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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

KANEKA CORPORATION,

Plaintiff,

v.

XIAMEN KINGDOMWAY GROUP
CO., PACIFIC RAINBOW
INTERNATIONAL INC.,
MITSUBISHI GAS CHEMICAL
COMPANY, INC., MAYPRO
INDUSTRIES, INC., and
SHENZHO BIOLOGY &
TECHNOLOGY CO., LTD.,

Defendants.

Case No. 2:11-cv-02389-MRP-SS

**Order Granting Plaintiff Kaneka
Corporation’s Motion for
Summary Judgment Dismissing
Defendant XKGC’s Counterclaims
Three Through Nine**

I. Introduction

Plaintiff Kaneka Corporation (“Kaneka”) has asserted U.S. Patent No. 7,910,340 (the ’340 Patent) against defendants Xiamen Kingdomway Group Co. (“XKGC”), Shenzhou Biology & Technology Co., Ltd., Pacific Rainbow International Inc., and Maypro Industries, Inc. (collectively “Defendants”). The ’340 Patent relates to processes for producing the chemical coenzyme Q₁₀

1 (“CoQ₁₀”) on an industrial scale. XKGC counterclaims for tortious interference
2 with prospective business relationship, product disparagement, business
3 disparagement, defamation, libel per se, and unfair competition under both
4 California and federal statutes (“Counterclaims 3–9”). Kaneka moves for summary
5 judgment dismissing Counterclaims 3–9. Having fully read and considered the
6 papers and arguments of the parties, the Court concludes that the letter sent by
7 Kaneka to XKGC’s potential customers was privileged under California Civil
8 Code 47(b). The Court **GRANTS** Kaneka’s Motion for Summary Judgment. The
9 Court **DISMISSES** Counterclaims Three, Four, Five, Six, Seven, and Nine as
10 protected by the California statutory litigation privilege. The Court **DISMISSES**
11 Counterclaim Eight for unfair competition under the Lanham Act for lack of bad
12 faith.

13 **II. Procedural History**

14 Kaneka filed its complaint for patent infringement in this Court on March 22,
15 2011. Doc. No. 1. According to the complaint, XKGC allegedly infringes the ’340
16 Patent by manufacturing CoQ₁₀ using the patented process, and PRI allegedly
17 infringes based upon its importation and sale of XKGC’s CoQ₁₀ product. *Id.*,
18 ¶¶ 16–17. XKGC timely answered the complaint and counterclaimed for
19 declaratory judgments of noninfringement, invalidity, and unenforceability as well
20 as for various tort claims. Doc. No. 48. On June 17, 2011, Plaintiff filed a
21 complaint alleging infringement of the ’340 Patent against Defendants in the
22 International Trade Commission. *See* Certain Coenzyme Q10 Products and
23 Methods of Making Same, Inv. No. 333-TA-790, USITC Pub. 4407 (Sept. 27,
24 2012) (Final) (“the ITC Proceeding”). This Court stayed proceedings in this case
25 pending an International Trade Commission investigation on infringement of the
26 ’340 Patent against the Defendants. *Id.* After the Court lifted the stay, Defendants
27 filed motions for summary judgment of noninfringement based upon the discovery
28 taken in the ITC Proceeding. Doc. No. 158; Doc. No. 188. The Court granted

1 Defendants' motions for summary judgment of noninfringement, holding that
2 Defendants' processes for producing CoQ₁₀ did not infringe the '340 Patent.

3 **III. Legal Standards**

4 **A. Summary Judgment**

5 A grant of summary judgment is appropriate "if the movant shows that there is
6 no genuine dispute as to any material fact and the movant is entitled to judgment as
7 a matter of law." FED. R. CIV. P. 56(a). The Court must draw all reasonable
8 inferences from the evidence in favor of the non-movant, *Anderson v. Liberty*
9 *Lobby, Inc.*, 477 U.S. 242, 255 (1986), and may grant summary judgment when it
10 is apparent that only one conclusion as to infringement could be reached by a
11 reasonable jury, *ATD Corp. v. Lydall, Inc.*, 159 F.3d 534, 540 (Fed. Cir. 1998).

12 **B. Counterclaim Three: Tortious Interference with Prospective Business** 13 **Relationship**

14 To prove tortious interference with a prospective business relationship under
15 California common law, a claimant must show that (1) the claimant had an
16 economic relationship with a third party with a probability of future economic
17 benefit, (2) the accused party knew of the relationship, (3) the accused party acted
18 intentionally to disrupt the relationship, (4) the relationship was disrupted, (5) the
19 acts of the accused party proximately caused economic harm to the claimant, and
20 (6) the conduct was wrongful. *Visto Corp. v. Sproqit Techs., Inc.*, 360 F. Supp. 2d
21 1064, 1066–67 (N.D. Cal. 2005).

