

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 13-23787-CIV-MOORE/MCALILEY

KASPERSKY LAB, INC.,

Plaintiff,

v.

DEVICE SECURITY LLC,

Defendant.

**REPORT AND RECOMMENDATION ON PLAINTIFF'S
MOTION FOR ATTORNEYS' FEES**

Plaintiff Kaspersky Lab, Inc. has filed a Verified Motion for Attorneys' Fees, which the Honorable K. Michael Moore referred to me for a report and recommendation. [DE 45, 46]. Defendant Device Security LLC filed a response to the Motion, and Plaintiff a reply. [DE 51, 53]. For the reasons that follow, I recommend that the Court deny Plaintiff's Motion.

I. Background

This lawsuit concerns U.S. Patent 6,813,487 (the '487 Patent), owned by Defendant. [DE 1, at ¶ 4].¹ The Patent covers a method of locating a lost or stolen cellular phone and, in the case of a stolen device, allows the subscriber to transmit a signal that disables the normal operation of the phone and deletes files from the device.

¹ Defendant acquired its rights to the Patent via an assignment from the named inventor, David Alan Trommelen. [DE 30, pp. 6-7 at ¶¶ 6-10]. Defendant is a subsidiary of Gladios, IP, a company "in the business of helping small businesses enforce their patent rights." [DE 51, p. 5].

[DE 52-1]. Plaintiff initiated the lawsuit, filing a Complaint that sought a declaratory judgment of patent invalidity and noninfringement. [DE 1].

Plaintiff filed suit about a month after Defendant, on September 18, 2013, sent a letter to Plaintiff advising it of the '487 Patent and stating, in some detail, Defendant's belief that Plaintiff was infringing the Patent. [DE 52-4]. The letter ended with the following:

Accordingly, we are willing to hold amicable settlement discussions and work with you to negotiate a license on favorable terms. We are generally available in the next few weeks to hold such a discussion if you are available. In the meantime, if you have any questions about the '487 Patent, the technology covered by the '487 Patent, and terms for resolution, please do not hesitate to contact us.

[*Id.* at p. 7]. Plaintiff did not communicate with Defendant as offered. [DE 52-7, p. 1]. Instead, Plaintiff filed this action.

Once served, counsel for Defendant offered to meet with Plaintiff's counsel "to explain [Defendant's] theory of the case and infringement analysis...[and] listen to any position [Plaintiff] had vis-à-vis infringement or invalidity." [DE 52-7, p. 1]. Plaintiff declined that invitation. [*Id.*]. On November 4, 2013, before Defendant had to respond to the Complaint, the Court entered a Patent Pretrial Order. [DE 13]. Among other things, the Order obligated any party who sought a declaratory judgment of patent invalidity (in this case the Plaintiff), or who opposed a claim of patent infringement, to serve "invalidity contentions" on the opposing party. [*Id.* pp. 3-4]. The Order also required a party claiming patent infringement (in this case the Defendant) to serve "infringement contentions." [*Id.* at p. 1].

After receiving an extension of time, on December 11, 2013, Defendant filed its Answer and Counterclaim. [DE 30]. The Counterclaim asserted causes of action for infringement of the '487 Patent and tortious interference with prospective business relationships. [*Id.* at pp. 9-13]. The tortious interference claim was based on certain derogatory statements Plaintiff's Chief Executive Officer reportedly made about Defendant. [*Id.* at pp. 8-9, 11-13].

On January 9, 2014, Defendant served its preliminary infringement contentions as required by the Patent Pretrial Order [DE 32], and Plaintiff followed with its invalidity contentions. [DE 33]. About three weeks after it received Plaintiff's invalidity contentions, Defendant sent Plaintiff a covenant not to sue. [DE 36-1]. Defendant reported that once it reviewed Plaintiff's invalidity contentions and document production, it "concluded that there was no longer a sufficiently strong basis for [Defendant] to prevail on its counterclaim of infringement." [DE 36, p. 2].

As part of a conferral process between the parties, Defendant revised the covenant to address some of Plaintiff's concerns, and on April 21, 2014, approximately six months after Plaintiff filed the Complaint, Defendant moved to dismiss this action relying on Defendant's covenant of noninfringement. [DE 36]. Specifically, Defendant advised the Court that there was no longer a controversy between the parties and, as a result, the Court did not have subject matter jurisdiction over this action. The Court agreed and dismissed the action, with leave for Plaintiff to file a motion to recover its fees and costs. [DE 42]. This Motion followed.

