Honorable Ricardo S. Martinez 1 2 3 4 5 6 7 UNITED STATES DISTRICT COURT, WESTERN DISTRICT OF WASHINGTON 8 AT SEATTLE 9 MICROSOFT CORPORATION, Case No. 10-cv-00653-RSM 10 a Washington corporation, **DEFENDANTS' AMENDED** 11 Plaintiff, **MOTION TO DISMISS UNDER** FED. R. CIV. P. 12(b)(6) 12 V. NOTE ON MOTION CALENDAR: 13 AMISH P. SHAH, an individual, JOSE A. September 17, 2010 RIVERA, a/k/a JÁY STYLES, an 14 individual, DIGISPACE SOLÚTIONS ORAL ARGUMENT REQUESTED LLC, a California Limited Liability Company, YMULTIMEDIA LLC, a 15 California Limited Liability Company, and 16 DOES 1-50, 17 Defendants. 18 19 20 21 22 23 24 25 26 27 28 505 Fifth Ave. S., Ste. 610 AM. MOT. TO DISMISS NEWMAN & NEWMAN, Seattle, Washington 98104

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[10-cv-00653-RSM] - i

1	TABLE OF CONTENTS				
2	I.	I. INTRODUCTION1			
3	II.	FACTS ALLEGED2			
4 5		A.	Microsoft's factual allegations and legal conclusions regarding the Digispace Parties		
6		B.	Microsoft's factual allegations relating to domain name registrations2		
7 8		C.	Microsoft alleges that the Induced Persons used infringing domain names to promote a product not authorized by Microsoft		
9	III.	DISCUSSION4			
10 11		A.	Microsoft's Complaint fails to state a claim for induced violations of the ACPA because the ACPA does not provide a cause of action for induced cybersquatting.		
12			1. Congress intended relief under the ACPA to be limited to the direct cause of action identified in the text of the legislation		
1314			2. Microsoft has not plead sufficient facts to state a claim for induced liability under the ACPA even if such a claim existed		
15		B.	Microsoft has also failed to state a claim for contributory dilution 10		
16		C.	Microsoft has failed to state a claim against Rivera		
17	IV.	CONCLUSION11			
18					
19					
20					
21					
22					
23					
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MOT. TO DISMISS [10-cv-00653-RSM] - 1

I. INTRODUCTION

Defendants Digispace Solutions, LLC, yMultimedia LLC, Amish P. Shah, and Jose Rivera (the "Digispace Parties") request that the Court dismiss with prejudice Plaintiff Microsoft Corporation's claims for induced violations of the Anticybersquatting Consumer Protection Act ("ACPA"), 15 U.S.C. § 1125(d), and contributory trademark dilution under the Lanham Act, 15 U.S.C. § 1125(c). In both cases, Microsoft has failed to state a claim for relief and its claims should be dismissed.

There is no legal basis for Microsoft's claim for induced violations of the ACPA or contributory trademark dilution. Congress narrowly tailored the ACPA to provide limited relief against the actual registrant of a domain name registered with the bad faith intent to profit from the mark of another. It did not provide for liability against a party that induces such a violation. No court has ever recognized a cause of action for inducement under the ACPA. Similarly, no court has ever recognized a cause of action for induced trademark dilution. Both claims should be dismissed here.

Additionally, even if there were a viable claim for inducement under the ACPA, the allegations in Microsoft's First Amended Complaint for Damages and Equitable Relief (Dkt. No. 17) ("FAC") are insufficient. The few courts to have discussed secondary liability under the ACPA—where a person with control over the infringer may be liable—have required that the plaintiff plead sufficient facts to show that the defendant had actual knowledge of the infringement. Microsoft's FAC fails to allege such facts.

