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5 IN THE UNITED STATES DISTRICT COURT
6 FOR THE NORTHERN DISTRICT OF CALIFORNIA
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8 AVOCET SPORTS TECHNOLOGY INC,

No. C -12-02234 EDL

9 Plaintiff,

**ORDER DENYING DEFENDANT'S
MOTION FOR ATTORNEY'S FEES**

10 v.

11 POLAR ELECTRO INC,

12 Defendant.
13 _____/

14 On April 16, 2013, the Court granted Defendant's motion for summary judgment on the
15 grounds that Plaintiff's claims were barred by laches. On May 2, 2013, Defendant filed this motion
16 for attorney's fees, which has been fully briefed. In the motion, Defendant sought an award of the
17 full amount of its fees from Plaintiff, its counsel and its principal, Mr. Bud Hoffacker, pursuant to 35
18 U.S.C. § 285 and 28 U.S.C. § 1927. Defendant has two bases for the request for fees: (1) that
19 Plaintiff failed to preform a pre-filing investigation of some of the accused products, in particular,
20 the AXN300, AXN500 and AXN700; and (2) that Plaintiff pursued this litigation despite evidence
21 that the accused products above were openly advertised, marketed and sold more than six years prior
22 to Plaintiff suing Defendant. Defendant argues that it is entitled to fees covering one of two time
23 periods: (1) the period from inception of this case (August 24, 2011) to April 30, 2013 in the amount
24 of \$263,016.42; or (2) the period beginning when Plaintiff had Defendant's sales data showing sales
25 of the accused AXN300, AXN500 and AXN700 more than six years prior to Plaintiff suing
26 Defendant (December 14, 2012) to April 18, 2013 in the amount of \$104,029.35. Declaration of
27 John Moran ("Moran Decl.") ¶ 23; Ex. G.

28 The Court held a hearing on Defendant's motion for attorney's fees on June 11, 2013. At the
hearing, the Court gave Plaintiff leave to file additional evidence in support of its opposition to

1 Defendant's motion. Plaintiff timely filed Mr. Hoffacker's declaration on June 18, 2013. Defendant
2 filed a response on June 28, 2013. For the reasons stated in this Order, Defendant's Motion for
3 Attorney's Fees is denied.

4 **Discussion**

5 **1. Fees are not warranted under the high standard for awards pursuant to 35 U.S.C. § 285**

6 "The court in exceptional cases may award reasonable attorney fees to the prevailing party."
7 35 U.S.C. § 285. "Exceptional cases usually feature some material, inappropriate conduct related to
8 the matter in litigation, such as willful infringement." Revolution Eyewear, Inc. v. Aspex Eyewear,
9 Inc., 563 F.3d 1358, 1372 (Fed. Cir. 2009); see also Eltech Sys. Corp. v. PPG Indus., Inc., 903 F.2d
10 805, 811 (Fed. Cir. 1990) (assessing the totality of the circumstances in determining whether a case
11 is exceptional, including bad faith and the parties' conduct: "Where, as here, the patentee is
12 manifestly unreasonable in assessing infringement, while continuing to assert infringement in court,
13 an inference is proper of bad faith, whether grounded in or denominated wrongful intent,
14 recklessness, or gross negligence.").

15 Awarding attorney's fees under § 285 involves a two-step inquiry: (1) the Court must first
16 determine "whether there is clear and convincing evidence that a case is exceptional"; and (2) if so,
17 the Court "must then determine in its discretion whether an award of attorney fees is justified." Id.
18 at 1372-73. A case may be exceptional for the purpose of awarding attorney's fees based on
19 "[l]itigation misconduct and unprofessional behavior." Sensonics, Inc. v. Aerosonic Corp., 81 F.3d
20 1566, 1574 (Fed. Cir. 1996). Further:

21 Section 285 must be interpreted against the background of the Supreme Court's
22 decision in Professional Real Estate Investors, Inc. v. Columbia Pictures Industries,
23 Inc., 508 U.S. 49, 113 S.Ct. 1920, 123 L.Ed.2d 611 (1993). There, the Court
24 recognized that the right to bring and defend litigation implicated First Amendment
25 rights and that bringing allegedly frivolous litigation could only be sanctioned if the
26 lawsuit was "objectively baseless in the sense that no reasonable litigant could
27 realistically expect success on the merits." Id. at 60, 113 S.Ct. 1920. "Only if
28 challenged litigation is objectively meritless may a court examine the litigant's
subjective motivation." Id.