22 **C. Counterclaims Four and Five: Product Disparagement and Business** 23 **Disparagement (Trade Libel)**

24 To prove trade libel under California common law, a claimant must show that
25 (1) the accused party made a statement disparaging the claimant's product, (2) the
26 disparaging statement was couched as fact and not opinion, (3) the statement was
27 false, (4) the statement was made with malice, and (5) the statement caused
28 monetary loss. *Optinrealbig.com LLC v. Ironport Sys., Inc.*, 323 F. Supp. 2d 1037,

1 1048 (C.D. Cal. 2004). The counterclaims for both product disparagement and
2 business disparagement are claims for trade libel under California law because
3 trade libel “encompasses all false or misleading statements concerning the quality
4 of services or product of a business which are intended to cause the business
5 financial harm and do so.” *ComputerXpress, Inc. v. Jackson*, 93 Cal. App. 4th 993,
6 1010 (Cal. Ct. App. 2001) (quotations omitted).

7 **D. Counterclaim Six: Defamation**

8 To prove defamation under California common law, the claimant must show
9 that (1) the accused party intentionally published (2) a statement of fact that is (3)
10 false, (4) unprivileged, and (5) has a tendency to injure. *Smith v. Maldonado*, 85
11 Cal. Rptr. 2d 397, 402 (Cal. Ct. App. 1999). The truth of the offensive statements
12 is a complete defense against defamation. *Id.* at 403.

13 **E. Counterclaim Seven: Libel Per Se**

14 A defamatory statement that requires no explanation as to the defamatory or
15 offensive nature of the statement is libel per se. *Walker v. Kiouisis*, 114 Cal. Rptr.
16 2d 69, 77 (Cal. Ct. App. 2001). The elements of libel per se are otherwise identical
17 to the claim of defamation, except the claimant need not show special damages. *Id.*

18 **F. Counterclaim Eight: Unfair Competition under the Lanham Act**

19 To prove unfair competition under the Lanham Act, a claimant must show that
20 (1) the accused made a false or misleading statement of fact about a product; (2)
21 the statement deceived or had the capacity to deceive a substantial segment of
22 potential customers; (3) the deception was material; (4) the product is in interstate
23 commerce; and (5) the claimant has been injured as a result of the statement. 15
24 U.S.C. § 1125(a); *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed.
25 Cir. 1999). Because federal patent law permits patent holders to communicate its
26 patent rights to possible infringers, a Lanham Act claim based on patent assertion
27 also requires that the claimant show that the statement was made in bad faith.
28 *Zenith*, 182 F.3d at 1353.

1 **G. Counterclaim Nine: Unfair Competition under California Business and**
2 **Professions Code § 17200 et seq.**

3 To prove unfair competition under California statute, the claimant must prove a
4 violation of Section 17200 et seq. of the California Business and Professions Code,
5 which defines unfair competition as “any unlawful, unfair or fraudulent business
6 act or practice and unfair, untrue or misleading advertising.”

7 **H. California’s Litigation Privilege**

8 By statute, California provides a litigation privilege that precludes liability for a
9 communications or publications made in any judicial proceeding. Cal. Civ. Code
10 § 47 (West 2005). The litigation privilege may be invoked to protect
11 communications for any tort claim except malicious prosecution. *Silberg v.*
12 *Anderson*, 786 P.2d 365, 369 (Cal. 1990) (listing causes of action in which the
13 courts have applied the litigation privilege). “[T]he privilege applies to any
14 communication (1) made in judicial or quasi-judicial proceedings; (2) by litigants
15 or other participants authorized by law; (3) to achieve the objects of the litigation;
16 and (4) that have some connection or logical relation to the action.” *Silberg*, 786
17 P.2d at 369. The privilege applies to “statements made outside the courtroom
18 having a connection or relationship to the litigation.” *Church v. Smart & Perry*,
19 G034425, 2006 WL 573885 at *13 (Cal. Ct. App. Mar. 9, 2006) (citing *Rubin v.*
20 *Green*, 847 P.2d 1044, 1048 (Cal. 1993).) The litigation privilege likewise applies
21 to statements made in anticipation of litigation prior to the filing of a lawsuit.
22 *Rubin*, 847 P.2d at 1048 (“[N]umerous decisions have applied the privilege to
23 prelitigation communications.”).

