

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS**

In Re Innovatio IP Ventures, LLC, Patent
Litigation

This Document Relates To:

*Cisco Systems, Inc. and Motorola Solutions,
Inc. v. Innovatio IP Ventures, LLC*, Case No.
1:11-cv-9309 (originally 1:11-cv-00425 (D.
Del.))

and

*NETGEAR, INC. v. Innovatio IP Venture3s,
LLC*, Case No. 1:12-cv-00427 (originally 1:11-
cv-01139 (D. Del.))

Case No. 1:11-cv-09308

Judge James F. Holderman
Magistrate Judge Sidney Schenkier

**MEMORANDUM IN SUPPORT OF INNOVATIO'S MOTION TO DISMISS
DOCKET NOS. 431 AND 442 PURSUANT TO FED. R. CIV. P. 12(B)(6)**

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I. INTRODUCTION

The Manufacturing Defendants' Amended Complaint Count Nos. XLVIX-LV (Docket Nos. 431 and 442) should be dismissed as a matter of law, pursuant to Fed. R. Civ. P. 12(b)(6).¹

The alleged licensing activities simply do not provide any bases for the hodge-podge of asserted claims:

- **Noerr-Pennington** – Under the *Noerr-Pennington* doctrine, all of the claims other than breach of contract are barred by the First Amendment's guarantee of "the right of the people . . . to petition the Government for a redress of grievances;" which includes the right to petition the courts and pre-petition activity related to litigation;
- **RICO Deficiencies** - The RICO claims are deficient as a matter law for several reasons. First, the claims rest solely on acts targeted at third parties (customers); accordingly, the Manufacturing Defendants lack the required direct injury, proximate cause, and standing. Second, the complaint fails to allege facts sufficient to support predicate acts of fraud and extortion. Third, the RICO claims fail for lack of an "enterprise" separate from the Defendant Innovatio itself (which of course operates through its member-manager and agents);
- **Twombly** - The allegations that Innovatio failed to offer "fair, reasonable and non-discriminatory terms" ("RAND" or "FRAND") fail to support a plausible claim under *Twombly*. By way of example, there is no showing of a plausible basis to support the conclusion that a lump sum, paid-up license for a sizable portfolio of

¹ While Cisco Systems, Inc., Motorola Solutions, Inc. and Netgear Inc, are designated "plaintiffs," for consistency across the related actions they will be referred to herein as the "Manufacturing Defendants."

patents—that includes other patents not subject to RAND obligations—could be said to violate a RAND royalty obligation. Nor is there any allegation that any of the Manufacturing Defendants offered or were refused RAND terms, an essential element of any RAND-based claim;

- **No Breach of Contract** - The Manufacturing Defendants have failed to establish a claim of breach of contract. They are not parties to any contract with Innovatio or its predecessors, nor have they even requested a license to any of the subject patents. In essence, the Manufacturing Defendants seek to enforce a RAND obligation as a fourth party beneficiary (a third party beneficiary to the third party beneficiary interest of the customer), a novel theory that lacks any basis in law;
- **No Promissory Estoppel** - The claims for promissory estoppel fail for lack of standing and because the Manufacturing Defendants cannot proceed on a claim of promissory estoppel, as they have pled the existence of an express contract;
- **No Ca. Code Violation** - The allegations of damages are insufficient to state a cause of action under Cal. Bus. & Prof. Code §§ 17200 *et seq.* as a matter of law, and are based on privileged actions; and
- **No Conspiracy & Unclean Hands** - The conspiracy claims fails for lack of an underlying cause of action, and the claim of unclean hands fails because it is an equitable defense, not an independent cause of action.

* * *

The claims lack any basis in law. Innovatio respectfully submits that its motion to dismiss should be granted.

II. DISCUSSION

A. The Accused Conduct Alleged to Form the Basis for the Subject Claims (Other Than Breach of Contract) Is Immune Under Noerr-Pennington

The *Noerr-Pennington* doctrine derives from the First Amendment's guarantee of "the right of the people . . . to petition the Government for a redress of grievances," U.S. Const. amend. I. See generally *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965). See also *Tal v. Hogan*, 453 F.3d 1244, 1260 (10th Cir. 2006) (affirming dismissal of RICO claim based upon *Noerr-Pennington* doctrine). Under the *Noerr-Pennington* doctrine, those who petition any department of the government for redress are generally immune from statutory liability for their petitioning conduct. *Empress LLC v. City & Cnty. of S.F.*, 419 F.3d 1052, 1056 (9th Cir. 2005) (citing *Manistee Town Ctr. v. City of Glendale*, 227 F.3d 1090, 1092 (9th Cir. 2000)).

Thus, in *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 928 (9th Cir. 2006), the Ninth Circuit applied the *Noerr-Pennington* doctrine and affirmed the dismissal of a RICO suit against DIRECTV based on the predicate acts of Mail Fraud and Extortion. The claims were based on DIRECTV having sent tens of thousands of letters threatening litigation against persons whom DIRECTV had learned had purchased equipment that could be used to pirate satellite TV signals. "Rather than incur the expense of engaging an attorney to respond, some allegedly innocent recipients, including the three named plaintiffs here, paid DIRECTV thousands of dollars to settle the claims." *Id.* at 927. The Court explained that *Noerr* provides "breathing space" to such conduct incidental to prosecution of a suit:

The second aspect of the breathing space principle was recognized in *Noerr* itself, where the Court extended immunity not only to the railroads' direct communications with legislators but also to its public relations campaign, finding that the latter's aim was to influence the passage of favorable legislation. *Noerr*, 365 U.S. at 140-43. Building on this aspect of *Noerr*, the Supreme Court, in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, held that "private action . . .

cannot form the basis for antitrust liability if it is ‘incidental’ to a valid effort to influence governmental action.” 486 U.S. 492, 499, 108 S. Ct. 1931, 100 L. Ed. 2d 497 (1988) (quoting *Noerr*, 365 U.S. at 143). Similarly, in a series of cases culminating in *United Mine Workers of America v. Illinois State Bar Ass’n*, 389 U.S. 217, 88 S. Ct. 353, 19 L. Ed. 2d 426 (1967), the Court held that laws restricting the ability of unincorporated associations to employ attorneys for their members, *id.* at 221-22 This is so because, to exercise its petitioning rights meaningfully, a party may not be subjected to liability for conduct intimately related to its petitioning activities. “The First Amendment would . . . be a hollow promise if it left government free to destroy or erode its guarantees by indirect restraints so long as no law is passed that prohibits free speech, press, petition, or assembly as such.” *Ill. State Bar Ass’n*, 389 U.S. at 222.

Consistent with the breathing space principle, we have recognized that, in the litigation context, not only petitions sent directly to the court in the course of litigation, but also “conduct incidental to the prosecution of the suit” is protected by the Noerr-Pennington doctrine. *Columbia Pictures Indus., Inc. v. Prof’l Real Estate Investors, Inc.*, 944 F.2d 1525, 1528-29 (9th Cir. 1991) (“PRE I”), *aff’d* 508 U.S. 49, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993); *see also Freeman*, 410 F.3d at 1184. . . . Thus, where the underlying litigation fell within the protection of the Petition Clause, such incidental conduct would also be protected. *Id.*

Id. at 934-35. The Court therefore held that DIRECTV’s letters were immune:

We conclude that restrictions on presuit demand letters may therefore raise substantial Petition Clause issues if, on examination, such restrictions could impair the right of access to the courts protected by the First Amendment. We conclude, for several reasons, that the connection between presuit demand letters and access to the courts is sufficiently close that the Petition Clause issues raised by providing a treble-damages remedy with regard to such letters are indeed substantial.

