

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

#27 (12/9 hrg off)

CIVIL MINUTES – GENERAL

Case No.	CV 19-4367 PSG (SKx)	Date	December 3, 2019
Title	Data Scape Limited v. Spotify USA Inc. et al		

Present: The Honorable Philip S. Gutierrez, United States District Judge

Wendy Hernandez

Not Reported

Deputy Clerk

Court Reporter

Attorneys Present for Plaintiff(s):

Attorneys Present for Defendant(s):

Not Present

Not Present

Proceedings (In Chambers): The Court DENIES Defendant’s Motion for Attorneys’ Fees and Costs.

In May 2019, Plaintiff Data Scape Limited (“Data Scape” or “Plaintiff”) filed this action for patent infringement against Defendant Spotify USA Inc. (“Spotify” or “Defendant”).^{1, 2} See Dkt. # 1 (“*Compl.*”). Data Scape alleged that Spotify infringes U.S. Patent Nos. 10,277,675 (“the ’675 Patent”), 9,380,112 (“the ’112 Patent”), and 9,712,614 (“the ’614 Patent”). *Compl.* ¶¶ 7, 29, 50. In August 2019, the Court granted Spotify’s motion to dismiss the complaint on the basis that each claim of each asserted patent is invalid under 35 U.S.C. § 101. Dkt. # 23 (“§ 101 Order”). Final Judgment was entered in the case on September 13, 2019. Dkt. # 25.

¹ Data Scape also filed suit against Pandora Media, Inc. for infringement of the same three patents as well as a fourth one. See *Data Scape Limited v. Pandora Media, Inc.*, CV 19-4371 PSG (ASx) (C.D. Cal. May 20, 2019). After the Court issued an Order regarding a motion to dismiss filed by Pandora, the parties in that matter notified the Court that they had entered an agreement that resolved Data Scape’s claims against Pandora. See *id.* at Dkt. # 22.

² Spotify Technology S.A. was also named as a defendant in this matter, but did not file an answer and did not join in either the motion to dismiss the complaint or in the current motion for attorneys’ fees. Spotify USA Inc. and Data Scape jointly filed a proposed final judgment that states, “the Court hereby enters judgment in favor of *Defendants* on all claims.” Dkt. # 24, Dkt. # 24-1 (emphasis added). The Court accordingly finds this matter to be resolved with respect to Spotify Technology S.A. See Dkt. # 25 (entering Final Judgment with same language proposed by parties).

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Before the Court is Spotify's motion for attorneys' fees. Dkt. # 27 ("*Mot.*"). Data Scope timely filed an opposition to the motion. Dkt. # 32 ("*Opp.*"). Spotify has filed a reply. Dkt. # 33 ("*Reply*").

Having considered the moving papers, the Court finds that oral argument is not necessary. *See* L.R. 7-15. The hearing is **VACATED** and the matter is taken **UNDER SUBMISSION**. After considering the papers and the arguments presented at the hearing, the Court **DENIES** Spotify's motion.

I. Background

Data Scope previously filed a lawsuit against Spotify in this District on December 26, 2018, alleging infringement of two of the same patents asserted in this case (the '112 and '614 Patents) as well as two other patents: U.S. Patent Nos. 7,720,929 ("the '929 Patent") and 7,617,537 ("the '537 Patent"). *See Data Scope Limited v. Spotify USA Inc. et al*, CV 18-10653 PSG (Sx) (C.D. Cal. Dec. 26, 2018) ("*-10653 Case*"). After requesting an extension of time to respond to the -10653 Case complaint (*see -10653 Case*, Dkt. # 12), Spotify filed a motion to dismiss the complaint on the basis that the asserted patents were invalid under 35 U.S.C. § 101. *-10653 Case*, Dkt. # 18. On its deadline to file a response to the motion, Data Scope filed a first amended complaint. *-10653 Case*, Dkt. # 19. Spotify subsequently filed a motion to dismiss the first amended complaint on largely the same grounds as its motion to dismiss the original complaint. *-10653 Case*, Dkt. # 22. On May 20 2019, Data Scope's deadline to file a response to the motion, Data Scope filed a notice of voluntary dismissal. *-10653 Case*, Dkt. # 28. The same day, it filed this case, dropping the '929 and '537 Patents and adding the '675 Patent to its suit. *See* Dkt. # 1. The asserted patents in this case all belong to the same patent family as a series of continuation patents all claiming priority back to the '929 Patent. They share substantially the same specification.

