

Patent Trolls Beware: Ethics and Consequences in Filing Patent Suits Without a Sufficient Pre-Filing Investigation
by Sid Leach
Snell & Wilmer L.L.P.

In October 2006, a jury returned a verdict in the case of *Verve LLC v. Hypercom Corp.*, awarding compensatory damages and punitive damages against a lawyer and his law firm for abuse of process and malicious prosecution based upon patent infringement actions that were filed without an adequate pre-filing investigation. That same month, in the case of *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, an attorney and his law firm were sanctioned under Rule 11 of the Federal Rules of Civil Procedure for failing to conduct an adequate pre-filing investigation before filing a patent infringement action. On February 6, 2007, an administrative law judge at the International Trade Commission entered an order imposing sanctions on a lawyer and his law firm based, in part, upon the failure to conduct an adequate pre-filing investigation. These recent decisions underscore the importance of conducting an adequate pre-filing investigation before initiating patent infringement litigation. The failure to discharge this obligation can expose a lawyer and his firm to sanctions and potential liability for abuse of process or malicious prosecution. This paper will discuss sanctions under Rule 11, 28 U.S.C. §1927, 35 U.S.C. §285, and a court's inherent power, based upon the failure to conduct an adequate pre-filing investigation in a patent case. The paper will also cover potential liability for claims of abuse of process and malicious prosecution.

I. RULE 11 OF THE FEDERAL RULES OF CIVIL PROCEDURE

Rule 11 is of fundamental importance, because it provides a principal basis for sanctions relating to inadequate pre-filing investigations, serves as a guide star in the

exercise of a court's inherent power, and is used as the standard for evaluating the issue of probable cause in a malicious prosecution claim.

Under Rule 11, Fed.R.Civ.P., every paper filed with the court must be signed. The signature is a certification that the pleading complies with the requirements of the rule. By signing a pleading, an attorney certifies, *inter alia*, that to the best of his or her knowledge, information, and belief, formed after an inquiry reasonable under the circumstances, the allegations and factual contentions in the pleading have evidentiary support. Rule 11(b), Fed.R.Civ.P. The signer also certifies that the pleading is not being filed for any improper purpose. *Id.*

Rule 11 is intended to protect the integrity of the legal system. *Pope v. Federal Express Corp.*, 138 F.R.D. 684, 691 (W.D. Mo. 1991); *Navarro-Ayala v. Nunez*, 968 F.2d 1421, 1426 (1st Cir. 1992) (“[C]ourts cannot function if lawyers and litigants are not forthright.”). Rule 11 is intended to ensure that any papers filed with the court are well-grounded in fact, and not interposed for any improper purpose. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 392 (1990). The rule is principally designed to prevent baseless filings, *id.*, and to deter misrepresentations in pleadings, *Anderson v. County of Montgomery*, 111 F.3d 494, 502 (7th Cir. 1997), *overruled on other grounds*, *Dewalt v. Carter*, 224 F.3d 607 (7th Cir. 2000).

A. Evidentiary Support for Factual Contentions

Prior to signing a complaint, a litigant must fulfill the affirmative duty to conduct a reasonable inquiry into the facts and the law. *Business Guides, Inc. v. Chromatic Communications Enterprises, Inc.*, 498 U.S. 533 (1991). “Whether or not this duty has been breached depends on the objective reasonableness of the litigant’s conduct under the totality of the circumstances.” *Navarro-Ayala v. Nunez*, 968 F.2d 1421, 1425 (1st Cir.

1992). Although Rule 11 allows allegations to be made, if specifically so identified, as likely to have evidentiary support after a reasonable opportunity for further investigation or discovery, this is not a license to make claims without any factual basis. *Geisinger Medical Center v. Gough*, 160 F.R.D. 467, 469 (M.D. Pa. 1994).

In a patent infringement case, the patentee must conduct a reasonable investigation to determine whether the products accused of infringement actually infringe the asserted patent. *Antonious v Spalding & Evenflo Co.*, 275 F.3d 1066, 1074 (Fed Cir 2002) (“[A]n attorney violates Rule 11(b)(3) when an objectively reasonable attorney would not believe, based on some actual evidence uncovered during the pre-filing investigation, that each claim limitation reads on the accused device either literally or under the doctrine of equivalents.”). A patentee is required to demonstrate that an adequate pre-filing investigation was performed whenever it is challenged. *View Engineering, Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000) (“In bringing a claim of infringement, the patent holder, if challenged, must be prepared to demonstrate to both the court and the alleged infringer exactly why it believed before filing the claim that it had a reasonable chance of proving infringement.”).

In a patent case, Rule 11 “require[s], at a minimum, that an attorney interpret the asserted patent claims and compare the accused device with those claims before filing a claim alleging infringement.” *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300 (Fed. Cir. 2004). The attorney must have a reasonable basis for finding infringement of at least one claim of the patent by the accused device. *View Engineering Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 985-986 (Fed. Cir. 2000).

