

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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CIVIL MINUTES - GENERAL

CASE NO.: CV 09-09516 SJO (OPx) DATE: August 8, 2011

TITLE: U.S. Rubber Recycling, Inc. v. ECOPE International, et al.

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PRESENT: THE HONORABLE S. JAMES OTERO, UNITED STATES DISTRICT JUDGE

Victor Paul Cruz
Courtroom Clerk

Not Present
Court Reporter

COUNSEL PRESENT FOR PLAINTIFF:

COUNSEL PRESENT FOR DEFENDANT:

Not Present

Not Present

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PROCEEDINGS (in chambers): ORDER DENYING IN PART AND GRANTING IN PART DEFENDANT'S MOTION FOR SUMMARY JUDGMENT [Docket No. 134]

This matter is before the Court on Defendant Ecore International, Inc.'s ("Defendant") Motion for Summary Judgment ("Motion"), filed on May 31, 2011. (Docket No. 134.) Plaintiff U.S. Rubber Recycling, Inc. ("Plaintiff") filed an Opposition ("Opposition"), to which Defendant submitted a Reply ("Reply").¹ Defendant and Plaintiff both lodged Requests for Judicial Notice. The Court found the matter suitable for disposition without oral argument and vacated the hearing set for June 27, 2011. See Fed. R. Civ. P. 78(b). For the following reasons, Defendant's Motion is DENIED IN PART AND GRANTED IN PART.

I. FACTUAL AND PROCEDURAL BACKGROUND

The instant action is an extremely contentious case between two parties who are bent on controlling and shaping the rubber acoustical underlayment market. After close to two years of less than collegial litigation, and 250 entries on the docket, the parties find themselves on the eve of trial. Out of judicial economy, the Court will keep brief the factual and procedural background, which have been exhaustively examined.

Plaintiff and Defendant are manufacturers and sellers of flooring products, including rubber acoustical underlayment products. (Compl. ¶¶ 27, 28.) Acoustical underlayment products are flat, resilient substrates used under floors to dampen sound. (*Id.* ¶ 14.) Defendant is the successor of Dodge-Regupol, Inc., a joint venture created by Berleburger Schaumstoffwerk GmbH ("BSW"), a German company, and Dodge Cork Company, a Pennsylvania company. (*Id.* ¶ 31.) On August 16, 2001, a patent application was filed that listed Dodge-Regupol, Inc. as the assignee

¹ Plaintiff submitted an *Ex Parte* Application for Leave to File a Surreply on June 20, 2011, which the Court denied.

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and Paul C. Downey ("Downey") as the sole inventor. (Def.'s Req. for Judicial Notice ("RJN") Ex. 1.) That application issued on July 26, 2005, as U.S. Patent Number 6,920,723 (the "'723 Patent"). (Compl. ¶ 32.) The '723 Patent describes "an insulating material for use with decorative floor tile" and "has the acoustic properties and the strength characteristics required to be used in a flooring system." (RJN Ex. 1, at 1:65-2:3.) In particular, the '723 Patent states that the invention is a substrate that can be used between "a subfloor and a decorative upper layer" with the thickness of "about 10 mm" and "voids [that] contribute to . . . sound dampening." (*Id.* at 2:18-33; 5:30-34.) The '723 Patent also includes dependent claims that describe a substrate with "a thickness of 5 mm." (*Id.* at 5:55-56, 6:40-45.)

On January 31, 2006, Defendant sued RB Rubber Products, Inc. ("RB Rubber") in the United States District Court for the Middle District of Pennsylvania, alleging infringement of the '723 Patent. (RJN Ex. 39, at 2.) On March 9, 2007, the RB Rubber court issued a *Markman* order, wherein the court interpreted the claim language of "about 10 mm" in independent claims 1 and 8 to mean 9-11 mm. (*See generally* RJN Ex. 38.) Defendant argued before the RB Rubber court that the dependent claims 7 and 13 in the '723 Patent cover substrates with "5 mm" and, therefore, "about 10 mm" must mean more than 9-11 mm. (*See* RJN Ex. 41, at 18:11-19:22.) The RB Rubber court rejected Defendant's argument. (*See generally* RJN Ex. 38.) Defendant then moved to dismiss its complaint in the RB Rubber case. RB Rubber moved to recover its attorney fees, arguing that the '723 Patent had been procured by inequitable conduct. (RJN Ex. 39, at 5.) The RB Rubber court denied the request for attorney fees and "decline[d] to make . . . a finding [of inequitable conduct]." (*Id.* at 8.)

On July 25, 2007, Defendant filed a broadening reissue application. (RJN Ex. 2.) During the reissue proceedings, Defendant filed with the United States Patent and Trademark Office ("PTO") a Notification of Concurrent Proceedings. On November 23, 2010, the PTO issued United States Reissue Patent No. RE41945 ("RE41945"), which contains all of the claims of the '723 Patent, as well as new claims. (RJN Ex. 2.) Numerous alleged prior art appears on the face of the RE41945, along with court filings and documents from the RB Rubber case. (*Id.*)

On December 29, 2009, Plaintiff filed its Complaint against Defendant alleging that Defendant fraudulently procured and wrongfully enforced the '723 Patent to monopolize the rubber acoustical underlayment market. (Compl. ¶¶ 3, 30, 35.) Plaintiff asserted that, during the prosecution of the '723 Patent, Defendant intentionally failed to disclose to the PTO material prior art that showed the claimed invention had been sold in the United States and described in printed publications more than one year prior to the '723 Patent application. (*Id.* ¶¶ 35, 52.) Plaintiff also alleged that Defendant threatened litigation to competitors, distributors, architects, and end-users from at least 2006 to 2009. Plaintiff alleged that Defendant communicated to them that they may not sell or purchase rubber acoustic underlayment from anyone but Defendant due to the '723 Patent. (*Id.* ¶ 65.) Plaintiff posits that these threats were baseless, made in bad faith, and for anti-competitive purposes. (*Id.* ¶¶ 66, 67.)