Three days before Data Scope filed this case and filed its notice of voluntary dismissal in the *-10653 Case*, Judge Carter considered a § 101 motion against the claims of the '929 and '537 Patents, among others, and found them invalid. *See Data Scope Limited v. Western Digital Corporation et al.* ("*Western Digital*"), SACV 18-2285 DOC (KESx), Dkt. # 41 (C.D. Cal. May 17, 2019). He later denied a motion to alter the judgment on similar § 101 grounds. *See Western Digital*, Dkt. # 53.

Spotify filed its motion to dismiss in this case pursuant to 35 U.S.C. § 101 on July 9, 2019. Three days later, on July 12, 2019, Spotify served Data Scope with a Rule 11 letter.

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Mot. 8:28–9:3. Data Scape subsequently filed its opposition to Spotify’s motion. As part of its opposition, Data Scape proposed filing an amended complaint. *See* Dkt. # 21-1 (proposed amended complaint). The Court granted the motion on August 22, 2019, including by finding that permitting Data Scape to file a proposed amended complaint would be futile. § 101 *Order*. A Final Judgment was subsequently entered. Dkt. # 25.

Spotify now moves for its attorneys’ fees, including for fees that it incurred in the -10653 Case, pursuant to 35 U.S.C. § 285, 28 U.S.C. § 1927, Rule 11, and Rule 41(d). *See generally Mot.*

II. Legal Standard

a. 35 U.S.C. § 285

Under the “American Rule,” each party to a lawsuit is generally responsible for its own attorneys’ fees. *Hensley v. Eckerhart*, 461 U.S. 424, 429 (1983). However, an award of attorneys’ fees may be proper where a valid contract or statute shifts fees to a losing party. *See, e.g., United States v. Standard Oil Co. of Cal.*, 603 F.2d 100, 103 (9th Cir. 1979).

Under § 285 of the Patent Act, “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. A case is “exceptional” if it “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.*, 572 U.S. 545, 554 (2014). “The party seeking fees must prove that the case is exceptional by a preponderance of the evidence, and the district court makes the exceptional case determination on a case-by-case basis considering the totality of the circumstances.” *SRI Int’l, Inc. v. Cisco Sys., Inc.*, 930 F.3d 1295, 1310 (Fed. Cir. 2019) (citing *Octane*, 572 U.S. at 554, 557).

b. 28 U.S.C. § 1927

Pursuant to 28 U.S.C. § 1927, “[a]ny attorney . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys’ fees reasonably incurred because of such conduct.” 28 U.S.C. § 1927.

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The Ninth Circuit has interpreted “unreasonably and vexatiously” to require subjective bad faith, meaning that the attorney recklessly or knowingly raised a frivolous argument or argued a claim for the purposes of harassment. *See New Alaska Dev. Corp. v. Guetschow*, 869 F.2d 1298, 1306 (9th Cir. 1989); *see also Gust, Inc., v. Alphacap Ventures, LLC*, 905 F.3d 1321, 1327 (Fed. Cir. 2018) (Federal Circuit “review[s] § 1927 awards under the law of the regional circuit.”). The Ninth Circuit has clarified that a finding of “recklessness” is sufficient to justify the imposition of sanctions under § 1927. *See B.K.B v. Maui Police Dept.*, 276 F.3d 1091, 1107 (9th Cir. 2002) (citing *Fink v. Gomez*, 239 F.3d 989, 993 (9th Cir. 2001)). However, “[w]ithout more, reckless, but nonfrivolous, filings may not be sanctioned.” *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 442 (9th Cir. 2017), *cert. denied*, 138 S. Ct. 1984 (2018) (citing *B.K.B.*, 276 F.3d at 1107).

