly Power

The Supreme **[*9]** Court has defined monopoly power as "the power to control prices or exclude competition." *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 391, 76 S. Ct. 994, 100 L. Ed. 1264 (1956). "The size of market share is a primary determinant of whether monopoly power exists . . . ." *Pennsylvania Dental Ass'n v. Med. Serv. Ass'n of Pennsylvania*, 745 F.2d 248, 260 (3d Cir. 1984). *See also Gordon v. Lewistown Hosp.*, 423 F.3d 184, 211-12 (3d Cir. 2005) ("Once the markets are defined, we must determine whether [the defendant]'s market share is sufficient to infer the existence of market power"). Other factors are also relevant in considering whether a defendant has monopoly power. "A predominant share of the market, or a lesser market share combined with other relevant factors, may suffice to demonstrate monopoly power." *Fineman v. Armstrong World Indus., Inc.*, 980 F.2d 171, 201 (3d Cir. 1992). *See also United States v. Dentsply Int'l, Inc.*, 399 F.3d 181, 187 (3d Cir. 2005) ("[a] less than predominant share of the market combined with other relevant factors may suffice to demonstrate monopoly power"). Such factors include: the **[*10]** size and strength of competing firms; freedom of entry into the field; pricing trends and practices in the industry; the ability of consumers to substitute comparable goods or

services from outside the market; and consumer demand. *Fineman,* 980 F.2d at 202. *See also Allen-Myland, Inc. v. Int'l Bus. Machines Corp.,* 33 F.3d 194, 209 (3d Cir. 1994).

b. Proof of a Dangerous Probability of Achieving Monopoly Power

As with proving a defendant's monopoly power, a defendant's market share is the "most significant" factor in proving a dangerous probability of achieving monopoly power. *Pastore v. Bell Tel. Co. of Pennsylvania,* 24 F.3d 508, 513 (3d Cir. 1994). But similarly, "although the size of a defendant's market share is a significant determinant of whether a defendant has a dangerous probability of successfully monopolizing the relevant market, it is not exclusive." *Barr Laboratories, Inc. v. Abbott Laboratories,* 978 F.2d 98, 112 (3d Cir. 1992). "Factors to be reviewed 'include the strength of the competition, probable development of the industry, the barriers to entry, the nature of the anti-competitive conduct, and the elasticity **[*11]** of consumer demand.'" *Pastore,* 24 F.3d at 513 (quoting *Barr Labs.,* 978 F.2d at 112).

2. Plaintiff Has Failed to State a Claim With Respect to Counts III, V, VI and VII

The Court finds that Plaintiff has failed to state a claim with respect to Counts III, V, VI and VII. Allegations concerning a defendant's share of the relevant market are highly significant, and Plaintiff has failed to make such allegations for each of the disputed counts. While other factors are also relevant, they are typically considered alongside facts concerning market share, not in lieu of such facts. Although Plaintiff cites a number of cases acknowledging the relevance of factors other than market share, in none of those cases did the court find that the plaintiff sufficiently stated a claim in the absence of allegations concerning market share. *See Allen-Myland,* 33 F.3d at 201-09 (discussing the defendant's market share in determining whether it had monopoly power); *Barr Labs.,* 978 F.2d at 112-13 (discussing the defendant's market share in determining whether it had a dangerous probability of achieving monopoly power); *Brunson Commc'ns, Inc. v. Arbitron, Inc.,* 239 F. Supp. 2d 550, 569-73 (E.D. Pa. 2002) **[*12]** (dismissing plaintiff's Section 2 claim for failure to allege sufficient facts showing defendant's monopoly power); *World Arrow Tourism Enters., Ltd. v. Trans World Airlines,* 582 F. Supp. 808, 811-12 (S.D.N.Y. 1984) (same).

Plaintiff argues that allegations concerning market share are inappropriate in this case because "technology markets . . . are not readily susceptible to market share calculations in the same manner applicable to markets for traditional goods . . . ." (Pl.'s Opp. Br. at 15.) Plaintiff, however, has not even attempted to make such calculations, difficult or qualified though such calculations may be. Nor has Plaintiff provided support for its assertion that the technology market is not susceptible to such calculations.

Moreover, to the extent that a plaintiff could in theory prove monopoly power without alleging market share, Plaintiff fails to state a claim in the disputed counts because it fails to adequately allege facts even with respect to the other relevant factors. *See Fineman,* 980 F.2d at 202. The Court will discuss Plaintiff's failure with respect to each of the relevant markets.

a. Market for ADSL Non-Standards Technology [*13] (Count III)

Plaintiff defines the ADSL Non-Standards Technology market as the market for "features of ADSL Systems that are not essential for compliance with the ADSL Standards but provide functions and capabilities that enhance the efficiency, value, attractiveness or operability of such systems." (SAC P90.) According to the SAC, "Defendants' requirement that licensees of their ADSL Standards-compliant Technology also purchase a license to Defendants' ADSL non-Standards Technology forecloses the majority, if not all, of the potential competition for the licensing of ADSL non-Standards Technology . . . ." (SAC P133.)

Plaintiff fails to allege facts showing Defendants have monopoly power in the ADSL Non-Standards Technology market. Instead, it focuses on Defendants' alleged conduct. According to the SAC, Defendants have monopoly power in the market for ADSL Standards Technology and required licensees of that technology to also license ADSL Non-Standards Technology. (SAC PP131-33.) There are no factual allegations, however, concerning the degree of control enjoyed by Defendants in the ADSL Non-Standards Technology market as a result of their alleged conduct.

In particular, Plaintiff **[*14]** has not alleged Defendants' market share, a significant factor in

establishing monopoly power. Nor has Plaintiff adequately alleged facts concerning other relevant factors, including: the size and strength of firms competing in the ADSL Non-Standards Technology market; the pricing trends and practices in that market; the ability of licensees to substitute Defendants' ADSL Non-Standards Technology with other technology; and the nature of licensees' demand for such technology. *See Fineman,* 980 F.2d at 202. Although Plaintiff has alleged that Defendants' ownership of ADSL Standards Technology serves as a barrier to entry for competitors in the ADSL Non-Standards Technology market, it does so in a conclusory manner -- the allegations do not indicate the extent to which Defendants' alleged conduct may have impeded competition. (*See* SAC P132-33.) Thus, even assuming the truth of Plaintiff's allegations concerning Defendants' conduct, Plaintiff has not alleged facts showing that Defendants had monopoly power, or a dangerous probability of achieving it, with respect to the ADSL Non-Standards Technology market.

b. Market for ADSL Technology (Counts V and VI)

Counts **[*15]** V and VI concern the market for ADSL Technology as a whole, which technology consists of both ADSL Standards Technology and ADSL Non-Standards Technology. (*See* SAC P91 ("[a] broader relevant market for ADSL Technology as a whole also exists, which includes both the market for ADSL Standards-compliant Technology and the market for ADSL non-Standards Technology").) Again, Plaintiff's claim here rests on its allegations that Defendants exclusively owned the patents for ADSL Standards Technology. Specifically, Plaintiff alleges that "Defendants were able to obtain monopoly power in the ADSL Technology market because any actual or potential licensee of ADSL Technology invariably will require a license to Defendants' ADSL Standards-compliant Technology." (SAC P148.)

Plaintiff has failed to allege sufficient facts concerning Defendants' monopoly power in the ADSL Technology market. As with Count III, Plaintiff's claims in Counts V and VI are based on allegations concerning Defendants' conduct. Plaintiff fails to allege any facts showing Defendants' market share in the ADSL Technology market. It has also failed to allege facts describing the characteristics of the competitors, customers **[*16]** and pricing practices of that market. Although Plaintiff alleges that Defendants' conduct resulted in barriers to entry for potential competitors, it has done so in a conclusory manner. (*See* SAC PP147-48, 154-55.) Plaintiff has therefore failed to allege sufficient facts showing that Defendants had monopoly power, or a dangerous probability of achieving it, in the ADSL Technology market.

c. Market for ADSL Systems (Count VII)

Count VII concerns the market for ADSL Systems. Plaintiff alleges that "access to Defendants' technology is a prerequisite to entering the market for ADSL Systems," and that by controlling "an essential input for the production of ADSL Systems[,]" Defendants have "the power to exclude new entrants and/or raise the costs of competing producers . . . ." (SAC P162.)

