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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

TECHNOLOGY PROPERTIES LIMITED LLC
and MCM PORTFOLIO LLC,

Plaintiffs,

v.

CANON INC. et al.,

Defendants.

No. C 14-3640 CW

ORDER GRANTING IN
PART AND DENYING
IN PART
DEFENDANTS' MOTION
FOR ATTORNEYS'
FEES

(Docket No. 533)

_____ /

Defendants Canon Inc. and Canon U.S.A., Inc. (collectively Canon) move for attorneys' fees. Plaintiffs have filed an opposition and Canon has filed a reply. Having considered the papers submitted by the parties, the Court GRANTS Canon's motion in part and DENIES it in part.

BACKGROUND

The Court has described the background to this patent dispute previously. Docket Nos. 320, 334, 527. Plaintiffs filed this lawsuit claiming that Canon and other Defendants infringed Plaintiffs' Patent Numbers 7,295,443 (the '443 patent) and 7,522,424 (the '424 patent). The patents describe technology that enables devices to read different types of removable memory cards.

On March 26, 2012, Plaintiffs filed a complaint against Canon and other Defendants in the International Trade Commission (ITC). On March 28, 2012, Plaintiffs sued Canon and other Defendants in U.S. District Court for the Eastern District of Texas. On May 17,

1 2012, Plaintiffs successfully moved to stay the lawsuit pending
2 resolution of the proceedings in the ITC.

3 In January 2013, the parties participated in a five-day trial
4 before the ITC ALJ. The ALJ issued a final initial determination
5 in August 2013, finding that "the accused products cannot infringe
6 because the logical assignments for the various contact pins is
7 never mapped and is fixed." Docket No. 500-1, Canon's Admin. Mot.
8 to File Under Seal, Ex. 1 at 44.

9 Plaintiffs petitioned the ITC for review and in December 2013
10 the ITC issued a notice of commission determination finding no
11 violation. It found that in order for the allegedly infringing
12 devices "to communicate with the SD and MMC cards, no mapping is
13 required" and "the mere use of additional signal lines in some
14 circumstances but not others, based upon fixed assignments, does
15 not constitute mapping." Docket No. 545-2, Kella Dec., Ex. A at
16 21. Plaintiffs did not appeal the ITC ruling to the Federal
17 Circuit.

18 In February 2014, Plaintiffs filed an unopposed motion to
19 lift the stay of litigation in the Eastern District of Texas. The
20 same month, Defendants filed a successful motion to transfer venue
21 to this district, which Plaintiffs opposed.

22 In August 2015, the Court held a claim construction hearing
23 and in September 2015 the Court issued its Order construing
24 disputed claim terms. In July 2016, Canon filed a motion for
25 summary judgment and in September 2016 the Court granted that
26 motion, finding Canon's products do not infringe the patents-in-
27 suit because "the claimed 'mapping' limitations are not met by the
28

1 functionality of accepting SD and MMC memory cards in the same
2 slot using a shared set of contact pins.”

3 DISCUSSION

4 Canon moves for fees (1) under the fee-shifting provision of
5 the Patent Act, 35 U.S.C. § 285; (2) as a sanction for improper
6 litigation conduct under 28 U.S.C. § 1927; and (3) as a sanction
7 under the Court’s inherent authority. Canon seeks recovery of its
8 attorneys’ fees and expert witness fees and seeks to hold
9 Plaintiffs and their lawyers jointly and severally liable for
10 those fees.

11 I. Patent Act, 35 U.S.C. § 285

12 Under 35 U.S.C. § 285, the court “in exceptional cases may
13 award reasonable attorney fees to the prevailing party.” The
14 Supreme Court, in construing this section, has held that

15 an “exceptional” case is simply one that stands out from
16 others with respect to the substantive strength of a party's
17 litigating position (considering both the governing law and
18 the facts of the case) or the unreasonable manner in which
19 the case was litigated. District courts may determine whether
20 a case is “exceptional” in the case-by-case exercise of their
21 discretion, considering the totality of the circumstances.

