

Macronix Ruling Revives Twombly Questions In Patent Cases

Law360, New York (March 25, 2014, 1:34 PM ET) -- One hallmark of 2014 so far has been the proliferation of efforts by Congress and others to stem the tide of baseless patent infringement lawsuits by nonpracticing entities or "patent trolls." Recently, Senior Judge Robert Payne in the United States District Court for the Eastern District of Virginia issued a decision in *Macronix International Co. Ltd. v. Spansion Inc.*,^[1] a case involving a practicing entity, in which he laid out in detail how he thinks such reform can be effected without legislation or rule changes.

In his ruling, Judge Payne calls into question the decisions of the United States Court of Appeals for the Federal Circuit in *McZeal v. Sprint Nextel Corp.*^[2] and *In re Bill of Lading*,^[3] and along the way breathes new life into an issue most patent litigators considered to be a dead letter: the legal sufficiency of patent infringement complaints modeled on Form 18 of the Appendix to the Federal Rules of Civil Procedure.

Judge Payne's decision has revived questions about how the U.S. Supreme Court's decision in *Bell Atlantic Corp. v. Twombly*^[4] impacts complaints for patent infringement. In *Twombly*, the Supreme Court held, in the context of an alleged antitrust conspiracy, that to survive a motion to dismiss a complaint must plead enough facts to state a claim to relief that is plausible on its face.^[5]

The case spurred dozens of news reports in the legal trade press, filled volumes of law review articles, and in the years since has spawned countless motions to dismiss, not only in federal court but in the many states whose jurisprudence has evolved to adopt the pleading standard espoused by the *Twombly* court. *Twombly* was appropriately hailed by civil litigators as a possible sea change in pleading practice, initially just in the antitrust realm, but soon after across all litigation practices, especially once its reach was clarified to extend to all federal civil actions in *Ashcroft v. Iqbal*.^[6]

For a brief time, patent litigators, especially those defending against infringement claims, hoped the same would prove to be true in their practice. Those hopes were quickly dashed just a few weeks after *Twombly*, when the United States Court of Appeals for the Federal Circuit issued its opinion in *McZeal*.

In *McZeal*, the Federal Circuit held that a complaint for direct patent infringement that complied with the Form 18 (at that time Form 16) model complaint appended to the Rules of Civil Procedure was *per se* sufficient under the Rules.^[7] According to the Federal Circuit, the Supreme Court cannot amend the Rules of Civil Procedure, or by extension the forms accompanying those rules, and absent such an amendment, a complaint that adheres to the form must be presumptively sufficient to withstand a motion to dismiss. The court couched its ruling as supporting *Twombly* by confirming that, in its view, the form provided the requisite notice of a plaintiff's claim and the "grounds on which it rests."

In fact, the court in *Twombly* suggested that the forms retained efficacy despite its ruling, observing that

if the complaint there were for negligence rather than antitrust violations, and followed the corresponding form, a defendant could reasonably respond. There is no form complaint provided in the rules for an antitrust case, and Twombly's outcome appeared to many to spring from the expense and complexity of antitrust litigation.[8] After McZeal, patent litigators widely accepted that a complaint for direct patent infringement that satisfied the bare requirements of Form 18 was not, at least for that reason, susceptible of dismissal under Fed. R. Civ. P. 12(b)(6).

Although McZeal closed the door to Twombly motions for actions of direct infringement, patent litigators continued to rely on Twombly, and later Iqbal, in support of motions to dismiss formulaic claims for indirect patent infringement, for which the rules do not provide a form. In 2012, the Federal Circuit limited that practice as well, holding in *In re Bill of Lading*, that although the form provided in the rules did not apply to indirect infringement claims, such claims were validly pled if a court could reasonably infer the requisite facts from the complaint.

Here again, the Federal Circuit's holding, although invoking Twombly/Iqbal, seemed to cut against the broader teachings of those decisions in favor of more cursory or formulaic pleadings. McZeal and Bill of Lading perpetuated the long-standing practice of direct and indirect infringement complaints that merely recite the identity of the accused product or process and the patent claimed to be infringed, often without ever saying which claim or claims were specifically at issue or how.

Effectively, the combination of McZeal and Bill of Lading have severely curtailed the efficacy of motions to dismiss in patent infringement cases, leaving defendants and their counsel in the position of facing lawsuits where the basis for the infringement claim, including such basic information as which claims of a patent are at issue, becomes a moving target disclosed only through discovery and susceptible to amendment at various points throughout the litigation. Critics of these Federal Circuit decisions lament that they permit — or even perpetuate — abusive litigation where plaintiffs use the specter of expensive, and often intrusive, discovery to exact settlement payments from defendants even in the face of undeveloped or questionable claims.

Judge Payne, for one, appears set on changing that dynamic. Last year, Macronix, a Taiwanese manufacturer, filed a 12-page patent infringement complaint against Spansion, accusing Spansion of infringing seven semiconductor patents.

Before Spansion's answer was due, Judge Payne issued, *sua sponte*, an order dismissing Macronix's complaint without prejudice. He first observed that the complaint did not comply with Twombly and Iqbal, and directed Macronix to file an amendment that "in all respects, conforms with the pleading requirements of Twombly and Iqbal and that, in particular recites the specific claim or claims which are alleged to be infringed, and the elements thereof that are alleged to be infringed by the allegedly infringing product, and how that product is alleged to infringe those elements." [9]

Macronix responded with a 41-page amended complaint, which Spansion timely moved to dismiss as still failing to hew closely enough to Twombly and Iqbal. Judge Payne sided with Spansion, dismissing the amended complaint, albeit again without prejudice.

