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IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

MEDTRONIC SOFAMOR DANEK, INC.,

Plaintiff,

vs. No. 01-2373 GV

GARY KARLIN MICHELSON, M.D., and
KARLIN TECHNOLOGY, INC.,

Defendants.

ORDER DENYING DANEK'S MOTION TO DISMISS CERTAIN THIRD-PARTY CLAIMS

Plaintiff Medtronic Sofamor Danek ("Danek"), a medical technology company, brings this suit to declare its intellectual property and contract rights under a license agreement entered into with Defendant Karlin Technology, Inc. ("KTI"), under a separate purchase agreement[1] entered into with Defendant Gary K. Michelson, MD, ("Michelson"), an inventor, and under an assignment and guarantee executed by Michelson. The license agreement concerns threaded implants for use in spinal surgical stabilization procedures and instruments and methods related to the surgical procedures. The purchase agreement concerns non-threaded implants for use in spinal surgical procedures and instruments and methods related to the procedures.

In its second amended complaint, Danek requests declaratory relief that, by virtue of the agreements, it does not infringe

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[1] The license and purchase agreements will be referred to collectively as "the agreements."

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any patent of KTI or Michelson. Danek also seeks declaratory relief that the actions of KTI and Michelson in invoking the "best efforts" clauses of the agreements in an attempt to take back the subject technology are ineffective, null, and void. Danek requests injunctive relief to protect from others the intellectual property to which it believes it is entitled under the agreements and under the assignment and guarantee. In addition, Danek seeks damages and specific performance from KTI and Michelson based on their alleged breaches of the agreements and the assignment and guarantee. These damages sought by Danek include damages from Michelson on account of tortious interference with contract and damages from both Michelson and KTI resulting from intentional and/or negligent misrepresentation. Finally, Danek seeks declaratory relief that it is not engaged in any wrongful conduct with respect to KTI or Michelson including breaches of contract; misappropriation or derivation of inventions and/or devices; misappropriation of confidential information or trade secrets; coercion; fraud; misrepresentation; unfair competition; or any unfair, dishonest, deceptive, destructive, fraudulent, or discriminatory practices.

Both defendants have filed counterclaims against Danek seeking damages, injunctive relief, and specific performance and declaratory relief. They allege claims of patent infringement, breach of contract, conversion, unjust enrichment, fraud, misappropriation of trade secrets, unfair competition, interference with contract, and violations of the Lanham, Sherman, and Clayton Acts. In addition, Michelson has filed a

third-party complaint against Danek seeking damages and injunctive and declaratory relief for breach of contract, fraud, and violations of the Lanham Act.

Currently before the court is Danek's November 28, 2001 Federal Rule of Civil Procedure 12(b)(6) motion to dismiss Michelson's third-party claims alleging violations of the Lanham Act (fifth claim) and unjust enrichment (third claim).

In considering a Rule 12(b)(6) motion to dismiss, the court is limited to examining whether the complaint sets forth allegations sufficient to make out the elements of a cause of action. Windsor v. The Tennessean, 719 F.2d 155, 158 (6th Cir. 1983). A complaint should not be dismissed under Rule 12(b)(6) "unless it appears beyond doubt that the [p]laintiff can prove no set of facts in support of his claim which would entitle him to relief." Lillard v. Shelby County Bd. of Educ., 76 F.3d 716, 724 (6th Cir. 1996) (quoting Conley v. Gibson, 355 U.S. 41, 45-46 (1957)). In reviewing the plaintiff's complaint on a motion to dismiss, the court's duty is to "construe the complaint liberally in the plaintiff's favor and accept as true all factual allegations and permissible inferences therein." Conley, 355 U.S. at 45-46.

The court first considers whether Michelson has stated a claim for violation of the Lanham Act for which relief can be granted. In the fifth claim of his third-party complaint, Michelson alleges that Danek is liable under 15 U.S.C. § 1125 (the Lanham Act) because it failed to give "proper patent notice"

and "appropriate name recognition" in making its products based upon Michelson's technology. According to Michelson, Danek has knowingly and falsely described, claimed and/or conveyed the impression in various publications, including their advertising and marketing materials, that the products based on Michelson's technology are in fact its own inventions or the inventions of its employees, agents, or affiliates. (Third-Party Compl. ¶ 43.) As a result, Michelson (1) seeks relief for "false designation of origin" under section 43(a) of the Lanham Act, id. ¶ 44; (2) demands damages, including attorneys' fees he has sustained and will sustain, and any gains, profits, and advantages obtained by Danek as a result of its false designation of origin, id. ¶ 47; and (3) requests an injunction restraining Danek from engaging in "false designation of origin" with respect to the technologies at issue, id. ¶ 46.

