

**IN THE UNITED STATES DISTRICT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

CREDIT CARD FRAUD CONTROL
CORPORATION,

Plaintiffs,

v.

MAXMIND, INC.,

Defendant.

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CIVIL NO. 3:14-CV-3262-M

MEMORANDUM OPINION AND ORDER

Before the Court is a Motion for Exceptional Case Determination and Attorneys’ Fees and Costs [Docket Entry #63], filed by Defendant MaxMind, Inc. For the reasons stated, the Motion is DENIED.

Background

Plaintiff Credit Card Fraud Control Corporation, a subsidiary of Acacia Research Corporation (“Acacia”), is the exclusive licensee of U.S. Patent No. 8,630,942B2 (“the ’942 patent”), which is directed to computerized payment authorization and fraud control for internet-based transactions. On September 10, 2014, Plaintiff instituted this action, alleging infringement of the ’942 patent, and sent Defendant an initial settlement demand of \$575,000. Defendant rejected the settlement demand and sent Plaintiff a letter that challenged whether the ’942 patent claims were valid and enforceable in light of the Federal Circuit’s decision in *CyberSource v. Retail Decisions, Inc.*, 654 F.3d 1366 (Fed. Cir. 2011) and the Supreme Court’s recent opinions on 35 U.S.C. § 101 patent eligibility. On March 3, 2015, Defendant filed a petition for Covered Business Method (“CBM”) Review before the Patent Trial and Appeal Board (“PTAB”), seeking

cancellation of claims 1–30 of the '942 patent for lack of patentable subject matter under Section 101. In light of the CBM petition, Defendant sought to stay the litigation in this Court. Plaintiff opposed a stay, and instead, sought judicial resolution of the Section 101 dispute. On September 11, 2015, however, the PTAB instituted review of the challenged '942 patent claims, and a few days later Plaintiff agreed to a stay of this litigation. On November 13, 2015, Plaintiff filed an opposed motion to dismiss its infringement suit. On December 9, 2015, the owner of the '942 patent, Fraud Systems.com Corporation (“Fraud Systems”) filed a Request for Cancellation and Adverse Judgment with the PTAB, which then cancelled the challenged '942 patent claims. *MaxMind, Inc. v. Fraud Control Systems.com Corp.*, CBM2016-00094, (P.T.A.B. Dec. 17, 2015). At the parties’ request, on December 29, 2015, this Court entered an Order of Dismissal, but specifically retained jurisdiction to hear motions for attorneys’ fees.

Defendant seeks attorney’s fees and non-taxable costs through an exceptional case finding under 35 U.S.C. § 285, and this Court’s inherent authority. Defendant estimates that its fees and costs are approximately \$275,000. The Court held a hearing on Defendant’s motion on March 16, 2016. The issues have been fully briefed and argued, and the motion is ripe for determination.

Legal Standards and Analysis

Section 285 authorizes district courts—“in exceptional cases”—to award reasonable attorney’s fees to the prevailing party in patent litigation. 35 U.S.C. § 285. Here, it is undisputed that Defendant is the prevailing party. The Supreme Court has clarified that “an ‘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.” *Octane Fitness, LLC v. ICON Health &*

Fitness, Inc., 134 S. Ct. 1749, 1756 (2014). Accordingly, a district court may exercise its discretion, in light of the totality of circumstances, to determine whether a case is exceptional. *Id.* When engaging in an exceptional case determination, a court may consider a non-exclusive list of factors, including: “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.” *Id.* at 1756 n.6 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)). A case that presents either subjective bad faith litigation conduct or exceptionally meritless claims may sufficiently stand out from other cases to warrant a fee award. *Octane Fitness*, 134 S. Ct. at 1757. A party must prove its entitlement to attorney’s fees by a preponderance of the evidence. *Id.* at 1758.

