

# District Of Delaware Cracks Down On Patent Eligibility

By **Stephen McBride** (April 5, 2019)

In the aftermath of U.S. Supreme Court's 2017 decision in *TC Heartland LLC v. Kraft Foods Group Brands LLC*, the U.S. District Court for the District of Delaware has become the nation's most active venue for patent litigation. The influx of cases is causing Delaware judges to try new approaches to managing their growing dockets.



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For example, Chief Judge Leonard P. Stark's recent "Section 101 Day" held hearings on numerous Alice motions on a single day, with corresponding decisions simultaneously issuing. Similarly, a recent decision by Judge Richard G. Andrews indicates he may be attempting to proactively deter weak patent assertions before they are filed.

In *Finnavations LLC v. Payoneer Inc.*, Judge Andrews granted the defendants' motion to declare an exceptional case and awarded the defendants attorney fees. The entire basis of the attorney fees award was plaintiff Finnovation's opposition to defendants' motion to dismiss under 35 U.S.C. § 101. There were no allegations of bad faith or litigation misconduct. Notably, the court ruled that plaintiff Finnovation's opposition to the Alice challenge was exceptional even though the U.S. Patent and Trademark Office had addressed the same 101 issue during prosecution and reached the opposite conclusion, allowing the patent.

This article explores the implications of the decision in the context of the general presumption of validity and Delaware's expanding exceptional case jurisprudence.

## Background

35 U.S.C. § 285 provides that "in exceptional cases [the court] may award reasonable attorney fees to the prevailing party." In 2014, the Supreme Court clarified the standard for "exceptional" conduct as behavior "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." The framework laid out in *Octane Fitness LLC v. Icon Health & Fitness Inc.* relaxed the previous standard and provide more discretion to district courts in finding exceptional behavior.

Following *Octane Fitness*, a number of courts have considered a patent owner's defense of claims with clear 101 issues as a factor supporting an award of attorney fees. However, most of these cases also involved additional factors, such as significant litigation misconduct or plaintiffs with lawsuits predating Alice that maintained their claims after it became clear that their patents were invalid under Alice.[1]

Here, there was no bad faith, but Finnavations' patent was clearly vulnerable to an Alice motion. The patent examiner only allowed the asserted patent after rejecting its claims four times under Section 101, the claims that issued are almost indistinguishable from the claims at issue in Alice, and Finnavations' briefing was "not just mediocre or bad; it was ugly." Judge Andrews' entire basis for the exceptional case finding was deterrence of objectively unreasonable claims.

However, unlike the cases cited above, there were factors indicating Finnavations'

opposition was reasonable. In particular, the USPTO expressly allowed the patent at issue after considering Alice and determining the claims (as amended) were patent-eligible under 101. Thus, the USPTO reached the opposite conclusion from the district court with respect to the same argument the district court held was objectively unreasonable.

### **Presumption of Validity Applied to 101 Motions**

Finnavations' briefing relied on the argument that an issued patent is entitled to a presumption of validity and that Finnnavations reasonably relied on that presumption in filing its case. Judge Andrews rejected Finnnavations' attempt to rely on the presumption of validity, stating that "[t]he issuance of a patent cannot and should not be a license to sue with abandon."

Judge Andrews is not alone in this view. Most courts considering the issue have held that the presumption of validity does not apply to 101 decisions, although notably, neither the Supreme Court nor the U.S. Court of Appeals for the Federal Circuit has definitely ruled on the issue.

The court's logic has appeal in most cases. Patent owners relying on a presumption of validity during litigation are usually addressing a different issue than the issues addressed at the USPTO — for example, addressing prior art that was not before the USPTO. In the 101 context, many patents currently being litigated were prosecuted before Alice or the examiner did not explicitly address Section 101. Where the issue being litigated was not raised or addressed during prosecution, a blanket presumption need not be given much weight.

Here, however, the same issue was repeatedly addressed and eventually resolved favorably to the patentee during prosecution. In other words, Finnnavations' arguments and amendments at the USPTO successfully overcame the examiner's Alice objections. Later, at the same time the defendants' motion to dismiss was pending, Finnnavations successfully overcame an additional 101 rejection at the USPTO on a related patent application with substantially identical claims.