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In its Complaint, Plaintiff asserts eight claims for relief: (1) violation of section 2 of the Sherman Antitrust Act; (2) declaratory judgment of invalidity of the '723 Patent; (3) declaratory judgment of unenforceability of the '723 Patent; (4) false patent marking; (5) violation of section 43(a) of the Lanham Act; (6) intentional interference with prospective economic advantage; (7) negligent interference with prospective economic advantage; and (8) unfair competition in violation of California Business and Professions Code section 17200, *et seq.* (commonly referred as the Unfair Competition Law ("UCL")). (See *generally* Compl.)

On March 8, 2010, Defendant filed a Motion to Dismiss Complaint under Federal Rules of Civil Procedure ("Rule") 12(b)(1) and 12(b)(6) for lack of subject matter jurisdiction and failure to state a claim, respectively. On July 28, 2010, the Court dismissed claim eight but denied dismissal of claims one through seven. On August 16, 2010, Defendant filed a Motion to Reconsider, which the Court granted on January 7, 2011. The Court, however, denied Defendant's request to dismiss claim one. On November 23, 2010, the PTO issued RE41945. Shortly thereafter, on December 27, 2010, Defendant filed a Motion for Judgment on the Pleadings, asserting that the reissuance of the '723 Patent precludes Plaintiff from plausibly pleading the "but-for" causation element of claim one. On April 11, 2011, the Court granted Defendant's Motion for Judgment on the Pleadings and dismissed claim one. On May 3, 2011, Plaintiff filed a Motion to Reconsider, which the Court denied on July 7, 2011.

II. Discussion

A. Requests for Judicial Notice

Defendant asks the Court to take judicial notice of patents, materials from the prosecution history of RE41945, and court filings in the prior RB Rubber lawsuit. (See *generally* Def.'s Req. for Judicial Notice.)

Federal Rule of Evidence 201(b)(2) permits courts to take judicial notice of facts that are "not subject to reasonable dispute" in that they are "capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned." Fed. R. Evid. 201(b)(2). A court "may take judicial notice of court filings and other matters of public record," *Reyn's Pasta Bella, LLC v. Visa USA, Inc.*, 442 F.3d 741, 746 n.6 (9th Cir. 2006), along with documents "whose contents are alleged in [the] complaint and whose authenticity nobody questions," *Knievel v. ESPN*, 393 F.3d 1068, 1076 (9th Cir. 2005). Patents are "matters of public record." *Openwave Sys, Inc. v. Myriad France S.A.S.*, No. CV-10-02805, 2011 WL 1832999, at *4 (N.D. Cal. May 13, 2011) (taking judicial notice of patents and patent applications). A patent's file history is similarly a public record. See 37 C.F.R. § 1.11(d) (2010) ("All papers or copies thereof relating to a reexamination proceeding which have been entered of record in the patent or reexamination file are open to inspection by the general public . . ."). The Federal Circuit has previously "take[n] judicial notice" of a reexamined patent's file history. See

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Standard Havens Prods., Inc. v. Gencor Indus., Inc., 897 F.2d 511, 514 n.3 (Fed. Cir.1990) (taking judicial notice of an agency action because it was an "adjudicative fact" of public record and not subject to reasonable dispute); *accord In re Shell Oil Co.*, 992 F.2d 1204, 1207 n.3 (Fed. Cir. 1993).

Defendant requests the Court to take judicial notice of documents that are not subject to reasonable dispute and are capable of accurate and ready determination. Plaintiff does not oppose Defendant's request. Accordingly, Defendant's request for judicial notice is GRANTED.

B. Motion for Summary Judgment

1. Legal Standard

Federal Rule of Civil Procedure ("Rule") 56(a) mandates that "the court shall grant summary judgment if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). The moving party bears the initial burden of establishing the absence of a genuine issue of material fact. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). "When the party moving for summary judgment would bear the burden of proof at trial, it must come forward with evidence which would entitle it to a directed verdict if the evidence went uncontroverted at trial. In such a case, the moving party has the initial burden of establishing the absence of a genuine issue of fact on each issue material to its case." *C.A.R. Transp. Brokerage Co. v. Darden Rests., Inc.*, 213 F.3d 474, 480 (9th Cir. 2000) (citations and quotations omitted). In contrast, when the nonmoving party bears the burden of proving the claim or defense, the moving party does not need to produce any evidence or prove the absence of a genuine issue of material fact. *See Celotex Corp.*, 477 U.S. at 325. Rather, the moving party's initial burden "may be discharged by 'showing' – that is, pointing out to the district court – that there is an absence of evidence to support the nonmoving party's case." *Id.* Once the moving party meets its initial burden, the "party asserting that a fact cannot be or is genuinely disputed must support the assertion." Fed. R. Civ. P. 56(c)(1). "The mere existence of a scintilla of evidence in support of the [nonmoving party]'s position will be insufficient; there must be evidence on which the jury could reasonably find for the [nonmoving party]." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252 (1986); *accord Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986) ("[O]pponent must do more than simply show that there is some metaphysical doubt as to the material facts."). Further, "[o]nly disputes over facts that might affect the outcome of the suit . . . will properly preclude the entry of summary judgment [and] [f]actual disputes that are irrelevant or unnecessary will not be counted." *Anderson*, 477 U.S. at 248. At the summary judgment stage, a court does not make credibility determinations or weigh conflicting evidence. *See Anderson*, 477 U.S. at 249. A court is required to draw all inferences in a light most favorable to the nonmoving party. *Matsushita*, 475 U.S. at 587.

