

# The District Court Split On Pleading Indirect Infringement

By **Joseph Saltiel** (May 10, 2018)

The Federal Circuit was created to bring uniformity to patent litigation and has done so, for better or for worse, on a number of patent-related issues. One issue, however, has been left unresolved for years: the standard for pleading indirect infringement. While pleading standards do not garner the excitement of other issues such as patentability or damages, it is a matter district courts are constantly forced to address. And without guidance from the Federal Circuit, district courts have diverged over the years as to what the proper indirect pleading standards should be, resulting in a lack of uniformity between courts. It is inherently unjust for judges to apply the laws inconsistently. Hence, the Federal Circuit (or Congress) should resolve this district court split.



Joseph Saltiel

## Pleading Indirect Patent Infringement

Indirect patent infringement, whether it is contributory patent infringement or induced patent infringement, differs from direct patent infringement because the patent owner must show that the accused infringer had intent to infringe. Intent requires existing knowledge of the patent and knowledge of direct infringement by another. Furthermore, induced infringement requires a purposeful and culpable act that induces direct infringement by a third party. Companies often are not aware of certain patents until they are sued. In some cases patent owners notify potential infringers by sending letters identifying their patents and possible infringement. If a company continues its actions after receiving a notice letter, the notice letter likely provides a basis for the patent owner to allege a claim of indirect infringement. Many patent owners are reluctant to send a notice letter, however, because the company may respond by: filing a declaratory judgment action in a venue of its choosing, challenging the validity of the identified patent at the U.S. Patent and Trademark Office, or simply ignoring the letter. Instead, many patent owners will file suit alleging that the complaint provides the required notice of the patent and the alleged infringement.

At the time a complaint is filed, a defendant cannot instantly acquire the requisite intent for indirect infringement, which is why relying on the complaint to provide notice of a patent and direct infringement by third parties is fraught with pitfalls. First, the court technically does not have not subject matter jurisdiction because there was no indirect infringement at the time the complaint was filed. Second, the court may not have personal jurisdiction because personal jurisdiction may depend on where the future acts of indirect infringement will occur. Third, venue may be improper because venue may depend on where the future acts of indirect infringement will occur. Fourth, the patent owner may have violated Rule 11 for making an allegation it knows may not be true at the time of filing.

Moreover, relying on the complaint to provide notice makes it more difficult to establish when intent does develop. For example, it may take days, weeks or months for a complaint to be served and provided to the appropriate party. Even then, there is an issue as to whether mere notice of infringement is enough to establish intent upon receipt. That is, notice of an allegation of infringement by a third party is not necessarily the same thing as having actual knowledge of infringement by a third party. For example, in *Gammino v. Cellco Partnership*,<sup>[1]</sup> the district court held that continued activity after receipt of notice of patent infringement letter was insufficient by itself to establish intent to induce infringement.

If the mere allegation is not enough, a defendant should be allowed additional time to investigate the issue and make a determination as to whether there is infringement and if they need to cease any such activity. The situation can be even more complicated when a defendant is unable to make a determination as to whether a third party is directly infringing. Finally, it is unclear if a patentee should be able to establish intent by relying solely on litigation conduct by the defendant, or if indirect infringement should require something more by the defendant than merely defending litigation.

Because notice and intent are not necessarily straightforward issues, district courts have taken different approaches in analyzing whether a plaintiff has properly pled a claim of indirect infringement by relying on the complaint to establish the requisite intent. The district courts are aware of the different approaches, but have continued to split on the proper standard because the Federal Circuit has yet to decide which approach is correct. For example, in *Script Security Solutions LLC v. Amazon.com Inc.*[2], the district court acknowledged that there has been no guidance from the Federal Circuit and then identified the three most common approaches taken by various district courts to resolve this issue. Those three approaches are as follows.

### **Three Approaches**

#### ***Plaintiffs should not be allowed to use the complaint to establish intent.***

Early decisions addressing this issue held that it is insufficient to rely on a complaint (even an earlier filed complaint) to provide the requisite knowledge for a defendant to be liable for indirect infringement. The most cited case for this position is *Proxyconn Inc. v. Microsoft Corp.*[3] Proxyconn argued that requiring facts other than the filing of the lawsuit promotes judicial economy and preserves the parties' resources by encouraging resolution prior to litigation. Proxyconn believed that these types of cases could have easily been resolved through settlement or cessation of the identified activity. Allowing such complaints wastes the courts' valuable resources. Furthermore, it allows the plaintiff to force potentially unnecessary litigation costs on the defendant and/or higher settlement amounts. Very few courts, however, have followed Proxyconn.[4]

#### ***Plaintiffs should be allowed to use the complaint to establish intent.***

Most courts, such as *Amazon.com*[5] have held that plaintiffs may rely on a complaint to provide the requisite knowledge for a defendant to be liable for indirect infringement. One decision, *Cap Co. Ltd. v. McAfee Inc.* [6], expressly rebuts the arguments made in *Proxyconn*. McAfee does not believe requiring presuit knowledge will lead to more out-of-court resolutions. Instead, McAfee predicts it would lead to more judicial activity. The plaintiff could file a notice complaint pleading direct infringement and then later amend their pleading to add indirect infringement. Alternatively, the plaintiff could send a notice letter prompting a defendant to gain an advantage by filing a declaratory judgment action in a more favorable venue (and possibly creating a venue dispute). McAfee points out that the complaint provides knowledge of a patent and the alleged activity when served. If the defendant continues any activity after that point, the defendant should be liable and should not be able to escape liability on a technicality. If the defendant ceases the activity, the plaintiff would likely drop its suit.

