

1                                    IN THE UNITED STATES DISTRICT COURT  
2                                    FOR THE NORTHERN DISTRICT OF CALIFORNIA

3  
4 CALIFORNIA INSTITUTE OF COMPUTER  
5 ASSISTED SURGERY, INC., a  
6 California corporation,

7                                    Plaintiff,

8                                    v.

9 MED-SURGICAL SERVICES, INC., a  
10 California corporation; KRISHNA  
11 SUDHAKARAN, an individual; MARK  
12 KIENE, an individual,

13                                    Defendants.  
14 \_\_\_\_\_/

No. C 10-05067 CW

ORDER DENYING  
DEFENDANTS'  
MOTIONS TO DISMISS  
(Docket No. 15 &  
18)

15                                    Plaintiff California Institute of Computer Assisted Surgery,  
16 Inc. (CICAS) has filed suit against Defendants Med-Surgical  
17 Services, Inc., Krishna Sudhakaran and Mark Kiene, alleging  
18 infringement of four patents. On December 10, 2010, Defendants  
19 filed a motion to dismiss the claims against Kiene. Docket No.  
20 15. On December 16, 2010, Defendants moved to dismiss the claims  
21 against Med-Surgical Services, Inc. and Sudhakaran. Docket No.  
22 18. Plaintiff CICAS opposes both motions. On January 20, 2011,  
23 the Court held a hearing on the motion. Having considered all of  
24 the parties' submission and oral argument, the Court DENIES  
25 Defendants' motions to dismiss.

26                                    BACKGROUND

27                                    CICAS alleges that the patents in dispute in this action are  
28 embodied in CBYON Systems, a medical device that enhances the

1 ability of a surgeon to access a target site within a patient.  
2 The four patents are No. 6,167,296, entitled, "Method for  
3 Volumetric Image Navigation," ('296 Patent), issued on December  
4 26, 2000; No. 6,591,130, entitled, "Method of Image Enhanced  
5 Endoscopy at a Patient Site," ('130 Patent), issued on July 8,  
6 2003; No. 6,529,758, entitled, "Method and Apparatus For  
7 Volumetric Image Navigation," ('758 Patent), issued on March 4,  
8 2003; and No. 6,850,794, entitled, "Endoscopic Targeting Method  
9 and System," ('794 Patent), issued on February 1, 2005. The  
10 patents identify Ramin Shahidi as the inventor, and the Board of  
11 Trustees of Stanford University as the assignee. Plaintiff CICAS  
12 alleges that the four patents were assigned to it.

14           CICAS contends that Defendant Med-Surgical is currently  
15 "doing business as CBYON," and has sold CBYON systems, equipment,  
16 tools, components, consumables, software and inventory, in  
17 addition to repair and maintenance services. CICAS alleges that  
18 Med-Surgical has never had a license to the patents. According to  
19 CICAS, Med-Surgical utilizes CBYON Systems on a "fee-per-case"  
20 basis, deploying the system for a fee to hospitals on a per  
21 surgery or method basis with or without assistance from a  
22 qualified technician supporting the surgical procedure.

24           Defendant Sudhakaran is the founder of Med-Surgical, and now  
25 its Chief Executive Officer. Defendant Kiene has been or is  
26 currently Med-Surgical's Chief Operating Officer and a sales agent  
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1 on behalf of Med-Surgical. Med-Surgical's founders and principals  
2 are former agents of a company known as CBYON, Inc.

3 CICAS alleges that Defendants have engaged in direct patent  
4 infringement, the inducement of patent infringement and  
5 contributory patent infringement of all four patents.

6 The complaint at issue in these two motions is the third  
7 CICAS has filed against Med-Surgical alleging infringement of the  
8 four patents. On May 12, 2010, CICAS first filed suit against  
9 Med-Surgical asserting the identical causes of action. That suit  
10 was given case number C 10-2042 CW. On August 3, 2010, the Court  
11 granted Med-Surgical's motion to dismiss and granted leave to  
12 amend, ruling that the complaint lacked allegations of specific  
13 facts to support an inference of patent infringement.

