

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

PENNPAC INTERNATIONAL, INC.,	:	
plaintiff/counterclaim defendant	:	CIVIL ACTION
	:	
v.	:	
	:	
ROTONICS MANUFACTURING, INC.,	:	NO. 99-CV-2890
defendant/counterclaim plaintiff,	:	
third-party plaintiff,	:	
	:	
v.	:	
	:	
RUSH SMITH,	:	
third-party defendant/	:	
third-party plaintiff. ¹	:	

MEMORANDUM AND ORDER

YOHN, J. MAY , 2001

Plaintiff PennPac International, Inc. [“PennPac”] brings this action against defendant Rotonics Manufacturing, Inc. [“Rotonics”] alleging violation of § 2 of the Sherman Antitrust Act, 15 U.S.C. § 2, and setting forth various state law claims, including unfair competition, defamation, commercial disparagement, and tortious interference with existing and prospective relationships. Pending before the court is Rotonics’ motion for summary judgment on all counts of plaintiff’s complaint (Doc. No. 43). Because plaintiff has failed to substantiate its allegation that Rotonics engaged in predatory, anticompetitive conduct, judgment will be entered in favor of Rotonics as to Count I of plaintiff’s complaint. Furthermore, because the parties concede that

¹By Order of October 4, 2000 (Doc. No. 52), the claims against third-party defendants John F. A. Earley, P.C. and Harding, Earley, Follmer & Frailey were terminated.

Pennsylvania law against unfair competition is co-extensive with federal antitrust law, judgment likewise will be entered for Rotonics on Count II of plaintiff's complaint. Finally, because each of the remaining state law claims is barred by *Noerr-Pennington* immunity and fails on the merits, judgment will also be entered in favor of Rotonics on Counts III, IV, and V.

I. Background

The following facts are undisputed. On February 3, 1992, Rotonics, formerly known as Koala Technologies Corporation, acquired all of the stock of Plastech International, Inc. ["Plastech"], including its intellectual property, for a purchase price of \$1.7 million. Plastech's intellectual property included patent application number 07/170,143 ["143 Application"] relating to a rotationally molded plastic bulk container with an inner flat bottom and having a detachable pallet base. At that time, Rush Smith was President and CEO of Plastech and owned 27 percent of Plastech's stock. A number of people, including Smith, handled the negotiations for the sale of Plastech. The sale was consummated pursuant to a Stock Purchase Agreement executed January 7, 1992. Section 2.2.13 of the Stock Purchase Agreement represented that "no claim exists that any of the Intellectual Property or Proprietary Information is not valid or enforceable by [Plastech]." Moreover, Section 2.2.22 of the agreement represented that "[t]here is no fact presently actually known to any of the officers or directors of the Company or Plastech . . . which materially and adversely affects the Company business." Rush Smith signed this agreement in his corporate capacity as President and in his individual capacity as seller. Smith continued as Divisional President at Rotonics until he was discharged in December 1994.²

²As a result of the discharge, Smith instituted a wrongful discharge suit against Rotonics in the Eastern District of Pennsylvania which ultimately was resolved pursuant to a settlement agreement.

During the '143 Application process, Smith advocated the patentability of the invention by making declarations in support of the '143 Application. On April 21, 1992, the '143 Application matured into Patent Number 5,105,947 [“'947 Patent”]. After the issuance of the '947 Patent, Smith took action to enforce the patent. On July 16, 1992, Smith sent identical letters to Peter Connors, President of Remcon Plastics [“Remcon”] and to John Cali, Sr., General Manager of Bonar Plastics, Inc., [“Bonar”] alleging that certain of their products appeared to infringe the '947 Patent. Bonar's counsel responded denying infringement and claiming that the '947 Patent was invalid due to prior art revealed in “literature which has been available since the 1970's which shows that the claimed container having a replaceable pallet base has been in the public domain more than one year prior to the filing of the patent application of [the '947 Patent].” Apparently, Remcon's counsel likewise responded to Rotonics' allegations of infringement.

In July 1995, Smith formed PennPac to sell rotationally molded products and more specifically, large bulk containers. In mid-1997, after discovering containers that were substantially similar to its patented containers, Rotonics advised both PennPac and the suspected purchasers of those containers by letter of possible '947 Patent infringement. In June 1999, PennPac initiated the instant action.

II. Standard of Review

Either party to a lawsuit may file a motion for summary judgment, and it will be granted “if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.” Fed. R. Civ. P. 56(c). “Facts that

could alter the outcome are “material”, and disputes are “genuine” if evidence exists from which a rational person could conclude that the position of the person with the burden of proof on the disputed issue is correct.” *Ideal Dairy Farms, Inc. v. John Lebatt, LTD.*, 90 F.3d 737, 743 (3d Cir. 1996) (citation omitted). The moving party bears the initial burden of showing that there is no genuine issue of material fact. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986).

Where the movant bears the burden of persuasion at trial, the movant satisfies this initial burden by “identifying [the evidence] which it believes demonstrate[s] the absence of a genuine issue of material fact.” *Id.* at 323. Where the nonmovant bears the burden of persuasion at trial, the moving party may meet its initial burden and shift the burden of production to the nonmoving party “by ‘showing’—that is, pointing out to the district court—that there is an absence of evidence to support the nonmoving party’s case.” *Id.* at 325. Thus, summary judgment will be entered “against a party who fails to make a showing sufficient to establish the existence of an element essential to that party’s case, and on which that party will bear the burden of proof at trial.” *Id.* at 322.

When a court evaluates a motion for summary judgment, “[t]he evidence of the non-movant is to be believed.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).