In both its motion to dismiss and reply memorandum in support of the motion, Danek argues that Michelson has failed to plead the necessary elements to assert a claim for false designation under the Lanham Act, that Michelson has no cognizable Lanham Act claim, that Michelson does not have standing to bring a false designation claim under the Lanham Act, and that his Lanham Act claim simply restates Michelson's contract claim.

The Lanham Act covers trademark infringement as well as

other deceptive practices that can be loosely termed "unfair competition." Among the deceptive practices covered is the false designation of origin. The Lanham Act imposes liability on "[a]ny person who, on or in connection with any goods or services . . . uses in commerce . . . any false or misleading representation of fact, which . . . is likely to cause confusion, or to cause mistake, or to deceive . . . as to the origin . . . of his or her goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(A). A Lanham Act claim for false designation must contain two elements: (1) the false designation must have substantial economic effect on interstate commerce (the "interstate commerce" element); and (2) the false designation must create a likelihood of confusion (the "likelihood of confusion" element). Johnson v. Jones, 149 F.3d 494, 502 (6th Cir. 1998). Stated differently, the necessary elements of a false designation claim are "'an effect on interstate commerce, and a false designation of origin or false description or representation of the goods or services.'" Id. (quoting Consumers Union of the United States v. New Regina Corp., 664 F. Supp. 753, 764 n.12 (S.D.N.Y. 1997)). With regard to the latter phrasing, "[a] description of origin [is] considered false if it creates a likelihood of confusion in the consuming public." Id.

According to the Sixth Circuit, although the jurisdictional "interstate commerce" element is necessary, the "likelihood of

confusion" element is the essence of an unfair competition claim. Id. In common Lanham Act claims, the plaintiff asserts that the defendant is using a mark (e.g., trademark, service mark, etc.) so similar to the plaintiff's mark that the public is likely to confuse the defendant's product with the plaintiff's product. Id. In such cases, the Sixth Circuit looks to the following eight factors (the Frisch factors) to assess the likelihood of confusion: (1) the strength of plaintiff's mark (i.e., how well-known and distinctive it is); (2) the relatedness of the services or goods offered by plaintiff and defendant; (3) the similarity between the marks; (4) evidence of actual confusion; (5) marketing channels used by plaintiff and defendant (for example, do they advertise their products in the same way?); (6) likely degree of purchaser care and sophistication; (7) intent of defendant in selecting the mark; and (8) likelihood of expansion of the product lines using the marks. Id. at 502-03.

In less common false designation cases, however, the Sixth Circuit has recognized that the above eight factors are not likely to be helpful. Johnson v. Jones, 149 F.3d at 502, for example, was not a usual false designation case; it was a "reverse passing off case," in which one architect attempted to pass off someone else's drawings as his own. In Johnson, the Sixth Circuit noted that most of the Frisch factors were irrelevant to its false designation inquiry because the factors

all deal with the relationship between a plaintiff's and a defendant's trademarks, and trademarks were not an issue in that case.[2]

Turning now to Michelson's false designation Lanham Act claim, the court first considers whether Michelson has sufficiently alleged the "interstate commerce" element. In his third-party complaint, Michelson alleges that he is a California resident (Third-Party Compl. ¶ 6), that he is the owner and/or inventor of at least eighty-six United States patents and over 150 granted or pending foreign patents and applications, id. ¶ 1. Michelson asserts that Danek is an Indiana corporation, which does business in Tennessee, id. ¶ 8, and that his agreements with Danek involve nationwide and international exploitation of patents worth many millions of dollars, id. ¶ 12-17. Further, Michelson alleges that Danek knowingly made false designations of origin with respect to the products in various publications, id.

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2 In so finding the court stated as follows:

> The present case is slightly different from the run-of-the-mill Lanham Act case, and, as it happens, much simpler. Here, the defendant has not produced a product to which he has applied a mark so like the plaintiff's that the public is likely to believe that the product was produced by the plaintiff. Rather, the defendant has taken plaintiff's product and has represented it to be his own work. It is difficult to imagine how a designation of origin of a product could be more false, or could be more likely to cause confusion or mistake as to the actual origin of the product. We need not inquire about the distinctiveness or secondary meaning of the trademarks involved, because trademarks are not the issue. In fact, most of the eight Frisch factors are irrelevant to this inquiry because they deal with the relationship between the plaintiff's and defendant's trademarks, not their products.

Id. at 503.

