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

ADOBE SYSTEMS INCORPORATED,

Plaintiff,

v.

KELORA SYSTEMS LLC,

Defendant.

No. C 11-3938 CW

ORDER GRANTING
DEFENDANT'S MOTION
TO DISMISS
(Docket No. 23)

_____ /

Plaintiff Adobe Systems Incorporated brings this action against Defendant Kelora Systems, LLC seeking a declaratory judgment of non-infringement, invalidity and intervening rights as to all or part of U.S. Patent No. 6,275,821 ('821 patent). Kelora moves to dismiss for lack of subject matter jurisdiction. Having considered the parties' submissions and oral arguments, the Court GRANTS Kelora's motion to dismiss.

BACKGROUND

Kelora is the owner of the '821 patent, which claims methods related to executing a guided parametric search. First Amended Complaint (1AC) ¶ 12. Adobe develops and sells many software programs for computers and electronics, including such technologies as Acrobat, Flash and PostScript. Id. at ¶ 10. Adobe also provides web hosting and other merchandising and data analytics services, such as through its Omniture business. Id.

On November 8, 2010, Kelora filed an action in the Western District of Wisconsin, Kelora v. Target, asserting infringement of

United States District Court
For the Northern District of California

1 the '821 patent. Id. at ¶ 13.¹ In the complaint, Kelora named
2 more than ten defendants, including OfficeMax, Incorporated,
3 retailers whom Kelora alleged infringed the '821 patent by using
4 the patented search methods on their retail websites. Id. Kelora
5 did not name or refer to Adobe in the Wisconsin action. However,
6 Adobe alleges that Kelora's allegations against OfficeMax rest "at
7 least in part" on OfficeMax's use of technology provided by Adobe.
8 Id. Adobe submits a copy of the claim chart for the '821 patent
9 produced by Kelora in Kelora v. Target, Wolff Decl. ¶ 4, Ex. E,
10 and states that Kelora purports to accuse the Adobe technology
11 licensed by OfficeMax in this chart, Opp., at 2. However, the
12 claim chart does not refer to or mention Adobe or any other third-
13 party provider. Adobe has also made no claim in its complaint
14 that its technology covers all steps contained in the claim chart,
15 nor has it provided evidence that it does. At the hearing, Adobe
16 stated that it provides its licensees with the core functionality
17 for the accused technology. Adobe also stated that, for some
18 clients, rather than providing them the licensed technology, Adobe
19 maintains it on Adobe's own servers and processes searches on the
20 clients' websites itself, and that Kelora's accusations thus
21 implicate not just Adobe's technology but also its own actions.

22 Kelora has also sent letters to at least thirty-two other
23 entities, alleging infringement of the '821 patent. Id.; Wolff
24 Decl. ¶ 3. In Adobe's complaint, it states that Kelora's
25 allegations against these entities, whom Adobe describes as

26
27 ¹ The Wisconsin action was subsequently transferred to this
28 Court and assigned No. C11-1548.

1 "purported licensees" of Adobe technology, are based on the use of
2 technology that appears to have been provided "at least in part"
3 by Adobe. 1AC, at ¶ 13. At the hearing, Adobe clarified that
4 these "purported licensees" are actual licensees of Adobe
5 technology. Adobe has provided copies of letters sent by Kelora
6 to four Adobe licensees. See Wolff Decl. ¶ 3, Exs. A, B, C, D.
7 In these letters, Kelora states that the company to whom the
8 letter is addressed has infringed the '821 patent through its use
9 of parametric search on its website. None of the letters refers
10 to Adobe or any other specific provider of search functionality.
11 See Wolff Decl. ¶ 3, Exs. C, D. Adobe has received
12 indemnification demands from some of its licensees who have been
13 approached or sued by Kelora. Wolff Decl. ¶ 3. Adobe did not
14 allege that it has a legal obligation to provide indemnification
15 to its licensees or provide evidence that it does. At the
16 hearing, Adobe stated that its contracts with its licensees
17 contain terms that legally oblige Adobe to indemnify its licensees
18 against claims such as those brought by Kelora.