Additionally, “all justifiable inferences are to be drawn in [the non-movant’s] favor.” *Id.*

However, “[s]ummary judgment may not be granted . . . if there is a disagreement over what inferences can be reasonably drawn from the facts even if the facts are undisputed.” *Ideal Dairy*, 90 F.3d at 744 (citation omitted). At the same time, “an inference based upon a speculation or conjecture does not create a material factual dispute sufficient to defeat entry of summary judgment.” *Robertson v. Allied Signal, Inc.*, 914 F.2d 360, 382 n.12 (3d Cir. 1990). The

nonmovant must show more than “[t]he mere existence of a scintilla of evidence” for elements on which he bears the burden of production. *Anderson*, 477 U.S. at 252. Thus, “[w]here the record taken as a whole could not lead a rational trier of fact to find for the non-moving party, there is no ‘genuine issue for trial.’” *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986) (citations omitted).

III. Discussion

Federal Antitrust and Pennsylvania Unfair Competition Claims

In Count I of the complaint, plaintiff alleges that defendant Rotonics violated § 2 of the Sherman Antitrust Act, 15 U.S.C. § 2, because it achieved or attempted to achieve monopoly power in the market for rotationally molded pallet-based containers in the United States when it threatened to enforce a patent against plaintiff’s customers and contract manufacturers with the intent to destroy competition in the relevant market. Rotonics argues that judgment should be entered in its favor on this antitrust claim for three reasons: (1) PennPac failed to define a proper relevant market; (2) PennPac failed to introduce specific evidence of Rotonics’ market power; and (3) PennPac has offered no proof of exclusionary or anticompetitive conduct. PennPac counters that it has met the requisite burden of proof and that issues of material fact exist which preclude the entry of summary judgment.

“The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.” *Queen City Pizza, Inc. v. Domino’s Pizza, Inc.*, 124 F.3d 430, 437 (3d Cir. 1997) (quoting *Aspen Skiing Co. v. Aspen Highlands*

Skiing Corp., 472 U.S. 585, 596 n.19 (1985) (citation omitted)), *cert. denied*, 523 U.S. 1059 (1998). In order to establish a § 2 claim of attempted monopolization, a plaintiff must demonstrate that the defendant “(1) had specific intent to monopolize the relevant market, (2) engaged in anticompetitive or exclusionary conduct, and (3) possessed sufficient market power to come dangerously close to success.” *Barr Laboratories, Inc. v. Abbot Laboratories*, 978 F.2d 98, 112 (3d Cir. 1992) (citations omitted). Both the monopolization and attempted monopolization claims require PennPac to present specific evidence to permit a jury to find that Rotonics possessed the requisite market power necessary to constitute a monopoly. This market power analysis must begin with a definition of the relevant market. Moreover, plaintiff bears the burden of defining adequately this market. *See generally Pastore v. Bell Tel. Co.*, 24 F.3d 508, 512 (3d Cir. 1994).

“The relevant product market is defined as those ‘commodities reasonably interchangeable by consumers for the same purposes.’” *Tunis Bros. Co. v. Ford Motor Co.*, 952 F.2d 715, 722 (3d Cir. 1991) (quoting *United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 395 (1956)), *cert. denied*, 505 U.S. 1221 (1992)). “Interchangeability implies that one product is roughly equivalent to another for the use to which it is put; while there may be some degree of preference for the one over the other, either would work effectively.” *Queen City Pizza*, 124 F.3d at 437 (citation omitted). In other words, reasonable interchangeability is indicated by “cross-elasticity of demand between the product itself and reasonable substitutes for it.” *Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962). Moreover, in evaluating reasonable interchangeability, “[f]actors to be considered include price, use and qualities.” *Tunis Bros.*, 952 F.2d at 722.

PennPac submits that the relevant market “was universally defined by the description of the large bulk storage containers or bins used in the food service or other industries given by John Cali, Sr., President of Bonar.” Rotonics, however, argues that PennPac’s definition must fail as a matter of law because PennPac has neglected to include products reasonably interchangeable with these large plastic containers used for transporting and storing bulk materials. Specifically, Rotonics submits that the record indicates that there are many uses and even many substitutes for these products, including steel drums, wood, fiberboard and corrugated boxes. *See* Def. Mem. at 6-7 (citing, *inter alia*, Smith Dep. at 63 (various types of containers can be and are used interchangeably with rotomolded plastic containers); Alex Dep. at 37-38 (same)). Thus, the parties have each assumed classic positions concerning the relevant market: plaintiff desires to define a narrow market while defendant seeks to expand that definition as much as possible.

While the court recognizes that a plaintiff’s market definition will be insufficient as a matter of law where the proposed relevant market clearly does not include all interchangeable substitute products, *see Queen City Pizza*, 124 F.3d at 436, and where the plaintiff’s definition of the relevant market is incurably vague, *see generally id.*, it is not clear from the limited deposition excerpts cited by Rotonics whether a reasonable jury could find that steel drums, wood, fiberboard and corrugated containers are substitutes for the rotomolded bulk plastic containers. Thus, I find that there exists a genuine issue of material fact regarding the relevant market definition and therefore, summary judgment on this issue will be denied. *See generally Fineman v. Armstrong World Indus., Inc.*, 980 F.2d 171, 199 (3d Cir. 1992) (evaluating whether there existed sufficient evidence to support a jury’s finding regarding the relevant market and

stating that “the determination of a relevant product market . . . is a highly factual one best allocated to the trier of fact.”) (citations omitted), *cert. denied*, 507 U.S. 921 (1993).