14 On August 24, 2010, CICAS filed an amended complaint, adding  
15 more factual allegations and naming Kiene and Sudhakaran as  
16 defendants. On September 14, 2010, Med-Surgical answered CICAS'  
17 complaint and filed counterclaims against CICAS and Ramin Shahidi,  
18 the Chief Executive Officer of CICAS, seeking a declaratory  
19 judgment of non-infringement and alleging tortious interference  
20 with contractual and prospective business relations. Med-  
21 Surgical's counterclaim included in its exhibits a May 21, 2004  
22 letter agreement between CBYON, Inc. and Med-Surgical, providing  
23 for Med-Surgical's purchase of CBYON's Fee Per Case Services  
24 business, as well as its business providing service and support to  
25 existing CBYON image guidance system customers. Because CBYON was  
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1 in bankruptcy at the time of the agreement, the Bankruptcy Court  
2 reviewed the agreement and approved it on June 4, 2004.

3 On September 20, 2010, Kiene and Sudhakaran moved to dismiss  
4 the claims against them. On September 23, 2010, Med-Surgical  
5 moved for summary judgment, asserting among other things that  
6 CICAS was a suspended corporation and, thus, was precluded from  
7 exercising the powers, rights and privileges of a corporation in  
8 good standing, including the right to sue. On September 29, 2010,  
9 CICAS filed a motion to dismiss its entire action voluntarily,  
10 without prejudice. Med-Surgical filed a statement of non-  
11 opposition to the motion. On October 15, 2010, the Court granted  
12 the motion, dismissing the action without ruling on the merits of  
13 the pending motion to dismiss and the motion for summary judgment.  
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15 On November 9, 2010, CICA renewed its charges of patent  
16 infringement against Defendants by filing the present case.

#### 17 LEGAL STANDARD

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19 A complaint must contain a "short and plain statement of the  
20 claim showing that the pleader is entitled to relief." Fed. R.  
21 Civ. P. 8(a). Dismissal under Rule 12(b)(6) for failure to state  
22 a claim is appropriate only when the complaint does not give the  
23 defendant fair notice of a legally cognizable claim and the  
24 grounds on which it rests. Bell Atl. Corp. v. Twombly, 550 U.S.  
25 544, 555 (2007). In considering whether the complaint is  
26 sufficient to state a claim, the court will take all material  
27 allegations as true and construe them in the light most favorable  
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1 to the plaintiff. NL Indus., Inc. v. Kaplan, 792 F.2d 896, 898  
2 (9th Cir. 1986). However, this principle is inapplicable to legal  
3 conclusions; "threadbare recitals of the elements of a cause of  
4 action, supported by mere conclusory statements," are not taken as  
5 true. Ashcroft v. Iqbal, \_\_\_ U.S. \_\_\_, 129 S.Ct. 1937, 1949-50  
6 (2009) (citing Twombly, 550 U.S. at 555).

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8 DISCUSSION

9 Title 35 U.S.C. § 271 defines patent infringement as the  
10 making, using, offering to sell, or selling without authority of  
11 any patented invention within the United States or the importation  
12 to the United States of any patented invention. Actively inducing  
13 infringement of a patent is actionable under 35 U.S.C. § 271 (b).  
14 Importing, offering to sell or selling a component of a patented  
15 device or a material or apparatus used in a patented process that  
16 constitutes a material part of the invention is actionable as  
17 contributory infringement. 35 U.S.C. § 271(c).

