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IN THE UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

SOUTHERN DIVISION

NETWORK SIGNATURES, INC., a California corporation,

Plaintiff,

v.

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY,

Defendant.

Case No.: SACV 11-00982-JVS (RNBx)

NOTICE OF APPEAL

Judge: Honorable James V. Selna

Date Action Filed: June 30, 2011

STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY,

Counter-Claimant,

v.

NETWORK SIGNATURES, INC., a California corporation,

Counter-Defendant.

NOTICE IS HEREBY GIVEN that Defendant and Counter-Claimant STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY ("State Farm"), in the above-named case hereby appeals to the United States Court of Appeals for the Federal Circuit from the order entered on July 30, 2012 denying State Farm's motion to declare the case exceptional under 35 U.S.C. § 285 and denying State Farm's request for attorneys fees and costs. (Dkt. No. 66.) A true and correct copy of the order entered on July 30, 2012 is attached hereto as Exhibit A.

This appeal is a cross-appeal of the appeal previously noticed by Plaintiff and Counter-Defendant, which is captioned *Network Signatures, Inc. v. State Farm Mutual Automobile Insurance Company*, Case No. 12-1492 (Fed. Cir.).

Dated: August 17, 2012

Respectfully submitted,

/ s / William Beard

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on August 17, 2012, a true and correct copy of State Farm Mutual Automobile Insurance Company's Notice of Appeal was served on counsel via email, as follows.

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EXHIBIT A

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 11-00982-JVS(RNBx) Date July 30, 2012

Title Network Signatures Inc. v. State Farm Mutual Automobile Insurance Co.

Present: The Honorable James V. Selna

Karla J. Tunis	Sharon Seffens
Deputy Clerk	Court Reporter
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Nathaniel Dilger	R. William Beard, Jr.

Proceedings: Defendant's Motion for Attorney Fees (fld 6-27-12)

Cause called and counsel make their appearances. The Court's tentative ruling is issued. Counsel make their arguments. The Court DENIES the defendant's motion and rules in accordance with the tentative ruling as follows:

Defendant State Farm Mutual Automobile Insurance Co. ("State Farm") moves the Court for an award of attorney fees pursuant to 35 U.S.C. § 285. Plaintiff Network Signatures, Inc. ("NSI") opposes the motion. For the following reasons, the motion is DENIED.

I. BACKGROUND

NSI initiated this action on June 30, 2011, alleging that State Farm directly and indirectly infringed U.S. Patent No. 5,511,122 ("the '122 Patent"). (Compl. ¶ 13, Docket No. 1.) NSI possesses an exclusive license for this patent from the patent holder, the United States Government. (Id. at ¶ 3.)

After answering the complaint, State Farm moved for summary judgment on its declaratory judgment of unenforceabilty claim and on that basis for judgment on NSI's claims of infringement based on the patent's unenforceabilty. (Docket No. 39.) The Court granted the motion, declaring the patent unenforceable. (Summary Judgment Order ("SJ Order") 21, Docket No. 51.) The Court found that Naval Research Laboratory ("NRL") employee John Karasek ("Karasek") engaged in inequitable conduct when he revived the '122 Patent. (Id. at 19.)

State Farm now moves for an award of attorney fees and expenses. (Mot. Notice,

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Docket No. 508.) It argues that the case should be declared exceptional on several alternate grounds. (Mot. Br. 1-2, Docket No. 58-1.) Specifically, it contends that the inequitable conduct the Court found, NSI's pattern and pursuit of baseless litigation, and NSI's litigation conduct warrant the case being exceptional. (Id. at 1-2.) Further, State Farm argues, the Court should award fees to repair the manifest injustice imposed on it in defending this case. (Id. at 12.) NSI opposes, arguing that none of the asserted bases justify an award of fees nor even a declaration of exceptional case. (Opp'n Br. 2, Docket No. 63.)

