

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

CIVIL MINUTES – GENERAL

Case No.	CV 17-2182 BRO (MRWx)	Date	June 22, 2017
Title	AMIT AGARWAL V. JEFF BUCHANAN D/B/A JEFF BUCHANAN TREE SERVICES AND D/B/A BUCHANAN INDUSTRIES		

Present: The Honorable	BEVERLY REID O’CONNELL, United States District Judge
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Renee A. Fisher

Not Present

N/A

Deputy Clerk

Court Reporter

Tape No.

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

Proceedings: (IN CHAMBERS) ORDER DENYING DEFENDANT’S MOTION TO DISMISS FIRST AMENDED COMPLAINT PURSUANT TO FED. R. CIV. P. 12(b)(1), 12(b)(5), AND 12(b)(6) (DKT. 12)

I. INTRODUCTION

Amit Agarwal (“Plaintiff”) filed a patent infringement suit against Jeff Buchanan d/b/a Jeff Buchanan Tree Services and d/b/a Buchanan Industries and d/b/a Wood Chipper Safety Shield (“Defendant”). (Dkt. 1.) Plaintiff’s First Amended Complaint (“FAC”) alleges that Defendant directly and indirectly infringed U.S. Patent Nos. 6,418,004 (“the ’004 Patent”) and 6,853,531 (“the ’531 Patent”) (collectively, “Asserted Patents”). (Dkt. 10.) Defendant filed this Motion to Dismiss (“Motion”) for lack of subject matter jurisdiction, improper service of the complaint, and failure to state a claim. (Dkt. 12.)

After considering the papers filed in support of and in opposition to the instant motion, the Court deems this matter appropriate for resolution without oral argument of counsel. *See* Fed. R. Civ. P. 78; C.D. Cal. L.R. 7-15. For the following reasons, the Motion is **DENIED**.

II. BACKGROUND

A. Transfer of patent rights

The Asserted Patents were issued to Corey Alexander Mather and Mark William Gust

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“the Inventors”). (Dkt. 10 at 8, 17.) On January 15, 2017, the Inventors conveyed “all substantial rights, title and interests in all inventions, improvements, and obvious variants” claimed in the Asserted Patents to Bayshore Patents LLC (“Bayshore”). (Dkt. 12-2, Ex. A, “the Bayshore Agreement,” at ¶1.) The Inventors specifically conveyed the exclusive right to sue for past infringement. (*Id.* at ¶2.) Bayshore agreed “to pay [the Inventors] 50% of any gross proceeds obtained from any parties from monetization efforts, including licensing and litigation” relating to the Asserted Patents. (*Id.* at ¶3.) The Inventors retained a reversionary interest in the conveyed rights if Bayshore was unable or unwilling to pursue monetization efforts. (*Id.* at ¶4.)

On January 18, 2017, Bayshore conveyed “all substantial rights, title, and interests in all inventions, improvements, and obvious variants thereof, disclosed, described, and/or claimed” in the Asserted Patents to Plaintiff, its CEO. (Dkt. 12-2, Ex. B, “the Agarwal Agreement.”) Notably, Plaintiff agreed “to pay [Bayshore] 100% of any gross proceeds” obtained from monetization efforts. (*Id.* at ¶3.) Similar to the original assignment, the assignor (Bayshore) retained a reversionary interest if the assignee (Plaintiff) was unable or unwilling to pursue monetization efforts. (*Id.* at ¶4.)

Defendant seeks dismissal under Fed. R. Civ. P. 12(b)(1) on the basis that these agreements do not transfer sufficient rights to Plaintiff to establish standing. (Dkt. 12-1 at 5-11.)

B. Defendant’s motion to dismiss under Fed. R. Civ. P. 12(b)(5) is withdrawn

On May 4, 2017, Plaintiff filed the FAC to this patent infringement suit against Defendant. (Dkt. 10.) In the Motion, Defendant requested dismissal under Fed. R. Civ. P. 12(b)(5), arguing that Plaintiff failed to properly serve the FAC. (Dkt. 12 at 11-12.) Plaintiff has since served Defendant to provide proper notice of the lawsuit. (Dkt. 14.) Accordingly, Defendant has withdrawn its arguments as to this basis for dismissal. (Dkt. 15 at 4.)

