

United States District Court
For the Northern District of California

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

FORTINET, INC.,

Plaintiff,

v.

TREND MICRO INCORPORATED,

Defendant

No. C-08-5371 MMC

**ORDER GRANTING IN PART AND
DENYING IN PART DEFENDANT'S
MOTION TO DISMISS FIRST AMENDED
COMPLAINT**

Before the Court is defendant Trend Micro Incorporated's ("Trend Micro") motion to dismiss, filed February 23, 2009, by which Trend Micro seeks dismissal, pursuant to Rules 12(b)(1) and 12(b)(6) of the Federal Rules of Civil Procedure, of plaintiff Fortinet, Inc.'s ("Fortinet") First Amended Complaint ("FAC"). Fortinet has filed opposition, to which Trend Micro has replied. Having read and considered the papers filed in support of and in opposition to the motion, the Court rules as follows.¹

1. As set forth below, and contrary to Trend Micro's argument, the First and Second Causes of Action² are not subject to dismissal on the grounds asserted by Trend Micro:

¹By order filed March 31, 2009, the Court took the matter under submission.

²In the First and Second Causes of Action, Fortinet seeks a declaration that Fortinet, in light of the alleged invalidity and/or unenforceability of United States Patent Nos. 5,623,600 ("the '600 Patent") and 5,889,943 ("the '943 Patent"), has no contractual liability to pay royalties under the parties' Settlement and Patent License Agreement ("Agreement").

1 a. In light of Fortinet's allegation that if Fortinet ceases making royalty
2 payments under the Agreement, "Trend Micro would bring suit against [Fortinet] for
3 infringement and injunctive relief" (see FAC ¶ 40), the Court cannot find, at the pleading
4 stage, the absence of a case or controversy. See Medimmune, Inc. v. Genentech, Inc.,
5 549 U.S. 118, 121-22 (2007) (holding case or controversy existed, for purpose of defeating
6 motion to dismiss based on lack thereof, where licensee alleged that if it failed to pay
7 royalties, licensor would terminate license agreement and sue licensee for infringement).
8 Further, although Trend Micro has offered evidence that, shortly before Fortinet filed the
9 instant action, Trend Micro advised Fortinet in writing that Trend Micro did not "presently
10 intend" to terminate the Agreement (see Markman Decl. Ex. 7), such evidence does not, as
11 a matter of law, preclude Fortinet from establishing the existence of a case or controversy.
12 See, e.g., C.R. Bard, Inc. v. Schwartz, 716 F.2d 874, 881 (Fed. Cir. 1983) (holding
13 licensor's affidavit, offered in support of motion to dismiss for lack of case or controversy,
14 that it "had and has no intention of terminating the license agreement or suing for
15 infringement" was insufficient to preclude licensee from establishing case or controversy;
16 observing that because licensor did not state it "would not terminate the agreement and
17 would not bring an infringement suit," licensor was "free to terminate the agreement at a
18 time of [its] choosing and institute an infringement action").

19 b. The Court cannot determine, from the face of the Agreement,³ the parties
20 intended to preclude Fortinet from seeking the above-referenced declaration. See Foster v.
21 Hallco Mfg. Co., 947 F.2d 469, 478-79 (Fed. Cir. 1991) (holding "assertion of invalidity of a
22 patent by an alleged infringer is not a claim but a defense to the patent owner's claim" and
23 patentee's obtaining an "invalid patent" creates "no legal right to a remedy in another")
24 (internal quotation and citation omitted); see also Buckley v. Terhune, 441 F.3d 688, 695-

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26 ³Under the Agreement, Fortinet has released Trend Micro "from any and all liability
27 for acts and omissions existing prior to the full execution of [the] Agreement relating to
28 [certain prior] Lawsuits or to claims or counterclaims made by Fortinet regarding Trend
Micro's enforcement of the Licensed Patents." (See Markman Decl. Ex. 1 § 6.2.) The FAC
alleges the parties entered into the Agreement on January 27, 2006. (See FAC ¶ 32.)

1 96 (9th Cir. 2006) (holding where language in contract is ambiguous, court must first
2 interpret language “in the sense in which the promisor believed, at the time of making it,
3 that the promisee understood it,” and, if ambiguity still remains, court must interpret
4 language “against the party who caused the uncertainty to exist”; applying California law);⁴
5 cf. Flex-Foot, Inc. v. CRP, Inc., 238 F.3d 1362, 1364, 1367-68, 1370 (Fed. Cir. 2001)
6 (holding party who enters into “settlement agreement containing a clear and unambiguous
7 undertaking not to challenge validity and/or enforceability of the patent in suit” is
8 “contractually estopped from raising any such challenge in any subsequent proceeding”).