First, preceding the formal filing of litigation with an invitation to engage in negotiations to settle legal claims is a common, if not universal, feature of modern litigation. Even if it does not result in a final resolution of the dispute and vindication of the legal rights at issue, this practice permits parties to frame their legal positions, often streamlining any subsequent litigation, and thereby reducing legal costs and facilitating access to the courts. Restricting such prelitigation conduct when the same demands asserted in a petition to the court is protected would render the entire litigation process more onerous, imposing a substantial burden on a party’s ability to seek redress from the courts.

Second, many states, including California, protect prelitigation communications under statutorily granted litigation privileges. *See, e.g., Rubin v. Green*, 4 Cal. 4th 1187, 1193-94, 17 Cal. Rptr. 2d 828, 847 P.2d 1044 (1993) (discussing Cal. Civ. Code § 47(b)); *accord Kirschstein v. Haynes*, 1990 OK 8, 788 P.2d 941, 947 (Okla. 1990) (adopting the rule of Restatement (Second) of Torts § 586 that

“communications preliminary to a proposed judicial proceeding” are protected under the litigation privilege (quoting Restatement (Second) of Torts § 586 (1977)). Such laws highlight the intimate relationship between presuit settlement demands and the actual litigation process. Moreover, such privileges indicate that, unlike the lobbying of a private organization as in *Allied Tube*, the demand letters at issue here are not “the type of commercial activity that have traditionally had [their] validity determined by” generally applicable regulatory statutes. *Allied Tube*, 486 U.S. at 505. On the contrary, they are the type of activity that typically arises only in the context of contemplated petitioning activity.

Third, extending immunity to private presuit demand letters protects the same interests the Supreme Court has identified as implicated in the Petition Clause’s protection of private litigation. . . . Similarly, “the ability to lawfully prosecute even unsuccessful suits adds legitimacy to the court system as a designated alternative to force.” *BE&K*, 536 U.S. at 532. These interests are equally served when disputes are resolved outside the formal litigation process through presuit settlement demands, backed up by the possibility of resort to the courts.

Fourth, our conclusion is consistent with established Supreme Court law rejecting burdens on the right to petition the courts even where no actual litigation was pending. * * *

Fifth, extending Noerr-Pennington immunity to litigation-related activities preliminary to the formal filing of the litigation is consistent with the law of the majority of other circuits that have considered the issue. *See, e.g., . . . Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999) (holding that threat of patent enforcement litigation could not subject patent holder to anti-trust liability); *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1560 (11th Cir. 1992) (holding that concerted threats of litigation are protected under Noerr-Pennington); *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 850-51 (1st Cir. 1985) (holding that threat of trade-secret litigation must be a sham to expose maker to antitrust liability)

Id. at 936-37 (emphasis added).

Innovatio’s presuit letters are immune as a matter of law. The conduct alleged as predicate act conduct, all arises in or incident to, litigation. The manufacturer defendants do not allege fraud on the patent office, fraud other than in the course of notice and settlement of litigation, or any other predicate act that is not directly related to litigation.

Innovatio acknowledges that “sham” litigation may be an exception to Noerr-Pennington immunity. However, the Manufacturing Defendants “sham” allegations are conclusory: there is

no allegation, nor could there plausibly be an allegation, that Innovatio's claims on each and every one of its asserted patents is so baseless that the underlying lawsuits are a "sham," as further discussed below. Nor would a sham allegation be plausible, given the prima facie validity of the patents, the absence of any prior adjudication of invalidity, the absence of any dispositive challenge to any of the patents after over a year of litigation, and the objectively plausible nature of Innovatio's claims. Accordingly, the counts sounding in theories other than breach of contract (Counts XLIX, L, LI, LIV, and LV) should be dismissed.

B. Lack Of Direct Injury, Proximate Cause And Standing

The Manufacturing Defendants' claims fail to state a claim under the RICO Act as a matter of law because they have failed to plead facts supporting a direct injury proximately caused by alleged wrongful conduct. *Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258 (1992), is instructive. In *Holmes*, the Supreme Court held that the SIPC, an insurance company, did not have standing to sue alleged conspirators because it could not establish that it was directly injured "by reason of" the alleged fraud, as that phrase is used in the RICO Act. 503 U.S. at 276. The Supreme Court first held that the plaintiff must show that the violation was the proximate cause—not merely the "but for" cause—of the alleged injury. *Id.* at 268. The Supreme Court explained:

"In a philosophical sense, the consequences of an act go forward to eternity, . . . [b]ut any attempt to impose responsibility upon such a basis would result in infinite liability for all wrongful acts"

* * *

Here we use "proximate cause" to label generically the judicial tools used to limit a person's responsibility for the consequences of that person's own acts. At bottom, the notion of proximate cause reflects "ideas of what justice demands, or of what is administratively possible and convenient." Accordingly, among the many shapes this concept took at common law was a demand for some direct relation between the injury asserted and the injurious conduct alleged.

Id. at 266 n.10, 268 (emphasis added) (citations omitted); *see also Hemi Grp., LLC v. City of New York*, 130 S. Ct. 983, 991 (2010) (“Our precedents make clear that in the RICO context, the focus is on the directness of the relationship between the conduct and the harm. Indeed, *Anza* and *Holmes* never even mention the concept of foreseeability.”); *Anza v. Ideal Steel Supply Corp.*, 547 U.S. 451, 461 (2006) (affirming district court’s decision to dismiss the RICO claim and holding that “Ideal’s § 1962(c) claim does not satisfy the requirement of proximate causation.”); *N. Trust Co. v. Ralston Purina Co.*, No. 94 C 4045, 1994 U.S. Dist. LEXIS 15730, at *13 (N.D. Ill. Oct. 28, 1994) (granting motion to dismiss and stating that “[a] plaintiff lacks standing to assert a RICO claim not only when its injury is derivative, but also when the injury is otherwise indirect.”).

In *Holmes*, the RICO plaintiff argued that it had standing, in part, “because it is subrogated to the rights of those customers” who were alleged to have been injured. 503 U.S. at 270. The Supreme Court held that the claims were deficient in law because, among other things, the alleged wrongful conduct did not proximately cause the customer’s injury. *See id.* The Supreme Court stated that allowing “suits by those injured only indirectly would open the door to ‘massive and complex damages litigation[, which would] not only burden the courts, but [would] also undermine the effectiveness of treble-damages suits.’” *Id.* at 274 (alteration in original) (citation omitted). As the Supreme Court later cautioned, “[t]here is no need to broaden the universe of actionable harms to permit RICO suits by parties who have been injured only indirectly.” *Anza*, 547 U.S. at 460; *see also Hemi*, 130 S. Ct. at 989 (“[P]roximate cause thus requires ‘some direct relation between the injury asserted and the injurious conduct alleged.’ A link that is ‘too remote,’ ‘purely contingent,’ or ‘indirec[t]’ is insufficient.” (quoting *Holmes*, 503 U.S. at 271, 274)); *cf. Isr. Travel Advisory Serv., Inc. v. Isr. Identity Tours, Inc.*, 61 F.3d

1250, 1258 (7th Cir. 1995) (affirming summary judgment dismissing RICO claim based on communications with plaintiff's customers and stating, "[s]ection 1341 does not protect vendors to persons who may be deceived, and firms suffering derivative injury from business torts therefore must continue to rely on the common law and the Lanham Act rather than resorting to RICO.").