Microsoft is asking this Court to take the unprecedented step of imposing liability for induced violations of the ACPA. Despite having not identified any of the Does, any allegedly "Induced Person", or any actual damages it has suffered, Microsoft has requested many millions of dollars in statutory damages from the Digispace Parties. In truth, the Digispace Parties operate a legitimate business that provides website owners with the ability to place advertisements. They also offer online training, resources and tools for website creation. This request is especially troubling with regard to Rivera—

Microsoft's FAC includes no factual allegations indicating he has liability. The Digispace

1 Parties respectfully request the Court grant their Motion and dismiss Microsoft's claims 2 for induced violations of the ACPA, induced trademark dilution, and all of its claims 3 against Rivera with prejudice. 4 5 II. FACTS ALLEGED 6 Microsoft's factual allegations and legal conclusions regarding the Digispace A. 7 **Parties** Microsoft alleges that Digispace and yMultimedia market advertising technology 8 to end users. (See FAC at 40). Shah and Rivera are each "founders" of both Digispace 9 and yMultimedia and Shah is the Chief Executive Officer of Digispace. (Id. at ¶¶ 8-9.) 10 Microsoft broadly claims that each of the Digispace Parties: 11 12 "registered, uses, owns or co-owns one or more Infringing Domain Names and/or otherwise infringed one or more Microsoft trademarks or service 13 marks, jointly and/or severally, and directly, contributorily, and/or vicariously." 14 (Id. at ¶¶ 6-9 (emphasis added).) Microsoft defines "Named Defendants" to include all of 15 16 Digispace, yMultimedia, Shah, and Rivera, but Rivera is not otherwise mentioned in Microsoft's FAC. (See id. at preamble). 17 18 В. Microsoft's factual allegations relating to domain name registrations 19 Microsoft alleges that "Defendants" in general "registered, control, use, or own the 20 Infringing Domain Names." (Id. at ¶ 31.) But Microsoft does not identify which of the 21 Domain Names it alleges the Digispace Parties registered and which it alleges are 22 registered by the unidentified Does. 23 Some of the Domain Names must be registered to unidentified Does because the 24 FAC states that they are not registered by the Digispace Parties. Microsoft claims that the 25 **Digispace Parties** 26 "actively and intentionally induced others ('Induced Persons') to profit in 27 bad faith from and to capitalize on the goodwill associated with the Microsoft Marks by following a similar methodology of registering and 28 MOT. TO DISMISS

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[10-cv-00653-RSM] - 2

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MOT. TO DISMISS [10-cv-00653-RSM] - 3

NEWMAN & NEWMAN, ATTORNEYS AT LAW, LLP

Central webpage attached to the FAC. (Id. at ¶ 28, Ex. 3.) Smiley Central is a toolbar that 505 Fifth Ave. S., Ste. 610 Seattle, Washington 98104 (206) 274-2800

(Id. at ¶ 34.) Microsoft does not identify any of the Induced Persons or the factual basis for its allegation that any of the Induced Persons acted to profit in bad faith. Nor is it

clear whether the Induced Persons are among the unidentified Does or whether they are even included among the general term "Defendants" in Microsoft's FAC.

Instead of identifying specific parties that the Digispace Parties allegedly induced, Microsoft claims that the Digispace Parties widely "communicated with tens of thousands of persons to whom they provided information" showing how to infringe the Microsoft Marks. (Id. at ¶ 35.) But Microsoft does not allege that the Digispace Parties had knowledge of whether any of the individual Induced Persons actually had bad faith, any facts showing that they intended the Induced Persons to act in bad faith, or even that the Digispace Parties knew the identity of any of the Induced Persons.

C. Microsoft alleges that the Induced Persons used infringing domain names to promote a product not authorized by Microsoft.

One of the Microsoft Marks is MSN in connection with software products including "instant messenger programs such as MSN Messenger". (Id. at ¶ 12, 14.) Microsoft alleges that "Defendants" in general—which presumably includes the unidentified Does and/or Induced Persons—registered and used domain names containing MSN in bad faith in order to promote the Smiley Central product. (See id. at ¶¶ 35-39). Microsoft alleges that Smiley Central is not affiliated with, sponsored by, or approved by Microsoft in any way. (Id. at ¶ 27.)

Microsoft alleges that unspecified "Defendants" promoted Smiley Central based on the functional enhancement it provides the MSN Messenger program: "Defendants produced a video specifically showing how the Magic Bullet System could be used to set up a marketing campaign using Microsoft marks to sell the Smiley emoticons." (Id. at ¶ 36.) That video described the Smiley promotion as "promoting something related to Messenger." (Id. at \P 37.)