19 On August 11, 2011, in Kelora v. Target, C11-1548,² OfficeMax
20 filed a third-party complaint against Adobe, alleging that
21 OfficeMax had, through its predecessor company, contracted with an
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23 ² A court may consider "matters of judicial notice" without
24 converting a motion to dismiss into a motion for summary judgment.
25 United States v. Ritchie, 342 F.3d 903, 908 (9th Cir. 2003).
26 Facts are judicially noticeable if they are "capable of accurate
27 and ready determination by resort to sources whose accuracy cannot
28 be reasonably questioned." Id. The publicly available docket
entries in Kelora v. Target are thus subject to judicial notice.

1 entity now owned by Adobe, for various search tools and
2 professional services, which serve the basis of Kelora's suit
3 against OfficeMax. Third-Party Complaint in C11-1548, Docket
4 No. 335, ¶¶ 6-9. In the third-party complaint, OfficeMax alleged
5 that Adobe had a duty to defend and indemnify OfficeMax for its
6 expenses in defending against Kelora's action and for any
7 settlement or judgment arising therefrom, under the terms of
8 certain agreements between OfficeMax and Adobe. Id. at ¶¶ 13-14.
9 OfficeMax further alleged that Adobe has not agreed fully to
10 indemnify and defend OfficeMax from Kelora's lawsuit. Id. at
11 ¶ 10. Adobe has submitted a declaration in the instant case
12 stating that on August 5, 2011, Adobe "accepted the tender of
13 defense and indemnity from OfficeMax regarding the infringement
14 claims" and that OfficeMax acknowledged this on August 8, 2011.
15 Wolff Decl. ¶ 2. Notably, the declaration does not state that
16 Adobe had done so pursuant to a legal obligation to indemnify
17 OfficeMax. On November 30, 2011, OfficeMax voluntarily dismissed
18 its third-party complaint against Adobe without prejudice.

19 On August 10, 2011, Adobe filed this action under the
20 Declaratory Judgment Act, 28 U.S.C. § 2201, "so that Adobe may
21 ascertain its rights regarding the '821 patent." 1AC ¶ 22. Adobe
22 seeks declaratory judgment that Adobe technology does not infringe
23 on the '821 patent, and of invalidity and intervening rights.
24 Kelora now moves to dismiss Adobe's complaint, arguing that the
25 Court lacks subject matter jurisdiction over it because there is
26 no substantial controversy between itself and Adobe.

1 LEGAL STANDARD

2 Subject matter jurisdiction is a threshold issue which goes
3 to the power of the court to hear the case. Federal subject
4 matter jurisdiction must exist at the time the action is
5 commenced. Morongo Band of Mission Indians v. Cal. State Bd. of
6 Equalization, 858 F.2d 1376, 1380 (9th Cir. 1988). A federal
7 court is presumed to lack subject matter jurisdiction until the
8 contrary affirmatively appears. Stock W., Inc. v. Confederated
9 Tribes, 873 F.2d 1221, 1225 (9th Cir. 1989).

10 Dismissal is appropriate under Rule 12(b)(1) when the
11 district court lacks subject matter jurisdiction over the claim.
12 Fed. R. Civ. P. 12(b)(1). A Rule 12(b)(1) motion may either be a
13 facial attack on the sufficiency of the pleadings to establish
14 federal jurisdiction, or allege an actual lack of jurisdiction
15 which exists despite the formal sufficiency of the complaint.
16 Thornhill Publ'g Co. v. Gen. Tel. & Elecs. Corp., 594 F.2d 730,
17 733 (9th Cir. 1979); Roberts v. Corrothers, 812 F.2d 1173, 1177
18 (9th Cir. 1987). Once the defendant has introduced evidence of an
19 actual lack of jurisdiction, the plaintiff "must furnish
20 affidavits or other evidence necessary to satisfy its burden of
21 establishing subject matter jurisdiction." Savage v. Glendale
22 Union High Sch., 343 F.3d 1036, 1039 n.2 (9th Cir. 2003).

