GREGORY A. LONG, Cal. Bar No. 57642
glong@sheppardmullin.com
GARY A. CLARK, Cal. Bar No. 65455
gclark@sheppardmullin.com
DARREN M. FRANKLIN, Cal. Bar No. 210939
dfranklin@sheppardmullin.com
DENNIS J. SMITH, Cal. Bar No. 233842
djsmith@sheppardmullin.com
SHEPPARD, MULLIN, RICHTER & HAMPTON LLP
A Limited Liability Partnership
Including Professional Corporations
333 South Hope Street, 43rd Floor
Los Angeles, California 90071-1422
Telephone: (213) 620-1780
Facsimile: (213) 620-1398

Attorneys for Defendants
SHEPPARD, MULLIN, RICHTER & HAMPTON LLP,
JONATHAN HANGARTNER and STEVE P. HASSID

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

LAWRENCE B. LOCKWOOD, PANIP, LLC,

Plaintiffs,

v.

SHEPPARD, MULLIN, RICHTER & HAMPTON, LLP, JONATHAN HANGARTNER, STEVE P. HASSID,

Defendants.

Case No. CV 09-5157 JFW (AGRx)

MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS PLAINTIFFS' COMPLAINT (REDACTED VERSION)

[**FED. R. CIV. P.** 12(b)(6)]

Hearing
Date: November 9, 2009
Time: 1:30 p.m.
Ctrm: 16 - Spring, Hon. John F. Walter

REDACTED VERSION FOR PUBLIC VIEWING

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. BACKGROUND 2

A. Plaintiffs' "Enforcement Program" and Patent Infringement Lawsuits 3

B. The Requests for Reexamination Filed in the PTO 4

C. The Stipulation to Stay Litigation and Settlement Signed by Plaintiffs 5

D. The State Court Lawsuit 6

III. DISCUSSION 6

A. The Court Should Dismiss Plaintiffs' RICO Claims 6

1. RICO was not designed to stop law firms from doing legal work. 6

2. Plaintiffs' RICO claims are time-barred. 7

3. Plaintiffs fail to state a pattern of racketeering activity. 9

4. The PTO's duty to conduct an independent investigation and the stipulated stay signed by PanIP negate proximate cause. 12

B. The Court Should Dismiss Plaintiffs' Malicious Prosecution Claim 14

1. The malicious prosecution claim is time-barred. 14

2. Lockwood's malicious prosecution claim fails because of the independent investigation doctrine. 16

3. Plaintiffs' malicious prosecution claim is preempted by federal law. 18

C. The Court Should Dismiss Plaintiffs' Claim for Interference with Prospective Economic Advantage 22

1. Defendants' actions were covered by CAL. CIV. CODE § 47(b).....22

2. Plaintiffs' claim for interference with prospective economic advantage is time-barred.....24

D. The Court Should Dismiss Plaintiffs' Claim for Fraud.....24

1. Defendants' actions were covered by CAL. CIV. CODE § 47(b).....24

2. Plaintiffs' fraud claim is preempted by federal law.....25

3. Defendants' actions did not constitute fraud.....25

4. Plaintiffs' fraud claim is time-barred.....25

IV. CONCLUSION.....25

TABLE OF AUTHORITIES

Cases — Page

Abbott Labs. v. Brennan,
952 F.2d 1346 (Fed. Cir. 1991) 21

Agency Holding Corp. v. Malley-Duff & Assocs.,
483 U.S. 143 (1987) 7

Akzo N.V. v. United States Int'l Trade Comm'n,
808 F.2d 1471 (Fed. Cir. 1986) 7

American Airlines, Inc. v. Lockwood,
515 U.S. 1121 (1995) 3

Aronson v. Quick Point Pencil Co.,
440 U.S. 257 (1979) 18, 19

Auburn Med. Ctr., Inc. v. Andrus,
9 F. Supp. 2d 1291 (M.D. Ala. 1998) 7

Auersperg v. von Bulow,
657 F. Supp. 1134 (S.D.N.Y. 1987) 7

Augusta v. United Serv. Auto. Ass'n,
13 Cal. App. 4th 4 (1993) 24

Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,
489 U.S. 141 (1989) 18

Buckman Co. v. Plaintiffs' Legal Committee,
531 U.S. 341 (2001) 1, 7, 18, 20

Butterworth v. United States ex rel. Hoe,
112 U.S. 50 (1884) 23

Canyon County v. Syngenta Seeds, Inc.,
519 F.3d 969 (9th Cir. 2008) 12

Zamos v. Stroud,
32 Cal. 4th 958 (2004) 15

ComputerXpress, v. Jackson
93 Cal. App. 4th 993 (2001) 22

Conroy v. Regents of Univ. of Cal.,
45 Cal. 4th 1244 (2009) 25

Dow Chemical Co. v. Exxon Corp.,
139 F.3d 1470 (Fed. Cir. 1998) 21

Grimmett v. Brown,
75 F.3d 506 (9th Cir. 1996) 9, 10

H.J., Inc. v. Northwestern Bell Tel., 492 U.S. 229 (1989) 10, 11

Holmes v. Sec. Investor Prot. Corp., 503 U.S. 258 (1992) 12

Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318 (Fed. Cir. 1998) 18

In re Opprecht, 868 F.2d 1264 (Fed. Cir. 1989) 23

In re Recreative Techs. Corp., 83 F.3d 1394 (Fed. Cir. 1996) 19

In re Swanson, 540 F.3d 1368 (Fed. Cir. 2008) 19

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) 18

Knievel v. ESPN, 393 F.3d 1068 (9th Cir. 2005) 2, 9

Living Designs, Inc. v. E.I. Dupont De Nemours & Co., 431 F.3d 353 (9th Cir. 2005) 8

Lockwood v. American Airlines, Inc., 107 F.3d 1565 (Fed. Cir. 1997) 3

Lockwood v. Sheppard, Mullin, Richter & Hampton, 173 Cal. App. 4th 675 (2009) 6

Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir. 1995) 9, 23

Meier v. Musburger, 588 F. Supp. 2d 883 (N.D. Ill. 2008) 6

Midwest Indus., Inc. v. Karavan Trailers, Inc., 175 F.3d 1356 (Fed. Cir. 1999) 18

Morrow v. Blessing, No. 04-1161, 2004 WL. 2223311 (E.D. Pa. Sept. 29, 2004) 6, 7

Nathan Kimmel, Inc. v. DowElanco, 275 F.3d 1199 (9th Cir. 2002) 21

Norgart v. Upjohn Co., 21 Cal. 4th 383 (1999) 14, 24

PanIP LLC and Lawrence Lockwood v. PanIP Group Defense Fund, Inc. et al., Case No. 3:02-cv-02173-B-JFS (S.D. Cal.) 5, 9

