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## LITIGATION NEWSLETTER

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### The Federal Circuit Affirms District Court Award of Attorneys' Fees under 35 U.S.C. § 285

The Court of Appeals for the Federal Circuit ("Federal Circuit") affirmed the award of attorneys' fees by the U.S. District Court for the District of Delaware under 35 U.S.C. § 285 against Bayer in *Bayer CropScience AG v. Dow Agroscience*.

Bayer brought the underlying action against Dow alleging infringement of patents directed to *dmmg* gene soybeans genetically engineered to tolerate herbicide, and Dow responded that it was sublicensed under the patents-in-suit by virtue of its business partnership with M.S. Technologies ("M.S. Tech"), which had a license from Bayer. On summary judgment, Bayer argued that M.S. Tech's license was limited to non-commercial exploitation of the patents-in-suit, while Dow argued that the license to M.S. Tech conveyed broad rights, including rights to commercialize under the patents-in-suit. The parties stipulated English law governed the agreements, such that the background and surrounding circumstances of the contract's formation were to be considered in interpreting the license agreement, after hearing evidence, the District Court (i) adopted Dow's interpretation of the agreement, (ii) held that Dow was indeed broadly licensed under the patents-in-suit, and (iii) entered summary judgment of noninfringement, which the Federal Circuit affirmed.

After the Federal Circuit's affirmance on the license question, the case was remanded to the District Court to resolve Dow's motion to declare the case exceptional and award attorneys' fees under 35 U.S.C. § 285. After a two-day hearing, the Magistrate Judge issued a Report and Recommendation finding the case exceptional and awarding attorneys' fees, which the District Court Judge adopted. In so doing, the Judge observed, *inter alia*, that Bayer's witnesses and documentation contradicted Bayer's arguments, and that "Bayer's conduct in litigating this case in the face of evidence that contradicted its contorted reading of the Agreement was objectively unreasonable." The Judge further observed that the award of attorneys' fees was appropriate because the "positions Bayer took to support their contract interpretation arguments were directly contradicted by the record evidence Bayer had obtained through early discovery and Bayer should have made every effort to discover before filing suit," and that "had Bayer done any due diligence, it would have learned that no witness supported Bayer's construction of the Agreement and this case should never have been filed." The District Court lastly opined that Bayer's motion for preliminary injunction against Dow was "frivolous and unnecessarily increased the costs of the litigation."

The Federal Circuit started with "Section 285 of the Patent Act [which] provides: 'The court in exceptional cases may award reasonable attorney fees to the prevailing party.' 35 U.S.C. § 285. In *Octane Fitness*, the Supreme Court clarified what constitutes an exceptional case:

[A]n 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances.

*Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). After *Octane Fitness*, a fee seeking party must show that it is entitled to § 285 fees by a 'preponderance of evidence,' *id.* at 1758 - a 'change in the law lower[ing] considerably the standard for awarding fees,' *Oplus Technologies, Ltd. v. Vizio, Inc.*,

782 F.3d 1371, 1374 (Fed. Cir. 2015)."

The Federal Circuit further opined that, in examining the totality of the circumstances, the District Court applied the correct legal standard under Section 285, and properly set forth the "reasons why Bayer's positions on the merits and litigation tactics coalesced in making this case, in its judgment, exceptional."

The Federal Circuit also rejected Bayer's argument that the District Court's fee award was erroneous because "Bayer had an objectively reasonable case on the merits" on the following grounds (i) the "Supreme Court rejected such a rigid approach in *Octane Fitness*, holding that whether a party's merits position was objectively reasonable is not dispositive under § 285" and (ii) "[i]nstead, ... adopted a holistic and equitable approach in which a district court may base its discretionary decision on other factors, including the litigant's unreasonableness in litigating the case, subjective bad faith, frivolousness, motivation, and 'the need in particular circumstances to advance considerations of compensation and deterrence.'"

The Federal Circuit lastly observed that the District Court considered factors beyond the merits of the infringement case (e.g., Bayer's litigation conduct) in declaring the case exceptional, given the Bayer executive's testimony that Bayer did not retain commercial rights in the M.S. Tech license because "it was relatively black and white certainly in my mind that we were divesting these assets."

