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A Shift Toward Fee Awards In Delaware

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The District of Delaware has been a popular venue for patent holders. Since 2008, the court has trailed only the Eastern District of Texas in the number of patent cases filed, and last year had the largest year-over-year increase in patent filings of any district.[1] There are a number of reasons — real or perceived — for this popularity, such as favorability to patentees (including overall success rates, time to trial, damages awards);[2] target companies' incorporation in Delaware and the ability of plaintiffs to maintain venue; experienced, patent-savvy judges; the likelihood of surviving summary judgment; and the availability of default discovery standards.

In addition, although perhaps not top-of-mind for patent holders deciding on venue, the court has historically been reluctant to impose fees or sanctions on losing parties. In the years before Octane Fitness,[3] which lowered the standard for exceptional case determinations under 35 U.S.C. § 285, the District of Delaware denied far more fee motions than it granted.[4] And in the first few months after Octane, the court denied the first three fee motions before it.[5]

However, on Sept.12, 2014, Judge Richard Andrews issued three separate decisions granting fees or sanctions against patent assertion entities.[6] Then, on Sept. 25, Judge Gregory Sleet imposed a fee award of almost $1.4 million against an Acacia Research Groupsubsidiary.[7] As discussed below, while these cases each involve unique sets of facts, they also appear to reflect a strident rebuke against litigation practices frequently employed by PAEs, and may signal the court's disinclination to give such litigants the "benefit of the doubt" when sorting out the collateral damage that often accompanies such tactics.

First, in Parallel Iron LLC v. NetApp Inc., the court determined that the plaintiff litigated the case "in bad faith, vexatiously, and wantonly," justifying an award of fees under the court's inherent power.[8] The plaintiff had repeatedly identified the defendant's alleged implementation of an industry standard as its infringement theory, but dropped this theory over a year after the case was filed.[9]

In considering NetApp's request for fees, the court noted that the plaintiff produced "no evidence that there was even a minimal investigation into NetApp's actual implementation" of the industry standard

before filing suit, and thus determined that the plaintiff brought the suit without a good-faith basis.[10] The court further found that by repeatedly asserting its infringement theory for over a year, the plaintiff litigated the case "via a misleading and prejudicial litigation strategy," justifying an award of fees.[11]

In Chalumeau Power Systems LLC v. Alcatel-Lucent, the court granted defendants' Section 285 motion based on its determination that the plaintiff asserted frivolous infringement theories and claim construction positions; undertook only a "semblance of a pre-suit investigation" that "was consistent with the meager effort [plaintiff] put forth in the rest of the suit"; failed to take into account a licensing defense about which defendants learned only in discovery; and disclosed its expert only days before fact discovery ended.[12] The court thus concluded that the plaintiff "filed a frivolous lawsuit with the sole purpose of extorting a settlement fee," and that its conduct allowed it "to keep its costs low while forcing [defendants] to spend considerable sums defending a frivolous lawsuit."[13]

In Vehicle Operation Technologies LLC v. American Honda Motor Co. Inc., the court granted defendants' Rule 11 motions and dismissed the actions with prejudice.[14] The court concluded that the plaintiff failed to do a reasonable presuit investigation, which would have shown that the actions were meritless based on clear disavowal of claim scope during prosecution.[15] The court further cited the plaintiff's continued litigation of the case "even after being apprised by the Defendants that the accused products could not possibly infringe."[16] The court noted that it would have also imposed monetary sanctions on plaintiffs' local counsel and outside counsel (who substituted in two days after defendants' filed their Rule 11 motions) had counsel been given adequate notice.[17]

Finally, in Summit Data Systems LLC v. EMC Corporation, the court granted NetApp's motion for fees based on the plaintiff's pursuit of an infringement theory that was foreclosed by a pre-suit license agreement.[18] Specifically, the plaintiff accused NetApp's products as used in conjunction with Microsoft software despite the fact that Microsoft Corp. had a license to the asserted patents through an agreement between the plaintiff and RPX Corp.[19]