The claim interpretation should follow the standard canons of claim construction, comport with the plain meaning of the claim language, be reasonably supported by the intrinsic record, and not be inconsistent with the patent's written description or prosecution history. See *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1301 (Fed. Cir. 2004). In order to perform a proper claim construction analysis, the plaintiff must obtain a copy of the publicly available Patent and Trademark Office ("PTO") file for the patent application that issued as the asserted patent. The importance of the PTO application file is two-fold. Changes made during prosecution of a patent application by amendment, or in an argument, can restrict the scope that will be given to a patent and can legally foreclose infringement claims against certain types of products. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739-40 (2002). Secondly, an argument made to the patent examiner in order to convince the examiner to allow the application to issue as a patent that ascribes particular significance to a term in a patent will be definitive for purposes of patent claim construction. *Prima Tek II, L.L.C. v. Polypap, S.A.R.L.*, 318 F.3d 1143, 1148-49 (Fed. Cir. 2003).

An attorney cannot simply rely upon his client's pre-filing investigation and patent claim analysis. The attorney must perform his or her own independent claim analysis of the asserted patent. *S. Bravo Systems, Inc. v. Containment Tech. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996); *Antonious v Spalding & Evenflo Co.*, 275 F.3d 1066, 1072 (Fed Cir 2002).

In order to demonstrate that an adequate pre-filing investigation was conducted, an attorney may prepare claim charts comparing the elements of the patent claims to the available information describing the structure, function and operation of the accused

products. *Network Caching Technology, LLC v. Novell, Inc.*, No C-01-2079-VRW, 2002 U.S. Dist. LEXIS 26098, at *16 (N.D. Cal. Aug. 13, 2002) (“FRCP 11 requires that a plaintiff compare an accused product to its patents on a claim by claim, element by element basis...”). However, there is clearly no requirement that claim charts be prepared. *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1301 (Fed. Cir. 2004) (“[A] claim chart is not a requirement of a pre-filing infringement analysis, as the owner, inventor, and/or drafter of a patent ought to have a clear idea of what the patent covers without the formality of a claim chart.”). If claim charts are prepared and relied upon as evidence of a pre-filing investigation, the charts need to provide sufficient information to objectively show a good faith basis for concluding that the accused products infringe at least one claim of each asserted patent. *View Engineering Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000) (“Rule 11 ... [requires], at a bare minimum, [to] apply the claims of each and every patent that is being brought into the lawsuit to an accused device and conclude that there is a reasonable basis for a finding of infringement of at least one claim of each patent so asserted.”).

The information set forth in the claim charts should be sufficient to show that a reasonable effort was made to ascertain evidentiary support demonstrating that the accused products will meet the key limitations of the patent claims. *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997) (“[P]rior to the filing of the suit, neither Judin or his counsel had made a reasonable effort to ascertain whether the accused devices satisfied the two key claim limitations”); *Antonious v Spalding & Evenflo Co.*, 275 F3d 1066, 1074 (Fed Cir 2002) (“[C]ounsel must make a reasonable effort to determine whether the accused device satisfies each of the claim limitations.”). Conclusory claim

charts that merely mimic the language of the patent claims, without recitation of a sufficient evidentiary basis for the conclusions, are insufficient. *Network Caching Technology, LLC v. Novell, Inc.*, No C-01-2079-VRW, 2002 U.S. Dist. LEXIS 26098, at *16-18 (N.D. Cal. Aug. 13, 2002). In the case of *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, slip op. (W.D. Wash. Oct. 4, 2006), the patentee argued that it examined information on the accused infringer's web site, construed the claims of the patent, compared the asserted claims to the information available on the web site, and prepared a claim chart. *Id.*, slip op., at 6. The court found the claim charts insufficient to establish under an objectively reasonable standard that an adequate pre-filing investigation was performed. *Id.*, slip op., at 11-15. In the *Eon-Net* case, the court said:

To the extent Eon-Net went through the motions of a claim construction exercise, it recklessly defined terms to suit its purpose in spite of the specification's language. ... Eon-Net's construction in spite of the evidence is an abuse of the protections afforded by the patent system and is the type of misconduct for which Rule 11 provides sanctions.

Id., slip op., at 14-15.