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19 I. CICAS' Standing to Bring Patent Infringement Claims

20 "The general rule is that one seeking to recover money  
21 damages for infringement of a United States patent (an action 'at  
22 law') must have the legal title to the patent during the time of  
23 the infringement." Arachnid, Inc. v. Merit Industries, Inc., 939  
24 F.2d 1574, 1579 (Fed. Cir. 1991) (emphasis in original). An  
25 exception to this general rule is made "where the assignment of a  
26 patent is coupled with an assignment of a right of action for past  
27 infringements." Id. "The authorities are uniform that the latter  
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1 assignment must be express, and can not be inferred from an  
2 assignment of the patent itself." Id. at 1579 n.7 (citing Moore  
3 v. Marsh, 74 U.S. 515, 522 (1868)).

4 Although there are no allegations as to when the infringement  
5 began, or when or how CICAS received the assignment, CICAS alleges  
6 that it currently owns the patents and the infringement is  
7 ongoing. Furthermore, CICAS seeks injunctive relief for the  
8 alleged continuing infringement. The pleadings, therefore, are  
9 sufficient to support CICAS' standing to assert its claims.  
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## 11 II. Sufficiency of CICAS' Patent Infringement Claims

### 12 A. Direct Infringement by Sudharakan and Kiene

13 Defendants do not attack the sufficiency of the pleading of  
14 direct infringement against Med-Surgical, but instead contend that  
15 CICAS failed to state such a claim against Sudharakan as an  
16 individual because the complaint insufficiently alleges facts in  
17 support of an alter ego theory. "Ordinarily, a corporation is  
18 regarded as a legal entity, separate and distinct from its  
19 stockholders, officers and directors, with separate and distinct  
20 liabilities and obligations." Electro Sources, LLC v. Nyko  
21 Technologies, Inc., 2002 WL 34536682, at \* 8 (C.D. Cal.). Where  
22 the corporate privilege has been abused, the "corporate veil" may  
23 be pierced, holding the equitable owner of a corporation liable  
24 for the corporation's actions. Id. Under the alter ego doctrine,  
25 such a claim requires allegations of "a unity of interest and  
26 ownership between the corporation and its equitable owner that the  
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1 separate personalities of the corporation and the shareholder do  
2 not in reality exist," and "an inequitable result if the acts in  
3 question are treated as those of the corporation alone." Sonora  
4 Diamond Corp. v. Superior Court, 83 Cal. App. 4th 523, 526  
5 (2000); see also, Doe v. Unocal Corp., 248 F.3d 915, 926 (9th Cir.  
6 2001). "The purpose of the doctrine is not to protect every  
7 unsatisfied creditor, but rather to afford him protection, where  
8 some conduct amounting to bad faith makes it inequitable . . . for  
9 the equitable owner of a corporation to hide behind its corporate  
10 veil." Associated Vendors, Inc. v. Oakland Meat Co., 210 Cal.  
11 App. 2d 825, 842 (1962).

12  
13 CICAS has sufficiently alleged an alter ego theory to assert  
14 individual liability on the part of Sudhakaran. CICAS has alleged  
15 that Sudhakaran is Med-Surgical's Chief Executive Officer,  
16 director, and the corporation's controlling shareholder. CICAS  
17 has further alleged that "Sudhakaran formed Med-Surgical solely  
18 for the purpose of carrying on infringing activity without a  
19 license and undercapitalized." Compl. at ¶ 46. Defendants cite  
20 Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544, 552  
21 (Fed. Cir. 1990) and A. Stucki Co. v. Worthington Indus., Inc.,  
22 849 F.2d 593, 596 (Fed. Cir. 1988), in support of their challenge  
23 to the sufficiency of these allegations. Both of these cases  
24 found insufficient evidence to support a judgment against  
25 individual defendants. Here, on a motion to dismiss, CICAS'  
26 pleading is sufficient to allege individual liability against  
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1 Sudhakaran under an alter ego theory for purposes of its claims  
2 for direct infringement, as well as its claims for contributory  
3 infringement and inducement of infringement.