In its Motion, Plaintiff asserts that section 285 of the Patent Act² authorizes Plaintiff, as the prevailing party, to recover its attorneys' fees. [DE 45, p. 5]. Plaintiff asks to recover the attorneys' fees it incurred after Defendant filed its Counterclaims, which totals \$258,583.50. [*Id.* at p. 21]. Defendant does not dispute that Plaintiff is the prevailing party on the infringement counterclaim, but asserts that Plaintiff has not met the Patent Act's "exceptional case" standard for awarding fees. [DE 51, pp. 14-18]. I agree with Defendant and conclude that Plaintiff has failed to establish its entitlement to attorneys' fees.

II. Analysis

Section 285 of the Patent Act states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." The United States Supreme Court in *Octane Fitness LLC v. ICON Health & Fitness, Inc.* used a two part standard to define an exceptional case. Specifically, it held that an exceptional case is "one that stands out from others with respect to [(1)] the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or [(2)] the unreasonable manner in which the case was litigated." 134 S. Ct. 1749, 1756 (2014).

The Court emphasized that an exceptional case is one that is rare, uncommon or not ordinary. *Id.* It noted that the party seeking attorneys' fees must establish its entitlement to fees by a preponderance of the evidence. *Id.* at 1758. Courts must determine whether a case is exceptional "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.* at 1756. The *Octane Fitness* Court

² Title 35 U.S.C. § 285.

also identified, as examples, these factors courts might consider when evaluating the totality of the circumstances: “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.

In its Motion, Plaintiff argues that it is entitled to recover its fees under both parts of the *Octane Fitness* test; it also argues that a number of the suggested factors support a finding that Plaintiff is entitled to recover its fees.

1. The Substantive Strength of the Parties’ Litigating Positions

Plaintiff argues that Defendant’s counterclaim for patent infringement was frivolous because Defendant knew that Kaspersky Lab was not a “network provider” and therefore could not be liable for direct or indirect infringement of the ‘487 Patent. [DE 45, pp. 15-17]. Defendant admits that claim one of the ‘487 Patent requires that “signals for the ‘locate’ or ‘kill’ functions must pass through a ‘site operated by a network provider’.” [DE 51, p. 5]. Defendant asserts that it reasonably filed its infringement claim, even though it knew Plaintiff was not a “cell phone carrier network provider”, because it brought this claim “on the basis that [Plaintiff] worked with, or acted in concert with, a network provider, or functioned as an equivalent to a network provider, or that the site operated by the network provider was a cell tower that received signals and transmitted [Plaintiff’s] signals.” [DE 51, p. 8].

Defendant’s argument is consistent with one of its infringement theories, indirect infringement, namely that Plaintiff induced others to infringe claim one of the ‘487

Patent. [DE 30, p. 10; DE 45-1, p. 30]. This theory arose from a decision of the Federal Circuit in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012). The *Akamai* Court recognized liability for induced infringement where multiple parties, as opposed to a single entity, committed all the acts necessary to constitute infringement. *Id.* at 1308-09. In other words, *Akamai* did not require that one actor perform all the infringing steps. *Akamai* was good law when Defendant relied upon it, but the decision has since been vacated. *See Akamai Technologies Inc. v. Limelight Networks, Inc.*, 571 Fed. Appx. 958 (Fed. Cir. 2014). What is important here is that when Defendant filed its Counterclaim, it had a valid legal basis to assert that Plaintiff was liable for patent infringement on the theory that Plaintiff, together with a network provider who Plaintiff induced, performed all the steps of claim one of the ‘487 Patent.³

Plaintiff complains that Defendant alleged in its infringement counterclaim, on information and belief, that Plaintiff “induce[d] end users and cellular telephone network providers to infringe at least claim 1 of the ‘487 Patent” [DE 30, p. 10, ¶29]. Plaintiff argues that it was improper for Defendant to make this “assumption” and engage in “wishful thinking.” [DE 53, p. 4]. Plaintiff has not shown, however, that Defendant went beyond the bounds of accepted notice pleading, much less that this amounted to the “the type of extraordinary misconduct reserved for finding a case exceptional.” *H-W Technology, L.C. v. Overstock.com, Inc.*, No. 3:12-CV-636-G, 2014 U.S. Dist. LEXIS

³ In Reply, Plaintiff criticizes Defendant’s reliance on *Akamai* because “even before *Akamai* was overruled, that decision gave no support for [Defendant’s] allegation that [Plaintiff] was a direct, literal infringer.” [DE 53, p. 3]. Plaintiff misconstrues Defendant’s use of *Akamai*, as Defendant relied on that decision to support its theory of indirect or induced infringement, not direct infringement. [DE 51, p. 17].

