UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES—GENERAL

**Case No. CV-11-7126-MWF (AJWx)** **Date: March 25, 2015**
Title: SmartMetric, Inc. -*v*- MasterCard International, Inc., et al.

Present: The Honorable MICHAEL W. FITZGERALD, U.S. District Judge

| Deputy Clerk: | Court Reporter: |
|---|---|
| Cheryl Wynn | Not Reported |
| **Attorneys Present for Plaintiff:** | **Attorneys Present for Defendants:** |
| None Present | None Present |

**Proceedings (In Chambers):** ORDER DENYING DEFENDANTS' RENEWED MOTION FOR ATTORNEY FEES [220]

This action arose under the patent laws of the United States, Title 35, United States Code. Plaintiff SmartMetric, Inc. ("SmartMetric") alleged that Defendants Mastercard, Inc. and Visa, Inc. (collectively "Defendants") were infringing claims 1 and 14 of U.S. Patent 6,792,464 ("the '464 patent").

Defendants MasterCard International Inc. and Visa Inc. filed a Motion for Attorney Fees on October 30, 2013. (Docket No. 185). On December 18, 2013, the Court granted Defendants' ex parte application to continue the hearing on that motion until after the Supreme Court's decision in *Octane Fitness*. (Docket No. 210). On January 28, 2014, the Court entered the parties' stipulated order postponing the hearing on that motion until after the Federal Circuit resolved the appeal in this action. (Docket No. 212).

After the Supreme Court issued its awaited opinion on the standard for awarding attorneys' fees, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and the Federal Circuit ruled on the appeal in this case, *Smartmetric Inc. v. MasterCard Int'l Inc.*, 568 F. App'x 897 (Fed. Cir. 2014), the Court issued an Order denying the Motion for Attorney Fees without prejudice on the ground that entirely new briefing was necessary. The Court instructed Defendants to file their renewed motion within one week following the receipt of the mandate in this District.

Now before the Court is Defendants' Renewed Motion for Attorney Fees (the "Motion") filed November 3, 2014. (Docket No. 220). SmartMetric filed an Opposition to Defendants' Renewed Motion for Attorneys' Fees and Costs on November 24, 2014. (Docket No. 234). Defendants filed a Reply on December 15, 2014. (Docket No. 238). The Court has read and considered the Motion and related papers, and a hearing was held on January 12, 2015.

**Jurisdiction**

SmartMetric first argues that this Court lacks jurisdiction to hear Defendants' Motion because SmartMetric already filed an appeal in this case. (Opp. at 1-2). This argument is without merit. The filing of a notice of appeal divests the district court of its control "over those aspects of the case involved in the appeal." *Griggs v. Provident Consumer Discount Co.*, 459 U.S. 56, 58 (1982). In this case attorneys' fees are not an aspect of SmartMetric's case "involved in the appeal." *Id.* Moreover, "the Ninth Circuit has made it clear that district courts retain jurisdiction to decide issues regarding attorney's fees after an appeal is taken." *United States v. Real Property Located at 475 Martin Lane, Beverly Hills, CA*, 727 F. Supp. 2d 876, 882 (C.D. Cal. 2010) (citing *Masalosalo v. Stonewall Ins. Co.*, 718 F.2d 955, 956-57 (9th Cir. 1983)).

Additionally, SmartMetric argues that this Court lacks jurisdiction because Defendants filed the present Motion twelve months after the fourteen-day filing deadline in Local Rule 54-10 had passed. (Opp. at 2). Again, the Court rejects this argument. Defendants filed their initial Motion for Attorneys Fees within the required deadline. (Docket No. 185). The Court then continued the hearing on this motion until after the Supreme Court issued its decision in *Octane Fitness* (Docket No. 210), and then again until after the Federal Circuit decided SmartMetric's appeal (Docket No. 212). Once both decisions were issued, the Court *requested* further briefing through a renewed motion, thereby adjusting the deadlines by Court order. (Docket No. 214). Defendants timely filed their Renewed Motion by the deadline provided by the Court, and thus Defendants are not in violation of any Court deadlines.

