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United States District Court
Northern District of California

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

MAX SOUND CORPORATION,
Plaintiff,
v.
GOOGLE, INC., et al.,
Defendants.

Case No. 14-cv-04412-EJD
ORDER GRANTING IN PART AND DENYING IN PART DEFENDANTS' MOTION FOR ATTORNEYS' FEES
Re: Dkt. No. 153

Presently before the Court is a motion from Defendants Google, Inc., YouTube, LLC, and On2 Technologies (collectively, "Defendants") for attorneys' fees pursuant to 35 U.S.C. § 285, 28 U.S.C. § 1927, and the Court's inherent power. Dkt. No. 153 ("Mot."). Plaintiff Max Sound Corporation ("Max Sound") opposes this request. Dkt. No. 161 ("Opp."). For the reasons discussed below, the Court GRANTS IN PART and DENIES IN PART Defendants' request.

I. BACKGROUND

The Court's Order Granting Defendants' Motion to Dismiss, Dkt. No. 138 ("Dismissal Order"), sets forth the factual background of this case. The Court repeats facts relevant to the instant motion below.

A. Licensing History

U.S. Patent No. 7,974,339 ("the '339 patent"), entitled "Optimized Data Transmission System and Method," issued on July 5, 2011. Dkt. No. 23 ("FAC"), Ex. 1. It names Alexander Krichevsky and Constance Nash as inventors. *Id.* Mr. Krichevsky and Ms. Nash assigned their

1 rights in the '339 patent to an entity called Cornerstone Group, Ltd. (“Cornerstone”), which
2 thereafter assigned its rights to an entity called Vedanti Systems Limited (“Vedanti”). Dismissal
3 Order at 2 (citing Dkt. Nos. 101-5 through 101-8). Ms. Nash has been closely affiliated with both
4 entities, serving as the Director of Cornerstone and CEO of Vedanti. Dkt. No. 101-7 at 2; Dkt.
5 No. 162 ¶ 10.

6 In April 2014, Greg Halpern, the Chairman and Chief Financial Officer of Max Sound, met
7 with Ms. Nash, who represented that she was the owner of a company called “VSL” that owned
8 intellectual property relating to the transmission of data known as Optimized Data Transmission
9 (“ODT”) technology. Dismissal Order at 2 (citing Dkt. No. 118 ¶ 2). Eventually,
10 communications culminated in an agreement (“June 20 Licensing Agreement”) between Max
11 Sound and an entity called “VSL Communications, Ltd.” (“VSL”), which was entitled “Max
12 Sound Corporation and VSL Communications Licensing and Representation Agreement” and
13 signed on June 20, 2014. Dkt. No. 115-7. VSL is a United Kingdom company which was
14 incorporated on June 11, 2014—nine days before the consummation of the June 20 Licensing
15 Agreement—and of which Ms. Nash was the CEO. Dkt. No. 117-9. According to Max Sound,
16 Ms. Nash has represented that VSL is the sole shareholder of Vedanti; however, Vedanti has later
17 disputed this fact. *Compare* Dkt No. 118 ¶ 39 and Dkt. No. 118-31, *with* Dkt. No. 127 at 2.

18 The June 20 Licensing Agreement provided:

19 WHEREAS, before the Closing Date, VSL legally owns and controls all of the
20 worldwide rights, title and interest to all fields of use of its Trade Secrets, Patents,
21 and all other know-how, through its affiliated entities and owners, including the
22 rights to license, the rights to develop and market ODT and the Rights to Sue . . .
and Legally Defend and Uphold its Intellectual Property, Trade Secrets and
Proprietary Technology.

23 Dkt. No. 115-7 at 1. However, at the time of signing, VSL did not hold rights to the '339 patent;
24 instead, only Vedanti held these rights. Dismissal Order at 3; Dkt. No. 162 ¶ 4.

25 No further action was taken to transfer or confirm rights to the '339 patent. The parties
26 did, however, take such actions with respect to a different patent. On September 4, 2014, Vedanti
27 and VSL executed a confirmatory license agreement, where Vedanti granted to VSL “an exclusive

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1 and non-restricted license” to European Patent EP 2 026 277 B1 (“the ’277 European patent”), as
2 well as standing to sue under that patent. Dismissal Order at 3 (citing Dkt. No. 118 ¶ 30 and Dkt.
3 No. 118-20). Nash, the acting CEO of both Vedanti and VSL, signed on behalf of both
4 companies. *Id.* That same day, VSL and Max Sound also executed a confirmatory license
5 agreement in which VSL granted to Max Sound “a non-restricted exclusive” license to the EP
6 ‘277 patent, including standing to sue. Dismissal Order at 3 (citing Dkt. No. 118 ¶ 31 and Dkt.
7 No. 118-21). Although this agreement was between Max Sound and VSL, its signature line lists
8 Ms. Nash as signing “[f]or V[edanti].” Dkt. No. 118-21. On September 8, 2014, Robert Newell,
9 the Chairman and founder of Vedanti and Ms. Nash’s husband, signed an affidavit stating that
10 “[e]xcept for the license that has been granted to VSL Communications Ltd. (Confirmatory
11 License Agreement of September 04, 2014), and the sublicense granted to Max Sound
12 Corporation, no other license has been granted by Vedanti regarding EP 2 026 277 for the territory
13 of Germany.” Dkt. No. 121-3.

14 **B. This Lawsuit**

15 On October 1, 2014, Max Sound filed a Complaint against Defendants alleging
16 infringement of the ’339 patent. Dkt. No. 1 (“Complaint”). The Complaint named Vedanti as a
17 co-plaintiff “pursuant to Rule 19” and alleged that Vedanti was the owner of the ’339 patent. *Id.*
18 at 2. However, Vedanti did not sign the Complaint, nor did the Complaint list any counsel for
19 Vedanti. *Id.*

20 In response, Defendants moved to dismiss the Complaint because Vedanti was a required
21 party under Federal Rule of Civil Procedure 19(a), but had not been properly joined. Dkt. No. 15.
22 The motion noted that Vedanti had not voluntarily joined as co-plaintiff, nor had Max Sound
23 followed the proper procedures to join Vedanti as an involuntary co-plaintiff under Rule 19(a)(2).
24 *Id.*

25 Max Sound did not oppose the motion to dismiss, but instead, on January 23, 2015, filed a
26 First Amended Complaint (“FAC”), which named Vedanti as a defendant “in the event the Court

1 deems [it] to be a necessary party to the action.” FAC ¶ 16. The FAC also still named Vedanti as
 2 a co-plaintiff and alleged that it was the owner of the ’339 patent. *Id.* ¶ 14. In addressing the
 3 relationship between Max Sound and Vedanti, the FAC alleged that “VSL¹ entered into a contract
 4 with Max Sound in the State of California pursuant to which VSL granted Max Sound certain
 5 rights with respect to the ’339 Patent.” *Id.* ¶ 11. It also alleged that “[t]he VSL Agreement
 6 entered into between Max Sound and VSL provides that Max Sound shall have the exclusive right
 7 to enforce VSL’s patent rights on VSL’s behalf.” *Id.* ¶ 15.

8 On April 13, 2015, Vedanti moved for a more definite statement as to the claims asserted
 9 against it and whether and on what grounds Max Sound claimed that Vedanti should be an
 10 involuntary plaintiff. Dkt. No. 53.