In determining whether a case is "exceptional" under § 285, the relevant standard is
set forth in Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc., 393
F.3d 1378 (Fed.Cir.2005). There, we held that an award of attorneys' fees is
permissible "when there has been some material inappropriate conduct related to the
matter in litigation, such as willful infringement, fraud or inequitable conduct in
procuring the patent, misconduct during litigation, vexatious or unjustified litigation,

1 conduct that violates Fed.R.Civ.P. 11, or like infractions.” Id. at 1381. Relying on
2 Professional Real Estate, we held that, absent misconduct during patent prosecution
3 or litigation, sanctions may be imposed against a patent plaintiff “only if both (1) the
4 litigation is brought in subjective bad faith, and (2) the litigation is objectively
5 baseless.” Id.; see also Wedgetail Ltd. v. Huddleston Deluxe, Inc., 576 F.3d 1302,
6 1304–06 (Fed.Cir.2009) (refusing to find patentee’s unsuccessful case exceptional
7 under Brooks Furniture). An infringement action “does not become unreasonable in
8 terms of [§ 285] if the infringement can reasonably be disputed. Infringement is often
9 difficult to determine, and a patentee’s ultimately incorrect view of how a court will
10 find does not of itself establish bad faith.” Brooks Furniture, 393 F.3d at 1384. *Under*
11 *this exacting standard, the plaintiff’s case must have no objective foundation, and the*
12 *plaintiff must actually know this.* Both the objective and subjective prongs of Brooks
13 Furniture “must be established by clear and convincing evidence.” Wedgetail, 576
14 F.3d at 1304. We recognize a “presumption that the assertion of infringement of a
15 duly granted patent is made in good faith.” Brooks Furniture, 393 F.3d at 1382 (citing
16 Springs Window Fashions LP v. Novo Indus., L.P., 323 F.3d 989, 999
17 (Fed.Cir.2003)).

18 ILOR, LLC v. Google, Inc., 631 F.3d 1372, 1376-77 (Fed. Cir. 2011) (emphasis added).

19 **A. Defendant argues that Plaintiff failed to perform an adequate pre-filing
20 investigation**

21 “A case may be exceptional when a party fails to perform an adequate pre-filing
22 investigation.” MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d
23 1369, 1382 (Fed. Cir. 2005). Here, it is undisputed that Mr. Hoffacker testified that “to determine
24 infringement requires physical testing of the device.” Hoffacker Decl. ¶ 2. According to Plaintiff’s
25 discovery response, however, Plaintiff only had two of Defendant’s accused products in its
26 possession, the CS500 and the S625X. Moran Decl. in Supp. of Summ. J. Ex. 15 at 2. The focus of
27 the laches argument on summary judgment, however, was on other accused products: AXN300,
28 AXN500 and AXN700. Thus, according to Defendant, Plaintiff could not have made an adequate
pre-filing review in this case because it only had two of the many accused products in its possession
for testing. See MEMC Electronic, 420 F.3d at 1382; see also Micromesh Tech. Corp. v. Am.
Recreation Prods., 2007 WL 2501783, at * 3 (N.D. Cal. Aug. 30, 2007) (“In Q-pharma, 360 F.3d at
1302, the court held an adequate infringement analysis may consist solely of obtaining samples of
the allegedly infringing product and making a good faith claim comparison between the product and
the allegedly violated patent.”).

In Mr. Hoffacker’s supplemental declaration filed after the June 11, 2013 hearing, he stated
that he was “intimately familiar with and involved in the engineering and development of the Avocet

1 products incorporating the ‘427 patented technology’ Hoffacker Supp. Decl. ¶¶ 3, 4. Further,
2 Mr. Hoffacker “understand[s] thoroughly and completely the problems that were being dealt with,
3 and has a thorough understanding of the pressure sensors, altimeters, microchips, software and
4 related technology and devices on the market that needed to be incorporated into a functioning
5 product to exercise the ‘427 patent.” Id.