Once the relevant market has been defined, a plaintiff must next demonstrate that the defendant possessed the requisite power in that market. In the context of a monopolization claim, “monopoly power is the power to control prices or to exclude competition.” *Barr Labs.*, 978 F.2d at 111-12 (citing *Pennsylvania Dental Ass’n v. Medical Serv. Assoc. of Pa.*, 745 F.2d 248, 255 (3d Cir. 1984)). In the context of an attempted monopolization claim, plaintiff has the burden of establishing that defendant “possesses ‘sufficient market power’ to come dangerously close to success within the market.” *Pastore*, 24 F.3d at 513. A dangerous probability of obtaining such monopoly power exists where “the defendant firm possesses a significant market share when it undertakes the challenged anticompetitive conduct.” *Barr Labs.*, 978 F.2d at 112. However, while “the size of a defendant’s market share is a significant determinant of whether a defendant has a dangerous probability of successfully monopolizing the relevant market, it is not exclusive.” *Id.* (citations omitted). Other factors relevant to the inquiry “include the strength of the competition, probable development of the industry, the barriers to entry, the nature of the anticompetitive conduct, and the elasticity of consumer demand.” *Id.* (citation omitted).

Rotonics argues that PennPac has failed to substantiate its claim that Rotonics “possesses a substantial share of the market for rotationally molded pallet-based containers in the United States.” Specifically, Rotonics claims that PennPac has failed first, to provide Rotonics’ market share percentage, or any other figure, and second, to produce evidence concerning any additional factors relevant to the inquiry. In short, Rotonics argues that regardless of the definition of the relevant market, PennPac has not met its burden of showing that Rotonics possesses either

monopoly power or “‘sufficient market power’ to come dangerously close to success within the market.” *Pastore*, 24 F.3d at 513.

Without providing citations to the record, PennPac responds only with the conclusory argument that “[t]he depositions and other discovery clearly show that the market is, in fact, dominated by four major suppliers: Rotonics, Bonar, Remcon, and PennPac, the newest entrant.” PennPac then suggests that summary judgment is inappropriate at this stage because the jury should be able to consider other relevant factors. PennPac, however, simply has failed to produce sufficient evidence to determine Rotonics’ market share, let alone any other evidence relevant to the determination whether Rotonics possesses the requisite market power.

Conversely, Rotonics points the court to uncontroverted evidence that suggests that the market contains numerous competitors, *see* Def. Mem at 9-11 (citing Cali Dep. at 15-16 (stating that there are several other manufacturers of roto-molded containers, including Meese Orbitron and “various small players throughout Minnesota, Indiana.”); McKinniss Dep. of 7/18/2000 at 24-25 (estimating that there are a total of 15 to 20 manufacturers of rotationally molded material handling equipment, the two largest being Bonar and Remcon); *Plastics News* Article of Aug. 7, 2000, *available at* <<http://www.plasticsnews.com/subscriber/rankings/listroto.html>> (listing over 50 rotational molders in just the food-processing category)), and that Rotonics does not possess a substantial share of that market. *See id.* at 10 n.3 (citing information in *Plastic News* that suggests that Rotonics’ percentage of sales amongst rotational molders in the food-processing category was 8.65 percent in the year 2000). Accordingly, judgment will be entered in favor of Rotonics on Count I of plaintiff’s complaint.

Assuming that PennPac had demonstrated that Rotonics possessed sufficient power in the

relevant market, PennPac also has the burden to present specific evidence that Rotonics engaged in anticompetitive conduct. Rotonics argues that PennPac has failed to meet this burden because Rotonics' assertion of its rights as a valid '947 Patent holder is shielded pursuant to the *Noerr-Pennington* doctrine and therefore, was not anticompetitive under the antitrust laws. PennPac answers that Rotonics cannot be afforded *Noerr-Pennington* immunity because its assertion of patent rights falls within the "mere sham" exception to the *Noerr-Pennington* doctrine.

The *Noerr-Pennington* doctrine provides that a party who petitions the government for redress generally is immune from antitrust liability. See *Cheminor Drugs, Ltd. v. Ethyl Corp.*, 168 F.3d 119, 122 (3d Cir.) (citing *Eastern R.R. Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127 (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965)), *cert. denied*, 528 U.S. 871 (1999). Thus, "[a] patent owner who brings a lawsuit to enforce the statutory right to exclude others from making, using or selling the claimed invention is exempt from the antitrust laws, even though such suit may have an anticompetitive effect, unless the infringement defendant 'proves (1) that the asserted patent was obtained through knowing and willful fraud within the meaning of *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, . . . or (2) that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor, *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*" *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343 (Fed. Cir. 1999) (internal citations omitted).³ Furthermore,

³Federal Circuit law applies to all antitrust claims premised on the bringing of a patent infringement suit. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998). It follows that antitrust claims premised on notice given to infringers is also governed by Federal Circuit law. Nevertheless, the law of the regional circuit continues to apply "to issues involving other elements of antitrust law such as relevant market, market power,

“[a] patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.” *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992). Such notice, however, will become actionable where the patentee lacks a good faith belief in the validity of its patent. *Id.* at 710 (citations omitted).

PennPac asserts that Rotonics cannot hide behind *Noerr-Pennington* immunity because the threatened action of patent enforcement was a sham.⁴ Presumably, PennPac seeks to argue that the allegations of invalidity against the ‘947 Patent by both Remcon and Bonar’s counsel in 1992, coupled with the fact that Rotonics did not thereafter seek to enforce the ‘947 Patent against either of these competitors, supports the inference that Rotonics had knowledge that its patent was invalid. Thus, the argument goes, in 1997, when Rotonics sought to notify PennPac and its customers of infringement of that same patent, Rotonics was acting in bad faith.