22 Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct.
23 1749, 1756 (2014). Because the exceptional case determination may
24 be informed by the district court's unique insight into the manner
25 in which the case was litigated, it is within the sound discretion
26 of the district court. Highmark Inc. v. Allcare Health Mgmt.
27 Sys., Inc., 134 S. Ct. 1744, 1748 (2014). There is no precise
28 formula or rule for determining whether a case is exceptional;
however, courts may consider “a ‘nonexclusive’ list of ‘factors,’
including ‘frivolousness, motivation, objective unreasonableness

1 (both in the factual and legal components of the case) and the
2 need in particular circumstances to advance considerations of
3 compensation and deterrence.'" SunEarth, Inc. v. Sun Earth Solar
4 Power Co., 839 F.3d 1179, 1181 (9th Cir. 2016) (en banc) (quoting
5 Octane Fitness, 134 S.Ct. at 1756 n.6).

6 Pursuant to Octane Fitness, Canon contends that this case is
7 exceptional because Plaintiffs (1) pursued an infringement theory
8 that was meritless, particularly in light of an ITC ruling of non-
9 infringement; and (2) engaged in various forms of litigation
10 misconduct in order to drive up Canon's costs and extract
11 essentially a nuisance value settlement.

12 A. Substantive Strength of Claims

13 The merits of Plaintiffs' lawsuit were exceptionally weak for
14 two primary reasons. First, Plaintiffs' infringement theory
15 essentially lay claim to prior art. Plaintiffs should have known
16 that their infringement contention with regard to the "mapping"
17 limitation in their patents was meritless because the accused
18 products simply accept SD and MMC cards in a single card reader
19 slot in compliance with the SD specification. The Court finds it
20 was unreasonable for Plaintiffs to believe that the mapping
21 limitations granted them rights over this functionality. In its
22 claim construction Order, the Court warned, "If the accused
23 devices are like the device in Hung-Ju, with a single port and a
24 shared set of contact pins for both SD and MMC cards, it may be
25 that the accused devices do not infringe the patents-in-suit."
26 Docket No. 334 at 10.

27 Second, the ITC issued a full commission opinion finding non-
28 infringement. An adverse decision from the ITC does not

1 automatically result in fee-shifting in subsequent litigation of
2 the same case in district court. Kaneka Corp. v. Zhejiang Med.
3 Co., 2014 U.S. Dist. LEXIS 91659 at *11-*12 (C.D. Cal.) (refusing
4 to award \$ 285 fees against plaintiff who lost in the ITC and on
5 summary judgment in district court), affirmed in part and vacated
6 in part on other grounds by Kaneka Corp. v. Xiamen Kingdomway Grp.
7 Co., 2015 U.S. App. LEXIS 9634 (Fed. Cir.). Nor is it enough that
8 the case was decided on the pleadings. Linex Techs., Inc. v.
9 Hewlett-Packard Co., 2014 WL 4616847 at *2 (N.D. Cal.).
10 Nevertheless, the ITC decision in this case should have clearly
11 indicated to Plaintiffs the weakness of their claims.

12 It was unreasonable for Plaintiffs to believe that this Court
13 would interpret the mapping limitations in some way that would
14 lead to a different outcome than the one the ITC reached.
15 Plaintiffs argued in their brief on claim construction that
16 neither the ALJ's initial determination nor the ITC's commission
17 opinion actually defined the term, "mapping," and that "the scope
18 of the mapping terms remains an open issue that is key to
19 determining infringement in this case." Docket No. 282, Pls.'
20 Opening Br. On Claim Constr. at 3. Plaintiffs argued that the
21 verb "to map" meant "to logically assign." Docket No. 334 at 6.
22 However, the ALJ and the full ITC did construe "to map" as a
23 logical function, while the Court construed "to map" as meaning
24 "to assign." Plaintiffs do not explain why the Court would have
25 reached a different result if it had construed "to map" as
26 necessarily a logical function, and there is no definition of "to
27 map" that would reach back and grant Plaintiffs rights over prior
28 art.

