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Lawyers Acting Badly, or Not? Misconduct in IP Litigation: Recent Examples and the Issues They Raise

Lisa A. Dolak*

Misconduct in civil litigation is not a new phenomenon.¹ Nor is it confined to particular types of cases. Because of their characteristic intensity,² however, intellectual property cases may be more likely to inspire bad behavior than other types of cases. In patent cases, in particular, often much is at stake for both counsel³ and client.⁴ The potential outcomes range from a judgment for the patent owner, potentially including trebled lost profits,⁵ a permanently enjoined infringer⁶ and even an attorneys' fees award,⁷ to a ruling that the asserted patent is

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¹ See Maurice Rosenberg, *Sanctions to Effectuate Pretrial Discovery*, 58 COLUM. L. REV. 480, 484-89 (1958) (discussing judicial sanctions rulings from the 1930s, 1940s, and 1950s).

² See, e.g., Hon. Elizabeth D. Laporte, *Managing the Runaway Patent Case*, 964 PLI/PAT 935, 938 (2009) ("The reasons for the intensity of patent litigation may range from the enormous economic stakes and competitive issues often involved to the lure of the heightened prospect of reversal on appeal when key issues are routinely reviewed *de novo*.").

³ See, e.g., Jerry A. Riedinger, *IP Ethics Potpourri--Commonly Arising Ethical Issues in Intellectual Property*, 947 PLI/PAT 1257, 1272 (2008) ("Patent litigation often involves extremely valuable property, and high stakes, bet-the-company issues. Attorney fees frequently exceed multiple millions. Success can lead a patent litigator to ever more lucrative engagements, while failure can materially hinder an attorney's career.").

⁴ See, e.g., *id.* at 1261 ("Much is at stake in IP litigation, especially patent litigation. The high stakes lead to bitter fights, lost tempers and a desire to win-at-all costs."); ALAN L. DURHAM, *PATENT LAW ESSENTIALS: A CONCISE GUIDE* x (Quorum Books 1999) ("In no other area of civil litigation are the potential rewards for the victor more abundant or the penalties for the loser more catastrophic.").

⁵ As discussed, for example, in *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1362 (Fed. Cir. 2001), lost profits are available under particular circumstances pursuant to 35 U.S.C. § 284, which provides, in relevant part:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

⁶ Pursuant to 35 U.S.C. 283, "[t]he several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." See also *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006) (holding that permanent injunctions are available in patent cases in accordance with "well-established principles of equity").

⁷ See *infra* note 21 and accompanying text.

partly or entirely invalid,⁸ or even unenforceable,⁹ with the patent owner ordered to pay the infringement defendant's attorneys' fees.¹⁰ And the complexity and potential intensity only increase when multiple patents and/or multiple accused products are involved. The associated pressures seem, on occasion, to lead litigants and trial lawyers to succumb to the temptation to step outside the bounds of vigorous advocacy.¹¹

The trial judges in each of the recent IP cases discussed herein wrestled with the issue of whether certain litigation tactics crossed the line between advocacy and abuse. The decisions contend with a range of conduct, occurring at various phases of litigation. In several, the trial courts' decisions to sanction were reversed or modified on appeal or reconsideration. Accordingly, these cases shed light on a question which challenges courts, litigants and trial counsel: when it comes to zealous advocacy,¹² how much zeal is too much zeal?¹³

SANCTIONING MISBEHAVIOR IN INTELLECTUAL PROPERTY CASES

Parties and their counsel can be sanctioned under Fed.R.Civ.P. 11 for "presenting" – including "later advocating" – pleadings or other papers that include allegations unsupported by law or evidence.¹⁴ As illustrated by the cases discussed below, however, recent IP litigation has generated significant sanctions litigation implicating other law governing misconduct in federal court,¹⁵ including some law specific to patent cases.

By way of background, discovery misconduct, such as unjustifiably certifying disclosures as complete or otherwise evading disclosure obligations, can be punished pursuant to

⁸ See, e.g., *ALZA Corp. v. Andrx Pharm., LLC*, 603 F.3d 935, 936 (Fed. Cir. 2010) (affirming a judgment that the asserted claims are invalid for lack of enablement).

⁹ See, e.g., *Avid Identification Sys., Inc. v. Crystal Import Corp.*, 603 F.3d 967, 977 (Fed. Cir. 2010) (affirming a judgment of unenforceability for inequitable conduct).

¹⁰ See *infra* note 21 and accompanying text.

¹¹ See Riedinger, *supra* note 3, at 1261 ("Because litigation – like most legal practice – is based upon an honor system, IP litigation produces great temptation to shave ethical corners.").

¹² MODEL RULES OF PROF'L CONDUCT Preamble 2 ("As advocate, a lawyer zealously asserts the client's position under the rules of the adversary system.").

¹³ Although sanctions for litigation misconduct are available against both parties and counsel under various provisions and legal theories, the primary focus of this paper is the conduct of counsel. Accordingly, the decisions selected for discussion herein involved trial court rulings sanctioning counsel for litigation misconduct or rulings against parties for conduct involving the participation of counsel.

¹⁴ Fed.R.Civ.P. 11(b) and (c).

¹⁵ Patent and copyright cases are in the exclusive jurisdiction of the federal courts, but even when not required to do so, most intellectual property plaintiffs choose federal court. See, e.g., Steve Malin, *Litigating Intellectual Property Disputes in Texas State Court*, 12 TEX. INTELL. PROP. L.J. 473, 474 (2004); Note, *How the Spending Clause Can Solve the Dilemma of State Sovereign Immunity from Intellectual Property Suits*, 51 DUKE L.J. 713, 743-44 (2001).

Fed.R.Civ.P. 26(g)¹⁶ and 37.¹⁷ An attorney “who so multiplies the proceedings in any case unreasonably and vexatiously” can be sanctioned pursuant to 28 U.S.C. § 1927.¹⁸ And the federal courts also have the “inherent power” to sanction parties and counsel for bad faith litigation conduct.¹⁹ Attorney fee awards are available under each authority.²⁰

In patent cases found “exceptional”, “prevailing part[ies]” may be awarded “reasonable attorney fees.”²¹ In addition, as noted below, the U.S. Court of Appeals for the Federal Circuit

¹⁶ Fed.R.Civ.P. 26(g)(1) requires that:

[e]very disclosure under Rule 26(a)(1) or (a)(3) and every discovery request, response, or objection must be signed by at least one attorney of record in the attorney's own name — or by the party personally, if unrepresented — and must state the signer's address, e-mail address, and telephone number. By signing, an attorney or party certifies that to the best of the person's knowledge, information, and belief formed after a reasonable inquiry:

- (A) with respect to a disclosure, it is complete and correct as of the time it is made; and
- (B) with respect to a discovery request, response, or objection, it is:
 - (i) consistent with these rules and warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law, or for establishing new law;
 - (ii) not interposed for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation; and
 - (iii) neither unreasonable nor unduly burdensome or expensive, considering the needs of the case, prior discovery in the case, the amount in controversy, and the importance of the issues at stake in the action.

Regarding sanctions, Fed.R.Civ.P. 26(g)(3) provides: “[i]f a certification violates this rule without substantial justification, the court, on motion or on its own, must impose an appropriate sanction on the signer, the party on whose behalf the signer was acting, or both. The sanction may include an order to pay the reasonable expenses, including attorney's fees, caused by the violation.”

¹⁷ Fed.R.Civ.P. 37 provides in relevant part:

If a party fails to provide information . . . as required by Rule 26(a) or 26(e), . . . the court, on motion and after giving an opportunity to be heard:

- (A) may order payment of the reasonable expenses, including attorney's fees, caused by the failure;
- (B) may inform the jury of the party's failure; and
- (C) may impose other appropriate sanctions, including any of the orders listed in Rule 37(b)(2)(A)(i)-(vi).

¹⁸ In full, 28 U.S.C. § 1927 provides: “[a]ny attorney or other person admitted to conduct cases in any court of the United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.”

¹⁹ See *Chambers v. Nasco*, 501 U.S. 32, 45-47 (1991) (upholding the inherent authority of the federal courts to impose sanctions, including attorney fees, for bad faith litigation conduct).

²⁰ See *supra* notes 16, 17, 18, and 19.

²¹ According to 35 U.S.C. § 285, “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” See, e.g., *Aspex Eyewear Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1314 (Fed. Cir. 2010) (stating “A case may be found exceptional in terms of §285 when there has been some material inappropriate

has recently held that a trial court may properly include litigation misconduct as one factor justifying an award of enhanced damages pursuant to 35 U.S.C. § 284.²²

EXAMPLES OF RECENTLY SANCTIONED CONDUCT

Attorney misconduct conduct in some IP cases has generated some eye-catching headlines, of late, including reports relating to sanctions in the form of enhanced damages, attorneys' fee awards, and even potential jail time to punish aggressive tactics on the part of patent litigation counsel. For example, trial judges have rebuked counsel for:

- pressing forward with infringement allegations in the face of adverse claim construction rulings;²³
- “prolong[ing] the proceedings unnecessarily (thus unduly imposing upon the jury’s time), [seeking] to mislead both the jury and the Court, and [flouting] the governing claim construction as set forth by the Federal Circuit”,²⁴
- trying to prejudice jurors against the plaintiff patentee by asking them if they had “a problem with a company that puts its headquarters offshore on a Caribbean island in order to avoid paying U.S. taxes”, in violation of an order *in limine*;²⁵ and

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 other major impropriety” and collecting representative cases).

²² See *infra* note 39 and accompanying text.

²³ Mike McPhee, *Judge Makes Lawyers Pay for Frivolity*, DENV. POST, Feb. 25, 2008, available at http://www.denverpost.com/news/ci_8354619; Dan Slater, *Judge Matsch Drops the Gavel on McDermott Lawyers*, WALL ST. J. L. BLOG, Feb. 27, 2008, <http://blogs.wsj.com/law/2008/02/27/judge-matsch-drops-the-gavel-on-mcdermott-lawyers/> (linking to the court’s order found at <http://online.wsj.com/public/resources/documents/matchorder.pdf>).

As discussed *infra* notes 127-32 and accompanying text, this sanctions ruling was overturned on appeal.

