



Avoiding Sanctions and Exceptional Case Determinations in Patent Litigation in the Wake of Octane Fitness

Seminar Topic: This material provides an in-depth examination of the process and procedure of sources of liability for pursuing patent litigation, specific examples of conduct that have been sanctioned, and methods for insulating attorneys and clients from liability for losing a patent litigation.

This material is intended to be a guide in general and is not legal advice. If you have any specific question regarding the state of the law in any particular jurisdiction, we recommend that you seek legal guidance relating to your particular fact situation.

The course materials will provide the attendee with the knowledge and tools necessary to identify the current legal trends with respect to these issues. The course materials are designed to provide the attendee with current law, impending issues and future trends that can be applied in practical situations.





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Education

New York University School of Law

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Major: Mechanical and Aerospace Engineering

Notable Representations

Represented Chicago financial services and expert services firm at trial against former partner and managing director in complex litigation involving claims for breach of royalty agreement, breach of operating agreement, tortious interference with prospective business advantage, and misappropriation of trade secrets.

Defended generic pharmaceutical company against allegations by major US pharmaceutical company of breach of confidentiality agreement and trade secret misappropriation concerning extended release liquid suspension formulations, defeating plaintiff's motion for preliminary injunction, obtaining summary judgment for client, and successfully defending appeal.

Defended major Indian generic pharmaceutical company and US subsidiary against allegations by major US generic pharmaceutical company of breach of non-compete agreement and trade secret misappropriation concerning transdermal patches.

Defended major Midwestern US grocery chain against allegations of infringement of patent on electronic coupons, obtaining favorable settlement.

Represented software patent owner at Federal Circuit in appeal of summary judgment of invalidity based on unpatentable subject matter and indefiniteness.



Represented owner of patent on virtual reality camera rig technology in infringement lawsuits against major California and Chinese photography companies.

Represented owner of Internet of Things (“IoT”) patents in infringement lawsuit against Fortune 50 logistics company.

Represented, pro bono, multiple parents wrongly indicated for child neglect by the Illinois Department of Children and Family Services; obtained ruling striking down Illinois DCFS regulation with overbroad definition of “inadequate supervision.” Received the Family Defense Center’s Outstanding Individual Pro Bono Service Award in 2016 for these representations.

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Table of Contents

Contents

Table of Contents	5
Timed Agenda:	7
Avoiding Sanctions and Exceptional Case Determinations in Patent Litigation in the Wake of Octane Fitness	9
CLE Presentation for ApexCLE	9
February 15, 2019	9
Brian Beck, Esq.	9
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(312) 346-1100.....	9
Why Worry About Patent Litigation Due Diligence?	9
Outline	10
Antitrust Law and General Immunity for Litigation	10
Sham Litigation and Antitrust Law	11
The Professional Real Estate Two-Prong Test	11
The Professional Real Estate Two-Prong Test	11
The Walker Process Exception to Antitrust Immunity	12
The Walker Process Standard.....	12
Walker Process After Therasense?	13
Liability for Antitrust Violation	13
Exceptional-Case Findings	14
The Old Exceptional-Case Standard: Equivalent to “Sham Litigation”	14
The New Exceptional-Case Standard: Octane Fitness, LLC v. ICON Health & Fitness, Inc.	15
Fed. R. Civ. P. 11	15
Major qualifications to Rule 11	16
Rule 11 is Pleading-Specific	16
Specific Patent Issues Resulting in Liability	17
Patent Ownership.....	17
Patent Expiration	18
Failure to Investigate Infringement.....	18
Meritless Claim Construction	18
Meritless Claim Construction by Defendant	19
Unpatentable Subject Matter	19

Invalidating Prior Art	20
Section 112 Issues	20
Inequitable Conduct.....	20
Litigation Misconduct.....	20
Avoiding Exceptional-Case Findings and Sanctions	20
Pre-filing Memorandum Contents	21
Using the Pre-filing Memorandum.....	21
Updating Your Memorandum	22
Filing a Complaint on Probable Cause	22
Avoiding Litigation Misconduct	23