1 Through citations to other § 285 cases, Plaintiffs argue for
2 a narrow interpretation of what constitutes an exceptional case
3 under Octane Fitness. It is true that “merely taking an
4 aggressive stance while positing stretched or unsuccessful
5 infringement theories does not, without more, warrant fee-
6 shifting.” Vasudevan Software, Inc. v. Microstrategy, Inc., 2015
7 WL 4940635 at *5 (N.D. Cal.).

8 Plaintiffs cite Deckers Outdoor Corp. v. Romeo & Juliette,
9 Inc., 2016 WL 5842187 (C.D. Cal.) for the proposition that a
10 plaintiff “will generally not be found to have advanced
11 ‘exceptionally meritless’ claims” where it has set forth some good
12 faith argument in favor of its position. Id. at *4. The court in
13 Deckers found that the infringement claim was not exceptional and
14 permitted the plaintiff voluntarily to dismiss the claim without
15 shifting fees. Id. The court noted that the plaintiff had moved
16 to dismiss the claim before any claim construction ruling was
17 issued or any discovery or dispositive motions were filed. Id.
18 In contrast, the present case was decided on summary judgment
19 following claim construction and an adverse ITC commission
20 opinion.

21 Relying on Deckers, Plaintiffs argue their case is not
22 exceptional because they did not bring it in bad faith. Canon has
23 not demonstrated that Plaintiffs brought their case in subjective
24 bad faith. However, although bad faith can be evidence that a
25 case is exceptional, Digital Reg of Texas, LLC v. Adobe Sys.,
26 Inc., 2015 WL 1026226 at *4 (N.D. Cal.) (citing Octane Fitness,
27 134 S. Ct. at 1757), the Octane Fitness analysis does not collapse
28 into a test of good or bad faith.

1 Plaintiffs also argue that § 285 fees are generally only
2 awarded in cases where litigants have displayed “egregious
3 behavior.” Docket No. 545, Pl.’s Opp. at 9-10. Plaintiffs cite a
4 number of representative cases. In Icon Health & Fitness, Inc. v.
5 Octane Fitness, LLC, 112 F. Supp. 3d 888, 899 (D. Minn. 2015)
6 (Octane Fitness II), the district court’s ruling on remand from
7 the Supreme Court in Octane Fitness, the court found that Icon’s
8 critical arguments “were particularly weak because they were
9 wholly at odds with the patent text, prosecution history, and
10 inventor testimony, and would have resulted in impermissibly broad
11 claims.” Id. at 892-93. The court found those factors and Icon’s
12 own expert testimony “posed major obstacles to Icon’s success on
13 the merits,” and “Icon must have known that the odds of winning
14 this lawsuit were very slim.” Id. at 895. The court also found
15 Icon’s pre-suit infringement investigation sorely lacking. Id. at
16 897. In Intex Recreation Corp. v. Team Worldwide Corp., 77 F.
17 Supp. 3d 212 (D.D.C. 2015), the court awarded fees because its
18 claim construction “foreclosed any reasonable argument” that the
19 accused product infringed. Id. at 217. Egregious behavior may
20 demonstrate that a case is exceptional; however, the Octane
21 Fitness test also is not egregiousness. Furthermore, Plaintiffs’
22 litigating position was comparable to those of the plaintiffs
23 described in Octane Fitness II in a number of respects. For
24 example, Plaintiffs proposed an impermissibly broad reading of
25 their claims that effectively would have covered prior art, and
26 Plaintiffs’ expert testimony posed an obstacle to success on the
27 merits.