Similarly, in *Northern Trust*, the RICO plaintiff alleged that its damages "resulted from its contractual liability" and not merely a diminution in the value of corporate assets. 1994 U.S. Dist. LEXIS 15730, at *13. In dismissing the claim and rejecting that argument, the Court stated, "Northern Trust does not allege any action by Ralston Purina that injured Northern Trust directly. The complaint states only that Northern Trust was injured when required to reimburse Bunge for Bunge's settlement with Ralston Purina." *Id.* at *14.

This case presents an even more remote connection between the alleged wrongful conduct and alleged injury. Here, the Manufacturing Defendants point to alleged acts directed to their "customers." They acknowledge that it is the customers—not the Manufacturing Defendants—who are the "targets" of the alleged wrongful conduct. (Am. Compl. ¶ 85.) The Manufacturing Defendants then allege that the "customers" relied [on the alleged wrongful actions] to their "legal and pecuniary detriment" (*See, e.g., id.* ¶ 80.) The Manufacturing Defendants then further allege that they were somehow "forced to incur the costs" and (unspecified) disruption as a result of activities targeted at its customers. (*See, e.g., id.* ¶ 293.) (The costs and fees, however, stem from their desire to interject themselves into a lawsuit that was not directed to them. (*See, e.g., id.*)) The alleged injury to the Manufacturing Defendants not only lacks support, it is plainly indirect, as it stems from alleged wrongful conduct targeted at

their customers. The allegations therefore fail for lack of a direct injury, proximately caused by the alleged wrongful conduct.

The claims would be legally deficient even if there was an alleged contractual or other legal basis for the Manufacturing Defendants interjecting themselves into a third party, customer dispute (such as an indemnification obligation, which has not been pled). *See, e.g., Holmes*, 503 U.S. at 271-74 (rejecting injury based on subrogation rights); *N. Trust*, 1994 U.S. Dist. LEXIS 15730, at *13 (rejecting injury based on contractual obligations to reimburse others). Moreover, the Manufacturing Defendants have failed to plead any basis compelling them to interject themselves into this action.

Further, there is no proximate cause of the Manufacturing Defendants' alleged injuries because the claims here would present apportionment, causation, double recovery and other issues, particularly where other parties, directly injured, can raise such claims. For example, the claims rest upon a speculative and inadequately pled chain of events. The allegations do not tie any specific alleged wrongful conduct targeted to a customer, to any particular customer injury, to any specific customer relationship with a Manufacturing Defendant, or to any specific (direct or other) injury to a Manufacturing Defendant. Nor is there any alleged valid basis for the Manufacturing Defendants to interject themselves into this action on behalf of any given customer. The intricate and complex issues of tying this chain of events present a legal and factual quagmire. "The element of proximate causation recognized in *Holmes* is meant to prevent these types of intricate, uncertain inquiries from overrunning RICO litigation." *Anza*, 547 U.S. at 460.

For all of the foregoing reasons, the allegations fail to allege wrongful conduct that is the direct and proximate cause of an injury under the RICO Act. Innovatio's motion to dismiss the RICO claim, Count XLIX, should therefore be granted.

C. Failure to Plead a Plausible Claim Under *Twombly*

The Manufacturing Defendants have failed to state a claim under *Twombly*. See *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007). *Twombly* mandates that the RICO plaintiff do more than provide "labels and conclusions, and a formulaic recitation of the elements of a cause of action." *Id.* at 555. Rather, the Manufacturing Defendants must plead a basis for sham patent litigation, along with predicate acts and other facts sufficient to show their claims are plausible.

Predicate Act-Based Claims. By way of example, the Manufacturing Defendants have failed to allege a plausible factual basis for the elements of fraud or extortion (discussed below). The asserted non-RAND licensing activities are implausible as a matter of law for several reasons. For example, the Manufacturing Defendants do not even plead that they have requested a license. As for a failure to disclose the possibility of a license defense, as discussed further below, the Manufacturing Defendants have not pled a duty to disclose this or other matters, nor is there such a duty in law. Nor is there any basis in law that prevents a patent holder from licensing its patented methods to users, as opposed to licensing its patents to manufacturers of the devices that are used. This fatal flaw permeates the claims of the Manufacturing Defendants.

FRAND Claims. Nor have the Manufacturing Defendants pled a plausible basis that Innovatio has withheld or refused to provide licenses based on FRAND terms. As the complaint acknowledges (*see* Am. Compl. ¶ 82), some of the licensed Innovatio patents involve non-essential aspects of the 802.11 standard, i.e., they are not subject to FRAND obligations because the standard can be practiced without infringing them, or features that are optional to implement in the standard. These patents can, however, be important for the commercial benefits they offer.

As such, those non-essential Innovatio patents can command whatever license fee is appropriate, without regard to any FRAND considerations. The Manufacturing Defendants have therefore not pled a plausible basis to support the conclusion that a lump sum, paid-up license for a pool of patents—that includes patents not subject to FRAND obligations—could plausibly be said to violate FRAND obligations with respect to a subset of the licensed patents. Nor have the Manufacturing Defendants pled a necessary pre-condition to a breach of FRAND obligations claim: a request for FRAND terms or even a statement of what those terms would be. *See* II.F, *infra*.

Sham Allegation. There is also no pleading of facts sufficient to show that a sham litigation claim is plausible. The sham litigation allegations first fail for the same reasons stated above with respect to the alleged failure to license on FRAND terms. Sham allegations have to be pleaded with particularity under *Twombly*:

Plaintiffs' Amended Complaint fails to state facts, as opposed to legal conclusions, which would invoke the "sham exception" to Noerr-Pennington immunity. Far from stating concrete facts, Plaintiffs have attempted to invoke the "sham exception" by repeating talismanic phraseology. In their Amended Complaint, Plaintiffs refer to the pleadings filed by Defendant LEIBOWITZ by utilizing the words "sham" thirteen times, "false" or "falsely" eleven times, and the phrase "baseless and repetitive" no less than fourteen times. Nor does the Amended Complaint state facts to buttress the naked allegations of sham pleadings. Such conclusory pleading is not sufficient to withstand a motion to dismiss. In short, it is precisely the type of complaint which courts have repeatedly dismissed as failing to state a claim, in order to preclude unwarranted antitrust attacks on the exercise of basic First Amendment rights.

Spanish Int'l Commc'ns Corp. v. Leibowitz, 608 F. Supp. 178, 184 (S.D. Fla. 1985) (collecting cases). This is precisely the defect in the Amended Complaint. *See also Sosa*, 437 F.3d at 938. The Manufacturing Defendants merely assert that, for some reason, the claims of twenty three patents are invalid or not infringed. Absent the requisite showing, this claim is neither plausible nor ripe. *Twombly* mandates that a plaintiff do more to provide "labels and conclusions." 550

U.S. at 555. The sham claims are also premature. *See First Nationwide Bank v. Gelt Funding Corp.*, 27 F.3d 763, 768 (2d Cir. 1994) (finding that plaintiff had not established injury and proximate cause because “as a general rule, a cause of action does not accrue under RICO until the amount of damages becomes clear and definite”); *Barnett v. Stern*, 909 F.2d 973, 977 n.4 (7th Cir. 1990) (“Even if we determined that we had jurisdiction over Barnett and Liss’ claims, we would agree with the district court’s assessment that Barnett and Liss’ damages claims are speculative (and premature).”).

All of the claims, Counts XLIX-LV, should be therefore dismissed for failure to satisfy the plausibility requirements of *Twombly*, and as premature.