Microsoft's description of Smiley Central is consistent with the copy of the Smiley

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"works with most [instant messengers], Email and blog applications – as well as social sites like MySpace® and MSN® Spaces!" (Ex. 3, p. 2.) Smiley Central permits users to "Choose from 1000's of FREE Smileys and Emoticons" to use with instant messenger clients and the Smiley Central website specifically disclaims any relationship with Microsoft:

Any instant messaging, social networking or email systems listed above are operated by and are the trademarks of their respective owners. No affiliation with or endorsement by Smiley Central is intended or implied.

(Exhibit 3 at 2.) Finally, Microsoft's FAC does not include any factual allegations supporting its conclusion that the unidentified Induced Persons had "bad faith" towards its MSN mark when registering any of the Domain Names.

III. DISCUSSION

FED. R. CIV. P. 12(b)(6) requires the Court to dismiss when it is clear that "no relief could be granted under any set of facts that could be proved consistent with the allegations." Winn v. Ariz. Christian Sch. Tuition Org., 562 F.3d 1002, 1007 (9th Cir. 2009), cert. grant. 176 L. Ed. 2d 1218 (2010). While a court must accept all material allegations in the complaint as true and construe them in the light most favorable to the nonmoving party, conclusory allegations of law or unwarranted inferences of fact urged by the nonmoving party are insufficient to defeat a motion to dismiss. Ove v. Gwinn, 264 F.3d 817, 821 (9th Cir. 2001).

FED. R. CIV. P. 8(a)(2) requires: "A pleading which sets forth a claim for relief . . . shall contain . . . (2) a short and plain statement of the claim showing that the pleader is entitled to relief" Inadequate allegations of fact under FED. R. CIV. P. 8(a)(2) represent a proper basis for dismissal under FED. R. CIV. P. 12(b)(6); *see also* Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 556 n.3, 167 L.Ed.2d 929, 127 S.Ct. 1955, 1965 (2007) ("Rule 8(a)(2) still requires a 'showing,' rather than a blanket assertion, of entitlement to relief. Without some factual allegation in the complaint, it is hard to see how a claimant could satisfy the requirement of providing not only 'fair notice' of the nature of the claim, but also 'grounds' on which the claim rests.")

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The need for plausible factual pleadings has been underscored by <u>Ashcroft v. Iqbal</u>, 129 S. Ct. 1937 (2009). In both <u>Twombly</u> and <u>Iqbal</u>, the Supreme Court held that Rule 8(a)(2) requires "factual content [that] allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." <u>Iqbal</u>, 129 S. Ct at 1940. "[T]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements" do not suffice. <u>Id</u>. Similarly, with respect to a Rule 12(b)(6) motion, a "plaintiff's obligation to provide the 'grounds' of his 'entitle[ment]' to relief' requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." Twombly, 550 U.S. at 555.

A. Microsoft's FAC fails to state a claim for induced violations of the ACPA because the ACPA does not provide a cause of action for induced cybersquatting.

The ACPA provides for a cause of action for an owner of a distinctive mark against a person who "(i) has a bad faith intent to profit from that mark . . . and (ii) registers, traffics in, or uses a domain name that . . . is identical or confusingly similar to that mark". 15 U.S.C. § 1125(d)(1)(A)(i)-(ii). Microsoft alleges that the so called "Named Defendants" induced the unidentified "Induced Persons" to register or use various domain names (the "Domain Names") in bad faith. Microsoft does not allege that the Digispace Parties themselves registered, trafficked in, or used the Domain Names and has not stated a claim under the ACPA with regard to the Domain Names.

In order for Microsoft to assert liability against the Named Defendants for the Domain Names, it has asked this Court to create a new cause of action neither intended by Congress nor adopted by any court. This Court should decline to do so and dismiss Microsoft's cause of action for induced violation of the ACPA.

1. <u>Congress intended relief under the ACPA to be limited to the direct cause of action identified in the text of the legislation.</u>

The ACPA only provides for a cause of action against a domain name registrant who "registers, traffics in, or uses" a domain name confusingly similar to a plaintiff's mark. Where statutory language is clear, there is no need to review legislative history.