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Plaintiff misstates the legal standard for motions for summary judgment. In its Opposition, Plaintiff asserts that "it is [Defendant]'s burden, not [Plaintiff]'s, to present evidence which, if uncontradicted, would entitle it to judgment as a matter of law." (Opp'n 4:26-27.) Plaintiff claims that "[Defendant] has failed to produce admissible affirmative evidence to support its bald assertions that no evidence exists." (*Id.* at 5:14-16.) Plaintiff's argument regarding Defendant's and Plaintiff's burdens at this stage of litigation runs squarely against established Supreme Court precedent. The Supreme Court has never required that a "party moving for summary judgment[,] [like Defendant,] . . . produce evidence showing the absence of a genuine issue of materia fact." See *Celotex Corp.*, 477 U.S. at 325. Plaintiff is correct that "a party seeking summary judgment always bears the initial responsibility of informing the district court of the basis for its motion, and identifying those portions of 'the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any,' which it believes demonstrate the absence of a genuine issue of material fact." *Id.* at 323. Defendant discharges this initial burden, however, by simply "pointing out to the district court[] that there is an absence of evidence to support the nonmoving party's case." See *id.* at 325. This is because Defendant does not "bear the burden of proof at trial." See *id.* at 324. Therefore, contrary to Plaintiff's allegations, after Defendant points out the absence of evidence, the burden shifts to Plaintiff and Plaintiff must "set forth, by affidavit or as otherwise provided in Rule 56, 'specific facts showing that there is a genuine issue for trial.'" *Horphag Research Ltd. v. Garcia*, 475 F.3d 1029, 1035 (9th Cir. 2007).

2. Declaratory Judgment Claim for Unenforceability

Defendant asserts that summary judgment for claim three should be granted in its favor. In its Motion, Defendant alleges that the issuance of the reissue patent demonstrates that the alleged prior art are not material as a matter of law. (Mot. 5:4-7:18.) Defendant also contends that Plaintiff cannot raise an issue of genuine fact that Defendant failed to disclose any reference with bad intent. (*Id.* at 9:8-11:11.)

a. Legal Standard for Inequitable Conduct

"Inequitable conduct is an equitable defense to patent infringement that, if proved, bars enforcement of a patent. This judge-made doctrine evolved from . . . Supreme Court cases that applied the doctrine of unclean hands to dismiss patent cases involving egregious misconduct . . ." *Therasense, Inc. v. Becton, Dickinson & Co.*, ___ F.3d ___, 2011 WL 2028255, at *4 (Fed. Cir. 2011) (citations omitted); see also *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1480 (Fed. Cir. 1998) ("Inequitable conduct is a defense to a claim of patent infringement when the patent [at issue] was obtained by a failure of the patent applicant to comply with [its] duty of disclosure to the PTO."). To prove inequitable conduct, the alleged infringer must provide evidence that the patent applicant: "(1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information[:]; and (2) did so with intent to deceive the PTO." *Cancer Research Tech. Ltd. v. Barr Labs., Inc.*, 625 F.3d 724, 732 (Fed. Cir. 2010). The

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Federal Circuit "reviews a district court's determination of inequitable conduct under a two-tiered standard: [it] review[s] the underlying factual determinations of materiality and intent for clear error, and [it] review[s] the ultimate decision as to inequitable conduct for an abuse of discretion." *Am. Calcar, Inc. v. Am. Honda Motor Co., Inc.*, ___ F.3d ___, 2011 WL 2519503, at *10 (Fed. Cir. 2011).

The Federal Circuit "recently clarified the standards for determining materiality and intent that district courts should apply in resolving issues of inequitable conduct." *Am. Calcar, Inc.*, 2011 WL 2519503, at *10. In *Therasense*, 2011 WL 2028255, at *9, the Federal Circuit, *en banc*, expressed its concern that "[l]eft unfettered, the inequitable conduct doctrine [would continue to] plague[] not only the courts but also the entire patent system." Out of this fear, the appellate court "tighten[ed] the standards for finding both intent and materiality in order to redirect [the] doctrine." *Id.*

To prove specific intent to deceive, the Federal Circuit in *Therasense* held that "the accused infringer must prove by clear and convincing evidence that the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it." 2011 WL 2028255, at *9. "Because direct evidence of deceptive intent is rare, a district court may infer intent from indirect and circumstantial evidence." *Id.* at *10. Nonetheless, "the single most reasonable inference able to be drawn from the evidence" must be that the patent applicant had specific intent to deceive. *Id.* "[W]hen there are multiple reasonable inferences that may be drawn, intent to deceive cannot be found." *Id.* The "patentee need not offer any good faith explanation unless the accused infringer first . . . prove[s] a threshold level of intent to deceive by clear and convincing evidence." *Id.*

In *Therasense*, the Federal Circuit also held that "a court must weigh the evidence of intent to deceive independent of its analysis of materiality." 2011 WL 2028255, at *10. Thus, "[a] district court should not use a 'sliding scale,' where a weak showing of intent may be found sufficient based on a strong showing of materiality, and vice versa." *Id.* As for the materiality requirement, the Court of Appeals held that "the materiality required to establish inequitable conduct is but-for materiality." *Id.* at *11. "When an applicant fails to disclose prior art to the PTO, that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art." *Id.* The appellate court instructed district courts to "apply the preponderance of the evidence standard and give claims their broadest reasonable construction." *Id.*

"Although but-for materiality generally must be proved to satisfy the materiality prong of inequitable conduct, [the Federal Circuit] recognizes an exception in cases of affirmative egregious misconduct." 2011 WL 2028255, at *12. The Court of Appeals held that, "[w]hen the patentee has engaged in affirmative acts of egregious misconduct, such as the filing of an unmistakably false affidavit, the misconduct is material." *Id.* In *Therasense*, the appellate court listed several "early unclean hands cases before the Supreme Court" that dealt with "deliberately planned and carefully executed scheme[s]." *Id.* at *12. These cases included: (1) committing perjury and suppressing

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evidence; (2) manufacturing and suppressing evidence; and (3) bribing and suppressing evidence. *Id.* at *13.

b. But-for Materiality or Egregious Misconduct

Defendant argues that Plaintiff cannot prove "but-for" causation because the Examiner reviewed Plaintiff's alleged prior art and still allowed the original claims to be reissued. (Mot. 6:7-19.) The Court agrees. Out of judicial economy, the Court refrains from repeating its analysis in its Order Denying Plaintiff's Motion to Reconsider. In the July 8, 2011, Order, the Court explained that the "PTO undoubtedly considered most, if not all, of the alleged prior art." (Order, July 8, 2011, at 6.) The Court listed the numerous prior art alleged by Plaintiff in its Complaint and systematically showed how each prior art is listed on the face of the RE41945 or was submitted in an IDS to the PTO. (See *id.*) Under the Federal Circuit's recent *en banc* decision in *Therasense*, Plaintiff must show that "the PTO would not have allowed [the] claim[s] [of the '723 Patent] had it been aware of the undisclosed prior art." 2011 WL 2028255, at *11. Because the PTO in the instant action allowed the claims after the disclosure of the alleged prior art, Plaintiff cannot prove "but-for materiality." (Order, July 8, 2011, at 6-7.)