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II. LEGAL STANDARD

Section 285 authorizes the Court to grant a patent holder attorney fees in "exceptional cases." 35 U.S.C. § 285. Attorneys' fees are compensatory rather than punitive. Knorr-Bremse System Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1347 (Fed. Cir. 2004). When the authorization for fees was created it was "not contemplated that the recovery of attorney's fees will become an ordinary thing in the patent suits." S. Rep. No. 1503, 79th Cong., 2d Sess. 1, 2, reprinted in 1946 U.S.C.C.A.N. 1386, 1387. The decision to grant fees is within the discretion of the Court, and even an exceptional case does not require an award of fees. Group One, Ltd. v. Hallmark Cards, Inc., 407 F.3d 1297, 1308-09 (Fed. Cir. 2005). The Court must first determine that a case is "exceptional" and then it may exercise its discretion to award reasonable fees to the prevailing party. Informatica Corp. v. Bus. Objects Data Integration, 489 F. Supp. 2d. 1075, 1085 (N.D. Cal. 2007). The purpose of § 285 is to provide discretion where it would be grossly unjust that the prevailing party be left to bear the burden of its own counsel, which it normally bears. Badalamenti v. Dunham's, Inc.,, 896 F.2d 1359, (Fed. Cir. 1990). Fee awards are not awarded to penalize a party for merely defending or prosecuting a lawsuit. Revlon Inc. v. Carson Prods. Co., 803 F.2d 676 (Fed. Cir. 1986).

IV. DISCUSSION

The parties do not dispute that State Farm is the prevailing party. Thus, the Court first looks to whether the case is exceptional for any of State Farm's articulated reasons. Then the Court turns to whether it should exercise its discretion in awarding fees to State Farm and whether the fees sough are reasonable.

A. Exceptional Case

A patent case may be found exceptional "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 Fed. R. Civ. P. 11, or like infractions." Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005). The prevailing party must establish that the case was exceptional by clear and convincing evidence. Machinery Corp. of Am. v. Gullfiber AB, 774 F.2d 467,

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470-72 (Fed. Cir. 1985); see also McNeil-PPC, Inc. v. L. Perrigo Co., 337 F.3d 1362, 1371 (Fed. Cir. 2003).

1. Inequitable Conduct

A finding of inequitable conduct can be a sufficient grounds by itself to declare a case exceptional. Evident Corp v. Church & Dwight Co., Inc., 399 F.3d 1310, 1315-16 (Fed. Cir. 2005). However, such a finding does not compel a court to declare it exceptional. Nilssen v. Osram Sylvania, Inc., 528 F.3d 1352, 1358 (Fed. Cir. 2008) ("[T]here is no per se rule of exceptionality in cases involving inequitable conduct."). Courts have looked to the connection between the perpetrator of the inequitable conduct and the party asserting the patent and the culpability of the behavior to determine whether a case should be exceptional. Frank's Casing Crew & Rental Tools, Inc. v. PMR Technologies, Ltd., 292 F.3d 1363, 1377-78 (Fed. Cir. 2002) (affirming a denial of fees and failure to declare a case exceptional based in part on district court's finding an insufficient nexus between inequitable conduct and the patent claimant); Nat'l Diamond Syndicate, Inc. v. Flanders Diamond USA, Inc., 2003 WL 21663673 at *7 (N.D. Ill. July 15, 2003).

State Farm argues that the inequitable conduct the Court found in its SJ order is sufficiently improper to make the case exceptional. (Mot. Br. 2-3.) It further argues that Karasek's conduct is sufficiently tied to NSI and its principal, Hazim Ansari ("Ansari"), that there is a sufficient nexus between the two. (Rep. Br. 2-3, Docket No. 64.) Specifically, it argues that Ansari's statement that he believed there was a slim chance of revival and subsequently not providing a statement about his knowledge of the conduct shows he was aware or involved in it. (Id.) NSI disputes this latter point, arguing that Karasek's conduct cannot be imputed to NSI because there is an insufficient nexus between the two. (Opp'n Br. 7-8.)