Plaintiff fails to allege sufficient facts to state its claim. As with the previous counts, Plaintiff's claim is based on Defendants' alleged monopoly power in the ADSL Standards Technology market. (*See* SAC PP161-62.) Plaintiff does not, however, allege specific facts concerning Defendants' monopoly power in the ADSL Systems market. For example, it has not alleged facts showing the **[*17]** extent to which Defendants control the market for ADSL Systems relative to other competitors, whether by market share or otherwise. Nor has it, for example, alleged the degree to which Defendants' conduct has excluded competitors or raised the prices for ADSL Systems for consumers of such systems. Its allegations that Defendants' conduct created barriers to entry for competitors are, again, conclusory. (*See* SAC P161-62.)

Taken as true, Plaintiff's allegations show that Defendants had an advantage in the ADSL Systems market as a result of their ownership of patents for ADSL Standards Technology. They do not show, however, that Defendants have monopoly power, or a dangerous probability of achieving it, in the ADSL Systems market. Plaintiff has therefore failed to state a claim with respect to Count VII.

C. Plaintiff's *Per Se* Tying Claim in Counts I and II

Defendants also seek dismissal of the Plaintiff's *per se* tying claims in Counts I and II of the SAC. Both counts are based on Section 1 of the Sherman Act. Count I alleges unlawful conspiracy in restraint of trade, and

Count II alleges unlawful tying. For both counts, Plaintiff claims that Defendants' alleged conduct **[*18]** was unlawful both *per se* and under the "rule of reason." (SAC PP101, 105, 115, 122.) For the reasons below, the Court finds that the *per se* tying claims in Counts I and II should be dismissed.

1. Certain Tying Arrangements Constitute *Per Se* Violations of the Sherman Act

Certain tying arrangements are *per se* unlawful. "Where (1) a defendant seller ties two distinct products; (2) the seller possesses market power in the tying product market; and (3) a substantial amount of interstate commerce is affected, then the defendant's tying practices are automatically illegal without further proof of anticompetitive effect." *Town Sound & Custom Tops, Inc. v. Chrysler Motors Corp.,* 959 F.2d 468, 477 (3d Cir. 1992) (citing *N. Pac. Ry. Co. v. United States,* 356 U.S. 1, 5, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958)). The Supreme Court has stated that "application of the *per se* rule focuses on the probability of anticompetitive consequences." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde,* 466 U.S. 2, 15-16, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984). "The character of the restraint produced by [a prohibited *per se* tying arrangement] is considered a sufficient basis for presuming unreasonableness **[*19]** without the necessity of any analysis of the market context in which the arrangement may be found." *Id.* at 9. *See also Broad. Music, Inc. v. Columbia Broad. Sys., Inc.,* 441 U.S. 1, 7-8, 99 S. Ct. 1551, 60 L. Ed. 2d 1 (1979) ("certain agreements or practices are so 'plainly anticompetitive,' . . . and so often 'lack . . . any redeeming virtue,' . . . that they are conclusively presumed illegal without further examination under the rule of reason generally applied in Sherman Act cases") (citations omitted).

2. The *Per Se* Rule Does Not Apply Where a License for a Patent Necessary to Comply with a Standard Is Tied with Related Non-Essential Licenses

In *U.S. Philips Corp. v. Int'l Trade Comm'n,* 424 F.3d 1179 (Fed. Cir. 2005), the Federal Circuit Court of Appeals considered whether the *per se* rule applied in cases where a seller ties a license for technology necessary for practicing a standard with licenses for related nonessential technology. In that case, Philips appealed a decision by the United States International Trade Commission ("Commission") that a number of Philips's patents were unenforceable because of patent misuse. *Philips,* 424 F.3d at 1182. **[*20]** Philips owned the patents for manufacturing recordable compact discs and rewritable compact discs in accordance with certain technical standards. *Id.* It offered them through package licenses that also included patents that were nonessential for complying with the standards. *Id.* Philips charged a royalty for each disc made using the package license, and the royalty was the same regardless of how many of the licensed patents were used. *Id.*

After a number of licensees failed to pay royalty fees, Philips filed a complaint against them with the Commission for patent infringement, and the respondents raised patent misuse as an affirmative defense. *Id.* at 1182-83. According to the licensees, "Philips had improperly forced them, as a condition of licensing patents that were necessary to manufacture CD-Rs or CD-RWs, to take licenses to other patents that were not necessary to manufacture those products." *Id.* at 1183. The administrative law judge found that Philips's patents were unenforceable as a result of patent misuse. *Id.* The Commission upheld that decision, finding that "Philips's patent package licensing arrangement constituted *per* **[*21]** *se* patent misuse because Philips did not give prospective licensees the option of licensing individual patents (presumably for a lower fee) rather than licensing one or more of the patent packages as a whole." *Id.* at 1184.

The Federal Circuit Court of Appeals held that a patent-to-patent tying arrangement is not *per se* unlawful. The court based its reasoning on antitrust law for tying arrangements. It noted that "the [Supreme] Court has made clear that tying arrangements are deemed to be *per se* unlawful only if they constitute 'a naked restraint of trade with no purpose except stifling of competition' and 'always or almost always tend to restrict competition and decrease output' in some substantial portion of a market." *Id.* at 1185 (quoting *Broad. Music,* 441 U.S. at 19-20). "The Supreme Court has applied the *per se* rule only when 'experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it . . . .'" *Id.* (quoting *Arizona v. Maricopa County Med. Soc'y,* 457 U.S. 332, 344, 102 S. Ct. 2466, 73 L. Ed. 2d 48 (1982)). "Conduct is not considered *per se* anticompetitive **[*22]** if it has 'redeeming competitive virtues and . . . the search for those values is not almost sure to be in vain.'" *Id.* (quoting *Broad. Music,* 441 U.S. at 13).

In explaining the inapplicability of the *per se* rule, the court identified a number of pro-competitive effects resulting from the practice of packaging licenses. License packaging "'may provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation . . . [thereby] promoting the dissemination of technology, cross-licensing and pooling arrangements . . . .'" *Id.* at 1192 (quoting U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.5 (1995)). It also "reduces transaction costs by eliminating the need for multiple contracts and reducing licensors' administrative and monitoring costs." *Id.* License packaging also "allows the parties to price the package based on their estimate of what it is worth to practice a particular technology, which is typically much easier to calculate than determining the marginal benefit **[*23]** provided by a license to each individual patent." *Id.*

The Court of Appeals distinguished Supreme Court cases in which tying arrangements were deemed to be unlawful *per se.* Specifically, the court found it significant that Philips's tying arrangement concerned licenses rather than products. According to the court:

> Philips gives its licensees the option of using any of the patents in the package, at the licensee's option. Philips charges a uniform licensing fee to manufacture discs covered by its patented technology, regardless of which, or how many, of the patents in the package the licensee chooses to use in its manufacturing process. In particular, Philips's package licenses do not require that licensees actually use the technology covered by any of the patents that the Commission characterized as nonessential. In that respect, Philips's licensing agreements are different from the agreements at issue in [*United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948)], which imposed an obligation on the purchasers of package licenses to exhibit films they did not wish to license.

Id. at 1188. *See also id.* at 1187-89 (distinguishing **[*24]** *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962)). The court reasoned that "[a] nonexclusive patent license is simply a promise not to sue for infringement" and "does not obligate the licensee to do anything . . . ." *Id.* at 1189. For this reason, the *Philips* case differed from patent-to-product tying cases where "the patent owner uses the market power conferred by the patent to compel customers to purchase a product in a separate market that the customer might otherwise purchase from a competitor." *Id.* at 1189-90.