11 In anticipation of the Court’s initial case management conference, the parties files a Joint
 12 Case Management Statement (“JCMS”) on April 23, 2015. Dkt. No. 58. In the JCMS,
 13 Defendants stated that they “intend to seek early discovery relating to Max Sound’s allegation that
 14 it is an exclusive licensee of the ’339 Patent with standing to sue.” *Id.* at 9. Consequently,
 15 Defendants “propose[d] deferring all other discovery until after the issue of Max Sound’s standing
 16 is resolved.” *Id.* Max Sound opposed bifurcating discovery in this way. *Id.* On May 14, 2015,
 17 the Court issued its Case Management Order denying Defendants’ request. Dkt. No. 79.

18 The following day, on May 15, 2015, Defendants sent a letter to Max Sound expressing
 19 concerns as to whether Max Sound had Vedanti’s permission to assert the ’339 patent and
 20 whether, without it, Max Sound had standing to sue. Mot., Ex. C. The letter also called out the
 21 fact that Max Sound had not yet produced a copy of “the VSL Agreement” which the FAC alleged
 22 “provide[d] that Max Sound shall have the exclusive right to enforce [Vedanti’s] patent rights on
 23 [Vedanti’s] behalf.” *Id.* at 1 (quoting FAC ¶¶ 14-15).

24 Max Sound responded roughly two weeks later, on May 27, 2015, asserting that “as far as
 25

26 ¹ Max Sound referred to Vedanti as “VSL” in its Complaint and FAC. Complaint at 1 (“Plaintiff
 27 Max Sound Corporation (‘Max Sound’) . . . and Vedanti Systems Limited (‘VSL’) and allege as
 follows . . .”); FAC at 1 (same).

1 Max Sound is concerned, there is no ‘contract issue between VSL and Max Sound’ regarding Max
2 Sound’s standing that must be resolved before the Google Defendants should be required to
3 respond on the merits to Max Sound’s patent infringement allegations.” Mot., Ex. D at 2. Max
4 Sound also enclosed a copy of the June 20 Licensing Agreement, which it represented was “the
5 VSL Agreement” referenced in the FAC. *Id.*

6 That same day, Defendants served discovery requests on Max Sound, including
7 interrogatories, requests for production, and requests for admission relating to ownership of the
8 ’339 patent and Max Sound’s right to sue. Mot., Exs. F, G, H. Defendants also that day noticed a
9 30(b)(6) deposition regarding the issue of standing. Dkt. No. 162 ¶ 28.

10 On June 12, 2015, Max Sound served its infringement contentions and Patent L.R. 3-2
11 disclosures and document production. Dkt. No. 162 ¶ 26. According to Max Sound, this
12 “included the production of all of the license agreements executed by Connie Nash in the names of
13 the numerous shell entities she used to serve as the conduit through which she transferred rights to
14 the ODT patents to Max Sound, the confirmatory license agreement executed in the name of
15 Vedanti and VSL that Max Sound contended confirmed the transfer of its right to sue Google for
16 infringement of the ’339 Patent.” *Id.*

17 On June 25, 2015, Defendants sent Max Sound a letter regarding its Patent L.R. 3-2
18 document production, stating that Max Sound “ha[d] not produced any documents showing that
19 Vedanti Systems Ltd. has assigned any rights in the ’339 patent to Max Sound” and requesting
20 that Max Sound produce such documents or confirm they did not exist. Mot., Ex. I at 1. Max
21 Sound did not respond. *See* Mot., Ex. J at 1.

22 Sometime before July 29, 2015, Max Sound produced documents and served responses to
23 Defendants’ May 27 discovery requests.² Dkt. No. 101 ¶ 29; Dkt. No. 99-17; *see also* Dkt. No.

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25
26 ² Max Sound’s interrogatory responses were served July 21, 2015. Dkt. No. 101 ¶ 29; Dkt. No.
27 99-17. While it seems reasonable to assume that Max Sound’s responses to Defendants’ other
28 May 27 discovery requests were served that same day, the parties have not filed these documents
so the Court cannot confirm the same.

1 162 ¶ 27; Mot., Ex. J. On July 29, 2015, Defendants sent Max Sound a letter detailing perceived
 2 deficiencies in Max Sound’s discovery responses and reiterating their request that Max Sound
 3 “produce all agreements, documents, and correspondence pertaining to Max Sound’s alleged right
 4 to assert the ’339 patent” or confirm that none exist. Mot., Ex. J at 3–4. On August 4, after no
 5 response from Max Sound, Defendants followed up by email. Mot., Ex. K at 1.

6 Meanwhile, on August 3, 2015, Max Sound initiated arbitration proceedings against Nash,
 7 Newell, VSL, and Vedanti. Dkt. No. 118-41 at 5. In the proceedings, Max Sound sought, among
 8 other things, emergency relief that VSL be “enjoined from licensing, selling, assigning,
 9 transferring, etc., any of the technology, patents, intellectual property, etc., connected to the
 10 [Licensing Agreement] in any manner, and required to cooperate with the pending litigation and
 11 [its] other contractual obligations.” *Id.* at 4. According to Defendants, “Max Sound withheld
 12 information that the arbitration was filed.” Mot. 2 n.1.

13 On August 7, 2015, Max Sound sent Defendants a letter responding to the July 29 letter,
 14 which denied that its discovery responses were deficient. Mot., Ex. M. The letter also asserted:

15 [T]here is no “dispute” that Vedanti “is obligated by agreement to join Max Sound
 16 as a co-plaintiff in any case asserting infringement of the ’339 Patent. The Max
 17 Sound/VSL Agreement expressly sets forth that obligation and Vedanti has not
 18 asserted that such an obligation does not exist. Vedanti has simply breached that
 19 obligation. Similarly, Vedanti has not responded to Max Sound’s First Amended
 20 Complaint by challenging Max Sound’s right to assert the ’339 Patent.

21 *Id.* at 3.

22 The following Monday, August 10, 2015, Defendants sent an email to Max Sound stating
 23 that “[b]ased on Vedanti’s statements and refusal to participate in this litigation, it is apparent that
 24 there is a dispute between Vedanti and Max Sound regarding Max Sound’s standing to assert the
 25 ’339 patent.” Mot., Ex. E at 2. As a solution, Defendants proposed staying the case “until Max
 26 Sound and Vedanti resolve the issues between them.” *Id.* at 3.

27 Max Sound responded the following day, rejecting Defendants’ proposal. *Id.* at 1–2.
 28 Instead, Max Sound stated that “Vedanti has not asserted in this litigation that Max Sound lacks
 standing to assert the patent infringement claims against the Google Defendants” and asserted that,

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1 because Vedanti had been served with the FAC and appeared in the case, it was untrue that it had
2 refused to participate in the case. *Id.*

3 On August 12, 2015, Ms. Nash corresponded directly with Defendants, confirming that
4 Vedanti had not authorized Max Sound to assert the '339 patent. *See* Dkt. Nos. 99-6, 99-7; *see*
5 *also* Dkt. No. 101-9 at 5–6. Defendants then sent Max Sound an email informing it that “[i]n view
6 of the correspondence from Ms. Nash this morning, we intend to pursue motion practice in lieu of
7 a deposition at this time.” Dkt. No. 101-9 at 4. Later that day, Vedanti, through its counsel, sent
8 an email to Defendants and copied Max Sound which “summarize[d] the core of Vedanti’s
9 position concerning Max Sound’s standing.” *Id.* at 1. It stated, in relevant part:

10 Vedanti consistently and repeatedly has maintained, and continues to maintain, that
11 neither it nor VSL has granted any rights to Max Sound to sue on Vedanti’s U.S.
12 patent.