²⁴ Memorandum and Order, *Depuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, Civil Action No. 01-10165-EFH, Feb. 25, 2008, available at <http://pacer.mad.uscourts.gov/dc/cgi-bin/recentops.pl?filename=harrington/pdf/depuy%20memordr%20attysfees.pdf>; see also Richard J. Ambrogi, *Experts Central to Two Huge Sanctions Awards*, IPFRONTLINE, Mar. 28, 2008, <http://www.ipfrontline.com/depts/article.asp?id=18015&deptid=7>; Dan Slater, *Attorney Sanctions in Patent Trials, a Trend?*, WALL ST. J. L. BLOG, Feb. 29, 2008, <http://blogs.wsj.com/law/2008/02/29/attorney-sanctions-in-patent-trials-a-trend/tab/print/>.

As discussed *infra* notes 136-37 and accompanying text, this sanctions ruling was overturned on appeal.

²⁵ Memorandum Opinion and Order, *02 Micro Int’l Ltd. v. Beyond Innovation Tech.*, Case No. 2:04-CV-32-CE (E.D. Tex. July 10, 2009) available at <http://pdfserver.amlaw.com/ca/jail0714.pdf>; see also Zusha Elinson, *Patent Lawyer Gets Jail Time for Banned Question*, THE RECORDER, July 14, 2009, available at <http://www.law.com/jsp/article.jsp?id=1202432231822&hbxlogin=1>.

- “persist[ing] in improperly trying to equate [the patentee’s] infringement case with the current national banking crisis implying that [the patentee] was a banker seeking a ‘bailout.’”²⁶

Two of these cases involved sanctions for what the trial courts regarded as the failure to heed a prior patent claim construction ruling. In both, the sanctioned parties were Medtronic companies, as enforcement plaintiffs in one and as infringement defendants in the other. Sanctions were also imposed on Medtronic’s counsel in one of them. In both, however, however, the Federal Circuit reversed the finding of litigation misconduct. In fact, sanctions awards have been reversed or modified in a number of recent IP cases. Those decisions and their implications are discussed below. But first, a few examples will show that recent cases have involved a range of conduct and sanctions awards.

i4i Limited Partnership v. Microsoft Corp.

*i4i Limited Partnership v. Microsoft Corp.*²⁷ involved computer technology,²⁸ multiple complex patent law issues,²⁹ disputes about the admissibility of particular evidence,³⁰ and complicated damages calculations.³¹ The trial court’s decision is 65 pages long,³² but fewer than two pages are devoted to the issue of trial counsel misconduct.³³ However, that misconduct was one factor in the court’s decision to award \$40 million to the plaintiff in enhanced damages.³⁴

In *i4i*, the court considered the conduct of Microsoft’s trial counsel to be relevant to whether *i4i*, the prevailing patentee, was entitled to enhanced damages under 35 U.S.C. § 284.³⁵

²⁶ Memorandum Opinion and Order, *i4i Ltd. P’ship and Infrastructures for Info., Inc. v. Microsoft Corp.*, Case No. 6:07CV113 (E.D. Tex. Aug. 11, 2009) available at <http://blog.seattlepi.com/microsoft/library/20090817i4imemo.pdf>; see also Debra Cassens Weiss, *Microsoft Judge Chastises Weil Lawyer for ‘Bailout’ Dig*, ABA J. LEGAL ETHICS, Aug. 18, 2009, http://www.abajournal.com/news/microsoft_judge_chastises_weil_lawyer_for_bailout_dig/.

²⁷ 670 F.Supp.2d 568 (E.D. Tex. 2009), *aff’d in relevant respects*, 598 F.3d 831, 839 (Fed. Cir. 2010).

²⁸ *i4i*, 670 F.Supp.2d at 573-76.

²⁹ *Id.* at 576-88, 603-08.

³⁰ *Id.* at 589-91.

³¹ *Id.* at 591-95.

³² *i4i Limited Partnership v. Microsoft Corp.*, No. 6:07CV113 (E.D. Tex. Aug. 11, 2009).

³³ *Id.* at 42-44.

³⁴ *i4i*, 670 F.Supp.2d at 595-96.

³⁵ 35 U.S.C. § 284 provides, in relevant part: “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are

After discussing a number of factors relevant to the issue of enhancement,³⁶ the court stated “also favoring enhancement is Microsoft’s counsel’s litigation conduct, specifically during trial.”³⁷ It then described a line of argument by counsel that began at voir dire and continued through closing arguments, despite the court’s repeated admonitions and warnings:

Throughout the course of trial Microsoft’s trial counsel persisted in arguing that it was somehow improper for a non-practicing patent owner to sue for money damages. He further persisted in improperly trying to equate i4i’s infringement case with the current national banking crisis implying that i4i was a banker seeking a “bailout.”

These improper arguments were made in spite of the Court’s warnings. Microsoft’s trial counsel began voir dire by asking the following question to the jury panel:

So an example might be that somebody has a patent that they’re using not to protect a valuable product but someone’s copying, but because they are attacking somebody because they just want to try to get money out of them. So it fits, for example, with the litigation question Mr. Parker asked. So if somebody felt that – let’s take this case for an example. If somebody felt that the patents were being used in a wrong way, not to protect a valuable product but a wrong way, could you find that patent invalid or noninfringed?

In response, the Court *sua sponte* had counsel approach the bench and outside the hearing of the jury asked:

THE COURT: I understand that you just told the jury if somebody was using the patent not to compete, that that was the wrong way to use the patent?

MR. POWERS: No, not to compete; just to get money, not to protect anything. That’s what I asked.

THE COURT: What about protecting the patent?

MR. POWERS: I’ll ask it that way again.

THE COURT: I just – you know, I think you’re sort of misstating the law, and I don’t want to embarrass you in front of the jury. But I would appreciate it if you would clean that up.

not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.”

³⁶ *i4i*, 670 F.Supp.2d at 593-95 (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992)).

³⁷ *i4i*, 670 F.Supp.2d at 595.

MR. POWERS: I appreciate that. I will do that.

Despite this admonition, Microsoft's trial counsel continued to misstate the law and directly appeal to the jurors' perceived prejudices. During opening statement, he stated that "we're here because the bankers decided to achieve liquidity" and that "the banker cases are the ones where you don't have a very successful product, and the bankers decide to try to get their money out another way." Again, the Court sought to temper these statements with a specific instruction to the jury. ("The law recognizes no distinction among types of patent owners. A patent owner may be a competitor of an accused infringer, but it does not have to be. The characterization of a patent lawsuit as good or bad or as misuse of the patent laws based upon the status of the patent owner is inappropriate and should not play any part in your deliberations."). Regardless of this instruction, Microsoft's trial counsel's improper statements were again reinforced during closing argument. ("[i4i] had a product that failed. They had a patent that doesn't work. They're asking for a bail-out. President Tyler [sic] didn't give bankers a bail-out. We would ask for you not to give one here either.").³⁸

On appeal, the Federal Circuit upheld that the district court's decision to award enhanced damages in the amount of \$40 million (on an underlying compensatory award of \$250 million) and to include the trial counsel's misconduct as one factor justifying enhancement.³⁹

O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.

Counsel for infringement defendant Beyond Innovation Technology Co. Ltd. ("BiTEK") also attempted to bias the jury against a patentee plaintiff, but wound up with a contempt citation and a 48-hour (suspended) jail sentence!⁴⁰ During voir dire, the defendant's attorney asked the jury panel "are there any of you who have a problem with a company that puts its headquarters offshore on a Caribbean island in order to avoid paying U.S. taxes?"⁴¹ Counsel for the plaintiff objected immediately, and the court scheduled a hearing on the issue following jury selection.⁴²

Following that hearing, the court held that counsel's question violated the pre-trial order *in limine*, which read: "*Defendants may refer to the fact that O2 is a Cayman Islands corporation. The motion [to preclude evidence regarding O2's Cayman Islands headquarters]*

³⁸ *i4i*, 670 F.Supp.2d at 595-96 (court's citations to trial transcript and jury charge omitted).

³⁹ *i4i Limited Partnership v. Microsoft Corp.*, 598 F.3d 831, 859 (Fed. Cir. 2010) (agreeing with Microsoft "that it would have been improper to enhance damages based solely on litigation misconduct").

⁴⁰ *O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.*, No. 2:04-CV-32-CE, 2009 WL 2047617, at *2-3 (E.D. Tex. July 10, 2009).

⁴¹ *Id.* at *2.

⁴² *Id.*

is granted to the extent defendants seek to offer evidence relating to taxation.”⁴³ It rejected the attorney’s explanation: “that he believed, by asking the questions in a hypothetical manner, without mentioning [the plaintiff], he would avoid violating the order”,⁴⁴ and held the violation to be “flagrant and intentional.”⁴⁵ It suspended the sentence pending the completion of the trial, and ruled that the sentence would be considered discharged if the attorney violated no further orders.⁴⁶

At the hearing, the court reserved the separate issue of an appropriate sanction against the attorney’s client – BiTEK – and set forth its analysis regarding that issue in its subsequent order.⁴⁷ Preliminarily, the court held that BiTEK, too, should be sanctioned, for “undermin[ing] the parties’ expectations to a trial by a jury selected from the panel summoned according to the regular process of the court.”⁴⁸ The court set forth two goals it hoped to achieve via the sanctions: “cur[e] the prejudice caused by the violation and deter[] future litigants from violating the court’s orders *in limine*.”⁴⁹ It declined O2 Micro’s request for the imposition of “‘death penalty’ sanctions”, citing the Federal Circuit’s decision in *ClearValue Inc. v. Pearl River Polymers Inc.*, discussed below,⁵⁰ and thoughtfully considered the suitability of a number of “lesser sanctions” under the particular circumstances of this case.⁵¹

The court rejected punitive or curative jury instructions as potentially prejudicing BiTEK’s co-defendants and noted that “such instructions would only highlight the overly prejudicial question to the panel.”⁵² Precluding BiTEK’s evidence would not suffice, as the other defendants – purchasers of BiTEK’s products – could and would be expected to introduce evidence (on the issues of infringement and willfulness) helpful to BiTEK.⁵³ As for financial sanctions, the court declined to impose the costs of jury selection, observing that such a sanction “would effectively allow a litigant to buy a new jury panel by intentionally violating the court’s

⁴³ *Id.* at *1-2 (italics in original).

