UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

WINDY CITY INNOVATIONS, LLC,

Plaintiff,

v.

FACEBOOK, INC.,

Defendant,

Case No.: 16-CV-1730 YGR

ORDER GRANTING FACEBOOK'S MOTION FOR SUMMARY JUDGMENT; DENYING AS MOOT MOTIONS TO STRIKE AND EXCLUDE EXPERT OPINIONS

DKT. NOS. 153, 155, 160

Plaintiff Windy City Innovations, LLC brings this patent infringement action against defendant Facebook, Inc. stemming from alleged infringement of Windy City's U.S. Patent No. 8,458,245 (the "'245 patent") entitled "Real Time Communications System" issued June 4, 2013.[1] Presently before the Court are three motions. Facebook moves for summary judgment (Dkt. No. 160) on the grounds that: (1) Windy City lacks standing; (2) Claim 19 and its dependent claims of the '245 Patent are invalid under 35 U.S.C. section 101; and (3) Facebook does not infringe the '245 patent directly or indirectly. In addition, both Facebook and Windy City have moved to strike or exclude certain opinions of their opposing experts. (Dkt. Nos. 153, 155.)

The Court, having duly considered the pleadings and papers in support of and in opposition to the motion for summary judgment, along with the admissible evidence, rules as follows: Facebook's Motion for Summary Judgment is **GRANTED** on grounds of invalidity under Section 101. In light of the Court's ruling on summary judgment the motions to strike or exclude expert opinions are **DENIED AS MOOT**.

[1] All other patent issues originally raised in the complaint have been resolved through the IPR process. The '245 Patent is a continuation of earlier applications in the patent family of U.S. Patent No. 5, 956,491, filed April 1, 1996.

I. APPLICABLE STANDARDS

Summary judgment is appropriate when "there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). A fact is "material" if it "might affect the outcome of the suit under the governing law," and a dispute as to a material fact is "genuine" if there is sufficient evidence for a reasonable trier of fact to decide in favor of the nonmoving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). The moving party bears the initial burden of demonstrating the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). For issues where the opposing party has the burden of proof, the moving party need only point out "that there is an absence of evidence to support the nonmoving party's case." *Id.* at 325. The burden then shifts to the nonmoving party to set forth, by affidavit or as otherwise provided in Rule 56, "specific facts showing that there is a genuine issue for trial." *Liberty Lobby*, 477 U.S. at 250 (internal quotation marks omitted). Summary judgment is mandated "against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986).

A moving party defendant bears the burden of specifying the basis for the motion and the elements of the causes of action upon which the plaintiff will be unable to establish a genuine issue of material fact. *Id.* at 323. The burden then shifts to the plaintiff to establish the existence of a material fact that may affect the outcome of the case under the governing substantive law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In the summary judgment context, a court construes all disputed facts in the light most favorable to the non-moving party. *Ellison v. Robertson*, 357 F.3d 1072, 1075 (9th Cir. 2004).

II. STANDING

As a first basis for summary judgment, Facebook argues that Windy City does not have standing to bring this action because it never acquired ownership rights in the '245 Patent or '491 patent family. The Court's jurisdiction is a prerequisite to consideration of the merits of a case. *See Steel Co. v. Citizens for a Better Env't*, 523 U.S. 83, 93-102 (1998). Because the

question of standing is jurisdictional, the Court addresses Facebook's standing arguments as a threshold matter. *See Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1364 (Fed. Cir. 2010) ("A court may exercise jurisdiction only if a plaintiff has standing to sue on the date it files suit.") (citing *Keene Corp. v. United States,* 508 U.S. 200, 207 (1993)).

1. Factual Background[2]

The online chat system software that is the subject of the '245 Patent was developed under a Work for Hire Agreement between UtiliCorp, an energy company, and American Information Systems, Inc. ("AIS"). Daniel L. Marks is listed as the sole inventor on the '245 Patent. Marks was an employee of AIS from approximately March 1995 through December 1995.

On May 17, 1995, AIS sent a Work for Hire Agreement to Brian Spencer and Tony Fung of Utilicorp. The Work for Hire Agreement represented AIS's offer of a "revised contract regarding development of the chat forum software" and detailed the services to be provided for UtiliCorp by AIS. The Work for Hire Agreement stated, in part, that it was a "revised contract regarding development of the chat forum software." (Declaration of Phillip E. Morton In Support of Motion, Exh. 2 ["Work for Hire Agreement"].) It stated that AIS would provide services to UtiliCorp, as follows: (1) TelnetD server modification to allow immediate entry to a moderated, interactive chat session with features as listed in Appendix A; (2) moderated store-and-forward messaging system with threading capabilities for articles. (*Id.*) Appendix A stated:

> Chat server features:
> (1) user/password authentication system
> (2) telnet vt100 textual based interface
> (3) no less than 20 moderated channel capabilities
> (4) no less than 20 unmoderated channel capabilities
> (5) remote account maintenance capabilities
> (6) logging of basic user transactions
> (7) online help
> (8) who's online feature
> (9) rotating messages feature
> (10) online profile/authentication form

[2] Unless otherwise stated, these facts are undisputed.

