UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

CLARILOGIC, INC., a corporation,

Plaintiff,

v.

FORMFREE HOLDINGS CORPORATION, a corporation, *et al.*,

Defendants.

Case No. 15-cv-41 DMS (NLS)

ORDER (1) DENYING PLAINTIFF'S MOTION FOR ATTORNEYS' FEES; (2) DENYING DEFENDANT'S MOTION FOR SANCTIONS; AND (3) GRANTING DEFENDANT'S MOTION TO STRIKE

Pending before the Court are Plaintiff Clarilogic, Inc.'s motion for attorneys' fees and Defendant Formfree Holdings Corporation's motion to strike and for sanctions. Defendant opposed Plaintiff's attorneys' fees motion, and Plaintiff opposed Defendant's motion for sanctions. Plaintiff did not oppose Defendant's motion to strike, which motion is granted as unopposed; the portions of the briefs and declarations identified in the motion to strike were not considered by the Court and are stricken. Defendant's motion for sanctions and Plaintiff's motion for attorneys' fees are denied for the reasons set forth below.

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I.

BACKGROUND

On January 8, 2015, Plaintiff filed a declaratory judgment action against Defendant, seeking to invalidate Defendant's patent, United States Patent No. 8,762,243. Defendant answered and filed a compulsory counterclaim for infringement of the patent on February 10, 2015. Pretrial proceedings continued for over six months. A claim construction hearing was held on October 26, 2015, and thereafter the Court issued its claim construction order on November 24, 2015. Further settlement discussions continued before the magistrate judge, but the case did not settle. Plaintiff filed a motion for summary judgment to invalidate the patent on January 22, 2016. Defendant opposed. On March 4, 2016, the Court granted the motion, invalidated the patent, entered judgment in favor of Plaintiff, and closed the case. Plaintiff now moves to declare this case exceptional under 35 U.S.C. § 285, claiming that Defendant's legal position supporting the validity of the challenged patent was "exceptionally weak" and that Defendant litigated the case in an unreasonable manner.

II.

DISCUSSION

A trial court hearing a patent dispute "in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. An exceptional case "stands out from others with respect to the (1) substantive strength of a party's litigating position (considering both the governing law and the facts of the case)); or (2) the unreasonable manner in which the case was litigated." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). "District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* 134 S. Ct. 1751. The court may consider "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 (citation omitted). The text of the statute "emphasizes the fact that the determination is for the district court." *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, __ U.S. __, 134 S. Ct. 1744, 1748 (2014), quoting *Pierce v. Underwood*, 487 U.S. 552, 559 (1988). "'[A]s a matter of the sound administration of justice,' the district court 'is better positioned' to decide whether a case is exceptional, because it lives with the case over a prolonged period of time." *Id.*, quoting *Pierce* at 559–560.

Plaintiff, relying on *Alice Corp. Pty. v. CLS Bank Int'l*, __ U.S. __, 134 S. Ct. 2347 (2014), argues "the subject matter inquiry alone demonstrates the substantive weakness, [up] to an[d] including a standard of objective baselessness," of Defendant's case. Pl's Mot. at 16. Here, however, as Defendant points out, the patent issued after the Supreme Court's decision in *Alice*. The patent is presumed valid, "and this presumption exists at every stage of the litigation." *Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc.*, 134 F.3d 1085, 1088 (Fed. Cir. 1998). Defendant also notes that it did not initiate the litigation. In Defendant's view, it merely defended "a presumptively valid patent and preserve[d] its counterclaims in an action it did not initiate in a forum it did not choose." Opp. Br. at 4–5. In addition, Defendant correctly points out that post-*Alice*, the landscape of patent ineligibility under 35 U.S.C. § 101 is unsettled and rapidly evolving. *Id.* at 5–7 (citing cases). Defendant argues that while it was aware *Alice* "would create difficultly[,]" it defended the patent in good faith. *See* Opp. Br. at 5–6. On this record, the Court declines to find that the substantive weakness of Defendant's position was so objectively apparent as to render the case exceptional.

Plaintiff also takes issue with Defendant's litigation of the case, arguing in part that Defendant's actions prolonged the litigation. Plaintiff, however, initiated the litigation, and having done so, it had a clear path to a potentially quick resolution on the pleadings. *See Content Extraction & Transmission LLC v. Wells Fargo Bank*,

776 F.3d 1343, 1349 (Fed. Cir. 2014) (affirming resolution of patent ineligibility under § 101 at the pleadings stage). In *OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1364–65 (Fed. Cir.), *cert. denied*, 136 S. Ct. 701 (2015), Judge Mayer noted in a concurring opinion the benefits to this approach:

> Failure to recite statutory subject matter is the sort of "basic deficiency," that can, and should, "be exposed at the point of minimum expenditure of time and money by the parties and the court," *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 558, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007) (citations and internal quotation marks omitted). Addressing 35 U.S.C. § 101 at the outset not only conserves scarce judicial resources and spares litigants the staggering costs associated with discovery and protracted claim construction litigation, it also works to stem the tide of vexatious suits brought by the owners of vague and overbroad business method patents. Accordingly, where, as here, asserted claims are plainly directed to a patent ineligible abstract idea, we have repeatedly sanctioned a district court's decision to dispose of them on the pleadings. (Citations omitted.) I commend the district court's adherence to the Supreme Court's instruction that patent eligibility is a "threshold" issue, *Bilski v. Kappos*, 561 U.S. 593, 602, 130 S.Ct. 3218, 177 L.Ed.2d 792 (2010), by resolving it at the first opportunity.

Plaintiff complains about Defendant's litigation conduct "up until the eve of the filing of the motion for summary judgment," (Mot. at 17), including Defendant's conduct during discovery and claim construction. *Id*. at 18–19. Yet, Plaintiff could have raised the patent eligibility issue at the outset of the litigation.[1] Whether a motion brought at the outset of litigation would have prevailed is not now at issue, but given its availability the Court is not persuaded that the subsequent conduct attributed to Defendant warrants a finding that Defendant unreasonably litigated the case. Under the totality of circumstances, the Court declines to find the case exceptional. Plaintiff's motion for attorneys' fees is therefore denied.

Next, Defendant seeks sanctions for the disclosure of confidential settlement

[1] Plaintiff could have challenged Defendant's counterclaim through a motion to dismiss and/or filed its summary judgment motion shortly after commencing the litigation. *See* Fed.R.Civ.P. 56(b) (summary judgment motion may be filed "at any time[.]").

discussions in Plaintiff's motion for attorneys' fees and attached filings. While improper, there has been no showing these disclosures prejudiced Defendant and they were not considered by the Court. Under these circumstances, and in view of Plaintiff's counsel's clear remorse and reasoned explanation for the failure, the Court declines to award sanctions.

III.

CONCLUSION

For the foregoing reasons, Plaintiff's motion for attorneys' fees and Defendant's motion for sanctions are denied. Defendant's unopposed motion to strike is granted.

IT IS SO ORDERED.

Dated: April 27, 2016

Hon. Dana M. Sabraw
United States District Judge