Timed Agenda:

Time	Description
00:00:00	Program Start
0:00:21	Avoiding Sanctions and Exceptional Case Determinations in Patent Litigation in the Wake of Octane Fitness
0:03:10	Why Worry about Patent Litigation due Diligence?
0:03:44	In re Rembrandt Technologies LP Patent Litigation, 899 F.3d 1254 (Fed. Cir. 2018)
0:05:34	Antitrust Law
0:08:09	Sham Litigation
0:10:03	The Professional Real Estate Two-Prong Test
0:11:06	The Walker Process Exception to Antitrust Immunity
0:12:32	Pre-Therasense (2011)
0:14:14	Walker Process After Therasense?
0:18:16	Liability for Antitrust Violation
0:22:28	The New Exceptional-Case Standard
0:25:23	Fed. R. Civ. P. 11
0:28:45	Patent Ownership
0:30:18	Carl Zeiss Vision International GmbH v. Signet Armorlite, Inc.,
0:34:58	Patent Expiration
0:36:55	Failure to Investigate Infringement
0:40:26	Roxane Labs., Inc. v. Camber Pharms. Inc.,
0:47:01	Unpatentable Subject Matter
0:49:27	Invalidating Prior Art
0:55:51	Section 112 Issues
0:58:36	Inequitable Conduct
1:02:23	Litigation Misconduct

1:04:14	Progressive Int'l Corp. v. AMGTM LLC,
1:07:31	Pre-filing Memorandum Contents
1:11:50	Using the Pre-filing Memorandum
1:14:01	Using the Pre-filing Memorandum
1:16:42	Avoiding Litigation Misconduct
1:19:36	Program End

Avoiding Sanctions and Exceptional Case Determinations in Patent Litigation in the Wake of Octane Fitness

CLE Presentation for ApexCLE

February 15, 2019

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Why Worry About Patent Litigation Due Diligence?

Sham litigation antitrust claims: *Shuffle Tech Int'l, LLC v. Scientific Games Corp.*, No. 15-cv-3702 (N.D. Ill.)

In August 2018, a jury returned a \$315 million verdict against the defendants for initiating a frivolous patent lawsuit to control the market for automatic card-shufflers.

Exceptional case findings under 35 U.S.C. § 285: *In re Rembrandt Technologies LP Patent Litigation*, 899 F.3d 1254 (Fed. Cir. 2018)

The district court awarded the defendant \$51 million in attorney fees after entering an exceptional-case finding. The Federal Circuit vacated the total amount, but remanded for the

district court to determine how much of the fees were connected to the misconduct.

Sanctions: *Iris Connex, LLC v. Dell, Inc.*, 235 F. Supp. 3d 826 (E.D. Tex. 2017)

Where plaintiff's infringement theory was not objectively reasonable and plaintiff attempted to structure its business to evade liability, plaintiff's owner was sanctioned under the court's inherent power and ordered to pay \$152,000; plaintiff's attorney was personally sanctioned under Rule 11.

Outline

Sources of liability for pursuing patent litigation.

Specific examples of conduct that have been sanctioned.

Methods for insulating attorneys and clients from liability for losing a patent litigation.

Antitrust Law and General Immunity for Litigation

Filing a lawsuit is generally protected by the First Amendment

The *Noerr-Pennington* doctrine generally holds that the Sherman Act does not prohibit businesses from petitioning the government for legal action that would result in monopoly or in restraining a competitor.

Sham Litigation and Antitrust Law

But there is an exception for “sham litigation.”

Petitioning the government does not have immunity if the activity “ostensibly directed toward influencing governmental action, is a mere sham to cover . . . an attempt to interfere directly with the business relationships of a competitor.”

Eastern R. R. Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 144 (1961).

The Supreme Court established the standard for determining a “sham litigation” in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993).