Patlex Corp. v. Mossinghoff,
758 F.2d 594 (Fed. Cir. 1985) 19

Patlex Corp. v. Mossinghoff,
771 F.2d 480 (Fed. Cir. 1985) 12, 13, 17, 20

Picton v. Anderson Union High Sch. Dist.,
50 Cal. App. 4th 726 (1996) 22

Rothman v. Target Corp.,
556 F.3d 1310 (Fed. Cir. 2009) 7

Rusheen v. Cohen,
37 Cal. 4th 1048 (2006) 22

Rutherford v. Johnson,
250 Cal. App. 2d 316 (1967) 15

Sole Energy Co. v. Petrominerals Corp.,
128 Cal. App. 4th 212 (2005) 24

Spitler v. Children's Institute Int'l,
11 Cal. App. 4th 432 (1992) 22

Stanwyck v. Horne,
146 Cal. App. 3d 450 (1983) 17, 18

Stavropoulos v. Superior Court,
141 Cal. App. 4th 190 (2006) 14

Stolz v. Wong Communications Ltd.,
25 Cal. App. 4th 1811 (1994) 15

Syntex (U.S.A.), Inc. v. U.S. Patent & Trademark Office,
882 F.2d 1570 (Fed. Cir. 1989) 24

Ultra-Precision Mfg., Ltd. v. Ford Motor Co.,
411 F.3d 1369 (Fed. Cir. 2005) 18, 19

United States v. American Bell Tel. Co.,
128 U.S. 315 (1888) 23

Werner v. Hearst Publ., Inc.,
65 Cal. App. 2d 667 (1944) 16, 17, 18

Western Elec. Co. v. Piezo Tech., Inc.,
860 F.2d 428 (Fed. Cir. 1988) 23

Young v. Lumenis, Inc.,
492 F.3d 1336 (Fed. Cir. 2007) 7

Statutes

Page

18 U.S.C. § 1961(5) 10

18 U.S.C. § 1962 12
18 U.S.C. § 1962(c) 10
18 U.S.C. § 1964(c) 10, 12
35 U.S.C. § 301 7
35 U.S.C. §§ 301-307 4
35 U.S.C. § 302 ..... 7, 11, 19, 23
35 U.S.C. § 303 19
35 U.S.C. § 303(a) 12, 17, 18
35 U.S.C. § 303(b) 8
35 U.S.C. § 304 19
Cal. Civ. Code § 47(b) 22, 24
Cal. Civ. Proc. Code § 335.1 14
Cal. Civ. Proc. Code § 338(d) 25
Cal. Civ. Proc. Code § 339(1) 24

Regulations — Page

37 C.F.R. § 1.515(a) 17
37 C.F.R. § 1.530(a) 15
37 C.F.R. § 1.550(g) 24

Other — Page

Fed. R. Civ. P. 9(b) 11

I. INTRODUCTION

Plaintiffs' complaint is a rehash of state law claims already found to be meritless and/or time barred in Los Angeles Superior Court, onto which Plaintiffs have now tacked similarly meritless and time-barred RICO claims. The case is here only because, after losing in Superior Court, Plaintiff Lawrence B. Lockwood prevailed on the California Court of Appeal to dismiss his own complaint for lack of jurisdiction on the ground that it raised substantial issues of patent law. Plaintiffs' claims have not improved by re-pleading them here in federal court.

The gravamen of Plaintiffs' complaint is this: Seven years ago, Plaintiff PanIP, LLC filed patent infringement lawsuits against twenty small businesses. Defendants Sheppard Mullin and Jonathan Hangartner allegedly formed those businesses into a joint defense group and allegedly established a website to recruit others and to solicit funding to fight Plaintiffs. The businesses retained Sheppard Mullin and Hangartner to defend against PanIP's infringement claims. Sheppard Mullin then allegedly filed fraudulent requests asking the U.S. Patent and Trademark Office ("PTO") to reexamine Plaintiffs' patents. The alleged "fraud" was in mischaracterizing the prior art in the reexamination requests. Sheppard Mullin thereafter allegedly induced the district court to grant a motion to stay Plaintiffs' infringement lawsuits based upon the fraudulent reexamination requests. This allegedly prevented Plaintiffs from enforcing the patents.

Plaintiffs' allegations are recklessly false, but even taking those allegations at face value, Plaintiffs' claims are fatally defective. There simply is no private cause of action for such alleged fraud. Plaintiffs' state law claims are "fraud-on-the-agency claims" of the type found preempted by federal law in *Buckman Co. v. Plaintiffs' Legal Committee*, 531 U.S. 341 (2001) (holding fraud-on-the-FDA claims preempted by federal law). And, even if Plaintiffs could plead fraud, Defendants' alleged misconduct in requesting reexamination was not fraudulent. Reexamination, by law, is based *solely* on the information contained *within the four corners* of the

patents and printed publications relied on as prior art by the requester, *not* the requester's characterizations of them, and the PTO *independently* assesses the prior art *before* granting reexamination. The requester's arguments cannot constitute fraud.

For these and other reasons discussed herein — including that Plaintiffs' state law claims are barred by applicable statutes of limitation and litigation privilege — the state law claims should be dismissed.[1]

Plaintiffs' RICO claims fare no better. Not only was there no fraud on the PTO, but other facts the Court can consider under the incorporation-by-reference doctrine[2] are fatal to Plaintiffs' claims. For example, the reexamination requests were both filed *on the same day*, and that was the end of it; Defendants were prohibited from any further filings. Also, Defendants did *not* mail the motion to stay Plaintiffs' infringement lawsuits to the district court, and the district court did *not* grant the motion — *Plaintiffs stipulated to the stay*.

REDACTED

In addition to being barred by the statute of limitations, the RICO claims fail to state an actionable pattern of racketeering activity; fail to show standing, reliance, and proximate cause in light of the PTO's independent investigation requirement and the stipulated stay of the litigation; and fail to show how Plaintiffs can maintain their RICO claims in view of the settlement and release.

II. BACKGROUND

Plaintiff Lockwood owns U.S. Patent Nos. 5,576,951 and 6,289,319 (the "Patents"). The Patents generally pertain to interactive, searchable computerized

[1] Defendants are concurrently filing a companion brief in support of their special motion to strike Plaintiffs' state law claims under California's Anti-SLAPP Law. That brief makes additional arguments supporting Defendants' Motion to Dismiss.

[2] The incorporation-by-reference doctrine applies "to situations in which the plaintiff's claim depends on the contents of a document, the defendant attaches the document to its motion to dismiss, and the parties do not dispute the authenticity of the document, even though the plaintiff does not explicitly allege the contents of that document in the complaint." *Knievel v. ESPN*, 393 F.3d 1068, 1076 (9th Cir. 2005).

systems for selecting and ordering information, goods, and services. (*Id.* ¶¶ 20-21.)

A. Plaintiffs' "Enforcement Program" and Patent Infringement Lawsuits

Lockwood is a sophisticated litigant and had ample experience with the federal courts prior to the proceedings at issue in the Complaint. In 1991, he sued American Airlines, Inc. for infringement of other patents. (Compl. ¶ 1.) Lockwood litigated all the way to the U.S. Supreme Court, *see American Airlines, Inc. v. Lockwood*, 515 U.S. 1121 (1995), though he ultimately lost the case hands down, *see Lockwood v. American Airlines, Inc.*, 107 F.3d 1565 (Fed. Cir. 1997).