Similarly unavailing is Plaintiff's assertion that a genuine issue of material fact exists because of Peter Soukas and Dirk Hainbach's testimonies. (Opp'n 10:1-12.) Soukas and Hainbach testified that "the claimed invention was manufactured, sold and used decades earlier, as early as the '70s and '80s." (*Id.* at 10:25-26.) Yet, the PTO found these alleged prior art did not invalidate the claimed invention. Moreover, the PTO reviewed extensive court filings and documentation on this very issue, and nonetheless issued the RE41945. For example, in the letter from Harness Dickey & Pierce, P.L.C., RB Rubber explained to the RB Rubber court that "Dodge did not invent anything; rather, it merely used the same product it used for the gymnasium flooring systems previously sold." (RJN Ex. 9.) This letter appears on the face of RE41945 and was disclosed by Defendant in an IDS to the PTO in the prosecution of the reissue patent. Thus, even under the PTO Rule 56 standard, which is less strenuous than the "but-for" materiality standard, the PTO reissued the '723 Patent with knowledge of the assertions made by Soukas and Hainbach. *Therasense*, 2011 WL 2028255, at *13. ("Because Rule 56 sets such a low bar for materiality, adopting this standard would inevitably result in . . . patent litigators continuing to charge inequitable conduct in nearly every case as a litigation strategy."). Thus, their testimonies are not but-for material.

The Court's inequitable conduct analysis, however, does not end here. The Federal Circuit explained in *Therasense* that "[a]lthough but-for materiality generally must be proved . . . an exception [exists] [for] cases of affirmative egregious misconduct." 2011 WL 2028255, at *12. The appellate court recognized this exception because it sought to give the "[materiality] test sufficient flexibility to capture extraordinary circumstances." *Id.* at *13. The extraordinary circumstances exception appears to be an attempt by the Federal Circuit to provide some flexibility

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in the application of equitable principles, an attempt to account for the truly extraordinary situation that is not accounted for by the "but-for" materiality standard. In each of the Supreme Court cases cited by the Federal Circuit to highlight egregious misconduct - *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 243 (1933), *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 240 (1944), and *Precision Instruments Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 809-10 (1945) - the PTO was duped through "deliberately planned and carefully executed scheme[s]." *Therasense*, 2011 WL 2028255, at *4, *6; see also *S.O.I. TEC Silicon on Insulator Techs., S.A. v. MEMC Elec. Materials, Inc.*, No. CIV-08-292, 2011 WL 2748725, *6 n.7 (D. Del. July 13, 2011) ("The Federal Circuit has since raised the bar for proving inequitable conduct such that evidence of a 'deliberate decision' to deceive the PTO is required."). Moreover, the Federal Circuit explained that "neither mere nondisclosure of prior art references to the PTO nor failure to mention prior art references in an affidavit constitutes affirmative egregious misconduct." *Id.* at *12.

Here, Plaintiff cannot point to a deliberately planned and carefully executed scheme by Defendant to dupe the PTO. Plaintiff alleges that Defendant withheld prior art in the "BSW Binder" from the PTO during the '723 Patent prosecution. (Opp'n 11:9-15.) Plaintiff also contends that Defendant did not disclose in a Response to a PTO Office Action that prior art included the REGUPOL process of "skiving," which is a way to create rubber flooring through the cutting of rubber rolls, and the fact that technology to vary thickness to 10 mm existed long before August 2000. (*Id.* at 12:4-19.) Both of these assertions, even if assumed true, do not constitute affirmative egregious misconduct. Plaintiff fails to understand that, pursuant to the Federal Circuit's recent ruling in *Therasense*, "neither mere nondisclosure of prior art references to the PTO nor failure to mention prior art references in an affidavit constitutes affirmative egregious misconduct." *Id.* at *12. Plaintiff has not proffered any evidence of Defendant affirmatively committing perjury, manufacturing evidence, bribing individuals, and suppressing evidence. Simply put, Defendant's alleged conduct does not meet the extraordinary circumstance exception advanced by the Federal Circuit in *Therasense*.

Accordingly, Plaintiff's declaratory judgment claim for unenforceability fails as a matter of law because Plaintiff cannot show that the alleged prior art is "but-for" material or that Defendant committed affirmative egregious misconduct before the PTO. Accordingly, Defendant's Motion for Summary Judgment as to Plaintiff's declaratory judgment claim of unenforceability is GRANTED.

3. False Marking Claim

Federal patent law prohibits the "mark[ing] upon, or affix[ing] to, or us[ing] in advertising in connection with any unpatented article the word 'patent' or any word or number importing the same is patented, for the purpose of deceiving the public." See 35 U.S.C. 292(a) (2006). Thus, "[t]he two elements of a . . . false marking claim are[:] (1) marking an unpatented article; and

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(2) intent to deceive the public." *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1300 (Fed. Cir. 2009). The intent to deceive element is met "when a party acts with sufficient knowledge that what it is saying is not so and consequently that the recipient of its saying will be misled into thinking that the statement is true." *Clontech Labs. Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005). The Federal Circuit has held that "the combination of a false statement and knowledge that the statement was false creates a rebuttable presumption of intent to deceive the public." *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362-63 (Fed. Cir. 2010). The accused party, however, may successfully rebut the presumption by presenting evidence of "a good faith belief that an action [was] appropriate, especially when it [was] taken for a purpose other than deceiving the public." *Id.* at 1364. The accused party may not simply assert that it did not intend to deceive because such a statement, "standing alone, 'is worthless as proof of no intent to deceive where there is knowledge of falsehood.'" *Forest Grp., Inc.*, 590 F.3d at 1300; see also *Clontech Labs. Inc.*, 406 F.3d at 1535 n.2 ("[T]he inference of intent to deceive cannot be defeated with blind assertions of good faith where the patentee has knowledge of mismarking."). "[T]he burden of proof of intent for false marking is a preponderance of the evidence." *Pequignot*, 608 F.3d at 1363. The "burden of proof" for the accused party to rebut the presumption of intent to deceive the public is also "preponderance of the evidence." *Id.* at 1364.