⁴⁴ *Id.* at *2.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *See id.* at *2-4.

⁴⁸ *Id.* at *2.

⁴⁹ *Id.*

⁵⁰ *See infra* notes 114-17 and accompanying text.

⁵¹ *O2 Micro*, No. 2:04-CV-CE, 2009 WL 2047617 at *2-3.

⁵² *Id.* at *3.

⁵³ *Id.*

orders in limine”, and “[e]ven a substantial fine,” because in high-value cases “parties might well have the incentive and the financial resources to engage in this type of conduct.”⁵⁴

Ultimately, the court gave O2 Micro the option of proceeding with the tainted jury, or accepting a package of sanctions against BiTEK including the following:

- Mistrial;
- Severance of the case against BiTEK;
- Restricted voir dire time and peremptory challenges (half as much/many as O2;)
- Jury instruction that BiTEK received less time in *voir dire* because “its counsel intentionally violated a court order in the first jury selection”, necessitating the impaneling of a new jury;
- Exclusion of BiTEK’s expert testimony on infringement, and
- Payment of “all of the parties’ costs and attorneys’ fees involved in the first jury selection and . . . the plaintiff’s cost and attorneys’ fees in having to try the severed case against the remaining defendants.”⁵⁵

The court’s discussion illustrates the special challenges associated with fashioning a remedy for misconduct occurring in the presence of the jury, particularly in high-stakes cases involving multiple parties.

Commil USA v. Cisco Sys., Inc.

The conduct of a litigation attorney for infringement defendant Cisco Systems, Inc. reportedly recently prompted a Marshall, Texas, federal magistrate judge to offer to entertain a new trial motion on the part of Commil USA, the patentee.⁵⁶ The attorney, Otis Carroll, is accused of seeking to play to potential anti-foreign bias by asking the jury to reject the infringement claim so that Commil’s President Johathan David “won’t fly back home [to Israel] later this week with a sack full of Cisco’s money that belongs to Cisco and its employees here in Texas.”⁵⁷ But more inflammatory was Mr. Carroll’s remark to Mr. David, who is Jewish, during cross-examination. Mr. Carroll asked Mr. David if he’d met in Marshall with one of the inventors of the patent at issue. Following Mr. David’s answer that the two had met for dinner at the Bodacious Barbecue restaurant, Mr. Carroll guessed “I bet not pork” regarding what Mr. David had eaten.⁵⁸

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ Andrew Longstreth, *Allegedly Anti-Semitic Remarks by Cisco Outside Counsel Prompt Commil Request for New Trial*, THE AMERICAN LAWYER, June 24, 2010, <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202462963733#>.

⁵⁷ *Id.*

⁵⁸ Miriam Rozen, *Pork remark in patent case prompts magistrate to say he will entertain new trial motion*, TEXAS LAWYER BLOG, May 24, 2010, http://texaslawyer.typepad.com/texas_lawyer_blog/2010/05/pork-remark-in-patent-case-prompts-magistrate-to-say-he-will-entertain-new-trial-motion.html.

Magistrate Judge Chad Everingham promptly issued a curative instruction to the jury, stating "Sometimes when a lawyer injects irrelevant information into a case it's because he perceives a weakness in the merits of his case. I don't know whether that's why it happened in this case, but you can consider that as you're evaluating the testimony and the evidence in this case."⁵⁹ But after the jury came back with a \$3.7 million verdict – far short of the \$53 million the patentee had requested – the magistrate judge expressed concern about the effect of the remark on the jury, and invited the new trial motion.⁶⁰

Kellogg v. Nike, Inc.

*Kellogg v. Nike, Inc.*⁶¹ is a fourth recent patent case in which the trial court was concerned about remarks of counsel during trial, but this time the statements related to the merits. In this design patent case, the court had ordered *in limine* that “any argument or evidence that was inconsistent with the . . . claim construction would be irrelevant,” and gave specific guidance regarding terms counsel could and could not use to refer to the accused products during a hearing immediately before trial.⁶² In its order on post-trial motions, including the plaintiff’s request for attorney fees, the court cited several instances at trial⁶³ in which the defendant “repeatedly attempted to reintroduce and reargue theories rejected by the Court in the claim construction order and the order on motions in limine.”⁶⁴ According to the court: “The conduct proscribed by those orders was clear. Nike’s misconduct occurred throughout the trial and Kellogg preserved objections to much of the misconduct.”⁶⁵ The court found that:

Nike’s conduct at trial and throughout this litigation revealed a strategy calculated to misdirect the jury’s focus from the proper comparison of the patented design to the design on Nike’s accused hats to an improper comparison of the whole hats shown in Kellogg’s patent to Nike’s accused hats. Nike made attempts to lead the jury to a product-to-product comparison that was contrary to established law and to the court’s instructions. Nike was obliged to either accept the court’s claim construction ruling as the law of the case or to proceed with an interlocutory appeal. Instead, Nike chose to pursue a strategy of distorting the court’s claim

⁵⁹ Joe Mullin, *Patent Litigation Weekly: Questionable Trial Comments in E.D. Tex., Take Two*, THE AMERICAN LAWYER, June 4, 2010, <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202459283046>.

⁶⁰ See Rozen, *supra* note 58.

⁶¹ *Kellogg v. Nike, Inc.*, No. 8:07CV70 (D. Neb. Sept. 30, 2009).

⁶² *Id.*, slip op. at 3-4.

⁶³ *Id.* at 5-11.

⁶⁴ *Id.* at 19.

⁶⁵ *Id.*

construction and attempting to lead the jury to an improper interpretation of the claimed invention that would correspond to its proposed, but rejected, claim construction.⁶⁶

Nevertheless, the court declined to order a new trial on the ground that its “instructions . . . served to obviate any prejudice to Kellogg’s case occasioned by Nike’s lapses.”⁶⁷ The court did, however, rule that Nike’s conduct – its “strategy of giving superficial recognition to the court’s claim construction rulings, while continuing to press its own interpretation of the claim”, combined with its “conduct in asserting and pursuing [its] claim of invalidity”, after having sought and obtained dismissal of its invalidity counterclaim on the eve of trial⁶⁸ – constituted “[v]exatious conduct” warranting a finding of exceptionality under 35 U.S.C. § 285, an award of attorney fees and costs reasonably related to the invalidity claim, and a denial of an award of costs under Fed.R.Civ.P. 54 in favor of Nike, despite the jury’s verdict in its favor.⁶⁹ Ultimately, plaintiff Kellogg was awarded in excess of \$400,000 in attorney fees and costs on account of defendant’s misconduct.⁷⁰

St. Clair Intellectual Property Consultants v. Palm Inc.

One of the more exotic reports, of late, of discovery-related misconduct appears in a Special Master’s report in a patent litigation involving St. Clair Intellectual Property Consultants Inc. and Canon Inc. over digital camera technology.⁷¹ According to the report, Canon had a consulting agreement with a third party, Mirage Systems, Inc., under which “Mirage agreed to help Canon establish that Mirage was the rightful owner of the patents at issue in the case, and not to assert those patents against Canon” in exchange for a payment (from Canon to Mirage) of \$75,000, in addition to reimbursements for expenses and “lost time”, for a total of \$167,693.97.⁷² Yet in the litigation, Mirage was a fact witness.⁷³ The report quotes the trial judge’s take on the arrangement, as follows: “My interpretation would be possibly . . . you paid

⁶⁶ *Id.* at 19-20.

⁶⁷ *Id.* at 20.

⁶⁸ *Id.* at 2.

⁶⁹ *Id.* at 22-23.

⁷⁰ *Kellogg v. Nike, Inc.*, No. 8:07CV70, 2010 WL 323994, at *6 (D. Neb. Jan. 20, 2010). The court held that plaintiff “Kellogg was a prevailing party with respect to [Nike’s] invalidity counterclaim.” *Id.* at *1.

⁷¹ See Marius Meland, *Canon Settles Patent Case Amid Ethics Questions*, May 2, 2006, http://www.law360.com/print_article/6378; Report and Recommendation Regarding Motions to Dismiss for Lack of Subject Matter Jurisdiction and for Jurisdictional Discovery, *St. Clair Intellectual Property Consultants v. Palm Inc.*, et al., 2009 U.S. Dist. LEXIS 37512 at 7-8 (D. Del. May 4, 2009).

⁷² *Id.*

⁷³ *Id.*

the guy \$75,000 to show up and say he owns the patents . . . it sounds like you paid him \$75,000 to come and say what you wanted.”⁷⁴

Moreover, attorneys for St. Clair asserted that Canon improperly failed to disclose the agreement during discovery, and the Special Master concluded that that failure was “unjustified and fraudulent.”⁷⁵ As a result, the Special Master recommended the revocation of the *pro hac vice* admissions of Canon’s counsel, as well as a ban on the participation of that firm in future proceedings in the matter at hand.⁷⁶

SANCTIONS AWARD REVERSALS

The above-summarized decisions illustrate that recent IP cases have involved a wide range of sanctioned conduct. More examples follow. However, in each of the following cases, the sanctions order was subsequently reversed or revised, either on reconsideration or appeal. Some questions raised by these decisions are explored below. But first, the decisions are summarized.

Qualcomm Inc. v. Broadcom Corp.

The challenges of discovery compliance and of detecting non-compliance are well-known. The complexities, burdens, and opportunities associated with electronic discovery have multiplied those challenges. Recent orders sanctioning parties and counsel for discovery-related misconduct in IP cases illustrate the power of the temptation to withhold damaging information – electronic or not.

The serious nature of the misconduct at issue and the magnitude of the sanctions award in *Qualcomm Inc. v. Broadcom Corp.*⁷⁷ were both eye-popping. On January 7, 2008, the United States District Court for the Southern District of California issued an order finding that Qualcomm had “intentionally withheld tens of thousands of documents . . . requested in discovery” – documents which “directly contradicted a key argument advanced by Qualcomm in pretrial motions and throughout trial and supported a defense asserted by Broadcom.”⁷⁸ It also found that “six attorneys assisted Qualcomm in withholding the critical documents by failing to conduct a reasonable inquiry into the adequacy of Qualcomm’s document production and by ignoring warning signs, which indicated that the document search was not thorough and that

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ Order Granting In Part and Denying In Part Defendant’s Motion for Sanctions and Sanctioning Qualcomm, Incorporated and Individual Lawyers, *Qualcomm Inc. v. Broadcom Corp.*, 2008 U.S. Dist. LEXIS 911 (S.D. Cal. Jan. 7, 2008).