Having taken on big business and lost, Lockwood adopted a strategy through his company, PanIP, of going after smaller fish. (*See* Compl. ¶ 27.) The strategy was to find companies — generally "mom and pop" businesses — that had enough money to pay a "license fee" of a few thousand dollars, but not enough to contest the infringement claims, much less litigate a patent infringement case in a distant forum. During 2002, PanIP sued at least twenty businesses in the Southern District of California for allegedly infringing the Patents.[3]

One of the companies that PanIP sued was Debrand Fine Chocolates of Indiana. Debrand, though only a small business, decided to fight what its owners thought were suspect patents being promoted by a patent troll. The present Complaint generally alleges that Defendants Sheppard Mullin and Hangartner, then a Sheppard Mullin attorney, contacted Debrand and other PanIP defendants, eventually establishing a website at www.YouMayBeNext.com. Through the website, Sheppard Mullin and Hangartner allegedly brought together a group of PanIP defendants and formed the PanIP Group Defense Fund, Inc. ("PGDF"). (Compl. ¶¶ 4, 31-33.) Debrand and other PanIP defendants also hired Sheppard Mullin and Hangartner as their counsel to defend them against PanIP's allegations of infringement. (*Id.* ¶¶ 28-

[3] Defendants request that the Court take judicial notice of the public U.S. District Court papers and docket reports attached as Exhibits A-D to the Request for Judicial Notice ("RJN").

29.) By May 2003, Sheppard Mullin and Hangartner had been involved in defending twenty clients against patent infringement claims brought by PanIP in four separate federal cases. (*Id.* ¶¶ 28-29; RJN, Exhs. A-D.)

B. The Requests for Reexamination Filed in the PTO

As was their right, Sheppard Mullin on behalf of its clients filed requests for reexamination of the Patents on May 5, 2003, while many of PanIP's lawsuits were pending. Defendant Hassid, then a Sheppard Mullin associate, signed the requests. (Compl. ¶¶ 38, 39.) The same day, Sheppard Mullin filed a motion to stay the lawsuits that PanIP and Lockwood had brought in the Southern District of California, citing the reexamination requests. (*Id.* ¶ 65.) The motion was *hand-delivered* to the Court, *not mailed*, as evidenced by the fact that the Court file-stamped the motion the same day as Sheppard Mullin signed it. (RJN, Exh. A.)

"Reexamination" is a quasi-judicial process by which any person may (1) cite prior patents and publications as prior art to the PTO concerning the validity of the claims of an issued patent, and (2) ask that the PTO reexamine the claims of the issued patent in light of that prior art. Upon such a request, the PTO independently reviews the prior art and determines whether the request raises a substantial new question of patentability. If the PTO determines that such a new question exists, then the patent claims are reexamined according to the procedures for initial examination. The patentee may appeal any adverse determination to the Board of Patent Appeals and Interferences within the PTO and to the federal courts. 35 U.S.C. §§ 301-307.

The Complaint challenges Sheppard Mullin's characterization of the patents and publications submitted to the PTO. For example, it alleges that Sheppard Mullin represented to the PTO that a system described in a 1986 manual titled "Electronic Mall" was "available to the public" but did not note that the manual itself is marked "confidential and proprietary." (Compl. ¶ 50.) It also alleges that Sheppard Mullin represented that a patent (the "Ivis" reference) contained "teachings not provided during prosecution of the Lockwood '319 Patent" but did not note that the

Ivis reference had been of record in the file of the "grandparent" patent application to the '319 patent. (*Id.* ¶ 51.)

C. The Stipulation to Stay Litigation and Settlement Signed by Plaintiffs

On June 2, 2003, while the motion to stay was pending, PanIP *stipulated* to stay the lawsuits in the Southern District of California. The court approved the stipulation on June 5, 2003. (RJN, Exhs. A-D.) The PTO followed by granting the reexamination requests for the '951 patent on July 7, 2003, and for the '319 patent on July 29, 2003. (Compl. ¶ 70.)[4] On August 26, 2003, Judge Brewster denied without prejudice all pending motions in light of the fact that "the parties agreed to a Stipulation and Order staying all proceedings in this litigation pending the PTO's resolution of a request to reexamine the '951 and '319 Patents." (RJN, Exhs. A-D.) Reexamination proceedings ensued in the PTO on the issue of patentability. Lockwood allegedly prevailed. (*Id.* ¶¶ 77-79.)

In the meantime, on November 4, 2002, Lockwood and PanIP sued PGDF, Debrand, Debrand's founder/president, and Debrand's secretary/treasurer in *PanIP LLC and Lawrence Lockwood v. PanIP Group Defense Fund, Inc. et al.*, Case No. 3:02-cv-02173-B-JFS (S.D. Cal.), alleging trademark infringement, unfair competition, and defamation on the PGDF website. (RJN, Exh. E.) Sheppard Mullin represented the defendants in those actions and prevailed in part on an Anti-SLAPP motion on grounds of immunity under the Communications Decency Act among other things, leading to dismissal of the trademark infringement, unfair competition, and defamation claims and a net award of $19,073.43 in attorneys' fees and costs. (*Id.*)

On March 19, 2004, Lockwood and PanIP settled with all of Sheppard Mullin's clients.

REDACTED

[4] Defendants request that the Court take judicial notice of the public orders granting the reexamination requests, attached as Exhs. H and I to the RJN.

REDACTED

D. The State Court Lawsuit

On June 4, 2007, Lockwood sued Sheppard Mullin and Hangartner in Los Angeles Superior Court for interference with prospective economic advantage. In response, Sheppard Mullin and Hangartner filed an Anti-SLAPP motion, prompting Lockwood to file a first amended complaint adding claims for malicious prosecution and fraud, which in turn elicited a second Anti-SLAPP motion. The motions argued the California litigation privilege and statutes of limitation, among other things. The court found Lockwood's claims meritless and/or time-barred, and entered judgment against Lockwood. (RJN, Exhs. L & M.) However, Lockwood convinced the Court of Appeal to vacate the judgment on jurisdictional grounds. *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 173 Cal. App. 4th 675 (2009).

III. DISCUSSION

A. The Court Should Dismiss Plaintiffs' RICO Claims

1. RICO was not designed to stop law firms from doing legal work.

Plaintiffs' Complaint boils down to the assertion that Defendants, a law firm and two of its attorneys, breached their duty of candor to the PTO and to the courts while representing their clients in a dispute against Plaintiffs. This conduct does not constitute mail fraud and does not rise to the level of organized criminal activity that RICO was designed to remedy. "[A] scheme or artifice to defraud under the mail or wire fraud statutes is not satisfied by merely alleging unethical conduct by a lawyer." *Meier v. Musburger*, 588 F. Supp. 2d 883, 902 (N.D. Ill. 2008); *see also Morrow v. Blessing*, No. 04-1161, 2004 WL 2223311, at *4 (E.D. Pa. Sept. 29, 2004) ("[S]uch conduct [attaching allegedly false letters to legal documents in state court custody proceedings] by a lawyer in the context of representing clients in litigation simply cannot constitute mail fraud under RICO and, therefore, cannot constitute a

RICO predicate act.").

For attorney conduct to give rise to RICO liability, the attorneys must go "well beyond their capacities as legal representatives." *Morrow*, 2004 WL 2223311, at *5. Here, there is no allegation that Defendants suborned perjury or falsified evidence. *See id.* The reexamination statutes, 35 U.S.C. §§ 301, 302, state that *only* "patents or printed publications" may form the basis of reexamination. Plaintiffs concede that the publications and patents Defendants submitted in requesting reexamination were authentic, but allege that Defendants misconstrued them to the PTO. There is no fraud or other impropriety in attorney argument interpreting what the prior art discloses, particularly when the PTO has the prior art and is free to reach its own conclusion. *See Rothman v. Target Corp.*, 556 F.3d 1310, 1329 (Fed. Cir. 2009); *Young v. Lumenis, Inc.*, 492 F.3d 1336, 1348 (Fed. Cir. 2007); *Akzo N.V. v. United States Int'l Trade Comm'n*, 808 F.2d 1471 (Fed. Cir. 1986).