The Court agrees with NSI. The inequitable conduct here is not so culpable that the case is exceptional, especially in light of the tenuous connection between the conduct and NSI. The Court found in its SJ order that Karasek filed the petition for revival before soliciting information from Ansari. (SJ Order 8.) While Ansari may have offered to revive the patent, he was in fact not involved with the revival. (Id. at 8-9.) In fact, he made the offer to do so after Karasek had already filed the petition. (Id. at 9.) The fact that he said there may be a slim chance of revival *after* Karasek had already filed the

offending petition shows not that he was involved in the inequitable conduct, but instead was actually unaware of the conduct when it took place. Thus, the Court finds that the case is not exceptional on the basis of Karasek's inequitable conduct.

2. Unjustified Litigation

Unjustified litigation renders a case exceptional "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." Wedgetail Ltd. v. Huddleston Deluxe, Inc., 576 F.3d 1302, 1305 (Fed. Cir. 2009) (internal quotation marks and citation omitted). Bad faith can be inferred when a patentee is manifestly unreasonable in assessing infringement while continuing to assert infringement in court. Eltech Systems Corp. v. PPG Indus. Inc., 903 F.2d 805, 811 (Fed. Cir. 1990). "To be objectively baseless, the infringement allegations must be such that 'no reasonable litigant could reasonably expect success on the merits.'" Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH, 524 F.3d 1254, 1260 (Fed. Cir. 2008) (quoting GP Indus., Inc. v. Eran Indus., Inc., 500 F.3d 1369, 1374 (Fed. Cir. 2007)). Defeat of a position on summary judgment is insufficient to compel an automatic finding that a suit is objectively baseless. Aspex Eyewear, Inc. v. Clariti Eyewear, Inc., 605 F.3d 1305, 1315 (Fed. Cir. 2010).

State Farm argues that NSI's lawsuits against it and against other defendants were unjustified litigation. (Mot. Br. 3.) It argues that bad faith is apparent based on the pattern of suits against many defendants followed by settlement demands that were below the cost of a typical defense. (Id. at 7-9 (relying on Eon-Net LP v. Flagstar Bancorp, 653 F.3d 1314, 1327 (Fed. Cir. 2011)).) Further, it contends that even if Ansari and NSI did not have knowledge of the inequitable conduct at the time it occurred, they shortly thereafter learned of it and at least when State Farm made its motion for summary judgment. (Id. at 6-7.) Thus, State Farm argues, NSI knew the '122 Patent had been procured through inequitable conduct and seeking to enforce it shows bad faith. (Id. at 8-9.)

The Court disagrees and finds that neither element required for unjustified or baseless litigation is met here. Knowledge of the facts later used to sustain a finding against a party on summary judgment does not inexorably lead to the conclusion that party was manifestly unreasonable in assessing its litigation position. Eltech, 903 F.2d at 311. The Court finds no evidence that shows NSI was grossly negligent, reckless or

otherwise manifestly unreasonable in evaluating its position on infringement or enforceability of the patent. Thus, the Court finds no bad faith on that basis.

Nor is the Eon-Net basis for inferring bad faith fully met here. The fact that the patent has been enforced against several other entities that settled does not place this in that realm of the behavior. 653 F.3d at 1326-28. The court there found that it was not bad faith for a patentee to "vigorously enforce its patent rights or offer standard licensing terms." Id. at 1328. However, in light of already finding that the claim construction position taken by the patentee was objectively baseless, the court found that by offering to settle for orders of magnitude less than litigation defense costs, bad faith could be inferred. Id. at 1325-28. Here the disparity between the settlement offer and fees being sought is smaller, and the Court is not presented with the same extensive alternate grounds to find the case exceptional. (See Mot. Br. 7-8, 12.) Perhaps, in light of an extremely objectively baseless position, these facts could support bad faith under Eon-Net. However, as detailed below, the Court finds the position was not objectively baseless.