13 The agreement cited by Max Sound is between VSL and Max Sound. Vedanti is
14 not a party to it. As for Max Sound’s claim that VSL was acting as Vedanti’s agent,
15 there was no such conduct or intent.

16 In connection with the making of the agreement between VSL and Max Sound,
17 Max Sound sought rights to sue on Vedanti’s U.S. patent. Those requests were
18 rejected. On about June 12, 2014, after the VSL-Max Sound agreement was made,
19 Chris Joe speaking to a VSL representative acknowledged, before numerous
20 witnesses, that the “marching orders” to the lawyers were that there would be no
21 patent infringement lawsuit.

22 Subsequently, in July and early August 2014, Max Sound renewed its requests for
23 permission to file suit on the U.S. patent. The desire and need for such permission
24 is evidenced, *inter alia*, by the documents Max Sound prepared and submitted to
25 Vedanti in order for Vedanti to grant that permission. Vedanti refused. The
26 absence of Vedanti’s signature on the documents evidences Vedanti’s refusal.

27 When Max Sound filed the first U.S. patent action, in Delaware, it was without
28 authorization. Vedanti objected, and a Vedanti representative personally went to
the courthouse in Delaware to so advise the court. Max Sound withdrew that suit,
but then refiled in the Northern District of California. When Vedanti learned of the
refiled suit, it again objected.

Id.; *see also* Dkt. No. 97 at 4–5; Dkt. No. 127.

Shortly thereafter, on August 28, 2015, Defendants moved to dismiss the case for lack of
standing on the basis that Max Sound had no rights in the '339 patent. Dkt. No. 99-3. Vedanti
joined the motion to dismiss. Dkt. No. 127.

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1 On September 3, 2015, the Court shortened the time for hearing on Defendants’ motion to
 2 dismiss and stayed all pending deadlines in the case. Dkt No. 105. However, up until that point,
 3 the case had continued to move forward on the merits. On June 12, 2015, Max Sound served
 4 infringement contentions pursuant to Patent L.R. 3-1. Dkt. No. 162 ¶ 26; Dkt. No. 88; *cf.* Dkt. No.
 5 79 at 2. On July 24, 2015, Defendants served invalidity contentions pursuant to Patent L.R. 3-3.
 6 Dkt. No. 88; *cf.* Dkt. No. 79 at 2. In July and August 2015, the parties began preparing for claim
 7 construction, including serving disclosures pursuant to the Patent Local Rules. *See* Dkt. No. 79 at
 8 2 (ordering that the parties exchange proposed terms for construction pursuant to Patent L.R. 4-1
 9 on July 27, 2015 and preliminary claim constructions and extrinsic evidence pursuant to Patent
 10 L.R. 4-2 on August 21, 2015). At the time the Court stayed case deadlines, the parties were five
 11 days away from filing their Joint Claim Construction and Prehearing Statement pursuant to Patent
 12 L.R. 4-3. *See* Dkt. No. 79 at 2.

13 On November 24, 2015, the Court granted Defendants’ motion to dismiss. Dkt. No. 138.
 14 In response, Max Sound moved for leave to file a second amended complaint and for relief from
 15 the Court’s order dismissing the case. Dkt. No. 142. The Court denied this request. Dkt. No. 149.
 16 Defendants then filed the instant motion, seeking attorneys’ fees pursuant to 35 U.S.C. § 285, 28
 17 U.S.C. § 1927, and the Court’s inherent power. Dkt. No. 153.

18 **II. LEGAL STANDARDS**

19 **A. Attorneys’ Fees Pursuant to 35 U.S.C. § 285**

20 “The court in exceptional cases may award reasonable attorney fees to the prevailing
 21 party.” 35 U.S.C. § 285. In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, the Supreme
 22 Court explained that an exceptional case “is simply one that stands out from others with respect to
 23 the substantive strength of a party’s litigating position (considering both the governing law and the
 24 facts of the case) or the unreasonable manner in which the case was litigated.” 134 S. Ct. 1749,
 25 1756 (2014).

26 “District courts may determine whether a case is ‘exceptional’ in the case-by-case exercise

1 of their discretion, considering the totality of the circumstances.” *Octane Fitness*, 134 S. Ct. at
 2 1756; *see also Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011) (“[W]e are
 3 mindful that the district court has lived with the case and the lawyers for an extended period.”). In
 4 considering the totality of the circumstances, the Supreme Court suggested that district courts
 5 could consider ‘nonexclusive’ factors it previously set forth concerning a similar provision in the
 6 Copyright Act, including “frivolousness, motivation, objective unreasonableness (both in the
 7 factual and legal components of the case) and the need in particular circumstances to advance
 8 considerations of compensation and deterrence.” *Octane Fitness*, 134 S. Ct. at 1756 n.6 (citing
 9 *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994)). A movant must establish its entitlement to
 10 attorneys’ fees under § 285 by a preponderance of the evidence. *Id.* at 1758.

11 **B. 28 U.S.C. § 1927**

12 “Any attorney or other person admitted to conduct cases in any court of the United States
 13 or any Territory thereof who so multiplies the proceedings in any case unreasonably and
 14 vexatiously may be required by the court to satisfy personally the excess costs, expenses, and
 15 attorneys’ fees reasonably incurred because of such conduct.” 28 U.S.C. § 1927. An award under
 16 this section requires a finding of “subjective bad faith,” where counsel “knowingly or recklessly
 17 raise a frivolous argument, or argues a meritorious claim for the purpose of harassing an
 18 opponent.” *In re Keegan Mgmt. Co., Sec. Litig.*, 78 F.3d 431, 436 (9th Cir. 1996) (internal
 19 quotations omitted); *see also Blixseth v. Yellowstone Mountain Club, LLC*, 796 F.3d 1004, 1007
 20 (9th Cir. 2015) (a finding of subjective bad faith required for sanctions under § 1927, which could
 21 be met with a showing of: (i) a reckless and frivolous argument; or (ii) a meritorious claim made
 22 with the purpose of harassing the opponent).

23 **C. The Court’s Inherent Power**

24 “[T]he district court has the inherent authority to impose sanctions for bad faith, which
 25 includes a broad range of willful improper conduct.” *Fink v. Gomez*, 239 F.3d 989, 992 (9th Cir.
 26 2001). “To impose sanctions under its inherent authority, the district court must make an explicit

1 finding . . . that counsel’s conduct constituted or was tantamount to bad faith.” *Christian v.*
 2 *Mattel, Inc.*, 286 F.3d 1118, 1131 (9th Cir. 2002); *see also B.K.B. v. Maui Police Dep’t*, 276 F.3d
 3 1091, 1107–08 (9th Cir. 2002) (attorney’s knowing and reckless introduction of inadmissible
 4 evidence was tantamount to bad faith and warranted sanctions under Section 1927 and the court’s
 5 inherent power); *Fink v. Gomez*, 239 F.3d 989, 993–94 (9th Cir. 2001) (attorney’s reckless
 6 misstatements of law and fact, combined with an improper purpose, are sanctionable under the
 7 court's inherent power).