MOT. TO DISMISS

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See BedRoc, Ltd. v. United States, 541 U.S. 176, 183, 124 S. Ct. 1587, 158 L. Ed. 2d 338 (2004) (noting that the task of statutory interpretation "ends there [if] the text is unambiguous"); see also Vulcan Golf, LLC v. Google, Inc., 2010 U.S. Dist. LEXIS 56786 (N.D. Ill. June 9, 2010) ("The court, however, need not delve into the legislative history of the ACPA, because the statutory language is clear: A person may only be held liable for 'using' a domain name if that person is a registrant or a registrant's authorized licensee.")

Even if the statutory language were ambiguous—which it is not—the relevant legislative history shows that Congress intended the remedies under the ACPA to be "carefully and narrowly tailored". S. Rep. No. 106-140, at 12 (1999). The cause of action is only available where "the plaintiff can demonstrate that the defendant registered, trafficked in, or used" an infringing domain name. <u>Id</u>. Therefore, the only "abusive conduct that is made actionable is appropriately limited just to bad-faith registrations and uses of others' marks by persons who seek to profit unfairly from the goodwill associated therewith." Id. at 8.

Microsoft does not claim that the Digispace Parties registered the Domain Names—they were allegedly registered by the Induced Persons. (FAC at ¶ 34.) Nor can it claim that the Digispace Parties "used" the Domain Names. Under the ACPA, "use" means "the use of a domain name by the domain name registrant". S. Rep. No. 106-140, at 8. Congress further provided that "[t]he concept of 'use' does not extend to uses of the domain name made by those other than the domain name registrant" S. Rep. No. 106-140, at 8. The Digispace Parties are not "registrants" of the Domain Names and therefore cannot have made "use" of them in the manner for which Congress intended to provide a cause of action for trademark holders.

The ACPA, passed in 1999, differs from other provisions of the Lanham Act

¹ For the Court's convenience, the Digispace Parties have provided copies of all legislative materials referenced in this Motion in the Appendix of Legislative Materials attached to their previously-filed Motion to Dismiss Under Fed. R. Civ. P. 12(b)(6) (Dkt. No. 14).

governing trademark infringement. Congress intended traditional trademark infringement laws to provide much broader relief than the narrow ACPA. The Lanham Act codified the common law of trademarks:

The theory once prevailed that protection of trade-marks was entirely a State matter and that the right to a mark was a common-law right. This theory was the basis of previous national trade-mark statutes.

S. Rep. No. 1333 (1946), reprinted in 1946 U.S.C.C.A.N. 1276; See also Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 102 S. Ct. 2182, 72 L. Ed. 2d 606 (1982) (White, J. concurring) ("[T]he purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection."). Contributory trademark infringement has long been recognized under the common law. See, e.g., William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526, 530 (1924) ("The wrong was in designedly enabling the dealers to palm off the preparation as that of the respondent."); Hostetter Co. v. Brueggeman-Reinert Distilling Co., 46 F. 188, 189 (C.C.D. Mo. 1891) ("[A] person who counsels and advises another to perpetrate a fraud [on the public], and who also furnishes him the means of consummating the same, is himself a wrong-doer, and, as such, is liable for the injury inflicted.")

In passing the Lanham Act, Congress also recognized the need for a unified federal standard for trademark rights. S. Rep. No. 1333, reprinted in 1946 U.S.C.C.A.N. 1277. It noted that legislation was necessary because there is no federal common law under which federal courts could develop a national standard. S. Rep. No. 1333, reprinted in 1946 U.S.C.C.A.N. 1277. If Congress intended to provide for contributory liability under the ACPA, it would have done so. See Legal Services Corporation v. Velazquez, 531 U.S. 533, 560 (2001) (Scalia, J., dissenting) ("One determines what Congress would have done by examining what it did.")