Plaintiffs are simply trying to shoehorn their time-barred malicious prosecution claim into the RICO statute. It is well established that this is improper. "[T]he actions underlying claims for malicious prosecution, or analogous actions in the litigation context, will not support a RICO action." *Auburn Med. Ctr., Inc. v. Andrus*, 9 F. Supp. 2d 1291, 1298 (M.D. Ala. 1998) (citing a dozen other cases for the same point). This is because, "[t]o recognize malicious prosecution as a RICO predicate would severely undermine the settled state policy of discouraging such actions." *Id.* at 1299 (quoting *Auersperg v. von Bulow*, 657 F. Supp. 1134, 1144 (S.D.N.Y. 1987)). Likewise, if a lawyer files a reexamination request in bad faith, it is not the province of RICO to provide a remedy. Under the above cases, Plaintiffs cannot recast their barred "fraud-on-the-agency" claims as RICO claims to avoid the holding of *Buckman*.

2. Plaintiffs' RICO claims are time-barred.

Plaintiffs' RICO claims are barred by a four-year statute of limitations. *See Agency Holding Corp. v. Malley-Duff & Assocs.*, 483 U.S. 143, 156 (1987). "The

limitations period for civil RICO actions begins to run when a plaintiff knows or should know of the injury which is the basis for the action." *Living Designs, Inc. v. E.I. Dupont De Nemours & Co.*, 431 F.3d 353, 365 (9th Cir. 2005). Thus, a RICO claim accrues when the plaintiff has "actual or constructive knowledge of [the defendant's] fraud." *Id.* "The plaintiff is deemed to have had constructive knowledge if it had enough information to warrant an investigation which, if reasonably diligent, would have led to discovery of the fraud." *Id.* (quotation omitted).

Plaintiffs knew of the alleged fraud and their alleged injuries by July 2003. Sheppard Mullin mailed the reexamination requests on May 5, 2003. (Compl. ¶¶ 115, 124, 151.) On May 5 and 7, Sheppard Mullin filed motions to stay proceedings in the Southern District of California. The motions cited the reexamination requests. (*Id.* ¶¶ 131, 152; RJN, Exhs. A-D.) On May 6, 2003 and May 16, 2003, Sheppard Mullin filed additional, allegedly fraudulent papers in the Southern District. (Compl. ¶¶ 132, 133.) On June 2, 2003, PanIP signed the stipulation to stay the lawsuits in the Southern District. Judge Brewster approved the stipulation on June 5, 2003. (RJN, Exhs. A-D.) On July 7, 2003, the PTO granted the reexamination request for the '951 patent, and on July 29, 2003, the PTO granted the request for the '319 patent. (RJN, Exhs. H & I.) Plaintiffs knew about all of these events because they received service copies of everything and signed the stipulation to stay the litigation. They certainly knew about the granting of the requests because the PTO was required to give Lockwood prompt notice of its determination, *see* 35 U.S.C. § 303(b), and they knew about Judge Brewster's order dated August 26, 2003 referencing the PTO matters because the court sent them a copy.

Plaintiffs allege that their injuries began in June 2003 when "the district court granted [Defendants'] Motion to Stay immediately prior to the scheduled Markman hearing which would have adjudicated the infringement of the Patents on the merits." (Compl. ¶ 135.) Aside from the facts that this allegation is false (Judge Brewster did not grant the stay motion but rather approved a stipulation *signed by*

PanIP, see RJN, Exhs. A-D) and that a court does not adjudicate infringement at a *Markman* hearing, it is clear that Plaintiffs knew about these alleged injuries more than six years before they filed suit. Thus, the RICO claims are time-barred.

To avoid this result, Plaintiffs claim that "[f]rom May 5, 2003 through December 5, 2006, the Defendants continued their fraudulent scheme . . . through the continued use of the PGDF website . . . " (Compl. ¶ 136.) The alleged "continued use" of the PGDF website does not restart the statute of limitations. To restart the statute, Plaintiffs must show a *new and independent injury*. *See Grimmett v. Brown*, 75 F.3d 506, 511 (9th Cir. 1996) Two elements characterize an overt act that will restart the statute of limitations: "1) It must be a new and independent act that is not merely a reaffirmation of a previous act; and 2) It must inflict new and accumulating injury on the plaintiff." *Grimmett* 75 F.3d at 513

The alleged "continued use" of the website through December 5, 2006 was at most a reaffirmation of a previous act, and there is no allegation that this "continued use" inflicted a new injury on Plaintiffs. Moreover, Plaintiffs allege that they settled their claims (Compl. ¶ 140),

REDACTED

3. Plaintiffs fail to state a pattern of racketeering activity.

Plaintiffs' RICO claims also fail because the Complaint does not allege a "pattern" of racketeering activity. The elements of a civil RICO claim are: "(1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity

---

[5] REDACTED

In March 2004, PGDF removed the website that Plaintiffs found objectionable and replaced it with a completely innocuous website. (RJN, Exh. O.) The Court may consider the replacement website under the "incorporation by reference" doctrine because Plaintiffs' RICO claims reference the contents of the website. *See Knievel v. ESPN*, 393 F.3d 1068, 1076 (9th Cir. 2005).

(known as 'predicate acts') (5) causing injury to the plaintiff's 'business or property.'" *Grimmett*, 75 F.3d at 510 (citing 18 U.S.C. §§ 1964(c), 1962(c)).

A "pattern" requires (1) two predicate acts within ten years of each other; (2) a relationship between those two acts; and (3) a threat of continued activity. 18 U.S.C. § 1961(5); *H.J., Inc. v. Northwestern Bell Tel.*, 492 U.S. 229, 239 (1989); *Grimmett*, 75 F.3d at 512. The Supreme Court has held that "'[c]ontinuity' is both a closed- and open-ended concept, referring either to a closed period of repeated conduct, or to past conduct that by its nature projects into the future with a threat of repetition":

> A party alleging a RICO violation may demonstrate continuity over a closed period by proving a series of related predicates extending over a substantial period of time. Predicate acts extending over a few weeks or months and threatening no future criminal conduct do not satisfy this requirement: Congress was concerned in RICO with *longterm* criminal conduct. Often a RICO action will be brought before continuity can be established in this way. In such cases, liability depends on whether the threat of continuity is demonstrated.

H.J., 492 U.S. at 241-42 (emphasis added). Continuity usually requires that the scheme have been in existence *for at least one year*. *See Grimmett*, 75 F.3d at 512.

Here, Plaintiffs have alleged only six predicate acts, five of which completely occurred during a *twelve-day period* in May 2003. These alleged predicate acts are (1) mailing the reexamination request for the '951 patent on May 5, 2003; (2) mailing the reexamination request for the '319 patent on May 5, 2003; (3) allegedly mailing[6] the motion to stay on May 5, 2003; (4) mailing allegedly fraudulent papers to the Southern District of California on May 6, 2003; and (5) mailing allegedly fraudulent papers to the Southern District on May 16, 2003.