c. Rule 11

Rule 11 gives a federal court the authority to impose sanctions against litigants appearing before it. *See Fed. R. Civ. P. 11*. The rule is “designed to deter attorneys and unrepresented parties from violating their certification that any pleading, motion or other paper presented to the court is supported by an objectively reasonable legal and factual basis.” *Yagman v. Brennan*, No. CV 14-8033 PSG (Ex), 2015 WL 1285708, at *1–2 (C.D. Cal. Mar. 19, 2015) (citing *Truesdell v. S. Cal. Permanente Med. Grp.*, 209 F.R.D. 169, 173–73 (C.D. Cal. 2002)). “A motion for sanctions must be made separately from any other motion and must describe the specific conduct that allegedly violates Rule 11(b).” Fed. R. Civ. P. 11(c)(2); *see, e.g. Sacchi v. Levy*, No. CV 14-8005 MMM (FFMx), 2015 WL 12765637, at *10 (C.D. Cal. Oct. 30, 2015) (“Sacchi’s motion for sanctions is appended to his motion to dismiss and is therefore procedurally improper. Furthermore, he nowhere states that he complied with Rule 11’s safe harbor provision. As a result, the motion must be denied.”); *Sigma Fin. Corp. v. Gotham Ins. Co.*, No. SA CV 15-01531 AG (DFMx), 2017 WL 10543646, at *3 (C.D. Cal. Nov. 6, 2017) (denying request for sanctions on procedural grounds and stating, “[c]onsidering the weight of Rule 11 requests, the rule sets very specific requirements for one attorney asking the Court to sanction another.”).

A court considering Rule 11 sanctions should consider whether the party or parties’ submissions were “frivolous,” “legally unreasonable,” or “without factual foundation, even if not filed in subjective bad faith.” *Zaldivar v. City of L.A.*, 780 F.2d 823, 831 (9th Cir. 1986); *see also Townsend v. Holman Consulting Corp.*, 929 F.2d 1358, 1362–65 (9th Cir. 1990) (en banc). “Our cases have established that sanctions [under Rule 11] must be imposed on the signer of a paper if either (a) the paper is filed for an improper purpose, or (b) the paper is

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‘frivolous.’” *Townsend*, 929 F.2d at 1362. Thus, “[t]he issue in determining whether to impose sanctions under Rule 11 is whether a reasonable attorney, having conducted an objectively reasonable inquiry into the facts and law, would have concluded that the offending paper was well-founded.” *Yagman*, 2015 WL 1285708, at *2 (quoting *Schutts v. Bently Nev. Corp.*, 966 F. Supp. 1549, 1562 (D. Nev. 1997)).

d. Rule 41

Under Rule 41(d) of the Federal Rules of Civil Procedure,

[i]f a plaintiff who previously dismissed an action in any court files an action based on or including the same claim against the same defendant, the court:

- (1) may order the plaintiff to pay all or part of the costs of that previous action; and
- (2) may stay the proceedings until the plaintiff has complied.

Fed. R. Civ. P. 41(d). The purpose of Rule 41(d) is “to compensate a party who has incurred unnecessary expenditures because of an opponent’s vexatious conduct during the course of litigation.” *Kelmar v. Bank of Am. Corp.*, No. CV 12-6826 PSG (SHx), 2012 WL 12973473, at *1 (C.D. Cal. Oct. 26, 2012) (quoting *Esquivel v. Arau*, 913 F. Supp. 1382, 1391 (C.D. Cal. 1996)). However, “the Court should not impose any costs associated with work that will still be useful to defendants in the instant litigation.” *Esquivel*, 913 F. Supp. at 1388.

III. Discussion

a. 35 U.S.C. § 285

Spotify argues that approximately \$70,000 in attorneys’ fees (*Mot.* 1:27–2:1), including fees under § 285, are warranted for two preliminary reasons. First, Spotify argues that fees are warranted as a result of Data Scape’s litigation conduct, including its decision to voluntarily dismiss the -10653 Case and file the current action rather than amend its complaint and/or respond to the second motion to dismiss pending in the -10653 Case. Second, Spotify argues, particularly given the determination made in *Western Digital*, that Data Scape cannot show that it had a good faith belief in the validity of the asserted patents. *See, e.g. Mot.* 9:4–9 (“Data Scape’s decision to press onward despite lacking any colorable argument regarding the validity of its patents forced Spotify to incur unwarranted expenses and renders this case exceptional.”); *see also id.* 13:10–11 (in context of Rule 11 sanctions arguments, stating “following Judge

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Carter’s order, Data Scope and its counsel had no basis to believe in the patents’ validity or to file additional lawsuits.”).

