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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

VASUDEVAN SOFTWARE, INC.,

No. C 11-06637 RS

Plaintiff,

**ORDER DENYING MOTION FOR
SANCTIONS**

v.

MICROSTRATEGY, INC.,

Defendant.

I. INTRODUCTION

Plaintiff Vasudevan Software, Inc. (VSi) moves for sanctions against defendant MicroStrategy (MS) based on statements it characterizes as threats against both VSi and its counsel Susman Godfrey, LLP, made by an outside counsel for and a principal of MS, in conjunction with MS's filing of a request for reexamination of four of VSi's patents and one patent held by Zillow, a Susman Godfrey client, with the United States Patent and Trademark Office (USPTO). Curiously, rather than deny that it made such threats to file the reexamination requests in bad faith, MS argues in its defense that it cannot be sanctioned on the basis of the requests, *even if so made*, because they are protected petitioning activity under the First Amendment. Somewhat reluctantly, the Court agrees that it may not issue sanctions consistent with the First Amendment based on the current record.

II. BACKGROUND

1
2 The following facts appear to be largely undisputed. Sean Pak, a partner at Quinn, Emanuel,
3 Urquhart & Sullivan, LLP, counsel for MS, contacted Brooke Taylor, a partner at Susman Godfrey,
4 counsel for VSi. He requested a meeting to include the principals of VSi and MS. Pak said MS was
5 planning to be “aggressive” in defending against VSi’s claims in this case and would take
6 “initiatives” toward that end, including filing reexamination petitions with the USPTO to reexamine
7 VSi’s patents. Pak proposed flying to Seattle (where the Susman Godfrey office in which Taylor
8 works is located) to discuss these “initiatives” with VSi and its counsel. Taylor agreed and Pak,
9 Taylor and Jordan Conners (a Susman Godfrey associate also representing VSi) met in person at
10 Susman Godfrey’s Seattle offices on September 10, 2012. Additional VSi counsel Les Payne and
11 Eric Enger of Heim, Payne, & Chorush, LLP, VSi principals Mark and Helen Vasudevan, and MS
12 Executive Vice President and General Counsel Jonathan Klein participated in the meeting over the
13 phone. Klein stated that he would not pay VSi anything to settle VSi’s patent infringement claims
14 against MS and, if VSi did not immediately dismiss the case, threatened to make the litigation as
15 painful as possible for VSi, file reexamination petitions with the USPTO for all of VSi’s patents in
16 suit, and take action against Susman Godfrey. When Payne specifically asked Klein what he meant
17 by taking action against Susman Godfrey, he refused to answer and suggested that Susman Godfrey
18 would have to wait and see.

19 Four days later, MS filed a series of requests with the USPTO to have the four patents-in-suit
20 reexamined. Two of those patents had already been upheld during a prior reexamination. Four of
21 the seven prior art references cited in MS’s request for reexamination had already been before the
22 USPTO during earlier proceedings on those patents.

23 Less than two months after the meeting, MS also filed a petition for review of a patent held
24 by Zillow, an unrelated Susman Godfrey client. Zillow runs a real estate website that, among other
25 things, provides estimated property values for a given address. MS’s petition for review, signed by
26 Klein, acknowledged that the Zillow patent was involved in a litigation pending in the Western
27 District of California against Trulia (another real estate website). Taylor and Conners, VSi’s
28 counsel at Susman Godfrey in this case, also represent Zillow in the litigation against Trulia. MS is

1 a global provider of enterprise software platforms for business intelligence, mobile intelligence, and
2 social intelligence apps. There is no apparent connection between MS's business interests and the
3 Zillow patent.

4 VSi contends that the only common thread between it and Zillow is that they share the same
5 patent litigation counsel—Taylor and Connors of Susman Godfrey. VSi accuses MS of filing the
6 Zillow reexamination petition for an improper purpose: to interfere with Susman Godfrey's
7 representation of Zillow in a separate litigation matter by needlessly causing its client to incur legal
8 fees supporting the Zillow patent. VSi's characterizes MS's attack on a Susman Godfrey client
9 uninvolved in this case as an implicit threat to attack similarly other Susman Godfrey clients in an
10 effort to pressure Susman Godfrey to abandon VSi's case against MS and to deter Susman Godfrey,
11 or any other law firm, from representing VSi against MS.