The Professional Real Estate Two-Prong Test

Litigation activity is a “sham,” and thus not immune from antitrust liability, if:

1. The litigation is “objectively baseless,” meaning that “no reasonable litigant could realistically expect success on the merits.”

2. The litigant’s “subjective motivation” in filing the lawsuit is “‘an attempt to interfere directly with the business relationships of a competitor’ through the ‘use [of] the governmental *process*—as opposed to the *outcome* of that process—as an anticompetitive weapon.”

Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49, 60-61 (1993).

The Professional Real Estate Two-Prong Test



This is an extremely strict test!

Cases meeting the *Professional Real Estate* “objectively baseless” and “subjective motivation” test are extremely rare.

The Walker Process Exception to Antitrust Immunity

Separately from the “sham litigation” exception, the Supreme Court also established an exception to antitrust immunity for litigation to enforce a patent that was obtained “by knowingly and willfully misrepresenting facts to the Patent Office.”

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172, 177 (1965).

The Walker Process Standard

Under the Federal Circuit’s pre-*Therasense* (2011) law on inequitable conduct, a patent could be unenforceable as procured by inequitable conduct merely if:

1. The patentee was grossly negligent or even ordinarily negligent in not disclosing a material reference to the PTO, and
2. A withheld reference is “material” if “there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent.”

The old inequitable conduct standard was much broader than “fraud,” and so the Federal Circuit held that inequitable conduct without “intentional fraud” did not create a *Walker*

Process claim. Argus Chemical Corp. v. Fibre Glass-Evercoat Co., Inc., 812 F.2d 1381

Walker Process After Therasense?

In *Therasense, Inc. v. Becton, Dickinson & Co.*, 659 F.3d 1276 (Fed. Cir. 2011) (en banc), the Federal Circuit put much stricter limits on inequitable conduct.

Therasense held that the standards for “intent to deceive” and “materiality” are:

Intent: “the accused infringer must prove that the patentee acted with the specific intent to deceive the PTO.”

Materiality: “prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art.”

Note that the *Therasense* standard for inequitable conduct looks a lot more like the *Walker Process* “intentional fraud” standard.

Does inequitable conduct post-*Therasense* automatically invoke the *Walker Process* exception? The Federal Circuit suggested in dicta that it does in *TransWeb, LLC v. 3M Innovative Properties Co.*, 812 F.3d 1295, 1307 (Fed. Cir. 2016).

Liability for Antitrust Violation

A judgment of antitrust violation will result in an award of treble damages plus reasonable attorney fees. 15 U.S.C. § 15(a).

Exceptional-Case Findings

“The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285.

This is separate from, but sometimes connected to, the treble damages for willful infringement under 35 U.S.C. § 284.

The Old Exceptional-Case Standard: Equivalent to “Sham Litigation”

The standard for an exceptional-case finding used to be extremely strict:

Either there must have 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,” or

The litigation must have been (1) “brought in subjective bad faith” and (2) “objectively baseless.”

Brooks Furniture Mfg., Inc. v. Dutailier Intern., Inc., 393 F.3d 1378, 1381-82 (Fed. Cir. 2005)

In other words, the case had to fall under either the *Walker Process* or *Professional Real Estate* exceptions to antitrust immunity, or involve a limited set of other forms of misconduct.

The New Exceptional-Case Standard: Octane Fitness, LLC v. ICON Health & Fitness, Inc.

The Supreme Court, in 2014, explicitly overturned *Brooks Furniture*.

“An ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014).

This finding is entirely at the district court’s discretion!

The prevailing party need not prove that a case is “exceptional” by clear and convincing evidence!

Opened the floodgates for district court exceptional-case findings.

Fed. R. Civ. P. 11

By signing a pleading or motion, the attorney represents to the court that “to the best of the person’s knowledge, information, and belief, formed after an inquiry reasonable under the circumstances:

- (1) it is not being presented for any improper purpose . . . ,
- (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
- (3) the factual contentions have evidentiary support, or if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and

(4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information.