> [A] package licensing agreement that includes both essential and nonessential patents does not impose any requirement on the licensee. It does not bar the licensee from using any alternative technology that may be offered by a competitor of the licensor. Nor does it foreclose the competitor from licensing his alternative technology; it merely puts the competitor in the same position he would be in if he were competing with unpatented technology.

Id. at 1190. "The package license is thus not anticompetitive in the way that a compelled purchase of a tied product would be." *Id.*

3. Defendants' Alleged Tying Arrangement Does [*25] Not Constitute *Per Se* Violation of the Sherman Act

For the reasons provided in *Philips,* the Court finds that Defendants' alleged tying arrangement does not constitute a *per se* violation of the Sherman Act. Tying a patent that is necessary for complying with a standard with related but nonessential patents does not constitute "a naked restraint of trade with no purpose except stifling of competition" that "always or almost always tend to restrict competition and decrease output . . . ." *Broad. Music,* 441 U.S. at 19-20. The *per se* rule does not apply where a tying arrangement has "redeeming competitive virtues and . . . the search for those values is not almost sure to be in vain." *Id.* at 13. The *Philips* court identified a number of potential benefits that may result from such tying arrangements. *See Philips,* 424 F.3d at 1192-93.

Plaintiff argues that *Philips* does not control this case for a number of reasons. The Court finds these arguments to be unpersuasive.

First, Plaintiff argues that this case is controlled by Supreme Court and Third Circuit Court of Appeals cases

that have explicitly recognized tying **[*26]** arrangements as *per se* unlawful. The Supreme Court and Third Circuit cases to which Plaintiff cites are consistent with *Philips* because they involved the tying of products. *See Jefferson Parish,* 466 U.S. 2, 104 S. Ct. 1551, 80 L. Ed. 2d 2; *Town Sound,* 959 F.2d 468; *Independent Ink v. Illinois Tool Works, Inc.,* 396 F.3d 1342 (Fed. Cir. 2005), *rev'd on other grounds,* U.S. , 547 U.S. 28, 126 S. Ct. 1281, 164 L. Ed. 2d 26, 2006 U.S. LEXIS 2024 (March 2006). While certain types of tying arrangements may remain *per se* unlawful, patent-to-patent tying cases do not fall into that category. The Court is persuaded by the reasoning in *Philips* that the *per se* rule against certain tying arrangements should not extend to patent-to-patent tying cases in light of the pro-competitive aspects of such arrangements. As the Supreme Court recently stated, "many tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market." *Illinois Tool Works,* 2006 U.S. LEXIS 2024 at *31 (holding that in cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product). Thus, to the extent that *Philips* **[*27]** is consistent with the *per se* rule against certain types of tying arrangements, and because it directly addresses the issue before this Court, that decision should be followed.

Second, Plaintiff seeks to distinguish *Philips* as a case about patent misuse rather than antitrust violations. Although *Philips* concerned patent misuse, its reasoning applies to antitrust cases also. The *Philips* court itself observed that "because of the importance of anticompetitive effects in shaping the defense of patent misuse, the analysis of tying arrangements in the context of patent misuse is closely related to the analysis of tying arrangements in antitrust law." *Philips,* 424 F.3d at 1185 (citing *Virginia Panel Corp. v. MAC Panel Co.,* 133 F.3d 860, 868-69 (Fed. Cir. 1997)). *See also USM Corp. v. SPS Techs., Inc.,* 694 F.2d 505, 512 (7th Cir. 1982) (Posner, J.) ("If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights **[*28]** of patent holders to debilitating uncertainty.").

Finally, Plaintiff argues that *Philips* should be distinguished because the decision was based on a developed fact record, and Plaintiff has not yet had an opportunity to develop facts to prove its claims. However, the *Philips* court's discussion of the facts in that case merely provided further support to its more general finding -- that "a package licensing agreement that includes both essential and nonessential patents does not . . . bar the licensee from using any alternative technology that may be offered by a competitor of the licensor . . . ." *Philips,* 424 F.3d at 1190. Moreover, to the extent that *Philips* was based on facts showing that the licensor had not charged a royalty for the nonessential patents, Plaintiff has not specifically alleged contrary facts in the SAC, *i.e.* that the price for the license package was greater than what Defendants could have charged for licenses of the ADSL-Standards Technology only. *See id.* at 1191-92 ("because a license to the essential patent is, by definition, a prerequisite to practice the technology in question, the patentee can charge whatever **[*29]** maximum amount a willing licensee is able to pay to practice the technology in question.").

III. CONCLUSION

For the above reasons, Defendants' motion to dismiss is granted. Specifically, the Court dismisses Counts III, V, VI and VII, as well as the *per se* tying claims in Counts I and II, of the Second Amended Complaint. An appropriate form of order is filed herewith.

Dated: March 3, 2006

GARRETT E. BROWN, JR., U.S.D.J.

ORDER

This matter comes before the Court upon Defendants Texas Instruments, Inc., The Leland Stanford Junior University and its Board of Trustees, and Stanford University OTL, LLC's (collectively "Defendants") motion to dismiss, with prejudice, Counts III, V, VI and VII, and the *per se* tying claims in Counts I and II, in plaintiff Globespanvirata, Inc.'s ("Plaintiff") Second Amended Complaint. The Court, having considered the parties' submissions and decided the matter without oral argument pursuant to Federal Rules of Civil Procedure Rule 78, and for the reasons discussed in the Memorandum Opinion accompanying this Order;

IT IS THIS 3rd day of March, 2006, hereby

ORDERED that Defendants' motion **[*30]** is GRANTED. Specifically, Counts III and V-VII, and the

per se tying claims of Counts I and II, of the Second Amended Complaint [216] are DISMISSED.

GARRETT E. BROWN, JR., U.S.D.J.

Positive
As of: May 24, 2011

INSIGNIA SYSTEMS, INC., Plaintiff, v. NEWS CORPORATION, LTD., NEWS AMERICA MARKETING IN-STORE, INC., and ALBERTSON'S INC., Defendants.

Civil No. 04-4213 (JRT/FLN)

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MINNESOTA

2005 U.S. Dist. LEXIS 42851

August 25, 2005, Decided
August 25, 2005, Filed

SUBSEQUENT HISTORY: Motion to strike denied by, Motion denied by Insignia Sys. v. News Am. Mktg. In-Store, Inc., 2006 U.S. Dist. LEXIS 47015 (D. Minn., June 30, 2006)

COUNSEL: **[*1]** Willie L. Hudgins, COLLIER SHANNON SCOTT, PLLC, Washington, D.C., and Robert L. Meller, Jr. and Cynthia L. Hegarty, BEST & FLANAGAN LLP, Minneapolis, MN, for plaintiff.

Stacey Anne Mahoney, CONSTANTINE CANNON, New York, NY, and Todd Wind, FREDRIKSON & BYRON, Minneapolis, MN, for defendants News Corporation, Ltd. and News America Marketing In-Store, Inc.

Michael A. Lindsay, DORSEY & WHITNEY LLP, Minneapolis, MN, and Phillip A. Proger, JONES DAY, Washington, D.C., for defendant Albertson's Inc.

JUDGES: JOHN R. TUNHEIM, United States District Judge.

OPINION BY: JOHN R. TUNHEIM

OPINION

MEMORANDUM OPINION AND ORDER

BACKGROUND

Plaintiff Insignia, Inc. ("Insignia") and defendant News America Marketing In-Store, Inc. ("NAMI") are direct competitors in the in-store advertising market. Each buys shelf space and other advertising space from retailers, like defendant Albertson's, and sells advertising services, including in-store placement in retailers, to consumer packaged goods companies ("CPGs"), i.e. manufacturers of packaged products. Insignia contends that NAMI has engaged in activity that excludes Insignia and other competing in-store advertisers from access to retailers' advertising **[*2]** space by (1) signing exclusive agreements with retailers; (2) orchestrating a boycott of other in-store advertisers by retailers; (3) engaging in exclusionary and anticompetitive conduct designed to harm Insignia and consumers; and, (4) making false and disparaging representations about Insignia. Insignia alleges state and federal antitrust violations against

NAMI and Albertson's and false advertising violations against NAMI. NAMI and Albertson's move to dismiss under Rule 12(b)(6) for failure to state a claim. For the following reasons, the Court grants the motions to dismiss.

