

United States District Court
For the Northern District of California

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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

KILOPASS TECHNOLOGY INC.,
Plaintiff,
v.
SIDENSE CORPORATION,
Defendant.

No. C 10-02066 SI

**ORDER DENYING PLAINTIFF'S
MOTION FOR SANCTIONS AND
DENYING DEFENDANT'S MOTION
FOR ATTORNEYS' FEES AND COSTS**

Currently before the Court are plaintiff Kilopass Technology, Inc.'s motion for sanctions, attorneys' fees and costs against Sidense Corporation and its counsel; and defendant Sidense's motion for attorneys' fees and costs against Kilopass. Pursuant to Civil Local Rule 7-1(b), the Court finds this matter suitable for disposition without oral argument and therefore VACATES the hearing currently scheduled for December 21, 2012.

Having considered the parties' papers and the evidentiary record before it, the Court hereby DENIES Kilopass's motion for sanctions, and DENIES Sidense's motion for attorneys' fees and costs, for the reasons set forth below.

BACKGROUND

The parties are competitors in the same field. Kilopass is a company founded in 2001 that markets a method of storing data permanently inside integrated circuits by creating a breakdown in the transistor; it calls this technology embedded Non-Volatile Memory ("eNVM"). Sidense is a company founded in 2004 that sells digital designs for 1-T, one-time programmable eNVM, which it refers to as "1T-Fuse." Sidense competes in the same market space as Kilopass. A detailed discussion of the

1 parties' technology is included in the Court's August 16, 2012, summary judgment order. *See* Docket
2 No. 272 at 2-3.

3 In this case, plaintiff Kilopass sued defendant Sidense for patent infringement and related
4 business tort claims. In a related case, CV 11-4112 SI, Sidense sued Kilopass, also alleging a variety
5 of business torts. The litigation was hard fought, acrimonious and, no doubt, labor-intensive for counsel
6 on both sides. On the patent claims, summary judgment of non-infringement was ultimately granted
7 for Sidense and against Kilopass. As to the business torts, Kilopass eventually dismissed its claims, and
8 in the related case, Sidense ultimately dismissed its business tort claims as well. Thus, neither party was
9 the victor on the business tort claims. The Court has written many orders in these cases, and a more
10 detailed analysis of the claims at issue is set forth in them.

11 12 LEGAL STANDARD

13 1. Motion for Sanctions

14 Under 28 U.S.C. § 1927, “[a]ny attorney . . . who . . . multiplies the proceedings in any case
15 unreasonably and vexatiously may be required by the court to satisfy personally the excess costs,
16 expenses, and attorneys’ fees reasonably incurred because of such conduct.” 28 U.S.C. § 1927.
17 Imposition of costs under this statute requires a finding of recklessness or bad faith on the part of the
18 attorney sanctioned. *See Lahiri v. Universal Music & Video Distrib. Corp.*, 606 F.3d 1216, 1219 (9th
19 Cir. 2010).

20 Additionally, a court has the inherent authority to sanction parties for bad faith conduct in the
21 course of litigation. *See Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991). This authority is
22 independent of, and not constrained by, statutory sources of authority for imposing such sanctions. *See*
23 *id.* at 50. In order to sanction a party pursuant to this inherent authority, a court must find that the party
24 acted in bad faith. *See Primus Auto. Fin’l Servs., Inc. v. Batarse*, 115 F.3d 644, 648 (9th Cir. 1997).
25 Bad faith means that the party or attorney acted “vexatiously, wantonly, or for oppressive reasons.” *Id.*
26 “Bad faith is present when an attorney knowingly or recklessly raises a frivolous argument, or argues
27 a meritorious claim for the purpose of harassing an opponent.” *In re Keegan Mgmt. Co., Sec. Litig.*, 78
28 F.3d 431, 436 (9th Cir. 1996). Bad faith can also consist of “delaying or disrupting the litigation.”

1 *Hutto v. Finney*, 437 U.S. 678, 689 n.14 (1978).

2
3 **2. Motion for Attorneys’ Fees under the Patent Act and Lanham Act**

4 Section 285 of the Patent Act provides that “[t]he court in exceptional cases may award
5 reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. “When deciding whether to award
6 attorneys’ fees under § 285, a district court engages in a two-step inquiry. First, the court must
7 determine whether the prevailing party has proved by clear and convincing evidence that the case is
8 exceptional If the district court finds that the case is exceptional, it must then determine whether
9 an award of attorney fees is justified.” *Marctec, LLC v. Johnson & Johnson*, 664 F.3d 907, 915-16 (Fed.
10 Cir. 2012). “A case may be deemed exceptional under § 285 where there has been . . . misconduct
11 during litigation, vexatious or unjustified litigation, conduct that violates the Federal Rule of Civil
12 Procedure 11, or like infractions.” *Id.* at 916 (internal citation omitted). Taken together, these factors
13 must demonstrate that the claims filed were “objectively baseless” and “brought in subjective bad faith.”
14 *Marctec*, 664 F.3d at 916.