9 c. The Court cannot, at the pleading stage, determine Fortinet’s claims for
10 declaratory relief are barred by the doctrine of claim preclusion. Where, as here, a court in
11 a prior action has dismissed with prejudice an accused infringer’s complaint for a
12 declaration of invalidity and/or unenforceability,⁵ a later-filed action for a declaration of
13 invalidity and/or unenforceability of the same patent is barred by such dismissal, provided
14 the allegedly threatened infringement claim would itself be barred by the dismissal. See
15 Foster, 947 F.2d at 479-80. Here, the infringement action Fortinet alleges Trend Micro has
16 threatened to file against Fortinet would be barred by reason of the prior dismissal, if the
17 accused devices in the prior action and those in the allegedly threatened action are
18 “essentially the same.” See id. (holding “for claim preclusion to apply [as to a claim of
19 infringement], the devices in the two suits must be essentially the same”). Neither the FAC
20 nor any document of which the Court can take judicial notice, however, discloses that the
21 devices implicated by such threatened action would be “essentially the same” as the
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25 ⁴The Agreement provides that it “shall be governed by and construed in accordance
with the laws of the State of California.” (See Markman Decl. Ex. 1 § 9.2.)

26 ⁵In Trend Micro Inc. v. Fortinet, Inc., No. C-04-1785 RMW, Trend Micro alleged that
27 Fortinet was infringing claims in the ‘600 Patent, and Fortinet, in a counterclaim, sought a
28 declaration that the ‘600 Patent was invalid and/or unenforceable. (See Markman Decl. Ex.
1 at 1; Ex. 2.) By order filed February 13, 2006, said “action” was dismissed with prejudice.
(See id. Ex. 3.)

1 devices that were the subject of the prior lawsuit.⁶

2 2. Contrary to Fortinet's argument, Fortinet's Third Cause of Action, by which
3 Fortinet alleges a violation of § 2 of the Sherman Act and seeks treble damages, and the
4 Fourth Cause of Action, by which Fortinet alleges a violation of § 17200 of the California
5 Business and Professions Code and seeks restitution, disgorgement of profits, and a
6 permanent injunction, are subject to dismissal without leave to amend. The Third and
7 Fourth Causes of Action are based on the allegation that Trend Micro "procur[ed] the '600
8 Patent by knowing and willful fraud" occurring prior to April 22, 1997 (see FAC ¶¶ 18, 57),⁷
9 that Trend Micro thereafter enforced the '600 Patent against Fortinet and others beginning
10 in May 1997 in an effort to "monopolize the relevant market" (see, e.g., FAC ¶¶ 19, 27, 57),
11 and that Fortinet has been "injured" by said enforcement (see FAC ¶ 78), which injuries
12 include Fortinet's having "incurred significant expenses in defending against Trend Micro's
13 infringement lawsuit" filed in 2004 (see FAC ¶¶ 27, 35). As discussed above, Fortinet has
14 released Trend Micro from any "liability for acts and omissions existing prior to the full
15 execution of [the] Agreement relating to . . . claims or counterclaims made by Fortinet
16 regarding Trend Micro's enforcement of the Licensed Patents" (see Markman Decl. Ex. 1
17 § 6.2 (emphasis added)), and, as noted above, the FAC alleges the parties entered into the
18 Agreement on January 27, 2006. Consequently, because the Third and Fourth Causes of

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20 ⁶In its reply, Trend Micro acknowledges that at least some products as to which
21 Fortinet is currently paying royalties were not accused devices in the prior action, and
22 requests the Court (1) "continue" the instant motion, (2) require Fortinet to "provide targeted
23 discovery regarding the allegedly 'new' products," (3) set a "briefing schedule" on the issue
24 of whether there are "colorable differences" between the "new" products and those at issue
25 in the prior action, and (4) conduct a hearing on said issue. (See Def.'s Reply at 10.) The
26 Court declines to continue the instant motion for such purpose. To the extent Trend Micro
27 may be seeking to bifurcate the issue of "colorable differences" from other issues in the
28 instant action, such request may be made in connection with the Case Management
Conference.

⁷According to the FAC, the alleged "fraud" consists of Trend Micro's failure to
disclose material prior art to the Patent and Trademark Office ("PTO") during the
prosecution of the '600 Patent, in an attempt to "obtain a patent to which [Trend Micro] was
not otherwise entitled." (See SAC ¶¶ 63-66.) Because the '600 Patent was issued by the
PTO on April 22, 1997, the alleged fraudulent conduct necessarily occurred prior to April
22, 1997.

1 Action are based on “acts and omissions” that occurred before January 27, 2006 (see, e.g.,
2 FAC ¶¶ 18, 19, 27, 35, 57), the Third and Fourth Causes of Action are barred by the
3 release provision in the Agreement.

4 **CONCLUSION**


5 For the reasons stated above, Trend Micro’s motion to dismiss the FAC is hereby
6 GRANTED in part and DENIED in part, as follows:

7 1. To the extent the motion seeks dismissal of the Third and Fourth Causes of
8 Action, the motion is hereby GRANTED, and the Third and Fourth Causes of Action are
9 hereby DISMISSED without leave to amend.

10 2. In all other respects, the motion is hereby DENIED.

11 **IT IS SO ORDERED.**

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13 Dated: April 28, 2009

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15 MAXINE M. CHESNEY
16 United States District Judge
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