8 The Court “has the inherent authority to impose sanctions for bad faith, which includes a
 9 broad range of willful improper conduct.” *Fink v. Gomez*, 239 F.3d 989, 992–94 (9th Cir. 2001)
 10 (finding “mere recklessness, without more, does not justify sanctions under a court's inherent
 11 power” but that “[s]anctions are available for a variety of types of willful actions, including
 12 recklessness when combined with an additional factor such as frivolousness, harassment, or an
 13 improper purpose”).

14 **III. DISCUSSION**

15 Defendants contend that they are entitled to attorneys fees’ under 35 U.S.C. § 285, 28
 16 U.S.C. § 1927, and the Court’s inherent power. Mot. 3–8. The Court addresses each in turn.

17 **A. Attorneys’ Fees Pursuant to 35 U.S.C. § 285**

18 Under 35 U.S.C. § 285, “[t]he court in exceptional cases may award reasonable attorney
 19 fees to the prevailing party.” The parties do not dispute that, here, Defendants are the prevailing
 20 party. *See* Mot. 3–8; Opp. 6–20. Thus, the issue before the Court is whether this is an
 21 “exceptional case[]” justifying an award attorneys’ fees. A case can be “exceptional” either “with
 22 respect to the substantive strength of [Max Sound’s] litigating position . . . or the unreasonable
 23 manner in which the case was litigated.” *Octane Fitness*, 134 S. Ct. at 1756. For the reasons
 24 discussed below, the Court finds that, based on the totality of circumstances, this case is
 25 “exceptional” on both of these grounds.

26 **i. Substantive Strength of Max Sound’s Litigating Position**

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1 With respect to the substantive strength of Max Sound’s litigating position, Defendants
2 argue it was exceptionally weak because Max Sound did not have any rights to the ’339 patent and
3 that it knew that Vedanti had not given “marching orders” to file claims for patent infringement.
4 Mot. 5 (quoting Dkt. No. 101-9 at 1 and Dkt. No. 127 at 2). Max Sound responds that its litigating
5 position was objectively reasonable, as it had a reasonable basis for asserting standing based on
6 several legal theories, including that: VSL was the agent of Vedanti, VSL was Vedanti’s alter ego,
7 and Vedanti impliedly agreed to grant Max Sound an exclusive license to sue. Opp. 6–11.

8 The Court agrees with Defendants that Max Sound’s litigating position was exceptionally
9 weak. As Max Sound has admitted from the beginning, Complaint ¶ 9; FAC ¶ 14, Vedanti—not
10 VSL—was the owner of the ’339 patent. Thus, in order to have standing, Max Sound needed to
11 either (1) join Vedanti as a co-plaintiff; or (2) be an “exclusive licensee” with “all substantial
12 rights” to the ’339 patent. *See Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1340
13 (Fed. Cir. 2006) (“[A] licensee normally does not have standing to sue without joinder of the
14 patentee.”); *Alfred E. Mann Found. for Scientific Research v. Cochlear Corp.*, 604 F.3d 1354,
15 1358–59 (Fed. Cir. 2010) (“A patent owner may transfer all substantial rights in the patents-in-
16 suit, in which case the transfer is tantamount to an assignment of those patents to the exclusive
17 licensee, conferring standing to sue solely on the licensee.”).

18 Max Sound cannot reasonably contend that either of these were the case. First, Vedanti
19 was not properly joined as a plaintiff in this lawsuit. The Complaint named Vedanti as a co-
20 plaintiff, but Vedanti never signed the document. Complaint at 13. The FAC, in an apparent
21 attempt to join Vedanti as an involuntary plaintiff pursuant to Federal Rule of Civil Procedure
22 19(a)(2), also named Vedanti as a defendant, but Max Sound never moved this Court to realign
23 Vedanti as an involuntary plaintiff.³

24
25 ³ Moreover, even if it had, it does not seem likely that Max Sound would have succeeded in
26 showing that this is a “proper case” under Rule 19(a)(2) for making Vedanti an involuntary
27 plaintiff. “[I]n light of the original purpose for the Rule and its use almost exclusively in patent
28 and copyright infringement cases, ‘the authorization in Rule 19(a) to join a party as an involuntary
plaintiff may be invoked only when the party sought to be joined has a duty to allow plaintiff to
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1 Second, Max Sound cannot reasonably contend that it was an “exclusive licensee” with
2 “all substantial rights” to the ’339 patent. As the Court found in its Dismissal Order, two aspects
3 of the June 20 Licensing Agreement cannot be disputed: (1) the agreement transferred rights from
4 VSL—not Vedanti—to Max Sound; and (2) the agreement did not reference the ’339 patent.
5 Dismissal Order at 6. No other agreements or documents tied Max Sound to either Vedanti or the
6 ’339 patent. Max Sound points to the September 4 confirmatory licenses and the September 8
7 Robert Newell affidavit, Opp. 8, but, by their plain language, these documents concerned only the
8 ’277 European patent. Dkt. Nos. 118-20, 118-21, 121-3. Thus, without a written document that
9 tied it to either the patent owner or the patent, Max Sound had no reasonable basis to contend that
10 it was an “exclusive licensee” with “all substantial rights.” *Cf. Enzo APA & Son, Inc. v. Geapag*
11 *A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998) (an exclusive license conferring all substantial rights
12 must be in writing). Accordingly, the substantive strength of Max Sound’s standing arguments
13 was exceptionally weak.

14 Max Sound’s arguments to the contrary are not persuasive. First, Max Sound argues that it
15 had a reasonable basis for contending that it acquired rights to the ’339 patent through the June 20
16 Licensing Agreement because VSL was acting as either the agent or alter ego of Vedanti. Opp. 6–
17 11. As an initial matter, these arguments were considered and rejected by the Court, and need not

19 use his name in the action.” *Caprio v. Wilson*, 513 F.2d 837, 839 (9th Cir. 1975) (quoting 7
20 Wright & Miller, *Federal Practice and Procedure* s 1606, 1974 Pocket Part at 6). Consistent with
21 this, the Federal Circuit has held that even in the much stronger case of patent co-owners, “one
22 co-owner has the right to impede the other co-owner’s ability to sue infringers by refusing to
23 voluntarily join in such a suit.” *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1468 (Fed.
24 Cir. 1998) (quoting *Schering*, 104 F.3d at 345). This “is a substantive right that trumps the
25 procedural rule for involuntary joinder under Rule 19(a).” *STC.UNM v. Intel Corp.*, 754 F.3d 940,
26 946 (Fed. Cir. 2014). The Federal Circuit has recognized only two exceptions to this rule, both of
27 which involve patent owners which “ha[d] a duty to allow [the] plaintiff to use his name in the
28 action,” *Caprio*, 513 F.2d at 839: “First, when any patent owner has granted an exclusive license,
he stands in a relationship of trust to his licensee’ and can be involuntarily joined as a plaintiff in
the licensee’s infringement suit; second, ‘[i]f, by agreement, a co-owner waives his right to refuse
to join suit, his co-owners may subsequently force him to join in a suit against infringers.’”
STC.UNM, 754 F.3d at 946 (quoting *Ethicon*, 135 F.3d at 1468 n. 9). Here, because there was no
contract between Vedanti and Max Sound, Vedanti owed no duty to allow Max Sound to sue in its
name. Thus, this would likely not have been a “proper case” to make Vedanti an involuntary
plaintiff.