**Attorneys' Fees**

Under 35 U.S.C. § 285, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." In its recent *Octane Fitness* decision, the Supreme Court clarified the application of this rule. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). The Supreme Court explained that "an 'exceptional' case is simply one that 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." *Id.* at 1756. The Supreme Court thereby relaxed the earlier definition of "exceptional case" under § 285, and clarified that under the statute "[d]istrict courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* In exercising its discretion, however, the Supreme Court suggested that district courts still look to the factors previously set forth concerning the application of this provision, including "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.* at 1756 n.6 (quoting *Forgerty v. Fantasy*, 510 U.S. 517, 534 n.19 (1994)).

Before the decision in *Octane*, the Federal Circuit had limited fee shifting in patent cases to those cases in which the prevailing party could demonstrate, by clear and convincing evidence, either (1) litigation misconduct; or (2) that the litigation was both objectively baseless and brought in subjective bad faith. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381-82 (Fed. Cir. 2005). Under the first option, a district court would award attorneys' fees only "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, conduct that violates [Federal Rule of Civil Procedure] 11, or like infractions." *Id.* at 1381. In the absence of such evidence, the prevailing party was tasked with demonstrating *both* subjective bad faith in bringing the litigation, *and* that the litigation was objectively baseless. *Id.*

The Court relaxed this "rigid and mechanical formulation" in *Octane*. 134 S. Ct. at 1754. Now, "a district court may award fees in the rare case in which a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees." *Id.* at 1757. Moreover, the Supreme Court explained its view that "a case presenting *either* subjective bad faith *or* exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award." *Id.* (emphasis added).

Defendants argue that this is such an "exceptional case." They assert various aspects of the litigation history demonstrate SmartMetric's "unreasonable conduct throughout the entirety of the litigation," including assertions that: (1) SmartMetric failed to conduct a reasonable pre-filing investigation and should have known that it lacked a claim against Defendants; (2) SmartMetric failed to support its patent infringement claims in its interrogatory responses and document production; (3) SmartMetric offered a frivolous construction of the term "local access number" that contradicted the claim language and ignored the teachings of the '464 patent; (4) SmartMetric ignored the Court's order regarding submission of expert reports and withheld its expert reports on infringement until after it received non-infringement expert reports from MasterCard and Visa; (5) SmartMetric submitted additional expert declarations at the summary judgment stage with opinions that had not previously been disclosed; (6) SmartMetric adopted a new theory of the case on appeal; and (7) all of the above was against the backdrop of the prior action before Judge Nguyen and the prior appeal to the Federal Circuit.

Many of these points are essentially correct, particularly in respect to SmartMetric's handling of the litigation after the claim construction hearing. Moreover, there are additional instances of exceptionally weak—if not frivolous—positions, including the request for a stay pending certiorari and the arguments raised in this Opposition about jurisdiction. Nonetheless, after reviewing the docket, its own prior orders, and the declarations made on both sides of this litigation, the Court does not believe that the litigation was undertaken in bad faith or that this case "stands out" under the *Octane* standard.

Importantly, the Court did not find that SmartMetric's infringement case lacked *any* legal or factual basis, and moreover, Defendants never brought a motion asserting these deficiencies at that stage of the litigation. Additionally, the Court did not find that SmartMetric's claim construction arguments were frivolous or without merit. Indeed, the Court's Claim Construction Order actually adopted much of SmartMetric's proposed language.

Moreover, there is no indication on the record that SmartMetric took an unreasonable litigation position. Defendants focus significant attention on SmartMetric's flawed "local access number" proposal as a key indication that this entire litigation was without merit and objectively unreasonable. However, the Court has reviewed this briefing, and disagrees with Defendants that SmartMetric's proposed language was patently inappropriate. More importantly, the Court rejects Defendants' argument that the continuation of this litigation after the Court rejected SmartMetric's construction of "local access number" is indicative of any misconduct or bad faith. "Although in this case, claim construction was indeed determinative of the issue of infringement when considered on summary judgment, the claim construction order itself did not legally determine the issue. [Plaintiff] presented reasonable, but unconvincing, arguments at claim construction." *Kaneka Corp. v. Zhejiang Med. Co.*, 11-cv-2389 MRP, 2014 U.S. Dist. LEXIS 91659 (C.D. Cal. May 23, 2014). As the court in *Kaneka* explained, "claim constructions, issued separately from other motions, do not analyze issues of infringement or validity," and thus, to address these issues on appeal a party needs to pursue a case dispositive motion. *Id.* at *8.