6 Mr. Hoffacker stated that before filing this lawsuit on August 18, 2011, he conducted a
7 thorough physical testing of two Polar units, the CS500 and S526X, that were in his possession.
8 Hoffacker Supp. Decl. ¶¶ 6, 11. Along with the testing of these two products, Mr. Hoffacker stated
9 that he also conducted “a total review of online instructions for each of the ultimately accused
10 products.” Id. ¶ 7. Based on the physical testing and his online review, Mr. Hoffacker stated that
11 Plaintiff alleged Defendant’s infringement in good faith. Hoffacker Supp. Decl. ¶ 7. Mr. Hoffacker
12 concluded that:

13 Based on my initial and subsequent testing of the Polar units as set forth below, and
14 review of the instructions, I was convinced that, as far as the altimeter accumulation
15 function, this was a very apparent uniform infringing feature in the Polar products
16 named as infringing devices in the first amended complaint.

16 Hoffacker Supp. Decl. ¶ 8.

17 Mr. Hoffacker testified that after filing this lawsuit, Plaintiff continued to investigate other
18 products. Before the amended complaint was filed on April 16, 2012, Plaintiff tested additional
19 products: S725X, RS800CX, CS500, AXN300. Hoffacker Supp. Decl. ¶ 12. With respect to the
20 AXN products, Mr. Hoffacker stated that: “I tested this one unit of the family of AXN and
21 concluded that the other members of the family infringed based upon reviews of their online
22 descriptions and instructions.” Hoffacker Supp. Decl. ¶ 12(d). Mr. Hoffacker also stated that
23 Plaintiff sought source code for the allegedly infringing units, and that its expert reviewed that
24 source code and that Mr. Hoffacker “understood his review backed my conclusions re
25 infringement.”¹ Hoffacker Supp. Decl. ¶ 13.

26 In response to Mr. Hoffacker’s supplemental declaration, Defendant argued in its

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28 ¹ Defendant objects to the Hoffacker declaration regarding source code. Information
about source code which, if reviewed, occurred during the litigation, is not relevant to
the question of prefiling review.

1 supplemental response that: “An adequate pre-filing investigation “requires an attorney, at a
2 minimum, to ‘[i]nterpret the asserted patent claims and compare the accused device with those
3 claims before filing a claim alleging infringement.’” Micromesh Tech. Corp. v. American
4 Recreation Prods., 2007 WL 2501783 *3 (N.D. Cal. Aug. 30, 2007) quoting Q-Pharma, Inc. v.
5 Andrew Jergens Comp., 360 F.3d 1295, 1300-01 (Fed. Cir. 2004); S. Bravo Systems, Inc. v.
6 Containment Technologies Corp., 96 F.3d 1372, 1375 (Fed. Cir. 1996) (“Determining infringement,
7 however, requires that the patent claims be interpreted and that the claims be found to read on the
8 accused devices.”).” Def.’s Resp. at 2. Here, Defendant notes that there is no evidence that
9 Plaintiff’s counsel made an independent pre-filing assessment of each of the accused products or
10 performed an independent claim construction or applied an interpreted claim to the accused
11 products. There is no dispute that Plaintiff only had two accused products in its possession that it
12 tested before this case was filed, even though Plaintiff accused many more devices. Mr. Hoffacker
13 failed to identify which online instructions he reviewed that led him to believe, despite his statement
14 under oath that infringement must be determined through physical testing, that other products
15 infringed.

16 Although the pre-filing investigation was adequate as to some accused devices, the pre-
17 filing investigation was not adequate with respect to others, in particular, the AXN devices. The
18 lack of adequate pre-filing review may well show that the claims based on at least some devices were
19 objectively baseless. However, Mr. Hoffacker explained in his declaration that he believed that his
20 pre-filing investigation was adequate. Thus, even if the case was objectively baseless and although a
21 close question, there does not appear to be clear and convincing evidence that Mr. Hoffacker had
22 subjective knowledge that the case was without merit. The standard to find a case exceptional under
23 § 285 is an exacting one. See Ilor, 631 F.3d at 1377.