Major qualifications to Rule 11

Rule 11 allows good-faith, non-frivolous arguments to change or reverse existing law.

Rule 11 allows parties to make factual contentions lacking existing evidentiary support if identified, and if the attorney believes the contention will likely have evidentiary support after discovery.

Rule 11 allows parties to deny factual contentions based on lack of information.

Rule 11 is Pleading-Specific

Complaints can be pled “on information and belief,” based on a reasonable belief that evidence will be found in discovery.

Summary judgment motions and oppositions, if not premature, require evidentiary support.

Other motions or oppositions just require a good faith legal and factual argument; even a long-shot argument shouldn’t be sanctioned.

Specific Patent Issues Resulting in Liability

Patent basics

Ownership/standing

Expiration date

Infringement

Lack of evidence of infringement

Lack of a good-faith basis for arguing non-infringement

Invalidity

Section 101 – Unpatentable Subject Matter after *Alice*

Section 102/103 – Known invalidating prior art

Section 112

Inequitable Conduct

Litigation Misconduct

Patent Ownership

Failure to adequately investigate patent ownership can be a basis for sanctions or an exceptional case finding.

Where the plaintiff alleged a chain of title for the patent that depended on an oral assignment, then changed its argument to rely on an assignment executed after the filing of the complaint, the court awarded attorney fees and costs and limited damages to those accruing after a new complaint is filed. *Carl Zeiss Vision International GmbH v. Signet Armorlite, Inc.*, No. 07-cv-894, 2009 WL 10668689 (S.D. Cal. Mar. 17, 2009).

But good faith assertion of a theory of standing that the court rejects is not a basis for sanctions.

Patent Expiration

It is fairly rare that a patent plaintiff alleges infringement of an expired patent, but doing so can result in sanctions.

Plaintiff filed suit in 2012 alleging infringement of a patent that expired in 2002. The District Court granted a motion to dismiss and a motion for Rule 11 sanctions, barring the plaintiff from filing future patent infringement actions without first obtaining leave of court. The Federal Circuit affirmed. *Hemphill v. Johnson & Johnson*, 550 Fed. App'x 890 (Fed. Cir. 2014)

Failure to Investigate Infringement

Probably the most common situation where plaintiffs are sanctioned for bringing frivolous patent lawsuits is where they fail to adequately investigate infringement.

Where counterclaim-plaintiff filed counterclaims for infringement of eight patents without performing any independent claim construction analysis or written infringement analysis, the district court imposed sanctions under Rule 11 and the Federal Circuit affirmed. *View Eng'g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981 (Fed. Cir. 2000).

Meritless Claim Construction

Courts have repeatedly entered exceptional-case findings where plaintiffs' only argument for infringement required an absurd or frivolous claim construction position.

Where a pharmaceutical patent claim limitation required a capsule size of "size 00 or less," and the accused product was a size 00el capsule that was larger, no intrinsic evidence supported plaintiff's claim construction argument that "size 00" meant "the capsule size family consisting of size 00 and

size 00el.” The district court found the case exceptional and awarded defendants almost \$2 million in attorney fees.

Roxane Labs., Inc. v. Camber Pharms. Inc., No. 14-cv-4042, 2017 WL 1356324 (D.N.J. Apr. 12, 2017).

Meritless Claim Construction by Defendant

Defendants must ensure their claim construction positions are reasonable as well.

Claim construction briefing is subject to Rule 11; also, reliance on a frivolous claim construction position as a basis for non-infringement weighs in favor of a finding of willful infringement.

Saint-Gobain Autover USA, Inc. v. Xinyi Glass N. Am., Inc., 707 F. Supp. 2d 737 (N.D. Ohio).

Unpatentable Subject Matter

After *Alice*, some courts have found exceptional cases where plaintiffs were unable to provide a reasonable answer to an early motion to dismiss for lack of patentable subject matter.