23 DISCUSSION

24 The Declaratory Judgment Act, in accordance with Article III
25 of the Constitution, requires an "actual controversy" before the
26 Court "may declare the rights and other legal relations of any
27 interested party seeking such declaration." 28 U.S.C. § 2201(a).
28 A plaintiff may establish that jurisdiction is proper only where

1 "the facts alleged, under all the circumstances, show that there
2 is a substantial controversy, between parties having adverse legal
3 interests, of sufficient immediacy and reality to warrant the
4 issuance of a declaratory judgment." MedImmune, Inc. v.
5 Genentech, Inc., 549 U.S. 118, 127 (2007) (citing Md. Casualty Co.
6 v. Pacific Coal & Oil Co., 312 U.S. 270 (1941)). This "adverse
7 legal interest" requires a "dispute as to a legal right--for
8 example, an underlying legal cause of action that the declaratory
9 defendant could have brought or threatened to bring." Arris Group
10 Inc. v. British Telecommunications PLC, 639 F.3d 1368, 1374 (Fed.
11 Cir. 2011). Under the "all the circumstances" test, courts have
12 "unique and substantial discretion in deciding whether to declare
13 the rights of litigants." MedImmune, Inc., 549 U.S. at 136
14 (internal citations omitted).

15 "Prior to MedImmune, the Federal Circuit generally required
16 that a declaratory judgment plaintiff in a patent dispute
17 demonstrate: '(1) conduct by the patentee that created a
18 'reasonable apprehension' of suit on the part of the declaratory
19 judgment plaintiff and (2) present activity by the declaratory
20 judgment plaintiff that could constitute infringement or
21 'meaningful preparation' to conduct potentially infringing
22 activity.'" Proofpoint, Inc. v. Innova Patent Licensing, LLC,
23 2011 WL 4915847, at *2 (N.D. Cal.) (quoting Prasco, LLC v. Medicis
24 Pharm. Corp., 537 F.3d 1329, 1336 (Fed. Cir. 2008). "Although
25 MedImmune requires courts to eschew bright-line rules for
26 exercising declaratory jurisdiction, numerous decisions have found
27 that the factors included in the Federal Circuit's previous two-
28 part test remain relevant to the 'all the circumstances'

1 analysis." Id. This Court has previously recognized that the
2 MedImmune decision "lowered the bar for a plaintiff to bring a
3 declaratory judgment action in a patent dispute." Fujitsu Ltd. v.
4 Nanya Technology Corp., 2008 WL 3539503, at *3 (N.D. Cal.)
5 (quoting Frederick Goldman, Inc. v. West, 2007 WL 1989291, at *3
6 (S.D. N.Y.)) (internal formatting omitted). The Federal Circuit
7 has more recently held that, while MedImmune did relax the prior
8 rule, "declaratory judgment jurisdiction will not arise merely on
9 the basis that a party learns of the existence of an adversely
10 held patent, or even perceives that such a patent poses a risk of
11 infringement, in the absence of some affirmative act by the
12 patentee" directed at the specific plaintiffs. Ass'n for
13 Molecular Pathology v. United States PTO, 653 F.3d 1329, 1344,
14 1348 (Fed. Cir. 2011).

15 Adobe argues that declaratory jurisdiction is appropriate
16 because (1) Kelora's claims against Adobe's licensees exposes
17 Adobe itself to claims for direct and indirect infringement; and
18 (2) Kelora's claims against Adobe's licensees triggers a duty by
19 Adobe to defend and indemnify them against Kelora's claims.