¶ 43, and that such false designations have had a "substantial effect" by causing confusion in the trade and by depriving Michelson of proper credit for his inventions, id. ¶ 44-45. Such confusion, asserts Michelson, has damaged his reputation and will continue to damage his reputation. Id. The court finds that, to the extent that these false designations hinder Michelson's ability to conduct his interstate business of selling, patenting, and licensing his inventions, they affect interstate commerce. Accordingly, Michelson has plead sufficient facts to allege the "interstate commerce" element.

Next, the court considers whether Michelson has sufficiently alleged the "likelihood of confusion" element of his Lanham Act claim. With respect to this element, Michelson claims that Danek has been passing off Michelson's inventions as its own or as inventions made by Danek employees and that such false designations of origin are likely to cause confusion in the trade and in the marketplace and are likely to mislead, confuse, and deceive consumers as to the source and origin of the patented products. Id. ¶ 43.

Danek argues that Michelson has failed to properly allege the "likelihood of confusion" element because Michelson does not have a specific, cognizable mark identifying his goods, and, as a result, he has failed to allege facts relating to the eight Frisch factors, which are commonly used to evaluate the

"likelihood of confusion" prong. Danek relies on this same argument - that Michelson does not have a specific, cognizable mark identifying his goods - to asset that Michelson has no cognizable Lanham Act claim.

Nothing in 15 U.S.C. § 1125(a)(1)(A), however, requires that the plaintiff must have a cognizable mark to assert a false designation claim. In fact, the Act states that "[a]ny person who . . . uses . . . any false or misleading representation of fact, which . . . is likely to cause confusion, or to cause mistake, or to deceive . . . as to the origin . . . of his or her goods, services, or commercial activities . . . shall be liable . . . ." (emphasis added). Moreover, the Sixth Circuit said in Johnson that the "likelihood of confusion" element is equivalent to "'a false designation of origin or false description or representation of the goods or services'" which creates a likelihood of confusion in the consuming public. Johnson, 149 F.3d at 502 (citing Consumers Union of the United States, 664 F. Supp. at 764 n.12) (emphasis added). In addition, the Johnson court recognized that the eight Frisch factors would likely be unhelpful in a "reverse passing off" situation. The instant case involves a "reverse passing off" situation. As in Johnson, the false designation alleged in this case is very simple: Michelson alleges that Danek passed off his patented inventions as inventions created by Danek or its employees. And, in this case

as in Johnson, an analysis of the eight Frisch factors would not be helpful because neither Michelson nor Danek has a cognizable mark. Thus, the court finds that Michelson's allegations, even without facts relating to the eight Frisch factors, are sufficient to satisfy the "likelihood of confusion" element of a "reverse passing off" false designation claim.

Danek also argues that Michelson cannot satisfy the "likelihood of confusion" element because (1) he is a non-competitor in the market, and (2) because he alleges only a future injury, not a present injury. These arguments also fail. In Waits v. Frito-Lay, Inc., 978 F.2d 1093, 1110 (9th Cir. 1992), the Ninth Circuit specifically recognized a non-competitor's right to assert a false designation Lanham Act claim when the non-competitor has been injured commercially. With respect to present injury, in addition to Michelson's allegations that his future ability to sell or charge a premium for his inventions has been diminished due to Danek's actions, Michelson also alleges present injuries. For example, Michelson alleges that the false designation of origin "has caused . . . confusion in the trade and in the marketplace." (Third-Party Compl. ¶ 44.) He also asserts that "[i]n addition to actual damages, as a result of being deprived of proper credit, Dr. Michelson's reputation has not been enhanced commensurate with his work." Id. ¶ 45.

Finally, having found that Michelson has properly alleged

the necessary elements to assert a Lanham Act claim, the court disregards Danek's argument that Michelson's Lanham Act claim is merely a restatement of his contract claim.

The court now turns to whether Michelson has stated a claim for unjust enrichment. In the third claim of his third-party complaint, Michelson contends that Danek fraudulently induced him to enter into a Three-Party Agreement with Danek (through a company called "Holdings") and Wright Medical Technology, Inc. ("Wright"), a third party. This agreement licensed certain rights in cervical plate technology (the "MulitLock technology") to Holdings. According to Michelson, Danek (through Holdings) agreed in the Three-Party Agreement to pay Michelson a royalty of 3% of net sales of the covered products, instead of the 8% to which Michelson would have otherwise been entitled. (Third-Party Compl. ¶ 2.) As a result, Michelson asserts that Danek has obtained and continues to obtain profits equal to, at a minimum, the resulting differential of 5% of net sales of the MultiLock technology products. Id. ¶ 32. This inequitable and unjust enrichment, asserts Michelson, has come at his expense. Id. ¶ 33.