Rule 11 requires an investigation that is "reasonable under the circumstances." *S.A. Auto Lube, Inc. v. Jiffy Lube International, Inc.*, 842 F.2d 946, 948 (7th Cir. 1988); *In re Yagman*, 796 F.2d 1165, 1182 (9th Cir. 1986). The Federal Circuit has not imposed an absolute requirement that a patentee must obtain or test a sample of the accused product prior to filing suit. The amount of investigation required in a particular case depends on both the time available to investigate and the probability that more investigation will turn up important evidence. *S.A. Auto Lube, Inc. v. Jiffy Lube International, Inc.*, 842 F.2d at 948. However, if samples of the accused product are readily available, the case law suggests that a patentee should obtain samples and test them for infringement. *Network Caching Technology, LLC v. Novell, Inc.*, No C-01-

2079-VRW, 2002 U.S. Dist. LEXIS 26098, at *13-16 (N.D. Cal. Aug. 13, 2002) (reverse engineering, or its equivalent, of the defendant's products is required); *Centillion Data Systems, LLC v. Convergys Corp.*, No. 1:04-cv-0073-LJM-WTL, 2006 U.S. Dist. LEXIS 846, at *13-14 (S.D. Ind. Jan. 4, 2006) (“[T]he Court finds that Centillion’s factual inquiry was objectively unreasonable because Centillion, nor its lawyers, never actually tested the allegedly infringing products to see if they met each of the ‘270 patent’s limitations.”). At least one court has said that Rule 11 requires that the accused infringing products be fully investigated prior to filing suit. *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, slip op., at 9 (W.D. Wash. Oct. 4, 2006) (“A plaintiff in a patent infringement suit has an obligation to fully investigate accused products before filing suit.”). In one case, the Federal Circuit said that several hundred thousand dollars would not be an unreasonable investigation expense to ascertain that the infringement allegations have evidentiary support. *View Engineering, Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 985 & n.5 (Fed. Cir. 2000).

In the case of *Judin v. United States*, 110 F.3d 780 (Fed. Cir. 1997), the plaintiff patentee failed to perform an adequate pre-filing investigation. In that case, the Federal Circuit held that the trial court abused its discretion by *not* sanctioning Judin. *Id.* at 781. Judin filed a complaint alleging patent infringement by U.S. Postal Service bar code scanners. *Id.* The patentee went to an industry exhibition, was familiar with trade publications, technical specifications, and commercial literature, and observed the accused product from a distance but did not attempt to obtain a sample of the accused product, and did not test the accused product. The Federal Circuit summarized the patentee’s pre-filing investigation as follows:

Sometime prior to the filing of the complaint, Judin observed bar code scanners in use at a post office. He also attended a scanning industry exhibition and was familiar with trade publications, technical specifications, and commercial literature some of which suggested that Government agencies were purchasing bar code scanners. Judin did not ask the Postal Service for a sample of the device or otherwise try to obtain one.

Judin presented his observations to attorney Van Der Wall, who also observed from a distance the accused devices in use in a post office, but otherwise conducted no investigation. Neither Van Der Wall nor Judin contacted the Postal Service, or any manufacturer, in order to gain access to the accused devices or to inquire about their operation. Van Der Wall relied on Judin with respect to the factual basis of the complaint, believing that reliance on Judin was reasonable due to Judin's experience, his credentials, and his time in industry. Van Der Wall stated that he examined one of the asserted patent claims and "saw no problem with it."

Id. at 781-82.

In contrast to the *Judin* case, in *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1302 (Fed. Cir. 2004), no sanctions were imposed where the patentee obtained a sample of the accused product and compared it with the patent claims prior to filing suit.

In the case of *Refac International, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281 (C.D. Cal. 1991), the plaintiff patentee performed an inadequate pre-filing investigation. In that case, the plaintiff's president was an experienced patent attorney. 141 F.R.D. at 284-85. In the *Refac* case, the plaintiff accused a number of defendants of patent infringement based on the plaintiff's contention that every modern LCD product marketed at the time suit was filed relied upon one or more of the claims described by the plaintiff's patents. However, this was an unjustified assumption, because LCD devices could be made containing circuitry antedating the patents. 141 F.R.D. at 286.

In *DE Technologies, Inc. v. Dell Inc.*, No. 7:04cv00628, 2006 U.S. Dist. LEXIS 7553 (W.D. Va. Feb. 28, 2006), two business method patents were asserted. The court noted that the business method patents involved "somewhat intangible intellectual

concepts,” and there was “no tangible product, device or equipment that DE Tech could have attempted to obtain in order to ‘reverse engineer’ in an effort to determine whether Dell’s procurement systems infringe the patents-in-suit.” *Id.* at *15. In that case, the patentee undertook several investigative activities over a 10-month period of time. After that, the patentee’s outside law firm took the information gathered by the patentee’s 10-month investigation, and assigned a team of at least five attorneys to conduct its own pre-filing investigation. The law firm also retained an outside expert. The law firm “conducted a detailed analysis of DE Tech’s patents, their file histories and all cited prior art references.” *Id.* at *31. The law firm “conducted prior art searches as part of a validity analysis of DE Tech’s patents” and “reviewed and analyzed all of the information and materials provided by DE Tech in addition to undertaking extensive Internet and literature searches of its own in an effort to gather all the facts that were publicly available in order to determine how Dell’s sales and procurement systems operated.” *Id.* at *31-32. The law firm obtained product brochures relating to the software applications used by Dell that provided significant details about their functionality, much of which the patentee said was directly relevant to performing an infringement analysis under the patent claims. The patentee placed an international order on Dell’s website and printed out the web pages it encountered during this transaction and reviewed the documentation received from Dell as a result of this transaction. Finally, the patentee and its law firm repeatedly contacted Dell to request underlying documentation that would show how Dell had effectuated the procurement of the products, but Dell refused to disclose this information by stating in writing, “these documents you are looking for are confidential

to Dell and we do not share these with the public.” *Id.* at *32-34. Under these circumstances, the court refused to find that Rule 11 had been violated.