ANALYSIS

1. STANDARD OF REVIEW

In a motion to dismiss, the Court construes the complaint in the light most favorable to the plaintiff and presumes all facts alleged in the complaint to be true. *Hishon v. King & Spalding,* 467 U.S. 69, 73, 104 S. Ct. 2229, 81 L. Ed. 2d 59 (1984); *Schmedding v. Tnemec Co. Inc.,* 187 F.3d 862, 864 (8th Cir. 1999). The Court may dismiss a claim only where the plaintiff cannot prove any set of facts in support of his claim that would entitle him to relief. *Conley v. Gibson,* 355 U.S. 41, 45-46, 78 S. Ct. 99, 2 L. Ed. 2d 80 (1957); *Schmedding,* 187 F.3d at 864. **[*3]**

II. CLAIMS 3,4,5,7,8, AND 9 - UNLAWFUL BOYCOTT AND EXCLUSIVE DEALING (Sherman Act § 1, Clayton Act § 3, Minn. Stat. §§ 325d.51 and .53)

To establish a claim under section 1 of the Sherman Act, section 3 of the Clayton Act, or Minnesota Statute sections 325D.51 and 325D.53, a plaintiff must demonstrate (1) that there was a contract, combination, or conspiracy; and (2) that the agreement unreasonably restrained trade under either a *per se* rule of illegality or a rule of reason analysis. *Minn. Ass'n of Nurse Anesthetists v. Unity Hospital,* 5 F. Supp. 2d 694, 704 (D. Minn. 1998) (section 1 of the Sherman Act); *see 3M Appleton Papers Inc.,* 35 F. Supp. 2d 1138, 1142-43 (D. Minn. 1999) (analyzing claims under section 3 of the Clayton Act and section 1 of the Sherman Act together); *Howard v. Minn. Timberwolves Basketball Ltd.,* 636 N.W.2d 551, 557 (Minn. Ct. App. 2001) (stating that Section 1 of the Sherman Act is analogous to Minnesota Statutes sections 325D.51 and 325D.53).

A. Contract, Combination, Or Conspiracy

"In order to withstand a motion to dismiss, a plaintiff must go further than merely alleging **[*4]** a conspiracy existed, for a bare bones accusation of conspiracy without any supporting facts is insufficient to state an antitrust claim." *Northwest Title & Escrow Corp. v. Edina Realty,* 1993 U.S. Dist. LEXIS 20734, 1993 WL 593995, *1 (D. Minn. Dec. 11, 1993) (internal quotation omitted); *see also Five Smiths, Inc. v. Nat'l Football League Players Ass'n,* 788 F. Supp. 1042, 1048 (D. Minn. 1992) ("general allegations of conspiracy, without a statement of the facts constituting the conspiracy, its objects and accomplishment are inadequate to state a cause of action"). A plaintiff must demonstrate that the defendants "had a conscious commitment to a common scheme designed to achieve an unlawful objective." *Minn. Nurse Anesthetists,* 5 F. Supp. 2d at 704 *(quoting Monsanto Co. v. Spray-Rite Serv. Corp.,* 465 U.S. 752, 768, 104 S. Ct. 1464, 79 L. Ed. 2d 775 (1984)). "[C]oncerted action forms the essence of a section 1 claim; unilateral actions do not give rise to antitrust liability under section 1." *Id. (citing Willman v. Heartland Hosp. E.,* 34 F.3d 605, 610 (8th Cir. 1994). Furthermore, "conduct as consistent with permissible competition as with **[*5]** illegal conspiracy does not, standing alone, support an inference of antitrust conspiracy." *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.,* 475 U.S. 574, 587-88, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986).

Insignia has asserted that Albertson's and, possibly, other unnamed retailers have entered into long-term exclusive relationships with NAMI in exchange for unusually high up-front and guaranteed payments. According to Insignia, these induced relationships were intended to eliminate Insignia from the market. On their face, Insignia's allegations indicate only that NAMI unilaterally initiated a series of relationships that had the effect of preventing Insignia from doing business with some mostly unspecified retailers for an uncertain period of time, and that Albertson's and unspecified other retailers each agreed to exclusive relationships with NAMI at favorable terms. Offering a better deal than does the competition is a time-tested competitive strategy, and accepting a good deal when offered is generally considered to be a sound business practice. Insignia's allegations, therefore, provide insufficient indication of a common scheme designed to achieve an unlawful objective.

[*6] B. Unreasonable Restraint Of Trade

Most agreements are evaluated under the "rule of reason," a standard that asks whether the alleged contract or agreement unreasonably restrains trade in a relevant product or geographic market. Certain kinds of agreements, however, are considered unlawful *per se*

because they are of a type that is so often harmful and so rarely justified that proof of anticompetitiveness is not required. *Minnesota Ass'n of Nurse Anesthetists v. Unity Hosp.,* 208 F.3d 655, 659 (8th Cir. 2000) *(quoting NYNEX Corp. v. Discon, Inc.,* 525 U.S. 128, 133, 119 S. Ct. 493, 142 L. Ed. 2d 510 (1998)); *see also Concord Boat Corp. v. Brunswick Corp.,* 207 F.3d 1039, 1058 (8th Cir. 2000).

1. Per se violation

A "group boycott" is a narrow category of *per se* violation, "limited to cases in which firms with market power boycott suppliers or customers in order to discourage them from doing business with a competitor." *Minn. Nurse Anesthetists,* 208 F.3d at 659 *(quoting FTC v. Ind. Fed'n of Dentists,* 476 U.S. 447, 458, 106 S. Ct. 2009, 90 L. Ed. 2d 445 (1986)). "It is not an antitrust 'boycott' when one supplier enters **[*7]** into an exclusive supply agreement with one customer, even though the supplier's competitors are 'foreclosed' from that customer for the life of the contract." *Id.* A horizontal restraint of trade is another category of *per se* violation. *See Double D Spotting Service, Inc. v. Supervalu, Inc.,* 136 F.3d 554, 558 (8th Cir. 1998). Horizontal restraints of trade result when combinations of traders at one level of the market structure agree to exclude direct competitors from the same level of the market. *Id.*

According to Insignia, Albertson's and other retailers, at the instigation of NAMI, agreed to deal only with NAMI and to exclude Insignia from the in-store advertising market resulting in a group boycott of Insignia and a horizontal restraint of trade. As noted above, Insignia's evidence and allegations indicate only that NAMI arranged one exclusive agreement with Albertson's, and may have arranged other similar relationships. This is insufficient to support an allegation of a group boycott. Additionally, as NAMI and Albertson's are not participants in the market at the same level, any agreement between the two cannot constitute a horizontal restraint of **[*8]** trade. Although an agreement between retailers could constitute a horizontal restraint of trade, Insignia has not provided any indication that Albertson's has ever spoken to, let alone entered into an agreement with, another retailer regarding or resulting in the exclusion of Insignia from the market. The Court, therefore, finds that Insignia has not adequately alleged a *per se* violation of the antitrust laws, and Insignia's claims must therefore be analyzed under the Rule of Reason.