15 Section 35(a) of the Lanham Act provides that “[t]he court in exceptional cases may award
16 reasonable attorney fees to the prevailing party.” 15 U.S.C. § 1117(a). A Lanham Act case may be
17 considered exceptional where a plaintiff’s case is “groundless, unreasonable, vexatious, or pursued in
18 bad faith.” *Secalt S.A. v. Wuxi Shenxi Constr. Mach. Co.*, 668 F.3d 667, 687 (9th Cir. 2012) (internal
19 citations omitted). Such grounds may be found where “the plaintiff has no reasonable or legal basis to
20 believe in success on the merits.” *Id.* at 687-88 (internal citation omitted). A false advertising claim
21 meets that standard where “the statements in the advertisements at issue were true and [plaintiff] had
22 no reasonable basis to believe they were false.” *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1156 (9th
23 Cir. 2002).

24
25 **DISCUSSION**

26 **1. Kilopass’s Motion for Sanctions**

27 Kilopass contends that Sidense and its counsel vexatiously multiplied the proceedings by: (1)
28 filing a declaration containing false statements and concealing evidence during discovery, and (2)

1 refusing to stipulate to a dismissal. The Court concludes that neither of the asserted factual grounds for
2 sanctions against Sidense merits an award to Kilopass.

3 Kilopass alleges that a statement in the declaration of Mr. Wlodek Kurjanowicz, a founder of
4 the company and its Chief Technology Officer, was intentionally or recklessly false. Kurjanowicz
5 declared that “Sidense does not manufacture semiconductor chip products, but instead licenses its
6 memory designs to customers for their use in manufacturing their own semiconductor chip products.
7 . . . A customer may fabricate the chip itself, or contract with a third-party chip manufacturer to build
8 it.” Docket No. 14 at ¶4. As Kilopass later learned, however, Sidense had hired an independent service
9 provider to manufacture “test chips” at an IBM foundry. Thus, Kilopass argues, the Kurjanowicz
10 “Sidense does not manufacture” declaration was false.

11 While Kurjanowicz could have been more forthcoming about the existence of the test chips,
12 there is no evidence that his declaration was false or made in subjective bad faith. Kurjanowicz’s
13 declaration accurately described Sidense’s business model: Sidense does not manufacture the chips
14 itself; it licenses the designs to customers, who then manufacture chips themselves. Moreover, Sidense
15 never manufactured the test chips itself; it contracted the manufacturing out to a third-party independent
16 service provider. After the Kurjanowicz deposition, the chips were made available.

17 As to Kilopass’s claim that Sidense’s counsel vexatiously multiplied the proceedings by refusing
18 to stipulate to the dismissal without prejudice of Kilopass’s business-torts claims, the Court is mystified.
19 Kilopass similarly refused to stipulate to Sidense’s offer on slightly different terms only weeks prior to
20 trial. *See* Hogge Decl. Ex. 14. As far as the business tort claims go, both sides in this action were
21 sufficiently disingenuous and obdurate that the Court was required to expend considerable judicial
22 preparation for a jury trial that both sides knew would never occur.

23 The Court, in its discretion, finds that Kilopass does not merit an award of sanctions and
24 DENIES the motion.

1 **2. Sidense’s Motion for Attorneys’ Fees**

2 Although Sidense was the prevailing party on the patent claims,¹ the Court concludes that
3 Sidense has not met its burden of establishing with “clear and convincing evidence” that Kilopass
4 brought or maintained the prosecution of its patent infringement in bad faith. *See Marctec*, 664 F.3d
5 at 916. Kilopass performed substantial pre-filing investigation and was able to obtain opinions from
6 two different law firms that Kilopass had a non-baseless claim against Sidense.² In addition, Kilopass’s
7 Chief Technology Officer performed his own independent analysis based on the results of an outside
8 intellectual-property forensics firm to determine that a patent-infringement suit was appropriate.
9 Furthermore, Sidense has not demonstrated that this case is “exceptional” under the Lanham Act, and
10 thus it is not entitled to attorneys’ fees and costs based on Kilopass’s business torts claims.

11 Therefore, Sidense’s motion for attorneys’ fees and costs is DENIED.

12
13 **CONCLUSION**

14 This litigation, which includes both in this case and the related case CV 11-4112, has been
15 discouraging to the Court. For reasons which should be obvious from a review of the case dockets, it
16 is the Court’s judgment that neither side is presently entitled to sanctions from the other. Both motions
17 are DENIED. Docket Nos. 337, 339, 362, 365.

18
19 **IT IS SO ORDERED.**

20
21 Dated: December 18, 2012



22 SUSAN ILLSTON
23 United States District Judge

24
25
26 _____
27 ¹ As to the business tort claims asserted by Kilopass in this action, and the business tort claims
28 asserted by Sidense against Kilopass in No. C 11-4112 SI, both sides lost and nobody prevailed.

² There were also opinions to the contrary; see Dkt. 272, page 13, fn.8.