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1 be re-litigated here. Dismissal Order at 7–9. Moreover, for the purposes of assessing whether this
 2 is an exceptional case, the Court disagrees with Max Sound that these arguments provide
 3 “reasonable bas[e]s” such that they take Max Sound’s litigating position out of the realm of being
 4 exceptionally weak. As the Court discussed in its Dismissal Order, both theories required Max
 5 Sound to make a specific showing in order to overcome the presumption that VSL and Vedanti
 6 were distinct corporate entities. Dismissal Order at 8. However, Max Sound’s only basis for
 7 maintaining this position is a collection of weak circumstantial evidence—e.g., the timing and
 8 alleged purpose of VSL’s incorporation; Nash’s statement in an email that “the name VSL, stands
 9 for all assets in Vedanti Systems (UK);” Nash’s referring to VSL and Vedanti synonymously; and
 10 Nash signing the September 4 confirmatory license between Max Sound and VSL on Vedanti’s
 11 behalf. Opp. 6–10. This is readily superseded by the plain fact that VSL and Vedanti are separate
 12 entities with separate names, certificates of incorporation, returns, and accounts.⁴ See Dkt. 118-20
 13 (confirmatory license between VSL and Vedanti as separate entities); Dkt. No. 117-9 (VSL
 14 certificate of incorporation); Dkt. No. 122-1 (accounts filed for VSL); Dkt. No. 122-3 (accounts
 15 filed for Vedanti); Dkt. No. 122-2 (annual return for Vedanti). Thus, neither Max Sound’s agency
 16 or alter ego theory alter the Court’s conclusion that its litigating position was exceptionally weak.

17 Second, Max Sound argues that it had a reasonable basis for contending that it acquired
 18 rights to the ’339 patent because Vedanti impliedly agreed to grant an exclusive license to Max
 19 Sound. However, as Max Sound even acknowledges in its briefing, Opp. 10, implied licenses not
 20 in writing are insufficient to confer “all substantial rights” on an “exclusive licensee.” *Enzo APA*
 21 *& Son, Inc.*, 134 F.3d at 1093. Thus, even if Vedanti had impliedly agreed to grant an exclusive
 22 license to Max Sound, Max Sound was required to properly join Vedanti as a co-plaintiff. As
 23 discussed above, Max Sound does not have a reasonable basis for arguing that it had done so here.

24
 25 _____
 26 ⁴ Max Sound also points to documents that concern only the ’277 European patent, such as the
 27 September 4 confirmatory licenses and the September 8 Robert Newell affidavit. See Dkt. Nos.
 118-20, 118-21, 121-3. However, because they relate only to the ’277 European patent, they are
 irrelevant to the Court’s consideration of VSL’s actions with respect to the ’339 patent.

1 Thus, Max Sound’s implied license theory does not save its litigating position from being
2 exceptionally weak.

3 Finally, Max Sound also argues that the fact that the June 20 Licensing Agreement did not
4 explicitly name the ’339 patent should not render its litigating position exceptionally weak. Opp.
5 13–14. In particular, Max Sound argues that, because the June 20 Licensing Agreement granted to
6 Max Sound “the Worldwide License to ODT [(Optimized Data Transmission System and
7 Method)] Technology” and the ’339 patent is titled “Optimized Data Transmission System and
8 Method,” it was reasonable for Max Sound to contend that the June 20 Licensing Agreement had
9 granted it rights in the ’339 patent. *Id.* This argument is unpersuasive for two reasons. First, it
10 ignores the fact that, even if this language could be construed as referring to the ’339 patent, the
11 June 20 Licensing Agreement was, by its plain terms, a contract between Max Sound and VSL—
12 not Vedanti. A party cannot convey rights it does not have. *Mitchell v. Hawley*, 83 U.S. 544, 550,
13 21 L. Ed. 322 (1872). Second, the June 20 Licensing Agreement does not explicitly identify
14 which patents and other intellectual property are covered by “ODT Technology,” so this language
15 is at best ambiguous as to whether it includes the ’339 patent. However, given that the ’339 patent
16 was not owned by VSL, “ODT Technology” is best construed as not covering the ’339 patent.
17 Max Sound’s position to the contrary is not objectively reasonable.

18 At bottom, Max Sound relied on nothing more than its own aspirations from weak
19 circumstantial indicators—rather than clear language from the controlling legal documents—to
20 argue that it had standing to assert the ’339 patent. As such, this case stands out as “exceptional”
21 with respect to the substantive strength of Max Sound’s litigating position. *Octane Fitness*, 134 S.
22 Ct. at 1756.

23 **ii. Manner in Which the Case was Litigated**

24 With respect to the manner in which this case was litigated, Defendants contend that this
25 case is exceptional because (1) Max Sound failed to reasonably investigate its basis for standing
26 despite knowledge of the basis of its standing defects; and (2) Max Sound unreasonably prolonged

1 this case by hiding its lack of standing. Mot. 5–7. Max Sound disagrees on both accounts,
2 arguing that (1) Defendants have not submitted any evidence that Max Sound’s pre-suit
3 investigation was unreasonable or that Max Sound knew all along that it lacked authority to sue;
4 and (2) it was prompt and forthright in providing discovery on standing. Opp. 11–12.

5 The Court agrees with Defendants that Max Sound litigated this case in an exceptionally
6 unreasonable manner. First, Max Sound brought this lawsuit without performing sufficient due
7 diligence as to whether it had standing. It is clear from the pleadings that, from the outset, Max
8 Sound was aware of the root of its standing issues—that Vedanti (not VSL) owned the ’339
9 patent. Both the Complaint and the FAC explicitly state this fact. Complaint ¶ 9; FAC ¶ 14.
10 Moreover, it is also clear that from the pleadings that Max Sound was aware that Vedanti had not
11 itself authorized the assertion of its patent. Despite naming Vedanti as a co-plaintiff in the
12 Complaint—in essence, an admission that Vedanti was a necessary party—Vedanti’s signature or
13 any identification of its counsel are conspicuously absent from the Complaint. Complaint at 13.
14 Max Sound must have known that a party is required to sign a pleading, Fed. R. Civ. P. 11(a), as it
15 itself signed the Complaint. *Id.* Although the Court considers these facts alone enough to find
16 that Max Sound was aware that Vedanti had not authorized the assertion of the ’339 patent, these
17 findings are further bolstered by later representations from Vedanti’s counsel, which confirm the
18 same. *See* Dkt. No. 101-9 at 1 (describing how: from June through August 2014, “Max Sound
19 sought rights to sue on Vedanti’s U.S. patent” and each time “[t]hose requests were rejected;”
20 “[o]n about June 12, 2014,” Max Sound “acknowledged, before numerous witnesses, that the
21 ‘marching orders’ . . . were that there would be no patent infringement lawsuit;” and when Vedanti
22 learned that Max Sound “refiled in the Northern District of California . . . it again objected”); Dkt.
23 No. 97 at 4–5 (same); *see also* Dkt. No. 127 at 2 (referring to “MaxSound’s lawyer’s own words,
24 that his ‘marching orders’ were that there would be no patent infringement lawsuit”).