Even if an adequate pre-filing investigation is conducted for one accused product, Rule 11 may be violated if the pre-filing investigation is inadequate for any other accused product. In the *Refac* case, the record showed that “not all of the accused products were examined before the filing of the complaint.” 141 F.R.D. at 286. Sanctions in the amount of \$1,446,511 were assessed under Rule 11 because “Refac assumed without justification that all of the accused products violated one or more of its patents, but made no reasonable (or any) investigation to confirm this.” 141 F.R.D. at 286.

In the case of *Renesas Technology Corp. v. Nanya Technology Corp.*, 2004 WL 2600466, at *3 (N.D. Cal.), the plaintiff tested several accused products and used that testing to infer infringement by other products. The patentee also reverse engineered three of the products. No sanctions were imposed.

In the case of *Pellegrini v. Analog Devices, Inc.*, No. 02-11562-RWZ, 2006 U.S. Dist. LEXIS 726 (D. Mass. Jan. 11, 2006), the patentee was sanctioned under Rule 11 for failure to offer any evidence of direct infringement by one of the defendant’s customers in the United States, in a case where the defendant was accused of inducement of infringement based upon components manufactured and sold outside the United States. *Id.* at *4-11.

A reasonable investigation of infringement also includes an inquiry reason under the circumstances concerning whether or not the accused infringer is licensed under the patent. In the *Refac* case, Refac sued Tele-Com even though Tele-Com was selling at least some LCD products made by manufacturers who were licensed. Refac made no

investigation prior to filing the complaint to determine whether Tele-Com was selling licensed products. 141 F.R.D. at 286-87.

The opportunity for further discovery is not an excuse for failing to investigate adequately before filing suit. *Judin v. United States*, 110 F.3d 780 (Fed. Cir. 1997); *Refac International Ltd. v. Hitachi Ltd.*, 921 F.2d 1247 (Fed. Cir. 1990). In *Judin*, the Federal Circuit said that Rule 11 “requires that the inquiry be undertaken *before* the suit is filed, not after.” 110 F.2d at 784 (emphasis in original). A plaintiff cannot plead a patent infringement claim first and then conduct the necessary investigation after the complaint is filed. *Burnette v. Godshall*, 828 F. Supp. 1439, 1448 (N.D. Cal. 1993) (“Plaintiff’s attorney chose to ‘file first and investigate later,’ which is unacceptable.”), *aff’d*, 72 F.3d 766 (9th Cir. 1995); *Ultra-Temp Corp. v. Advanced Vacuum Systems, Inc.*, 194 F.R.D. 378, 382 (D. Mass. 2000) (“[I]t should be obvious that the requirement of a pre-filing investigation would be utterly meaningless if a party could file a complaint without having done the requisite investigation, do some discovery, and then file an amended complaint and thereby insulate itself from any possibility of being sanctioned for the failure to conduct a pre-filing investigation before filing the original claim.”).

If the plaintiff fails to conduct an adequate pre-filing investigation, Rule 11 is violated even if it later turns out that the accused products actually infringe the patent. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. at 393 (if a lucky shot could save the signer from sanctions, the purpose of Rule 11 “to deter baseless filings” would be frustrated); *Garr v. United States Healthcare, Inc.*, 22 F.3d 1274, 1279 (3d Cir. 1994) (if a reasonable inquiry has not been conducted, attorney will not be shielded from sanctions by “the stroke of luck that the document happened to be justified”); *Vista Manufacturing, Inc. v.*

Trac-4 Inc., 131 F.R.D. 134, 138 (N.D. Ind. 1990) (“A shot in the dark is a sanctionable event, even if it somehow hits the mark.”).

In the case of *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, slip op. (W.D. Wash. Oct. 4, 2006), the patentee filed patent infringement lawsuits with no pre-filing investigation, and offered each defendant a cheap settlement. If the defendant did not settle, the patentee would then investigate the accused infringer’s products to try to show infringement. The court found that this approach to litigation violated Rule 11, and imposed sanctions on the patentee.