D. Failure to Adequately Plead an Enterprise

The RICO claim (Count XLIX) also fails for lack of an “enterprise” separate from the Defendant Innovatio itself (which of course operates through its member-manager, Noel Whitley and agents). Initially, an enterprise cannot merely be made up of a corporation and its employees:

Read literally, RICO would encompass every fraud case against a corporation, provided only that a pattern of fraud and some use of the mails or of telecommunications to further the fraud were shown; the corporation would be the RICO person and the corporation plus its employees the “enterprise.” The courts have excluded this far-fetched possibility by holding that an employer and its employees cannot constitute a RICO enterprise.

Fitzgerald v. Chrysler Corp., 116 F.3d 225, 226 (7th Cir. 1997) (emphasis added) (citations omitted).

Nor can the enterprise baldly consist of a corporation performing business through its agents:

Section 1962(c) makes it “unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise’s affairs through a pattern of racketeering activity”. For

purposes of this section, the "person" must be IBP, the only defendant. But how is IBP conducting the affairs of an enterprise through a pattern of racketeering activity? The complaint alleges that the "enterprise" is IBP plus the persons and organizations who help it find aliens to hire. We may assume that this congeries is a "group of individuals associated in fact although not a legal entity" (U.S.C. § 1961(4))--though the complaint comes perilously close to alleging that IBP plus its agents and employees is the "enterprise," a theory that won't fly.

Baker v. IBP, Inc., 357 F.3d 685, 691 (7th Cir. 2004) (emphasis added) (citing *Bucklew v. Hawkins, Ash, Baptie & Co.*, 329 F.3d 923, 934 (7th Cir. 2003)). “[A]n association-in-fact enterprise must be meaningfully distinct from the entities that comprise it such that the entity sought to be held liable can be said to have controlled and conducted the enterprise rather than merely its own affairs.” *Crichton v. Golden Rule Ins. Co.*, 576 F.3d 392, 399 (7th Cir. 2009).

As the Seventh Circuit noted in *Baker*,

Even if the congeries is an enterprise, how is it that IBP operates or manages *that enterprise* through a pattern of racketeering activity? The nub of the complaint is that IBP operates *itself* unlawfully—it is IBP that supposedly hires, harbors, and pays the unlawful workers, for the purpose of reducing its payroll. IBP does not manage or operate some other enterprise by violating § 274; the complaint does not allege . . . that IBP has infiltrated, taken over, manipulated, disrupted, or suborned a distinct entity or even a distinct association in fact. Without a difference between the defendant and the "enterprise" there can be no violation of RICO.

357 F.3d at 691-92 (emphasis added) (citations omitted). “What Crichton alleges here is a fraud perpetrated by Golden Rule, not an association-in-fact enterprise directed and controlled by Golden Rule. That is, Crichton’s claim ‘begins and ends’ with the fraud allegedly committed by Golden Rule. This is insufficient to state a RICO claim based on an association-in-fact enterprise.” *Crichton*, 576 F.3d at 400 (citation omitted).

Here, the alleged enterprise is made up of Innovatio IP Ventures, LLC (“Innovatio”), its attorneys, three licensing agents IP Dispute Resolution Corporation (“IPDR”), VICIS, and Dowell Baker, and Innovatio’s LLC owner members (Innovatio Management, LLC, Huntington Venture Partners, LLC, Lunar Investments LLC, and WDHM LLC). (See Compl. ¶¶ 74, 280.)

“Alternatively, or in addition, Innovatio is an ‘Enterprise,’ as defined in 18 U.S.C. § 1961(4)[.]” (*Id.* ¶ 281.) The Manufacturing Defendants allege that Defendants Innovatio, its members Innovatio Management LLC and member-manager Whitley, are “persons” under 18 U.S.C. § 1961(3) who conduct and direct the affairs of the Enterprise through a pattern of unlawful racketeering activity. (*Id.* ¶ 282.)

But, Innovatio is in the business of licensing the Wi-Fi patents—and the Complaint does not allege otherwise. Innovatio’s business model therefore employs the use of its member-manager, Defendant Noel Whitley, and outside licensing agents and counsel, to effectuate the company’s licensing program. In essence, the Manufacturing Defendants allege that Innovatio and its agents and members are the enterprise—a theory that fails to satisfy the RICO statute as a matter of law. *See, e.g., Baker*, 357 F.3d at 691. The RICO count, Count XLIX, should therefore be dismissed for this additional reason.

E. Failure To Plead A Plausible Pattern Of Racketeering Activity

RICO is intended to prevent criminal activity from infiltrating legitimate businesses. That statute is aimed at patterns of racketeering activity and therefore requires criminal “predicate acts.” The plaintiff must show that the “predicates are related, *and* that they amount to or pose a threat of continued criminal activity.” *McEvoy Travel Bureau, Inc. v. Heritage Travel, Inc.*, 904 F.2d 786, 788 (1st Cir. 1990) (emphasis in original) (quoting *H.J. Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 239 (1989)).

1. Mail And Wire Fraud

The alleged acts of Mail and Wire fraud are alleged to be the making of false or misleading statements, or concealing information, in the context of licensing demand letters and negotiations for the Innovatio Patent Portfolio. The letters are attached to the Amended Complaint.

“A wire fraud violation consists of (1) the formation of a scheme or artifice to defraud; (2) use of the United States wires or causing a use of the United States wires in furtherance of the scheme; and (3) specific intent to deceive or defraud.” *Odom v. Microsoft Corp.*, 486 F.3d 541, 554 (9th Cir. 2008) (quotation and citation omitted); 18 U.S.C. § 1343. Mail fraud differs only in that it involves the use of the United States mails rather than wires. *See* 18 U.S.C. § 1341.

Garden variety allegations of misstatements in otherwise ordinary business transactions have been repeatedly held not to be criminal mail or wire fraud in the Seventh Circuit. *See, e.g., Reynolds v. E. Dyer Dev. Co.*, 882 F.2d 1249, 1253 (7th Cir. 1989). In *Reynolds*, the Seventh Circuit stated that “[n]ot all conduct that strikes a court as sharp dealing or unethical conduct is a ‘scheme or artifice to defraud.’ Given the pervasive use of the mails and of telephone . . . along with the ease of satisfying the mailing requirement, such a broad meaning of fraud for the mail fraud statutes ‘would put federal judges in the business of creating common law crimes’ ” *Id.* at 1252 (internal citations omitted).

The Manufacturing Defendants allege that certain statements were incomplete, that information was not provided, or that a possible defense was withheld. (*See* Am. Compl. ¶¶ 71-85). But, a claim of fraudulent concealment or fraud-by-nondisclosure requires a duty to disclose on the part of a defendant. *Crichton*, 576 F.3d at 397 (finding that plaintiff failed to state an actionable claim of common-law fraud); *Gavin v. AT&T Corp.*, 543 F. Supp. 2d 885, 912 (N.D. Ill. 2008) (finding that plaintiff failed to adequately allege a claim for common law fraud based on an omission because plaintiff failed to adequately allege a duty to disclose by the defendant); *Gas Tech. Inst. v. Rehmat*, 524 F. Supp. 2d 1058, 1073 (N.D. Ill. 2007) (“The fact that the report was, in Plaintiffs’ view, incomplete, is not enough to sustain a fraud claim against Kao, who is not alleged to owe Plaintiffs a fiduciary duty.”); *In re Mex. Money Transfer Litig.*,

164 F. Supp. 2d 1002, 1015 (N.D. Ill. 2000) (discussing whether plaintiffs will be able to prove predicate acts of mail or wire fraud, stating that “[a]bsent a legal requirement that information be disclosed, there is ordinarily no claim for fraud based on non-disclosure of the information.”).