25 Nevertheless, even though it knew that Vedanti owned the ’339 patent and had not agreed
26 to its assertion, Max Sound proceeded to sue Defendants. This was not reasonable. The

1 knowledge that Vedanti owned the '339 patent should have put Max Sound on notice that, in order
2 to have standing, it either needed to (1) join Vedanti as a co-plaintiff, or (2) be an “exclusive
3 licensee” with “all substantial rights” to the '339 patent. After Vedanti refused to agree to assert
4 the '339 patent against Defendants, Max Sound should have realized that the first of these options
5 was not possible. To the extent that Max Sound believed it could join Vedanti as an involuntary
6 plaintiff under Rule 19, reasonably diligent legal research would have revealed that this was not an
7 option. *See* n.4, *supra*. It was not reasonable for Max Sound to blindly assume that it was.

8 Thus, left with only the second option, Max Sound should have undertaken reasonable
9 measures to confirm that it was an “exclusive licensee” with “all substantial rights” to the '339
10 patent before filing suit. While it is not entirely clear what pre-filing diligence Max Sound did or
11 did not undertake in 2014,⁵ the record permits several observations: Even a cursory review of the
12 June 20 Licensing Agreement would have revealed that it conveyed no rights from *Vedanti* to Max
13 Sound. Dkt. No. 115-7 (June 20 Licensing Agreement). This means that either (1) Max Sound
14 did not (contrary to its representations) review the June 20 Licensing Agreement; (2) it did,
15 realized that the agreement conferred no rights in the '339 patent from Vedanti, and proceeded
16 anyways; or (3) it did, came to the objectively unreasonable conclusion (as discussed above in
17 Section II.A.i) that the agreement—which names neither Vedanti nor the '339 patent—conferred
18 rights in the '339 patent from Vedanti, and proceeded on that basis. Of these three scenarios, the

19
20 ⁵ Max Sound asserts that its counsel reviewed the June 20 Licensing Agreement and that, based on
21 its review, its counsel concluded that “the agreement confers upon Max Sound an indefeasible
22 right to exclude Google from practicing the patent” and that “Max Sound had a strong argument
23 that VSL entered into the Max Sound License as the agent or alter ego of Vedanti.” Dkt. No. 162
24 ¶¶ 12, 14; *see generally id.* ¶¶ 3–22. Defendants, on the other hand, suggest that these are *post-*
25 *hoc* justifications, which do not reflect Max Sound’s state of mind at the time. Reply 3–4. As
26 support, Defendants point out that that Max Sound took the position in its pleadings and during
27 discovery that Vedanti had explicitly agreed to license the '339 patent to Max Sound, and that
28 Max Sound’s agency and alter ego theories were raised for the first time in its opposition to
Defendants’ motion to dismiss. *Id.* (citing Dkt. No. 115-4 at 16–22). The Court agrees that Max
Sound’s positions seem to have shifted from its pleadings, Dkt. No. 1, to the characterization of its
state of mind that it offers now, Dkt. No. 162 ¶¶ 3–22. However, the Court recognizes that a
party’s representation of a position in pleadings and to opposing counsel are not the same thing as
its own internal assessment of that position. Thus, the precise nature of the due diligence that Max
Sound performed before filing suit is at best unclear.

1 last is the most innocuous. However, even if only this is true, Max Sound was no less than
2 willfully blind as to its standing. Instead of making efforts to clarify whether “VSL” could mean
3 “Vedanti” or whether “ODT Technology” could mean “the ’339 patent,” Max Sound stuck its
4 head in the sand and proceeded to file this lawsuit. As such, it failed to undertake an adequate pre-
5 suit filing investigation before filing this suit, which was exceptionally unreasonable litigation
6 conduct.

7 Second, in addition to failing to perform an adequate pre-filing investigation, Max Sound’s
8 litigation conduct makes this case exceptional because it insisted on maintaining this lawsuit even
9 when faced with mounting evidence that it lacked standing. When Defendants filed their first
10 motion to dismiss and brought to light the concern that Max Sound had no standing without
11 Vedanti (including the factual and legal basis for this concern), Max Sound doubled down and
12 amended its Complaint. Dkt. No. 23. When, at the parties’ initial case management conference,
13 Defendants proposed bifurcating discovery so that the issue of standing could be quickly resolved
14 before expending resources on the merits, Max Sound opposed this request. Dkt. No. 58. Further,
15 when Defendants proposed staying the case “until Vedanti and Max Sound could resolve the
16 issues between them,” Max Sound refused. Mot., Ex. E at 1–2. Finally, even after Defendants
17 filed their final motion to dismiss and the Court dismissed Max Sound’s claims for lack of
18 standing, Max Sound continued to insist that it had standing, filing a motion for leave to file a
19 second amended complaint and for relief from the Court’s order dismissing the case. Dkt. No.
20 142. Although any one of these actions, assessed individually, might not be exceptionally
21 unreasonable, their sum total—especially when assessed against the backdrop of Max Sound’s
22 awareness that Vedanti owned the ’339 patent and was not a willing participant in this lawsuit—
23 amounts to a pattern of behavior that is exceptionally unreasonable. At some point, Max Sound
24 should have realized that it had serious standing issues and taken steps to attempt to resolve them
25 before proceeding with the merits. To insist on forging ahead—even when presented with
26 opportunities to pause to resolve its standing issues—was not reasonable.

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1 Third and finally, Max Sound’s litigation conduct makes this case “exceptional” because,
2 although the Court is not convinced that it rises to the level of intentional misrepresentation, Max
3 Sound at least obfuscated the fact that there were potential problems with its standing. The
4 allegations in both its Complaint and FAC are misleading. Its Complaint states that “Max Sound
5 and VSL⁶ have agreed that Max Sound shall have the right to enforce VSL’s patent rights on
6 VSL’s behalf.” Complaint ¶ 10. Its FAC takes this one step further, alleging that:

7 The VSL Agreement entered into between Max Sound and VSL provides that Max
8 Sound shall have the exclusive right to enforce VSL’s patent rights on VSL’s
9 behalf. In particular, the VSL Agreement confers upon Max Sound an infeasible
10 right to exclude the Google Defendants from practicing the patent and expressly
11 provides that VSL has granted Max Sound the exclusive right to sue the Google
12 Defendants for infringement of the ’339 Patent and to settle any claim for
13 infringement of the ’339 Patent. VSL, pursuant to the VSL Agreement, also
14 granted to Max Sound a worldwide license to VSL’s Optimized Data Transmission
15 System and Method technology, including the technology claimed in the ’339
16 Patent, for all fields of use. Thus, Max Sound has standing to assert the claims for
17 infringement of the ’339 Patent against the Google Defendants as set forth below.

18 FAC ¶ 15. These allegations completely ignore the fact that Vedanti is not VSL. (In fact, if
19 anything, they blur this distinction by referring to Vedanti as “VSL.”) As such, it was not true that
20 “Max Sound and VSL⁷ ha[d] agreed . . . ,” Complaint ¶ 10, or that “[t]he VSL Agreement [was]
21 entered into between Max Sound and VSL⁸ . . . ,” FAC ¶ 15. In addition, they ignore the fact that
22 the June 20 Licensing Agreement only “grants [Max Sound] the Exclusive Right to Sue *pre-*
23 *approved* violators of VSL’s intellectual property rights.” Dkt. No. 115-7 at 1 (emphasis added).
24 Pre-approval from Vedanti to sue Defendants was missing here.