The Court finds that although NSI's position was defeated on summary judgment, it was not so unreasonable that it was objectively baseless. Aspex, 605 F.3d at 1314-15. The law post Therasense for inequitable conduct has changed and the boundaries are in development. Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1290 (Fed. Cir. 2011). In this environment, the Court finds it was not so clear that NSI's position would lose that no reasonable litigant could expect success on the merits. Thus, the Court finds that the case is not exceptional on the basis it was unjustified litigation.

3. Litigation Misconduct

Litigation misconduct can make a case exceptional regardless of whether the underlying suit was objectively baseless. Litigation misconduct can be found only when there is "unethical or unprofessional conduct by a party or his attorneys during the course of adjudicative proceedings." Old Reliable Wholesale, Inc. v. Cornell Corp., 635 F.3d 539, 549-50 (Fed. Cir. 2011). Such conduct includes making multiple repeated misrepresentations to the Court and other vexatious tactics. ICU Med., Inc. v. Alaris Med. Sys. Inc., 558 F.3d 1368, 1380, 1390 (Fed. Cir. 2009).

State Farm contends that NSI engaged in litigation misconduct primarily because

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of a discovery disputes over the deposition transcripts of Jane Kuhl ("Kuhl") and John Karasek ("Karasek"). (Mot. Br. 9-12.) It argues that NSI's behavior in delaying the production of the transcripts, designating them as "highly confidential," and then refusing to allow State Farm to share them with defendants of other NSI suits until after State Farm had already filed its motion for summary judgment all conspired to make State Farm incur most of the expenses associated with that motion. (Id.) State Farm's counsel had sought to provide the documents to defendants' counsel in other cases brought by NSI to share the burden of preparing the motion. (Id. at 11.)

The alleged behavior, while perhaps less than helpful, is not litigation misconduct. As NSI points out, the delay in production had to do with negotiations between the parties over the applicable protective order, something State Farm continued to seek modified. (Dilger Decl. Exs. A, C, D, Docket No. 63.) At no point did State Farm progress beyond the meet and confer stage for filing a discovery-related motion, and NSI was never ordered to produce or share documents by the Court or Magistrate Judge. (Beard Decl. I Exs. A-M.) Further, the fact that State Farm's counsel had to undertake the necessary work for the summary judgment motion is the usual course and is to be expected. Its inability to share the burden with third parties to the litigation is not the type of vexatious increase in defense expenses typically associated with a finding of litigation misconduct. See e.g., Vardon Golf Co. v. Karste Mfg. Corp., 2003 U.S. Dist. LEXIS 5072 at *5 n. 1 (N.D. Ill. Mar. 31, 2003).

Therefore, the Court finds that there is no litigation misconduct, and the case cannot be found exceptional on that basis. McKesson Information Solutions Inc. v. Bridge Medical, Inc., 2006 WL 2583025 at *8-11 (E.D. Cal. Sep. 6, 2006) (noting lack of any Court finding of misconduct in denying fees).

Further, examining all three reasons combined, the Court finds that the case is still unexceptional. Accordingly, the Court will not award fees.

B. Injustice and Reasonableness of Fees

Because the Court does not find the case is exceptional, it does not address whether, if the case was exceptional, such an award would be warranted to correct injustice. Further, it does not address whether the fees sought are reasonable. The Court does note that determining the reasonableness of the fees sought would not be possible on

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the current papers, as State Farm did not provide the documentation supporting its fees numbers until its reply, thereby depriving NSI an opportunity to address their reasonableness. (Compare Beard Decl. I Ex. N, Docket No. 59-14 with Beard Decl. II Ex. A, Docket No. 65-1.)

V. CONCLUSION

For the foregoing reasons, the motion is DENIED.

IT IS SO ORDERED.

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