#### ***Some courts find a middle ground.***

The third approach, as advocated by *Zond Inc. v. SK Hynix Inc.*,[7] involves taking the middle position that allows a plaintiff to use an earlier served complaint to establish the

defendant's knowledge of infringement and then allowing the plaintiff to add the indirect infringement allegations in a later amended complaint. For the reasons identified above, these courts understand that allowing a plaintiff to establish the elements of indirect infringement instantaneously by initiating litigation is problematic. On the other hand, making a plaintiff perform extra notice steps once a defendant already knows about a patent (through a complaint), or allowing a defendant to escape liability because the plaintiff was too eager to file litigation, are not optimal solutions either. Interestingly, some courts conflate the McAfee and Zond approaches when the issue is first raised with respect to an amended complaint. For example, in *Intellicheck Mobilisa v. Honeywell*,<sup>[8]</sup> the district court held that notice of the patents in the original complaint was sufficient to support an indirect infringement claim in the amended complaint without indicating if the original complaint was sufficient.

### **Resolving the Split**

When district courts do not apply a common standard, it injects uncertainty into litigation. The uncertainty is even worse in this situation because judges within the same district do not apply the same standard. Until it is resolved by the Federal Circuit, this uncertainty will continue to make litigation more expensive for both sides because parties will continue to litigate what the proper pleading standard should be. It is important for the Federal Circuit to remove the uncertainty.

Unfortunately, each of aforementioned approaches employed by the district solutions are problematic. Not allowing a complaint to serve as notice ignores that it can serve that function and may allow a defendant to avoid liability on a technicality. On the other hand, allowing the complaint to serve as notice favors the plaintiff by eviscerating the intent requirement. The middle approach is also unavailing to both parties. It allows plaintiffs to circumvent non-litigation resolutions and use litigation costs to pressure defendants into settlements. It also requires both parties to spend time and money filing and responding to amended pleadings. While these solutions are imperfect, by resolving the split and setting a standard, the Federal Circuit will at least remove uncertainty from the litigation process making it fairer and less expensive for both parties.

### **Another Alternative**

The likelihood of the Federal Circuit resolving the district court split in the short term is slim. This split has been known for years, but the Federal Circuit has not addressed it. Even if the Federal Circuit addresses the split, none of the known solutions are ideal. An alternative approach would be to have Congress resolve the issue by clarifying and codifying the pleading standard for indirect infringement. Congress could also provide for a prelitigation exchange in order to plead indirect infringement similar to procedures for abbreviated new drug application and Biologics Price Competition and Innovation Act cases.

For example, Congress could provide the ability for the plaintiff to elect a procedure where it sends a notice letter to another party identifying patents and the alleged infringement. The defendant, if it opted to, would have time to investigate the claims and respond, e.g., 60 days. After the end of the response period, the plaintiff would have additional time to decide how to proceed, e.g., 30 days. Congress could mandate that if this procedure is invoked, a plaintiff would not be allowed to commence any legal proceedings during the response period, and a defendant would not be allowed to commence any legal proceedings, e.g., declaratory judgment, in partes review, etc., until after the plaintiff's reply period concludes. A prelitigation exchange would allow the parties an opportunity to resolve the issue without litigation, preserve the plaintiff's ability to choose the forum, and potentially reduce court

congestion. Although not perfect, it would resolve the court split and solve many of the problems associated with the various standards employed by the district courts today.

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*Joseph Saltiel is a partner at Dinsmore & Shohl LLP.*

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[1] 527 F. Supp. 2d 395, 399 (E.D. Pa. 2007).

[2] 170 F. Supp. 3d 929 (E.D. Tex. 2016).

[3] 2012 U.S. Dist. LEXIS 70614 at \*12-19 (C.D. Cal. May 16, 2012).

[4] Orlando Communs. LLC v. LG Elecs., 2015 U.S. Dist. LEXIS 33845 (M.D. Fl. Mar.16, 2015).

[5] See also Finjan, Inc. v. ESET, LLC, 2017 U.S. Dist. LEXIS 40784 (S.D. Cal. Mar. 21, 2017); Smart Wearable Techs. V. Fitbit, Inc., 274 F. Supp. 3d 371 (W.D. Va. 2017).

[6] 2015 U.S. Dist. LEXIS 83522 at \*10-15 (N.D. Cal. June 26, 2015).

[7] 2014 U.S. Dist. LEXIS 12201 at \*9-11 (D. Mass. Jan. 31, 2014).

[8] 2017 U.S. Dist. LEXIS 193618 (W.D. Was. Nov. 21, 2017).