2. Rule Of Reason

Exclusive dealing contracts are usually analyzed under the Rule of Reason. *Minn. Nurse Anesthetists,* 208 F.3d at 660 *(citing Tampa Elec. Co. v. Nashville Coal Co.,* 365 U.S. 320, 333-335, 81 S. Ct. 623, 5 L. Ed. 2d 580 (1961)). In order to prevail, a plaintiff must produce evidence to show that the defendant's contractual arrangements were unreasonable, based on the extent to which competition has been foreclosed in a substantial share of the relevant market, the duration of any exclusive arrangement, and the height of entry barriers. *Concord Boat,* 207 F.3d at 1059-60. "Where the degree of foreclosure caused by the exclusivity provisions **[*9]** is so great that it invariably indicates that the supplier imposing the provisions has substantial market power, we may rely on the foreclosure rate alone to establish the violation. However, where ... the foreclosure rate is neither substantial nor even apparent, the plaintiff must demonstrate that other factors in the market exacerbate the detrimental effect of the challenged restraints." *Ryko Mfg. Co. v. Eden Servs.,* 823 F.2d 1215, 1235 (8th Cir. 1987). Alternatively, a plaintiff may demonstrate that the challenged practice has actually produced significant anti-competitive effects, in which case formal market analysis is unnecessary. *Minn. Nurse Anesthetists,* 5 F. Supp. 2d at 707 *(citing Ind. Dentists,* 476 U. S. at 460-61)).

a. Market power/foreclosure

A plaintiff must demonstrate that the defendant has a dominant market share in a well-defined relevant market. *Flegel v. Christian Hosp.,* 4 F.3d 682, 689 (8th Cir. 1993). Assuming that there are, as Insignia asserts, local, regional, and national markets for in-store advertising services, Insignia's complaint provides insufficient indication of NAMI's market **[*10]** share or ability to foreclose competitors' participation in the relevant markets. Insignia asserts that NAMI dominates the relevant markets, that Insignia and Floorgraphics, Inc. pose the only significant competition to NAMI, and that NAMI has foreclosed Insignia from doing business with retailers in local, regional, and national markets by entering into exclusive contracts with 35,000 retail stores including the 2,500 Albertson's outlets throughout the nation. Based on this information, NAMI could, conceivably, dominate (in the colloquial sense) any given market with a 50% share as compared to Insignia's and

Floorgraphics' hypothetical 25% shares, but fail to be dominant in the legal sense. *See Tops Mkts., Inc. v. Quality Mkts., Inc.,* 142 F.3d 90, 97 (2d Cir. 1998) (finding 72% market share insufficient to support a section 1 claim); *Minn. Nurse Anesthetists,* 5 F. Supp. 2d at 708 (stating that a market share of 30% is insufficient as a matter of law to constitute sufficient market power to achieve significant foreclosure). Furthermore, absent some indication of the percentage of the local, regional, or national markets that the 35,000 retail outlets **[*11]** allegedly under exclusive contract constitute, it is impossible to evaluate the percentage of the market with which Insignia and other competitors are prevented from doing business, let alone determine that Insignia and other competitors are prevented from dealing with a significant number of retailers. *See Jefferson Parish Hosp. Dist. No. 2 v. Hyde,* 466 U.S. 2, 45-46, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984) (O'Connor, J., concurring) (quoted in *Minn. Nurse Anesthetists,* 208 F.3d 655 at 661) ("Exclusive dealing is an unreasonable restraint on trade only when a significant fraction of buyers and sellers are frozen out of a market by the exclusive deal"). These same deficiencies prevent the Court from determining whether significant barriers to entering this market or other factors exacerbating the detrimental effect of the challenged restraints exist. Insignia provides no indication of any barriers other than NAMI's exclusive contracts with the 35,000 retail outlets. Because it is unclear how large the markets are, or what the terms of the NAMI's alleged contracts are, it is impossible to determine how high a barrier is created by NAMI's exclusive contracts.

b. [*12] Actual detrimental effects

Actual detrimental effects may include an actual increase in the price of the good or service, a decrease in output, or a decline in quality. *Minn. Nurse Anesthetists,* 5 F. Supp. 2d at 707. Insignia broadly alleges that in-store information and advertising has been reduced and that higher prices have resulted. The Court finds that, as when demonstrating the existence of a contract, combination or conspiracy, such broad, unsupported allegations are inadequate to withstand a motion to dismiss.

Insignia's allegations indicate that NAMI is large and successful - but do not indicate that NAMI wields any particular degree of market power or ability to foreclose competitors from the market, or has entered into any sort of agreement in an attempt to do so. "Size in itself does not create an unlawful monopoly within the meaning of the Sherman Anti-Trust Act." *Kansas City Star Co. v. United States,* 240 F.2d 643, 658 (8th Cir. 1957). As Insignia's complaint insufficiently alleges either a contract, combination, or conspiracy or an unreasonable restraint of trade, the Court will grant NAMI's and Albertson's motions to dismiss with **[*13]** respect to claims 3, 4, 5, 7, 8, and 9.

III. CLAIMS 1 AND 10 - UNLAWFUL MONOPOLIZATION (Sherman Act § 2 and Minn. Stat. § 325d.52)

In order to make out a claim under either section 2 of the Sherman Act or its Minnesota corollary, Minnesota Statute section 325D.52, a plaintiff is required to plead and, ultimately, prove that the defendant "(1) possessed monopoly power in the relevant market and (2) willfully acquired or maintained that power as opposed to gaining it as a result 'of a superior product, business acumen, or historical accident.'" *Double D,* 136 F.3d at 560; *Howard,* 636 N.W.2d at 556 (stating that Minnesota antitrust law should be interpreted consistently with federal court interpretations of federal antitrust law unless Minnesota law clearly conflicts.); *Prestressed Concrete, Inc. v. Bladholm Bros. Culvert Co.,* 498 N.W.2d 274, 276 (Minn. Ct. App. 1993) (noting that section 2 of the Sherman Act provided the model for Minn. Stat. § 325D.52).

Monopoly power under § 2 of the Sherman Act requires something greater than market power under § 1. *See Fortner Enterprises v. US. Steel,* 394 U.S. 495, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969). **[*14]** Thus, assuming *arguendo* that Insignia has adequately defined the relevant market and has alleged anticompetitive conduct sufficient to withstand a motion to dismiss, based on the Court's analysis in section II(B)(2)(a), *supra,* Insignia has not adequately established NAMI's monopoly power. Accordingly, the Court will grant NAMI's motion to dismiss claims 1 and 10.

IV. CLAIMS 2 AND 11- ATTEMPTED MONOPOLIZATION (Sherman Act § 2 and Minn. Stat. § 325d.52)

To prevail on an unlawful attempt claim, Insignia must prove "(1) a specific intent by the defendant to control prices or destroy competition; (2) predatory or anticompetitive conduct undertaken by the defendant directed to accomplishing the unlawful purpose; and (3) a

dangerous probability of success." *General Indus. Corp. v. Hartz Mountain Corp.*, 810 F.2d 795, 803 (8th Cir. 1987).

"To determine whether there is a dangerous probability of monopolization, courts have found it necessary to consider the relevant market and the defendant's ability to lessen or destroy competition in that market." *Spectrum Sports, Inc. v. McQuillan,* 506 U.S. 447, 456, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993). "Proof **[*15]** of market power in a monopolization claim and proof of dangerous probability of success in an attempt claim are of the same character." *3M v. Appleton Papers,* 35 F. Supp. 2d at 1146. Thus, under the Court's analysis in section II(B)(2)(a), *supra,* Insignia has not adequately established NAMI's dangerous probability of success and the motion to dismiss these claims will be granted.

V. CLAIMS 6 AND 12 - FALSE ADVERTISING (Lanham Act and Minnesota Deceptive Trade Practices Act)

In order to establish its false advertising claims, Insignia must establish (1) a false statement of fact made in a commercial advertisement, (2) which actually deceived or had a tendency to deceive a substantial segment of the intended audience, (3) which was material in that it was likely to influence purchasing decisions, (4) which has or is likely to injure Insignia, in the form of lost sales or lost goodwill. *3M Innovative Props. Co. v. Dupont Dow Elastomers LLC,* 361 F. Supp. 2d 958, 968 (D. Minn. 2005).