A court is not deprived of jurisdiction to impose Rule 11 sanctions where the plaintiff voluntarily dismisses the case before sanctions are imposed. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 395-98 (1990); *Greenberg v. Sala*, 822 F.2d 882, 885 (9th Cir. 1987) (voluntary dismissal of case does not deprive court of jurisdiction to consider Rule 11 sanctions); *Federated Mutual Insurance Co.*, 329 F.3d 805, 809 n.5 (11th Cir. 2003) (“We note that under *Cooter & Gell v. Hartmarx Corp.* ... a motion for Rule 11 sanctions involves a collateral proceeding that can be initiated and decided after the case on which it is based is finally resolved and no longer pending.”). One purpose of Rule 11 is to deter the filing of baseless lawsuits. That purpose would be defeated if sanctions could be avoided by a plaintiff who quickly dismisses the case before sanctions are imposed.

Baseless filing puts the machinery of justice in motion, burdening courts and individuals alike with needless expense and delay. Even if the careless litigant quickly dismisses the action, the harm triggering Rule 11’s concerns has already occurred. Therefore, a litigant who violates Rule 11 merits sanctions even after dismissal. Moreover, the imposition of such sanctions on abusive litigants is useful to deter such misconduct. If a litigant could purge his violation of Rule 11 merely by taking a dismissal,

he would lose all incentive to stop, think and investigate more carefully before serving and filing papers.

Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 398 (1990) (citations omitted).

Rule 11 was amended in 1983 to provide that if a Rule 11 violation is found, the imposition of sanctions is mandatory. *Refac International, Ltd. v. Hitachi, Ltd.*, 921 F.2d 1247, 1257 (Fed. Cir. 1990); *Golden Eagle Distributing Corp. v. Burroughs Corp.*, 801 F.2d 1531, 1540 (9th Cir. 1986); C. Wright, A. Miller & M. Kane, *Federal Practice and Procedure*, at 223 (Supp. 1989).

B. Rule 11 May Be Violated If Any Allegation Lacks Evidentiary Support

All of the factual contentions in a pleading should have evidentiary support, and all of the claims should be warranted under the law. Even if *some* of the claims asserted in a complaint have merit, the pleading will still violate Rule 11 if any portion of it fails the requirements of the rule. A pleading fails the requirements of Rule 11 if any single count of a multiple count complaint is baseless or lacks evidentiary support. *Antonious v Spalding & Evenflo Co.*, 275 F.3d 1066, 1075 (Fed Cir 2002); *Burnette v. Godshall*, 828 F. Supp. 1439, 1449 (N.D. Cal. 1993), *aff'd*, 72 F.3d 766 (9th Cir. 1995).

In a patent infringement suit where more than one product is accused of infringement, the plaintiff cannot assume that all of the accused products violate the patent if the plaintiff has only investigated some of them, unless under the circumstances there is a reasonable basis for concluding that the accused products are the same in all material respects. *Refac International, Ltd. v. Hitachi, Ltd.*, 141 F.R.D. 281, 286-87 (C.D. Cal. 1991). A patentee “would not be immunized from sanctions based on the strength of the other allegations of infringement.” *Antonious v Spalding & Evenflo Co.*, 275 F.3d 1066, 1075 (Fed Cir 2002). When a number of different products are charged with

infringement it is not always necessary for the plaintiff's attorneys to inspect each product separately to verify the facts on which the plaintiff bases its infringement allegations. "At a minimum, however, the evidence uncovered by the patent holder's investigation must be sufficient to permit a reasonable inference that all the accused products infringe." *Id.*

The factual contentions that are subject to the requirements of Rule 11 are not limited to allegations relating to the merits of the asserted claim. Factual allegations concerning venue may also be the basis for sanctions. In *Methode Electronics, Inc. v. Adam Technologies, Inc.*, 371 F.3d 923 (7th Cir. 2004), a verified complaint was filed alleging that a press release at issue was distributed to relevant parties "in this District." 371 F.3d at 924. The plaintiff obtained a temporary restraining order based upon the verified complaint. During a subsequent hearing, the district court judge became concerned with the venue allegations, because if venue was improper in the Northern District of Illinois, the judge indicated that he would not have granted a TRO, but would have transferred the case to New Jersey where venue was proper. 371 F.3d at 925. The court issued an order to show cause why sanctions should not be imposed, and the plaintiff promptly filed a notice voluntarily dismissing the case without prejudice. *Id.* The district court imposed sanctions based upon a finding that the venue allegations were "an effort to deceive the court as to the existence of venue, so that Methode could litigate the case in a forum that was convenient to it, however inconvenient to defendants." 371 F.3d at 928.

In the case of *Continental Insurance Co. v. Construction Industries Services Corp.*, 149 F.R.D. 451 (E.D.N.Y. 1993), the plaintiff was sanctioned because it filed a complaint alleging that the plaintiff's principal place of business was in New Jersey,

when the plaintiff had represented in at least three other federal cases that its principal place of business was in New York, not New Jersey.