The Manufacturing Defendants have not pled any such duty, nor is there a plausible basis to do so. By way of example, there is no legal duty to disclose possible infringement defenses to third parties. Nor is there a duty to affirmatively disclose the possible existence of a RAND licensing obligation. Nor is there any support for the proposition that a party who fails to reveal a possible exhaustion defense is thereby subject to a claim of racketeering.

Moreover, even assuming *arguendo* that there is a duty to disclose a RAND obligation, there is no basis for a claim of fraud in this case. As discussed above, there is no plausible basis that the lump sum, paid-up license for a pool of patents—that includes patents not subject to RAND obligations—could be said to violate RAND royalty obligations with respect to a subset of the licensed patents. That allegation is devoid of any support whatsoever.

Finally, the allegations of fraud fail. The “fraud” allegations must be pled with particularity under Fed. R. Civ. P. 9(b). The particular statements are recited at paragraphs 77-84 of the Amended Complaint. None of them amount to a fraudulent statement that would support a claim of fraud:

Particular Allegation	Implausibility of “fraud”
Notice letter to “B&B” does not disclose Innovatio’s license to Broadcom. (Am. Compl. ¶ 77)	There is no duty to disclose this information. Note that the letter is not attached, so the alleged non-disclosure cannot be assessed in context.
PBS and Half Price Book letters do not	There is no duty to disclose this information.

<p>disclose potential RAND obligations of predecessors in interest to one or more of the asserted patents. (Exs. 24 & 25) (Am. Compl. ¶ 80)</p>	
<p>PBS and Half Price Book letters do not disclose potential other licenses by predecessors in interest to one or more of the asserted patents. (Exs. 24 & 25) (Am. Compl. ¶ 80)</p>	<p>There is no duty to disclose this information.</p>
<p>The “Kimpton” settlement representation, paragraph 6, page 3 of Exhibit 26, is false. (Am. Compl. ¶ 80).</p>	<p>The statement is literally true as to Innovatio. Plaintiffs graft “and predecessors in interest” into the clause in order to then argue that it is false, even though the agreement explicitly does not define “Innovatio” to include Innovatio’s predecessors in interest.</p>
<p>The statement “infringes” is not qualified by the limitation “currently and/or in the past” in Notice Letters, as some of the listed patents are now expired. (Ex. 24). (Am. Compl. ¶ 81).</p>	<p>Expiration dates for the patents can be readily determined from the web site referenced in the correspondence and/or by looking up the information on the patent office web site, www.USPTO.gov.</p>
<p>Mix of claims that are “essential” versus “non-essential”.</p>	<p>There is no inconsistency. These communications only state that the claims cover WLANs, not that they are “standard-</p>

	<p>essential” in a true RAND licensing context.</p> <p>The referenced briefing focused on whether proof of infringement, particularly for method claims, may require an assessment of additional facts beyond whether and to which standard a device is compliant, which is also a different issue than whether a claim is essential for “RAND” licensing purposes. <i>See</i> Amended Complaint Exhibit 27 at 11, Exhibit 28 at 8.</p>
<p>Paragraph 83 allegations regarding assertions concerning pioneering status, number of licensed locations, strength of prior proceedings, and value recognized for the portfolio.</p>	<p>The fact that prior proceedings are disclosed, undercuts the argument that the existence of potential prior licenses was “hidden.”</p> <p>Nevertheless, the statements complained of are qualitative statements that are not actionable as RICO predicate acts.</p>

The RICO claim, Count XLIX, should therefore be dismissed for this additional reason.

2. Extortion

The alleged acts of extortion under 18 U.S.C. § 1951 and Cal. Penal Code § 518 claim that the same statements that are alleged to be Mail or Wire Fraud caused “fear” of monetary loss. (*Compare* Am. Compl. ¶¶ 286-87 *with* ¶¶ 288-89.) There is no allegation, however, that anyone, much less the Manufacturing Defendants, actually lost any property they were entitled to—a requirement for proving a predicate act of extortion in the Civil RICO context.

But even when their acts of interference and disruption achieved their ultimate goal of “shutting down” a clinic that performed abortions, such acts did not constitute extortion because petitioners did not “obtain” respondent’s property. Petitioners may have deprived or sought to deprive respondents of their alleged property right of exclusive control of their business assets, but they did not acquire any such property. Petitioners neither pursued nor received “something of value from” respondents that they could exercise, transfer or sell.

Scheidler v. Nat’l Org. for Women, Inc., 537 U.S. 393, 404-05 (2003).

Even if the Manufacturing Defendants could make this allegation the predicate act allegations of extortion would still fail because the claims made by Innovatio are “claims of right”. Innovatio’s efforts to obtain licenses amount to seeking something Innovatio is entitled to pursue—licenses to its (presumptively valid) patent rights. In other words, the alleged extortion is not “wrongful” because Innovatio has a statutory right to seek royalties. In *United States v. Enmons*, 410 U.S. 396 (1973), the Supreme Court established the “claim of right” defense to the predicate act of extortion in Civil RICO cases. In *Enmons*, the Supreme Court held:

The term "wrongful," which on the face of the statute modifies the use of each of the enumerated means of obtaining property -- actual or threatened force, violence, or fear -- would be superfluous if it only served to describe the means used. For it would be redundant to speak of "wrongful violence" or "wrongful force" since, as the government acknowledges, any violence or force to obtain property is "wrongful." Rather, "wrongful" has meaning in the [Hobbs] Act only if it limits the statute's coverage to those instances where the obtaining of the property would itself be "wrongful" because the alleged extortionist has no lawful claim to that property.

Enmons, 410 U.S. at 399-400 (emphasis added).

The Third Circuit thoroughly analyzed the claim of right in the context of business negotiation in *Brokerage Concepts v. United States Healthcare*, 140 F.3d 494 (3d. Cir. 1998). In analyzing the commercial bargaining that led to the RICO claims, the Third Circuit stated:

The present case does not fall within this line of cases limiting *Enmons* since it solely involves the accusation of the wrongful use of the fear of economic loss. Unlike the use or threatened use of force or violence, the use of economic fear in business negotiations between private parties is not "inherently" wrongful. Indeed, the fear of economic loss is a driving force of our economy that plays an

important role in many legitimate business transactions. This economic reality leads us to conclude that the reach of the Hobbs Act is limited in cases, such as this one, which involve the use of economic fear in a transaction between two private parties. The limitation we apply is that set forth in *Enmons*: that a defendant is not guilty of extortion if he has a lawful claim to the property obtained.

Brokerage Concepts, 140 F.3d at 523 (emphasis added) (internal citations omitted) (reversing jury verdict on Civil RICO claims).

The claim of right defense would only be inapplicable if the claimant had a “preexisting right to be free of the fear he is quelling in return for his payment to the defendant.” *Id.* at 525 (analyzing cases). Here, the Manufacturing Defendants cannot plead that the customers had a pre-existing right to be free of the “fear” of being accused of patent infringement. There is no statutory immunity for end users of patent rights to be free of infringement claims. *Eazypower Corp. v. ICC Innovative Concepts Corp.*, No. 98 C 3189, 2002 U.S. Dist. LEXIS 21323, at *4 (N.D. Ill. Oct. 31, 2002) (denying ICC’s motion to amend its counterclaim with a RICO count; “This Court declines ICC’s apparent invitation to adjudicate the merits of the other lawsuits filed by Eazypower. Eazypower . . . appears to be prosecuting these cases in good faith and has in these cases twice successfully defended motions for summary judgment against it based on patent invalidity.”); *see also Johnson Elec. N. Am. Inc. v. Mabuchi Motor Am. Corp.*, 98 F. Supp. 2d 480, 491 (S.D.N.Y. 2000) (granting plaintiff’s motion for summary judgment on defendant’s RICO claims and stating that “this Court has located numerous cases in which RICO claims based upon patent or copyright infringement have been dismissed, even where the plaintiffs attempted to plead the claims as mail or wire fraud.”). *Eazypower Corp. v. ICC Innovative Concepts Corp.*, No. 98 C 3189, 2002 U.S. Dist. LEXIS 21323, at *4 (N.D. Ill. Oct. 31, 2002) (rejecting *Lemelson v. Wang Lab., Inc.*, 874 F. Supp. 430 (D. Mass. 1994), a case involving alleged fraudulently procured patents); *B.V. Optische Industrie De Oude Delft v. Hologic, Inc.*,

909 F. Supp. 162 (S.D.N.Y. 1995) (rejecting any theory from *Lemelson* that "acts of litigation can be predicate acts of mail fraud without a finding that the injured party relied on the misrepresentations.").