By analogy, the Supreme Court has held that litigation is a sham if the lawsuit is “objectively baseless.” *See Professional Real Estate Investors v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 62 (1993) [“*PRE*”]; *see also Cheminor Drugs*, 168 F.3d at 122. In *PRE*, the Court announced a two-step inquiry: “First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. . . Only if challenged litigation is objectively meritless may a court examine the litigant’s subjective motivation . . . [and] focus on whether the baseless lawsuit conceals an attempt to interfere *directly* with the business relationship of a competitor, though the use of governmental *process*—as opposed to the

damages, etc., as those issues are not unique to patent law, which is subject to [the] exclusive jurisdiction [of the Federal Circuit].” *Id.* (citations omitted).

⁴The first exception to the *Noerr-Pennington* doctrine, obtaining the patent through knowing and willful fraud, is not here at issue.

outcome of that process—as a competitive weapon.” *Id.* at 60-61 (citations omitted) (emphasis in original). I conclude that no reasonable judge or jury could conclude an infringement suit by Rotonics would be a sham or objectively baseless.

First, I note that by statute, patents are presumed to be valid. *See* 35 U.S.C. § 282 (1994). Second, the following uncontested facts demonstrate that Rotonics did investigate whether PennPac products were infringing the ‘947 patent before it sent the 1997 letters:⁵ (1) in June 1997, Midwestern sales representative Thomas Stafford obtained a diagram that depicted the product being offered for sale by PennPac; (2) the diagram was sent to Rotonics’ Plastech Division in Warminster, Pennsylvania and to Rotonics’ patent counsel; (3) when the inventor of the ‘947 patent, Thomas Wise, saw this diagram, he remarked that the container was “clearly . . . a knock-off” of Rotonics’ patented container; (4) William Lehr, then the Plastech Division’s sales manager, asked sales representatives to gather information, including drawings or photographs, concerning the allegedly infringing PennPac containers; (5) Stafford visited two customer facilities using the PennPac containers, Dorskocil Food Service and Stella Foods, where he observed that they were substantially similar to Rotonics’ patented container; (6) Stafford took photographs of the containers in use at Stella Foods; (7) Rotonics attempted to obtain physical samples of the PennPac containers by offering to trade two of its containers for one allegedly infringing container; and (8) before it sent the 1997 letters, Rotonics obtained the advice of

⁵Paragraph ten of the court’s scheduling order requires the opposing party to file a separate statement of material facts responding to each of the numbered paragraphs in the moving party’s statement of material facts. Although Rotonics filed its statement, PennPac has failed to respond. As such, the court may accept Rotonics’ statement of material facts as undisputed.

patent counsel. *See* Def. Statement of Material Facts at ¶¶ 27-40. Thus, an enforcement action could not be considered a sham.

PennPac counters that Remcon and Bonar’s counsel both alleged in 1992 that the ‘947 Patent was invalid, but this is clearly not sufficient evidence from which a judge or jury could reasonably conclude that no reasonable litigant could reasonably expect success on the merits when Rotonic notified PennPac and three of its customers of possible infringement in 1997. *See Argus Chem. Corp. v. Fibre-Glass-Evercoat Co., Inc.*, 812 F.2d 1381, 1386 (Fed. Cir. 1987) (“The allegation by an accused infringer that the patent is invalid— an assertion frequently made by those charged with infringement— cannot be turned into evidence that the patentee knew the patent was invalid.”). Nor is Smith’s deposition testimony that in 1992, after he discussed the substance of the letter from Remcon’s attorney with Rotonics’ patent counsel, counsel stated, “well, I guess I missed one” sufficient evidence from which a reasonable judge or jury could conclude that Rotonics’ claim in 1997 was “objectively baseless.”

I conclude that Rotonics’ assertion of patent rights does not fall within the “mere sham” exception to the *Noerr-Pennington* doctrine.

Moreover, the doctrine of assignor estoppel necessitates that PennPac should now be estopped from challenging the validity of the ‘947 Patent. Assignor estoppel is an equitable doctrine that precludes an assignor of a patent (or patent application) from thereafter attacking its utility, novelty or validity against anyone claiming the patent right under his assignment. *See Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 349 (1924); *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1379 (Fed. Cir. 1998); *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 1224 (Fed. Cir. 1988). “As to the rest of the world,

the patent may have no efficacy and create no right of monopoly; but the assignor cannot be heard to question the right of his assignee to exclude him from its use.” *Westinghouse Elec.*, 266 U.S. at 349. This is not to say, however, that an assignor of a patent is without any means to defend a subsequent infringement suit. The assignor is permitted to introduce evidence of prior art to narrow the scope of the assigned patent’s claims in an effort to show that the accused device falls outside the scope of the assigned patent. *See Westinghouse Elec.*, 266 U.S. at 350-51; *Diamond Scientific*, 848 F.2d at 1226. Nevertheless, if this argument proves successful, the result will be a finding of non-infringement, not patent invalidity.

The estoppel will also operate against “parties in privity with the assignor, such as a corporation formed by the assignor.” *Diamond Scientific*, 848 F.2d at 1224 (citation omitted). Privity is determined upon a balance of the equities and whether two parties are in privity will depend upon the nature of the relationship between them. *See Mentor Graphics*, 150 F.3d at 1379; *Shamrock Tech., Inc. v. Medical Sterilization, Inc.*, 903 F.2d 789, 793 (Fed. Cir. 1990). “The closer the relationship, the more the equities will favor applying the doctrine’ of assignor estoppel.” *Mentor Graphics*, 150 F.3d at 1379 (citation omitted).