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C. Sufficiency of pleadings

The Asserted Patents are directed to wood chipping machines that can automatically turn off upon detection of an operator’s arm in the feeder. Plaintiff alleges that Defendant sells the Wood Chipper Safety Shield and that Defendant is liable for direct, contributory, and induced infringement of at least claim 1 of the ’004 Patent and of at least claim 1 of the ’531 Patent. (Dkt. 10, ¶¶30 -35.) Defendant seeks dismissal under Fed. R. Civ. P. 12(b)(6) for failure to state a claim. (Dkt. 12-1, at 13.)

III. LEGAL STANDARD

A. Lack of Subject-Matter Jurisdiction

“The federal courts are under an independent obligation to examine their own jurisdiction, and standing is perhaps the most important of the jurisdictional doctrines.” *United States v. Hays*, 515 U.S. 737, 742 (1995) (quotations omitted). Whether a party has established standing is a question of law. *Prima Tek II, LLC v. A-Roo, Co.*, 222 F.3d 1372, 1376 (Fed. Cir. 2000). Only the patentee has standing to sue for patent infringement. 35 U.S.C. § 281. A patentee is “not only the patentee to whom the patent was issued but also the successors in title to the patentee.” 35 U.S.C. § 100(d).

“An assignment of patent rights operates to transfer title to the patent, while a license leaves title in the patent owner.” *Minco, Inc. v. Combustion Eng’g, Inc.*, 95 F.3d 1109, 1116 (Fed. Cir. 1996). To create an assignment, an instrument in writing must transfer “(1) the entire exclusive patent right, (2) an undivided interest in the patent rights, or (3) the exclusive right within any geographical region of the United States.” *Id.* at 1117 (citing *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891)). “An agreement that does not transfer one of these three interests is merely a license.” *Id.* A licensee cannot establish standing unless it holds “all substantial rights” under the patent. *Prima Tek II*, 222 F.3d at 1377.

B. Failure to state a claim

A court will grant a motion to dismiss if the complaint does not allege claims upon which relief can be granted. Fed. R. Civ. P. 12(b)(6). Federal Rule of Civil Procedure 8(a)(2)

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requires that pleadings contain “a short and plain statement of the claim showing that the pleader is entitled to relief” to provide the opposing party with fair notice of the claim and the grounds upon which it rests. *Ashcroft v. Iqbal*, 556 U.S. 662, 677-78 (2009).

“To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Id.*; see also *McAfee Enters., Inc. v. Yamaha Corp. of Am.*, No. 2:16-2562-BRO (FFMx), 2016 WL 6920675 (applying *Twombly/Iqbal* rather than Form 18 to determine sufficiency of pleading). However, bare assertions that amount to nothing more than a “formulaic recitation of the elements” of a claim “are conclusory and not entitled to be assumed true.” *Iqbal*, 556 U.S. at 681. Rather, to state a plausible claim for relief, the complaint “must contain sufficient allegations of underlying facts” to support its legal allegations. *Starr v. Baca*, 652 F.3d 1202, 1216 (9th Cir. 2011). The plausibility standard “calls for enough fact[s] to raise a reasonable expectation that discovery will reveal” that the defendant acted unlawfully. *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 556 (2007).

IV. DISCUSSION

A. Plaintiff is the assignee of the Asserted Patents and has standing

1. The Bayshore Agreement

“[T]he intention of the parties and ... the substance of what was granted” are used “[t]o determine whether an agreement constitutes an assignment or a license.” *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 874 (Fed. Cir. 1991). The nature and scope of any rights retained by the transferor may be used to determine whether the transferee has received sufficient rights to be deemed the effective patentee. *Id.* at 875. Federal Circuit case law provides a nonexclusive list of rights that should be examined; the most important considerations are the exclusive right to make, use, and sell patented products/services and the right to sue alleged infringers. *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, 823 F.3d 615, 619 (Fed. Cir. 2016).

Contract interpretation begins with the plain meaning of the express terms. *Barron Bancshares, Inc. v. United States*, 366 F.3d 1360, 1375 (Fed. Cir. 2004). Throughout the

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agreement, the grantor and grantee are identified as assignor and assignee, respectively. This language signals an intent to create an assignment. The Bayshore Agreement also states that the Inventors “hereby ... assign all substantial rights” in the Asserted Patents to Bayshore. (Dkt. 12-2, Ex. A.) The term ‘all substantial rights’ is borrowed from the patent case law governing standing, which further shows the parties’ mutual intent to confer sufficient rights so that the transferee is the effective patentee.