Judged against these standards, the Court determines that this case is not exceptional with respect to the substantive weakness of Plaintiff’s claims or the manner in which the case was litigated. Defendant argues that it was objectively unreasonable for Plaintiff to believe that the ‘942 patent was valid and enforceable in light of the *CyberSource* decision, which invalidated claims directed to the abstract idea of detecting credit card fraud using an internet address and credit card transaction information. Defendant contends that, if Plaintiff had conducted a proper pre-suit investigation into the enforceability and validity of the ‘942 patent, Plaintiff would have understood the inherent weakness of its claims and never filed this litigation. Defendant further contends that Plaintiff should have been aware when it received a letter from Defendant’s counsel relying on *CyberSource* as a reason for rejecting Plaintiff’s settlement demand that the ‘942 patent was directed to an unpatentable abstract idea. Defendant argues that Plaintiff certainly must have been aware that its claims were doomed when the PTAB instituted the CBM proceeding. According to Defendant, Plaintiff’s insistence on continuing the litigation and

attempting to negotiate a settlement evinces its bad faith. Plaintiff responds that it had a reasonable belief that at least one of the claims of the '942 patent was valid and enforceable because, during the prosecution stage, it consulted outside counsel on the patentability of the '942 patent, and the '942 patent was examined and issued after the Federal Circuit's *CyberSource* decision. Plaintiff also relies on the presumption of validity afforded all issued patents, even when faced with a Section 101 challenge. *See* Resp. at 10, (citing *BASCOM v. AT&T Mobility*, 107 F. Supp. 3D 639, 645 (N.D. Tex. 2015) (Lynn, J.)).

The Court finds, in light of the totality of the circumstances, that Plaintiff's litigation position was not frivolous or objectively unreasonable. The substantive law of Section 101 patent-eligibility has evolved since Plaintiff initiated this lawsuit. Claims that have now been established to be unpatentable were not unquestionably so when this case was filed in early September, 2014, less than three months after the Supreme Court's decision in *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). The mere fact that Plaintiff had a losing litigation position is not an automatic indicator that the case is exceptional under Section 285. *See SFA Sys., LLC v. Newegg Inc.*, 793 F.3d 1344, 1348 (Fed. Cir. 2015).

A patentee's failure to conduct adequate pre-filing investigations can be evidence of an exceptional case under Section 285. *Eon-Net LP v. Flagstar Bancorp.*, 653 F.3d 1314, 1329 (Fed. Cir. 2011). Here, however, the evidence is that Plaintiff sought the advice of counsel and obtained an opinion that the patent was valid, even in light of the *CyberSource* decision. There is no responsive evidence that Plaintiff did not actually consult an attorney or that it did not receive an opinion that the patent was valid under Section 101 after *CyberSource*. Plaintiff disputes Defendant's contention that the PTAB's decision to institute CBM Review was an early indication that *all* of the '942 patent claims were invalid. It further explained that, even if the

PTAB invalidated the patent as a result of the CBM review, it had a reasonable good faith belief, based on the advice of counsel, that the Federal Circuit would ultimately affirm the validity of the patent, because the '942 patent was similar to the patent in *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1259 (Fed. Cir. 2014). "If a party has set forth some good faith argument in favor of its position, it will generally not be found to have advanced exceptionally meritless claims." *TechRadium, Inc. v. FirstCall Network, Inc.*, 2015 WL 862326, *5 (S.D. Tex. Feb. 27, 2015).

Defendant argues that this case is exceptional because Plaintiff engaged in a strategy to file suit in order to extract settlements. Defendant relies on the fact that Plaintiff is a subsidiary of Acacia, which it describes as "the mother of all patent trolls," and that Plaintiff also filed lawsuits against four other defendants to enforce the '942 patent. Def. Mot. at 4, 11. Defendant argues that Plaintiff's litigation strategy was objectively unreasonable because Plaintiff continued to prosecute this suit after Defendant advised it of the Section 101 problems with the '942 patent and even after the CBM petition was filed. Defendant contends that Plaintiff's repeated requests for its revenue numbers and its abandonment of any interest in litigating the case after Fraud Systems filed a Request for Cancellation and Adverse Judgement with the PTAB reveals an improper intent to use the litigation to extract a nuisance settlement. *Id.* at 11. Plaintiff responds that it made an informed business decision not to fund Fraud Systems' PTAB proceeding because the CBM Review would not have concluded before the '942 patent's expiration date. Plaintiff further maintains that it decided to dismiss the case because Defendant refused to settle for less than payment by Plaintiff of Defendants' attorney's fees, and any damages Plaintiff could have recovered would be limited, due to Defendant's low revenue. *See Resp.* at 8.