Defendant strenuously argues that Plaintiff's false marking claim fails as a matter of law. First, Defendant states that "there is nothing false or misleading" about its advertisements. (Mot. 13:4-5.) Second, Defendant asserts it "had a good faith belief that all its products [were] covered" by the '723 Patent because a dependent claim in the '723 Patent "include 5 mm." (*Id.* at 13:11-12.) "At worst, [Defendant states it] had a good faith belief that about 10 mm covered all products from 5 mm to 15 mm." (*Id.* at 13:22-24.) Third, Defendant claims that it is not bound by the RB Rubber *Markman* order restricting the '723 Patent to cover only products that are between 9 to 11 mm thick. (*Id.* at 13:25-14:16.) Fourth, Defendant alleges that the False Marking Statute is unconstitutional. Fifth, Defendant claims that Plaintiff has not produced any evidence that "a single product" was ever marked with the '723 Patent and the False Marking Statute does not create a cause of action for falsely marking advertisements. (*Id.* at 15:13-28.)

Defendant fails to persuade. Plaintiff provides advertisements in which Defendant claims "QTscu is a patented product - Patent No. 6,920,723" and "QTscu is a patented product." (Yuri Decl. Exs. 42, 44.) In these advertisements, various products are labeled with the brand "QTscu"; these products range in thickness from 2 mm to 15 mm. Although the advertisement brochures may not be "false" because the '723 Patent covers rubber flooring that are "about 10 mm," it is unclear whether the '723 Patent extends its protection over QTscu products that are 2 mm or 15 mm thick. Therefore, the advertisements are arguably misleading. The fact that the '723 Patent has a dependent claim that includes products with 5 mm thickness does not help Defendant. This fact, coupled with the RB Rubber court's *Markman* order, lends credence to Defendant's assertion that it had a good faith belief that products with 5 to 11 mm thickness were covered by the '723 Patent. The dependent claim covering 5 mm products, however, does not prove that Defendant had a

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good faith belief that 2 mm or 3 mm products would similarly be covered. Thus, Plaintiff shows a dispute of genuine issue of fact in the record regarding whether Defendant had sufficient knowledge that products with thickness of 2 mm, 3 mm, or 15 mm were covered by the '723 Patent and whether the advertisements were made to deceive the public. At this juncture of the litigation, the Court is required to construe all inferences in a light most favorable to the nonmoving party. See *Matsushita*, 475 U.S. at 587. Therefore, summary judgment cannot be issued on the false marking claim.

The parties dispute whether Defendant is bound by the RB Rubber court's *Markman* order. Defendant asserts that the RB Rubber court's *Markman* order is not binding, citing to various decisions by courts outside the Ninth Circuit, including *RF Delaware, Inc. v. Pacific Keystone Technologies, Inc.*, 326 F.3d 1255, 1261 (Fed. Cir. 2003). (Mot. 13:25-14:16.) Plaintiff also relies on *RF Delaware, Inc.*, but contends the direct opposite - that the RB Rubber court's *Markman* order is binding on Defendant. (Opp'n 15:18-16:17.) Both of the parties do not understand that Ninth Circuit law regarding collateral estoppel controls this Court's analysis. In fact, the Federal Circuit made clear in *RF Delaware, Inc.*, 326 F.3d at 1261, that "the law of the regional circuit applies to the issue of collateral estoppel." In *RF Delaware, Inc.*, the Federal Circuit applied controlling law in the Eleventh Circuit because the case was brought in the district court for the Northern District of Alabama. *Id.* at 1261. Here, the Court must apply Ninth Circuit law, which neither of the parties have properly briefed or analyzed.² Because both parties have not applied the proper law or made relevant arguments, the Court cannot find as a matter of law that RB Rubber court's *Markman* order binds Defendant and that the *Markman* order precludes Defendant from asserting a good faith defense.

Defendant's constitutional challenge of the False Marking Statute is also of no avail. Two district courts have now held that the False Marking Statute is unconstitutional, "one [of which is] now pending appeal to the Federal Circuit." *Hollander v. Ranbaxy Labs. Inc.*, No. CV-10-793, 2011 WL 2787151 (E.D. Pa. July 18, 2011); see also *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 765 F. Supp. 2d 997, 1006 (N.D. Ohio Feb. 23, 2011) ("[T]he qui tam provision of the False Marking Statute, 35 U.S.C. § 292(b)[,] is unconstitutional under the Take

² The Court notes that district courts in the Ninth Circuit, including this Court, have held that "[c]ollateral estoppel may apply to claim construction determinations." See, e.g., *Int'l Gamco, Inc. v. Multimedia Games Inc.*, 732 F. Supp. 2d 1082, 1090 (S.D. Cal. 2010); *Curtiss-Wright Flow Control Corp. v. Z & J Techs. GmbH*, 563 F. Supp. 2d 1109, 1122 (C.D. Cal. 2007) (Otero, J.). Under Ninth Circuit law, collateral estoppel applies if: "(1) the issue necessarily decided at the previous proceeding is identical to the one which is sought to be relitigated; (2) the first proceeding ended with a final judgment on the merits; and (3) the party against whom collateral estoppel is asserted was a party or in privity with a party in the first proceeding." *Hydranautics v. FilmTec Corp.*, 204 F.3d 880, 885 (9th Cir. 2000).

