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7 *Attorneys for Defendant*
8 QUALYS INC.

9 **IN THE UNITED STATES DISTRICT COURT**
10 **FOR THE NORTHERN DISTRICT OF CALIFORNIA**
11 **OAKLAND DIVISION**

13 FINJAN, INC.,) CASE NO.: 4:18-cv-07229-YGR
14)
Plaintiff,)
15)
v.)
16)
QUALYS INC.,)
17)
Defendant.)
18) Date: N/A¹
19) Time: N/A
20) Place: Courtroom 1, 4th Floor
Before: Hon. Yvonne Gonzalez Rogers
21)

22 **HIGHLY CONFIDENTIAL – ATTORNEYS’ EYES ONLY**
23 **REDACTED VERSION OF DOCUMENTS SOUGHT TO BE SEALED**
24

25
26
27 ¹ Subject to the Court’s March 12, 2020 Order (D.I. 48) suspending in-person appearances.
28

1 I. INTRODUCTION

2 Finjan's Opposition ("Opp.") ignores material facts and fails to overcome the strong
3 presumption to grant amendments "with extreme liberality." *Waldrip v. Hall*, 548 F.3d 729, 732
4 (9th Cir. 2008). Nor does Finjan satisfy this Court's prior precedent granting leave to amend
5 unless "there is strong evidence" of undue delay, bad faith, dilatory motive, undue prejudice, or
6 futility. *Buchanan v. Tata Consultancy Servs., Ltd.*, No. 15-CV-01696-YGR, 2017 WL
7 6611653, at *4 (N.D. Cal. Dec. 27, 2017). Finjan does not even argue that either bad faith or
8 dilatory motive exists. Instead, it argues only delay, prejudice, and futility, but each of these
9 arguments are factually and legally flawed.

10 II. ARGUMENT

11 A. Qualys' Preclusion Defense Is Not Futile, Untimely, or Prejudicial

12 1. Finjan Has Not Shown Undue Delay

13 Qualys did not unduly delay in seeking to assert preclusion as an affirmative defense.
14 *See* Opp. at 6. Qualys was not a party to the reexamination proceedings or the subsequent
15 Federal Circuit appeal. And Finjan did not apprise Qualys regarding the status of those
16 proceedings. To the contrary, Finjan took steps to conceal the pendency of the reexamination.
17 Specifically, on March 4, 2019, the Court requested a "chart that I can look at that gives me all of
18 this information in terms of the other cases, where it's pending, which have constructions, which
19 are terminated. That's one chart." D.I. 24, CMC Tr. at 11:18-23. Finjan then submitted a chart,
20 which purported to identify all proceedings involving the patents-in-suit. *See* D.I. 30-1.
21 However, Finjan *omitted* the '305 reexamination and the ongoing Federal Circuit appeal from its
22 chart. Finjan should not now benefit from its omission.

23 Although Qualys learned of the Federal Circuit opinion shortly after its issuance in
24 September 2019, at that junction Finjan could still seek an *en banc* rehearing or Supreme Court
25 review. The last deadline for doing so elapsed in December 2019, less than three months before
26 Qualys filed this Motion. And more importantly, the issuance of the Reexamination Certificate
27 in January 2020 (only a month before this Motion) is the *legal act* by which the Patent Office
28 formally canceled the Reexamination Claims. *See* 35 U.S.C. § 307 ("In a reexamination

1 proceeding under this chapter, when the time for appeal has expired or any appeal proceeding
2 has terminated, the Director will *issue and publish a certificate canceling any claim of the*
3 *patent finally determined to be unpatentable...*² Before that certificate, the Reexamination
4 Claims had not yet been finally canceled.

5 2. Finjan Has Not Shown Futility

6 Finjan's futility argument fares no better.³ Here, Qualys' preclusion defense is based on
7 the Patent Office's cancellation of the '305 Reexamination Claims. The Federal Circuit has
8 explained that preclusion applies if the differences between the claims canceled during
9 Reexamination (here, '305 claims 1, 2, 5, and 13, or the "Reexamination Claims") and the claims
10 being asserted for infringement "do not materially alter the question of invalidity." *Soverain*
11 *Software LLC v. Victoria's Secret Direct Brand Mgmt., LLC*, 778 F.3d 1311, 1319 (Fed. Cir.
12 2015); *see also Ohio Willow Wood Co. v. Alps South, LLC*, 735 F.3d 1333, 1342 (Fed. Cir. 2013)
13 (preclusion applies where the claims invalidated in the Patent Office use "slightly different
14 language to describe substantially the same invention"). In other words, it is not required for
15 Finjan to assert the *same claims* or claims with *identical* terms, as Finjan argues. *See* Opp. at 4.
16 The Federal Circuit expressly rejected this argument. *See Soverain Software*, 778 F.3d at 1319
17 ("Complete identity of claims is not required to satisfy the identity-of-issues requirement for
18 claim preclusion.").