C. Continuing to Assert a Contention After It Becomes Untenable

The certification specified by Rule 11 is deemed to be made whenever a pleading is “presented” to the court. This includes (1) when it is signed; (2) when it is filed; (3) when it is submitted; and (4) when it is later advocated. Rule 11(b), Fed.R.Civ.P. *See also Curley v. Brignoli Curley & Roberts Assoc.*, 128 F.R.D. 613, 616 (S.D.N.Y. 1989) (each time an amended complaint is filed, the amended complaint must meet the requirements of Rule 11 when the pleading is signed), *aff’d*, 915 F.2d 81 (2nd Cir. 1990), *cert. denied*, 499 U.S. 955 (1991).

Even if a pleading passes Rule 11 when it is initially signed, information that subsequently comes to the attention of counsel may demonstrate that a claim or contention is no longer viable. Rule 11 may be violated if an attorney continues to assert a contention that is no longer tenable. *Turner v. Sungard Business Systems, Inc.*, 91 F.3d 1418, 1422 (11th Cir. 1996) (“That the contentions contained in the complaint were not frivolous at the time it was filed does not prevent the district court from sanctioning [plaintiff] for his continued advocacy of them after it should have been clear that those contentions were no longer tenable.”); *Powell v. Adams*, 138 F.R.D. 128, 131 (E.D. Wis. 1991) (“[T]he sex discrimination claim was pressed even after it became entirely clear that the plaintiff had no reasonable basis for her assertion.”); *Coburn Optical Industries, Inc. v. Cilco, Inc.*, 610 F. Supp. 656, 660 (M.D.N.C. 1985) (“To persist in claims or defenses beyond a point where they can no longer be considered well grounded violates

Rule 11.”); *Plante v. Fleet National Bank*, 978 F. Supp. 59, 66 (D.R.I. 1997) (attorney failed to withdraw or modify complaint after actual notice of baseless nature of claims).

In the case of *Jones v. International Riding Helmets, Ltd.*, 145 F.R.D. 120, 124 (N.D. Ga. 1992), *aff’d*, 49 F.3d 692 (11th Cir. 1995), the plaintiff was sanctioned because he was told that the claim against one of the defendants was improper, and despite this knowledge, plaintiff’s counsel made no effort to verify the information.

In *Mike Ousley Productions, Inc. v. WJBF-TV*, 952 F.2d 380 (11th Cir. 1992), one of the defendants filed a “Rule 1.6 Certificate” disclosing his lack of involvement in the underlying controversy. The plaintiff failed to take any action to dismiss him from the case. The plaintiff was sanctioned for continuing to maintain the claim against that defendant.

In the case of *O’Brien v. United States Department of Justice*, 927 F. Supp. 382 (D. Ariz. 1995), *aff’d without opinion*, 76 F.3d 387 (9th Cir. 1996), the plaintiff made duplicative allegations to earlier allegations that had been previously dismissed for lack of subject matter jurisdiction. The court found that the plaintiff had abused the judicial process by forcing the defendants to challenge the court’s jurisdiction a second time. *O’Brien*, 927 F. Supp. at 386.

D. The Claim Need Not Be Shown to Be Frivolous

A party can be sanctioned even in the absence of a determination that the patent infringement claims were frivolous. It is well settled that “a Rule 11 sanction does not require an assessment of the legal merits of a claim.” *O’Brien v. United States Dept. of Justice*, 927 F. Supp. 382 (D. Ariz. 1995), *aff’d*, 76 F.3d 387 (9th Cir. 1996).

Rule 11 imposes an obligation to conduct a pre-filing investigation to verify that a claim is factually supported, and the failure to do so is a violation of the rule regardless of

the ultimate merits of the asserted claim. *Garr v. United States Healthcare, Inc.*, 22 F.3d 1274, 1279 (3rd Cir. 1994) (if a reasonable inquiry has not been conducted, attorney will not be shielded from sanctions by “stroke of luck that the document happened to be justified.”); *Vista Manufacturing, Inc. Trac-4 Inc.*, 131 F.R.D. 134, 138 (N.D. Ind. 1990) (“A shot in the dark is a sanctionable event, even if it somehow hits the mark.”). Otherwise, a litigant could file a complaint with no pre-filing investigation whatsoever, and escape sanctions for his violation of the rule by asserting that no action could be taken against him until an ultimate determination on the merits was made. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 393 (1990) (if a lucky shot could save the signer from sanctions, the purpose of Rule 11 “to deter baseless filings” would be frustrated); *Ultra-Temp Corp. v. Advanced Vacuum Systems, Inc.*, 194 F.R.D. 378, 382 (D. Mass. 2000) (“[I]t should be obvious that the requirement of a pre-filing investigation would be utterly meaningless if a party could file a complaint without having done the requisite investigation, do some discovery, and then file an amended complaint and thereby insulate itself from any possibility of being sanctioned for the failure to conduct a pre-filing investigation before filing the original claim.”). Rule 11 was intended to require litigants and their counsel to verify the factual support for a claim before the complaint is filed, and does not permit a litigant to shoot first and ask questions later. *Burnette v. Godshall*, 828 F. Supp. 1439, 1448 (N.D. Cal. 1993) (“Plaintiff’s attorney chose to ‘file first and investigate later,’ which is unacceptable.”), *aff’d*, 72 F.3d 766 (9th Cir. 1995).