12 As additional evidence of MS's alleged bad faith, VSi points to MS's past litigation conduct
13 in *MicroStrategy v. Crystal Decisions*, 555 F. Supp. 2d 475 (D. Del. 2008). There, MS (represented
14 by different counsel) sued Crystal Decisions for allegedly infringing three of its patents, two of
15 which were held to be invalid and a third which was held not to be infringed. Crystal Decisions
16 then moved for attorney fees and expenses pursuant to 35 U.S.C. § 285, arguing that it was entitled
17 to them because MS's bad faith in bringing the claims rendered the case "extraordinary" under the
18 statute. The court awarded Crystal Decisions its fees and costs finding that "MicroStrategy was
19 clearly notified of the defects in its case, yet continued to assert those claims in light of
20 overwhelming evidence to the contrary, and proceeded with arguments that a reasonable attorney
21 would have known were baseless. Such conduct supports bad faith." *Id.* at 481. VSi argues that
22 MS's current behavior in this litigation is part of a larger pattern of behavior in which MS employs
23 the legal process in bad faith to harm its adversaries.

24 While not specifically denying any of the factual allegations made by VSi, MS describes
25 VSi's motion as a meritless diversion from the real issues in the case. MS argues that the motion
26 "rests on the bizarre and novel proposition that a party may be sanctioned for filing a petition for
27 patent reexamination." Rather than providing a good faith reason for its actions, MS states that it
28 does not need one because its request for reexamination of the Zillow patent is meritorious.

1 Essentially conceding that it has no legitimate business interest in the validity of the Zillow patent,
 2 MS notes that the patent reexamination statute does not have a standing requirement, as “any person
 3 at any time may file a request for reexamination.” 35 U.S.C. § 302. MS further contends that VSi
 4 should raise its concerns over MS’s reexamination request with the USPTO, rather than in this
 5 forum.

6 III. LEGAL STANDARD

7 The First Amendment, as reflected under the *Noerr-Pennington* doctrine, protects “a
 8 concerted effort to influence public officials regardless of intent or purpose.” *Mine Workers v.*
 9 *Pennington*, 381 U.S. 657, 670 (1965); *see also E. R.R. Presidents Conference v. Noerr Motor*
 10 *Freight, Inc.*, 365 U.S. 127 (1961). Under *Noerr-Pennington*, a party may not be held liable for
 11 petitioning a federal court or agency unless the petition is shown to be a sham. *BE & K Const. Co.*
 12 *v. NLRB*, 536 U.S. 516, 525-26 (2002). The two-part definition of sham litigation originated in the
 13 antitrust context but is now broadly applied. *See id.* at 525. For litigation conduct to qualify as
 14 “sham,” a two-prong test must be satisfied: “first, it must be objectively baseless in the sense that no
 15 reasonable litigant could realistically expect success on the merits; second, the litigant’s subjective
 16 motivation must conceal an attempt to interfere *directly* with the business relationships of a
 17 competitor . . . through the use [of] governmental *process*—as opposed to the *outcome* of that
 18 process—as an anticompetitive weapon.” *Id.* at 526 (internal quotation omitted). A petition is
 19 objectively baseless if “no reasonable litigant could realistically expect success on the merits.”
 20 *Prof’l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993).

21 IV. DISCUSSION

22 Turning first to the second prong, a strong inference can be drawn from the record that MS
 23 chose to mount an assault on VSi and Susman Godfrey by filing the patent reexaminations and did
 24 so precisely because they thought such conduct constituted petitioning activity, thereby shielding
 25 MS from sanctions for such acts. In its briefing, MS fancifully likens its reexamination petitions to
 26 those filed by non-profit groups whose stated mission is to improve our IP system, implying that MS
 27 acted altruistically out of an impulse to “provide an important ‘quality check’ on patents that would
 28 allow the government to remove defective and erroneously granted patents.” *In re Swanson*, 520

1 F.3d 1368, 1375 (Fed. Cir. 2008). Wisely, counsel for MS retreated from this unpalatable argument
2 at oral argument. MS argues that its counsel's reference to making the litigation as painful as
3 possible for VSi was unconnected to the requested Zillow patent reexamination. MS further
4 suggests that Klein's pronounced intent to take action against Susman Godfrey constituted only a
5 harmless expression of its legitimate intent to seek attorneys' fees from VSi and its counsel for
6 filing the current action and for subjecting it to bad faith motion practice. MS supplies no
7 declarations to support such a theory. Indeed, MS failed to present declarations from either Pak or
8 Klein clarifying their motives. Additionally, MS has failed to advance any colorable good faith
9 explanation for seeking reexamination of the Zillow patent.