25 In addition to its pleadings, Max Sound continued to insist in its representations to this
26 Court and Defendants that there were no standing issues. In its April 23, 2015 Joint Case
27 Management Statement, Max Sound largely repeated the allegations from its FAC:

28 Max Sound and VSL entered into an agreement which provides that Max Sound
shall have the exclusive right to enforce VSL’s patent rights on VSL’s behalf. In
particular, the agreement confers upon Max Sound an infeasible right to exclude

⁶ See note 1, *supra*.

⁷ See note 1, *supra*.

⁸ See note 1, *supra*.

1 Defendants from practicing the patent and expressly provides that VSL has granted
 2 Max Sound the exclusive right to sue the Defendants for infringement of the `339
 3 Patent and to settle any claim for infringement of the `339 Patent. VSL, pursuant to
 4 the VSL Agreement, also granted to Max Sound a worldwide license to VSL's
 Optimized Data Transmission System and Method technology, including the
 technology claimed in the `339 Patent, for all fields of use. Thus, Max Sound has
 standing to assert the claims for infringement of the `339 Patent against Google in
 this lawsuit.

5 Dkt. No. 58 at 2. In its May 27, 2015 letter, Max Sound asserted that "as far as Max Sound is
 6 concerned, there is no 'contract issue between VSL and Max Sound' regarding Max Sound's
 7 standing that must be resolved before the Google Defendants should be required to respond on the
 8 merits to Max Sound's patent infringement allegations." Mot., Ex. D at 2. In its August 7, 2015
 9 letter, Max Sound insisted that "there is no 'dispute' that Vedanti is obligated by agreement to join
 10 Max Sound as a co-plaintiff in any case asserting infringement of the '339 Patent." Mot., Ex. M at
 11 3. Four days later, Max Sound again insisted in an email that "Vedanti has not asserted in this
 12 litigation that Max Sound lacks standing to assert the patent infringement claims against the
 13 Google Defendants." Mot., Ex. E at 1-2. Given that, on August 3, Max Sound had initiated
 14 arbitration proceedings against VSL, Vedanti, Nash, and Newell seeking injunctive relief that they
 15 be "required to cooperate with the pending litigation and [their] other contractual obligations,"
 16 Dkt. No. 118-41 at 5, Max Sound's representations in at least the final of these two
 17 communications were disingenuous.

18 In sum, because Max Sound initiated this suit without adequately investigating whether it
 19 had standing (and despite warning signs to the contrary), insisted on maintaining this suit despite
 20 mounting evidence that it did not have standing, and at least obfuscated the fact that it had
 21 standing problems, the manner in which it litigated this case also makes this case stand out as
 22 "exceptional."

23 **iii. Conclusion**

24 For the foregoing reasons, this case stands out both with respect the substantive strength of
 25 Max Sound's litigating position and the manner in which Max Sound litigated it. Accordingly, the
 26 Court finds this is an "exceptional case[]" warranting attorneys' fees.

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United States District Court
Northern District of California

B. Sanctions Pursuant to 28 U.S.C. § 1927 and the Court’s Inherent Power

1 Defendants also move the Court to impose sanctions against both Max Sound and its
2 counsel under 28 U.S.C. § 1927 and its inherent power. Mot. 8–10. Defendants argue that
3 sanctions are warranted because Max Sound may be insolvent, and Max Sound’s counsel was
4 privy to all of the information discussed above and acted with the same “unreasonable beliefs, lack
5 of diligence and obfuscation.” *Id.* Defendants also emphasize that they warned Max Sound that it
6 would seek fees, but Max Sound acted anyways. *Id.* Max Sound counters that sanctions are not
7 warranted because Defendants have not proven that Max Sound failed to conduct a proper pre-suit
8 investigation or pursued baseless claims, and that, even if they have, there is no showing of
9 subjective or actual bad faith. Opp. 20–21.

10 Although close, the Court finds that, on balance, sanctions under either § 1927 or the
11 Court’s inherent power are not warranted. As discussed above, Max Sound’s conduct during this
12 litigation was exceptionally unreasonable: despite knowing facts that should have put it on notice
13 that it had standing problems (i.e., that Vedanti owned the ’339 patent and that Vedanti was not
14 willing to participate in this lawsuit), Max Sound did not adequately investigate its standing issues
15 before filing this lawsuit, continued to pursue a determination on the merits despite mounting
16 evidence of standing issues, and obfuscated the fact that it had standing issues. *See* Section
17 III.A.ii, *supra*. However, the Court is not convinced that this conduct rises to the level of
18 misconduct required under § 1927 or the standards for exercising the Court’s inherent power.

19 First, with respect to § 1927, the Court does not find that Max Sound or its counsel acted
20 with “subjective bad faith.” *Blixseth*, 796 F.3d at 1007 (“Sanctions pursuant to section 1927 must
21 be supported by a finding of subjective bad faith.”). Under Ninth Circuit law, “bad faith is present
22 when an attorney knowingly or recklessly raises a frivolous argument or argues a meritorious
23 claim for the purpose of harassing an opponent.” *Id.* As discussed above, Max Sound’s basis for
24 asserting standing was objectively unreasonable and exceptionally weak: it had no written
25 document tying it to either the ’339 patent or Vedanti. *See* Section III.A.i, *supra*. However, the
26 Court does not find that this position was entirely without support. As Max Sound points out, the

1 '339 patent is titled "Optimized Data Transmission System and Method" and thus appears to be
 2 similar in subject matter to the "ODT Technology" referenced in the July 20 Licensing
 3 Agreement. In addition, there was at least some weak circumstantial evidence that Vedanti and
 4 VSL were related: Nash served as CEO of both VSL and Vedanti, *see* Dkt. No. 118-20; Nash
 5 created VSL 11 days before the June 20 Licensing Agreement was signed, Dkt. No. 117-9, Dkt.
 6 No. 118 ¶¶ 32, 37; Nash stated in an email that "the name VSL, stands for all assets in Vedanti
 7 Systems (UK)," Dkt. No. 118 ¶ 11, Dkt. No. 118-9; Nash on another occasion referred to "VSL
 8 Communications Ltd. formerly Vedanti Systems Limited," Dkt. No. 118 ¶ 39, Dkt. No. 118-30;
 9 and Nash signing the September 4 confirmatory license between Max Sound and VSL on
 10 Vedanti's behalf, Dkt. No. 118-21. Accordingly, the Court does not find that Max Sound or its
 11 counsel "knowingly or recklessly raise[d] a frivolous argument." *Blixseth*, 796 F.3d at 1007.

12 The Court also does not find that Max Sound or its counsel brought this case or continued
 13 to insist that it had standing for the purposes of harassing Defendants. Instead, the record suggest
 14 that Max Sound's purpose in this litigation was monetizing the '339 patent. *See* Dismissal Order
 15 at 2 (discussing how Max Sound entered into dealings with VSL to assist in monetizing the ODT
 16 intellectual property). While its continued insistence that it had standing was disrespectful to the
 17 Court's resources and is not the type of behavior that should be encouraged in the legal profession,
 18 the Court finds that it is better characterized as extremely zealous advocacy exercised with poor
 19 judgement rather than harassment. Thus, it is also not the case that Max Sound's counsel
 20 "argue[d] a meritorious claim for the purpose of harassing an opponent." *Blixseth*, 796 F.3d at
 21 1007. Accordingly, because the Court cannot conclude that Max Sound's counsel acted with
 22 "subjective bad faith," sanctions under § 1927 are not warranted.

