UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-0679 JVS (DFMx)	Date	April 1, 2015
Title	Essociate, Inc. V. 4355768 Canada Inc.		

Present: The Honorable	James V. Selna
Karla J. Tunis	Not Present
Deputy Clerk	Court Reporter
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: (IN CHAMBERS)
Order DENYING Defendant's Motion for Attorney Fees (fld 2-25-15)

Plaintiff Essociate, Inc. ("Essociate") alleged that Defendant 4355768 Canada, Inc., dba CrakMedia ("CrakMedia") was infringing Essociate's U.S. Patent No. 6,804,660 ("'660 Patent"). (Compl., Docket ("Dkt.") No. 1.) The Court granted CrakMedia's motion for judgment on the pleadings because the Court concluded that the asserted claims of the '660 Patent were patent ineligible under 35 U.S.C. § 101. (Order Grant Mot. J. Pleadings, Dkt. No. 54.) CrakMedia now moves for an award of attorney's fees pursuant to 35 U.S.C. § 285 on the basis that this is an "exceptional case." (Mot. Att'y's Fees, Dkt. No. 59.)[1] Essociate opposes (Opp'n Mot. Att'y's Fee , Dkt. No. 67), and CrakMedia has replied. (Reply Mot. Att'y's Fees, Dkt. No. 69.)

I. **Background**

The '660 Patent "relates generally to e-commerce and, more particularly to . . . Internet based affiliate pooling." (Franklin Decl., Ex. 1 ('660 Patent), 1:16–18, Dkt. No. 37-3.) More specifically, the '660 Patent outlines a model of an affiliate system in which merchants receive user traffic from webmasters that do not join the merchant's affiliate system. (Id. at 3:66–4:56; see generally Order Grant Mot. J. Pleadings 2–3 (providing a

[1] Because CrakMedia filed a Notice of Errata to make multiple corrections to its original Motion, the Court relies on and references the corrected Motion attached as Exhibit 1 to that Notice for the remainder of this Order. (Not. Errata, Ex. 1 (Mot. Att'y's Fees), Dkt. No. 66.)

more thorough explanation of the '660 Patent).) CrakMedia moved for a judgment on the pleadings that the asserted claims of the '660 Patent were patent ineligible under 35 U.S.C. § 101.

After engaging in the two-step patent-eligibility analysis set forth in Alice Corp. Pty. Ltd. v. CLS Bank Int'l, 134 S. Ct. 2347 (2014), the Court granted judgment on the pleadings. (Order Grant Mot. J. Pleadings 5–14.) The Court first concluded that the '660 Patent's asserted claims "are directed to the abstract idea of receiving and tracking referrals from referral sources." (Id. at 10.) Next, the Court held that the asserted claims fail to transform this abstract idea into patent-eligible subject matter. (Id. at 10–14.) On this basis, CrakMedia now seeks attorney's fees.

II. Legal Standard

Pursuant to 35 U.S.C. § 285 of the Patent Act, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 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." Octane Fitness, LLC v. ICON Health & Fitness, Inc.,134 S. Ct. 1749, 1756 (2014). "District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." Id. Sanctionable conduct under Federal Rule of Civil Procedure 11 is not the benchmark because "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 1756–57. The moving party need only show by a preponderance of the evidence that it is entitled to fees under § 285. Id. at 1758.

III. Discussion

CrakMedia's Motion relies on three arguments for why this is an exceptional case: (1) Essociate committed inequitable conduct in procuring its patent; (2) Essociate's infringement claims were meritless; and (3) Essociate's unreasonable manner of litigation. (Mot. Att'y's Fees 16–23.) Because the first two relate to the substantive strength of Essociate's claims, the Court will address those two arguments before analyzing the third.

A. Substantive Strength of the Claims

1. **Inequitable Conduct**

To prove inequitable conduct, which "is an equitable defense to patent infringement," a defendant must show by clear and convincing evidence that the patent applicant "(1) misrepresented or omitted information material to patentability, and (2) did so with specific intent to mislead or deceive the PTO." Am. Calcar, Inc. v. Am. Honda Motor Co., Inc., 768 F.3d 1185, 1188–89 (Fed. Cir. 2014) (citation and internal quotation marks omitted). Although little to no discovery was performed because the case ended at the pleadings stage, CrakMedia contends that it has met the clear and convincing evidence standard with the evidence it presents with its Motion. (Mot. Att'y's Fees 17:17–18:22; Reply Mot. Att'y's Fees 16:13–17:19.) However, the Court will not engage in an inequitable conduct analysis when there is a dearth of evidence available because discovery never fully commenced. CrakMedia points the Court to cases which held that the inequitable conduct issue is not mooted by a conclusion of patent invalidity when deciding on a motion for attorney's fees. See Paragon Podiatry Lab., Inc. v. KLM Labs., Inc., 984 F.2d 1182, 1188 n.1 (Fed. Cir. 1993); Buildex Inc. v. Kason Indus., Inc., 849 F.2d 1461, 1466 (Fed. Cir. 1988). These cases are unpersuasive, however, because they involved inequitable conduct determinations made at a much later stage in litigation based on evidence found in discovery. See, e.g., Paragon, 984 F.2d at 1188 (inequitable conduct determination made at summary judgment); Buildex, 849 F.2d at 1463, 1466 (remanding case for inequitable conduct determination after case had already been tried); Intellect Wireless, Inc. v. Sharp Corp., No. 10 C 6763, 2014 WL 2443871 at *1 (N.D. Ill. May 30, 2014) (inequitable conduct determination made based on bench trial in a related case). Therefore, the Court will not engage in an inequitable conduct analysis for the purpose of this Motion.