Insignia alleges that "NAMI has made repeated false and misleading ... statements of fact regarding Insignia and the nature, qualities and character of [NAMI's] **[*16]** Price Pop Guaranteed program and Insignia's Price POPSign program," including its quality and efficacy, causing "CPGs and retailers to be confused, misled, and deceived about the nature, qualities and character of Insignia's in-store marketing vehicles" and influencing the decisions of "(a) CPGs to purchase Insignia's in-store advertising and promotion products and services; and (b) retailers to grant or honor the right to allow Insignia to sell its in-store advertising and promotion products and services for use in their respective retail stores." (Compl. PP101 and 102.) As a result, "Insignia has suffered economic injury, loss of good will, and other injuries in an amount to be determined at trial." (Compl. P103.)

The Court finds that Insignia fails to adequately allege a false statement of fact made in a commercial advertisement. Insignia's complaint does nothing to indicate what allegedly false statements were made to which party in what context. The allegations seem to indicate that NAMI made objectionable statements to CPGs and retailers in connection with sales of its own product, but not that NAMI engaged in something akin to a widespread advertising campaign to discredit **[*17]** Insignia's product and, thereby, boost its own product's success. Such an allegation is insufficient to satisfy the first prong. *See Med. Graphics Corp. v. SensorMedics Corp.*, 872 F. Supp. 643, 650 (D. Minn. 1994) (infrequent statements by a sales representative to potential customers, as opposed to a traditional advertising campaign, are unlikely to constitute commercial advertising). Accordingly, the Court will grant NAMI's motion to dismiss counts 6 and 12.

VI. CONCLUSION

The Court is mindful that a party is required only to make a short and plain statement of its claims, and that this bar is not high. Nevertheless, the Court finds that Insignia's complaint, as it stands, simply provides insufficient information with which to determine whether any set of facts exists under which Insignia might be able to support its claims. As such, it is appropriate to grant defendants' motions to dismiss. However, the Court will permit Insignia to amend its complaint within 30 days from the date of this Order.

ORDER

Based on the foregoing, all the records, files, and proceedings herein, **IT IS HEREBY ORDERED** that:

1. Defendant News America Marketing **[*18]** In-Store, Inc.'s motion to dismiss [Docket No. 28] is **GRANTED.**

2. Defendant Albertson's Inc.'s motion to dismiss [Docket No. 30] is **GRANTED.**

IT IS FURTHER ORDERED that plaintiff shall have 30 days from the date of this Order to file an amended complaint.

DATED: August 25, 2005

at Minneapolis, Minnesota.

JOHN R. TUNHEIM

United States District Judge

Positive
As of: May 24, 2011

GALIEO INTERNATIONAL, L.L.C., Plaintiff/Counter-Defendant, v. RYANAIR, LTD., Defendant/Counter-Plaintiff.

01 C 2210

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION

2002 U.S. Dist. LEXIS 3317

February 21, 2002, Decided
February 27, 2002, Docketed

DISPOSITION: [*1] Plaintiff's Motion to Dismiss Counts III and IV of Defendant's Amended Counterclaims was granted as to Counts III and IV. Defendant was granted leave to properly replead its good faith claim (Count IV), consistent with Illinois law.

COUNSEL: For GALILEO INTERNATIONAL, L.L.C., plaintiff: Kathleen Lynn Roach, Erin Elaine Kelly, Patricia Michelle Petrowski, Daniel Moore Twetten, Sidley Austin Brown & Wood, Chicago, IL.

For RYANAIR LTD., defendant: William G. Schopf, Jr., Patrick Joseph Heneghan, Robert John Palmersheim, Schopf & Weiss, Chicago, IL.

For RYANAIR LTD., counter-claimant: William G. Schopf, Jr., Patrick Joseph Heneghan, Robert John Palmersheim, Schopf & Weiss, Chicago, IL.

For GALILEO INTERNATIONAL, L.L.C., counter-defendant: Kathleen Lynn Roach, Erin Elaine Kelly, Patricia Michelle Petrowski, Daniel Moore Twetten, Sidley Austin Brown & Wood, Chicago, IL.

JUDGES: BLANCHE M. MANNING, U.S. DISTRICT COURT JUDGE.

OPINION BY: BLANCHE M. MANNING

OPINION

MEMORANDUM AND ORDER

Plaintiff/Counter-Defendant Galieo International, L.L.C. ("Galieo") filed an Amended Complaint against Defendant/Counter-Plaintiff [*2] Ryanair, Ltd. ("Ryanair") alleging breach of contract. Ryanair responded by filing four amended counterclaims alleging: breach of contract (Counts I and II); a claim under the Illinois Consumer Fraud and Deceptive Practices Act ("the ICFA") (Count III); and a claim for breach of the implied duty of good faith (Count IV). The current matter is before the Court on Galieo's Motion to Dismiss Counts III and IV of Ryanair's Amended Counterclaims, pursuant to Federal Rule of Civil Procedure 12(b)(6). For the reasons that follow, the motion is GRANTED.

BACKGROUND

1

1 The facts set forth in the Background section are taken from Ryanair's Answer and Amended Counterclaims.

In 1993, Galieo, a provider of computerized airline reservation services, and Ryanair, an airline, entered into the Galieo International Global Airline Distribution Agreement ("the Distribution Agreement"). Under the Distribution Agreement, travel agents that subscribe to Galieo's Customer Reservation System ("CRS") would be able to access **[*3]** Ryanair's schedules, prices, seat availability and book seats on Ryanair flights for their customers. In return for making Ryanair part of Galieo's CRS, Ryanair agreed to pay Galieo a fee for each booking made on Ryanair through the CRS.

The parties operated under the Distribution Agreement until April 14, 2000, when Ryanair notified Galieo that it was terminating the Distribution Agreement effective July 31, 2000. Ryanair contends that Galieo breached the Distribution Agreement by overbilling Ryanair for payments Ryanair made to Galieo for reservations that were made on the CRS. According to Ryanair, Galieo used an "incentive scheme," whereby Galieo offered travel agents using its CRS services commissions based on the number of fares they booked on Ryanair. Ryanair contends travel agents booked thousands of fictitious and speculative fares which did not result in the issuance of a ticket on a Ryanair flight. Galieo, however, allegedly obtained payment from Ryanair for these bookings. As a result of the "incentive scheme," Ryanair alleges that it was left with "an inordinate number of empty, unpaid seats on [its] flights" and "lost the opportunity to sell many tickets on its flights. **[*4]** "

Ryanair contends that under the Distribution Agreement, Galieo was required to issue Ryanair credits for payments made for reservations the passengers cancelled prior to the issuance of a ticket. Pursuant to the Distribution Agreement, Ryanair requested that Galieo issue credits for fees charged to Ryanair for reservations that did not result in the actual purchase of a ticket. Ryanair contends that Galieo refused to issue the proper credits under the Distribution Agreement.

Subsequent to notifying Galieo that it was terminating the Distribution Agreement, Ryanair sought assurances from Galieo that it would service reservations booked on Ryanair flights booked on the CRS prior to the termination of the Distribution Agreement, July 31, 2000, but for which travel was not to occur until after that date. Ryanair alleges that Gallieo initially agreed to service reservations for flights set to commence after the termination date. However, Ryanair alleges that Gallieo reversed its earlier position and later stated that it would only service the reservations if Ryanair paid additional fees beyond the fees already paid to Gallieo under the Distribution Agreement.

After refusing to service **[*5]** reservations after the termination date, Gallieo sent Ryanair an invoice for reservations made on the CRS in May and June of 2000. Ryanair, however, refused to pay these invoices because Galieo allegedly breached the Distribution Agreement by: (1) overbilling Ryanair for reservations that did not result in the actual purchase of tickets; and (2) refusing to service reservations after the termination date.