⁷⁸ *Qualcomm Inc. v. Broadcom Corp.*, No. 05cv1958-B (BLM), 2010 WL 1336937 (S.D. Cal. Apr. 2, 2010).

Qualcomm's document production was not complete."⁷⁹ The court imposed monetary sanctions on Qualcomm in the amount of \$8.5 million,⁸⁰ and referred the attorneys to the California State Bar for investigation and possible discipline.⁸¹

A critical issue in the case was whether Qualcomm waived its right to enforce its patents against Broadcom by participating in a technology standards-setting organization known as the "JVT."⁸² In its opinion affirming the trial court's finding that Qualcomm's litigation misconduct was sufficient justification for its exceptional case determination,⁸³ the Federal Circuit described the conduct at issue as follows:

Throughout discovery, motions practice, trial, and even post-trial, Qualcomm adamantly maintained that it did not participate in the JVT during development of the [relevant technology] standard. Despite numerous requests for production and interrogatories requesting documents relating to Qualcomm's JVT participation prior to adoption of the . . . standard, Qualcomm repeatedly represented to the court that it had not such documents or emails. On January 24, 2007, however, one of the last days of trial, a Qualcomm witness testified that she had emails that Qualcomm previously claimed did not exist. Later that day, Qualcomm produced twenty-one emails belonging to that witness. As the district court later discovered, these emails were just the "tip of the iceberg," as over two hundred thousand more pages of emails and electronic documents were produced post-trial. The district court later determined that these documents and emails "indisputably demonstrate that Qualcomm participated in the JVT from as early as January 2002, that Qualcomm witnesses . . . and other engineers were all aware of and a part of this participation, and that Qualcomm knowingly attempted in trial to continue the concealment of evidence."⁸⁴

On April 2, 2010, however, after granting the six attorneys "an almost unlimited opportunity to conduct discovery and to present new facts", the trial court decided not to impose sanctions on the six attorneys, concluding that they "made significant efforts to comply with their discovery obligations."⁸⁵ It maintained, however, that "this massive discovery failure resulted from significant mistakes, oversights, and miscommunication on the part of both outside counsel and Qualcomm employees",⁸⁶ and summarized a number of those errors in its Order

⁷⁹ *Id.* at *1.

⁸⁰ *Id.*

⁸¹ *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004, 1010 (Fed. Cir. 2008).

⁸² *Id.* at 1008.

⁸³ *Id.* at 1027.

⁸⁴ *Id.* at 1009.

⁸⁵ *Qualcomm*, 2010 WL 1336937 at *1-2.

⁸⁶ *Id.* at *2.

Declining to Impose Sanctions Against the Responding Attorneys and Dissolving the Order to Show Cause, including:

- “[A]n incredible breakdown in communication . . . permeat[ing] all of the relationships” among the involved Qualcomm employees, legal staff, and outside counsel;⁸⁷
- No evidence “that either in-house lawyers or outside counsel met in person with the appropriate Qualcomm engineers . . . at the beginning of the case to explain the legal issues and discuss appropriate document collection”;⁸⁸
- Outside counsel’s failure to “obtain sufficient information from any source to understand how Qualcomm’s computer system is organized”;⁸⁹ and
- The failure of any attorney to take “supervisory responsibility for verifying that the necessary discovery had been conducted . . .”⁹⁰

However, the court found that “[t]hese failures were exacerbated by an incredible lack of candor on the part of the principal Qualcomm employees”, and that the attorneys “did repeatedly try to determine whether Qualcomm had participated in the JVT proceedings during the [relevant] time . . .”⁹¹ Thus, it concluded that the attorney responsible for signing the discovery responses did so “after a reasonable, although flawed, inquiry”, and found that “the involved attorneys did not act in bad faith.”⁹² Accordingly, the court declined to impose sanctions on them under either Fed.R.Civ.P. 26 or the court’s inherent authority.⁹³

The court’s recent order declining to impose sanctions no doubt comes as a great relief to the lawyers involved in this case. However, for them the experience has been life-altering,⁹⁴ and

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.* at *4.

⁹² *Id.* at *6.

⁹³ *Id.* *6-7.

⁹⁴ Debra Cassens Weiss, *After Sanctions Are Lifted, Qualcomm Lawyers React: This ‘Can Happen to Anyone,’* ABA J., Apr. 15, 2010, http://www.abajournal.com/news/article/after_sanctions_are_lifted_qualcomm_lawyers_react_this_can_happy_to_a_nybody/ (quoting one of the attorneys assigned to the discovery responsibilities in Qualcomm, stating “[u]ntil this case I’d always been going through life pretty happy and successful, just kind of going from one goal to the next goal,” he said. “And it really derailed my path through life and kind of put me on ice.”); Ashby Jones, *Sanctions Lifted Against Qualcomm Attorneys (After Damage is Done)*, WALL ST. J. L. BLOG, Apr. 7, 2010, <http://blogs.wsj.com/law/2010/04/07/sanctions-lifted-against-qualcomm-lawyers-after-damage-is-done/tab/article/> (noting, as to the decision not to impose sanctions, that “It all comes too late . . . for four of the . . . lawyers, who’ve since left big firm practice altogether.”).

the saga should serve as a chilling reminder for litigation counsel of the seriousness of their discovery responsibilities.⁹⁵

ClearValue, Inc. v. Pearl River Polymers, Inc.

In *ClearValue, Inc. v. Pearl River Polymers, Inc.*,⁹⁶ the Federal Circuit agreed that the plaintiffs and their attorney had engaged in sanctionable conduct, but reversed the non-monetary sanctions and significantly reduced the monetary sanctions awarded by the district court.⁹⁷ Patent owner Richard Haase and his exclusive licensee, ClearValue, sued Pearl River and several other defendants for patent infringement and trade secret misappropriation.⁹⁸ Whether the wastewater treatment polymers Pearl River sold had molecular weights over one million was a “critical issue” in the case,⁹⁹ and the defendants sought the production of the results of any molecular weight tests the plaintiffs had run on Pearl River’s products.¹⁰⁰ The plaintiffs objected to the request as burdensome and “seeking work product or trial preparation materials that are not discoverable under the Federal Rules of Civil Procedure”, but did not provide the defendants with a privilege log listing any test results.¹⁰¹

Ultimately, it came to light that the plaintiffs had tested Pearl River’s products, and that those products had a molecular weight of “substantially below the one million limitation” in the patent at issue.¹⁰² Further, the plaintiffs’ expert had reviewed the test results.¹⁰³ Thus, no work product protection applied.¹⁰⁴ And, the plaintiffs’ counsel, Gordon Waggett, had been a party to the email exchanges between the patent owner and the expert relating to the test results.¹⁰⁵

According to the trial court, only the “ultimate sanction” of dismissal of the plaintiffs’ claims was appropriate, given the critical nature of the withheld information and the fact that the

⁹⁵ Cassens Weiss, *supra* note 94 (quoting a second Qualcomm discovery attorney, stating “I think the take-away is that this kind of thing can happen to anybody.”).

⁹⁶ 560 F.3d 1291 (Fed. Cir. 2009).

⁹⁷ *Id.* at 1294.

⁹⁸ *Id.* at 1295.

⁹⁹ *Id.* at 1296.

¹⁰⁰ *Id.* at 1297.

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 1298.

information was suppressed for over a year and a half.¹⁰⁶ It struck the plaintiffs' pleadings, entered judgment for the defendants, and awarded the defendants attorney's fees, costs and expenses in excess of \$2.7 million incurred over the period of the violation,¹⁰⁷ including under Fed.R.Civ.P. 26 and 37¹⁰⁸, the court's inherent authority,¹⁰⁹ 35 U.S.C. § 285,¹¹⁰ and 28 U.S.C. § 1920.¹¹¹

In so holding, the trial court implicitly rejected the attorney's excuse: "that he had a 'total disconnect' with respect to the testing[,] 'was sorry' for not producing the test results . . . because he now appreciated he was 'obviously wrong' and that the results were 'not work product'" and that "he was 'rusty' and had 'been out of the litigation loop' for almost nine years."¹¹² Undermining this testimony, in the view of the trial court, was the fact that following the email exchange between the patent owner and the expert, on which the attorney was copied, the attorney wrote to the patent owner and instructed him to "stop copying [the expert] to 'best preserve priv/work product.'"¹¹³

Nonetheless, the Federal Circuit reversed the non-monetary sanctions and eliminated the monetary sanctions but for the \$121,107.38 in attorney's fees under Rules 26 and 37.¹¹⁴ It concluded that the conduct at issue was "less egregious" than discovery violations the Fifth Circuit had held did not justify dismissal.¹¹⁵ Consequently, the defendants were no longer

¹⁰⁶ *Id.* at 1298-99.

¹⁰⁷ *Id.* at 1301.

¹⁰⁸ Fed.R.Civ.P. 37 provides in relevant part:

If a party fails to provide information . . . as required by Rule 26(a) or 26(e), . . . the court, on motion and after giving an opportunity to be heard:

- (A) may order payment of the reasonable expenses, including attorney's fees, caused by the failure;
- (B) may inform the jury of the party's failure; and
- (C) may impose other appropriate sanctions, including any of the orders listed in Rule 37(b)(2)(A)(i)-(vi).

¹⁰⁹ *See supra* note 19 and accompanying text.

¹¹⁰ Under 35 U.S.C. § 285, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."

¹¹¹ Pursuant to 28 U.S.C. § 1920, "[a] judge or clerk of any court of the United States may tax as costs...fees and disbursements for printing and witnesses."

¹¹² *See ClearValue*, 560 F.3d at 1298.

¹¹³ *Id.* at 1299-1300.