Despite the presumption of validity, the Eastern District of Texas found a patent generally claiming the abstract idea of storing and labeling information so weak that “no reasonable litigant could have reasonably expected success on the merits when defending against the numerous § 101 motions filed in

this case.” *eDekka LLC v. 3balls.com, Inc.*, No. 2:15-cv-541, 2015 WL 9225038 (E.D. Tex. Dec. 17, 2015).

Note that in the *eDekka* case, the district court also noted the plaintiff’s history of filing similar lawsuits against over 200 defendants and securing nuisance settlements.

See also Judge Mayer’s concurrence in *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Services, Inc.*, 858 F.3d 1383, 1391 (Fed. Cir. 2017).

Invalidating Prior Art

Plaintiffs are not required to independently search for prior art before filing a lawsuit, but they must have a legal or factual basis for arguing the patent’s validity in view of any prior art of which they are aware.

Where defendant put plaintiff on notice of prior art and plaintiff’s counsel failed to analyze the prior art, the Federal Circuit held it was an abuse of discretion for the district court not to consider that fact as supporting an exceptional-case determination. *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Services, Inc.*, 858 F.3d 1383, 1388-89 (Fed. Cir. 2017).

Section 112 Issues

Inequitable Conduct

Litigation Misconduct

Avoiding Exceptional-Case Findings and Sanctions

Three keys:
Prepare a thorough pre-filing memorandum.
Reassess or update your memorandum if case-destroying evidence arises.
Comply with discovery and court rules – don't be a jerk.

Pre-filing Memorandum Contents

Standing - Does the plaintiff have a good chain of title to the patent? Is the plaintiff an assignee or exclusive licensee?

Timing – Has the patent expired? Are the plaintiff's infringing actions within the 6 year statute of limitations?

Infringement – The most important part!

Prepare claim charts. You'll probably have to anyway for infringement contentions.

Address any claim construction issues requiring something other than ordinary meaning.

Invalidity

Address 101 issues in detail if the patent is for a technology likely to face a 101 challenge; *i.e.*, software, business methods, pharmaceutical method of treatment.

Address any known prior art from patent prosecution and from other litigation (if the patent was previously litigated)

Address any obvious 112 issues.

Using the Pre-filing Memorandum

A pre-filing memorandum is typically attorney work product, not even shared with the client. It is privileged.

It should not be produced unless necessary to challenge an exceptional-case or sanctions motion.

Courts will generally permit filing a pre-filing memorandum *in camera* to preserve privilege. Check your local rules and specific judge's procedures for doing so.

Even when filing *in camera*, if possible, redact any portion of the pre-filing memorandum not relevant to the exceptional-case or sanctions motion.

Updating Your Memorandum

If a subsequent event in litigation kills your case, you may need to move to dismiss your own case or quickly settle.

Examples:

Defendant produces detailed information about the accused product or process showing that it indisputably does not infringe.

Defendant produced previously unknown anticipating prior art that you have no legal or factual basis for challenging.

If Defendant claims to produce such evidence, and you have a legal or factual basis for continuing the case, update your pre-filing memorandum to state that basis!

Filing a Complaint on Probable Cause

You may file a complaint for patent infringement based on probable cause that a defendant is infringing, expecting that discovery will produce direct evidence of infringement.

Example: Plaintiff believes for good reason that the accused product cannot be manufactured without using the patented method.

In this situation, considering contacting the defendant to discuss settlement prior to serving the complaint. If the defendant produces definitive evidence of non-infringement prior to service, you can voluntarily dismiss under Rule 41(a)(1)(A)(i) with greatly reduced risk of sanctions or an exceptional-case determination.

Avoiding Litigation Misconduct

This could be an entire separate CLE, but any practicing attorney should know the basics.

Know and follow the Federal Rules, the Local Rules, and your specific judge's standing orders.

Don't be a jerk, and don't annoy the judge with time-wasting unnecessary motion practice, inadequate discovery responses, or poor lawyering in general.

Even aside from the risk of sanctions, you probably should try to avoid angering your judge.