24 “The principal purpose of [the litigation privilege] is to afford litigants and
25 witnesses . . . the utmost freedom of access to the courts without fear of being
26 harassed subsequently by derivative tort actions.” *Silberg*, 786 P.2d at 369. The
27 litigation privilege is absolute and “applies without regard to malice or evil
28 motives.” *Brown v. Kennard*, 113 Cal. Rptr. 2d 891, 895 (Cal. Ct. App. 2001); *see*

1 *also Church*, 2006 WL 573885 at *13 (finding that a letter informing
2 neighborhood residents about a neighborhood association litigation was privileged
3 even though it used “unnecessary inflammatory rhetoric” and “improperly
4 speculated on the Plaintiffs' motives for filing motions”). “Any doubt about
5 whether the privilege applies is resolved in favor of applying it.” *Adams v.*
6 *Superior Court*, 3 Cal. Rptr. 2d 49, 53 (Cal Ct. App. 1992). However,
7 communications that do not “function as a necessary or useful step in the litigation
8 process” or serve the purposes of forwarding litigation are not privileged. *Rothman*
9 *v. Jackson*, 57 Cal. Rptr. 2d 284, 294 (Cal Ct. App. 1996).

10 **IV. Factual Background**

11 In 2009, Kaneka reviewed a document from the Korean Food and Drug
12 Administration approving XKGC’s use of the microorganism *Pseudomonas*
13 *Aeruginosa* to produce CoQ₁₀. Statement of Uncontroverted Facts (“UF”), ¶ 3. In
14 addition, in 2009, a sales representative employed by one of Kaneka’s customers
15 told Kaneka that XKGC was using the microorganism *Pseudomonas Denitrificans*
16 to produce CoQ₁₀. *Id.*, ¶ 4. The sales representative provided Kaneka with a
17 document describing XKGC’s manufacturing process with a handwritten note
18 naming the microorganism. *Id.*, ¶ 5. Kaneka then performed internal testing on the
19 microorganism *Pseudomonas Denitrificans* and filed this patent infringement suit
20 on March 22, 2011. *Id.*, ¶ 6. On June 17, 2011, Kaneka filed suit in the ITC.

21 On June 20, 2011, Kaneka’s patent counsel, the Adli Law Group PC, sent
22 letters to several companies describing the ongoing litigation. *See* Doc. No. 279-1,
23 Ex. A. Regarding the ITC Proceeding, the letter noted that Kaneka had filed suit
24 against XKGC in the ITC requesting an Exclusion Order. UF, ¶ 4. According to
25 Kaneka’s counsel, an ITC order would not only bar importation of XKGC’s
26 products, but would “prohibit[] further sales of infringing products that have
27 already been imported, and halt[] the marketing, advertising, demonstration and

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1 warehousing of inventory for distribution and use of such imported products in the
2 United States.” *Id.*

3 In July 2011, Kaneka’s counsel sent another letter to the same companies. UF,
4 ¶ 11. The July letter reiterated Kaneka’s position on patent infringement. *Id.*
5 Additionally, Kaneka’s counsel noted that the ITC had decided to institute an
6 investigation against the Defendants “[b]ased on the strength of Kaneka’s
7 complaint.” *Id.*

8 XKGC has taken no discovery in this case with respect to its counterclaims.¹

9 V. Discussion

10 A. Litigation Privilege

11 California’s litigation privilege provides strong protection for litigants in an
12 ongoing judicial proceeding. It protects litigants against almost all state tort claims,
13 including each of the state law counterclaims alleged by XKGC.

14 “[T]he privilege applies to any communication (1) made in judicial or quasi-
15 judicial proceedings; (2) by litigants or other participants authorized by law; (3) to
16 achieve the objects of the litigation; and (4) that have some connection or logical
17 relation to the action.” *Silberg*, 786 P.2d at 369. The two letters sent by Kaneka
18 were both dated after the commencement of this lawsuit and the ITC Proceeding.
19 The letters both described the current state of the pending litigations. Based on the
20 status of the lawsuits and the nature of the communications, the letters were clearly
21 statements made in judicial or quasi-judicial administrative proceedings. The
22 letters were sent by Kaneka’s patent counsel on behalf of Kaneka, the plaintiff and
23 claimant in the suits. The letters also worked to achieve the objects of the
24 litigation. The object of any patent infringement suit is to bar manufacture, import,
25 and use of infringing products and collect past or future damages for infringing
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27 ¹ Discovery has not yet opened in this case at all. The parties did take discovery during the ITC Proceeding and the
28 parties agreed to use the discovery taken in the ITC Proceeding in this case. However, because the ITC’s jurisdiction
was limited to only the patent infringement and validity disputes, XKGC has not taken discovery, either in this
Court or the ITC, with respect to the counterclaims discussed herein.