In stark contrast with the broad scope of the original Lanham Act, Congress passed the ACPA to create a "narrow" and "limited" cause of action. Congress did not intend to provide trademark owners with the wide range of common law remedies available under the Lanham Act—including theories of contributory liability based on MOT. TO DISMISS NEWMAN & NEWMAN,

inducement. *Cf.* Campagnolo S.R.L. v. Full Speed Ahead, Inc., 2010 U.S. Dist. LEXIS 49707 (W.D. Wash. May 20, 2010) (Declining to apply particular theory of trademark liability to false advertising claim where no other cases hold that doctrine should apply.)

2. <u>Microsoft has not plead sufficient facts to state a claim for induced liability</u> under the ACPA even if such a claim existed.

No court has recognized a cause of action for induced violations of the ACPA and the case law suggests that doing so here would be inappropriate. The requirement that an ACPA plaintiff make a subjective showing of "bad faith" distinguishes the ACPA from traditional trademark-related causes of action. Ford Motor Co. v. Great Domains.com, Inc., 177 F. Supp. 2d 635 (E.D. Mich. 2001). Traditional theories of contributory liability apply to "those contributory infringers who knowingly cooperate in illegal and tortious activity." J. Thomas McCarthy, McCarthy on Trademark and Unfair Competition (2002) §§ 25:17, 18, referencing Warner & Co. v. Eli Lilly & Co., 265 U.S. 526 (1924) (applying common law concept of contributory infringement).

The <u>Ford Motor</u> case rejected the application of contributory liability to the ACPA. 177 F. Supp. 2d. That case did not involve allegations of inducement under the ACPA, but rather contributory liability based on alleged control of the direct infringer. <u>Id.</u> Ford claimed that Great Domains operated a domain name auction offering for sale domain names that were confusingly similar to Ford's trademarks. <u>Id.</u> at 640. Ford asserted that under the traditional test for contributory trademark infringement, Great Domains was liable because it exercised "direct control and monitoring" over the allegedly infringing domain names. <u>Id.</u> at 646 (*citing* <u>Lockheed Martin Co. v. Network Solutions, Inc.</u>, ² 194 F.3d 980, 984-85 (9th Cir. 1999)).

The <u>Ford Motor</u> court rejected that theory because the "bad faith" requirement under the ACPA requires a subjective showing of intent that is not required under traditional trademark infringement or unfair competition theories. <u>Id.</u> at 647. The court

² <u>Lockheed Martin</u> also involved domain names but was decided prior to the enactment of the ACPA. 194 F.3d.

dismissed Ford's cause of action for contributory cybersquatting because "Great Domains generally could not be expected to ascertain the good or bad faith intent of its vendors".

Id. Ford could not state a cause of action based upon Great Domains knowing that domain names similar to protected marks were being sold over its website. Id. That court concluded that—because of the subjective bad faith showing required—contributory liability for cybersquatting would apply "if at all, in only exceptional circumstances." Id.

While no court has recognized induced liability under the ACPA, one court recognized contributory liability under the alternative "exercise of control" theory. *See* Solid Host, NL v. Namecheap, Inc., 652 F. Supp. 2d 1092 (C.D. Cal. 2009). A plaintiff cannot plead that theory however, unless it can allege the contributory infringer had actual knowledge of the infringement and the ability to directly control and monitor the means of infringement. <u>Id</u>. at 1112.

In <u>Solid Host</u>, the trademark owner alleged that its domain name <solidhost.com> was stolen and then registered by a third party at Namecheap, a domain name registrar. <u>Id</u>. at 1096-97. Namecheap provided a privacy registration service permitting that registrant to remain anonymous. <u>Id</u>. at 1097. Solid Host contacted Namecheap and requested that it either transfer the domain or identify the actual registrant. <u>Id</u>. at 1097-98. Namecheap refused to do so. <u>Id</u>. Solid Host sued Namecheap for contributory violations of the ACPA. <u>Id</u>. at 1098. Namecheap moved to dismiss on the grounds that Solid Host failed to state a claim to relief. Id.

The <u>Solid Host</u> court denied that motion and held that Solid Host had stated a claim to relief for contributory violation of the ACPA. It determined that the plaintiff had plead the "extraordinary circumstances" suggested by the <u>Ford Motors</u> court because it alleged that the defendant provided the privacy registration service that enabled the activities of the direct infringer and had the actual ability to terminate the infringement. <u>Solid Host</u>, 652 F.Supp. 2d at 1115-16.