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Care Clause of the United States Constitution."), *reaff'd on reconsideration*, No. 10–1912, 2011 WL 924341 (N.D. Ohio Mar. 14, 2011); *Rogers v. Tristar Prods., Inc.*, ___ F. Supp. 2d ___, 2011 WL 2175716 (E.D. Pa. June 2, 2011) ("[T]he Court finds section 292(b) to be unconstitutional under Article II's Take Care Clause."). Nonetheless, numerous federal district courts have continued to hold that § 292(b) is constitutional. See, e.g., *Ford v. Hubbell, Inc.*, No. 10–CV–513, 2011 WL 1259707, at *3 (S.D. Ill. Mar. 31, 2011); *Luka v. The Procter & Gamble Co.*, No. 10–CV–2511, 2011 WL 1118689, at *5–*8 (N.D. Ill. Mar. 28, 2011); *Pub. Patent Found., Inc. v. GlaxoSmithKline Consumer, Healthcare, L.P.*, No. 09–CV–5881, 2011 WL 1142917, at *4 (S.D.N.Y. Mar. 22, 2011); *Hy Cite Corp. v. Regal Ware, Inc.*, No. 10–CV–168, 2011 WL 1206768, at *4 (W.D. Wis. Mar. 15, 2011). In light of the split in authority, the court respectfully declines to address the issue of constitutionality at this time absent appropriate notice to the Department of Justice. See 28 U.S.C. § 2403 ("In any action . . . in a court of the United States to which the United States . . . is not a party, wherein the constitutionality of any Act of Congress affecting the public interest is drawn in question, the court shall certify such fact to the Attorney General, and shall permit the United States to intervene for presentation of evidence . . . and for argument on the question of constitutionality."). In addition, the Court notes that the Federal Circuit, as late as April 29, 2011, has applied the False Marking Statute without hesitation as to its constitutionality. *Juniper Networks, Inc. v. Shipley*, ___ F.3d ___, 2011 WL 1601995, at *4–*6 (Fed. Cir. 2011).

Lastly, Defendant's assertion that § 292 does not create a cause of action for false marking in advertisements runs contrary to statutory language and case law. The False Marking Statute expressly prohibits the "use[] in advertising in connection with any unpatented article, the word 'patent' or any word or number importing that the same is patented, for the purpose of deceiving the public." 35 U.S.C. § 292(a). In *Juniper Networks, Inc.*, the Federal Circuit recently analyzed "the advertising prong" of § 292. 2011 WL 1601995, at *5. This implicitly means that an advertisement creates a potential claim for false marking if it improperly designates an unpatented article as being covered by a patent. Otherwise, the Court of Appeals would not have separately considered the "advertising prong" of § 292. Moreover, as Plaintiff correctly highlights, this Court has held that a patent marking claim may be based solely from a false advertisement made with an intent to deceive the public. *King Tuna, Inc. v. Anova Food, Inc.*, No. CV-07-07451, 2011 WL 839378, at *5 (C.D. Cal. Feb. 24, 2011) ("[T]he elements in a patent marking claims are: (1) a marking **or** advertising that an object is patented (2) falsely (3) regarding an unpatented article (4) with intent to deceive the public.") (emphasis added).

Accordingly, Defendant's Motion for Summary Judgment as to the false marking claim is DENIED.

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4. Lanham Act Claim

The elements of a claim under section 43(a) of the Lanham Act are that: "(1) that the defendant . . . made a false or misleading statement of fact in commercial advertising or promotion . . . ; (2) that the statement actually deceives or is likely to deceive a substantial segment of the intended audience; (3) that the deception is material in that it is likely to influence purchasing decisions; (4) that the defendant caused the statement to enter interstate commerce; and (5) that the statement results in actual or probable injury to the plaintiff." See *Zenith Elec. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed. Cir. 1999); see also *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997).

a. Evidence of Actual Deception

Defendant requests the Court to grant summary judgment on Plaintiff's Lanham Act claim because Plaintiff "has failed to provide any evidence of consumer confusion." (Mot. 17:4-5.) Defendant asserts that its advertisements marketing QTscu products as being covered by the '723 Patent is not literally false. (*Id.* at 17:5-8.) Therefore, Defendant alleges that Plaintiff has the responsibility of introducing evidence of the misleading statement's impact on consumers. (*Id.* at 17:13-26.) Plaintiff, however, argues that the advertisements are literally false. (Opp'n 18:1-11.)

"To demonstrate falsity within the meaning of the Lanham Act, a plaintiff may show that the statement was literally false, either on its face or by necessary implication, or that the statement was literally true but likely to mislead the consumers." *Southland Sod Farms*, 108 F.3d at 1139. "Where a statement is not literally false and is only misleading in context, . . . proof that the advertising actually conveyed the implied message and thereby deceived a significant portion of the recipients becomes critical [to a Lanham Act claim]." *William H. Morris Co. v. Grp. W, Inc.*, 66 F.3d 255, 258 (9th Cir. 1995); see also *Clock Spring, L.P. v. Wrapmaster, Inc.*, 560 F.3d 1317, 1329 (Fed. Cir. 2009) ("If a statement is ambiguous or true but misleading, the plaintiff must 'introduce evidence of the statement's impact on consumers, referred to as materiality.' In other words, recovery on a misleading statement requires 'evidence of actual deception.'" (citation omitted). "[P]laintiff must produce evidence, usually in the form of market research or consumer surveys, showing exactly what message ordinary consumers received from the ad. Thus, if the plaintiff has no survey evidence, its false advertising claim usually must stand or fall on its claim that the challenged ad is literally false." J. Thomas McCarthy, 5 McCarthy on Trademarks and Unfair Competition § 27:55 (4th ed. 2011) (footnote omitted).

