

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

U.S. ETHERNET INNOVATIONS, LLC,

No. C 13-2262 CW

Plaintiff,

ORDER GRANTING
NETGEAR'S MOTION
TO DISMISS AND
GRANTING USEI
LEAVE TO AMEND
(Docket No. 58)

v.

NETGEAR, INC.

Defendant.

_____ /

Defendant Netgear, Inc. has filed a renewed motion to dismiss the complaint for patent infringement filed against it by Plaintiff U.S. Ethernet Innovations, Inc. (USEI). USEI opposes the motion. Having considered the papers filed by the parties, the Court GRANTS Netgear's renewed motion. The Court also GRANTS USEI leave to amend its complaint.

BACKGROUND

USEI initiated this action on June 22, 2012 in the United States District Court for the Eastern District of Texas. Compl., Docket No. 1.

In its complaint, USEI alleges that it is the owner of United States Patent Nos. 5,732,094 (the '094 Patent), 5,434,872 (the '872 Patent), 5,530,874 (the '874 Patent), and 5,299,313 (the '313 Patent), which are collectively referred to as the patents-in-suit. Id. at ¶ 1. It contends that "Netgear has made, used, imported, and/or sold and/or continues to make, use, import, and/or sell the technology claimed by" the patents-in-suit "in systems and methods without USEI's permission." Id. at ¶ 2.

United States District Court
For the Northern District of California

1 USEI asserts four counts against Netgear in the complaint.
2 In its first count, it alleges, "Without a license or permission
3 from USEI, Defendant has infringed and continues to infringe one
4 or more claims of the '094 Patent, directly, contributorily,
5 and/or by inducement, by importing, making, using, offering for
6 sale, and/or selling products and devices which embody the
7 patented invention, including, without limitation, one or more of
8 the Accused Products." Id. at ¶ 17. It further alleges that
9 Netgear "directly contributes to and induces infringement by
10 supplying infringing systems and components to Defendant's
11 customers" and that these "customers who purchase systems and
12 components thereof and operate such systems and components thereof
13 in accordance with Defendant's instructions directly infringe one
14 or more claims of the '094 Patent." Id. at ¶ 18. It contends
15 that these actions caused USEI damage and that Netgear "has had
16 actual or constructive knowledge of the '094 Patent, yet continues
17 to infringe." Id. at 19-20. In the second, third and fourth
18 count, USEI makes identical allegations regarding the '872 Patent,
19 the '874 Patent and the '313 Patent respectively. Id. at
20 ¶¶ 22-25, 27-30, 32-35.

21 On September 4, 2012, Netgear initially filed its motion to
22 dismiss. Docket No. 18.

23 After the motion to dismiss was fully briefed, Netgear filed
24 a motion to change venue to this district. Docket No. 25. On
25 March 27, 2013, the district court in the Eastern District of
26 Texas granted the motion to change venue and later denied USEI's
27 motion for reconsideration of the transfer order. Docket Nos. 32,
28 37.

1 and is known by the party 'to be especially made or especially
2 adapted for use in an infringement of such patent.'" In re Bill
3 of Lading, 681 F.3d at 1337 (quoting 35 U.S.C. § 271(c)). "To
4 state a claim for contributory infringement, therefore, a
5 plaintiff must, among other things, plead facts that allow an
6 inference that the components sold or offered for sale have no
7 substantial non-infringing uses." Id. (citing Cross Med. Prods.,
8 Inc. v. Medtronic Sofamor Danek, Inc., 424 F.3d 1293, 1312 (Fed.
9 Cir. 2005)).

10 Netgear argues that USEI failed "to plead facts sufficient to
11 allow an inference that . . . the Accused Products have no
12 substantial non-infringing uses, or are especially made or
13 especially adapted for use in an infringement." Renewed Mot.,
14 Docket No. 58, 8-9.² USEI responds that it has plead sufficient
15 facts from which such reasonable inference can be drawn.

16 _____
17 ² Netgear contends that, "in a parallel case" with "identical
18 allegations," the "presiding court" in the Eastern District of
19 Texas "rejected USEI's argument" and "held" that these allegations
20 were sufficient. Reply, Docket No. 62, 1-3 (citing U.S. Ethernet
21 Innovations, LLC v. Digi Int'l, Inc., Case No. 12-366 (E.D. Tex.
22 Apr. 2, 2013), Docket No. 187). Although Netgear did not cite
this purportedly persuasive authority in its opening briefing, it
relied on it heavily in its reply brief to support its arguments
not only on contributory infringement but also on induced and
willful infringement.

23 However, the presiding court never made the holdings that
24 Netgear claims that it did. The document that Netgear cites as
25 the order of the Eastern District of Texas is in fact a report and
26 recommendation from the Magistrate Judge to the presiding court,
27 recommending that the defendants' motion to dismiss be granted.
28 See Digi Int'l, Docket No. 187. In that order, the Magistrate
Judge also granted USEI leave to amend its complaint. Id. at 7.
The presiding District Judge did not adopt the Magistrate Judge's
recommendation that the motion to dismiss be granted. Instead,
because USEI had in fact amended its complaint, the court denied
the motion to dismiss as moot in light of the amended pleading.
Digi Int'l, Docket No. 225, 1-2.

1 In its complaint, USEI pleads that the accused products
2 "embody the patented invention" and that customers who operate
3 Netgear's products in accordance with its instructions directly
4 infringe on the patents-in-suit. See, e.g., Compl. ¶¶ 17-18. It
5 argues in its opposition that this allegation "allows an inference
6 that the components sold or offered for sale have no substantial
7 non-infringing uses and that the product[s are] especially made or
8 especially adapted for use in an infringement." Opp., Docket No.
9 60, 3-4.