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1 Plaintiffs' litigating position was comparable to those of
2 plaintiffs in other post-Octane Fitness cases in which fees have
3 been awarded. In Linex, 2014 WL 4616847, the plaintiff brought
4 unsuccessful infringement claims based on a term that a staff
5 attorney at the ITC and the Eastern District of Texas had
6 separately construed unfavorably. This Court granted summary
7 judgment and ultimately awarded \$ 285 fees. Plaintiffs' pursuit
8 of their infringement theory following the ITC determination was
9 even less justified here because they continued to litigate
10 following an actual determination of non-infringement by the full
11 ITC, as compared to merely unfavorable claim constructions. See
12 also Segan LLC v. Zynga Inc, 131 F. Supp. 3d 956, 960-61 (N.D.
13 Cal. 2015) (awarding fees against plaintiff that brought
14 infringement suit against defendant practicing something "very
15 different" from patented invention); Kilopass Tech. Inc. v.
16 Sidense Corp., 2014 WL 3956703 at *10 (N.D. Cal.) (awarding fees
17 against plaintiff that asserted unreasonable claims and committed
18 misconduct).

19 Furthermore, Plaintiffs' litigating position was
20 significantly weaker than those of plaintiffs in multiple other
21 post-Octane Fitness cases in which fees have not been awarded.
22 See Aylus Networks, Inc. v. Apple Inc., 2016 WL 1243454 (N.D.
23 Cal.) (declining to award fees where infringement contention "was
24 not a simple question, but presented a more complex question with
25 which this Court grappled" and defendant "does not contend that
26 Aylus engaged in any egregious behavior beyond relying on a claim
27 construction that the Court ultimately rejected"); Digital Reg,
28 2015 WL 1026226 (declining to award fees on claim construction

1 arguments that "did not descend to the level of frivolousness or
2 objective unreasonableness" but awarding fees for discovery
3 misconduct); Vasudevan, 2015 WL 4940635 (declining to award fees
4 against an unsuccessful plaintiff because the dispositive claim
5 construction was not "sufficiently obvious" to award fees,
6 plaintiff had merely "fashioned its argument upon statements made
7 during prosecution other than those later held to be dispositive,"
8 and the Federal Circuit had "grappled squarely" with the
9 plaintiff's arguments on appeal); Site Update Sols., LLC v. Accor
10 N. Am., Inc., 2015 WL 581175 (N.D. Cal.), (declining to award fees
11 where plaintiff's claim construction was incorrect but not so
12 objectively unreasonable or frivolous as to be out of the ordinary
13 and legal argument did not conflict with governing law beyond the
14 level of misunderstanding), aff'd sub nom. Site Update Sols., LLC
15 v. CBS Corp., 639 F. App'x 634 (Fed. Cir. 2016); Kreative Power,
16 LLC v. Monoprice, Inc., 2015 WL 1967289 (N.D. Cal.) (declining to
17 award fees where court grappled substantially with one
18 infringement argument and plaintiff's position on the other was
19 not objectively baseless).

20 For the foregoing reasons, the Court finds that, considering
21 the totality of the circumstances, this case is "one that stands
22 out from the others" with respect to the objective
23 unreasonableness and substantive weakness of Plaintiffs'
24 litigating position. Octane Fitness, 134 S. Ct. at 1756.

25 B. Manner of Litigating

26 A case may be exceptional based on the unreasonable manner in
27 which it was litigated. Octane Fitness, 134 S. Ct. at 1756. "But
28 sanctionable conduct is not the appropriate benchmark." Id.

1 Canon essentially argues that Plaintiffs litigated this case in
2 such a way as to maximize Canon's expenses while minimizing their
3 own, in an effort to preserve the possibility of settlement and
4 increase Plaintiffs' leverage in settlement negotiations. Canon
5 does not cite to the record to substantiate its assertion, and
6 Plaintiffs demonstrated conduct to the contrary. Plaintiffs point
7 out that in the November 2014 joint case management statement they
8 proposed an early claim construction on the mapping terms
9 precisely because the ITC ALJ based his non-infringement
10 determination entirely on those terms and the issue was
11 potentially dispositive. Canon resisted Plaintiffs' attempts to
12 focus the case on the mapping terms. Furthermore, Canon also
13 engaged in behaviors that prolonged the litigation. For example,
14 it unreasonably refused to designate representative products,
15 prompting a discovery dispute. See Vasudevan, 2015 WL 4940635 at
16 *6 (finding § 285 fee-shifting for manner of litigation
17 unwarranted where plaintiff's aggressive tactics could be
18 interpreted as good faith effort to advance its position and
19 defendant also engaged in maneuvers that significantly prolonged
20 litigation).