¹¹⁴ *Id.* at 1294. Further, without "condon[ing] his discovery misconduct", the Federal Circuit exonerated the attorney for co-responsibility for the remaining monetary sanctions on the ground that he lacked the ability to pay (*id.* at 1306) – a decision with which Judge Newman disagreed. *Id.* at 1311 (Newman, J., dissenting-in-part).

¹¹⁵ *Id.* at 1308-10. The Federal Circuit reviews discovery sanctions decisions under the applicable regional circuit law. *Id.* at 1304 (citing *Transclean Corp. v. Bridgewood Servs., Inc.*, 290 F.3d 1364, 1370 (Fed. Cir. 2002)).

“prevailing part[ies]” eligible for attorney’s fees under 35 U.S.C. § 285 and costs under 28 U.S.C. § 1920, so those awards were reversed, as well.¹¹⁶ However, in upholding the district court’s ruling that the conduct of the plaintiffs and their counsel was sanctionable, the Federal Circuit specifically identified the violation (“they withheld test results reviewed by a testifying expert”), deferred to the trial court’s evaluation regarding the credibility of the patent owner, the expert, and the attorney, and upheld the court’s “finding that the failure to disclose was not ‘harmless’”.¹¹⁷

Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersystems GmbH

In *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersystems GmbH*,¹¹⁸ the trial court assessed nearly \$4.4 million in attorney fees, costs, and interest against Medtronic and the firm of McDermott Will & Emery (“MWE”), jointly and severally,¹¹⁹ “to enable BrainLAB to recover the reasonable costs of defending itself in [the] litigation after a defense should no longer have been necessary.”¹²⁰ The court held that Medtronic engaged in vexatious litigation, justifying an award of attorney fees under 35 U.S.C. § 285,¹²¹ and ruled that fees could be assessed against the firm under the court’s inherent authority, if not under 28 U.S.C. § 1927.¹²²

The court described the misconduct as follows:

After receiving the Court’s claims construction ruling, . . . Medtronic and the MWE lawyers had a duty to reexamine this litigation and make an objective assessment of the validity of Medtronic’s claims that BrainLAB’s products infringed the patent claims as construed. They were obligated to accept those rulings as the law of the case and proceed with an appeal by requesting certification of an interlocutory appeal or conceding the [defendants’] summary judgment motions. Rather than accept that the claims construction rulings stripped the merits from this case, counsel chose to pursue a strategy of distorting those rulings, misdirecting the jury to a different reading of the claim language, and blatantly presenting the jury with a product comparison contrary to established law and the Court’s cautionary instructions. Additionally, they

¹¹⁶ *Id.* at 1310.

¹¹⁷ *Id.* at 1304.

¹¹⁸ No. 98-cv-01072-RPM, 2008 WL 4452137 (D. Colo. Sept. 30, 2008).

¹¹⁹ *Id.* at *3.

¹²⁰ *Id.* at *2.

¹²¹ *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersystems GmbH*, No. 98-cv-01072-RPM, 2008 WL 410413, at*6 (D. Colo. Feb. 12, 2008).

¹²² *Id.* at *9-10.

deceived the jury into accepting the statements in BrainLAB's FDA application as an admission of patent infringement. Capping all of this was a closing argument that misdirected the jury's attention from the focus of the case, carefully crafted to avoid the Court's instruction. That argument distorted both the evidence and the law, misleading the jury into a plaintiffs' verdict.¹²³

Although the court recognized that it had erred in declining to grant the defendants' motions for summary judgment,¹²⁴ it clearly did not welcome what it described as Medtronic's and MWE's position "that the Court had the obligation to stop any trial conduct that stepped over the line of zealous advocacy[; and] that they should not be held responsible for what they were able to get away with during the trial presentation."¹²⁵ The court accused Medtronic and its counsel of capitalizing on the particular complexities of patent litigation:

The conduct of Medtronic and its counsel constituted much more than a few instances of overstepping during a hard-fought battle. This case involved complicated technology. Patent law is complex and not intuitive to the average juror. Parties and counsel have an obligation to refrain from seeking to take advantage of those complexities by employing misleading strategies. . . . Medtronic's untenable positions and misleading tactics complicated the Court's task of analyzing the legal issues.¹²⁶

The Federal Circuit reversed on appeal, however.¹²⁷ The court considered each ground the trial court cited for its finding that the case was exceptional under 35 U.S.C. § 285, and held that none could support that finding.¹²⁸ It concluded that "[b]ecause . . . it was not unreasonable for Medtronic to seek relief in light of the court's claim construction," the trial court's ruling that MWE should be jointly liable for the sanctions award under 28 U.S.C. § 1927 "*a fortiori*" could not stand.¹²⁹ According to the court, "[e]ven if [MWE] had concluded that Medtronic's prospects for ultimately prevailing in the litigation were significantly diminished by the court's claim construction order, it was not unreasonable for [MWE] to continue to press its client's case in light of the arguments that remained available to it."¹³⁰ In so ruling, the court even cited

¹²³ *Id.* at *5.

¹²⁴ *Id.* at *4 ("In retrospect, [the defendants' summary judgment] motions should have been granted, saving BrainLAB the cost of a 13-day jury trial."). *See also id.* at *3 ("What was apparent to defendants' counsel and should have been equally obvious to Medtronic's principal lawyers was not perceived by the Court.").

¹²⁵ *Id.* at *5.

¹²⁶ *Id.* at *9.

¹²⁷ *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943 (Fed. Cir. 2010).

¹²⁸ *See id.* at 953-965.

¹²⁹ *Id.* at 965.

¹³⁰ *Id.*

authority suggesting that MWE was obligated to so continue.¹³¹ Finally, while respecting the trial court’s “judgment that counsel’s use of the FDA submission evidence was improper”, the Federal Circuit held that such use “was not sufficiently egregious to justify the imposition of sanctions under the court’s inherent authority”, citing the Supreme Court’s admonition that “a court’s inherent powers ‘must be exercised with restraint and discretion.’”¹³²

DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.

About two weeks after the above-discussed ruling against Medtronic, a different court assessed attorney fees (under 35 U.S.C. § 285) and a \$10 million penalty (under the court’s inherent authority) against Medtronic for what it regarded as a similar abuse: “[seeking] to take advantage of the technical and legal complexities inherent in [the] case.”¹³³ This time, the Medtronic companies were defending a patent case, and the court cited their “failure to accept the claim construction governing this case,” adoption of a “defense to infringement . . . wholly based on an attempt to obscure, evade, or minimize the Federal Circuit’s construction of the patent-in-suit”,¹³⁴ and attempt “to mislead both the jury and the Court . . .”¹³⁵

The Federal Circuit, however, reversed the attorney fees and sanctions award, attributing the trial court’s finding of exceptionality (based on the litigation conduct at issue) to a misunderstanding of the relevant law.¹³⁶ In overturning the district court’s ruling, the appellate panel distinguished between the mere assertion of a defense and the *manner* in which the defense is litigated.¹³⁷

Montgomery v. eTreppid Technologies, LLC

The conduct at issue in each of the cases described above appears to have been motivated by a desire to win the client’s case. The sanctions in *Montgomery v. eTreppid Technologies, LLC*,¹³⁸ on the other hand, grew out of satellite litigation apparently pursued to achieve tactical advantage in a dispute with the client’s former counsel over fees.¹³⁹

¹³¹ *Id.* (quoting *Mezibov v. Allen*, 411 F.3d 712, 719 (6th Cir. 2005) (“[A]n attorney is ethically bound to make reasonable arguments on behalf of his client, even if the attorney disagrees with them.”)).

¹³² *Id.* at 965-66 (quoting *Chambers v. Nasco, Inc.* 501 U.S. 32, 44 (1991)).

¹³³ *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 534 F.Supp.2d 224, 227 (D. Mass. 2008).

¹³⁴ *Id.* at 225.

¹³⁵ *Id.* at 227.

¹³⁶ *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1338-39 (Fed. Cir. 2009) (holding that nothing in its prior ruling precluded the defendants’ invocation of the obscure reverse doctrine of equivalents).

¹³⁷ *See id.* at 1339.

¹³⁸ No. 3:06-CV-0056-PMP (VPC), 2009 WL 910739 (D. Nev. Mar. 31, 2009), *aff’d in part and rev’d in part*, Nos. 3:06-CV-00056-PMP-VPC, 3:06-CV-000145-PMP-VPC, 2010 WL 1416771 (D. Nev. Apr. 5, 2010).

After attorney Michael Flynn withdrew as counsel for Dennis Montgomery in Montgomery's dispute with eTrepid over Montgomery's alleged misappropriation of eTrepid's trade secrets and eTrepid's alleged copyright infringement,¹⁴⁰ the Liner Grode Stein Yankelevitz Regestreif & Taylor LLP firm ("Liner Grode")¹⁴¹ and two of its attorneys, Deborah Klar and Teri Pham, stepped in to continue the Montgomery representation.¹⁴² The two key facts underlying the ensuing complications are that (1) Mr. Flynn sought "past due attorney's fees and costs in excess of \$635,000, and . . . Montgomery . . . did not wish to pay him", so Mr. Flynn filed a retaining lien under Nevada law; and (2) the United States, which had initiated search warrant proceedings against Montgomery, had "invoked the military and state secrets privilege".¹⁴³ As a result, the presiding Nevada magistrate judge had set a hearing to consider Flynn's withdrawal motion and issues relating to the return of Montgomery's client files in light of the fee dispute and the government's state secrets assertion.¹⁴⁴

Meanwhile, knowing these facts,¹⁴⁵ Ms. Klar and/or Ms. Pham initiated a series of proceedings and took other steps the court ultimately held to justify the imposition of monetary sanctions against them, Liner Grode, and Montgomery in the amount of \$204,411, the referral of the two attorneys to the Nevada State Bar and California State Bar, and "additional sanctions" in the form of community legal service obligations upon them.¹⁴⁶ Those actions included:

- Filing "a complaint for preliminary and injunctive relief in Los Angeles Superior Court on behalf of [Montgomery]" alleging that Mr. Flynn's refusal to turn over client files was unjustified and violated the California Rules of Professional Conduct;¹⁴⁷
- Filing a "notice of objection to [Mr. Flynn's retaining] lien on the ground that the California Superior Court had jurisdiction over the matter because they had already filed [that] complaint";¹⁴⁸

¹³⁹ *Montgomery*, No. 3:06-CV-0056-PMP (VPC), 2009 WL 910739, at *25.