Considering the balance of the equities and the relationship between Smith and PennPac, I find that no genuine issue of material fact exists regarding privity and the application of assignor estoppel. Accordingly, PennPac will be estopped from claiming here that the ‘947 Patent is invalid.⁶ Furthermore, PennPac cannot now allege that Rotonics’ notice of possible

⁶Based upon an assignor estoppel theory, Rotonics also moves the court to enter judgment in its favor on the affirmative defense of invalidity and unenforceability of the ‘947 Patent asserted by PennPac in response to Rotonics’ counterclaim for patent infringement. This argument will be addressed when the court considers PennPac’s motion for summary judgment on all counts of Rotonics’ counterclaims (Doc. No. 48) also pending before me.

infringement of the very patent Smith assigned to Rotonics years earlier is predatory and anticompetitive. The undisputed facts are: (1) on October 2, 1985, Thomas Wise, inventor of an invention entitled “Container Having a Replaceable Pallet Base,” assigned to Plastech International, Inc. his entire interest in the invention and any patent resulting therefrom; (2) on February 3, 1992, Rotonics, formerly known as Koala Technologies Corporation, acquired all of the stock of Plastech International, Inc., including its intellectual property, for a purchase price of \$1.7 million; (3) Plastech’s intellectual property included the ‘143 Application relating to a rotationally molded plastic bulk container with an inner flat bottom and having a detachable pallet base; (4) at this time, Rush Smith was President and CEO of Plastech and owned 27 percent of Plastech’s stock; (5) a number of people, including Smith, handled the negotiations for the sale of Plastech; (6) the Stock Purchase Agreement represented that no claim existed that any of Plastech’s intellectual property was invalid; (7) Rush Smith signed the Stock Purchase Agreement in his corporate capacity as President, and in his individual capacity as seller;⁷ (8) Smith continued as Divisional President at Rotonics until he was discharged in December 1994; (9) during the ‘143 Application process, Smith advocated the patentability of the invention by making declarations in support of the ‘143 Application; (10) in July 1995, Smith formed PennPac to sell rotationally molded products and more specifically, large bulk containers; and (11) in mid-1997, after discovering containers that were allegedly substantially similar to its

⁷PennPac submits that Smith signed the Stock Purchase Agreement only in his official capacity as President of Plastech. This statement, however, is contradicted by the plain language of the agreement which clearly shows that Smith signed as President of Plastech Holdings, Inc., as President of Plastech International, Inc., and as an individual seller. Indeed, while Joseph L. Ponce signed individually and as attorney in fact for each of the other sellers, Smith’s name was crossed from that list and separately listed and signed in Smith’s personal capacity. As such, it is clear that Smith was also an individual party to the Stock Purchase Agreement.

patented containers, Rotonics advised by letter both PennPac and the suspected purchasers of those containers of possible '947 Patent infringement. Accordingly, it is clear that Smith was an assignor of the '947 Patent and that PennPac is in privity with him. As such, PennPac is estopped from now challenging the validity of the '947 Patent. *See generally Shamrock Tech., Inc. v. Medical Sterilization, Inc.*, 903 F.2d 789, 793-94 (Fed. Cir. 1990) (collecting cases regarding privity, including instance where court found privity between assignor and company of which he was principal, stockholder, president, and general manager).

For the foregoing reasons, judgment will be entered in favor of Rotonics on Count I of plaintiff's complaint.⁸

State Law Causes of Action

Rotonics argues that the *Noerr-Pennington* doctrine also provides it immunity from liability pursuant to PennPac's state law causes of action. Other than arguing that Rotonics is not entitled to any *Noerr-Pennington* immunity, PennPac does not address this assertion. While the Supreme Court has not ruled whether the doctrine extends beyond the antitrust context, many courts to consider the issue have expanded the scope of *Noerr-Pennington* immunity to include "non-judicial acts that are 'reasonably and normally attendant upon protected litigation.'" *Alexander Binzel Corp. v. Nu-Tecsys Corp.*, No. 91-C-2092, 2000 WL 310304, *3 (N.D. Ill. March 24, 2000) (collecting cases and finding that "[i]n instances involving attendant publicity, a party who 'has probable cause to threaten litigation and makes no assertions beyond the legal and factual bases [of the suit] may enjoy *Noerr-Pennington* immunity[.]'" (alteration in original)

⁸Because the parties concede that Pennsylvania law against unfair competition is co-extensive with federal antitrust law, judgment likewise will be entered in favor of Rotonics on Count II of plaintiff's complaint.

(citations omitted); *see also, e.g., Mallinckrodt*, 976 F.2d at 709 (“[a] patentee that has a good faith belief that its patents are being infringed violates no protected right when it so notifies infringers.”); *Matsushita Elecs. Corp. v. Loral Corp.*, 974 F. Supp. 345, 359 (S.D.N.Y. 1997) (holding that acts incidental to protected litigation, such as sending letters threatening court action, are likewise entitled to *Noerr-Pennington* immunity and that such acts are additionally immune from state law tort liability) (citing *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983)); *Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F. Supp. 316, 326 (D. Kan. 1986) (extending immunity to press releases publicizing the lawsuit and threatening further legal action).