Thus, in *Universal Manufacturing Co. v. Douglas Press, Inc.*, this Court held:

Douglas charges that Brown violated § 1951 when he threatened wrongful litigation against Douglas, including wrongful claims for damages for Douglas' alleged infringement of Universal's alleged trademarks. Section 1951 defines extortion as "the obtaining of property from another, with his consent, induced by wrongful use of actual or threatened force, violence, or fear, or under color of official right." Douglas argues that Brown took Douglas' property right to use its lottery ticket designs when he threatened to sue Douglas on behalf of Universal. We doubt that Congress intended the statute to address such an abstract "fear." Moreover, to hold that filing, or threatening to file, a lawsuit is extortion would have a severe chilling effect on access to the courts. Other courts addressing the issue have found that the threat to file a lawsuit, or filing a lawsuit, cannot constitute extortion under § 1951, and cannot be a predicate act under RICO. We follow their lead, and find that Douglas has not stated a claim for a violation of § 1951.

Universal Mfg. Co. v. Douglas Press Inc., No. 89 C 3354, 1991 U.S. Dist. LEXIS 6279, at *5-6 (N.D. Ill. May 8, 1991) (emphasis added) (footnotes omitted) (internal citations omitted).

Innovatech also bases its allegation of extortion on a claim that HTC threatened Innovatech's suppliers with malicious and expensive litigation if the suppliers did not stop selling to Innovatech. Threats of litigation, even meritless litigation, do not constitute extortion under the Hobbs Act. . . . Accordingly, Innovatech fails to allege any predicate acts necessary for a violation of RICO, and Counterclaim X will be dismissed.

HTC Swed. AB v. Innovatech Prods. & Equip. Co., No. 3:07-CV-232, 2008 U.S. Dist. LEXIS 76690, at *33-34 (E.D. Tenn. Sept. 30, 2008).

The right of inventors to exclusivity is enshrined in the Constitution, and the right to damages for acts of infringement proved is a statutory remedy. The RICO claims based on predicate acts of extortion, Count XLIX, fail as a matter of law.

F. Lack Of Standing To Allege Breach Of Contract Based On Acts Directed To Their Customers

Count LII of the Complaint, for breach of contract, should be dismissed. (*See Am. Compl.* ¶¶ 304-313.) The Manufacturing Defendants have alleged that “Innovatio’s Predecessors entered into an express and/or implied contracts [sic] with the IEEE’s members, or alternatively, with the IEEE to which IEEE members and others are third-party beneficiaries[.]” (*Id.* ¶ 305.)²

The breach of contract allegations are fundamentally flawed because they do not include any allegations that Innovatio breached a contract with the Manufacturing Defendants. Initially, the Manufacturing Defendants are not a party to any contract with Innovatio or its predecessors. *See Am. Gen. Fin. Servs. of Ill., Inc. v. Riverside Mortg. Co., Inc.*, No. 02 C 3518, 2005 U.S. Dist. LEXIS 10382, at *13-14 (N.D. Ill. May 19, 2005) (“It is well settled that to recover for breach of contract, a plaintiff must prove that a valid contract existed between the parties. American General Illinois has failed to establish this most fundamental element of its breach of contract claims. Indeed, plaintiff has not shown that it is a party to the contract, that it is in privity with the parties or that it is a third-party beneficiary.” (emphasis added) (internal citations omitted)).³

² As an initial matter, Illinois law applies to Plaintiffs’ breach of contract claim. Plaintiffs have not alleged which state’s law governs the allegedly breached contract. Plaintiffs are citizens of Delaware, California, and Illinois (*see Compl.* ¶¶ 2, 3, 4); Defendants are citizens of Delaware, California, and Illinois (*see id.* ¶¶ 6, 9, 11); and IEEE is based in New York, *see Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc, 2011 U.S. Dist. LEXIS 72745, at *23 (W.D. Wis. June 7, 2011) (“[T]he Institute of Electrical and Electronics Engineers (based in New York) . . .”). The court in *Apple*, faced with a breach of contract claim with a multi-party, multi-state situation regarding standards-essential patent licensing, applied the law of its forum state, Wisconsin law. *See* 2011 U.S. Dist. LEXIS 72745, at *22-23 (citing *FutureSource LLC v. Reuters Ltd.*, 312 F.3d 281, 283 (7th Cir. 2002) (in absence of any discussion of choice of law issues by parties, court applies law of forum state)). Thus, Illinois law applies.

³ *Accord Wallis v. Card Servs. Int’l, Inc.*, No. 10 C 7250, 2012 U.S. Dist. LEXIS 70932, at *17-18 (N.D. Ill. May 22, 2012)) (“As a preliminary issue, Travelers argues that Wallis lacks standing to bring any

Nor can the Manufacturing Defendants allege a basis for breach of contract as a third party beneficiary; there is not even an allegation that they, as the intended beneficiary, requested a license from Innovatio—a necessary precondition for any licensing obligation to the Manufacturing Defendants.⁴ *See* Restatement (Second) of Contracts § 225(1) (“Performance of a duty subject to a condition cannot become due unless the condition occurs or its non-occurrence is excused.”); *cf. Liu v. Mund*, 686 F.3d 418, 421 (7th Cir. 2012) (“[A] third-party beneficiary has the duties as well as the rights of a signatory to the contract.”). Not only have the Manufacturing Defendants failed to request a license, but they have not pled or otherwise agreed they would abide by any adjudicated RAND royalty for the subject patents, a condition precedent for a compulsory RAND terms claim. *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178-bbc (W.D. Wis. Nov. 5, 2012) (dismissing RAND claim because claimant would not agree to be bound by the judicial determination of a RAND royalty.)

For the same reason, it follows that the Manufacturing Defendants, who have never requested a license, are not intended beneficiaries who may enforce the alleged RAND obligation allegedly owed to their customers. Here, assuming *arguendo* such a third party beneficiary theory is viable, the customers who requested and were allegedly denied a RAND

claims individually against Travelers because the Travelers Policy was issued to Midwest Baby. Therefore, because all of Plaintiffs’ claims arise from Travelers’ handling of Midwest Baby’s insurance claims, Wallis cannot individually bring these claims since he is not a party to the Travelers’ Policy. With respect to Plaintiffs’ breach-of-contract claim, this argument is persuasive. Wallis cannot sue based on an insurance contract to which he is not a party, nor has he alleged that the contract was entered into for his direct benefit. Therefore, Wallis’s contract claim against Travelers is dismissed with prejudice.” (emphasis added) (internal citations omitted)); *Calderon v. Sw. Bell Mobile Sys.*, No. 02 C 9134, 2004 U.S. Dist. LEXIS 25356, at *16-17 (N.D. Ill. Dec. 15, 2004)) (“Count IV is also problematic because it is supposedly brought by both Calderon and Airborne. As we explained in our earlier opinion, Calderon cannot bring a breach of contract claim based on the Agreement because he was not a party to the Agreement (only Airborne was). . . . It goes (or should go) without saying that if Calderon was not a party to a contract, he does not have standing to sue for a breach of that contract.” (emphasis added)).