¹⁴⁰ *Id.* at *1-6.

¹⁴¹ The Liner Grode firm was known as Liner Yankelevitz Sunshine Regenstreif, LLP at the inception of the litigation in this case. *Id.* at *1, n.1.

¹⁴² *Id.* at *1, 6.

¹⁴³ *Id.* at *6-8.

¹⁴⁴ *Id.* at *8.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.* at *36. The court sanctioned Mr. Montgomery pursuant to its inherent power, and Ms. Klar, Ms. Pham, and the Liner firm pursuant to its inherent power and 35 U.S.C. § 1927. *Id.* It required Ms. Klar and Ms. Pham to perform 200 and 100 hours of *pro bono* legal services, respectively. *Id.*

¹⁴⁷ *Id.* at *8.

¹⁴⁸ *Id.* at *9.

- Submitting “an application for arbitration of a fee dispute to the San Diego County Bar Association [without] disclos[ing any] information whatsoever concerning the pending proceedings” regarding the client file issues in the Nevada district court;¹⁴⁹
- Drafting (for Mr. Montgomery) and filing a declaration falsely stating that Mr. Montgomery understood Mr. Flynn to be “*licensed to practice only in Massachusetts*”;¹⁵⁰
- Filing “*an ex parte* application for writ of possession in the Los Angeles Superior Court proceedings” including representations inconsistent with statements previously made in the Nevada district court;¹⁵¹
- Submitting a “request for investigation of Mr. Flynn with the Massachusetts Bar Counsel”, where Flynn was licensed, without disclosing, *inter alia*, that Flynn had been admitted *pro hac vice* in Nevada;¹⁵² and
- Continuing to pursue relief in the California court notwithstanding the fact that the Nevada court had “not only reaffirmed its jurisdiction over the client files, but also formally retained jurisdiction over the fee dispute”.¹⁵³

The magistrate concluded that the above-described conduct was the manifestation of a “litigation strategy to insure—through any means possible—that Mr. Flynn would never be paid and to crush him into submission in the process.”¹⁵⁴ She found:

[T]here is clear and convincing evidence that Ms. Klar and Ms. Pham acted in bad faith or conduct tantamount to bad faith with the intention to undermine this court’s orders for the improper purpose of obtaining a more favorable forum for resolution of the fee dispute and the turnover of the client files. Ms. Klar and Ms. Pham willfully abused the judicial processes in this court and elsewhere, and they

¹⁴⁹ *Id.* at *10.

¹⁵⁰ *Id.* at *10-13 (emphasis in original). This is important because Mr. Flynn had been admitted *pro hac vice* in Nevada, in Mr. Montgomery’s presence, and this fact undermined the efforts on Montgomery’s behalf to defeat Flynn’s retaining lien. *See id.* at *12.

¹⁵¹ *Id.* at *13-14 (emphasis in original).

¹⁵² *Id.* at *15-16.

¹⁵³ *Id.* at *17-20. In addition, the Nevada court found that “Ms. Pham made several intentional misrepresentations” before the California court:

She told the court that the California Superior Court was the only court that had jurisdiction to decide whether the files should be turned over to the Liner firm. This is not true. She told the court that the Montgomery parties had not had an opportunity to argue which state’s law should apply as it concerns the client files. This is not true. Ms. Pham told the [California court] that this Court had not taken jurisdiction over the matter of the client files. This is not true. Ms. Pham told the [California court] that this court misapprehended the nature of the writ of possession proceedings . . . This is not true.

Id. at *20.

¹⁵⁴ *Id.* *31.

did so to delay or disrupt this litigation to gain a tactical advantage. As a result of their conduct, Ms. Klar and Ms. Pham multiplied these proceedings, and they did so unreasonably and vexatiously, resulting in an increase in the cost of the proceedings to Mr. Flynn and a tremendous burden on the court to sort through this byzantine web of misconduct.¹⁵⁵

That was just the magistrate’s introduction to her sanctions analysis. She continued for several pages, commenting on Ms. Klar’s “abdicat[ion of] her duties to the court and the attorneys she supervised by engaging in a consistent pattern of gamesmanship, misrepresentations, and outright contempt of this court and its orders”, and her “unrelenting . . . campaign to achieve her desired end . . . at any cost to her client, to her junior partner, to the Liner firm, to Mr. Flynn, and to the court.”¹⁵⁶ As to Ms. Pham – the junior partner – the magistrate concluded that:

[She] was so focused on her assigned tasks—to remove the fee dispute and turnover of the client files from [the Nevada] court’s jurisdiction—that she suspended her own independent judgment and failed to critically consider any legal, factual, or ethical impediments to her assignments. . . . As a result, [she] engaged in a consistent pattern of material misrepresentations and the omissions of material facts from her court papers, oral arguments, and bar complaints. Conveying half truths and only part of the record in matters is a misrepresentation and a breach of her ethical duties as a lawyer.¹⁵⁷

Finally, regarding the firm, the magistrate held: “Ms. Klar was allowed to operate in the Liner firm unchecked and unquestioned . . . [T]he Liner firm acquiesced to or willingly carried out Ms. Klar’s litigation strategy”, and was therefore also eligible for sanctions.¹⁵⁸

Subsequently, upon consideration of the sanctioned firm’s and attorneys’ objections to the magistrate’s ruling, the district judge reversed the sanctions order as to each “without prejudice to any further proceedings consistent with [the district judge’s] order with respect to Flynn’s motion for sanctions.”¹⁵⁹ As to each of Liner Grode, Ms. Pham, and Ms. Klar, however, the reversals were not based on the merits of the magistrate’s findings that the conduct at issue was sanctionable. Instead, as to Liner Grode, the district judge held that the magistrate had imposed sanctions on Liner Grode only under 28 U.S.C. § 1927,¹⁶⁰ and that that provision does

¹⁵⁵ *Id.* at *25 (citations omitted).

¹⁵⁶ *Id.*

¹⁵⁷ *Id.* at *29.

¹⁵⁸ *Id.* at *33 (holding the firm’s conduct sanctionable under 28 U.S.C. § 1927).

¹⁵⁹ *Montgomery v. eTreppid Technologies, LLC*, Nos. 3:06-CV-00056-PMP-VPC, 3:06-CV-000145-PMP-VPC, 2010 WL 1416771, at *15, 22-23 (D. Nev. Apr. 5, 2010). The district judge, however, affirmed the sanctions award against the party Montgomery. *Id.* at *20.

¹⁶⁰ This is curious, because in apportioning responsibility for the sanctions award, the magistrate stated “Ms. Klar, Ms. Pham, and the Liner firm are sanctioned pursuant to the court’s inherent power and 28 U.S.C. § 1927 . . .” *See Montgomery*, No. 3:06-CV-0056-PMP (VPC), 2009 WL 910739, at *36.

not apply to law firms.¹⁶¹ The district judge reversed the sanctions against Ms. Pham because “the Magistrate Judge’s order setting the evidentiary hearing did not advise Pham that she may be subject to sanctions personally”, and therefore that the magistrate “did not provide adequate notice to Pham prior to imposing the sanctions in this matter”,¹⁶² and similarly concluded as to Ms. Klar.¹⁶³ As of this writing, then, the issue of whether the firm and the two attorneys involved in this matter will face sanctions for their conduct in this case is unresolved.

Wolters Kluwer Financial Services Inc. v. Scivantage

The trial court in *Wolters Kluwer Financial Services Inc. v. Scivantage*¹⁶⁴ also imposed sanctions on two attorneys as well as their firm, although the order was reversed as to the firm and one of the attorneys on appeal.¹⁶⁵ The relevant facts are as follows: the Dorsey & Whitney, LLP firm (“Dorsey”) filed suit on behalf of Wolters Kluwer against Scivantage and four individuals in the Southern District of New York in March 2007.¹⁶⁶ A confidentiality order entered during discovery provided that certain information, including the documents at issue in this case, “shall not be used [in] any other litigation proceeding,” and that the district court would retain jurisdiction to enforce those limitations.¹⁶⁷

After the defendants moved to dismiss for lack of personal jurisdiction, the plaintiff decided to voluntarily dismiss the New York action and to re-file in the District of Massachusetts.¹⁶⁸ However, the Dorsey attorneys working on the case – Kristan Peters and Marc Reiner – did not mention the pending dismissal during a subsequent conference call with the court and opposing counsel, and Mr. Reiner mailed (instead of emailing) notice of the dismissal to opposing counsel after Ms. Peters instructed him to file the motion (during or shortly after that conference call).¹⁶⁹ Ms. Peters subsequently filed a motion for temporary injunctive relief in the Massachusetts court.¹⁷⁰ Despite the New York court’s confidentiality order, she included 115

¹⁶¹ *Id.* at *15.

¹⁶² *Id.* at *21.

¹⁶³ *Id.* at *23.

¹⁶⁴ 525 F.Supp.2d 448 (S.D.N.Y. 2007), *aff’d in part and rev’d in part*, 564 F.3d 110 (2d Cir. 2009).

¹⁶⁵ *Wolters Kluwer Financial Services Inc. v. Scivantage*, 564 F.3d 110, 119 (2d Cir. 2009).

¹⁶⁶ *Id.* at 112.

¹⁶⁷ *Id.* at 113.