(*Id.*) In addition, the Work for Hire Agreement specified that the intellectual property created was assigned to UtiliCorp as follows:

> All software, data, technology, designs or innovations which are made, conceived, reduced to practice, designed or developed by AIS for the purpose of fulfilling its obligations under this Agreement **shall be and remain** the sole property of Client [UtiliCorp]. **AIS hereby assigns** to [UtiliCorp] all such materials and all related copyrights or other intellectual property rights **pending** a fair-market-value joint licensing agreement between [UtiliCorp] and AIS.

(*Id*. emphasis supplied, hereinafter "Assignment Clause.")

On June 5, 1995, Fung signed the Work for Hire Agreement on behalf of UtiliCorp and returned it by fax to AIS, thereby accepting the terms offered. Over the next several months, Marks developed the UtiliCorp Power Quality Chat system.[3] AIS and UtiliCorp regularly communicated about the scope and progress of that assignment. (*See* Morton Decl. Exh. 1 [Marks Depo.] at 222:3-223:4; 237:21-239:5.)

On August 15, 1996, Marks entered into an assignment of rights to AIS with respect to the '245 Patent.[4] On March 13, 1998, AIS entered into an assignment of rights concerning the '245 Patent to its attorney, Peter Tryzna, in satisfaction of its unpaid legal bills. (Morton Decl. Exh. 3 [Tryzna Depo.] at 46-47, 52-53, 193.) Tryzna entered into an assignment of rights for the '245 Patent to Windy City.

2. Chain of Title

Facebook argues that Windy City has no rights to the alleged inventions in the '245 patent because Marks and AIS never acquired any rights they could assign to Tryzna, and therefore Tryzna never had any rights to assign Windy City. Rather, Facebook contends that the rights belonged to UtiliCorp based upon the Work for Hire Agreement. To this end Facebook argues as follows: Marks developed the chat system software to fulfill AIS's obligations under the UtiliCorp's Work for Hire Agreement and had the features described therein. According to Marks, the UtiliCorp chat

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[3] UtiliCorp filed federal trademark applications for "Power Quality Chat" and "PQ Chat" in June 1995. (Morton Decl. Exh 6.)

[4] The '245 Patent was part of the '491 Patent family and the assignment concerns the '491 Patent and its continuation application. (Morton Decl. Exh. 12.)

system became the subject of the '245 Patent. Facebook then argues that Marks' statements should be considered party admissions since he was designated as Windy City's corporate representative on those topics. (*See* Declaration of Philip E. Morton In Support of Reply Exh. 24 [Marks Depo.] at 71:4-22, 72:23-73:16.) As further corroborating evidence, the '245 patent itself states that a chat transcript produced by the UtiliCorp chat system "exemplifies the use of the present invention" and that the source code for the UtiliCorp chat system "provid[es] a detailed description of a preferred embodiment of the present invention." (Morton Decl. Exh. 4 ["'245 Patent"] at 11:60-21:17, 4:7-59; *see also* Morton Reply Decl. Exh. 24 [Marks Depo.] at 228:18-23; 230:3-13.) Thus, Facebook contends all intellectual property rights in the chat system were "the sole property of" UtiliCorp under the Assignment Clause, and the purported transfers of rights were without effect.

Windy City disagrees, contending that the Assignment Clause did not effect an automatic, present assignment to UtiliCorp, and no intellectual property rights were transferred to it. Rather, the Assignment Clause was a contingent promise to assign that would not come into existence until the parties entered into a "fair-market-value joint licensing agreement." Because they did not do so, the assignment did not occur and Facebook's lack of standing argument fails.

A court has jurisdiction in a patent action only if the plaintiff has standing to sue on the date it files suit. *Keene Corp.*, 508 U.S. at 207; *Minneapolis & St. Louis R.R. v. Peoria & Perkin Union Ry. Co.*, 270 U.S. 580, 586 (1926). Thus, in a patent infringement action, the plaintiff must hold enforceable title to the patent at the time of filing or else face dismissal. *Abraxis*, 625 F.3d at 1364.

"Although state law governs the interpretation of contracts generally, the question of whether a patent assignment clause creates an automatic assignment or merely an obligation to assign is intimately bound up with the question of standing in patent cases." *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008). Thus, a court must interpret a patent assignment clause under Federal Circuit law. *Id.*; *see also Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 124, 1253 (Fed. Cir. 2000). Where a contract expressly grants rights in future inventions, "no further act [is] required once an invention [comes] into being," and "the transfer of title [occurs] by operation of law." *FilmTec Corp. v. Allied Signal Inc.*, 939 F.2d 1568, 1573 (Fed. Cir. 1991) (contract provided that inventor "agrees to grant and does hereby grant" all rights in future

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