In response to Ryanair's refusal to pay the May and June invoices, Galieo filed the instant action for breach of the Distribution Agreement. Ryanair responded by filing four amended counterclaims alleging: breach of contract (Counts I and II); a claim under the ICFA (Count III); and a claim for breach of the implied duty of good faith (Count IV). The current matter is before the Court on Galieo's Motion to Dismiss Counts III and IV of Ryanair's Amended Counterclaims, pursuant to Federal Rule of Civil Procedure 12(b)(6).

STANDARD OF REVIEW

In ruling on a motion to dismiss pursuant to Federal Rule of Procedure 12(b)(6), the court must assume the truth of all facts alleged in the pleadings, construing allegations liberally and viewing them in the light most favorable to the **[*6]** non-moving party. See, e.g., McMath v. City of Gary, 976 F.2d 1026, 1031 (7th Cir. 1992); Gillman v. Burlington N. R.R. Co., 878 F.2d 1020, 1022 (7th Cir. 1989). Dismissal is properly granted only if it is clear that no set of facts which the plaintiff could prove consistent with the pleadings would entitle the plaintiff to relief. Conley v. Gibson, 355 U.S. 41, 45-46, 2 L. Ed. 2d 80, 78 S. Ct. 99 (1957); Kunik v. Racine County, Wis., 946 F.2d 1574, 1579 (7th Cir. 1991) (citing Hishon v. King & Spalding, 467 U.S. 69, 73, 81 L. Ed. 2d 59, 104 S. Ct. 2229 (1984)).

The court will accept all well-pled factual allegations in the complaint as true. Miree v. DeKalb County, 433 U.S. 25, 27 n.2, 53 L. Ed. 2d 557, 97 S. Ct. 2490 (1977). In addition, the court will construe the complaint liberally and will view the allegations in the light most favorable to the non-moving party. Craigs, Inc. v. General Electric Capital Corp., 12 F.3d 686, 688 (7th Cir. 1993). However, the court is neither bound by the plaintiff's legal characterization of the facts, nor required to ignore facts **[*7]** set forth in the complaint that undermine the plaintiff's claims. Scott v. O'Grady, 975 F.2d 366, 368 (7th Cir. 1992).

DISCUSSION

Galieo has moved this Court to dismiss Counts III and IV of Ryanair's amended counterclaim and to strike Ryanair's request for attorney's fees in Counts I and II. The Court will address each of these arguments. [2]

> 2 Because Ryanair has withdrawn its request for attorney's fees in Counts I and II (Resp. at 2 n.1), the Court will not discuss this contention and denies it as moot.

I. Claims Under the ICFA

Galieo contends that this Court should dismiss Count III (the ICFA claim) because: (A) it is preempted under the Airline Deregulation Act ("ADA"); (B) Ryanair has failed to state a cause of action under the ICFA; (C) the ICFA claim is duplicative of Ryanair's contract claim; and (D) Ryanair has not sufficiently pled standing. Because this Court finds that Count III (the ICFA claim) is preempted under the ADA, the Court will only address the preemption **[*8]** issue.

Congress enacted the Airline Deregulation Act ("ADA") "to encourage, develop, and attain an air transportation system which relies on competitive market forces to determine the quality, variety and price of air services." H.R.Conf.Rep. No. 95-1779, 95th Cong., 2d Sess. 53 (1978), reprinted in, 1978 U.S.C.C.A.N. 3737, 3773. The ADA largely deregulated the domestic airline industry. American Airlines, Inc. v. Wolens, 513 U.S. 219, 222-23, 130 L. Ed. 2d 715, 115 S. Ct. 817 (1995). To prevent states from undoing the ADA, Congress included a preemption clause, Morales v. Trans World Airlines, Inc., 504 U.S. 374, 378, 119 L. Ed. 2d 157, 112 S. Ct. 2031 (1992), which provides that "a State . . . may not enact or enforce a law, regulation, or other provision having the force and effect of law related to a price, route, or service of an air carrier. . . ." 49 U.S.C. § 41713(b)(1).

The Supreme Court first visited the scope of the ADA's preemption clause in Morales, 504 U.S. at 378, where the court addressed the "Travel Industry Enforcement Guidelines ("the Guidelines")," which were promulgated by the National **[*9]** Association of Attorneys General to govern the content and format of airline fare advertising. Several states attempted to enforce the Guidelines through their consumer protection laws to stop allegedly deceptive advertising by airlines. Id. Noting that the plain language of the preemption clause "expresses a broad preemptive purpose," the court determined that the states' actions "related to [airline] rates, routes, or services," and therefore, held that the fare advertising provisions of the Guidelines were preempted by the ADA. Id. at 388-89. The court noted that the Guidelines set "binding requirements as to how airline tickets may be marketed," which "would have [had] a significant impact upon . . . the fares [airlines] charged." Id. at 390. The court further noted that the airlines would not have "*carte blanche* to lie and deceive customers" because the Department of Transportation retained the power to prohibit advertisements that did not further competitive pricing. Id. at 390-91.

The Supreme Court revisited the scope of the ADA preemption clause in Wolens, 513 U.S. at 224, where the court addressed **[*10]** claims brought in two class actions that arose from changes made by American Airlines to its frequent flyer program. The plaintiffs complained that American Airlines violated the ICFA by modifying its frequent flyer program, devaluing credits that the members of the program had already earned. Id. The Illinois Supreme Court ruled that the lawsuits were not preempted because the frequent flyer program was not "essential" to American Airlines' services, but was only of "peripheral" importance. Id. (quoting Wolens v. American Airlines, Inc., 147 Ill. 2d 367, 589 N.E.2d 533, 168 Ill. Dec. 133 (Ill. 1992)).

The United States Supreme Court reversed the Illinois Supreme Court's decision to permit the plaintiffs' consumer fraud claims, but affirmed its holding that the plaintiffs' breach of contract claims were not preempted. The court held that the ICFA served as a means "to guide and police the marketing practices of the airlines," and therefore, was related to airline "rates and services" and

was preempted by the ADA. 513 U.S. at 228-29. However, the Court held that the ADA did not preempt the plaintiffs' contract claims, which sought "recovery solely for the airline's **[*11]** alleged breach of its own, self-imposed undertakings." Id.

Following the Supreme Court's decisions in Morales and Wolens, the Seventh Circuit in Travel All Over the World v. Kingdom of Saudi Arabia, 73 F.3d 1423, 1432 (7th Cir. 1996) and United Airlines, Inc. v. Mesa Airlines, Inc., 219 F.3d 605, 609 (7th Cir. 2000), held that claims under state law are "preempted if *either* the state rule expressly refers to air carriers' rates, routes, or services, or application of the state's rule would have a significant economic impact upon them." Mesa, 219 F.3d at 609 (emphasis in original).

Here, Galileo contends that the ADA preempts Ryanair's third amended counterclaim because the ICFA: (1) relates to airline "services"; and (2) will have a significant economic impact upon airline services. The Court will address each of these contentions in turn.

1. Scope of "Services" Under the ADA

To determine whether the application of the ICFA to Galieo's CRS relates to airline "service," the Court first looks to Travel All Over the World, 73 F.3d at 1433, where the Seventh Circuit adopted the Fifth Circuit's **[*12]** definition of "services" set forth in Hodges v. Delta Airlines, Inc., 44 F.3d 334, 336 (5th Cir. 1995):

> Services generally represent a bargained-for or anticipated provision of labor from one party to another . . . . [This] leads to a concern with the contractual arrangement between the airline and the user of the service. Elements of the air carrier service bargain include items such as ticketing, boarding procedures, provision of food and drink, and baggage handling, in addition to the transportation itself.

Travel All Over the World, 73 F.3d at 1433 (quoting Hodges, 44 F.3d at 336).