Data Scope argues that it acted appropriately in its decision to voluntarily dismiss the -10653 Case so that it could drop the two patents invalidated in *Western Digital* and add a new patent “in order to streamline the issues.” *Opp.* 5:25–27. Data Scope further states, “[a]t all relevant times, Data Scope and its counsel had, and still have, a good faith believe, substantiated by relevant controlling Federal Circuit precedent, in the validity of the asserted patents—*none* of which had previously been subjected to a validity challenge.” *Id.* 6:3–7 (emphasis in original). Data Scope also attaches the declaration of its counsel attesting to similar assertions. *See* Dkt. # 32-1 (Declaration of Reza Mirzaie in Support of Opposition (“*Mirzaie Decl.*”)).

Regarding Data Scope’s choice to voluntarily dismiss the -10653 Case under Rule 41 and file this matter (as opposed to requesting leave under Rule 15 to amend its complaint in the -10653 Case), the Court cannot say that it was an exceptional decision, made in bad faith, or otherwise made in a reckless, frivolous manner that multiplied the proceedings. The *Western Digital* determination had issued three days earlier. Opting to file a new case dropping the two invalidated patents, as opposed to having three days to file both an opposition to Spotify’s motion in the -10653 Case and a motion for leave to amend, is not conduct that supports a fee award here. Although Spotify cites cases for the proposition that Rule 15, not Rule 41, was the appropriate vehicle for Data Scope to proceed (*see Mot.* 17:4–28 (presenting cases in context of § 1927 argument)), given the circumstances presented, there is insufficient basis to assume some sort of negative intent, bad faith, or frivolousness in Data Scope’s decision.

On the merits, whether the substantive strength of Data Scope’s litigation position was so weak as to warrant fees is a closer call. Data Scope’s decision to copy-paste or otherwise borrow vast portions of its opposition to Spotify’s motion from its opposition to the motion filed in *Western Digital* is troubling. Data Scope also continues to fail to show that the claims of the three asserted patents in this case have distinctive significance relevant to the § 101 inquiry such that it was inappropriate for the Court to designate Claim 1 of the ’675 Patent as representative. Indeed, the Court finds that Claim 1 of the ’675 Patent also shares significant similarities with Claim 19 of the ’929 Patent, found representative in *Western Digital*. *See* § 101 Order 2–3, 7 (providing language of Claim 1 of the ’675 Patent and Claim 19 of the ’929 Patent, both of which refer to steps of “edit[ing],” “detect[ing],” “compar[ing],” and “transmit[ing]” data, with Claim 1 of the ’675 Patent solely adding additional limitations for generic hardware components). As Spotify suggests, both the borrowed opposition arguments

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and the similarities in claim language across the patents in the '929 Patent family undercut Data Scope's position that it believed there was something independently patentable about the claims of the asserted patents when compared to the claims adjudicated in *Western Digital*. Data Scope's decision to immediately proceed in bringing this action as opposed to waiting until after the appeal process in *Western Digital* could also be interpreted as suggesting that Data Scope was hoping for a second bite at the apple regarding the patentability of substantially similar claims, but from a different Court in this District.