2. **Meritless Infringement Claims**

Crakmedia alleges that it is located in Canada and thus contends that Essociate's infringement claims were meritless because "[i]t is the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 441 (2007); see also 35 U.S.C. § 271(a). CrakMedia raised this same argument when it moved the Court to strike Essociate's infringement contentions. (Mot. Strike Infringement Contentions

9:15–12:12, Dkt. No. 28.) In its January 14, 2015 order regarding that motion, the Court held that "such questions, such as whether CrakMedia is a Canadian corporation and whether CrakMedia's Accused Instrumentalities were used in the United States, are questions of fact that the Court cannot address at this stage in the litigation." (Order Grant Mot. Strike 9–10, Dkt. No. 45.) Because this case was terminated at an early stage in the litigation, the Court cannot assess the merits of Essociate's infringement claims on this basis.[2]

In terms of assessing the merits of Essociate's claims, both parties fail to address the fact that the substantive law in the area of patent eligibility for computer-related patents was unsettled when Essociate filed its Complaint. Essociate initiated this action on April 30, 2014, but the two primary cases which the Court relied upon in granting judgment on the pleadings were decided after that date. See Order Granting Mot. J. Pleadings; Alice, 134 S. Ct. at 2347 (decided June 19, 2014); Ultramercial, Inc. v. Hulu, LLC, 772 F.3d 709 (Fed. Cir. 2014) (decided November 14, 2014). While this does not conclusively establish that Essociate's claims cannot be found to be meritless, it does weigh against such a conclusion. See, e.g., Gametek LLC v. Zynga, Inc., No. CV 13-2546 RS, 2014 WL 4351414 at *3 (N.D. Cal. Sept. 2, 2014) (finding it "particularly relevant" to deciding whether to grant attorney's fees that Alice had not yet been decided when the court granted judgment on the pleadings that the patents were ineligible).[3]

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[2] At oral argument, Essociate asserted that the Court's decision not to engage in the merits of Essociate's infringement claims would force defendants like CrakMedia to "have to choose between invalidating the plaintiff's patent or seeking a determination of non-infringement on the merits so they can later seek their fees under Section 285." (Reply Mot. Att'y's Fees 11:1–4.) This is an illusory dilemma and the Court's conclusion here is not intended to establish a rule that a defendant cannot obtain attorney's fees if it successfully invalidates the plaintiff's patent at an early phase in the litigation. In this case in particular, however, the Court cannot at this point assume the bases upon which CrakMedia seeks to justify the awarding of attorney's fees, namely that CrakMedia is immune from an infringement allegation because it is allegedly located in Canada and that the Court would have struck Essociate's amended infringement contentions. (Id. at 6–7, 9–13.)

[3] The Court also notes that CrakMedia's prevailment at the pleadings stage does not necessarily weigh in favor of finding that Essociate's claims were meritless. See Gametek, 2014 WL

Therefore, the Court sees no reason why this case "stands out from others with respect to the substantive strength" of Essociate's infringement claims. See Octane Fitness, 134 S. Ct. at 1756.

B. Manner of Litigation

Although "sanctionable conduct is not the appropriate benchmark," and CrakMedia need only show by a preponderance of the evidence that it is entitled to fees, the Court concludes that CrakMedia still falls short. See id. "Although Octane eased the standard for fee shifting . . . post-Octane decisions awarding fees have concerned egregious behavior." Gametek, 2014 WL 4351414 at *3 (collecting cases demonstrating egregious behavior). CrakMedia alleges that Essociate engaged in various "harassing" tactics related to discovery, counsel communications, and scheduling. (Mot. Att'y's Fees 20–23.) These alleged actions do not rise to the level of egregious behavior. Moreover, the Court disregards the personal attacks put forward in the briefs by each party's counsel toward the other.

C. Totality of Circumstances

Beyond looking at the substantive strength of a party's litigating position and the manner of litigation, Octane Fitness did not specify the contours of the totality of circumstances analysis that district court must engage in to make an exceptional case determination. See Octane Fitness, 134 S. Ct. at 1756. However, the Supreme Court suggested a "'nonexclusive' list of 'factors'" to consider, including: (1) frivolousness; (2) motivation; (3) objective unreasonableness (both in the factual and legal components of the case); and (4) the need in particular circumstances to advance considerations of compensation and deterrence. Id. at 1756 n.6 (quoting Fogerty v. Fantasy, Inc., 510 U.S. 517, 534 n.19 (1994)). None of these factors weigh in favor of finding that this case is "so 'exceptional' as to justify an award of fees." Octane Fitness, 134 S. Ct. at 1757.

IV. **Conclusion**

4351414 at *3 ("Nowhere does Octane suggest a shift to the 'English Rule' whereby a party who concludes a case on a pleading motion invariably gets his or her fees.").

For the foregoing reasons, the Court **DENIES** CrakMedia's Motion for Attorney's fees.

IT IS SO ORDERED.

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