20 I. Jurisdiction Based on Exposure to Liability

21 In order to establish an "actual controversy" based on
22 enforcement activity by a patent holder, the plaintiff seeking
23 declaratory judgment must show that the patent holder took some
24 affirmative acts directed at that plaintiff, not just broad and
25 widespread enforcement activity. See Ass'n for Molecular
26 Pathology, 653 F.3d at 1344-48; see also Proofpoint, 2011 WL
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1 4915847, at *3 (relying on Ass'n for Molecular Pathology to find
2 no affirmative acts supporting declaratory judgment jurisdiction
3 where there were no allegations that the patent holder "claimed a
4 right to a royalty from [the supplier], sent [the supplier] a
5 cease-and-desist letter, or communicated with [the supplier's]
6 employees"). Here, Adobe has not alleged that Kelora has
7 communicated with Adobe at all before Adobe instituted this suit.
8 Further, while Kelora contacted some Adobe customers, the evidence
9 that Adobe has put forward shows that Kelora did not mention Adobe
10 in those third-party communications or state that Adobe's products
11 were the basis for the enforcement actions against those third
12 parties. In the cases cited by Adobe, although the patentee did
13 not directly contact the plaintiff, the patentee's demand letters
14 to the plaintiff's clients specifically referred to the plaintiff
15 or its products by name and identified the products and services
16 provided by the plaintiff as the infringing items. See Arris
17 Group, Inc., 639 F.3d at 1377 (describing in depth how "BT
18 explicitly and repeatedly singled out Arris' products used in
19 Cable One's network to support its infringement contentions"
20 before finding that, under all of the circumstances, there was a
21 dispute between Arris and BT sufficient to constitute a case or
22 controversy); D&R Communications, LLC v. Garrett, 2011 WL 2418246,
23 at *4 (D. N.J.) (finding jurisdiction based on Garrett's letters
24 to D&R's clients alleging that D&R products and services violated
25 Garrett's patent); Microsoft Corp. v. Phoenix Solutions, Inc., 741

1 F. Supp. 2d 1156, 1157-61 (C.D. Cal. 2010) (finding an actual
2 controversy between Phoenix and Microsoft where "Phoenix
3 specifically alleges that the Tellme IVR system provided by
4 Microsoft to American Express infringes the patents-in-suit");
5 Arrowhead Industrial Water, Inc. v. Ecolochem, Inc., 846 F.2d 731,
6 736 (Fed. Cir. 1988) (letters to a customer "citing Arrowhead and
7 only Arrowhead and saying Arrowhead is not licensed").
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9 Further, in cases where a court found a controversy based on
10 infringement claims made against a declaratory plaintiff's
11 customers, the defendant asserted infringement claims against the
12 customers based on facts which, if proven, would compel the
13 conclusion that the plaintiff itself had also directly infringed.
14 While Adobe stated at the hearing that it provided its customers
15 with all of the technology that Kelora alleges is infringing, this
16 was not alleged in the complaint or demonstrated by the evidence
17 that Adobe submitted with its opposition. While Adobe points to
18 the claims chart produced by Kelora in Kelora's case against
19 OfficeMax and says that Kelora's claims are based on the search
20 techniques that OfficeMax uses on its website, Adobe does not make
21 clear which steps on the claims chart are performed using Adobe's
22 technology and states that Kelora's accusations rest "in part on
23 the alleged use . . . of Adobe technology." Opp. at 5.
24 Accordingly, Adobe has not made a showing that a finding of
25 infringement on the part of OfficeMax or any of its other
26 customers would necessarily imply that Adobe has also infringed,
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1 or, conversely, that a finding that Adobe's products do not
2 infringe would necessarily imply that its customers do not use
3 Adobe's products in an infringing way.

4 Adobe has also not made allegations or presented evidence
5 sufficient to support a finding that there is a controversy as to
6 its liability for contributory infringement. "To establish
7 contributory infringement, a patent owner must show: '(1) that
8 there is direct infringement, 2) that the accused infringer had
9 knowledge of the patent, 3) that the component has no substantial
10 noninfringing uses, and 4) that the component is a material part
11 of the invention.'" Proofpoint, 2011 WL 4915847, at *5 n.4
12 (quoting Fujitsu Ltd. v. Netgear Inc., 620 F.3d 1321, 1326 (Fed.
13 Cir. 2010)). Adobe has not alleged, or pointed to allegations,
14 that its products cannot be used without infringing the '821
15 patent and there is no indication that Adobe had the requisite
16 knowledge or intent for indirect infringement. See Ours Tech.,
17 Inc. v. Data Drive Thru, Inc., 645 F. Supp. 2d 830, 839 (N.D. Cal.
18 2009) ("The Federal Circuit held there was no indication that
19 Microchip had contributed to or induced infringement by its
20 customers, because there was no evidence that Microchip's
21 technology could not be used without infringing Chamberlain's
22 patent or that Microchip had the required level of intent to cause
23 and encourage the alleged infringement.") (citing Microchip Tech.
24 Inc. v. Chamberlain Group, Inc., 441 F.3d 936, 944 (Fed. Cir.
25 2006)).
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1 However, given Adobe's representations at the hearing that it
2 does in fact provide, and in some cases, continue to maintain all
3 of the technology that Kelora alleges is infringing, it appears
4 that Adobe will be able truthfully to amend its complaint to
5 remedy these deficiencies.