4 CICAS concedes that it did not allege facts to support  
5 Kiene's individual liability under the alter ego doctrine.  
6 However, CICAS asserts that it stated a claim that Kiene is  
7 individually liable for direct infringement because the complaint  
8 alleges that Kiene directly infringed the patents after his  
9 employment with Med-Surgical. CICAS alleges that Kiene was a  
10 sales agent, and alleges on information and belief that "Kiene  
11 personally provided case support of CBYON Systems including set-up  
12 and operation of CBYON equipment for surgical cases." Compl. at  
13 ¶¶ 10 & 40. CICAS has alleged infringing conduct by Kiene, which  
14 may provide for a viable claim, if CICAS can prove that Kiene  
15 worked as an independent contractor. Thus, CICAS has stated a  
16 claim for direct infringement against Kiene individually.

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19 B. Inducement of Infringement

20 "Whoever actively induces infringement of a patent shall be  
21 liable as an infringer." 35 U.S.C. § 271(b). A claim for  
22 inducing infringement requires that there has been a direct  
23 infringement, and that the alleged infringer knowingly induced  
24 infringement and possessed specific intent to encourage another's  
25 infringement. ACCO Brands, Inc. v. ABA Locks Mfrs. Co. Ltd., 501  
26 F.3d 1307, 1312 (Fed. Cir. 2007). Defendants argue that CICAS  
27 failed to allege facts in support of the necessary elements.  
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1 First, CICAS argues that it sufficiently plead direct  
2 infringement by alleging that Defendants deployed the CBYON System  
3 at various hospitals on a fee-per-case basis. Defendants contend  
4 that this allegation is deficient because it does not name the  
5 hospitals where the CBYON System was used, nor does it otherwise  
6 identify the customers allegedly induced by Defendants to  
7 infringe. A list of customers is not necessary; Defendants know  
8 who their customers are. Further, Med-Surgical's answer to CICAS'  
9 complaint in a prior action included an attachment with a list of  
10 hospitals that were CBYON fee-per-case customers. Although  
11 generally, "[i]n determining the propriety of a Rule(b)(6)  
12 dismissal, the court may not look beyond the complaint to a  
13 plaintiff's moving papers, such as a memorandum in opposition to a  
14 defendant's motion to dismiss," Schneider v. Cal. Dept. of  
15 Corrections, 151 F.3d 1194, 1197 (9th Cir. 1998), the Court may  
16 consider a document that Med-Surgical has already filed with the  
17 Court.  
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19  
20 CICAS has also sufficiently alleged knowledge of the patents  
21 and intent to infringe because both can be inferred from the  
22 advertising on Med-Surgical's website. CICAS submitted a screen  
23 shot of the website as an exhibit to its complaint. Med-  
24 Surgical's website describes Perspective Volumetric Navigation and  
25 Image Enhanced Endoscopy as patented. The titles of these  
26 technologies correspond to the titles of the four patents that are  
27 the basis for this complaint. CICAS provided actual notice to  
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1 Defendants, asserting its rights to the patented technology, but  
2 Defendants allegedly continue their infringement. Compl. at ¶ 44.

3 Furthermore, one can infer from the information on the  
4 website, publicizing the technologies, offering brochures  
5 describing the products and users' manuals, as well as listing  
6 company customers, that Defendants were advertising and intended  
7 to use or sell the technologies. See In re Bill of Lading  
8 Transmission and Processing System Patent Litig., 695 F. Supp. 2d  
9 680, 684-85 (S.D. Ohio 2010) ("To prove such specific intent, a  
10 plaintiff must come forward with evidence of active steps . . .  
11 taken to encourage direct infringement, such as advertising an  
12 infringing use or instructing how to engage in an infringing use,  
13 [or] show an affirmative intent that the product be used to  
14 infringe.") (quoting DSU Medical Corp. v. JMS Co., Ltd., 471 F.3d  
15 1293, 1305 (Fed. Cir. 2006)).

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18 CICAS' allegations satisfy the requirement to plead knowledge  
19 and intent.