122667, at *1, *10 (N.D. Tex. Aug. 15, 2014); *see also EON Corp. IP Holdings, LLC v. Cisco Systems, Inc.*, No. 12-cv-01011, 2014 WL 3726170, at *1, * 5-6 (July 25, 2014) (declining to award fees under the Patent Act even though it was a “very close case” and patentee raised an argument that was “quite stretched, such that few patentees would pursue it.”).

Defendant ultimately decided, after reviewing Plaintiff’s invalidity contentions and document production, that “it would be difficult . . . to prevail on its counterclaim for infringement . . .” and provided Plaintiff with a covenant of noninfringement. [DE 51, p. 9]. Defendant reached this conclusion given “. . . the lack of documents provided by [Plaintiff], which would otherwise demonstrate or suggest that there was a relationship with one or more carriers.” [*Id.*].

The fact that Defendant decided to dismiss its Counterclaim with prejudice does not establish that the Counterclaim lacked all merit.⁴ Here, Defendant evaluated its claims in light of the evidence produced in discovery and chose to dismiss; conduct courts should encourage rather than penalize. Plaintiff has not shown that Defendant knew its infringement claim lacked any factual support at the time it filed its counterclaim. For these reasons, I conclude that Plaintiff has not shown Defendant’s counterclaim for infringement was frivolous or exceptional in its weakness.

⁴ The Court has not made any findings about the relative strength of the parties’ claims that can now be relied on. Of course, once it lacked subject matter jurisdiction, the Court could not reach the merits of the claims.

2. The Manner in Which This Case was Litigated

Plaintiff argues that Defendant litigated this case in an unreasonable manner because it “forced [Plaintiff] to prepare detailed invalidity contentions against the ’487 Patent...[and then] made that work pointless by taking away the court’s jurisdiction with a covenant not to sue.” [DE 45, pp. 15, 17]. I disagree.

The Patent Pretrial Order states in pertinent part that:

In all cases in which a party files a complaint ... seeking a declaratory judgment that a patent is invalid ... [and] the defendant does not assert a claim for patent infringement in its answer to the complaint ...the party seeking a declaratory judgment of invalidity shall serve upon each opposing party its Invalidity Contentions that conform to the requirements for “Invalidity Contentions” established by this Order.

[DE 13, p. 4]. Plaintiff chose to initiate this action by seeking a declaratory judgment that Defendant’s patent was invalid. The Court’s Patent Pretrial Order required Plaintiff to file detailed invalidity contentions. Had Defendant never filed its Counterclaim, Plaintiff would still have been obligated to file the invalidity contentions.

Plaintiff’s assertion that this case is exceptional because Defendant “wasted” Plaintiff’s efforts by giving a covenant not to sue is likewise unpersuasive. [DE 45, p. 17]. Defendant provided the covenant early in the case, well before the discovery and dispositive motion deadlines and approximately three months after Defendant filed its Counterclaims. It cannot be said that Defendant prolonged the litigation once it was presented evidence of the weakness of its claims or defenses.

As for Defendant’s tortious interference claim, Plaintiff complains that Defendant brought it “to deter [Plaintiff] from investigating [Defendant’s] motives”; similarly,

Plaintiff contends Defendant “threaten[ed] [to] move for sanctions . . . to deter [Plaintiff’s] motion for attorneys’ fees.” [DE 45, pp. 19-20]. In the context of this record, these actions do not rise to the level of unreasonableness that would render this case exceptional. “[P]ost-*Octane* decisions awarding fees have concerned egregious behavior”, such as making false declarations to the United States Patent and Trademark Office or re-litigating issues after receiving adverse rulings. *NXP B.V. v. Blackberry, Ltd.*, 58 F. Supp. 3d 1313, 1323 (Oct. 21, 2014) (collecting cases). Notably, other courts have found that “an aggressive litigation strategy by a patent holder is insufficient, without more, to justify an award of attorneys’ fees.” *LendingTree, LLC v. Zillow, Inc.*, No. 3:10-cv-00439-FDW, 2014 WL 5147551, at *1, *12 (W.D. N.C. Oct. 9, 2014).