[6] The May 5 motion to stay the lawsuits in the Southern District could not have constituted mail fraud because, as noted, *it was not mailed.* (RJN, Exh. A.)

This is not a pattern of continuous racketeering activity. The alleged mail fraud continued for only twelve days and completely ceased after that.

The sixth alleged predicate act, the posting of allegedly fraudulent statements on the PDGF website (Compl. ¶¶ 136-138), is not a predicate act because the alleged fraud was perpetrated on *third parties*, not Plaintiffs. Moreover, the Complaint fails to say when the allegedly fraudulent statements were made, other than a vague allegation that they were posted sometime between May 5, 2003 and December 5, 2006. (*Id.* ¶ 136.) The RICO sections of the Complaint specifically recite only one allegedly fraudulent statement (*id.* ¶ 138), leaving Defendants and the Court to guess when it was allegedly made. Given the lack of specificity, the Court should disregard the sixth alleged predicate act as being in violation of the pleading requirements of FED. R. CIV. P. 9(b). Further, regardless of when the allegedly fraudulent statement was made, it is clear that it was no longer on the website as of March 22, 2004, when PGDF changed its website. (RJN, Exh. O.)

Plaintiffs simply cannot show a pattern of continuous racketeering activity through five alleged predicate acts during a twelve-day period in May 2003. Recognizing this, Plaintiffs claim that "[t]he Patents are under a continuing threat of a similar fraud being perpetrated, given that patent laws and the USPTO rules and regulations allow multiple requests . . . , and given that Defendants through PGDF have repeatedly made statements that their goal is to put Plaintiffs out of business." (Compl. ¶ 141.) These allegations fail to demonstrate a "threat of continuity." *H.J.*, 492 U.S. at 241-42. There is no assertion that Defendants have represented any party adverse to Plaintiffs in patent suits *in the past five years*. Plaintiffs cannot use the reexamination statutes, which allow "[a]ny person at any time" to file a reexamination request (35 U.S.C. § 302), to transform Sheppard Mullin's two reexamination requests in May 2003 into an open-ended pattern of racketeering activity. As for Defendants' alleged statements through PGDF, they are undated, unspecific, and have never been acted on (even despite Lockwood's state court lawsuit in 2007).

4. The PTO's duty to conduct an independent investigation and the stipulated stay signed by PanIP negate proximate cause.

A "showing that the defendant violated § 1962, the plaintiff was injured, and the defendant's violation was a 'but for' cause of plaintiffs injury" is insufficient to meet the requirement in 18 U.S.C. § 1964(c) that the plaintiff's injury be "by reason of the RICO violation." *Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 265-66 (1992). Rather, a plaintiff must also show that the defendant's RICO violation proximately caused his injury. *See id.* at 268. Proximate cause requires "some direct relation between the injury asserted and the injurious conduct alleged." *Id. See generally Canyon County v. Syngenta Seeds, Inc.*, 519 F.3d 969, 981 (9th Cir. 2008).

Here, the PTO's duty to conduct an independent investigation into the merits of Sheppard Mullin's reexamination requests negated any proximate cause. The Patent Act states that "[w]ithin three months following the filing of a request for reexamination . . . , the Director [of the PTO] will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request with or without consideration of other patents or printed publications." 35 U.S.C. § 303(a). The Manual of Patent Examining Procedure makes clear that the PTO Director "has the authority to order reexamination only in those cases which raise a substantial new question of patentability. The substantial new question of patentability requirement protects patentees from having to respond to, or participate in unjustified reexaminations." MANUAL OF PATENT EXAMINING PROCEDURE (8th ed. Aug. 2001, rev. July 2008) ("MPEP") § 2244 (RJN, Exh. N).

A reexamination request thus prompts a preliminary investigation into whether there is a substantial new question of patentability affecting any claim of the patent at issue. This preliminary investigation results in an "independent determination" by the PTO, as the Federal Circuit made clear in *Patlex Corp. v. Mossinghoff*, 771 F.2d 480 (Fed. Cir. 1985):

In assessing the risk that an erroneous deprivation will

> ensue, we take notice that *a patent examiner is charged with the experience appropriate to making independent determinations*. PTO expertise is a factor to be given weight in considering the risk of error at this stage. . . . The PTO . . . carries a heavy responsibility to be exercised with disinterestedness and restraint.

Id. at 485 (quotations omitted; emphasis added). The PTO thus bears a "heavy responsibility" to conduct an "independent determination" into whether there is a substantial new question of patentability, a determination the PTO must make even if the requester tries to withdraw the request. *See* MPEP § 2210 ("After the request for reexamination . . . is received in the Office, no abandonment, withdrawal, or striking of the request is possible, regardless of who requests the same.") (RJN, Exh. N).

Plaintiffs' Complaint is thus based upon a formal reexamination proceeding instituted not by Defendants, but by the PTO after conducting its own independent investigation of the issues concerning Lockwood's patents. This negates any claim that Defendants' acts proximately caused Plaintiffs' alleged injuries.

The stipulation to stay proceedings and settlement signed by Plaintiffs also negate proximate cause. Plaintiffs claim that "[a]s a result of Defendants' deceitful statements and reliance on the Fraudulent Requests, the district court granted their Motion to Stay . . . This stay had the intended effect of stopping Plaintiffs' Enforcement Program, causing great economic loss . . . " (Compl. ¶ 135.) This allegation is false because Judge Brewster did not grant the stay motion but rather approved the stipulation signed by PanIP. (RJN, Exhs. A-D.) PanIP's signing of the stipulation negates any claim that Defendants' motion proximately caused Plaintiffs' alleged injuries. And, the notion that the stay and reexamination requests caused Plaintiffs such "severe economic harm" that they were "coerced" into signing the 2004 settlement is simply too remote and speculative to meet the proximate cause requirement. (Compl. ¶¶ 139-40.) There is no way to know whether and to what extent Plaintiffs' "severely injured economic situation" was caused by Defendants'

conduct as opposed to other factors. (*Id.* ¶ 140.) Simply put, Plaintiffs voluntarily agreed in 2004 to release PGDF and dismiss the underlying cases. If Plaintiffs regret that decision, it is not Defendants' fault.

B. The Court Should Dismiss Plaintiffs' Malicious Prosecution Claim

1. The malicious prosecution claim is time-barred.

Plaintiffs allege malicious prosecution, not with regard to the federal court proceedings, but with regard to the patent reexamination requests before the PTO. Defendants believe that any such tort is barred by reason of preemption under federal law, but insofar as a state law claim could possibly lie, it is clearly barred by a two-year statute of limitations and by the independent investigation doctrine, as discussed below. The Superior Court dismissed the malicious prosecution claim on the ground of statute of limitations, so Defendants will first address that issue.

Plaintiffs' malicious prosecution claim must be dismissed under the statute of limitations. Because the requests for reexamination were granted in July 2003, Plaintiffs' claim for malicious prosecution is barred by the two-year statute of limitations of CAL. CIV. PROC. CODE § 335.1. *See Stavropoulos v. Superior Court*, 141 Cal. App. 4th 190, 197 (2006). The Los Angeles Superior Court already found the malicious prosecution claim time-barred. (RJN, Exh. M.)