⁴ That is because none of the Manufacturing Defendants have sought a license for the subject patents from Innovatio.

license are the intended beneficiaries of the IEEE contract—not the Manufacturing Defendants (who have never even requested a license). (*See, e.g.*, Am. Compl. ¶ 63 (“Intermec will (upon written request from any third party) grant a...license...on nondiscriminatory basis ...”).) In substance, the Manufacturing Defendants seek to enforce a RAND obligation as a fourth party beneficiary (a third party beneficiary to the third party beneficiary interest of the customer), a novel theory that lacks any basis in law.

Accordingly, Count LII should be dismissed as a matter of law.

G. Lack Of Standing To Allege Promissory Estoppel And Barring Of Claim By Virtue Of An Express Contract

The Manufacturing Defendants’ claim of promissory estoppel fails for the same reasons. “Promissory estoppel in Illinois calls for a showing of the promisors’ unambiguous promise to the promisee, the promisee’s reliance on the promise, the expectation and foreseeability of the promisee’s reliance on the part of the promisor and injury to the promise.” *FDIC v. Gravee*, 966 F. Supp. 622, 632 (N.D. Ill. 1997) (emphasis added) (citation omitted). In *FDIC*, the plaintiff’s promissory estoppel claim was dismissed because there were no allegations of breach of a promise made to the plaintiffs. *See id.* at 632-33 (“Although Outside Directors have alleged promises by FHLBB and FSLIC, those promises were indisputably made to them only in their capacity as Horizon’s Board members. Indeed, the promises *had* to be made to the Board, for only the Board could approve the mergers. But a promise to Horizon’s Board in its official capacity was nothing more than a promise to Horizon itself—plainly no promise was made to Outside Directors in their individual capacities. . . . Hence, Outside Directors’ promissory estoppel claim in Counterclaim Count II is also dismissed.” (emphasis added)). Here as well, none of the Manufacturing Defendants was the recipient of a promise from Innovatio.

The promissory estoppel claim also fails as a matter of law because the Manufacturing Defendants cannot proceed on a claim of promissory estoppel if they have also pled the existence of an express contract. *See, e.g., Nathan v. Morgan Stanley Renewable Dev. Fund, LLC*, No. 11 C 2231, 2012 U.S. Dist. LEXIS 71434, at *48-49 (N.D. Ill. May 22, 2012) (“TPW is correct that ‘[u]nder Illinois law, promissory estoppel . . . [is] unavailable where the parties have entered into an express contract.’ Because Counts III . . . allege the existence of an express contract between Nathan and TPW, these claims cannot proceed.”).⁵ Accordingly, the promissory estoppel claim, Count LII, should be dismissed for this reason as well.

H. Claim under Cal. Bus. & Prof. Code § 17200 Fails To Allege Sufficient Damages And Is Based On Privileged Activity

Count L alleges a claim for violation of Cal. Bus. & Prof. Code §§ 17200 *et seq.* (*See* Am. Compl. ¶¶ 295-299.) The Manufacturing Defendants have alleged that “[c]ustomers of Cisco, Motorola, and NETGEAR in California have expended money investigating and preparing to defend against Innovatio’s baseless claims and, in some cases, paying the fees demanded by Innovatio proximately arising out of Defendants’ illegal conduct. Cisco, Motorola, and NETGEAR have also expended substantial sums investigating an indemnifying against Innovatio’s baseless claims against Plaintiffs’ customers.” (*Id.* ¶ 297.)

⁵ *Accord Zaremski v. Am. Arbitration Ass’n*, No. 11 C 5221, 2012 U.S. Dist. LEXIS 65108, at *8 (N.D. Ill. May 9, 2012)) (“Illinois law holds that a plaintiff may not pursue quasi-contract claims if his relationship with the defendant is governed by an express contract. . . . It follows that the quasi-contract claims are barred.”); *First Tenn. Bank, NA v. Lawyers Title Ins., Corp.*, 282 F.R.D. 423, 427-28 (N.D. Ill. 2012) (“Under Illinois law, when the parties have entered into an express contract, the contracting parties cannot pursue quasi-contractual claims. . . . Therefore, First Tennessee cannot succeed on its claims that are based on estoppel.”). Plaintiffs’ Complaint includes several allegations of an express contract with Innovatio. (*See, e.g.,* Am. Compl. ¶¶ 305 (“For consideration, including IEEE membership and participation, Innovatio’s Predecessors entered into an express and/or implied contracts with the IEEE’s members” (emphasis added)); 309 (“Furthermore, Innovatio’s Predecessors’ representations and other conduct, including the letters of assurance offering licenses on RAND terms, created express and/or implied contracts” (emphasis added)). Plaintiffs have incorporated these allegations of an express contract into their claim for Promissory Estoppel. (*See* Am. Compl. ¶ 314 (“Plaintiffs repeat and reallege the allegations in paragraphs 1-313 as though fully set forth herein.”).)

The allegations of damages are insufficient to state a cause of action under Cal. Bus. & Prof. Code §§ 17200 *et seq.* The United States District Court for the Northern District of California dismissed a claim under Cal. Bus. & Prof. Code §§ 17200 *et seq.* based on similar allegations of damages as those made here. *See Xilinx, Inc. v. Intellectual Ventures I LLC*, Nos. C 11-0671 SI, 11-4407 SI, 2012 U.S. Dist. LEXIS 9500 (N.D. Cal. Jan. 25, 2012). In *Xilinx*, the court stated:

Xilinx allege[d] that [in] order to convince Xilinx to make future investments in IV Funds, defendants IV and IV Management made various misrepresentations -- in particular that IV or IV Management owned, had the right to license and the right to enforce the patents at issue in the parties' discussions. Xilinx asserts that it was harmed by this conduct because it was forced to "expend time and resources litigating" the jurisdictional issue of who could enforce the patents in the first case (No. 11-0671) on the prior round of motions to dismiss. Xilinx also asserts that had it known that IV or IV Management "had no rights to enforce" the patents at issue in this case, Xilinx would not have "expended the time and resources to investigate the claims or to negotiate for a possible license."

Id. at *22-23 (emphasis added) (internal citations omitted). The court ruled that that plaintiff's allegations of damages relating to litigation costs were "insufficient as a matter of law," adding that "[l]itigation costs cannot form the basis of 'harm' under [California's Unfair Competition Law] to confer standing." *Id.* at *25. As to the *Xilinx* plaintiff's second allegation of damages, regarding its investigation into the defendant's right to license the patents at issue, the court ruled that that allegation of harm "is also insufficient." *Id.* at *26. The court reasoned that the plaintiff did not allege that it "would not have engaged in these same investigations and negotiations if -- as defendants contend -- IV and IV Management were authorized to engage in licensing discussions for the patents." *Id.* at *26-27. Similarly, here, the Manufacturing Defendants have not alleged that they would not have had to conduct the same investigations even if Innovatio had sought licenses on different terms.