The court further noted that the plaintiff not only pursued a baseless action, but also "delayed disclosing the existence of the Licensing Agreement for eighteen months, extracted settlements from co-defendants worth a fraction of what it would actually cost them to defend the lawsuit, and then voluntarily dismissed its claims with prejudice prior to the court issuing a ruling on the merits."[20] Accordingly, the court determined that "an award of attorneys' fees in this case is necessary to deter this sort of reckless and wasteful litigation in the future."[21]

These decisions are notable not only because they issued in such a short time span, but also because they explicitly call into question practices that have long been associated with PAEs:

Inadequate Presuit Investigation

In all four cases, the court took the plaintiff PAE to task for failure to perform an adequate prefiling investigation. Notably, in two cases, the PAE submitted documents to the court purporting to reflect a good-faith basis for bringing suit: In Parallel Iron, the plaintiff submitted claim charts and declarations stating that it performed its own extensive analysis and spent $32,000 on outside consultants;[22] in Chalumeau, the plaintiff submitted a claim chart that reflected "some semblance of a pre-suit investigation."[23] However, the court in Parallel Iron determined the claim charts and presuit analyses were insufficient, including because the $32,000 was split among at least 26 related cases.[24] And in Chalumeau, the court noted that the claim chart lumped numerous claim limitations together, which failed to demonstrate an adequate investigation.[25]

In VOT and Summit, the court did not buy the PAEs' arguments regarding the purportedly ambiguous terms of the prosecution history and license agreement, respectively. Instead, the court in VOT noted that "[w]hile patent law is certainly complicated, prosecution history disclaimer is a bedrock of the patent world."[26] In Summit, the court noted that "Summit and Acacia are in the business of patent licensing," and that "[a]t best, their argument states they were careless in reading their own multi-million dollar License Agreement."[27]

Thus, these decisions arguably reflect a shift away from the perception that PAEs can skirt a fee award by offering some minimal evidence of a presuit investigation or good-faith basis for filing.

Maintaining Baseless Litigation

Similarly, PAEs are often known for continuing to assert even meritless claims, either due to insufficient diligence as to the strength of these claims, or based on the expectation that the defendant will choose to settle for a nominal amount rather than incur the expense of litigation. These four decisions arguably reflect a reproach against such practices of keeping baseless cases alive by "str[inging] the defendant along,"[28] "turn[ing] a blind eye to the" accused products,[29] or maintaining an action in the face of an unassailable defense.[30]

Significantly, in Summit, the court, relying on Eon-Net LP v. Flagstar Bancorp, 653 F.2d 1314 (Fed. Cir. 2011), explicitly cited as a factor in its fee decision perhaps the most tried-and-true PAE practice of all — suing numerous defendants to extract "settlements worth a fraction of what the case would cost to litigate."[31] And in Chalumeau, the court cited as a factor the plaintiff's attempt to "extort[] a settlement fee," including by imposing litigation costs on the defendant while keeping its own costs low.[32] If these cases are an indication that the court will continue to hold PAEs accountable for such practices, this may hobble one of the most reliable points of leverage such entities have.

Dismissing the Action to Avoid Fees

Conversely, the cases also suggest that voluntarily dismissing a frivolous suit will not by itself allow a PAE to avoid a fee award. In Summit, the plaintiff moved to dismiss NetApp from the case with prejudice, with each party bearing its own fees and costs. NetApp, however, objected to the motion, and the court ultimately allowed NetApp to seek fees.[33] And in Chalumeau, the court was not persuaded by the plaintiff's argument that "it did the responsible thing by dismissing the case when the 'economics of the case' changed due to [the defendant's] licensing defense."[34] This suggests that PAEs may not always rely on dismissal as a safety valve for avoiding an exceptional case determination.

In sum, while these are only four decisions involving case-specific facts, it is possible that they reflect a larger judicial exasperation with PAE tactics that all too often waste court resources and inflict unnecessary costs and burdens on defendants. Indeed, in both NetApp cases, the court made clear that the fee award was intended not only to compensate the defendant, but also to deter such conduct by plaintiffs in the future.[35] And in Parallel Iron, the court noted that while it previously gave the plaintiff "the benefit of the doubt," it would not this time.[36] The decisions also reflect an effort on the part of defendants themselves to push back against PAE tactics; although not cited in the opinions, numerous amici filed briefs in the Parallel Iron and Summit cases in support of NetApp's fee motions.[37]

Ultimately, it remains to be seen whether these decisions will cause some PAEs to look elsewhere to file cases. However, it seems clear that if PAEs wish to file in Delaware, they would be well served to

adequately vet their claims before filing, and to litigate in good faith.