Although faced with these shortcomings in Data Scope's litigation position and manner of litigating, ultimately the Court finds that fees are not warranted. As Data Scope (and other courts in this District) have noted, § 101 is by no means a settled area of the law. Indeed, on just June 25, 2019 of this year, the Federal Circuit's decision in *Cellspin Soft, Inc. v. Fitbit, Inc.*, 927 F.3d 1306 (Fed. Cir. 2019) reiterated and clarified certain concepts recently suggested in *Aatrix Software, Inc. v. Green Shades Software, Inc.*, 882 F.3d 1121 (Fed. Cir. 2018). Specifically, it held that, so long as a plaintiff makes "plausible and specific factual allegations" in a complaint, those allegations may be credited even if the patent specification does not "expressly list all the reasons why [the] claimed structure is unconventional." *Cellspin*, 927 F.3d at 1317–18. Similarly, jurisprudence from the Federal Circuit regarding what showing is necessary (and who carries the burden) to establish a representative claim is somewhat limited, with one of the more explicit statements of the evaluation issued in just 2018. *Berkheimer v. HP Inc.*, 881 F.3d 1360, 1365 (Fed. Cir. 2018). Although the Court found that Data Scope was ultimately unable to satisfy the requisite legal showings in this case, as stated in the context of an appeal regarding § 1927 sanctions, "[i]n view of the evolving nature of § 101 jurisprudence during the merits stage of this lawsuit, it is particularly important to allow attorneys the latitude necessary to challenge and thus solidify the legal rules without the chill of direct economic sanctions." *Gust, Inc., v. Alphacap Ventures, LLC*, 905 F.3d 1321, 1329 (Fed. Cir. 2018).

For these reasons, the Court **DENIES** Spotify's request for fees under § 285.

b. 28 U.S.C. § 1927

For the same reasons, the Court finds fees under the higher standard espoused by § 1927 are not warranted here. *See Gust*, 905 F.3d at 1329; *see also Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 443 (9th Cir. 2017), *cert. denied*, 138 S. Ct. 1984 (2018) (finding § 1927 sanctions unwarranted and reversing award based, in part, on "[t]he unsettled nature of the question in our circuit."). The Court does not find Data Scope's counsel to multiply

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proceedings in an unreasonable and vexatious manner, and **DENIES** Spotify’s request for fees under § 1927.

c. Rule 11

As Data Scape observes, Spotify does not meet all of the strict procedural requirements explicit in Rule 11 itself. Specifically, “[a] motion for sanctions must be made separately from any other motion and must describe the specific conduct that allegedly violates Rule 11(b).” Fed. R. Civ. P. 11(c)(2). Spotify did not do so, but instead included its Rule 11 arguments in the same motion as its arguments regarding § 285, § 1927, and Rule 41(d). Spotify has not otherwise shown that Rule 11 sanctions are warranted in this case, including for the reasons previously explained herein. The Court **DENIES** Spotify’s request for fees under § 1927.

d. Rule 41(d)

The parties dispute whether Rule 41(d) permits the recovery of attorneys’ fees or only of other costs. In a previous decision, this Court cited with approval the decision in *Esquivel v. Arau*, 913 F. Supp. 1382, 1391 (C.D. Cal. 1996), where the court analyzed Rule 41 at length and concluded that it permits the recovery of attorneys’ fees. See *Kelmar*, 2012 WL 12973473, at *1. Since this Court’s decision in *Kelmar*, the Ninth Circuit has not yet weighed in on the issue.

It is not necessary to reconsider the determination adopted in *Kelmar*. Assuming without deciding that Rule 41(d) would permit recovery of attorneys’ fees, they are not warranted here. The parties do not dispute the proposition that “the Court should not impose any [Rule 41(d)] costs associated with work that will still be useful to defendants in the instant litigation.” *Esquivel*, 913 F. Supp. at 1388. As Data Scape notes, “large portions of Spotify’s motion filed in this case appear to have been copied and pasted, with minor modifications, from its prior motions.” *Opp.* 4:21–23 (citing Dkt. # 16 at 12–15; -10653 Case, Dkt. # 22 at 9–12). Spotify has not meaningfully shown that the work it performed in the -10653 Case was not useful to the work it performed in this case. In this regard, Spotify’s arguments about the similarities between the claims of the asserted patents in this case compared to the asserted patents in the -10653 Case undercut any argument it might have made about lack of usefulness. The Court **DENIES** Spotify’s request for attorneys’ fees under Rule 41(d).

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IV. Conclusion

The Court **DENIES** Spotify's motion.

IT IS SO ORDERED.