For tort claims like malicious prosecution, the statute of limitations begins to run on the occurrence of the last element essential to the claim. *See Norgart v. Upjohn Co.*, 21 Cal. 4th 383, 389, 397 (1999). The last element essential to Plaintiffs' claim occurred in July 2003, when the requests were granted.

According to Plaintiffs' Complaint, all of the elements for a claim of malicious prosecution in the *ex parte* administrative proceeding context had occurred by July 2003. First, Plaintiffs allege that "on May 5, 2003, Defendants mailed by U.S. Postal Service to the PTO two reexamination requests . . . " (Compl. ¶ 42.) Second, when Sheppard Mullin filed the reexamination requests on May 5, 2003, it allegedly acted (1) without probable cause to believe that the reexamination requests

were well founded, and (2) primarily for a purpose other than that of securing appropriate action by the PTO. (*Id.* ¶¶ 91-92.) Third, the granting of the reexamination requests in July 2003 (*see* RJN, Exhs. H & I) constituted the beginning of the damages that Plaintiffs have allegedly suffered. (Compl. ¶ 23.)

Unlike the rule for a contested proceeding, a malicious prosecution plaintiff does not have to show a favorable termination if the proceeding was an *ex parte* administrative proceeding. *See Stolz v. Wong Communications Ltd.*, 25 Cal. App. 4th 1811, 1820 (1994) (quoting REST. 2D TORTS § 680 on the elements of a malicious prosecution claim in the administrative proceeding context: " . . . except where they are *ex parte*, the proceedings have terminated in favor of the person against whom they are brought"). *Cf. Zamos v. Stroud*, 32 Cal. 4th 958, 967 n.6 (2004) (quoting REST. 2D TORTS § 674 on the elements of a malicious prosecution claim in the civil proceeding context: " . . . except when they are *ex parte*, the proceedings have terminated in favor of the person against whom they are brought"); *accord Rutherford v. Johnson*, 250 Cal. App. 2d 316, 319 (1967).

Defendants' reexamination requests were completely *ex parte*. (Compl. ¶ 19 ("Defendants requested *ex parte* reexamination in May of 2003."); *see also id.* ¶¶ 13, 38, 78, 79.) Moreover, comment k to the Restatement (Second) of Torts § 674 states that "[p]roceedings are *ex parte* when relief is granted without an opportunity for the person against whom the relief is sought to be heard." Here, the PTO granted the requests without giving Plaintiffs an opportunity to be heard. This is a consequence of 37 C.F.R. § 1.530(a), and Plaintiffs concede this fact in the Complaint. (Compl. ¶ 43.) Because the requests were *ex parte*, the statute of limitations has run. The malicious prosecution claim should be dismissed.

Plaintiffs cannot excuse their tardiness by claiming that, "due to the deceitful and misleading nature of the Fraudulent Requests, Plaintiffs were prevented from discovering or realizing the full extent of Defendant's [sic] fraudulent use of the reexamination proceedings for improper purposes until approximately three years

after the Fraudulent Requests were filed." (Compl. ¶ 83.) That excuse fails because there can be no dispute that Plaintiffs received copies of the requests in May 2003 and that the stipulation to stay the lawsuits, signed by Plaintiffs' then-counsel on June 2, 2003, cited the requests. Plaintiffs were not prevented from discovering or realizing anything. They had the requests.

In sum, because the requests for reexamination were granted in July 2003, Lockwood's claim for malicious prosecution is barred by the two-year statute of limitations and should be dismissed, just as it was in state court.

2. Lockwood's malicious prosecution claim fails because of the independent investigation doctrine.

The malicious prosecution claim also fails because of the independent investigation doctrine. A party may not sue for malicious prosecution where the proceeding at issue was initiated after an independent investigation of the defendant's charges by the responsible authorities. *See Werner v. Hearst Publ., Inc.*, 65 Cal.App.2d 667, 672 (1944) (affirming judgment of dismissal).

In *Werner*, the plaintiff claimed that the defendants, without probable cause and with malice, instigated a disbarment proceeding against him before a State Bar committee by sending a letter to its special investigator. He alleged that the committee "was actuated and influenced to issue the said 'Order to Show Cause' by the letter of August 14, 1941, and that The State Bar relied upon said statements in said letter and issued the said order in substantially the same language as the language used in said letter." 65 Cal. App. 2d at 672. The Court of Appeal held that "[t]hose allegations do not bear the interpretation that the notice or 'order' to show cause was issued by reason of the committee's reliance upon the statements in the letter," instead of the independent investigation prescribed in the Rules of Procedure of The State Bar. *Id.* The Court reasoned that "it is to be presumed, upon consideration of the demurrer, *in the absence of an allegation to the contrary*, that the investigation was relied upon by the committee." *Id.* at 672 (emphasis added). The Court concluded

that "even though said complaint alleges that the committee relied upon the letter that does not eliminate the preliminary investigation prescribed by rule 10 as a basis upon which the committee might have relied." *Id.* at 673.

The *Werner* case was subsequently reaffirmed in *Stanwyck v. Horne*, 146 Cal. App. 3d 450 (1983), wherein the California Court of Appeal clearly stated, "*Absent an allegation in appellant's complaint that an investigation did not in fact occur*, we must presume as did *Werner*, that one did occur." *Id.* at 459 (holding, under the "independent investigation" doctrine, that "appellant failed to allege the elements required to establish an action in malicious prosecution").

Here, the statutes and regulations governing reexamination proceedings in the PTO confirm that the independent investigation doctrine applies to the present case. *See* 35 U.S.C. § 303(a); 37 C.F.R. § 1.515(a); MPEP §§ 2240, 2244 (RJN, Exh. N); *Patlex Corp. v. Mossinghoff*, 771 F.2d 480, 485 (Fed. Cir. 1985) (discussing reexamination requests: "In assessing the risk that an erroneous deprivation will ensue, we take notice that *a patent examiner is charged with the experience appropriate to making independent determinations*") (emphasis added). As in *Werner*, 65 Cal. App. 2d at 672, it is presumed that the PTO followed these procedures and conducted an independent investigation before proceeding with the reexamination proceedings. [7]

Plaintiffs' Complaint does not allege that the PTO failed to conduct the required investigation. The Complaint alleges only that "[i]n reliance on the deceptive mischaracterization of alleged pieces of prior art submitted by Defendants in their Fraudulent Requests for reexamination, the USPTO did grant the Requests . . . " (Compl. ¶ 70.) As in *Werner*, these "are not sufficient allegations to exclude the

[7] In this case, the presumption is conclusive as a practical matter because the PTO rules do not permit examiners to testify about (a) their reliance on particular facts or arguments, (b) the manner or extent of their consideration of material, or (c) the bases, reasons, mental processes, analyses, or conclusions they reached in performing their functions. *See* MPEP § 1701.01 (RJN, Exh. N).

independent investigation as a part, at least, of the information" upon which the PTO relied in instituting formal reexamination proceedings. 65 Cal. App. 2d at 672. Under *Werner* and *Stanwyck*, it is irrelevant whether any arguments in the requests colored the PTO's review. It is also irrelevant that the "substantial new question of patentability" test in 35 U.S.C. § 303(a) presents a low threshold. This case is based on formal proceedings instituted by the PTO, not by Defendants, and the malicious prosecution claim should be dismissed.