10 As for the first prong, MS argues that its petitions before the USPTO are not objectively
11 baseless, and therefore it is immune from sanction under *Noerr-Pennington*. At this stage in the
12 USPTO proceedings, VSi presents no evidence as to the validity of the Zillow patent, or that the MS
13 reexamination petition fails to raise a substantial question of patentability. As a result MS and its
14 counsel at Quinn Emanuel cannot be subject to sanctions on this record. Should the reexamination
15 request in the USPTO ultimately prove to be objectively baseless, VSi is free to move for sanctions
16 based on the conduct at issue here. While MS and Quinn Emanuel appear to have engaged in sharp
17 practice that falls far short of model professional conduct, given the First Amendment implications
18 of sanctioning a party engaged in petitioning activity, the Constitution shields MS and its counsel
19 from sanction at this time. That Zillow will have to incur costs defending the reexamination does
20 not change this analysis. VSi remains free to raise its concerns about MS's behavior with the
21 USPTO's Office of Enrollment and Discipline.

22 VSi argues that, even ignoring MS's actions before the USPTO, MS may be sanctioned for
23 its threatening statements made at the September 10 meeting. Under this theory, the filings with the
24 USPTO are just evidence that the statements were indeed threats made in bad faith to extort a
25 settlement in this case, such that the sanctionable conduct would not be the petitioning activity itself.
26 VSi further contends that *Noerr-Pennington* has never been applied to grant litigants immunity from
27 the Court's inherent power to sanction, and that Supreme Court precedent clarifies the doctrine
28 should not "be read to question the validity of common litigation sanctions imposed by courts

1 themselves—such as those authorized under Rule 11.” *BE & K Constr.*, 536 U.S. at 537. In support
 2 of this argument, VSi points to the Ninth Circuit’s decision in *B.K.B. v. Maui Police Dept.*, 276 F.3d
 3 1091 (9th Cir. 2002). There, a defense attorney in a sexual harassment case violated Federal Rule of
 4 Evidence 412 by introducing in bad faith evidence of the victim’s prior sexual behavior. The
 5 district court imposed sanctions of \$10,000. On appeal, the Ninth Circuit upheld the sanctions:

6
 7 [f]or purposes of imposing sanctions under the inherent power of the court, a finding
 8 of bad faith does not require that the legal and factual basis for the action prove
 9 totally frivolous; where a litigant is substantially motivated by vindictiveness,
 10 obduracy, or mala fides, the assertion of a colorable claim will not bar the assessment
 11 of attorney's fees . . . sanctions are available if the court specifically finds bad faith or
 conduct tantamount to bad faith. Sanctions are available for a variety of types of
 willful actions, including recklessness when combined with an additional factor such
 as frivolousness, harassment, or an improper purpose. *Id.* at 1108 (internal citation
 and quotations omitted).

12 VSi characterizes *B.K.B.* as standing for the proposition that *Noerr-Pennington* is inapplicable in
 13 this context, and that once a court finds bad faith or an improper purpose, it need not delve into the
 14 objective reasonableness or frivolousness of a particular action before it imposes sanctions under its
 15 inherent power. MS distinguishes *B.K.B.*, arguing that it does not apply because it did not concern
 16 an award of sanctions for filing a lawsuit or other First Amendment petitioning activity, but rather
 17 for introducing improper evidence.

18 Ultimately, the events at the September 10 meeting do not appear independently
 19 sanctionable when divorced from the USPTO filings. It is not uncommon for counsel to posture in
 20 settlement discussions and state they will be take “initiatives” to be “aggressive” in the litigation
 21 should it continue. A Court must be wary of any attempt to police meetings between opposing
 22 counsel even where recounted statements, as this record reflects, were at best silly posturing or at
 23 worst unprofessional.¹

24
 25 ¹ VSi requests that the Court: 1) Order MS to file with the USPTO a specific statement that
 26 this Court finds it challenged the patent for an improper purpose, and orders it to withdraw its
 27 reexamination petition in the action challenging Zillow’s patent; 2) Order MS to pay Zillow’s
 28 reasonable fees in defending the validity of the patent before the USPTO; 3) Order MS to pay VSi’s
 reasonable fees for prosecuting the instant motion; 4) Instruct the jury in this case that MS
 wrongfully threatened to harm VSi, used its resources to interfere with VSI’s counsel’s business,
 and that the Court finds MS’s conduct to be abusive and improper. Even were sanctions warranted
 in this instance, VSi’s requests are distinctly overbroad and excessive.

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V. CONCLUSION

While the conduct ascribed to MS and Quinn Emanuel is nothing to be proud of, it falls below the level of activity for which sanctions may be imposed. As noted above, nothing in this order precludes a request for sanctions should it become appropriate before the USPTO. VSi's motion for sanctions is therefore denied.

IT IS SO ORDERED.

Dated: 3/8/13



RICHARD SEEBORG
UNITED STATES DISTRICT JUDGE