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

pages of materials covered by that order with the temporary injunction motion in Massachusetts, and delayed in returning discovery material to the defendants.¹⁷¹

The defendants moved for sanctions, but then settled with the plaintiff, and withdrew the sanctions motion.¹⁷² Southern District Judge Harold Baer, Jr., however, was clearly not amused. He issued a 129 page order¹⁷³ decrying the “erosion of civility” in litigation practice,¹⁷⁴ detailing the entire (brief, but highly contentious) history of the case,¹⁷⁵ and ultimately imposing non-monetary sanctions, as follows:

- Against Dorsey for (1) voluntarily dismissing the New York action and (2) using discovery materials in the Massachusetts action;¹⁷⁶
- Against Mr. Reiner for (1) “cancelling a deposition on the date the suit was voluntarily dismissed” and (2) “sending notice of the dismissal by mail but not electronically”;¹⁷⁷
- Twenty-four separate sanctions against Ms. Peters, including for:
 - (1) A misleading statement in the complaint;¹⁷⁸
 - (2) Statements – “made in bad faith for an improper purpose” – at the temporary restraining order in the New York action;¹⁷⁹
 - (3) A letter containing what the court regarded as frivolous discovery-related arguments;¹⁸⁰
 - (4) A declaration in which, the court found, she had “use[d a] semi-colon to provide a misleading interpretation of [the emergency motions judge]”;¹⁸¹
 - (5) Conduct (“attempt[ing] to create a false record”, and a “meritless” contention on the record) at a deposition;¹⁸²

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Wolters Kluwer Financial Services Inc. v. Scivantage*, No. 07 CV 2352(HB) (S.D.N.Y. Nov. 30, 2007).

¹⁷⁴ *Wolters Kluwer*, 525 F.Supp.2d at 451.

¹⁷⁵ *Id.* at 452-536.

¹⁷⁶ *Wolters Kluwer*, 564 F.3d at 114.

¹⁷⁷ *Id.* at 115.

¹⁷⁸ *Wolters Kluwer*, 525 F.Supp.2d at 541.

¹⁷⁹ *Id.* at 541-42.

¹⁸⁰ *Id.* at 542.

¹⁸¹ *Id.*

¹⁸² *Id.* at 542-43.

- (6) Disclosure of “information from an ‘attorneys’ eyes only’ deposition to an employee of her client”;¹⁸³
- (7) “[B]ad faith” threats of sanctions and contempt motions at another deposition;¹⁸⁴
- (8) “At various times in these depositions, . . . refus[ing] to show witnesses documents from which she quoted, show[ing] documents to witnesses from across the table, refus[ing] to provide copies of documents to counsel, refus[ing] to allow witnesses to take breaks, and threaten[ing] to call security when opposing counsel stated his intention to approach a Magistrate with a discovery dispute”;¹⁸⁵
- (9) A meritless motion for contempt and sanctions;¹⁸⁶
- (10) Conduct “intend[ing] to mislead the Court by implying that [d]efendants . . . acted in bad faith”;¹⁸⁷
- (11) Making “misleading and inaccurate” statements “to the Court that [d]efendants had failed to comply with their [discovery] obligations”;¹⁸⁸
- (12) Making “misleading and inaccurate” statement “to opposing counsel and the Court” regarding her client’s discovery production “for the improper purpose of gaining an advantage by procuring [d]efendant’s discovery before [p]laintiff provided meaningful discovery of its own.”¹⁸⁹
- (13) Making false statements to the Court regarding the availability of witnesses for deposition and failing to appear for depositions;¹⁹⁰
- (14) Committing “a fraud on the Court and on the [d]efendant” by participating in a conference call with the Court in which “the subject of the scheduling of future depositions was discussed”, while knowing “at that point that those depositions would never happen” because the decision had been made to voluntarily dismiss the case;¹⁹¹
- (15) Copying documents the defendants had previously produced in discovery after the action had been dismissed “in bad faith, with the improper purpose of the intention to use them in Massachusetts”;¹⁹²

¹⁸³ *Id.* at 543.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* at 544.

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* at 545.

¹⁹¹ *Id.* at 546.

¹⁹² *Id.* at 547.

- (16) Misleading the Court “as to her knowledge of the state of transcripts” following the Court’s order that transcripts be returned by a set date and time;¹⁹³
- (17) “[H]av[ing] the audacity to order additional copies [of deposition] transcripts from the court reporter . . . in blatant and intentional disregard of [the] Court’s order . . . to return all the transcripts”;¹⁹⁴
- (18) “[U]s[ing] the transcripts in a bad-faith effort for the improper purposes of gaining advantage (and expedient relief) in a new court after she had ‘judge-shopped,’ and after she had gained extensive discovery without providing any discovery of her own, and in an effort to have that Court eviscerate the Confidentiality Order that this Court had entered to govern discovery produced in this litigation (which remained in force after this litigation)”;¹⁹⁵ and
- (19) Sending emails to the Court constituting “a transparent attempt to convince [the] Court to wait on [ruling regarding transcripts in Dorsey’s possession] until, Ms. Peters hoped, the Massachusetts Court might eviscerate the Confidentiality Order”¹⁹⁶

The district court’s language obviously reflects tremendous frustration with the conduct of counsel.¹⁹⁷

On appeal, the Second Circuit held that the sanctions against the firm and against Mr. Reiner – the junior partner on the case – could not stand.¹⁹⁸ The court noted that voluntary dismissal under Fed.R.Civ.P. 41 is a matter of right under the circumstances of this case, and therefore that the firm was entitled to invoke dismissal even “to flee the jurisdiction or the judge.”¹⁹⁹ It further held, as to the firm, that “nothing in the record suggest that the decision to permit the Massachusetts filing [of the deposition transcripts covered by the New York confidentiality order] was made by the firm in bad faith or for any improper purpose.”²⁰⁰ As to Mr. Reiner, the appeals panel ruled that the misdirection he employed when cancelling the

¹⁹³ *Id.* at 547.

¹⁹⁴ *Id.* at 548.

¹⁹⁵ *Id.*

¹⁹⁶ *Id.* at 549.

¹⁹⁷ The district court declined to impose financial sanctions, despite what it described as its “ample cause and authority to” do so, because the defendants’ sanctions motion was withdrawn after the parties settled, and because the court was “satisfied that the costs incurred by the parties—both financial and emotional—in this case [were] significant and sufficient under the circumstances.” *Id.* at 540.

¹⁹⁸ *Wolters Kluwer*, 564 F.3d at 112.

¹⁹⁹ *Id.* at 115.

²⁰⁰ *Id.* (noting that the partner supervising Peter’s management of the case relied on Peter’s representation to him that the use of the materials in question was not barred by the Order).

deposition in question was not sanctionable,²⁰¹ nor was sending opposing counsel the notice of dismissal by mail, as “the rules do not make electronic service a requirement.”²⁰² The court, however, affirmed the district court’s imposition of sanctions against Ms. Peters.²⁰³

THE FALLOUT FROM MISCONDUCT AND THE RESULTING LITIGATION

The cases summarized above illustrate that trial judges and opposing litigants and counsel are motivated by a variety of concerns in imposing and advocating for sanctions. Obviously, litigants sometimes pursue sanctions for improper or illegitimate reasons, such as to prejudice the trial judge against the opponent, or to intimidate or increase litigation expenses for the other side. But concerns about compliance with discovery obligations, jury confusion, respect for court orders, for example, orders *in limine* and on claim construction, and abuse of process are clearly appropriate. For example, in each of *Medtronic*, *DePuy*, and *Kellogg*, the trial courts were concerned about the potential for jury confusion regarding complex legal issues.²⁰⁴ And, as noted above, patent litigators have also recently drawn the ire of courts for straightforward, transparent appeals to jurors consisting of statements completely unrelated to the merits, but clearly designed to prejudice the jury against their clients’ opponents.

Ensuring fundamental fairness is, ultimately, the responsibility of the trial judge. Moreover, the above case summaries can leave no doubt that the conduct of trial counsel in some cases warrants concern and sometimes sanctions. Given this, and the fact that litigation conduct plays out within the purview of the trial judge, if not right before his or her eyes, it is only appropriate that decisions to sanction are vested in the trial court’s discretion. It is notable, therefore, that reviewing courts have reversed so many of the above-described sanctions orders, including, in some cases, appellate courts applying abuse of discretion review.

Sometimes, sanctions orders are reversed on procedural grounds or because the trial court misapplies the governing sanctions law. For example, in *eTrepid*, the district judge ruled that the sanctioned attorneys had not received adequate notice that they were personally subject to sanctions.²⁰⁵ And courts in IP cases have recently reversed sanctions imposed against law firms

²⁰¹ *Id.* at 116 (noting that “the cancellation of the deposition was done for the purpose of concealment, but that was the intent of Peters, not Reiner”).

²⁰² *Id.*

²⁰³ *Id.* at 119.

²⁰⁴ *Medtronic*, No. 98-cv-01072-RPM, 2008 WL 41043, at *5 (finding that Medtronic and its counsel engaged in conduct that misled the jury); *DePuy*, 567 F.3d at 1332 (“If the district court had admitted the 2004 ruling into evidence, however, it would have had to explain to the jury that the court had previously decided the infringement issue, that the decision was overruled in part with regard to equivalence but not literal infringement, and that the jury must ignore this evidence when deciding equivalence for itself but may later consider it when assessing damages. The risk of jury confusion is apparent.”); *Kellogg*, No. 8:07CV70 at 20 (“[T]he record is replete with Nike’s attempts to confuse and obfuscate the issues...”).

²⁰⁵ *See supra* notes 162-63 and accompanying text.

under 28 U.S.C. § 1927 on the grounds that such sanctions are available only as to individual attorneys.²⁰⁶

But the sanctions were lifted in several of the above-described cases “on the merits”, i.e., because the reviewing court (or, in *Qualcomm*, the magistrate judge on reconsideration) regarded the conduct at issue as either insufficiently egregious (as in *Qualcomm* and *ClearValue*), as not unreasonable (as in *Medtronic*), or even as entirely within the rights of the sanctioned firm or attorney (as in *DePuy* and, in the case of the Dorsey firm and attorney Reiner, in *Wolters Kluwer*). These reversals raise a number of questions.

Aren’t Sanctions Reviewed for Abuse of Discretion? First, relevant fact-finding, for example on the issue of exceptionality, is reviewed under the comparatively exacting clear error standard.²⁰⁷ The decisions to impose sanctions and to what extent are reviewed for abuse of discretion.²⁰⁸ However, “[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.”²⁰⁹ And the Second Circuit, at least, has held that sanctions rulings are in a category of their own when it comes to appellate review: “when the district court is ‘accuser, fact finder and sentencing judge’ all in one, our review is ‘more exacting than under the ordinary abuse-of-discretion standard.’”²¹⁰

Are Reviewing Courts Too Tolerant? To be sure, the “judge, jury and executioner” nature of sanctions rulings, combined with the very serious potential ramifications of such rulings for attorneys and law firms, justify appropriately searching review. Nevertheless, it

²⁰⁶ See *supra* note 161 and accompanying text ; see also *BDT Prod., Inc. v. Lexmark Int’l, Inc.*, 602 F.3d 742, 751 (6th Cir. 2010) (holding that “there is no reason to consider a law firm a ‘person’ under the statute”).