This case is distinguished from Solid Host. Like the plaintiff in Ford Motor,

Microsoft has not alleged any facts indicating that the Digispace Parties had the ability to

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[10-cv-00653-RSM] - 9

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Academy of Motion Picture Arts & Sciences v. Network Solutions, Inc., 989 F.Supp. NEWMAN & NEWMAN, ATTORNEYS AT LAW, LLP

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"ascertain the good or bad faith" of the Induced Persons. Rather, it claims only that the Digispace Parties "communicated with tens of thousands of persons" via their websites and distributed a video promoting infringement. (FAC at ¶ 35-37.) Microsoft alleges that some of the unidentified third parties that received that communication then registered domain names in violation of the ACPA. Microsoft does not allege that the Digispace Parties know who those third party registrants are and does not allege that the Digispace Parties had actual knowledge of subjective bad faith intent by those parties as required by Ford. This is in stark contrast to the Solid Host defendant which had actual knowledge of infringement and exclusive control over the means of infringement yet continued to provide the privacy registration service that enabled the infringement and permitted the infringer to continue its unlawful activities.

Also, although the Solid Host decision refers to "contributory" infringement, the Court found liability in part because Namecheap actually controlled the domain name at issue. 652 F.Supp. 2d at 1115-16. Such control is similar in nature to the "trafficking" and "use" prohibited under the ACPA. See 15 U.S.C. 1125(d)(1)(A)(ii). No parallel can be drawn in this case.

The ACPA does not provide for a cause of action for induced infringement. Congress did not intend for the ACPA to enable such a cause of action. No court has ever recognized such a cause of action. Even if this Court determines that a cause of action exists for induced violations of the ACPA, Microsoft has failed to plead any facts showing that the Digispace Parties had actual knowledge of the subjective bad faith intent of the direct infringers. The Court should dismiss Microsoft's claim for induced infringement of the ACPA with prejudice.

"Although courts have discussed contributory dilution, no appellate court or

statute has yet established the cause of action." Lockheed Martin, 194 F.3d at 986 (citing

В. Microsoft has also failed to state a claim for contributory dilution.

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526 (S.D.N.Y. 2008) ("even the one district court in [the Second] circuit that mentioned

1276, 1279 (C.D. Cal. 1997); see also Tiffany Inc. v. eBay, Inc., 576 F. Supp. 2d 463,

the doctrine acknowledged that it is somewhat 'novel.'") Microsoft cannot state a claim

for contributory dilution when such a claim does not exist.

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C. Microsoft has failed to state a claim against Rivera.

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Microsoft's FAC does not include sufficient factual allegations to support any of its causes of action against Defendants Rivera and those claims should be dismissed. To be personally liable for trademark infringement, corporate officers and directors must do more than merely control corporate affairs, they must personally take part in infringing activities or specifically direct employees to do so. Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001 (9th Cir. 1985). But the only factual allegations in Microsoft's FAC involving Rivera are that he founded Digispace and yMultimedia. (FAC at 7-9.) Beyond that, Microsoft merely lumps him into the defined term "Named Defendants" (id. at p. 1) and asserts that he is an agent and principal for all of the other Digispace Parties. (<u>Id</u>. at ¶ 11.) Microsoft does not allege that Rivera personally took part in infringing activities or specifically directed employees to do so and its claims against him should be dismissed.

IV. **CONCLUSION**

Microsoft is seeking millions of dollars in statutory damages against the Digispace Parties for a cause of action under the ACPA not authorized by Congress or recognized by any court. It also asks this Court to impose liability for induced trademark dilution yet another cause of action rejected by courts. Microsoft has not plead facts necessary to support its novel cause of action if it did exist. The Digispace Parties respectfully request that the Court grant their Motion and dismiss Microsoft's claims for induced violations of the ACPA and induced trademark dilution and all of its claims against Rivera with prejudice.

Case 2:10-cv-00653-RSM Document 19 Filed 08/20/10 Page 14 of 14

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