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Disclosure: The author and Faegre Baker Daniels are counsel to NetApp in Parallel Iron case discussed above.

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[1] See Lex Machina 2013 Patent Litigation Year in Review, at 2; Docket Navigator Patent Litigation Statistics, https://www.docketnavigator.com/stats/ (last visited Oct. 8, 2014).

[2] One study ranks the District of Delaware as the second-most favorable venue for patent holders from 1995-2013, based on these three metrics. See PWC 2014 Patent Litigation Study at 17, available at http://www.pwc.com/en_US/us/forensic-services/publications/assets/2014-patent-litigation-study.pdf.

[3] Octane Fitness LLC v ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014).

[4] Compare No. 11-799 (D.I. 130); No. 11-717 (D.I. 226); No. 11-655 (D.I. 135); No. 11-652 (D.I. 415); No. 11-313 (D.I. 344, 346); No. 11-271 (D.I. 190); No. 10-593 (D.I. 840); No. 10-315 (D.I. 273); No. 09-484 (D.I. 33); No. 09-157 (D.I. 768); No. 08-1941 (D.I. 170); No. 08-945 (D.I. 375); No. 08-408 (D.I. 203); No. 08-91 (D.I. 429); No. 07-721 (D.I. 413); No. 07-104 (D.I. 84); No. 06-369 (D.I. 305); No. 05-645 (D.I. 183); No. 05-422 (D.I. 628); No. 04-1371 (D.I. 795); No. 04-1337 (D.I. 1132); No. 04-876 (D.I. 420); No. 01-51 (D.I. 554) (denying fee motions), with No. 09-2118 (D.I. 393); No. 09-515 (D.I. 250, 279); No. 05-747 (D.I. 429); No. 03-1124 (D.I. 270) (granting fee motions).

[5] No. 13-576 (D.I. 70); No. 12-1533 (D.I. 399); No. 10-812 (D.I. 936).

[6] No. 12-769 (D.I. 91); No. 11-1175 (D.I. 178); No. 13-537 (D.I. 61).

[7] No. 10-749 (D.I. 260).

[8] No. 12-769 (D.I. 91, at 9-15).

[9] Id. at 10-11.

[10] Id. at 11-13.

[11] Id. at 10-11, 14-15.

[12] No. 11-1175 (D.I. 178, at 2-7).

[13] Id. at 7.

[14] No. 13-537 (D.I. 61).

[15] Id. at 4-14.

[16] Id. at 19.

[17] Id. at 22-26.

[18] No. 10-749 (D.I. 260).

[19] Id. at 5-6.

[20] Id. at 8.

[21] Id. at 9.

[22] No. 12-769 (D.I. 91, at 11-15).

[23] No. 11-1175 (D.I. 178, at 3-4).

[24] No. 12-769 (D.I. 91, at 15).

[25] No. 11-1175 (D.I. 178, at 4).

[26] No. 13-537 (D.I. 61, at 21).

[27] No. 10-749 (D.I. 260, at 7).

[28] No. 12-769 (D.I. 91, at 11).

[29] No. 13-537 (D.I. 61, at 19).

[30] No. 11-1175 (D.I. 178, at 6-7); No. 10-749 (D.I. 260, at 6-7).

[31] No. 10-749 (D.I. 260, at 7-8).

[32] No. 11-1175 (D.I. 178, at 7).

[33] No. 10-749 (D.I. 260, at 3-4).

[34] No. 11-1175 (D.I. 178, at 1, 6-7).

[35] No. 12-769 (D.I. 91, at 15); No. 10-749 (D.I. 260, at 9).
[36] No. 12-769 (D.I. 91, at 15 n.9).

[37] No. 12-769 (D.I. 79); No. 10-749 (D.I. 257).