Defendant's advertisements are not literally false. The parties do not dispute that the '723 Patent covers rubber substrates that are "about 10 mm" in thickness and that the RB Rubber court's *Markman* order "limit[ed] the protection to 'about 9 to 11 mm.'" (Opp'n 18:6-7.) In three of the advertisements proffered by Plaintiff, one of the advertised QTscu products is 10 mm in thickness. (Teysko Decl. in Supp. of Opp'n ("Teysko Decl.") Exs. A, B, D.) Thus, even assuming that Plaintiff

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is correct when it asserts that the RB Rubber court's *Markman* order restricted the '723 Patent, the advertisements are not literally false. At least one "QTscu is a patented product." (*Id.* Ex. A.) The two other advertisements Plaintiff points out are similarly ambiguous. In one, Defendant advertises that a "QTscu is a patented product" and shows one product that has the thickness of 5 mm. As previously mentioned, however, the '723 Patent contains a dependent clause which covers rubber substrates with 5 mm thickness. Plaintiff's assertion that the RB Rubber court's *Markman* order limited the '723 Patent **may be correct** depending on which circuit law is applied for the collateral estoppel issue. Therefore, the advertisement that a 5 mm thick QTscu product is covered by the '723 Patent is not literally false because it may depend on the location of the advertisement. Moreover, neither Plaintiff nor Defendant has properly applied Ninth Circuit law on collateral estoppel to evidence in the instant action. The Court cannot conclude that the advertisement marking a 5 mm product as protected by the '723 Patent is literally false. Lastly, in the other advertisement Plaintiff highlights, Defendant advertised that "ECOSilence is a licensed patente[d] product - Patent No. 6,920,723." Plaintiff overstates its case when it claims that the advertisement marked ECOSurface products (Opp'n 18:3-4); Defendant did not. ECOSilence "is the name of the QTscu product that is private[ly] labeled for one [of Defendant's] distribut[ors]." (Reply 4:21-22.) Therefore, none of the advertisements proffered by Plaintiff are literally false.

Because Defendant's advertisements are not literally false, Plaintiff is required to show evidence of actual deception. Plaintiff has had close to two years since the filing of its Complaint to find proof of actual confusion. No market research or consumer surveys have been done by Plaintiff. Instead, as proof of actual confusion by consumers, Plaintiff halfheartedly provides a declaration from Ken Teysko, a distributor of Plaintiff's products.³ The declaration by Teysko, carefully drafted to prevent perjury, is insufficient to show actual confusion. Teysko stated, "My understanding from my review is that ECORE is claiming that it has valid and uncontested patent right to the QTscu product and the ECOSurfaces product, regardless of the thickness of the product." (Teysko Decl. ¶ 12.) He did not claim that he believed the QTscu product was covered by the '723 patent without regards to the thickness of the product. Moreover, it is questionable whether one distributor's alleged confusion is proof that "a substantial segment of the intended audience" was deceived. See *Zenith Elec. Corp.*, 182 F.3d at 1348; see also *William H. Morris Co.*, 66 F.3d at 258. As such, there is no proof of actual deception and Plaintiff's Lanham Act claim fails as a matter of law.

³ The Court notes that Plaintiff refers to Mr. Ken Teysko as "Taysko" in its Opposition. (Opp'n 19:14-20:2.)

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b. No Causal Injury

Defendant also argues that summary judgment should be granted as to the Lanham Act claim because Plaintiff "has provided no evidence that it was damaged by the alleged false statements." (Mot. 19:4-7.) Plaintiff does not address this argument in its Opposition. (*See generally* Opp'n.)

Under Federal Circuit precedent, "false advertising under the Lanham Act requires, among other things, a showing of both an injury and a causal link between the injury and the allegedly false advertising." *Air Turbine Tech., Inc. v. Atlas Copco AB*, 410 F.3d 701 (Fed. Cir. 2005).

Plaintiff is unable to show an injury and, therefore, cannot prevent entry of summary judgment. Again, the only evidence Plaintiff offered was the declaration from Teysko. In the declaration, Teysko declared that "[Defendant's] marketing efforts have influenced my decision and ability to buy and distribute [Plaintiff's] product." (Teysko Decl. ¶ 11.) Teysko, however, testified in a deposition that his company never refused to provide Plaintiff's product when an architect wanted it. (Teysko Dep. 36:11-14.) When pressed about alleged incidents of lost sales, Teysko testified that architects sometimes rejected "a floor contractor's [suggestion] to use U.S. Rubber," but did not know whether it "[m]ight have been [because of] patent infringement." (*Id.* at 36:22-23.) Teysko did not know because "[m]ore often than not, they won't tell [him and his company]." (*Id.* at 37:4-5.) Teysko explained that the architects would say, "We don't consider that the same product." (*Id.* at 37:8-9.) He explained that the decision to refuse Plaintiff's product was not within his or his company's discretion to decide. (*Id.* at 35:10.) Therefore, Teysko's declaration squarely conflicts with his deposition. Defendant's marketing efforts cannot influence Teysko's decision to buy because that decision is not within his discretion. It lies with the architects. There is no evidence that architects chose Defendant's products over Plaintiff's products because of the advertisements or concerns about patent infringement. The Ninth Circuit allows a district court to disregard a declaration when it is obvious, as is here, that a plaintiff is attempting to manufacture a triable issue of material fact. *Foster v. Arcata Assocs., Inc.*, 772 F.2d 1453, 1462 (9th Cir. 1985) ("[I]f a party who has been examined at length on deposition could raise an issue of fact simply by submitting an affidavit contradicting his own prior testimony, this would greatly diminish the utility of summary judgment as a procedure for screening out sham issues of fact."), *overruled on other grounds by Kennedy v. Allied Mut. Ins. Co.*, 952 F.2d 262 (9th Cir. 1991).

Accordingly, Defendant's Motion for Summary Judgment is GRANTED as to the Lanham Act claim.

5. Negligent Interference with Prospective Economic Advantage

Defendant asserts that Plaintiff's negligent interference with prospective economic advantage fail as a matter of law because claim seven is preempted by federal patent law. (Mot. 20:14-21.) Specifically, Defendant alleges that the Federal Circuit requires a state law claim based on

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conduct related to enforcement of a patent to have an element of bad faith. (*Id.* at 15-17.) Plaintiff does not address this argument in its Opposition. (*See generally* Opp'n.)