In its motion to dismiss, Danek argues that Michelson's quasi-contractual claim for unjust enrichment must be dismissed because Michelson cannot establish the requisite elements of

unjust enrichment under Tennessee law.[3] According to Danek, a claim for unjust enrichment is equitable in nature and is inapplicable when there exists an adequate remedy at law. Danek contends that, because there is an express contract between the parties in this case, Michelson's unjust enrichment claim cannot stand.

Because Michelson has also challenged the validity of the Three-Party Agreement by alleging fraud and misrepresentation on the part of Danek, (Third-Party Compl., Second Claim for Relief, ¶¶ 24-30), the court denies Danek's motion to dismiss Michelson's unjust enrichment claim. Trew v. Haggard, No. E2001-02183-COA-R3-CV, 2002 WL 1723686, at * 7 (Tenn. Ct. App. July 25, 2002) ("Courts may impose a quasi-contractual obligation where a contract is invalid or unenforceable and where the opposing party would otherwise be unjustly enriched by his receipt of goods and services."). Under the 12(b)(6) standard, the court may not dismiss a plaintiff's claim "unless it appears beyond doubt that the [p]laintiff can prove no set of facts in support of his claim which would entitle him to relief." In this case, there is still a possibility that a quasi-contractual remedy might apply if the contract at issue is invalid or unenforceable.

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[3] To establish a claim of unjust enrichment in Tennessee, a claimant must demonstrate that "'(1) there is no contract between the parties or a contract has become unenforceable or invalid; and (2) the defendant will be unjustly enriched absent a quasi-contractual obligation.'" Medical Educ. Assistance Corp., 19 S.W.3d 803, 820 (Tenn. Ct. App. 1999) (quoting Whitehaven Comm. Baptist Church v. Holloway, 973 S.W.2d 592, 596 (Tenn. Ct. App. 1998)).

For the foregoing reasons, the court denies Danek's motion to dismiss with respect to both Michelson's Lanham Act claim and his claim for unjust enrichment.

IT IS SO ORDERED.

Julia Smith Gibbons
JULIA SMITH GIBBONS
UNITED STATES CIRCUIT JUDGE
Sitting by Designation

September 5, 2002
DATE

UNITED STATES DISTRICT COURT - WESTERN DISTRICT OF TENNESSEE

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Leo Maurice Bearman
BAKER DONELSON BEARMAN & CALDWELL
First Tennessee Bank
165 Madison Avenue
20th floor
Memphis, TN 38103

Bradley E. Trammell
BAKER DONELSON BEARMAN & CALDWELL
First Tennessee Bank
165 Madison Avenue
20th floor
Memphis, TN 38103

Jack Q. Lever
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Melvin White
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Michael D. Switzer
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

William Hagedorn
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Michael D Switzer
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Ronald J. Pabis
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Melvin White
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Raphael V Lupo
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Jack Q Lever
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Ronald J. Pabis
MCDERMOTT WILL & EMERY
600 13th Street, N. W.
Washington, DC 20005

Jay S. Bowen
BOWEN RILEY WARNOCK & JACOBSON
1906 West End Ave.
Nashville, TN 37203

Taylor Cates
BOWEN RILEY WARNOCK & JACOBSON
1906 West End Ave.
Nashville, TN 37203

Stanley M. Gibson
JEFFER MANGELS BUTLER & MARMARO LLP
2121 Avenue of the Stars
10th Floor
Los Angeles, CA 90067

Dan P. Sedor
JEFFER MANGELS BUTLER & MARMARO LLP
2121 Avenue of the Stars
10th Floor
Los Angeles, CA 90067

Marc Marmaro
JEFFER MANGELS BUTLER & MARMARO LLP
2121 Avenue of the Stars
10th Floor
Los Angeles, CA 90067

Walker A. Matthews
KIRKLAND & ELLIS
777 S. Figueroa St.
Los Angeles, CA 90017

Robert G. Krupka
KIRKLAND & ELLIS
777 S. Figueroa St.
Los Angeles, CA 90017

Boaz M. Brickman
KIRKLAND & ELLIS
777 S. Figueroa St.
Los Angeles, CA 90017

Patricia Cirucci
KIRKLAND & ELLIS
777 S. Figueroa St.
Los Angeles, CA 90017

Marc H Cohen
KIRKLAND & ELLIS
777 S. Figueroa St.
Los Angeles, CA 90017

Diane Vescovo
OFFICE OF MAGISTRATE JUDGE DIANE K. VESCOVO
167 N. Main St., Room 341
Memphis, TN 38103

Honorable Julia Gibbons
US DISTRICT COURT