²⁰⁷ The Federal Circuit has held:

The determination of whether a case is exceptional and, thus, eligible for an award of attorney fees under §285 is a two-step process. First, the district court must determine whether a case is exceptional, a factual determination reviewed for clear error. After determining that a case is exceptional, the district court must determine whether attorney fees are appropriate, a determination that we review for an abuse of discretion. A district court abuses its discretion when its decision is based on clearly erroneous findings of fact, is based on erroneous interpretations of the law, or is clearly unreasonable, arbitrary or fanciful.

Cybor Corp. v. FAS Techs, Inc., 138 F.3d 1448, 1460 (Fed. Cir. 1998) (*en banc*) (citations omitted).

²⁰⁸ See, e.g., *Schlaifer Nance & Co. v. Estate of Warhol*, 194 F.3d 323, 333 (2d Cir. 1999) (noting that the Second Circuit reviews decisions to sanction under Fed. R. Civ. P. 11, 28 U.S.C. § 1927, and the court’s inherent powers for abuse of discretion).

²⁰⁹ *Cooter v. Gell*, 496 U.S. 384, 405 (1990).

²¹⁰ *Wolters Kluwer Fin. Serv., Inc. v. Scivantage*, 564 F.3d 110, 113 (2d Cir. 2009) (quoting *Schlaifer Nance*, 194 F.3d at 334 and *Perez v. Danbury Hosp.* 347 F.3d 419, 423 (2d Cir. 2003)).

seems fair to ask whether reviewing courts are sometimes too tolerant. Consider these examples of conduct held not sanctionable in recent IP cases:

- Cancelling a deposition under false pretenses to conceal the true reason for the cancellation, i.e., that the suit was being voluntarily dismissed and re-filed elsewhere;²¹¹
- The knowing pursuit of a meritless lawsuit;²¹²
- Failing, during the course of discovery, to:
 - meet or “discuss appropriate document collection” with the client’s employees
 - “obtain sufficient information . . . to understand how [the client’s] computer system is organized”; or
 - take “supervisory responsibility for verifying that the necessary discovery had been conducted”²¹³

Surely there are limits to what opposing parties, counsel and the courts can reasonably be expected to tolerate when it comes to litigation conduct. And the nature and incidence of the conduct at issue in the above-described cases – all of which occurred during the last few years – reasonably suggests that perhaps litigation counsel and reviewing courts are expanding the definition of acceptably zealous advocacy.

What About the Trial Judges? It is difficult to read the sanctions orders discussed above without feeling empathy for the challenges trial judges encounter in the face of aggressive litigation tactics. Some of these orders are very lengthy. They reflect, at least in some cases, an enormous investment of work carefully reviewing the record and applying the applicable standards. It must be very disappointing for a trial judge to have had to experience the conduct in question first-hand, along with all of the associated attorney skirmishing – all while trying to preserve the integrity of the underlying proceeding – only to have a reviewing court effectively declare that the conduct wasn’t so bad after all. It is important to acknowledge the “wear and tear” that overly zealous conduct and sanctions litigation inflict on trial courts.

In what is perhaps a reflection of that “wear and tear”, some sanctions orders manifest apparent frustration on the part of trial judges.²¹⁴ It is also, therefore, worth noting that judges are only human, and that sanctions proceedings are high-drama, high-stakes events that potentially evoke emotions in all involved. Accordingly, the possibility that frustration or annoyance might have played a role in a sanctions decision also justifies careful review, at least in some cases.

²¹¹ See *supra* notes 169 and 201 and accompanying text.

²¹² *BDT Prod., Inc. v. Lexmark Int’l, Inc.*, 602 F.3d 742, 753 (6th Cir. 2010) (holding that “in order for a court to find bad faith sufficient for imposing sanctions under its inherent powers, the court must find *something more* than that a party knowingly pursued a meritless claim or action at any stage of the proceedings”) (emphasis in original).

²¹³ See *supra* notes 88-90 and accompanying text.

²¹⁴ See, e.g., *supra* notes 178-97 and accompanying text.

Still, the number and nature of sanctions orders reversals, of late, seem to merit consideration of whether/to what extent trial judges might hesitate, in future cases, to impose sanctions. Perhaps motivated by such a concern, one member of the Federal Circuit *Medtronic* panel wrote separately. In considering the potential effect of sanctions reversals on future deliberations by trial judges, Judge Lourie's concurring opinion is worth reading in its entirety:

I fully join the thorough opinion by Judge Bryson which carefully analyzes all the panel's grounds for reversing the district court's sanctions.

However, *the court's opinion should not be understood as in any way impeding the desirability and ability of district court judges to control their courtrooms and ensure that substantive arguments are reasonably based.*

Many patent suits are brought these days with little chance of success. Appeals to this court from summary judgments of non-infringement based on claim constructions that are affirmed here are testament to the frequency of non-meritorious claims brought in the district courts. Whether those suits are brought because of poor and non-objective appraisals of plaintiffs' prospects or for less worthy motives I do not know. But *district court judges are entirely justified, when they encounter frivolous claims and/or excessively hard-ball tactics, in imposing sanctions on offending parties. They are enforcing respect for the courts and the rights of innocent parties to be free of unjustified claims.*

In this case, there certainly were a number of instances during the proceedings below where the court felt that counsel had overstepped its bounds with their arguments. We reversed because, as tellingly explained by Judge Bryson, each incident had explanations that the panel believed were exonerating. But *our action in this case should not be viewed by district court judges as chilling their taking charge of their courtrooms and ensuring that proper arguments are made against proper opponents.*

With those comments, I fully join in the court's opinion and judgment.²¹⁵

What Motivates the Lawyers? As noted above, Judge Lourie posed several possible reasons why parties file patent suits that are unlikely to succeed.²¹⁶ In issuing sanctions in *Wolters Kluwer*, Judge Harold Baer went further, offering his observations on what he believes underlies misconduct in litigation:

While I am dismayed at the way in which many law firms today approach the practice of law, I realize that for the most part it is none of my business and

²¹⁵ *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 966-67 (Fed. Cir. 2010) (Lourie, J., concurring) (emphasis added).

²¹⁶ *See id.*

indeed not the business of the judiciary in general. The fact that partners are at times made and retained for their rainmaking skills and not for their legal skill, that the number of billable hours is not only the alpha and omega of bonuses but that these hours—or at least the ones that count—often exclude pro bono hours, or that who gets credit for originating a piece of business can throw a firm into turmoil and prompt major internecine struggles, or that the bottom line has eclipsed most everything else for which the practice of law stands or stood to the extent that the practice of law is now frequently described as a business rather than a profession. While decriable these are as I said really [sic] not my concern. Rather, it is the fallout from such conduct, some of which we witnessed here, that ineluctably drives some lawyers and some law firms to the kind of conduct that played out before me at this hearing and that then becomes the business of the courts.²¹⁷

Judge Lourie and Judge Baer seem to agree that whatever the motivations of the responsible parties, the trial courts have a responsibility to police court proceedings and to act to protect the integrity of those proceedings when confronted with inappropriate tactics.

At What Price, Fairness? The magistrate judge in the *Montgomery* case concluded her *Order Re: Motions for Sanctions* by acknowledging the solemn nature of the court's disposition.²¹⁸ In further noting that “[t]he court has devoted many, many hours of time in reviewing the papers filed, reading transcripts of relevant hearings, listening to recordings of hearings, and considering carefully the facts and law before it”,²¹⁹ the magistrate also reminded us of another aspect of the costs that attorney misconduct and the associated sanctions proceedings impose on the system – the diversion of precious court time and resources from the merits of disputes. In some cases, of course, the resource drain goes beyond what the courts and the parties invest in satellite sanctions litigation. When the conduct at issue imperils fundamental fairness, an entire new trial may be necessary. Such situations not only prejudice the offender's opponent; they also injure other parties whose day in court is delayed as a result, as well as the taxpayers who fund the court system. Trial and reviewing courts must also recognize these consequences of litigation misconduct, and should more frequently acknowledge them in sanctions decisions.

CONCLUSION

Even after expressing tremendous frustration and disappointment in the conduct of the counsel in the *Montgomery* and *Wolters Kluwer* cases discussed above, each of Nevada District

²¹⁷ *Id.* at 551 (repeating the essence of the more extended commentary with which he introduced his lengthy order (see *id.* at 449-52)).

²¹⁸ *Id.* at *37 (“Apart from depriving a citizen of his or her life, liberty or property, there is no more difficult task for a judge than sanctioning an attorney for misconduct.”).

²¹⁹ *Id.*

Court Magistrate Judge Cooke and Southern District Judge Baer sounded a hopeful note. Magistrate Judge Cooke expressed the “sincere hope that those subject to the sanctions . . . will never repeat this misconduct and that they will renew their professional commitment to abide by the highest ideals of the legal profession and the rule of law.”²²⁰ Judge Baer further took note of the reality that most lawyers conduct themselves in accordance with those ideals:

On a final note, the reader should be clear that I firmly believe the sentiment in the Craco Report that “the actual level of professionalism brought to bear . . . by thousands of lawyers across the state, in court and office, day in and day out, is extraordinarily high.” I am hopeful that by casting a ray of light on this anomalous and sanctionable behavior the public and the profession will be better served.²²¹

Judge Baer’s confidence in the majority of attorneys is no doubt well-placed. Nonetheless, the decisions summarized herein should serve as sobering examples of how even intelligent, experienced counsel can get caught up in the heat of the battle that is modern intellectual property litigation, and the potentially devastating consequences of that conduct.

²²⁰ *Id.*

²²¹ *Id.* (citing Committee on the Profession and the Courts: Final Report to the Chief Judge at 3 (Nov. 1995) available at <http://www.nycourts.gov/jipl/10-3-95.pdf>).