Further, the issue before the district court was objective reasonableness, not patent eligibility. The fact that the USPTO independently analyzed the same issue in two different applications and came to conclusions contrary to the district court in both supports the reasonableness of Finnnavations' position. The court, however, disagreed, stating that "four Section 101 rejections put Plaintiff on notice that its claims were of dubious patentability."

Finnnavations' problem, in Judge Andrews' view, was a failure "to make an independent assessment based on an evaluation of the relevant law." In its briefing and at the hearing, Finnnavations never offered a cogent explanation distinguishing its claims from Alice and related patents. Instead Finnnavations relied on flimsy arguments, for example, that the claims were not abstract because they improved computer functionality by changing an existing data structure to allow a user to include additional information in the data structure. Similarly, Finnnavations' citation to favorable Federal Circuit cases like *DDR Holdings v. Hotels.com* and *Enfish LLC v. Microsoft Corp.* lacked the meaningful analysis necessary to draw a favorable comparison to the asserted claims.

Whatever support the USPTO's decisions may have held for the reasonableness of Finnnavations' position was outweighed in the court's view by Finnnavations' lack of substantive arguments for overcoming Alice.

## Implications of Finnavaions

Prior to Octane Fitness, a finding of subjective bad faith was necessary to award attorney fees for asserting objectively baseless claims. After Octane Fitness, objectively baseless claims may be held exceptional without any subjective bad faith. Finnavaions illustrates how the bar for an exceptional case finding has been lowered and how judges are exercising the discretion provided by Octane Fitness. With respect to at least Delaware, exceptional case findings, once rare, are no longer uncommon.[2]

Parties should be aware that attorney fees are possible where the substantive strength of a claim or defense is weak even where, as here, the same arguments have succeeded elsewhere and there is no evidence the case has otherwise been litigated in bad faith or an unreasonable manner. Of course, unreasonable litigation tactics can still form the basis for attorney fees, either alone or in conjunction with pursuing objectively weak claims.

Further, based on Finnavaions, at least Judge Andrews is actively deterring weaker patents from being litigated.[3] In order to provide a reasonable basis for asserting a patent, plaintiffs need to be prepared to provide a substantive explanation of why the asserted claims are distinguishable from controlling case law — in this case, Alice and related 101 decisions. Neither the presumption of validity nor the previous success of a legal theory is a substitute for independently assessing the strengths of a claim in light of current case law.

Conversely, defendants should put plaintiffs on notice of weak claims as early as possible, explaining the flaws in the claims and providing whatever support is necessary to make those flaws clear. Defendants can later point to this communication to show that the plaintiff understood why its position was unreasonable. Similarly, putting the plaintiff on notice as early as possible can put defendants in position to recover a greater percentage of attorney fees in scenarios where the exceptional behavior is not present at filing — for example, where a change in law or an adverse claim construction renders the plaintiff's claims frivolous or unreasonable.

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[1] See, e.g., *Inventor Holdings LLC v. Bed Bath & Beyond, Inc.*, 876 F.3d 1372 (Fed. Cir. 2017).

[2] See, e.g., *SRI International, Inc. v. Cisco Systems, Inc.*, 254 F. Supp. 3d 680 (D. Del. 2017) (Granting plaintiff's motion for exceptional case due to defendant's litigation conduct); *Magnetar Technologies Corp. and G&T Conveyor Co. v. Six Flags Theme Parks, Inc., et al.*, No 07-127-LPS-MPT, 2017 U.S. Dist. LEXIS 35271 (D. Del. Mar. 13, 2017) (finding plaintiff's behavior exceptional due to maintaining claims in light of obvious inventorship issues); *Inventor Holdings, LLC v. Bed Bath & Beyond*, No. 14-448-GMS, 2016 U.S. Dist. LEXIS 70345 (D. Del., May 31, 2016) (granting motion for attorney's fees where asserted claims were objectively without merit after the Alice decision); *Joao Bock Transaction Systems, LLC v Jack Henry & Associates, Inc.*, No. 12-1138-SLR, 2016 U.S. Dist. LEXIS 43252 (D. Del. Mar. 31, 2016) (granting exceptional case motion based on

unreasonable and burdensome litigation strategy).

[3] See Opinion at 4 (“[A]warding fees will have a chilling effect on asserting a patent without first assessing the patent's weaknesses considering current caselaw. I do not view this result as a negative. Rather, it is a result that benefits the public generally by decreasing instances of transparently meritless patent litigation—one of the many goals of the attorneys' fees provision.”).