1 products. Here, Kaneka sought to inform customers of possible infringement and
2 decrease or eliminate use of potentially infringing products.

3 Finally, the letters must be connected or logically related to the pending
4 litigation. Letters to third-party customers purchasing potentially infringing
5 products are logically related to an underlying infringement action against the
6 producer or importer of a product. Such letters “advance[] the litigant’s case by
7 ensuring that customers are aware of the litigation and informing them of their
8 potential liability.” *Sliding Door Co. v. KLS Doors, LLC*, No. 13-cv-00196-JGB,
9 2013 WL 2090298, at *8 (C.D. Cal. May 1, 2013).

10 Under the *Silberg* test, Kaneka’s letters are privileged by California statute.²
11 The possible misrepresentations in the letters do not change this result. The
12 litigation privilege is absolute, and inflammatory rhetoric and improper speculation
13 does not remove the privilege. Certain statements in the letter were false, including
14 the possible consequences of an ITC exclusion order and the standard for
15 instituting an ITC investigation. However, Kaneka’s malice or anticompetitive
16 motives are irrelevant to the litigation privilege protection. Moreover,
17 “communications made in connection with litigation do not necessarily fall outside
18 the privilege merely because they are . . . fraudulent, perjurious, unethical, or even
19 illegal” as long as they are logically related to the litigation. *Blanchard v. DirecTV,*
20 *Inc.*, 20 Cal. Rptr. 3d 385, 397 (Cal. Ct. App. 2004) (quotations omitted). Kaneka’s
21 false statements described components and consequences of the ITC Proceeding,
22 and those statements are protected by the litigation privilege in equal measure with
23 the true statements about the litigation.

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26 ² XKGC’s argument that other courts have denied summary judgment because the litigation privilege required
27 additional factual determinations is unavailing. In the cases cited by XKGC, the statements were made prior to
28 litigation, requiring factual determination as to the patent holder’s good faith intentions to institute proceedings. *See*
Visto, 360 F. Supp. 2d at 1070; *Bylin Heating Sys., Inc. v. M & M Gutters, LLC*, No. 2:07-cv-00505, 2008 U.S.
LEXIS 21253, at *11 (E.D. Cal. Mar. 18, 2008). Kaneka instituted two proceedings prior to sending the letters.
There are no material issues of fact requiring Kaneka’s good faith intent to exercise its patent rights.

1 Applying the privilege to Kaneka's letter is consistent with the purpose of the
2 litigation privilege. Litigants must have access to the courts and be able to take full
3 advantage of their rights without fear of subsequent tort actions. Allowing XKGC
4 to sue Kaneka based upon letters sent by a litigant after the institution of a
5 proceeding to potential infringers regarding the status and consequences of the
6 litigation would, according to California law, deter litigants from exercising their
7 full judicial rights.

8 The letter sent by Kaneka to XKGC's potential customers was privileged under
9 California Civil Code 47(b). The litigation privilege protects Kaneka's
10 communications from tort liability under state law. Therefore, Counterclaim Three
11 for tortious interference with prospective business relationship, Counterclaim Four
12 for product disparagement, Counterclaim Five for business disparagement,
13 Counterclaim Six for defamation, Counterclaim Seven for libel per se, and
14 Counterclaim Nine for unfair competition under California statute must be
15 dismissed.

16 **B. Bad Faith**

17 The remaining counterclaim, Counterclaim Eight for unfair competition under
18 the Lanham Act, is not subject to California's litigation privilege. In order to show
19 that a summary judgment dismissing Counterclaim Eight is appropriate, Kaneka
20 must show that no material issue of fact exists as to at least one element of the
21 claim or, since Kaneka's letters asserted rights under federal patent law, that
22 Kaneka did not act with bad faith.

23 To prove unfair competition under the Lanham Act, a claimant must show that
24 (1) the accused made a false or misleading statement of fact about a product; (2)
25 the statement deceived or had the capacity to deceive a substantial segment of
26 potential customers; (3) the deception was material; (4) the product is in interstate
27 commerce; and (5) the claimant has been injured as a result of the statement. 15
28 U.S.C. § 1125(a); *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed.