Moreover, this circuit has extended the immunity so as to bar state law tort claims based upon the very same conduct already immunized by the *Noerr-Pennington* doctrine in federal claims. *See Brownsville Golden Age Nursing Home, Inc. v. Wells*, 839 F.2d 155, 160 (3d Cir. 1988) (holding that state tort liability cannot be imposed for damage caused by the protected conduct of inducing legislative, administrative, or judicial action); *Cheminor Drugs*, 168 F.3d at 128 (holding that while the New Jersey Supreme Court has not decided whether *Noerr-Pennington* immunity extends to state law causes of action, “we have been presented with no persuasive reason why these state tort claims, based upon the same petitioning activity as the federal claims, would not be barred by the *Noerr-Pennington* doctrine.”)⁹; *see also Bristol-Meyers Squibb Co. v. Ivax Corp.*, 77 F. Supp. 2d 606, (D.N.J. 2000) (applying *Brownsville* and *Cheminor* and dismissing state law claim of unfair competition). Accordingly, absent any

⁹While *Cheminor* concerned New Jersey state law claims and the construction thereof, the parties have not pointed to and the court has not found any Pennsylvania cases which suggest that the Pennsylvania Supreme Court would hold otherwise.

argument to the contrary, this court is satisfied that judgment must also be granted in favor of Rotonics concerning PennPac's remaining state law tort claims (Counts III, IV, and V). Moreover, as explained in the following sections, despite this bar to recovery, Rotonics also is entitled to judgment in its favor on the merits of these state law claims.

Defamation and Commercial Disparagement Claims

In Count III of the complaint, PennPac alleges that it was defamed by certain statements made by Rotonics in letters sent to PennPac's customers. The Supreme Court of Pennsylvania has defined "defamatory" in the following manner: "[a] communication is defamatory if it tends so to harm the reputation of another as to lower him in the estimation of the community or to deter third persons from associating or dealing with him." *MacElree v. Philadelphia Newspapers, Inc.*, 674 A.2d 1050, 1055 (Pa. 1996) (quoting *Thomas Merton Ctr. v. Rockwell Int'l Corp.*, 442 A.2d 213, 215 (Pa. 1981)). Moreover, the meaning of an allegedly defamatory statement is determined as follows:

The test is the effect the [statement] is fairly calculated to produce, the impression it would naturally engender, in the minds of the average persons among whom it is intended to circulate.

The words must be given by judges and juries the same signification that other people are likely to attribute them.

U.S. Healthcare, Inc. v. Blue Cross of Greater Phila., 898 F.2d 914, 923 (3d Cir. 1990) (quoting *Corabi v. Curtis Publ'g Co.*, 273 A.2d 899 (Pa. 1971) (abrogated on other grounds)) (alteration in original). PennPac complains of being defamed by letters sent by Rotonics' counsel to three of PennPac's customers, Doscocil Co., Inc., Beef Products, Inc., and Stella Foods, stating that:

It has come to the attention of our client that you are using flat bottom bulk tanks which appear to be the same as those shown and claimed in U.S. Patent No. 5,105,947, and would appear to be an infringement of that patent. These flat bottom bulk tanks may have been purchased from PennPac International, Inc. of Wyndmoor, Pennsylvania. . . .

Our client has not authorized PennPac to make, use, offer for sale, or sell bulk tanks which infringe U.S. Patent No. 5,105,947.

PennPac and Rush Smith J.A. (Doc. No. 48), Exs. 30-32. PennPac argues that these letters are defamatory because the statements falsely accuse PennPac of violations of federal patent law.

Applying the above test, the court finds that the statements in Rotonics' letters could be understood to mean that PennPac was manufacturing products that infringed on Rotonics' patent and that anyone who purchased them would likewise be infringing on the '947 Patent. If untrue, such statements are capable of defamatory meaning.

Even if a statement is defamatory, however, it may not be actionable. For example, a defamatory opinion is not actionable if the factual basis for the opinion is disclosed because "a listener may choose to accept or reject [the opinion] on the basis of an independent evaluation of the facts." *Redco Corp. v. CBS, Inc.*, 758 F.2d 970, 972 (3d Cir.), *cert denied*, 474 U.S. 843 (1985). A defamatory opinion is actionable, however, "if [the] opinion is stated in a manner that implies that it draws upon unstated facts for its basis [because] the listener is unable to make an evaluation of the soundness of the opinion." *Id.* The burden is on plaintiff to show that the communicated opinion implies either an assertion of defamatory fact or the existence of undisclosed defamatory facts justifying the opinion. *See U.S. Healthcare*, 898 F.2d at 923; *Baker v. Lafayette College*, 532 A.2d 399, 402 (Pa. 1987).

Rotonics argues implicitly that the letter statements are ones of opinion and thus, are not

actionable. Defendant is partially correct. Statements of opinion are not actionable unless they imply the existence of underlying defamatory facts. *See U.S. Healthcare*, 898 F.2d at 923; *Baker*, 532 A.2d at 402. The statements by Rotonics, however, could be found to imply that the plaintiff's products actually infringe on Rotonics' patent and that anyone purchasing those products would also be infringing. Giving the benefit of every doubt to PennPac, those facts are capable of defamatory meaning. *See U.S. Healthcare*, 898 F.2d at 923; *Baker*, 532 A.2d at 402. Therefore, because the statements are actionable as defamatory opinions, Rotonics will not be entitled to judgment pursuant to this ground.

Rotonics also argues, however, that the statements are privileged because a patentee has the right to inform potential infringers and the public that they may be infringing. Under Pennsylvania law, at trial, a defendant bears the burden of proving the following affirmative defenses to a defamation claim:

- (1) The truth of the defamatory communication.
- (2) The privileged character of the occasion on which it was published.
- (3) The character of the subject matter of defamatory comment as of public concern.

42 Pa. Cons. Stat. § 8343(b) (1998). Rotonics submits that while the affirmative defense of privilege ordinarily includes a requirement of good faith, under the Federal Circuit's decision in *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir. 1999), the plaintiff has the burden of proving bad faith in all cases based upon the assertion of patent rights. Rotonics is correct.