20 Defendants further argue that CICAS has failed to state a  
21 claim for inducement by alleging that Defendants sell repairs,  
22 maintenance, and calibration of CBYON systems. "[M]ere  
23 replacement of individual unpatented parts, one at a time, whether  
24 of the same part repeatedly or different parts successively, is no  
25 more than the lawful right of the owner to repair his property."  
26 Aro Manufacturing Co. v. Convertible Top Replacement Co., 365 U.S.  
27 336, 346 (1961). However, a subsequent decision by the Supreme  
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1 Court in the Aro litigation clarified that when a structure is  
2 unlicensed even the repairs may constitute infringement. 377 U.S.  
3 476, 480-82 (1964). CICAS alleges that Defendants did not have a  
4 license for the CBYON system. Thus, the complaint pleads a  
5 plausible claim for inducement of infringement based on the  
6 provision of repairs and maintenance services.

7  
8 Because the Court has found that CICAS has sufficiently plead  
9 Sudhakaran's individual liability under an alter ego theory, he  
10 could be liable for inducing infringement under the same theory.

11 C. Contributory Infringement

12 Contributory infringement is the sale or offer to sell within  
13 the United States of a component or apparatus for use in a  
14 patented process that has no use except through practice of the  
15 patented method. See Alloc, Inc. v. International Trade Com'n.,  
16 342 F.3d 1361, 1374 (Fed Cir. 2003). 35 U.S.C. § 271(c) states,

17  
18 Whoever offers to sell or sells within the United States  
19 or imports into the United States a component of a  
20 patented machine, manufacture, combination or  
21 composition, or a material or apparatus for use in  
22 practicing a patented process, constituting a material  
part of the invention, knowing the same to be especially  
made or especially adapted for use in an infringement of  
such patent, and not a staple article or commodity of  
commerce suitable for substantial noninfringing use,  
shall be liable as a contributory infringer.

23 CICAS has alleged contributory infringement by Defendants  
24 through their sale of CYBON Systems, and related parts and  
25 components, as well as their sale of replacement parts.  
26 Defendants contend that CICAS has failed to state a claim for  
27 contributory infringement due to insufficient allegations as to  
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1 (1) Defendants' knowledge of the patents-in-suit at the time of  
2 the infringement; (2) the identities of the direct infringers; and  
3 (3) the lack of a substantial non-infringing use for the  
4 components. For the reasons explained above, CICAS has plead  
5 sufficient facts regarding Defendants' purported knowledge of the  
6 patents, and the identities of the direct infringers. The  
7 remaining issue is whether CICAS adequately alleged the absence of  
8 a substantial, non-infringing use for the components allegedly  
9 sold. The Court finds that CICAS has satisfied this requirement  
10 because it asserted that the items were "material" and  
11 "specifically adapted" for use in CBYON Systems.<sup>1</sup>

12  
13 CONCLUSION

14 The Court finds that CICAS has sufficiently stated claims for  
15 individual liability against Sudhakaran and Kiene for direct  
16 infringement. The Court further finds that CICAS has stated  
17 claims against Defendants for inducement of infringement and  
18 contributory infringement, although the sale of repair services  
19 does not support the claim for contributory infringement.  
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21  
22 <sup>1</sup> CICAS also argues that the sale of repair services in  
23 violation of a patent constitutes contributory infringement and  
24 inducement of infringement. However, PharmaStem Therapeutics,  
25 Inc. v. ViaCell, Inc. provides that the sale of a service that  
26 assists another in committing patent infringement may be the basis  
27 for liability for inducement of infringement, but not for  
28 contributory infringement. 491 F.3d 1342, 1357 (Fed. Cir. 2007).  
Thus, while a defendant can be liable for contributory  
infringement if its customers directly infringe, Aro  
Manufacturing, 365 U.S. at 341, such infringement must be based on  
a component of a patented product, or a material or apparatus for  
use in a patented process, not the provision of a service.

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Accordingly, Defendants' motions to dismiss are DENIED. Docket  
Nos. 15 & 18.

IT IS SO ORDERED.

Dated: 2/16/2011

  
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CLAUDIA WILKEN  
United States District Judge