10 USEI's argument is not persuasive. Even drawing all
11 reasonable inferences in favor of USEI, these allegations simply
12 do not imply what USEI contends. In fact, the allegation that the
13 products infringe if used in accordance with Netgear's
14 instructions implies that the products can be used in a non-
15 infringing manner if used in a way that deviates from those
16 instructions. The relevant inquiry for contributory infringement
17 is not whether the products can be used only for infringement when
18 the defendants' instructions are followed. Instead, the Federal
19 Circuit has stated clearly that "[f]or the purposes of
20 contributory infringement, the inquiry focuses on whether the
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23 The Court reminds Netgear's counsel of their obligation under
24 Federal Rule of Civil Procedure 11 not to make misleading or false
25 statements to the Court. Netgear's counsel are cautioned that,
26 even if they inadvertently failed to recognize that the document
27 that they cited was a report and recommendation that was never
28 adopted by the presiding judge, misstatements such as the ones
made in their reply brief cast a pall upon their credibility as a
whole. The Court also notes that, because Netgear chose to cite
the Digi Int'l document for the first time in its reply brief--
even though it was issued several months before it filed the
renewed motion to dismiss--USEI was deprived of the opportunity to
point out Netgear's mischaracterization of that document.

1 accused products can be used for purposes other than
2 infringement." In re Bill of Lading, 681 F.3d at 1337.

3 Accordingly, the Court finds that USEI has failed to state a
4 claim for contributory infringement of the patents-in-suit and
5 grants Netgear's motion to dismiss the claims for contributory
6 infringement.

7 B. Induced infringement

8 "Whoever actively induces infringement of a patent shall be
9 liable as an infringer." 35 U.S.C. § 271(b). "Liability under
10 § 271(b) 'requires knowledge that the induced acts constitute
11 patent infringement.'" In re Bill of Lading, 681 F.3d at 1339
12 (quoting Global-Tech Appliances, Inc. v. SEB S.A., 131 S. Ct.
13 2060, 2068 (2011)). Thus, to plead a claim for induced
14 infringement adequately, USEI's complaint "must contain facts
15 plausibly showing that [Netgear] specifically intended [its]
16 customers to infringe the [patents-in-suit] and knew that the
17 customer's acts constituted infringement." Id.

18 Netgear contends that USEI has not adequately plead that it
19 intended for its customers to infringe on the patents-in-suit or
20 that it knew that the customers' acts constituted infringement.

21 Drawing all reasonable inferences in favor of USEI, the Court
22 finds that USEI has adequately plead that Netgear specifically
23 intended for its customers to carry out the acts that constituted
24 infringement of USEI's patents. USEI has plead that Netgear
25 provided instructions to its customers on how to use its products
26 and that, when the customers operated the products as instructed
27 by Netgear, they directly infringed the patents-in-suit.

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1 However, USEI has not adequately plead that Netgear knew that
2 these acts would constitute patent infringement. With regard to
3 Netgear's knowledge of such facts, USEI pleads only that
4 "Defendant has had actual or constructive knowledge of the
5 [patents-in-suit]." See, e.g., Compl. ¶ 20. Although USEI
6 alleges that Netgear is aware of the patents at issue, it does not
7 allege that Netgear knew that the acts that it encouraged its
8 customers to take constituted infringement thereof.

9 Accordingly, the Court finds that USEI has failed to state a
10 claim for induced infringement of the patents-in-suit and grants
11 Netgear's motion to dismiss the claims for induced infringement.

12 II. Willful infringement

13 "To willfully infringe a patent, the patent must exist, and
14 one must have knowledge of it." State Indus., Inc. v. A.O. Smith
15 Corp., 751 F.2d 1226, 1236 (Fed. Cir. 1986) (emphasis in
16 original). However, "a mere 'allegation of "actual knowledge,"
17 without more,' is not enough to state a claim for willful
18 infringement." Robert Bosch Healthcare Sys., Inc. v. Express MD
19 Solutions, LLC, 2012 WL 2803617, at *3 (N.D. Cal.) (quoting
20 Vasudevan Software, Inc. v. TIBCO Software Inc., 2012 WL 1831543,
21 at *4 (N.D. Cal.)). "Infringement is willful when the infringer
22 was aware of the asserted patent, but nonetheless acted despite an
23 objectively high likelihood that its actions constituted
24 infringement of a valid patent." i4i Ltd. P'ship v. Microsoft
25 Corp., 598 F.3d 831, 861 (Fed. Cir. 2010) (citing In re Seagate
26 Tech., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007)).

27 Here, as stated above, USEI has merely alleged that Netgear
28 had "actual or constructive knowledge" of the relevant patents.

1 This is not enough to state a claim for willful infringement.
2 Accordingly, the Court grants Netgear's motion to dismiss the
3 allegations of willful infringement.

4 CONCLUSION

5 For the reasons set forth above, the Court GRANTS Netgear's
6 renewed motion to dismiss. The Court also GRANTS USEI leave to
7 amend its pleading to remedy the deficiencies identified herein
8 within two weeks of the date of this Order, provided that it is
9 able to do so truthfully.

10 If USEI files an amended complaint, Netgear shall respond to
11 it within fourteen days after it is filed. If Netgear moves to
12 dismiss the amended complaint, USEI shall respond to the motion
13 within fourteen days after it is filed. Netgear's reply, if
14 necessary, shall be due seven days thereafter. Any motion to
15 dismiss will be decided on the papers.

16 IT IS SO ORDERED.

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18 Dated: 8/12/2013

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CLAUDIA WILKEN
United States District Judge