21 Accordingly, the Court finds the manner in which Plaintiffs
22 litigated the case does not contribute to justifying an award of
23 attorneys' fees under § 285 in this case.

24 C. Joint and Several Liability

25 Canon seeks to hold Plaintiffs' attorneys jointly and
26 severally liable for attorneys' fees under § 285; however, Canon
27 cites no authority for its request, and both the text of the
28 statute and applicable authority indicate the contrary. 35 U.S.C.

1 § 285; see also Phonometrics, Inc. v. ITT Sheraton Corp., 64 F.
2 App'x 219, 222 (Fed. Cir. 2003) ("Sheraton has provided us with no
3 legal basis for entering a fee award against the losing party's
4 attorney under § 285."). Furthermore, Plaintiffs' attorneys
5 brought this suit two years before the Supreme Court's decision in
6 Octane Fitness, which significantly altered the legal landscape
7 concerning fee-shifting under § 285. See Segan, 131 F. Supp. 3d
8 at 965 (discussing mitigating effect of "less notice" due to
9 filing before Octane Fitness and accordingly holding plaintiffs'
10 attorneys jointly and severally liable as Rule 11 sanctions for
11 frivolous lawsuit for only \$100,000 worth of approximately \$1.2
12 million § 285 fee award). The Court does not find Plaintiffs'
13 attorneys jointly and severally liable.

14 D. Conclusion

15 Accordingly, Canon is eligible to recover its attorneys' fees
16 because Plaintiffs' litigating position was exceptionally weak.
17 Even in an exceptional case, the "decision whether or not to award
18 fees is still committed to the discretion of the trial judge."
19 Kilopass, 2014 WL 3956703 at *14 (quoting Modine Mfg. Co. v. Allen
20 Group, Inc., 917 F.2d 538, 543 (Fed. Cir. 1990)). The Court
21 concludes that it is a fair allocation of the burden of this
22 litigation to award Canon its fees.

23 II. Sanctions Under 28 U.S.C. § 1927

24 Title 28 U.S.C. § 1927 provides, "An attorney . . . who so
25 multiplies the proceedings in any case unreasonably and
26 vexatiously may be required by the court to satisfy personally the
27 excess costs, expenses, and attorneys' fees reasonably incurred
28 because of such conduct." An imposition of § 1927 sanctions "must

1 be supported by a finding of subjective bad faith," which is
2 present where "an attorney knowingly or recklessly raises a
3 frivolous argument, or argues a meritorious claim for the purposes
4 of harassing an opponent." In re Keegan Mgmt. Co., Sec. Litig.,
5 78 F.3d 431, 436 (9th Cir. 1996).

6 Canon argues that attorneys' fees are warranted under § 1927
7 because Plaintiffs multiplied the proceedings simply by pursuing
8 the case after the ITC commission opinion. Canon alleges that
9 doing so was reckless, thereby demonstrating the required
10 subjective bad faith. Canon provides no evidence demonstrating
11 subjective bad faith other than the fact of Plaintiffs' loss in
12 the ITC.¹ Although that loss was a strong indication of the
13 weakness of Plaintiffs' infringement theory, it alone is
14 insufficient to demonstrate recklessness. In the only case Canon
15 cites for an award of § 1927 fees in the patent litigation
16 context, the award was based on far more troubling behavior than
17 any in the present case. Phonometrics, Inc. v. Westin Hotel Co.,
18 350 F.3d 1242, 1248 (Fed. Cir. 2003) (awarding § 1927 fees where
19 plaintiff "attempted to slide around" precedential dispositive
20 claim interpretation and never accused defendant of infringing the
21 patent-in-suit as it had been defined by the Federal Circuit).