Judge Payne first carefully explained his view that Rules 8 and 12 are procedural and that Fourth Circuit precedent, not the contrary Federal Circuit decisions, controlled. According to Judge Payne, Fourth Circuit precedent post-Twombly and Iqbal imposes a stricter pleading standard for patent infringement claims than is embodied by the complaint set forth in Form 18. Indeed, according to Judge Payne, "The threshold problem with McZeal and Bill of Lading is that they accord no force to either the text or

teaching of *Twombly* and *Iqbal* which require more to plead a legally sufficient claim than is set out in Form 18.”

In Judge Payne’s view, the Supreme Court in *Twombly* and *Iqbal* “set forth a new standard to be applied in assessing” the legal sufficiency of pleadings under Rule 8, retiring “notice pleading” in favor of a stricter, “plausibility pleading” standard. Although the Form 18 complaint may have satisfied the notice pleading standard, according to Judge Payne, in the wake of *Twombly* and *Iqbal*, Rule 8 “must be applied differently,” and therefore “the viability of the form must be measured against the new standard, even if the effect of doing so is to nullify the form.”

Judge Payne recognized that his decision was directly at odds with at least three decisions in the Norfolk Division of the Eastern District of Virginia, and did little to hide his intent to reform, or at least begin a new discussion about how to reform, patent litigation, which he observed is at least as complex and expensive as the antitrust cases that animated the *Twombly* decision. “Satisfying the requirements of *Twombly* and *Iqbal*, of course, will require counsel to focus complaints only on viable claims. Thus, before filing a complaint, counsel must ascertain exactly what claims should alleged to be infringed and how they are infringed.”

Judge Payne declared the current practice of filing a formulaic complaint “and then, using claim charts, prior art charts, discovery, and motions, to pare claims that ought not to have been brought or that cannot withstand careful scrutiny” as imposing too great an expense on litigants and too great a burden on the courts. He readily conceded that pleading direct patent infringement with the specificity he imposed would likely require plaintiffs to engage experts to assist them in identifying which patent claims are infringed and how, but he dismissed that as a small burden compared to the expense of such litigation overall.

In making the case for applying *Twombly/Iqbal* standard to direct infringement claims, Judge Payne appeared to speak directly to the bar, if not to the appellate courts and Congress itself: “Indeed, it is high time that counsel in patent cases do all of that work before filing a complaint. That, of course, will serve to winnow out weak (or even baseless) claims and will protect defendants from the need to prepare defenses for the many claims that inevitably fall by the way side in patent cases. That also will serve to reduce the expense and burden of this kind of litigation to both parties which, like the antitrust litigation in *Twombly*, is onerous.”

The *Macronix* decision will either prove to be a remarkably courageous attempt at patent litigation reform or a mere bump in the road for patent infringement plaintiffs. Judge Payne is a respected jurist, whose affirmance rate (greater than 60 percent) puts him in the top five in the Eastern District of Virginia,^[10] and his detailed analysis practically begs other judges to take a similar approach, with or (as he initially did) without a pending motion. He has at least established that in one court in the Rocket Docket, patent infringement complaints will be held to a higher standard than has attached until now. He has likewise given new hope (and perhaps a Rule 11 basis for a new argument) that *Twombly* and *Iqbal* can and should be applied in direct patent infringement cases elsewhere, even if their application renders the forms accompanying the rules utterly irrelevant.

At the same time, he may have ensured his decision is never directly reviewed on appeal. Judge Payne allowed leave to further amend the complaint, making his order interlocutory and probably precluding immediate review. Moreover, immediately after he issued his order, he put the pleading issue squarely in the lap of another judge, allowing *Spansion*’s motion to transfer venue to the Northern District of California, San Francisco Division. Only time will tell what that court will do with the second amended

complaint and whether other courts will follow Judge Payne's lead.

—By Christopher M. Morrison and J. Patrick Elsevier, Jones Day

Chris Morrison is a partner in Jones Day's business and tort litigation practice in Boston. Patrick Elsevier, Ph.D., is a partner in the firm's intellectual property practice in San Diego.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] Civil Action No. 3:13-CV-00679-REP (E.D. Va. Mar. 10, 2014), Docket No. 52.

[2] 501 F.3d 1354 (Fed. Cir. 2007).

[3] 681 F.3d 1323 (Fed. Cir. 2012).

[4] 550 U.S. 544 (2007).

[5] Twombly expressly rejected the long-standing "rule that a complaint should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957)

[6] 556 U.S. 662 (2009).

[7] Fed. R. Civ. P. 84 provides: "The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate."

[8] This was a reasonable interpretation at the time, since the Court made a point about the expense of antitrust litigation: "Thus, it is one thing to be cautious before dismissing an antitrust complaint in advance of discovery....but quite another to forget that proceeding to antitrust discovery can be expensive." 550 U.S. at 558-59 (citation omitted, collecting references).

[9] Case No. 3:13-CV-000679-REP, Docket No. 13, at 1.

[10] Westlaw, Judicial Reversal Report for Hon. Robert E. Payne, Jan. 2000 - Mar. 2014 (produced on Mar. 16, 2014).