

Use Of Rule 11 And Section 285 Against NPEs May Increase

Law360, New York (March 13, 2013, 11:38 AM ET) -- On Dec. 7, 2012, a Federal Circuit panel held that patent-holding company Raylon LLC must be sanctioned for filing a frivolous patent suit against Complus Data Innovations Inc., Casio America Inc., Fujitsu Japan Ltd. and 10 others. Notably, the Federal Circuit reversed the district court's refusal to award sanctions based solely on the unreasonableness of the plaintiff's proposed claim construction.

Raylon is the latest in a series of cases that demonstrate an increased willingness by the district courts and the Federal Circuit to take plaintiffs to task for overreaching claim construction positions. Depending on the circumstances, the courts have used § 285, Rule 11, or both as means to reign in baseless claims.

Raylon is the assignee of U.S. Patent No. 6,655,589 (the "'589 patent"), which is directed to a hand-held ticketing device into which a user (like a parking enforcement officer) can enter a person's information and generate a ticket. Among other features, the patent describes a housing with an input assembly for entering data, an elongated slot for receiving identification information from cards with a magnetic tape, a printer assembly "being mounted in said interior of said housing" for printing tickets, and a "pivotally mounted" display screen on the housing. One claimed improvement provided by the invention — specifically, through use of the pivotally mounted display — is allowing a user to maintain visual contact with the individual being ticketed throughout the identification and ticketing process.

It was undisputed that the defendants' products all have fixed displays that do not pivot in relation to the housing. Some of the accused products also lacked a built-in printer. Undeterred by these details, Raylon sued in the U.S. District Court for the Eastern District of Texas, and at claim construction, argued that the term "display being pivotally mounted on said housing" meant "an electronic device attached to a housing for the visual presentation of information, the display capable of being moved or pivoted relative to the viewer's perspective."

In other words, a fixed-screen display would meet this limitation because a user can pivot the entire device by moving his or her arm. Raylon also took the position that the limitation "a printer assembly being mounted in said interior of said housing" covered printer assemblies in completely separate housings — unattached to the device in question — despite the use of "said" in the claims.

The defendants moved for summary judgment, for Rule 11 sanctions, and for attorney's fees and costs under 28 U.S.C. §§ 285. The district court rejected Raylon's constructions, and allowed the motions for summary judgment. Although it found that Raylon's claim constructions "stretched the bounds of reasonableness," the district court denied the motion for sanctions.

On the defendants' appeal, the Federal Circuit held that Raylon's arguments exceeded the bounds of reasonableness. Applying Fifth Circuit law, the court held that Raylon's maintenance of its claim construction position was "a clear instance where no objectively reasonable litigant ... would believe its claim construction could succeed" and that "Raylon's claim construction [was] frivolous and sanctionable under Rule 11(b)(2)." In addition, Raylon's infringement claim against Defendant Symbol Technologies Inc. was deemed to be an independent violation of Rule 11, as Symbol's products lack a printer entirely. The case was remanded for a determination of appropriate sanctions and for a determination of whether the case was exceptional under § 285.

Objectively Unreasonable Claim Construction Positions Are Sanctionable

As Raylon and other recent Federal Circuit cases show, courts use both § 285 and Rule 11 to sanction overreaching claim construction positions.

Rule 11 requires attorneys to certify that a pleading or other paper is not being presented for an improper or frivolous purpose. Whether sanctions are appropriate under Rule 11 is assessed according to the law of the regional circuit. On the other hand, § 285 is assessed under Federal Circuit law. Section 285 sanctions may be awarded in the discretion of the court if there has been litigation misconduct or if a case is considered exceptional. A case is exceptional if (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless (where no reasonable litigant could reasonably expect success on the merits).

In *Highmark Inc. v. Allcare Health Management Sys. Inc.*, 687 F.3d 1300 (2012), the Federal Circuit affirmed an award of § 285 sanctions based on the patentee's proffered claim construction arguments, which were (1) that the preamble to a given claim was not limiting, and (2) if it was limiting, it did not require patient/employer interaction. The Federal Circuit held that the preamble of the claim was clearly limiting because certain limitations in the body of the claim expressly derive antecedent basis from it. The court also held that the patent specification is full of explicit statements about the invention allowing for the integration and connection of, among other entities, the patient and employer. The patentee's contrary constructions were objectively unreasonable, as were the infringement claims based on those constructions. The court held also that the infringement claims were subjectively unreasonable — the patentee either knew or should have known that its allegation of infringement was unreasonable.

Similarly, in *MarcTec LLC v. Johnson & Johnson*, 664 F.3d 907 (Fed. Cir. 2012), the court affirmed an award of § 285 sanctions where the patentee's proposed claim construction ignored the specification and prosecution history, and thus "was so lacking in any evidentiary support that the assertion of this construction was unreasonable and reflects a lack of good faith." The patentee argued that the court should focus on the claim language itself and only look to the specification if there is ambiguity in that language — a position which the court viewed as directly contrary to the claim construction canons set forth in *Philips v. AWH Corp.*, 415 F.3d 1303, 1309 (Fed. Cir. 2005).