E. Safe Harbor Provisions

A Rule 11 motion for sanctions must first be served upon the opposing party prior to filing the motion with the court. Rule 11(c)(1)(A), Fed.R.Civ.P. The motion cannot be presented to the court unless the opposing party fails to withdraw or correct the

challenged pleading within 21 days after service of the motion. *Id.* This provision was added to Rule 11 with the intention of affording a party a “safe harbor” against motions under Rule 11 whereby that party would “not be subject to sanctions on the basis of another party’s motion unless, after receiving the motion, it refused to withdraw that position or to acknowledge candidly that it did not ... have evidence to support a specified allegation.” Fed.R.Civ.P. 11 Advisory Committee’s Note (1993 Amendments).

Normally, the only way that a party may be awarded its attorneys’ fees as a sanction for a Rule 11 violation is if the sanctions order results from a motion filed after the sanctioned party failed to take advantage of the safe harbor. Under limited circumstances, some courts have used the court’s inherent power to award attorneys’ fees when there was insufficient time for the moving party to follow the safe harbor provisions. *E.g., Methode Electronics, Inc. v. Adam Technologies, Inc.*, 371 F.3d 923 (7th Cir. 2004).

The filing of a motion for sanctions is itself subject to the requirements of Rule 11 and can lead to sanctions. *Safe-Strap Co. v. Koala Corp.*, 270 F. Supp.2d 407, 421 (S.D.N.Y. 2003). “Thus, where a party’s motion for Rule 11 sanctions is not well grounded in fact or law, or is filed for an improper purpose, a court may find itself in the position of imposing Rule 11 sanctions on the moving party and/or her attorney.” *Id.* (citation omitted). A party opposing a Rule 11 motion need not comply with the 21-day safe harbor provisions in order to request sanctions against the party filing the improper Rule 11 motion. *Id.*; *Patelco Credit Union v. Sahni*, 262 F.3d 897, 913 (9th Cir. 2001) (“A party defending a Rule 11 motion need not comply with the separate document and safe harbor provision when counter-requesting sanctions.”). Rule 11(c)(1)(A) allows a

court, “if warranted, ... [to] award to the party prevailing on the motion [for sanctions] the reasonable expenses and attorney’s fees incurred in presenting or opposing the motion.”

A Rule 11 motion should be brought to the Court’s attention without undue delay after the violation becomes known. “[P]arties that seek sanctions for the submission of a complaint are encouraged to file a Rule 11 motion promptly after the complaint is filed.” *Safe-Strap Co. v. Koala Corp.*, 270 F. Supp.2d 407, 413 n.3 (S.D.N.Y. 2003). Although the text of Rule 11 itself “fails to specify when a Rule 11 motion should be brought,” *Ridder v. City of Springfield*, 109 F.3d 288, 295 (6th Cir. 1997), *cert. denied*, 522 U.S. 1046 (1998), the Advisory Committee Notes for Rule 11 state that ordinarily, Rule 11 motions “should be served promptly after the inappropriate paper is filed, and, if delayed too long, may be viewed as untimely.” Fed.R.Civ.P. 11 Advisory Committee’s Note (1993 Amendments). The issue should be raised promptly after discovery of the violation. *Kaplan v. Zenner*, 956 F.2d 149, 150-151 (7th Cir. 1992) (“Where appropriate, [Rule 11] motions should be filed ... as soon as practicable after discovery of a Rule 11 violation.”); *Price v. Hawaii*, 789 F. Supp. 330, 335-336 (D. Haw. 1992) (“A motion for sanctions under Rule 11 ... should be denied when the moving party fails to act promptly.”).

Parties that initially remain idle after a Rule 11 violation has come to their attention risk the denial of their subsequent Rule 11 motion on the basis of unreasonable delay. *General Motors Acceptance Corp. v. Bates*, 954 F.2d 1081, 1086-1087 (5th Cir. 1992) (affirming the denial of a Rule 11 motion filed two years and nine months after the alleged violation); *Weinreich v. Sandhaus*, 156 F.R.D. 60, 63 (S.D.N.Y. 1994) (denying Rule 11 motion as “untimely” where the great majority of the allegedly sanctionable

conduct occurred three to six years before the motion was filed); *Price v. Hawaii*, 789 F. Supp. 330, 336 (D. Haw. 1992) (denying as untimely a Rule 11 motion filed more than two years after the dismissal of the case); *Connecticut v. Insurance Co. of America*, 121 F.R.D. 159, 162-163 (D. Conn. 1988) (denying motion for sanctions on the basis of “unreasonable delay” where the motion was filed one year after the case was removed and almost eight months after the case was remanded). In one case, the court denied a Rule 11 motion where the defendant failed to bring the issue of the patentee’s inadequate pre-filing investigation to the court’s attention until nearly two years after the case was filed. *Centillion Data Systems, LLC v. Convergys Corp.*, No. 1:04-cv-0073-LJM-WTL, 2006 U.S. Dist. LEXIS 846, at *14 (S.D. Ind. Jan. 4, 2006).