3. Plaintiffs' malicious prosecution claim is preempted by federal law.

Plaintiffs' malicious prosecution claim also fails because it is preempted. When Congress established the reexamination procedures, it did not establish a remedy for malicious prosecution or alleged fraud on the PTO. Any such claim based on state law, including state law "fraud-on-the-agency claims," are barred. *See Buckman*, discussed below.

Under the Supremacy Clause, state law that conflicts with federal law is without effect. *See* U.S. CONST. art. VI, cl. 2; *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 168 (1989); *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1331 (Fed. Cir. 1998), *overruled in part on other grounds*, *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1361 (Fed. Cir. 1999). Preemption can be any of three types: explicit, field, or conflict. *See Hunter Douglas*, 153 F.3d at 1332. Conflict preemption occurs when state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979); *see also Ultra-Precision Mfg., Ltd. v. Ford Motor Co.*, 411 F.3d 1369, 1377 (Fed. Cir. 2005).

Federal patent law reflects the objectives of Congress, which include promoting "the stringent requirements for patent protection . . . to assure that ideas in the public domain remain there for the free use of the public." *Aronson*, 440 U.S. at 262 (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974). A state cause of action that frustrates this objective is preempted and must be dismissed. *See*

Aronson, 440 U.S. at 262; *Ultra-Precision*, 411 F.3d at 1378.

If allowed to proceed, Plaintiffs' malicious prosecution claim would frustrate the objectives of Congress in passing the patent reexamination statutes. The reexamination statutes state that "*[a]ny person at any time* may file a request for reexamination by the Office of any claim of a patent on the basis of *any prior art* cited under the provisions of section 301 of this title." 35 U.S.C. § 302 (emphasis added). Congress intended reexaminations "to provide an important 'quality check' on patents that would allow the government to remove defective and erroneously granted patents." *In re Swanson*, 540 F.3d 1368, 1375 (Fed. Cir. 2008) (citing H.R. Rep. No. 107-120 (2002)); *see also In re Recreative Techs. Corp.*, 83 F.3d 1394, 1396-97 (Fed. Cir. 1996) ("The reexamination statute's purpose is to correct errors made by the government . . . and if need be to remove patents that never should have been granted.") (citing *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985)). To advance this objective, Congress established a lenient standard requiring only a "substantial new question of patentability" to grant a reexamination request and initiate formal reexamination proceedings. 35 U.S.C. §§ 303-304.

In Plaintiffs' view, federal patent law allegedly foresees the use of California tort law to enforce PTO practice rules and prevent harassment of patentees. But the Federal Circuit has clearly held that it is "[t]he 'substantial new question of patentability' requirement [that] prevents potential harassment of patentees by 'act[ing] to bar reconsideration of any argument already decided by the [PTO], whether during the original examination or an earlier reexamination.'" *In re Swanson*, 540 F.3d at 1375 (quoting H.R. Rep. No. 96-1307(1) (1980), U.S. Code Cong. & Admin. News 1980, pp. 6460, 6466). Crucially, Congress itself stated, in the House Report accompanying the 2002 amendments to the reexamination statutes:

> As part of the original 1980 reexamination statute, *Congress struck a balance* between curing allegedly defective patents and preventing the harassment of patentees. It adopted a

> standard requiring a request for reexamination to raise a "substantial new question of patentability."

H.R. Rep. No. 107-120 (emphasis added); *see also Patlex Corp. v. Mossinghoff*, 771 F.2d 480, 483 (Fed. Cir. 1985) (holding that "the threshold determination whether or not to reexamine" made by the PTO "carefully protects patent owners from reexamination proceedings brought for harassment or spite") (quotations omitted).

Lockwood's attempt to use California tort law to enforce PTO practice rules upsets the careful "balance" that Congress struck. Congress provided the "substantial new question of patentability" standard and preliminary determination thereunder to safeguard patentees, rather than providing for a tort claim. If the PTO believes that a reexamination request meets the standard, then the PTO may initiate formal reexamination proceedings. Otherwise, the PTO denies the request and the process ends. Congress specifically noted that "the courts should judiciously interpret the 'substantial new question' standard to prevent cases of abusive tactics and harassment of patentees through reexamination," H.R. Rep. No. 107-120, but vested the execution of this protective function with the PTO, "the proper agency with the necessary expertise to take a 'second look' at a patent's validity." *Id.* Simply put, allowing Plaintiffs' malicious prosecution claim would seriously disturb the careful scheme established by Congress, which "encourages third parties to pursue reexamination as an efficient way of settling patent disputes." *Id.*

The present case is analogous to *Buckman*, wherein the Supreme Court held that "state-law fraud-on-the-FDA claims conflict with, and are therefore impliedly pre-empted by federal law." 531 U.S. at 348. The Court noted that "[p]olicing fraud against federal agencies is hardly a field which the States have traditionally occupied, such as to warrant a presumption against finding federal pre-emption of a state-law cause of action." *Id.* at 347 (quotation and citation omitted). The Court reasoned that "[s]tate-law fraud-on-the-FDA claims inevitably conflict with the FDA's responsibility to police fraud consistently with the Agency's judgment and objectives." *Id.* at 350.

Likewise, Plaintiffs' state-law fraud-on-the-PTO claims inevitably conflict with the PTO's responsibility to police fraud under the regulatory scheme for investigations and disciplinary proceedings established in 37 C.F.R. § 10.130 et seq. *See also Nathan Kimmel, Inc. v. DowElanco*, 275 F.3d 1199 (9th Cir. 2002) (finding fraud-on-the-EPA claim preempted).

Plaintiffs' state malicious prosecution claim is closely analogous to the state abuse of process counterclaim held to be preempted in *Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991). In *Abbott*, a patent applicant had backdated a request for an extension of time and falsely averred that the request had been timely made. The Federal Circuit concluded that "the federal administrative process of examining and issuing patents, including proceedings before the PTO's boards, is not subject to collateral review in terms of the common law tort of abuse of process." *Id.* at 1357.

Thereafter, in *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470 (Fed. Cir. 1998), the Federal Circuit held that the state law claim of intentional interference with actual and prospective contractual relationships was not preempted by federal patent law, even though the claim was based partly upon acts of alleged inequitable conduct before the PTO. The Federal Circuit reasoned that, because the state claim also included elements found in the marketplace against inhabitants of the state, the state tort as applied did not conflict with federal patent law. *See id.* at 1477-78.

In the present case, Lockwood's claim for malicious prosecution fails to include elements found in the marketplace. The federal patent laws thus preempt this claim. Like the state abuse of process claim in *Abbott*, "the wrong alleged and for which state law tort damages [are] sought [is] no more than bad faith misconduct before the PTO." *Dow*, 139 F.3d at 1477. An additional state claim predicated so squarely on the alleged acts of inequitable conduct would be "contrary to Congress' preemptive regulation in the area of patent law." *Abbott*, 952 F.2d at 1357.

C. The Court Should Dismiss Plaintiffs' Claim for Interference with Prospective Economic Advantage

1. Defendants' actions were covered by CAL. CIV. CODE § 47(b).

The "litigation privilege" of CAL. CIV. CODE § 47(b) provides absolute immunity for communications made to administrative agencies in quasi-judicial proceedings. *See Picton v. Anderson Union High Sch. Dist.*, 50 Cal. App. 4th 726, 737 (1996) ("The phrase 'in any other official proceeding authorized by law' embraced in section 47, subdivision 2 [now section 47(b)] has been interpreted to encompass those proceedings which resemble judicial and legislative proceedings, such as transactions of administrative boards and quasi-judicial and quasi-legislative proceedings."). The absolute privilege bars claims for interference with prospective economic advantage and fraud, among other causes of action. *See, e.g., Spitler v. Children's Institute Int'l*, 11 Cal. App. 4th 432, 438 n.4 (1992).