23 Second, with respect to the Court's inherent power, the Court does not find that Max
 24 Sound's or its counsel's "conduct constituted or was tantamount to bad faith." *Christian*, 286 F.3d
 25 at 1131. It is true that certain aspects of Max Sound's behavior come close: its characterizations
 26 of the June 20 Licensing Agreement in its pleadings and representations to the Court and

1 Defendants were misleading and its continued insistence on pursuing the merits of this case
 2 wasted resources. However, the Court is not convinced that this crosses the line from extremely
 3 zealous advocacy to actual bad faith. Instead, it seems more likely that Max Sound simply took an
 4 aggressive tack toward this case and maintained hopeful aspirations that, somehow, it could
 5 eventually push its way through its standing issues. As such, sanctions pursuant to the Court's
 6 inherent power are not warranted.

7 In sum, for the reasons discussed above, the Court finds that this case does not warrant
 8 sanctions either under § 1927 or the Court's inherent power.

9 **C. Amount of Fees**

10 Having determined that Defendants are entitled to attorneys' fees pursuant to 35 U.S.C.
 11 § 285 (although not sanctions under § 1927 or the Court's inherent power), the Court must
 12 determine the amount. Reasonable attorneys' fees are generally based on the traditional "lodestar"
 13 calculation set forth in *Hensley v. Eckerhart*, 461 U.S. 424, 433 (1983). *See Fischer v. SJB-P.D.,*
 14 *Inc.*, 214 F.3d 1115, 1119 (9th Cir. 2000). A reasonable fee is determined by multiplying (1) "the
 15 number of hours reasonably expended on the litigation" by (2) "a reasonable hourly rate."
 16 *Hensley*, 461 U.S. at 433.

17 **i. Reasonableness of Hourly Billing Rate**

18 To determine the appropriate lodestar amount, the Court must first assess the
 19 reasonableness of counsel's claimed hourly billing rate. *Credit Managers Ass'n of S. Cal. v.*
 20 *Kennesaw Life & Accident Ins. Co.*, 25 F.3d at 750. In doing so, courts look to the prevailing
 21 market rates in the relevant community for similar work by attorneys of comparable skill,
 22 experience, and reputation. *Camacho v. Bridgeport Fin., Inc.*, 523 F.3d 973, 979 (9th Cir. 2008).
 23 Generally, the relevant community is the forum where the district court sits, which in this case is
 24 the Northern District of California. *Id.*

25 Based on the billing records submitted in camera, Defendants request a total of
 26 \$820,321.41 in fees for a total of 1547.1 hours billed between October 2014 and August 2016 by

1 five attorneys: Stefani Shanberg, Jennifer Schmidt, Robin Brewer, Michael Guo, and Heidi Keefe.
 2 Dividing the total fees by the total hours billed, the average hourly rate across all attorneys is
 3 \$530.23. Reviewing the billing records individually, the hourly rates for each of the five attorneys
 4 range over the roughly two year period as follows: Stefani Shanberg: \$650-\$950; Jennifer
 5 Schmidt: \$520-\$715; Robin Brewer: \$504-\$608; Michael Guo: \$336-\$575; and Heidi Keefe:
 6 \$905. Either assessing the overall average hourly rate or the per-attorney ranges, the Court finds
 7 these billing rates reasonable. For example, at the time of the filing of this motion, Ms. Shanberg
 8 and Ms. Schmidt were partners at Wilson Sonsini Goodrich & Rosati and Ms. Keefe was a partner
 9 at Cooley LLP. Mot., Ex. A at 2–6; Mot., Ex. B at 5–7. All are seasoned patent litigators, with
 10 roughly 10 years of experience or more. *See id.* In addition, Mr. Guo was an associate at Wilson
 11 Sonsini Goodrich & Rosati, holding a technical degree and having several years of experience as a
 12 patent litigator. Mot., Ex. A at 7. These rates are well in line with the billing rates for attorneys
 13 with similar qualifications in the Bay Area. *See Dropbox, Inc. v. Thru Inc.*, No. 15-CV-01741-
 14 EMC, 2017 WL 914273, at *4 (N.D. Cal. Mar. 8, 2017) (finding “rates ranging from \$275/hr for a
 15 paralegal to \$900/hr for a senior partner” with “rates of \$365/hr and \$420/hr” for mid-level
 16 associates reasonable for the Bay Area); *In re High-Tech Empl. Antitrust Litig.*, Case No. 11-CV-
 17 02509-LHK, 2015 U.S. Dist. LEXIS 118052, at *33-34 (N.D. Cal. Sep. 2, 2015) (approving
 18 hourly rates ranging from \$490 to \$975 for partners, \$310 to \$800 for associates, and \$190 to \$430
 19 for paralegals); *Banas v. Volcano Corp.*, 47 F. Supp. 3d 957, 965 (N.D. Cal. 2014) (approving
 20 hourly rates ranging from \$355 to \$1,095 per hour for partners and associates and \$245 to \$290
 21 per hour for paralegals). Thus, counsel’s billing rate is reasonable.

22 **ii. Reasonableness of Hours Billed**

23 To assess whether the number of hours billed is reasonable, Defendants must submit
 24 detailed records justifying the hours that have been expended. *Chalmers v. City of Los Angeles*,
 25 796 F.2d 1205, 1210 (9th Cir. 1986). The Court may reduce the hours through its discretion
 26 “where documentation of the hours is inadequate; if the case was overstaffed and hours are

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duplicated; [or] if hours expended are deemed excessive or otherwise unnecessary.” *Id.*

Defendants’ counsel submitted 72 pages of detailed billing records describing the work performed on a daily basis between October 1, 2014 (the date Max Sound filed its Complaint), and the August 21, 2016 (when counsel performed work responsive to the Court’s August 19, 2016 order requesting time records). In total, counsel seeks to recover \$820,321.41 for 1547.1 hours of work performed in this matter. The Court has reviewed all 72 pages submitted by counsel and finds that the number of hours billed was reasonable. In particular, the Court finds that the billing records reasonably correspond to the high-level list of activities that counsel submits it has undertaken in this case, Dkt. No. 154 ¶ 5, and that the amount of time that counsel spent on each of these activities was reasonable. The Court also finds that all of these activities were reasonable undertakings. *See id.* Finally, because, as discussed above, Max Sound’s unreasonable litigation conduct began with its filing of this case, the Court finds that Defendants are entitled to fees incurred from the date Max Sound filed its Complaint forward. Thus, the Court finds that the total number of hours billed by Defendants (1547.1) is reasonable.

iii. Summary

In sum, Defendants’ counsel’s hourly billing rate and number of hours billed are reasonable. No adjustment to the lodestar amount is warranted. Accordingly, the Court awards Defendants \$820,321.41 in fees.

IV. CONCLUSION

For the foregoing reasons, the Court GRANTS Defendants’ request for attorneys’ fees pursuant to 35 U.S.C. § 285 but DENIES Defendants’ motion for sanctions pursuant to 28 U.S.C. § 1927 and the Court’s inherent power. Max Sound shall pay Defendants \$820,321.41 in fees.

IT IS SO ORDERED.

Dated: September 25, 2017


EDWARD J. DAVILA
United States District Judge