

Patent Owners Face Risks In Amazon Program After Ruling

By Ryan Davis

Law360 (May 10, 2024, 9:55 PM EDT) -- The Federal Circuit ruled earlier this month that a company alleging patent infringement through Amazon's patent evaluation program must face a declaratory judgment suit in the accused infringer's home state. The holding creates a risk for patent owners who may rethink using the program, attorneys told Law360.

The e-commerce giant touts the Amazon Patent Evaluation Express program, or APEX, as a speedy and low-cost way to determine if products sold on Amazon.com likely infringe patents. However, the May 2 ruling means patent owners using the program could now have to litigate in unfavorable locations, if targeted companies file suit seeking a non-infringement decision.

"One big takeaway from this ruling is that a patentee needs to be prepared to defend a [declaratory judgment] action anywhere in the country if they decide to go through the APEX program," said Paul Ainsworth of Sterne Kessler Goldstein & Fox PLLC.

A major advantage of APEX is the ability to address multiple infringing products at once, but the decision "creates a potentially significant downside to using the program to do that," he said, since it opens the door to multiple suits in different jurisdictions at the same time.

The implications of the ruling are "certainly something that every patent holder needs to look at long and hard, so they don't get unwittingly thrown into a case" in the accused infringer's backyard, possibly before they're ready, said Des Moines, Iowa-based patent attorney Brett Trout.

Those are "potential huge ramifications," Trout said, and, "I think a lot of patent holders think, 'Well, I'll try this [program] and if it doesn't work, then I can always sue them later,' and that's just not necessarily the case."

APEX remains a useful tool for patent owners seeking a type of "enforcement light," especially against foreign infringers that are unlikely to file a declaratory judgment suit, so "I don't think it makes this an undesirable program by any stretch of the imagination," said Mike Turner of Neal Gerber & Eisenberg LLP.

The ruling means that "instead of maybe doing a broad sweep of 30 infringers all across the country with APEX, which might end up putting you in court in various venues at the same time, you may have to take a little bit more of a targeted approach," he said.

How It Works

APEX, launched in 2018, allows patent owners to ask Amazon to have a third-party evaluator determine if products sold on Amazon.com likely infringe a patent, and Amazon removes the item from the site if infringement is found.

The patent owner and the accused infringer in an APEX evaluation must deposit \$4,000 each, and the winner gets their money back. Attorneys said the procedure often takes several weeks, compared to years and hundreds of thousands of dollars for patent infringement litigation.

The Federal Circuit's decision hinged on the details of the process. Accused sellers can either proceed with the program, resolve the claim with the patent owner, or file a declaratory judgment suit. If they do nothing, their products are removed from Amazon.

When Lighting Defense Group accused Utah-based electric outlet cover maker SnapPower of infringing its electrical faceplate patent through APEX, SnapPower filed a suit in Utah seeking a judgment that it doesn't infringe.

The lower court dismissed the suit, ruling that Lighting Defense Group's filing of the APEX review request was not "purposefully directed" at Utah, so the court did not have personal jurisdiction over the company.

The Federal Circuit disagreed and reversed, holding that Lighting Defense Group foresaw or knew that its actions would be felt in Utah, because if SnapPower took no action, SnapPower's products would be removed from Amazon, which would "necessarily affect sales and activities in Utah."

What Comes Next

Sterne Kessler's Ainsworth said that in his view, "the notion that an entity can be hauled into court because the economic consequences of its actions would be felt by residents of that state does seem to stretch personal jurisdiction a bit."

However, he noted that other circuit courts have found that similar programs create jurisdiction, "so I don't think the Federal Circuit went out so far on a limb." One such decision from 2008 involved eBay's copyright evaluation system and was penned by then-Tenth Circuit Judge Neil Gorsuch.

After the Federal Circuit ruling, "you have to choose your battles carefully," Ainsworth said. Patent owners should consider whether the company they're thinking about targeting through the program is likely to respond with a lawsuit.

In this case, SnapPower is an established company that previously filed and won an infringement case over its own patents at the U.S. International Trade Commission. In contrast, many APEX actions are brought against small companies based abroad that sell knockoff products, and the program could still be worthwhile in those scenarios, attorneys said.

"There would be some uses for this," Des Moines attorney Trout said. "If it's a Chinese company that doesn't have any contacts in the U.S., maybe them filing a declaratory judgment action is not going to be an issue."

The Federal Circuit's decision "requires a more thoughtful use of the program," which could involve analyzing where the sellers are based and how many of them to target through APEX, said Charles Shih of Neal Gerber.

Shih noted that if patent owners are serious about filing an infringement suit, the ruling likely won't change where it would take place. The U.S. Supreme Court's 2017 TC Heartland decision held that patent cases must be filed where the accused infringer is incorporated or has a regular and established place of business.

Jeffrey Andrews of Yetter Coleman LLP, an attorney for Lighting Defense, said the company disagrees with the decision and "plans to seek further review on this important jurisdictional issue."

Lighting Defense argued on appeal that Federal Circuit and Supreme Court precedent makes it clear that jurisdiction must be based on "intentional conduct" in the forum. The company said its action in bringing the APEX case was directed at the state of Washington, where Amazon is based, not Utah.

Elliott Williams of Stoel Rives LLP, an attorney for SnapPower, said the company was pleased with the ruling, which he said "aligns the Federal Circuit's personal jurisdiction jurisprudence with its sister circuits on matters of extrajudicial intellectual property enforcement activities in the e-commerce context and also harmonizes the application of that law across patent, copyright, and trademark litigation matters."

He added that the ruling is consistent with TC Heartland, since under that holding, "if a patentee brought suit in court instead of using online enforcement tools, proper venue for that suit is where the infringer has a regular and established place of business and where the alleged infringement has occurred."

A representative of Amazon did not respond to a request for comment on the ruling.

Beyond Amazon

The Federal Circuit noted that sending a cease-and-desist letter alleging patent infringement, "without more," does not subject a patent owner to jurisdiction in the accused infringer's home state. But it said that APEX does have "more," since the accused infringer's products are automatically removed from Amazon if they don't respond.

The decision could inspire accused infringers to test the bounds of when they can file declaratory judgment suits based on the patent owner's actions in other scenarios, attorneys said.

"I think you're going to see lawyers all over the place trying to extrapolate this into a broader reading to apply to different cases," Trout said. Any actions that have an automatic trigger, like the removal provision in the Amazon program, could lead to an argument that jurisdiction is appropriate, so patent owners "really have to double-check what they're doing," he said.

Ainsworth of Sterne Kessler said litigants might argue that other actions that result in lost sales could provide declaratory judgment jurisdiction under the ruling, using the example of a patent owner sending infringement letters to the accused infringer's customers that cause them to stop buying a product.

It could be possible to distinguish those scenarios, but "we may see more efforts to be more aggressive in declaratory judgment suits and assertions of personal jurisdiction," he said.

The case is SnapRays d/b/a SnapPower v. Lighting Defense Group, case number 23-1184, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Kelly Duncan and Lakshna Mehta.

All Content © 2003-2024, Portfolio Media, Inc.