The California Supreme Court recently reiterated the requirements for the litigation privilege in *Rusheen v. Cohen*, 37 Cal. 4th 1048 (2006): "The usual formulation is that the privilege applies to any communication (1) made in judicial or quasi-judicial proceedings; (2) by litigants or other participants authorized by law; (3) to achieve the objects of the litigation; and (4) that have some connection or logical relation to the action." *Id.* at 1057. Courts have expressly held that CAL. CIV. CODE § 47(b) applies to communications made to a federal agency. *See, e.g., ComputerXpres v. Jackson,* 93 Cal. App. 4th 993, 1015 (2001) (noting that filing of complaint with the U.S. Securities and Exchange Commission "clearly was absolutely privileged under Civil Code section 47, subdivision (b)").

Under these cases, the requests for reexamination filed by Sheppard Mullin plainly come within the scope of CAL. CIV. CODE § 47(b), as the Superior Court already found. (RJN, Exh. L.) First, reexamination proceedings in the PTO are quasi-judicial proceedings. Patent examiners are quasi-judicial officials that exercise quasi-judicial functions in issuing or withholding patents, and in deciding whether

inventions are patentable in light of prior art. *See United States v. American Bell Tel. Co.*, 128 U.S. 315, 363 (1888) ("The patent . . . is the result of a course of proceeding, quasi-judicial in its character."); *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 67 (1884); *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 986 (Fed. Cir. 1995) ("Patent applications, unlike contracts, are reviewed by patent examiners, quasi-judicial officials trained in the law and presumed to have some expertise in interpreting the [prior art] references . . . ") (quotation omitted); *Western Elec. Co. v. Piezo Tech., Inc.*, 860 F.2d 428, 431 (Fed. Cir. 1988).

Second, the requests for reexamination were filed by a participant authorized by law, viz., Sheppard Mullin. The Patent Act broadly states that "Any person at any time may file a request for reexamination . . ." 35 U.S.C. § 302. Sheppard Mullin and its attorneys plainly come within this provision.

Third, Sheppard Mullin filed the requests for reexamination with the PTO to achieve the objects of (1) the reexamination proceedings and (2) the court cases brought by Lockwood's company, PanIP. On the first point, a request for reexamination initiates reexamination proceedings. *See In re Opprecht*, 868 F.2d 1264, 1265 (Fed. Cir. 1989) ("Reexamination of an issued patent may be initiated at the request of the patent owner or any other person."). On the second point, both the PanIP cases and the requests for reexamination concerned the same issues regarding the patentability of the inventions claimed in the Patents. Sheppard Mullin thus filed the requests for reexamination to achieve the objects of their clients' patent invalidity defenses in the court cases brought by PanIP.

Finally, the requests for reexamination had a connection or logical relation to both the PanIP cases and the reexamination proceedings, as discussed above. A communication, like the requests for reexamination, that notifies the PTO of possible prior art is plainly related to the enforceability of a patent. Likewise, the PanIP cases raised the issue of whether the Patents were truly valid and enforceable.

Because the requests for reexamination met all four requirements for the

litigation privilege, the act of filing the requests was absolutely privileged.

2. Plaintiffs' claim for interference with prospective economic advantage is time-barred.

Plaintiffs' claim for interference with prospective economic advantage is barred by a two-year statute of limitations. *See* CAL. CIV. PROC. CODE § 339(1); *Augusta v. United Serv. Auto. Ass'n*, 13 Cal. App. 4th 4, 10 (1993).

For tort claims like interference with prospective economic advantage, the statute of limitations begins to run on the occurrence of the last element essential to the claim. *Norgart v. Upjohn Co.*, 21 Cal. 4th 383, 389, 397 (1999). Here, the last element essential to Plaintiffs' claim occurred in July 2003, when the reexamination requests were granted. *See generally Sole Energy Co. v. Petrominerals Corp.*, 128 Cal. App. 4th 212, 241 (2005) (stating elements of claim for interference with prospective economic advantage). First, Lockwood, through PanIP, began his patent enforcement program back in 2002. (Compl. ¶ 27.) Second, Defendants allegedly knew about the enforcement program by the time they filed the reexamination requests on May 5, 2003. (*Id.* ¶¶ 96-98.) Third, the filing of the requests on May 5, 2003 constituted the allegedly intentional and wrongful conduct designed to interfere with Plaintiffs' enforcement program. (*Id.* ¶ 99.) Fourth, the enforcement program was allegedly interfered with in July 2003, when the PTO granted the requests. (*Id.* ¶ 70; RJN, Exhs. H, I.) Finally, the granting of the requests in July 2003 was the start of the economic harm that Plaintiffs allegedly suffered. (Compl. ¶ 70.) Once the requests were granted, Defendants had no right to participate since no "patent owner's statement" was filed. *See* 37 C.F.R. § 1.550(g); *Syntex (U.S.A.), Inc. v. U.S. Patent & Trademark Office*, 882 F.2d 1570 (Fed. Cir. 1989). Thus, the claim is time-barred.

D. <u>The Court Should Dismiss Plaintiffs' Claim for Fraud</u>

1. Defendants' actions were covered by CAL. CIV. CODE § 47(b).

The litigation privilege bars the fraud claim for the same reasons as the claim for interference with prospective economic advantage. (Section III.C.1, *supra*.)

2. Plaintiffs' fraud claim is preempted by federal law.

Plaintiffs' fraud claim is preempted by the federal patent statutes for the same reasons as Plaintiffs' malicious prosecution claim. (Section III.B.3, *supra*.)

3. Defendants' actions did not constitute fraud.

Defendants alleged mischaracterization of the prior art submitted to the PTO in requesting reexamination does not support a fraud claim because the PTO had the prior art and was free to reach its own conclusions. (Section III.A.1, *supra*.)

4. Plaintiffs' fraud claim is time-barred.

Because the reexamination requests were granted in July 2003, Plaintiffs' fraud claim is barred by a three-year statute of limitations. *See* CAL. CIV. PROC. CODE § 338(d). The last element essential to Plaintiffs' fraud claim occurred when the reexamination requests were granted. "The elements of fraud, which give rise to the tort action for deceit, are (1) a misrepresentation, (2) with knowledge of its falsity, (3) with the intent to induce another's reliance on the misrepresentation, (4) justifiable reliance, and (5) resulting damage." *Conroy v. Regents of Univ. of Cal.*, 45 Cal. 4th 1244, 1255 (2009). The first three elements allegedly occurred on May 5, 2003, when Sheppard Mullin filed the reexamination requests. The last two elements allegedly occurred in July 2003, when the PTO granted the requests.

IV. CONCLUSION

For the foregoing reasons, Plaintiffs' Complaint should be dismissed.

Dated: September 11, 2009

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

By Darren Franklin
DARREN M. FRANKLIN

Attorneys for Defendants
SHEPPARD, MULLIN, RICHTER & HAMPTON LLP,
JONATHAN HANGARTNER and STEVE P. HASSID