24 **B. Defendant argues that Plaintiff improperly pursued this case despite evidence**
25 **that the accused products above were openly advertised, marketed and sold**
more than six years prior to Plaintiff suing Defendant

26 Defendant argues that Plaintiff’s pursuit of this case in light of the undisputed evidence
27 showing the advertising, marketing and sales of Defendant’s products more than six years before
28 filing this case was objectively baseless. In the Court’s summary judgment order concerning laches,

1 the Court held that the presumption of laches applied because “given the undisputed evidence of
2 Defendant’s open marketing and sales of the accused products in 2004, at a minimum, Plaintiff had
3 constructive notice as of that time in light of the duty to monitor developments in the field. Plaintiff
4 did not file its action against Defendant until August 2011.” Order on Mot. for Summ. J (April 16,
5 2013) at 8. Defendant argues that in light of the facts regarding the timing of the advertising,
6 marketing and sales of the accused products, as set forth in the Court’s April 16, 2013 Order, no
7 reasonably objective litigant would believe that it could succeed on the merits.

8 Plaintiff did not dispute on summary judgment, or in this motion, the facts going to timing of
9 the advertising, marketing and selling of the accused devices. Although Plaintiff continues to
10 dispute the finding on summary judgment that Mr. Hoffacker had knowledge of the accused
11 products in 2004 by relying on Mr. Hoffacker’s declaration that he first became aware of the
12 potentially infringing devices in 2005, the Court addressed this laches issue and held that because
13 Mr. Hoffacker had a duty to police his patent rights, but failed to adequately do so, he had
14 constructive knowledge of Defendant’s products in 2004. Based on these findings, the Court
15 determined that Plaintiff’s claims were barred by laches.

16 However, the standard for awarding fees under § 285 is more stringent than the standard for
17 holding that a case is barred by laches. The Court based its determination of laches on delay in
18 bringing suit following constructive notice, not actual knowledge of infringement, so its ruling did
19 not establish the subjective prong of the test for fees. While continuing to pursue this litigation was
20 objectively baseless, Mr. Hoffacker’s declaration that he believed to the contrary appears to preclude
21 finding by clear and convincing evidence that he subjectively *knew* that his case was baseless as
22 required by Ilor.

23 Defendant also argues that fees are appropriate because Plaintiff filed this and other related
24 cases for the purpose of extracting settlements. Although it is undisputed that Plaintiff settled its
25 claims against other defendants in related cases and Defendant may well be correct, there is no
26 evidence as to the nature or amounts of the settlements reached by other defendants in those cases.
27 For example, there is no evidence that the defendants in those cases settled low to avoid the cost of
28 defense, unlike the situation in Eon-Net LP v. Flagstar Bancorp, 653 F.3d 1314, 1327 (Fed. Cir.

1 2011), where the records showed that the plaintiff and its related entities had filed more than 100
2 patent actions against multiple defendants and then demanded “a quick settlement at a price far
3 lower than the cost of litigation, a demand to which most defendants apparently have agreed.” Of
4 course, given the widespread use of confidentiality agreements in settlements, it is often difficult to
5 assemble such evidence to present to courts. Nor is there any evidence that the cases against the
6 settling defendants here were objectively baseless due, for example, to laches. Therefore, the Court
7 cannot rule out the possibility that defendants in the other cases entered into fair settlements for
8 more than “nuisance value” because Plaintiff had legitimate cases against them on the merits.

9 **2. Fees are not warranted under 28 U.S.C. § 1927**

10 Under 28 U.S.C. § 1927:

11 An attorney . . . who so multiplies the proceedings in any case unreasonably and
12 vexatiously may be required by the court to satisfy personally the excess costs,
expenses, and attorney’s fees reasonably incurred because of such conduct.

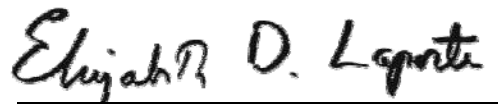
13 28 U.S.C. § 1927. Section 1927 authorizes sanctions only for the multiplication of proceedings (In
14 re Keegan Mgmt. Co. Sec. Litig., 78 F.3d 431, 435 (9th Cir. 1996)), and sanctions under section
15 1927 require a finding of recklessness or bad faith (B.K.B. v. Maui Police Dep’t, 276 F.3d 1091,
16 1107 (9th Cir. 2002)). However, for the reasons stated above, the Court also denies fees on this
17 basis.

18 **Conclusion**

19 Accordingly, Defendant’s Motion for Attorney’s Fees is denied.

20 **IT IS SO ORDERED.**

21 Dated: August 1, 2013

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23 ELIZABETH D. LAPORTE
24 United States Chief Magistrate Judge
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