1 Cir. 1999). Because federal patent law permits patent holders to communicate its
2 patent rights to possible infringers, a Lanham Act claim based on patent assertion
3 also requires that the claimant show that the statement was made in bad faith.
4 *Zenith*, 182 F.3d at 1353.

5 Kaneka has established that it had a valid patent and filed suit in both federal
6 court and the ITC prior to sending the two letters at issue. “A patentee that has a
7 good faith belief that its patents are being infringed violates no protected right
8 when it so notifies infringers.” *Globetrotter Software, Inc. v. Elan Computer Grp.,*
9 *Inc.*, 362 F.3d 1367, 1374 (Fed. Cir. 2004). XKGC argues that Kaneka’s
10 misstatements in the letters demonstrate Kaneka’s subjective bad faith in sending
11 the letters. The letters do contain at least two false statements: first, that an ITC
12 exclusion order had the power to impact products that had already been imported
13 into the U.S., and second, that institution of an ITC Proceeding was dependent
14 upon the strength of Kaneka’s compliant when, in fact, the ITC had made no
15 decision on the merits of the case.

16 The statements in the letter are not sufficient to show bad faith. When read in
17 the light most favorable to XKGC, the non-moving party, the letters show bad
18 drafting and overly zealous advocacy. Bad faith, however, requires that the patent
19 holder assert a claim that was objectively baseless, upon which “no reasonable
20 litigant could realistically expect to succeed.” *Globetrotter*, 362 F.3d at 1375–76.
21 Kaneka had filed a lawsuit in federal court, which had the power to impact
22 products in the U.S. While the ITC had not decided the merits of Kaneka’s claim,
23 the institution of a proceeding reflected the ITC’s preliminary decision that the suit
24 was properly filed by a patent holder. These misstatements do not rise to the level
25 of bad faith, and fail as a matter of law to meet the “threshold showing of
26 incorrectness or falsity, or disregard for either, [] required in order to find bad faith
27 in the communication of information about the existence or pendency of patent
28 rights.” *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, 165 F.3d 891, 897 (Fed. Cir.

1 1998). XKGC's evidence showing that Kaneka sought to use the '340 Patent to
2 minimize competition in the industry, simply shows that Kaneka sought to use its
3 government-granted patent rights to gain profit in the industry as contemplated by
4 the incentive structure of the patent statute. The evidence does not show bad faith
5 or an attempt to abuse those rights.

6 Statements by Kaneka's executives or employees regarding patent prosecution
7 strategy or the individual's belief in the strength or weakness of the '340 Patent
8 claims are similarly insufficient to show bad faith. The U.S. Patent and Trademark
9 Office granted the '340 Patent, entitling Kaneka to a statutory presumption of
10 validity. Certainly, no company wants its own employees to believe that its patent
11 are absurd, weak, or open to challenges of invalidity. However, the presumption of
12 validity, combined with this Court's decision to decline to assess the validity of the
13 '340 Patent and the ITC's decision to uphold the validity of the '340 Patent,
14 directly contradict XKGC's insinuation that the '340 Patent was "obviously
15 invalid" as required to show bad faith. *See Globetrotter*, 362 F.3d at 1375.

16 Statements by a Kaneka employee regarding the difficulty of proving an
17 infringing oxidation step in XKGC's process are insufficient to show bad faith as
18 well. This Court, as well as the ITC, seriously considered both parties' arguments
19 in construing the claim terms of the '340 Patent and determining issues of
20 infringement. Kaneka's claim construction arguments were not objectively
21 baseless, and, if the Court had adopted Kaneka's claim constructions for certain
22 terms, substantive issues would have existed as to infringement by XKGC. It was
23 not clear at the time of the letters that the '340 Patent was so "plainly not
24 infringed" as to make the infringement allegations and statements in the letter
25 objectively baseless. *See Globetrotter*, 362 F.3d at 1375.

26 There is no material issue of fact as to whether Kaneka had sufficient bad faith
27 to unfairly compete with XKGC under the Lanham Act. Therefore, Counterclaim
28 Eight must be dismissed.

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VI. Conclusion

The Court **GRANTS** Kaneka's Motion for Summary Judgment Dismissing Defendant XKGC's Counterclaims.

IT IS SO ORDERED.



DATED: February 24, 2014

Hon. Mariana R. Pfaelzer
United States District Judge