A contract must be interpreted to achieve the parties’ intent and to give reasonable meaning to all of its parts. *Gould, Inc. v. United States*, 935 F.2d 1271, 1274 (Fed. Cir. 1991). Because Paragraph two explicitly transfers the right to sue for past infringement and is more specific than the general transfer of “all substantial rights,” Defendant argues that Paragraph One excludes the important rights necessary to create an assignment. (Dkt. 12-1, at 7-9.) Defendant’s position, however, does not take into account the context of the entire agreement or intent of the parties. As Plaintiff points out, the cases establish a general rule that the right to sue for prior infringement is not transferred unless the agreement manifests an intent to transfer that right. *See Minco*, 95 F.3d at 1117. Therefore, it is more likely that the Inventors and Bayshore included Paragraph two to address prior infringement, rather than to narrow the scope of the rights transferred by the first paragraph. This interpretation is also consistent with the parties’ intent to effectuate an assignment.

The remaining paragraphs of the agreement show that the Inventor retained minimal control over the Asserted Patents. *Vaupel*, 944 F.2d at 875 (noting that rights retained can be used to determine whether all substantial rights have been transferred). Bayshore agreed to pay a portion of the proceeds from licensing and litigation to the Inventors, which is merely consideration for the transfer. *See Rude v. Westcott*, 130 U.S. 152, 162-63 (1889) (reasoning that compensation derived from the patent rights “reserves to [the grantor] no control over the patents or their use or disposal.”). The Inventors retained a reversionary interest subject to Bayshore’s ability and willingness to pursue litigation and licensing, but such a provision is “entirely consistent with an assignment.” *Vaupel*, 944 F.2d at 875. Thus, the provision is not “so substantial as to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights.” *Id.* The Inventors retained no other interest in the patent rights. For these reasons, the language of the

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Bayshore Agreement supports the interpretation that the Inventors assigned the necessary patent rights to Bayshore (and subsequently to Plaintiff) to confer standing.

2. The Agarwal Agreement

The Agarwal Agreement is nearly identical to the Bayshore Agreement. The only difference is that the transferee must pay 100% of the gross proceeds from litigation and licensing to the transferor, rather than 50% in the Bayshore Agreement. Again, this is compensation for the transfer that does not reserve any control for the assignor over the Asserted Patents or their use. Because the language is otherwise identical, the Agarwal Agreement is also an assignment.

The Bayshore Agreement assigns the Asserted Patents to Bayshore, and the Agarwal Agreement assigns the same to Plaintiff. Therefore, Plaintiff is the effective patentee and has standing to bring this suit.

Defendant argues that Plaintiff has no economic interest because he must surrender the gross proceeds from the litigation to Bayshore. (Dkt. 12-1, at 10.) However, this does not diminish Plaintiff's rights to the Asserted Patents for the purpose of standing. Any infringement of Plaintiff's exclusive right to make and sell the patented products would still cause Plaintiff to suffer a justiciable injury, regardless of whether he retains any damages awarded for that injury. *Cf. Diamond Coating Techs., LLC v. Hyundai Motor Am.*, Nos. 8:13-cv-01480-MRP, 8:13-cv-01481-MRP (DFM), 2015 WL 2088892 at *4-6 (C.D. Cal. Apr. 1, 2015) (holding that transferor retained substantial control because, in addition to a substantial percentage of future proceeds, it had license to make patented products, had influence over licensing and litigation, and could limit transferee's ability to sell or assign the patents), *aff'd*, 823 F.3d 615 (Fed. Cir. 2016). Unlike *Diamond Coating*, the agreement does not otherwise restrict Plaintiff's rights as an assignee.

B. Plaintiff has alleged sufficient facts to support its claims of infringement

1. Direct Infringement

To meet the plausibility standard, the complaint must identify the accused product and

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plead facts to show that the accused product meets each and every limitation of at least one claim of the patent. *See McAfee Enters.*, 2016 WL 6920675 at *2-3.