Plaintiff relies on *Lumen View Technology, LLC v. Findthebest.com, Inc.*, 24 F. Supp. 3d 329, 332-33 (S.D.N.Y. 2014), to support its argument that Defendant unreasonably litigated this case. *Lumen* involved extreme behavior not present here. In particular, Lumen sent a demand letter that threatened “full-scale litigation to enforce its rights ... includ[ing] all motion practice as well as protracted discovery” if the defendant did not quickly settle. *Id.* at 332-33. Lumen also “threatened to increase its settlement demand every time [defendant] filed a responsive pleading.” *Id.* at 333. Defendant did not employ this kind of hyper-aggressive litigation strategy. To the contrary, Defendant’s cease and desist letter did not threaten litigation. [DE 52-4, p. 7]. The parties’ dispute might have been avoided had Plaintiff met with Defendant at the outset of this case (as Defendant requested) to discuss Defendant’s claim of infringement. [DE 52-8, p. 3].

Plaintiff chose to not explore that, which makes it very difficult for Plaintiff to now claim Defendant was solely responsible for this costly litigation.

On this record, I conclude that Defendant did not litigate this case in an unreasonable manner.

3. Motivation and Deterrence

Plaintiff makes arguments that invoke the factors of motivation and the need to deter misconduct. I find them similarly unpersuasive.

Plaintiff argues, for example, that this case is exceptional because “[t]he only business that [Defendant] does is threaten infringement suits and collect licenses.” [DE 45, p. 18]. Here, however, Plaintiff chose to initiate this action without first availing itself of Defendant’s offer to discuss whether Plaintiff was infringing the ‘487 Patent. [DE 1, 52-4]. Further, Defendant attempted to meet and confer with Plaintiff after suit commenced, which Plaintiff refused, and Defendant timely provided a covenant of noninfringement, soon after receiving Plaintiff’s invalidity contentions. Defendant did not condition either of these conciliation efforts on the payment of compensation or licensing fees. [DE 52-7]

Plaintiff points to the conduct of Wi-LAN Technologies, Inc. and its related entities, who apparently filed several patent infringement actions in this District since 2012, to argue that Defendant must pay Plaintiff’s attorneys fees here. [DE 1, pp. 2-3, DE 45, p. 18]. Defendant’s parent company is a subsidiary of Wi-LAN Technologies. [DE 51, p. 5]. Plaintiff fails to justify why the conduct of Wi-Lan, in filing unrelated patent infringement suits, renders Defendant’s conduct exceptional here, particularly

when Defendant did not institute this action. Even if Defendant or Wi-Lan is considered a non-practicing entity (an entity whose sole business model is to acquire patents and litigate rights associated with those patents, typically to obtain a settlement or license fee), absent “any evidence in the record demonstrating that [its] claims were frivolous . . . its status as a hyper-litigious non-practicing entity should not prevent it from bringing suit.” *Rates Technology, Inc. v. Broadvox Holding, Co., LLC*, No. 13 Civ. 0152(SAS), 2014 WL 5023354, at *10 (S.D.N.Y. Oct. 7, 2014). As noted, Plaintiff has failed to establish that Defendant’s patent infringement counterclaim was frivolous. I conclude that considerations of motivation and deterrence do not render this case exceptional.

In sum, having considered the totality of the circumstances, I conclude Plaintiff is not entitled to attorneys’ fees because this case is not exceptional as contemplated by section 285 of the Patent Act.

III. Recommendation

Based on the foregoing, I RECOMMEND that Plaintiff’s Verified Motion for Attorneys’ Fees [DE 45], be **DENIED**.

IV. Objections

The parties may file any written objections to this Report and Recommendation with the Honorable K. Michael Moore **no later than September 14, 2015**. Failure to timely file objections shall bar the parties from attacking on appeal any factual findings contained herein. *RTC v. Hallmark Builders, Inc.*, 996 F.2d 1144, 1149 (11th Cir. 1993);

LoConte v. Dugger, 847 F.2d 745, 749-50 (11th Cir. 1988).

RESPECTFULLY RECOMMENDED in chambers in Miami, Florida this 3rd day
of September, 2015.


CHRIS MCALILEY
UNITED STATES MAGISTRATE JUDGE

cc:
The Honorable K. Michael Moore
Counsel of record