22 Accordingly, the Court will not award attorneys' fees under
23 § 1927.

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26 ¹ Plaintiffs' decision not to appeal the ITC commission
27 opinion to the Federal Circuit is not evidence that they knew
28 their claims would fail. Plaintiffs sought a jury trial and money
damages, neither of which the ITC could provide.

1 III. Sanctions Under the Court's Inherent Authority

2 Canon argues that its attorneys' and expert fees are
3 warranted under the Court's inherent authority. Here, Canon
4 primarily argues for its expert fees, which are not available
5 under §§ 285 or 1927. A district court has "inherent authority to
6 impose sanctions for bad faith, which includes a broad range of
7 willful improper conduct." Fink v. Gomez, 239 F.3d 989, 992 (9th
8 Cir. 2001). The court may award reasonable attorneys' fees "to a
9 successful party when his opponent has acted in bad faith,
10 vexatiously, wantonly, or for oppressive reasons." F.D. Rich Co.,
11 Inc. v. U.S. for Use of Indus. Lumber Co., Inc., 417 U.S. 116, 129
12 (1974). "Because of their very potency, inherent powers must be
13 exercised with restraint and discretion." Chambers v. NASCO,
14 Inc., 501 U.S. 32, 44 (1991). As the Federal Circuit has
15 explained, "Use of this inherent authority is reserved for cases
16 where the district court makes a finding of fraud or bad faith
17 whereby the 'very temple of justice has been defiled.'" MarcTec,
18 LLC v. Johnson & Johnson, 664 F.3d 907, 921 (Fed. Cir. 2012)
19 (quoting Chambers, 501 U.S. at 46).

20 Canon cites Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.,
21 549 F.3d 1381 (Fed. Cir. 2008), for the rule that even for
22 "conduct [that does] not amount to fraud, courts may use sanctions
23 in cases involving bad faith that cannot be otherwise reached by
24 rules or statutes." Id. at 1391 (citing Chambers, 501 U.S. at
25 46). As discussed above, however, the Court does not find
26 Plaintiffs acted recklessly or in subjective bad faith.

27 Accordingly, the Court will not award attorneys' or expert
28 fees under its inherent authority.

1 IV. Reasonableness of Attorneys' Fees

2 A fee petition must provide sufficient detail to allow for a
3 fair evaluation of the time expended and the nature and need for
4 the service. United Steel Workers of Am. v. Ret. Income Plan, 512
5 F.3d 555, 565 (9th Cir. 2008). In moving for attorneys' fees,
6 Canon submits a declaration by its lead trial counsel in which he
7 provides the hourly rate and number of hours worked of each
8 employee whose fees Canon seeks, along with a short professional
9 background description of each. The declaration does not provide
10 any detail as to the nature of each biller's work.

11 The Court finds Canon's attorneys' rates reasonable.
12 Chalmers v. City of Los Angeles, 796 F.2d 1205, 1210-11 (9th
13 Cir.1986). However, Canon has not adequately substantiated the
14 number of hours worked for which it seeks recovery.

15 CONCLUSION

16 For the reasons set forth above, Canon's motion for
17 attorneys' fees (Docket No. 533) is GRANTED to the extent that it
18 is entitled to fees from Plaintiffs under § 285, in an amount to
19 be determined, incurred defending this lawsuit. The motion is
20 DENIED with respect to expert witness fees and all other bases for
21 awarding fees.

22 Within two weeks of this order, Canon must file a
23 supplemental declaration summarizing the services rendered by each
24 person for whose services fees are claimed together with a summary
25 of the time spent by each person, and a statement describing the
26 manner in which time records were maintained. See Civil L.R. 54-
27 5(b). Plaintiffs may file an opposition of not more than eight
28 pages no later than one week thereafter in which they may address

1 only the reasonableness of the number of hours sought. Canon may
2 file a response to Plaintiffs' opposition of up to five pages no
3 later than one week thereafter. The matter will be decided on the
4 papers.

5 IT IS SO ORDERED.

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7 Dated: January 26, 2017



8 CLAUDIA WILKEN
9 United States District Judge
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