Also, in order to overcome certain prior art during prosecution, the patentee argued that the claims excluded stents, but in litigation argued the defendant's stents infringed: ignoring the statements made in prosecution that were fatal to that infringement claim. The Federal Circuit held that "no reasonable application of [claim construction principles] supports [the patentee's] position," and agreed that the patentee's proposed claim construction was subjectively frivolous and objectively baseless.

Eon-Net LP et al. v. Flagstar Bancorp, 653 F.3d 1314 (Fed. Cir. 2011), was just one of over 100 lawsuits that had been filed on behalf of patent-holding company Eon-Net. Almost all of those cases resulted in early settlements or dismissals. In this case, Eon-Net asserted claim constructions whereby its claimed process for inputting information from a document, storing that information, and formatting the information for use by a computer program encompasses information derived from a “computer file embodiment.”

However, there was no computer file embodiment disclosed in the written description, and Eon-Net’s proposed construction was contrary to the consistent definition of the invention — not just specific embodiments or examples — as a system that processes information derived from only hard copy documents. The Federal Circuit held that Eon-Net’s unsupported claim construction buoyed the finding that Eon-Net pursued objectively baseless infringement claims, and affirmed the award of attorney’s fees and costs under § 285 and sanctions under Rule 11.

The Federal Circuit has made it clear that claim construction is often difficult, complex, and resolutions are not always predictable. “Reasonable minds can differ as to claim construction positions and losing constructions can nevertheless be non-frivolous. But these cases demonstrate that there is an enforceable threshold below which a claim construction is so unreasonable that no litigant could believe it would succeed ... and thus warrants Rule 11 sanctions.” Raylon, at *15.

The Subjective § 285 Sanctions Standard and Nonpracticing Entities

The nature of the sanctions analysis, particularly under § 285, should give pause to overzealous patentees — and to nonpracticing entities in particular. The analysis of the second prong of § 285 is comprehensive and should consider the entire record of whether the patentee is manifestly unreasonable in assessing and pressing its infringement allegations. Raylon, at *22; Highmark, 687 F.3d at 1311. Proliferation of similar or identical claims and quick settlements — both characteristics of many suits by non-practicing entities, are relevant factors in the sanctions analysis.

Having found that unreasonable claim construction positions demonstrated that the litigation was objectively baseless, in Eon-Net the Court assessed the second prong of § 285. The factors considered in Eon-Net included: the patentee’s history of “filing nearly identical patent infringement complaints against a plethora of diverse defendants, [followed by] a demand for quick settlement at a price far lower than the cost to defend the litigation”; the patentee’s ability to impose disproportionate discovery costs on accused infringers; and the fact that the patentee, as a nonpracticing entity, was generally immune to counterclaims for infringement, antitrust or unfair competition. Eon-Net, 653 F.3d at 1326-28.

In concurrence with the Raylon court, Judge Jimmie Reyna also relied on the patentee’s claim construction positions as evidence of objectively baseless litigation, and then turned to the subjective analysis. He noted that one purpose of § 285 was to “deter the improper bringing of clearly unwarranted suits,” and to “address conduct in general, because § 285 recognizes the particular strain that meritless patent litigation bears on judicial and party resources.” Raylon, at *29.

Defending Cases Involving Speculative Claims and Claim Construction

In cases filed by NPEs, defending and winning can be a loss in itself: The costs of defense often can render an early exit a greater success than a hard-fought win. However, cases like Raylon, Eon-Net, Highmark and MarcTec provide routes by which defendants facing clearly baseless allegations might come out ahead.

First, there is an opportunity for cost control. In *Eon-Net*, the court stayed all discovery that did not relate to claim construction issues. Often discovery costs, or the threat thereof, will increase the nuisance value that an accused infringer would be willing to settle for. Convincing the court that a stay, or phased discovery, is appropriate both keeps costs down and places an early focus on claim construction, which may be outcome-determinative.

Second, the concurrence in *Raylon* teaches that “[r]ecognition of the objectively weak [claim construction] contentions was basis enough to further inquire as to bad faith.” *Raylon* at *33. In litigation involving many defendants, the chances that the patentee will have missed material differences in the accused products is increased (for instance, the fact that one defendant in *Raylon* did not have the claimed printer). Once the court’s attention is seized by an objectively baseless position, the door may open for a closer look at subjective bad faith under a § 285 analysis.

Finally, a defendant that realizes significant holes exist in a patentee’s infringement contentions or claim construction positions is advised to put the patentee on notice early. This has the dual benefit of potentially deterring the patentee from pressing on, or laying the groundwork for a future sanctions motion. In both the *Raylon* opinion and its concurrence, the court focused on the early notice the defendants provided to the patentee — via letter and summary judgment motions — that its claims and positions were frivolous. Where, as in *Raylon*, the patentee continues to push forward with unreasonable positions after being put on notice of potential Rule 11 or § 285 consequences, the court may be more likely to find the patentee’s allegations were made in bad faith.

--By Carlos Perez-Albuerne and Michael Murawski, Choate Hall & Stewart LLP

Carlos Perez-Albuerne is a partner and Michael Murawski is an associate in the intellectual property litigation group at Choate in Boston.

The opinions expressed are those of the authors and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

All Content © 2003-2013, Portfolio Media, Inc.