"The tort of negligent interference with prospective economic advantage is established where a plaintiff demonstrates that[:] (1) an economic relationship existed between the plaintiff and a third party which contained a reasonably probable future economic benefit or advantage to plaintiff; (2) the defendant knew of the existence of the relationship and was aware or should have been aware that if it did not act with due care its actions would interfere with this relationship and cause plaintiff to lose in whole or in part the probable future economic benefit or advantage of the relationship; (3) the defendant was negligent; and (4) such negligence caused damage to plaintiff in that the relationship was actually interfered with or disrupted and plaintiff lost in whole or in part the economic benefits or advantage reasonably expected from the relationship." *N. Am. Chem. Co. v. Superior Court*, 69 Cal. Rptr. 2d 466, 479 (Ct. App. 1997); *accord Venhaus v. Shultz*, 66 Cal. Rptr. 3d 432, 435-36 (Ct. App. 2007). The Federal Circuit has held that "federal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patent holder acted in bad faith." *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008). Therefore, "bad faith must be alleged and ultimately proven" for Plaintiff's negligent interference of business relations, "even if bad faith is not otherwise an element of [that] [state tort] claim." *Id.* The "bad faith standard . . . cannot be satisfied 'in the absence of a showing that the claims asserted were objectively baseless.'" *Id.* To be objectively baseless, the infringement allegations must be such that "no reasonable litigant could reasonably expect success on the merits." *GP Indus., Inc. v. Eran Indus., Inc.*, 500 F.3d 1369, 1374 (Fed. Cir. 2007).

Plaintiff's negligent interference claim fails as a matter of law because it is barred by federal patent law. Under California law, Plaintiff is only required to prove that Defendant was negligent and that negligence caused damage to Plaintiff's relationship with the third party. *See N. Am. Chem. Co.*, 69 Cal. Rptr. 2d at 479. This conflicts with Federal Circuit precedent requiring proof that Defendant asserted an "objectively baseless" claim of patent infringement. *See Dominant Semiconductors Sdn. Bhd.*, 524 F.3d at 1260. Defendant cannot be "negligent" if it asserted infringement allegations that "no reasonable litigant could reasonably expect success on the merits." *See GP Indus., Inc.*, 500 F.3d at 1374. The Federal Circuit's requirement would, in essence, convert Plaintiff's negligent interference claim into an intentional interference of business relations claim. Moreover, Plaintiff has all but conceded to Defendant's preemption argument by not addressing it in its Opposition. *See Shakur v. Schriro*, 514 F.3d 878, 892 (9th Cir. 2008) ("We have previously held that a plaintiff has 'abandoned . . . claims by not raising them in opposition to [the defendant's] motion for summary judgment.'").

Accordingly, Defendant's Motion for Summary Judgment as to Plaintiff's negligent interference with prospective economic advantage is GRANTED.

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6. Intentional Interference with Prospective Economic Advantage

Lastly, Defendant requests the Court to grant summary judgment against Plaintiff for its intentional interference with prospective economic advantage claim. (Mot. 19:17-13.) Defendant claims that Plaintiff has provided no evidence regarding Defendant's alleged interference with its business relationships. (*Id.* at 20:1-9.) The Court agrees.

"[T]he elements of the tort of intentional interference with prospective economic advantage . . . are usually stated as follows: (1) an economic relationship between the plaintiff and some third party, with the probability of future economic benefit to the plaintiff; (2) the defendant's knowledge of the relationship; (3) intentional acts on the part of the defendant designed to disrupt the relationship; (4) actual disruption of the relationship; and (5) economic harm to the plaintiff proximately caused by the acts of the defendant." *Korea Supply Co. v. Lockheed Martin Corp.*, 63 P.3d 937 (Cal. 2003) (quotations omitted); *see also Salma v. Capon*, 74 Cal. Rptr. 3d 873, 888 (Ct. App. 2008) ("[T]he tort of intentional interference with prospective economic advantage requires proof of economic harm to the plaintiff.").

The record is devoid of any evidence that Plaintiff suffered economic harm because of Defendant's alleged interference. In its Complaint, Plaintiff alleged that Defendant interrupted its relationships with Tri-West, Ltd., Johnsonite, Inc., and Kinetics Noise Control, Inc. (Compl. ¶¶ 120-22.) Plaintiff averred that it "lost opportunities to sell millions of square feet of rubber acoustical underlayment flooring." (*Id.* ¶ 120.) After close to two years, and after discovery has closed, Plaintiff can only point to Teysko's declaration as evidence of any interference. (Opp'n 20:13-15.) This sharp disparity is telling. Moreover, no reasonable jury could find in favor of Plaintiff based solely on Teysko's declaration. In his declaration, Teysko stated, "ECORE's marketing efforts have influenced my decision and ability to buy and distribute US Rubber's product." (Teysko Decl. ¶ 11.) Yet, in his deposition, Teysko testified that he did not know why customers were not choosing Plaintiff's products. (Teysko Dep. 37:1-5.) He also stated that there was never a case "where Tri-West specifically refused U.S. Rubber product[s] because of concerns about patent infringement." (*Id.* at 37:15-18.) Plaintiff cannot show that it suffered economic harm as a result of any interference by Defendant and, therefore, as a matter of law, Plaintiff's intentional interference of business relations fails.

Accordingly, Defendant's Motion for Summary Judgment as to claim six is GRANTED.

III. RULING

For the foregoing reasons, Defendant's Motion for Summary Judgment is **GRANTED IN PART AND DENIED IN PART**. Plaintiff has proffered sufficient evidence to create a genuine issue of material fact as to its false patent marking claim. Plaintiff should be permitted to prove claim four at trial. Plaintiff's declaratory judgment claim for unenforceability, Lanham Act claim, and

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intentional and negligent interference with prospective economic advantage claims, however, fail as a matter of law.

IT IS SO ORDERED.