## District Court Invalidates Inventory Control Patent Under 35 U.S.C. § 101

The U.S. District Court for the Eastern District of North Carolina recently invalidated U.S. Patent No. 6,477,503 ("the '503 patent") as being directed to unpatentable subject matter under 35 U.S.C. § 101 in *Mankes v. Fandango, LLC et al.*

Plaintiff and inventor Mankes brought suit alleging that the Fandango online reservation system as operated in conjunction with Regal Entertainment Group's ("Regal") local reservation system and box office ticket sales infringed the '503 patent, which is directed to methods to control inventory when goods and services are sold both through the Internet and at a physical site, both directly and indirectly.

When first filed, the District Court stayed the case because the question of indirect infringement was being addressed by the Supreme Court in *Limelight v. Akamai*. In June 2014, the Supreme Court unanimously held that liability for indirect - induced - infringement only can be found when there is direct patent infringement and remanded the case back the Federal Circuit (*Akamai*, 134 S.Ct. 2111 (2014)), and the District Court lifted the stay in the Mankes action.

Mankes initially moved to dismiss Fandango's counterclaims, and Defendants filed a motion for judgment on the pleadings, which the District Court granted. The District Court, however, held Mankes' motion to dismiss in abeyance pending briefing, but Fandango voluntarily dismissed the counterclaims before the merits of Mankes' motion were addressed.

Mankes appealed the judgment on the pleadings. While the parties were briefing the appeal, the Federal Circuit issued its *en banc* decision in the remand from the Supreme Court, which clarified the legal standards underlying the District Court's grant of Defendants' motion for judgment on the pleadings. *Akamai*, 797 F.3d 1020 (Fed. Cir. 2015) (*en banc*). The Federal Circuit specifically held that when more than one actor is involved in practicing the steps of a claimed method, a single entity will be liable for others' performance of method steps, and ultimately direct infringement, "where that entity directs or controls the others' performance" or "where the actors form a joint enterprise."

In view of its intervening *en banc* ruling in *Akamai* the Federal Circuit vacated the District Court's grant of judgment on the pleadings in the Mankes' infringement action, and remanded the case for further proceedings. Mankes, thereafter, filed a Second Amended Complaint alleging infringement under the new *Akamai* standard.

In August 2016, Fandango and Regal moved to dismiss the Second Amended Complaint, under Federal Rule of Civil Procedure 12(b)(6), on the grounds that the '503 patent claims were directed to an abstract idea which is not patent eligible

subject matter under 35 U.S.C. § 101.

Under Section 101, patentable subject matter comprises "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof," and the Supreme Court has long held that "[l]aws of nature, natural phenomena, and abstract ideas" are excepted from § 101 and thus, are not patent-eligible. , *Alice Corp. Pty. Ltd., v. CLS Bank Int'l*, 134 S.Ct. 2347, 2354 (2014.)

The Supreme Court has set out a two-question analysis for determining whether claims are directed to patent-eligible subject matter. The first question asks whether the claims are directed to an abstract idea, and the second question looks to whether there is "an element or combination of elements that is sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the ineligible concept itself." Although the Supreme Court has not defined the precise contours of what constitutes an abstract idea, in *Alice*, an "intermediated settlement" was directed to an abstract idea, and in *Bilski*, a method of hedging risk was directed to an abstract idea.

In analyzing the first question, the District Court found that the asserted claims of the '503 patent, which recited methods for practicing a reservation system in which an "event vendor uses a local event server to allocate, control, and reserve their inventory at their place of business," while making available inventory accessible for purchase by consumers on the Internet, were directed to an abstract idea, i.e., allocating, tracking, and controlling inventory. The District Court also specifically held that the concept of allocating, tracking, and controlling inventory is a fundamental business and economic practice in commerce.

In analyzing the second question, the District Court found that the asserted claims did not recite an inventive concept, such that the asserted claims did not claim significantly more than an ineligible abstract idea.

Mankes argued that, notwithstanding the District Court's conclusions, the '503 patent claims were patentable because the claimed methods improved computer-based inventory management. Specifically, Mankes argued that the "claims recite the specific manner in which the local event server and active reservation server interact to enable local control of all inventory." The District Court rejected Mankes' argument holding that the '503 patent claims did not (i) improve the performance of the computer system, (ii) require modification of the conventional use of the computer or Internet, or (iii) otherwise use computer servers or the Internet in a non-conventional combination or arrangement. The District Court held that, rather, the '503 patent claims merely recited a method for allocating, tracking and communicating inventory information between two servers, which is not patentable under Section 101.

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