19 Finjan fails to cite a single case from the Federal Circuit and ignores the authority that
20 Qualys cited in its Motion. Instead, Finjan cites non-binding authority from the District of
21 Delaware and general Ninth Circuit cases reciting the overall standard for preclusion. But it is
22 Federal Circuit law that applies to "issues of issue preclusion that implicate substantive patent
23 law issues." *Soverain*, 778 F.3d at 1319-1320. In *Soverain*, for example, the Federal Circuit
24 applied its own standards to determine that "[t]he invalidity of the asserted claims . . . is

25
26 ² Unless stated otherwise, all emphasis in quotes is added.

27 ³ Finjan did not raise futility during the parties' meet and confer efforts.
28

1 established by issue preclusion.” *Id.* at 1320. Qualys’ proposed Second Amended Answer
2 adequately pleads preclusion under *Soverain* by alleging that the asserted claims of the ’305
3 Patent do not materially alter the question of invalidity. This is sufficient to overcome Finjan’s
4 futility arguments. In any event, Finjan’s argument that the Reexamination Claims differ in
5 scope with the asserted ’305 claim is a factual argument properly the subject of fact and expert
6 discovery and not a basis for finding futility.

7 Finjan also argues that certain of the ’305 Patent’s claims were found valid in a separate
8 Patent Office proceeding before the Patent Trials and Appeals Board (“PTAB”) in 2017. As a
9 preliminary matter, Finjan’s reliance on materials outside the pleadings is inappropriate. *See*
10 *Nordyke v. King*, 644 F. 3d 776, 799 (9th Cir. 2011) (“In evaluating whether the district court
11 should have granted the [Plaintiffs’] motion for leave to amend, therefore, we look only to facts
12 pled in the Proposed Second Amended Complaint.”). Moreover, as with the Reexamination
13 proceedings, Qualys was not a party to the PTAB’s proceedings. Accordingly, the Court should
14 not consider the PTAB’s 2017 opinion at the pleadings stage.

15 And even if the Court were to consider the PTAB materials submitted by Finjan, they do
16 not establish futility. Indeed, other than noting the existence of this other proceeding, Finjan
17 says nothing about how that proceeding bears any relevance to Qualys’ proposed preclusion
18 defense. For example, Finjan does not identify the claims, the legal issues, or the invalidity
19 theories involved there. That the Patent Office rejected some other invalidity argument in a
20 totally different proceeding says nothing about the preclusive effect of the Reexamination
21 proceedings at issue here. It is also worth noting that this other proceeding concluded in January
22 2019, months before the Federal Circuit affirmed the invalidity of the Reexamination Claims and
23 a year before the Patent Office canceled those claims through the Reexamination Certificate.
24 Those proceedings, therefore, have no bearing on Qualys’ preclusion defense.

25 In support of its futility argument, Finjan criticizes Qualys for “discuss[ing] only one
26 claim as supposedly immaterially different from an invalidated claim...”. *Opp.* at 5. But even if
27 only one asserted claim of the ’305 patent were precluded by patent exhaustion, that would
28 constitute a non-futile affirmative defense. Finjan cites no authority to the contrary.

3. Finjan Has Not Shown Prejudice

Finjan finally argues that it would be prejudiced in discovery by Qualys' preclusion defense. But Finjan fails to explain the nature of this prejudice, nor does it explain how permitting Qualys' amendment would materially increase Finjan's burden of discovery. Opp. at 7. For example, Finjan does not identify any particular claim of the '305 patent that it would have asserted had it known of the preclusion defense. In any event, discovery does not close for many months, no depositions have been taken, and there is no claim construction order.

Qualys' proposed preclusion defense is not futile, untimely, or prejudicial, and amendment allowing it should therefore be granted in the interests of justice.

B. Qualys' Exhaustion/Implied License Defenses Are Not Futile, Untimely, or Prejudicial

1. Finjan Has Not Shown Futility

As to exhaustion, Finjan does not dispute that [1] it previously authorized Trend Micro to sell its software to customers and [2] that it now accuses licensed Trend Micro software residing in Qualys' products of infringement. This alone shows Qualys' defense is not futile.

Instead, Finjan principally argues that the Trend Micro Agreement did not [REDACTED] [REDACTED] But Finjan's argument misapplies the law. Patent exhaustion focuses only on the nature of Finjan's authorization to Trend Micro. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008) ("the initial authorized sale of a patented item terminates all patent rights to that item."); *Impression Prods. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523 at 1535 (2017) ("So long as a licensee complies with the license when selling an item, the patentee has, in effect, authorized the sale. That licensee's sale is treated, for purposes of patent exhaustion, as if the patentee made the sale itself. The result: The sale exhausts the patentee's rights in that item."). Because Finjan [REDACTED] [REDACTED], Finjan's patent rights with respect to any Trend Micro software in Qualys' products are exhausted. It is immaterial whether [REDACTED] [REDACTED]

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