Unfortunately, neither Travel All Over the World nor any other decisions in this circuit have specifically addressed whether a CRS is related to airline services. [3] Therefore, the Court will look to courts outside this jurisdiction which have addressed the instant issue. For example, in Lyn-Lea Travel Corp. v. American Airlines, Inc., 1997 U.S. Dist. LEXIS 21119, No. CA3:96-CV-2068-BC (N.D. Tex. Dec. 2, 1997), aff'd, 139 F.3d 899 (5th Cir.1998), a travel agency filed an action under several theories **[*13]** of state law stemming from an agreement relating to the use of a CRS system. The district court, following the Hodges's definition of "services," held that claims under the Texas Deceptive Trade Practices Act were preempted because the use of a CRS system had a "connection with the airline's 'rates' and 'services.'" Id. at *20-23, 30. In making this decision, the court noted that under Hodges, "preemption extends to all of the economic factors that go into the provision of the quid pro quo for [a] passenger's fare, including . . . reservation . . . practices." Id. at *21 (quoting Hodges, 44 F.3d at 337).

> 3 Although the instant issue has not been addressed in this circuit, the Court notes that in Mesa, the Seventh Circuit noted that "because Wolens held general consumer-fraud law preempted, [counter claimants] have big problems." 219 F.3d at 608.

Likewise, in Frontier Airlines, Inc. v. United Airlines, Inc., 758 F. Supp. 1399, 1402 (D. Col. 1989), **[*14]** the plaintiff alleged that the defendant airline's marketing of CRS services to travel agents violated Colorado's antitrust and unfair competition statutes. In holding that a CRS is a "service" within the meaning of the ADA, the court noted that "CRS services are unique to the airline industry. Centralized reservation systems for competing airlines, which serve functions beyond reservations for a single airline, are unlike services provided in any other industry." Id. at 1408-09. Consequently, the court held that the ADA preempted the Colorado statutes. Id.

Here, given the above decisions holding that a CRS is a "service" within the ADA and the Seventh Circuit's broad proposition that "general consumer fraud law [is] preempted" by the ADA, Mesa, 219 F.3d at 608, this Court finds that Ryanair's third amended counterclaim under the ICFA is preempted by the ADA. Ryanair contends that its ICFA claim stems from its purchase of Galieo's CRS services for Ryanair's "own use in making its flight information available to travel agents and enabling travel agents to book reservations on Ryanair's flights." (Ryanair's Countercl. at P 31) According to

Ryanair, [*15] Galieo used an "incentive scheme," whereby Galieo offered travel agents using its CRS services to earn commissions based on the number of fares they booked on Ryanair. (Id. at PP 33-34.) Ryanair contends Galieo violated the ICFA by directing these travel agents to book over 29,000 fictitious and speculative fares which were later cancelled but for which Galieo obtained payment from Ryanair. (Id. at P 41.) As a result of the "incentive scheme," Ryanair alleges that it was left with "an inordinate number of empty, unpaid seats on [its] flights"(id. at P 38) and "lost the opportunity to sell many tickets on its flights." (Id. at P 46.) Consequently, based on the above facts alleged by Ryanair, this Court finds that the allegations relating to Ryanair's ICFA claim relate to airline "services" within the scope of the ADA's preemption clause, and therefore, Count III is preempted by the ADA.

2. Definition of "Significant Economic Impact" Under the ADA

Additionally, Galieo contends that Count III is preempted because application of the ICFA will have a significant economic impact upon airline services. To determine whether a state statute will have a significant [*16] economic impact, courts look to whether application of the state law will alter the parties' contractual bargain by "supplying external norms." Mesa, 219 F.3d at 609. See also Travel All Over the World, 73 F.3d at 1432. In Travel All Over the World, the Seventh Circuit allowed the plaintiffs' claim for compensatory damages pursuant to the Wolens exception, but held that the plaintiffs' claims for punitive damages did not fit into the Wolens exception because, "rather than merely holding parties to the terms of a bargain, [a claim for] punitive damages represent[s] an 'enlargement or enhancement of [the bargain] based on state laws or policies external to the agreement.'" Travel All Over the World, 73 F.3d at 1432 n.8.

Similarly, the plaintiff in Lyn-Lea alleged that the defendant had breached an agreement by capping commissions the defendant paid to its travel agents. See Lyn-Lea, 1997 U.S. Dist. LEXIS 21119 at *25. The court noted that the plaintiff was contractually bound to the agreement, which granted the defendant the right to modify the commission structure at its discretion. Id. at [*17] *29-30. However, citing Wolens, the court declined to allow the plaintiff to "invoke state laws and policies external to the agreement," such as good faith and the Texas Deceptive Trade Practices Act, because these claims were "external" to the parties' original agreement and therefore imposed external requirements upon the defendant airline. Id. at *30.

Here, Count III requests that this Court find Galieo's "incentive scheme" constituted a "deceptive trade practice" under the ICFA and award the following damages: (1) damages for the "lost volume of Ryanair passenger seats"; and (2) punitive damages "in an amount sufficient to deter Galieo and other business [sic] from engaging in deceptive and misleading conduct." (Ryanair Countercl. at 24.) These proposed damages and claims rely on the ICFA which is external to the parties' original agreement. If this Court were to apply the ICFA to this action, "rather than merely holding parties to the terms of [their] bargain," the Court would allow Ryanair to enlarge or enhance the original agreement "based on state laws or policies external to the agreement." Travel All Over the World, 73 F.3d at 1432 n.8. As noted [*18] above, the parties may not invoke state laws external to the contract, and therefore, this Court finds that Count III is preempted by the ADA for the reasons stated herein.

II. A Claim for Breach of Good Faith Under Illinois Law

Galieo further contends that this Court should dismiss Court IV of Ryanair's amended counterclaim because Ryanair cannot assert an independent claim for breach of good faith under Illinois law.

Galileo is correct in that Illinois law does not permit a party to seek an independent claim for breach of the implied obligation of good faith which Illinois law incorporates into all contracts. Baxter Healthcare Corp. v. O.R. Concepts, Inc., 69 F.3d 785, 792 (7th Cir. 1995). To bring a claim for breach of the obligation of good faith, a party must include such a claim within a breach of contract claim. Solon v. Kaplan, 2001 U.S. Dist. LEXIS 1384, 2001 WL 123769, at *5 (N.D. Ill. Feb. 13, 2001) (denying motion to dismiss breach of good faith claim that was included in breach contract of count). Where a party fails to properly plead a claim for good faith within a count for breach of contract, the court should properly dismiss the separate claim for [*19] good faith. Echo, Inc. v. Whitson Co., Inc., 121 F.3d 1099, 1105-06 (7th Cir. 1997); Brooklyn Bagel Boys, Inc. v. Earthgrains Refrigerated Dough, 1999 U.S. Dist. LEXIS 11229, 1999 WL 528499, at *9 (N.D. Ill. July 19, 1999).

Here, Ryanair concedes that it cannot state an independent claim for breach of good faith. However, Ryanair contends that its good faith claim is part of a count for breach of contract, and therefore is properly pled. Count IV is titled "BREACH OF CONTRACT (Obligation of good faith)" and incorporates by reference Ryanair's breach of contract claims (Counts I and II). This position is contrary to the Seventh Circuit's interpretation of Illinois law in Echo, Inc., 121 F.3d at 1105-06, where the court clearly stated independent claims of breach of duty of good faith are not permitted under Illinois law. Consequently, this Court GRANTS Galieo's motion to dismiss Count IV but grants Ryanair leave to properly replead its good faith claim consistent with Illinois law.

CONCLUSION

For the reasons set forth above, Plaintiff/Counter-Defendant Galieo International, L.L.C.'s Motion to Dismiss Counts III and IV of Ryanair's Amended Counterclaims **[*20]** [15-1], pursuant to Federal Rule of 12(b)(6), is GRANTED as to Counts III and IV. The Court, however, grants Ryanair leave to properly replead its good faith claim (Count IV) consistent with Illinois law. It is so ordered.

ENTER:

BLANCHE M. MANNING

U.S. DISTRICT COURT JUDGE

DATE: 2-21-02