6 II. Jurisdiction based on Duty to Indemnify

7 Adobe argues that it has a separate basis for jurisdiction
8 based on its duty to indemnify its licensees against Kelora's
9 claims. Adobe bases its argument that indemnity is an alternative
10 basis for declaratory judgment on the Federal Circuit's language
11 in Arris, in which the court stated,

12 that, where a patent holder accuses customers of direct
13 infringement based on the sale or use of a supplier's
14 equipment, the supplier has standing to commence a
15 declaratory judgment action if (a) the supplier is
16 obligated to indemnify its customers from infringement
17 liability, or (b) there is a controversy between the
18 patentee and the supplier as to the supplier's liability
19 for induced or contributory infringement based on the
20 alleged acts of direct infringement by its customers.

21 Arris, 639 F.3d at 1375. However, in that case, the court did not
22 reach the issue of subject matter jurisdiction based on
23 indemnification obligations, because it found that jurisdiction
24 under the second prong. Id.

25 At least one court has found subject matter jurisdiction
26 where there was a clear legal obligation to indemnify customers.
27 See WS Packaging Group, Inc. v. Global Commerce Group, 505 F.
28 Supp. 2d 561, 566-67 (E.D. Wis. 2007) (declaratory action
plaintiff had a clear obligation to indemnify customers under the
Wisconsin UCC and there was imminent personal threat of lawsuits
against plaintiff's clients). However, courts have been unwilling

1 to find jurisdiction where there have been "mere allegations of
2 indemnity obligations," instead of a clear legal obligation.
3 Proofpoint, 2011 WL 4915847, at *5 (declining to find an actual
4 controversy where plaintiff "has not alleged the existence of a
5 valid agreement nor described its supposed obligations," but has
6 only indicated that the prosecution activities have "spawned
7 indemnity 'requests'"). See also Microchip, 441 F.3d at 944
8 ("Microchip has not produced any agreement indemnifying a customer
9 against infringement of the patents-in-suit."); Ours Technology,
10 Inc., 645 F. Supp. 2d at 839 (declining to find an actual
11 controversy where "the court has been provided with no agreement
12 or other written document evidencing a legal basis for the
13 [customers] to have been indemnified by OTI" and thus the fact
14 that OTI agreed to indemnify them "fails to carry any weight, let
15 alone enough weight to create an adverse legal interest").

16 Here, Adobe has not alleged or demonstrated that it has any
17 legal obligation to indemnify OfficeMax or any other customer.
18 Thus, even though Adobe had agreed to indemnify OfficeMax, it may
19 have volunteered to do so, without a legal obligation.
20 Accordingly, the indemnification demands do not give rise to
21 subject matter jurisdiction by themselves. However, because Adobe
22 stated at the hearing that it is contractually obliged to
23 indemnify its licensees, it appears that Adobe will be able to
24 easily remedy this deficiency.

25 CONCLUSION

26 For the foregoing reasons, Kelora's motion to dismiss (Docket
27 No. 23) is GRANTED with leave to amend. Adobe may file and serve
28 on Kelora a second amended complaint within seven days of the date

1 of this Order. Kelora may file a motion to dismiss the second
2 amended complaint within seven days thereafter. Any subsequent
3 motion to dismiss will be decided on the papers.

4 IT IS SO ORDERED.

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6 Dated: 12/7/2011

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9 CLAUDIA WILKEN
10 United States District Judge
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