Plaintiff alleges that Defendant sells the Wood Chipper Safety Shield (“WCSS”), thereby identifying the accused product and the infringing activity. (Dkt. 10 at ¶6.) Plaintiff alleges that Defendant is directly infringing at least claim 1 of the ’004 Patent. (*Id.* at 32.) Claim 1 of the ’004 Patent identifies a wood chipping machine equipped with a safety system that has a sensor worn by the user, a coil that detects the user’s sensor, and a means of powering down the machine upon detection. (’004 Patent.) The FAC alleges that the WCSS “can be installed on any manufacturer’s wood chipper.” (Dkt. 10 at ¶19) The WCSS consists of magnets worn by the user (*Id.* at ¶16.) and a coil that detects the user’s magnets (*See id.* at ¶¶17, 20-28.) to shut down the wood chipper (*Id.* at 17.). Therefore, Plaintiff has alleged facts that show the accused product meets each limitation of claim 1 of the ’004 Patent.

Similarly, Plaintiff’s claim of direct infringement of the ’531 Patent is supported by factual allegations. Claim 1 of the ’531 Patent identifies a material processing machine with an operating region that processes material, an access region equipped with a sensing coil, a means of powering the processing element, and circuitry that turns off the machine upon detecting a signal from the coil. (’531 Patent.) Plaintiff alleges that the WCSS is installed on a wood chipper and operates using electromagnetism, which requires a coil; these facts support the operating and access region claim limitations. (Dkt. 10 at ¶¶ 19-22.) The allegation that the WCSS detects the user’s close proximity using a coil and immediately shuts down the wood chipper supports the remaining claim limitations for the pleading stage. (*Id.* at ¶¶14-15.)

2. Contributory Infringement

Proving contributory infringement requires showing: “(1) the defendant sold a component or material for use in practicing the patented method; (2) the component or material constitutes a material part of the invention; (3) the defendant knew that the item it sold was especially made or adapted for use in infringing the patented method; and (4) the item sold is not a staple article or commodity of commerce suitable for substantial noninfringing use.” *Unilin Beheer B.V. v. Tropical Flooring*, No. CV 14-02209 BRO

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(SSx), 2014 WL 2795360, at *5 (C.D. Cal. June 13, 2014). To survive a motion to dismiss, “a plaintiff need not allege every element of a claim for contributory infringement” and “no detailed factual allegations regarding each element is necessary.” *Id.* at *6. Here, Plaintiff has alleged that Defendant sells the WCSS, which is designed to be installed on any manufacturer’s wood chipper equipped with a hydraulic infeed system. (Dkt. 10 at ¶ 19.) Plaintiff has also alleged facts about how the WCSS works in conjunction with a woodchipper. (Dkt. 10 at ¶¶ 13-18.) These allegations permit a reasonable inference that Defendant is liable for contributory infringement.

3. Induced Infringement

The FAC also alleges that Defendant induced infringement of at least claim 1 of the ’004 Patent and of the ’531 Patent. Induced infringement “requires a showing that the alleged inducer knew of the patent, knowingly induced the infringing acts, and possessed a specific intent to encourage another’s infringement of the patent.” *Vita-Mix Corp. v. Basic Holding, Inc.*, 581 F.3d 1317, 1328 (Fed. Cir. 2009).

Plaintiff alleges that Defendant filed “certain statements” regarding the Asserted Patents with the USPTO. (Dkt. 10 at ¶ 29.) Accepting the factual allegations as true, as the Court must do for the pleading stage, it follows that Defendant must have known of the Asserted Patents to have made statements about them. Plaintiff alleges that Defendant had the specific intent to induce infringement because Defendant sells the allegedly infringing product and advertises it for the infringing use. (Dkt. 10 at ¶¶ 6-7, 11-15.) *See In re Bill of Lading Transmission & Processing Sys. Patent Litig.*, 681 F.3d 1323, 1341-42 (Fed. Cir. 2012) (noting that specific intent is a reasonable inference from advertising an infringing use).

Here, the allegations of Defendant’s knowledge of the Asserted Patents and the specific intent to induce infringement are sufficient to “raise a reasonable expectation that discovery will reveal” that Defendant knowingly induced the infringing acts. *Twombly*, 550 U.S. at 556; *see also DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) (“The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he had knowledge of the patent.”).

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V. CONCLUSION

For the foregoing reasons, the Motion is DENIED. The hearing set for June 26, 2017 is VACATED.

IT IS SO ORDERED.

Initials of
Preparer

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