Based on the evidence before it, the Court finds that Plaintiff's conduct was not unreasonable so as to justify an award of fees. Plaintiff's status as a subsidiary of Acacia does not mandate negative inferences about the merits of this suit or Plaintiff's purpose in bringing it. Nor does the record establish that Plaintiff engaged in a vexatious litigation strategy. Defendant conceded at the March 16, 2016 hearing on its motion that it could only speculate as to Plaintiff's reasons for declining to fund the PTAB proceeding. Further, there is no evidence of any misrepresentations, threats, or other egregious conduct by Plaintiff during the litigation that would justify an exceptional case finding. Compare, e.g., *Edekka LLC v. 3balls.com, Inc.*, 2015 WL 9225038, *2-*5 (E.D. Tex. Dec. 17, 2015) (finding case exceptional where nonpracticing patentee sued more than 200 accused infringers over a patent that was "demonstrably weak on its face," and settled many of the actions for such small amounts that it appeared the patentee was merely engaging in extortionate activity); *Novartis Corp. v. Webvention Holdings LLC*, 2015 WL 6669158, *3-*7 (D. Md. Oct. 28, 2015) (finding case exceptional where the nonpracticing patentee threatened numerous parties, offered nuisance settlements if the parties settled quickly, filed a wave of lawsuits after being informed of invalidating prior art, failed to disclose the prior art to the PTO in a timely fashion during a reexamination proceeding, and engaged in litigation misconduct by being uncooperative and not responding to the accused infringer's requests to agree to a judgment dismissing the case after the PTO had canceled the patent in the reexamination); *Checkpoint Systems, Inc. v. All-Tag Security S.A.*, 2015 WL 4941793, *3-*5 (E.D. Pa. Aug. 18, 2015) (finding case exceptional where the evidence showed that the patentee brought suit with the improper motive of interfering with defendants' business, to protect its own competitive advantage; patentee's corporate officer threatened that defendants would "bleed with

legal fees” unless they capitulated, and also warned, “I’m going to put you in bankruptcy and you will cry.”).

Defendant argues that bad faith can be inferred from Plaintiff’s decision to cease defending the ’942 patent before the PTAB and Fraud Systems’ request for adverse judgment to the PTAB. Defendant points to the proximity of Plaintiff’s and Fraud Systems’ actions to the closing of the PTAB’s argument deadline as evidence that Plaintiff was motivated by a bad faith purpose of avoiding litigation on the merits. However, Plaintiff has presented to the Court a business explanation for terminating its defense before the PTAB---that any potential damages would be low due to Defendant’s low revenue and the ’942 patent’s imminent expiration date. This explanation weighs against a finding of bad faith. *SFA Sys.*, 793 F.3d at 1349-50 (evidence that patentee’s suit against the defendant was dismissed in favor of a potentially higher value action against another supported finding that patentee did not have improper motivations for bringing litigation). Thus, the Court finds that this is not an exceptional case under Section 285.

The Court also declines to exercise its inherent powers to award attorneys’ fees and costs in this case. Defendant fails to identify specific conduct by Plaintiff that would justify an award of attorneys’ fees under the Court’s inherent powers. To the extent Defendant relies on the same conduct that it argues establishes an exceptional case finding, the Court finds such conduct insufficient to warrant a sanction.

CONCLUSION

Defendant’s Motion for Exceptional Case Determination and Attorneys’ Fees and Costs is DENIED.

SO ORDERED.

April 7, 2016.


BARBARA M. G. LYNN
UNITED STATES DISTRICT JUDGE
NORTHERN DISTRICT OF TEXAS