The Court does not find it an "extraordinary" case for SmartMetric to have pursued an argument in the face of a negative claim construction outcome. Moreover, "[m]erely losing at summary judgment is not a basis for an exceptional case finding," because "[i]f so, every party prevailing on summary judgment would be entitled to attorney fees—a result inconsistent with the Supreme Court's holding that an exceptional case 'stands out from others.'" *Cambrian Science Corp. v. Cox Commc'n, Inc.*, SACV 11-1011 AG (JPRx), 2015 WL 178417, at *2 (C.D. Cal. Jan. 6, 2015).

The Federal Circuit recently reversed a grant of attorneys' fees under 35 U.S.C. § 285, concluding that "neither the expert testimony nor the claim construction orders foreclosed [plaintiff's] position and there was nothing unreasonable about [plaintiff's] infringement position," and thus "the basis for the district court's award of fees no longer exists." *Biax Corp. v. Nvidia Corp.*, Nos. 2013-1649, 2013-1653, 2013-1654, 2015 WL 755940, at *4 (Fed. Cir. Feb. 24, 2015). While this is a closer case than *Biax Corp.*, the Court concludes that ultimately Plaintiff in this case believed in its litigating position and presented a case that was not implausible on its face.

The Court does not conclude, however, that SmartMetric acted appropriately in this litigation. For one, counsel for SmartMetric missed the clear deadlines for expert disclosures set by the Court. (Summary Judgment Order at 2 (Docket No. 174)). Moreover, the expert declarations, once submitted, contained "only conclusory allegations on the ultimate legal issue," and later expert declarations "improperly added analysis not present" in the original report. (*Id.* at 5, 7). These actions were thoroughly discussed in the Court's Order Granting Defendants' Motion for Summary Judgment.

The question, then, is whether these failures, which were inappropriate and ultimately detrimental to the client and the case, are "extraordinary." The Court concludes that they are not. Even though *Octane* eased the standard for fee shifting, this standard still presents a very high bar. *See, e.g., Intellect Wireless, Inc. v. Sharp Corp.*, No. 10-6763, 2014 WL 2443871, at *6 (N.D. Ill. May 30, 2014) (awarding fees based on false declarations before the PTO, without which, the court concluded, the plaintiff would not have obtained the patents at issue); *Cognex Corp. v. Microscan Sys., Inc.*, No. 13-2027, 2014 WL 2989975, at *4 (S.D.N.Y. June 30, 2014) (criticizing plaintiff for post-trial motions that simply sought to re-litigate issues decided during trial and awarding fees at least as to those motions); *Precision Links Inc. v. USA Products Group, Inc.*, No. 08-576, 2014 WL 2861759, at *3 (W.D.N.C. June 24, 2014) (criticizing plaintiff for seeking a preliminary injunction based in large part on a previously-rejected theory of liability and filing frivolous post-dismissal motions). This is not a case where a party "served a boilerplate complaint on dozens of

defendants." *IPVX Patent Holdings, Inc. v. Voxernet LLC*, 13-cv-1708 HRL, 2014 WL 5795545, at *5 (N.D. Cal. Nov. 6, 2014). Nor is this a case where the losing party "never expected to prevail" on its claim, but pursued it anyway. *Id.*

Many of Plaintiff's failures were failures of Plaintiff's counsel in legal strategy and case management. However, even where counsel pursues "an aggressive litigation" strategy that is ultimately misguided and ineffective, courts have concluded that the case is not necessarily an extraordinary one. *See Gametek LLC v. Zynga, Inc.*, CV 13-2546, 2014 WL 4351414, at *3–5 (N.D. Cal. Sept. 2, 2014). Here, an aggressive litigating position, combined with disorganized and ineffective case management, lengthened and complicated the case. Certainly it was not a case that SmartMetric was going to win. The Court does not conclude, however, that the actions of counsel were taken frivolously or in an attempt to harass. Rather, the Court concludes that many of the problems faced by Plaintiff's counsel stem from his relative lack of resources compared to Defendants and his aggressive determination to pursue weak legal positions.

The Court, in its discretion and in the consideration of the totality of the circumstances, thus concludes that this case is not an exceptional case that "stands out from others with respect to the substantive strength of a party's litigating position." *Octane*, 134 S. Ct. at 1756. Accordingly, the Motion is **DENIED**.

IT IS SO ORDERED.