The Manufacturing Defendants' claim brought under Cal. Bus. & Prof. Code §§ 17200 *et seq.* should also be dismissed because Innovatio's actions that form the basis of this claim are protected by the California litigation privilege under Cal. Civ. Code § 47(b). Thus, this count should be stricken under the California Anti-SLAPP statute, Cal. Civ. Proc. Code § 425.16. Under California law, "[t]he privilege has been broadly applied to demand letters and other prelitigation communications by attorneys." *Blanchard v. DIRECTV, Inc.*, 123 Cal. App. 4th 903, 919 (Cal. Ct. App. 2005) (citing cases). In *Blanchard*, the court held that DIRECTV's demand letters were protected under California's litigation privilege, Cal. Civ. Code § 47(b). *Id.* at 921. Because the demand letters formed the basis of the plaintiffs' claim under Cal. Bus. & Prof. Code §§ 17200 *et seq.*, the court affirmed the trial court's decision to grant DIRECTV's Anti-SLAPP motion to strike that claim. *See id.* at 922. Similarly, here, Innovatio's pre-suit demand letters are privileged, and the Manufacturing Defendants' claim under Cal. Bus. & Prof. Code §§ 17200 *et seq.* based on these letters should be dismissed.

Accordingly, Count L should be dismissed.

I. Failure to Allege Damages Sufficient to Support a Claim For Tortious Interference, And Barring Of the Claim Under Of *Noerr-Pennington*

The Manufacturing Defendants' allegations of damages are insufficient to state a claim for intentional interference with prospective economic advantage, as a matter of law. Here, it is alleged that "Innovatio's conduct is continuing, and has caused, and will likely cause disruption and harm to Plaintiffs' relationships, advantages, and expectancies with their customers. For example, Innovatio's conduct has caused, *inter alia*, reputational harm to Plaintiffs. In fact, based on VICIS's representations to Cisco customers as alleged above, at least one of Cisco's customers found such representations to be detrimental to Cisco's reputation." (Am. Compl. ¶

324.) These allegations are insufficient because they fail to allege that any of the Plaintiffs actually lost a business expectancy.

The only specific allegation of harm, that “at least one of Cisco’s customers found such representations to be detrimental to Cisco’s reputation” (Compl. ¶ 324), is vague, conclusory, and insufficient to support a claim for intentional interference as a matter of law. Notably, Cisco has not alleged that the identified customer refused to do business with them. (*See id.*) Under Illinois law, allegations of reputational harm without allegations of an actual loss of business expectancy are fatally insufficient to state a claim for intentional interference with prospective economic advantage. In *Poth v. Paschen Contractors*, No. 85 C 8499, 1986 U.S. Dist. LEXIS 16253 (N.D. Ill. Dec. 18, 1986), this Court dismissed a claim for tortious interference with prospective economic advantage based on almost identical allegations of damages.

While Count IV alleges that Paschen has a reasonable expectancy of continuing its valid business relationships with other companies in the construction industry, the count does not allege that Paschen lost those expectancies. The allegations that Paschen lost key employees and incurred injury to its business reputation do not support a claim that Paschen lost legitimate expectancies of valid business relationships with other firms in the construction industry.

Poth, 1986 U.S. Dist. LEXIS 16253, at *13-14 (emphasis added). Accordingly, Count LIV should be dismissed for this reason alone.

Moreover, Count LIV should be dismissed because Innovatio’s actions are protected by the *Noerr-Pennington* doctrine and a conditional privilege to seek redress for their grievances. *See, e.g., Rubloff Dev. Grp., Inc. v. SuperValu, Inc.*, No. 10 C 3917, 2012 U.S. Dist. LEXIS 41304, at *28-29 (N.D. Ill. Mar. 27, 2012) (dismissing claims based on economic advantage interference, stating that “[a]s with antitrust issues, *Noerr-Pennington* provides immunity for economic advantage interference that comes as part of a petitioning of government. Illinois, for policy reasons, does not recognize the filing of a lawsuit, even a baseless one, as grounds for a

tortious interference suit.” (internal citation omitted)); *see also Gateway W. Ry. v. Terminal R.R. Ass’n of St. Louis*, No. 95-CV-0429-PER, 1998 U.S. Dist. LEXIS 4614, at *7 (S.D. Ill. Feb. 5, 1998) (“Illinois courts have extended the protections of the *Noerr-Pennington* doctrine to insulate parties from claims alleging intentional interference with a contract right or other economic expectation. Rather than limit the application of the doctrine to antitrust claims, the courts view the First Amendment right to petition the government for redress to be superior to contract rights as well. Accordingly, Gateway cannot prevail in its claim and summary judgment should be entered for TRAA on Count II, III, IV, V, VI, and VII of Plaintiff’s Amended Complaint.” (internal citation omitted)); *Vill. of Lake Barrington v. Hogan*, 649 N.E.2d 1366, 1374 (Ill. App. Ct. 1995) (noting that “[t]o state properly a cause of action for intentional interference with contractual rights, a plaintiff must state more than a mere assertion that the defendant’s conduct was unjustified; instead, the plaintiff must set forth factual allegations from which it can reasonably be inferred that the defendant’s conduct was justified” and applying First Amendment privilege under Illinois law to dismiss claims of tortious interference with economic advantage based on, among other things, allegations “that the defendants’ attorney raised questions with respect to the validity of the ordinances and threatened litigation”).

J. Failure to State a Claim For Civil Conspiracy

“Under Illinois law, in order to allege a claim for civil conspiracy, a plaintiff must allege (1) an agreement; (2) by two or more persons; (3) to perform an overt act or acts; (4) in furtherance of the agreement/conspiracy; (5) to accomplish an unlawful purpose or a lawful purpose by unlawful means; (6) that causes injury to another.” *Bressner v. Ambroziak*, 379 F.3d 478, 483 (7th Cir. 2004) (citation omitted) (affirming dismissal of civil conspiracy claim for failure to allege an underlying tortious or unlawful overt act). Claims for civil conspiracy “survive to the same extent” as the underlying claims. *See Rubloff*, 2012 U.S. Dist. LEXIS

41304, at *35. Thus, because the substantive claims underlying a claim for civil conspiracy should be dismissed, the civil conspiracy claim, Count LI, must be dismissed as well. *See id.* (“With all substantive claims dismissed, this claim must fail.”).

K. No Claim For Unclean Hands

Count LV alleges a claim for unclean hands. (*See* Am. Compl. ¶¶ 326-327.) Unclean hands is an equitable defense, not an independent cause of action. *See, e.g., Shondel v. McDermott*, 775 F.2d 859, 869 (7th Cir. 1985) (discussing “[e]quitable defenses such as unclean hands”); *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1022 (7th Cir. 2002) (“[U]nclean hands can be asserted in opposition to an equitable defense as well as being assertible as a defense to a claim for equitable relief.”); *Winstead v. EMC Mortg. Corp.*, 697 F. Supp. 2d 1, 4 n.5 (D.D.C. 2010) (“[T]he theory of unclean hands is an affirmative defense, not a cause of action.”) (internal citation omitted); *MPC Containment Sys. v. Moreland*, No. 05-C-6973, 2008 U.S. Dist. LEXIS 31640, at *15-16 (N.D. Ill. Apr. 17, 2008) (“Unclean hands, like waiver, is an equitable defense that must be pled with the specific elements required to establish the defense.”). Accordingly, Count LV should be dismissed.

III. CONCLUSION

The alleged licensing activities simply do not give rise to the hodge-podge of asserted claims. Accordingly, claims XLVIX-LV should be dismissed as a matter of law.

Respectfully submitted,

November 13, 2012

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CERTIFICATE OF SERVICE

I hereby certify that on November 13, 2012, I caused the foregoing to be electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to all counsel of record.

/s/ Gregory C. Schodde

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