In *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336 (Fed. Cir. 1998), *overruled on other grounds*, 175 F.3d 1356 (Fed. Cir. 1999), the Federal Circuit addressed

whether state law torts were in conflict with federal patent law and consequently preempted where a plaintiff bases its tort action on conduct protected by the patent law. *Id.* at 1335. The court started with the premise that “federal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patentholder acted in bad faith.” *Id.* at 1336 (citations omitted). Moreover, the court declared that this patent law presumption mandated that the same conduct cannot be the subject of state tort liability. *Id.* As such, the court concluded as follows:

Accordingly, in a case involving a patentholder’s conduct in obtaining or publicizing its patent, if the plaintiff were to fail to allege that the defendant patentholder was guilty of . . . bad faith in the publication of a patent, then the complaint would be dismissed for failure to state a claim upon which relief can be granted because of federal preemption. If the complaint were sufficient but the proof were not to show such conduct, then the claim would fail on the merits. . . . Although to state and maintain a claim under a state law tort, a plaintiff may not be required to allege or prove that the patentholder . . . acted in bad faith in the marketplace, to escape preemption, the plaintiff would need to allege and prove ultimately such conduct.

Id. at 1336-37. Thus, in all cases involving state tort claims premised on the conduct of a patentholder’s publication of patent rights, the court placed the burden on plaintiff to demonstrate bad faith in order to avoid federal preemption, regardless of whether bad faith is a required element of the state claim.

In *Zenith Elecs.*, the Federal Circuit extended this rationale to include claims brought under § 43(a) of the Lantham Act and Illinois common law for tortious interference. The court, noted that in prior cases such as *Hunter Douglas*, it held that “to avoid patent law preemption of such state law tort claims, bad faith must be alleged and ultimately proved, even if bad faith is

not otherwise an element of the tort claim.” *Zenith Elecs.*, 182 F.3d at 1355. Accordingly, the court concluded that “before a patentee may be held liable under § 43(a) for marketplace activity in support of its patent, and thus be deprived of the right to make statements about potential infringement of its patent, the marketplace activity must have been undertaken in bad faith,” despite the fact that bad faith is not a requisite element in § 43(a) claim. *Id.* at 1353. Thus, it is clear that because PennPac is asserting state tort claims premised upon Rotonics’ publication and assertion of patent rights, it has the added burden of proving bad faith in order to avoid federal preemption.¹⁰ *See, e.g., The Gleason Works v. Oerlikon Geartec, AG*, No. 98-CV-6275L, 2001 WL 388807, *6 (W.D.N.Y. March 30, 2001) (party asserting unfair competition claim against patentee is “charged with the task of coming forward with some affirmative evidence of bad faith in order to survive a motion for summary judgment.”); *Polyclad Laminates, Inc. v. MacDermid, Inc.*, No. CIV. 99-162-M, 2001 WL 274722, *6 (D.N.H. Feb. 13, 2001) (same - tortious interference claim); *System Mgmt. Arts Inc. v. Avesta Tech., Inc.*, 87 F. Supp. 2d 258, 271 (S.D.N.Y. 2000) (same).

Nevertheless, as the moving party Rotonics has the initial burden of pointing out the absence of evidence to support PennPac’s claims and specifically that PennPac has failed to carry its burden of showing bad faith.¹¹ As already discussed, Rotonics has met this burden. Next, the

¹⁰While neither party addresses the issue in terms of federal preemption, Rotonics does assert that *Zenith Elecs.* places the burden of proving bad faith on PennPac.

¹¹Rotonics submits that the court’s opinion in *Patient Transfer Sys., Inc. v. Patient Handling Solutions, Inc.*, No. CIV. A. 99-1568, 1999 WL 1212189, *2 (E.D. Pa. Dec. 17, 1999), misapprehended the full import of *Zenith*, which requires a plaintiff to show bad faith in all cases premised upon a patentholder’s publication of patent rights. Defendant, however, is incorrect. In *Patient Transfer*, the use of the phrase “initial burden” to describe a movant’s burden to point out the existence of a privilege is consistent with the court’s language today, that the movant’s initial

burden will shift to PennPac to show the existence of the essential elements of its claim, including the element of bad faith. As already discussed, this PennPac has failed to do. As such, judgment will be entered in favor of Rotonics as to Count III of the complaint.

Count IV of PennPac's complaint asserts that these same letter statements were also commercially disparaging. A commercially disparaging statement is one "which is intended by its publisher to be understood or which is reasonably understood to cast doubt upon the existence or extent of another's property in land, chattels or intangible things, or upon their quality, . . . if the matter is so understood by its recipient." *Menefee v. Columbia Broadcasting Sys., Inc.*, 329 A.2d 216 (Pa. 1974) (citation omitted). According to Pennsylvania law, in order to recover for commercial disparagement, a plaintiff must prove: (1) that the disparaging statement of fact is untrue or that the disparaging statement of opinion is incorrect; (2) that no privilege attaches to the statement; and (3) that the plaintiff suffered a direct pecuniary loss as a result of the disparagement. *See Menefee*, 329 A.2d at 216 (citation omitted); *see also U.S. Healthcare*, 898 F.2d at 924 (same).

Rotonics again asserts that the statements in the infringement letters were privileged because a patentee may inform potential infringers of their infringement. At trial, the plaintiff bears the burden of showing the absence of any privilege in order to succeed with his commercial disparagement claim. *See U.S. Healthcare*, 898 F.2d at 924. Moreover, *Zenith Elecs.* requires that PennPac demonstrate that Rotonics acted in bad faith. *Zenith Elecs.*, 182 F.3d at 1353-55. Despite this burden being placed on the plaintiff at trial, the defendant, as the party moving for

burden is to show the absence of evidence to support plaintiff's case. Nevertheless, to the extent that the language employed in *Patient Transfer* is unclear, the court today has clarified its intent.

summary judgment, bears the initial burden of pointing out to the court an absence of evidence that a privilege did not exist. *See Celotex*, 477 U.S. at 325. As already discussed, Rotonics has met this initial requirement thereby shifting the burden to PennPac. Moreover, I have already found that PennPac has failed to demonstrate that Rotonics acted in bad faith. As such, judgment in favor of Rotonics will be entered as to Count IV of the complaint.

Tortious Interference Claims

Pennsylvania law recognizes two distinct branches of tortious interference: with existing contractual relations and with prospective contractual relations. Nevertheless, these two distinct claims share essentially the same elements. In order to establish either claim, a plaintiff must prove:

- (1) the existence of a contractual, or prospective contractual relation between itself and a third party;
- (2) purposeful action on the part of the defendant, specifically intended to harm the existing relation, or to prevent the prospective relation from occurring;
- (3) The absence of a privilege or justification on the part of the defendant;
- (4) the occasioning of actual legal damage as a result of the defendants' conduct; and
- (5) for prospective contracts, a reasonable likelihood that the relationship would have occurred but for the interference of the defendant.

Brokerage Concepts, Inc. v. U.S. Healthcare, Inc., 140 F.3d 494, 530 (3d Cir. 1998) (citations omitted). Rotonics essentially argues that PennPac has adduced no set of facts to satisfy this test, including in some instances a failure to demonstrate an actual or likelihood of a contract, that it

suffered any actual legal loss, that Rotonics intentionally interfered with any contracts, and that Rotonics' communications with any alleged customers were not privileged. PennPac again sets forth conclusory allegations of bad faith, arguing that *Noerr-Pennington* immunity cannot apply, and states without support that it "has provided to Rotonics detailed financial documents relating to the direct monetary and temporal impact on PennPac's business resulting from the defamation advice [sic] of Rotonics to three of PennPac's customers." Pl. Mem. at 41.

I find that as a matter of law, because PennPac has failed "to make a showing sufficient to establish the existence of an element essential to [its] case," judgment will be entered for Rotonics as to Count V of the complaint. *See Celotex*, 477 U.S. at 322. By way of example, PennPac has not demonstrated the absence of privilege on the part of Rotonics. Section 768 of the Restatement (Second) of Torts sets forth the competitor's privilege to a contractual interference claim.¹² One element of the competitor's privilege is that "the actor [Rotonics] does not employ wrongful means." *Brokerage Concepts*, 140 F.3d at 530 (quoting Restatement (Second) of Torts § 768(1)(b) (1979)). Wrongful means are employed when the competitor

¹²Section 768 has been recognized by Pennsylvania courts. *See Brokerage Concepts*, 140 F.3d at 530 (citing cases). That section provides:

§ 768. Competition as Proper or Improper Interference.

(1) One who intentionally causes a third person not to enter into a prospective contractual relation with another who is his competitor or not to continue an existing contract terminable at will does not interfere improperly with the other's relation if

(a) the relation concerns a matter involved in the competition between the actor and the other and

(b) the actor does not employ wrongful means and

(c) his action does not create or continue an unlawful restraint of trade and

(d) his purpose is at least in part to advance his interest in competing with the other.

(2) The fact that one is a competitor of another for the business of a third person does not prevent his causing a breach of an existing contract with the other from being an improper interference if the contract is not terminable at will.

commits conduct that is independently actionable. *See, e.g., DP-Tek, Inc. v. AT & T Global Info. Sol'ns Co.*, 100 F.3d 828, 833-35 (10th Cir. 1996); *see also Brokerage Concepts*, 140 F.3d at 531-32 (noting that the Supreme Court of Pennsylvania has not defined the term "wrongful means," that other courts have limited the term "wrongful means" to independently actionable conduct, and making no suggestion that the Supreme Court of Pennsylvania would hold independently actionable conduct not to constitute wrongful means). Because I have already found that PennPac has failed to demonstrate that the statements contained in Rotonics' letters are independently actionable (do not give rise to actions for antitrust, unfair competition, defamation, and for commercial disparagement), no genuine issue of material fact exists as to whether Rotonics employed wrongful means by sending the aforementioned letters. Accordingly, Rotonics' competitor privilege remains intact.

Therefore, for the foregoing reasons, judgment will be entered in favor of Rotonics as to Counts I, II, III, IV, and V of the complaint.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

PENNPAC INTERNATIONAL, INC.,	:	
plaintiff/counterclaim defendant	:	CIVIL ACTION
	:	
v.	:	
	:	
ROTONICS MANUFACTURING, INC.,	:	NO. 99-CV-2890
defendant/counterclaim plaintiff,	:	
third-party plaintiff,	:	
	:	
v.	:	
	:	
RUSH SMITH,	:	
third-party defendant/	:	
third-party plaintiff,	:	

ORDER

YOHN, J.

AND NOW, this day of May, 2001, upon consideration of defendant Rotonics Manufacturing, Inc.'s motion for summary judgment and memoranda in support thereof (Doc. Nos. 43, 51) and plaintiff's response thereto (Doc. No. 47), IT IS HEREBY ORDERED that the motion for summary judgment is GRANTED and judgment is entered in favor of Rotonics Manufacturing, Inc. and against PennPac International, Inc. on all counts of plaintiff's complaint.

William H. Yohn, Jr.