F. *Sua Sponte* Sanctions

Even in the absence of a Rule 11 motion, a court may impose sanctions on its own initiative. *See, e.g., Methode Electronics, Inc. v. Adam Technologies, Inc.*, 371 F.3d 923 (7th Cir. 2004). If the court does so, a show cause order will normally be issued directing the party in question to show cause why sanctions should not be imposed. A show cause order does not shift the burden of proof for the imposition of sanctions, but instead facilitates due process requirements. *Cook v. American Steamship Co.*, 134 F.3d 771, 776 (6th Cir. 1998) (“[A] show cause order only acts as notice to the relevant party by informing the party what conduct is alleged to be sanctionable, and allows the party an opportunity to respond, by presenting evidence and arguments why sanctions should not be imposed, the party has the opportunity to ‘persuade’ the court that sanctions are not warranted.”).

In a situation where a court seeks to impose sanctions *sua sponte* under Rule 11, monetary sanctions are limited to an order to pay a penalty into court, and the opposing

party cannot be awarded reasonable attorneys' fees. Rule 11(c)(2). Monetary sanctions may not be awarded on the court's own initiative unless the court issues a show cause order before dismissal or settlement of the case. Rule 11(c)(2)(B). There is some authority suggesting that the amount of sanctions imposed on a *sua sponte* order is lower than that which would be imposed as a result of a motion. *Vollmer v. Selden*, 350 F.3d 656 (7th Cir. 2003); *Vollmer v. Publishers Clearing House*, 248 F.3d 698 (7th Cir. 2001); *MHC Inv. Co. v. Racom Corp.*, 323 F.3d 620 (8th Cir. 2003).

In *Valdez v. Kreso, Inc.*, 144 F. Supp.2d 663 (N.D. Tex. 2001), the federal district court imposed sanctions *sua sponte* where the federal lawsuit was filed after a state court lawsuit brought by the same plaintiff against the same out-of-state defendant had been dismissed for lack of personal jurisdiction. The federal court reasoned that if there was no personal jurisdiction in state court, then the federal court would not have personal jurisdiction either. The court also noted that a large number of factual misrepresentations were made in the complaint.

In *Moser v. Bret Harte Union High School Dist.*, 366 F. Supp.2d 944 (E.D. Cal. 2005), the court issued a *sua sponte* show cause order against the defendant and its attorneys based upon Rule 11, 28 U.S.C. §1927, and the court's inherent power. The court found that the defendant school district, its trial attorney, and the trial attorney's law firm should be sanctioned for bad faith frivolous objections, misstatements and mischaracterizations of facts contained in the administrative record, misstatements of the applicable law, and intentional obstruction of the speedy and just resolution of the dispute. The school district, the trial attorney, and the trial attorney's law firm were each ordered to pay the plaintiff \$5,000, for a total sanction of \$15,000.

Some courts have held that a finding of bad faith is required for the imposition of sanctions *sua sponte*. *In re Pennie & Edmonds, LLP*, 323 F.3d 86, 89-90 (2nd Cir. 2002); *Barber v. Miller*, 146 F.3d 707, 711 (9th Cir. 1998); *Kaplan v. Daimler Chrysler, A.G.*, 331 F.3d 1251, 1255-56 (11th Cir. 2003). However, there is a split of authority on this issue. *See Young v. City of Providence ex rel. Napolitano*, 404 F.3d 33, 40 (1st Cir. 2005).

G. The Amount of Sanctions Under Rule 11

The cost imposed upon adverse parties as a result of a Rule 11 violation will normally be considered in arriving at the appropriate amount of sanctions. *Temple v. WISAP USA in Texas*, 152 F.R.D. 591, 602 (D. Neb. 1993) (“In arriving at appropriate sanctions, courts will normally consider the cost of the Rule 11 violation ...”). The appropriate sanction when a litigant fails to conduct a pre-filing investigation is often measured by *all* of the reasonable expenses incurred by each and every defendant who was sued. *Refac International, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281, 287-88 (C.D. Cal. 1991) (“The ‘appropriate sanction’ which Refac should pay for its violation of Rule 11 is all of the expenses including attorney’s fees, incurred by each and every defendant herein (including cross- or third-party defendants) from the time of the filing of the complaint through claims for sanctions hereunder including attorney’s fees for moving for or joining in the Rule 11 motions...”); *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, 2006 U.S. Dist. LEXIS 91735, at *7-8 (W.D. Wash. Dec. 19, 2006) (“An award of attorneys’ fees pursuant to Rule 11 is limited to expenses and fees reasonably necessary to resist the offending action.”).

The purpose of sanctions is to deter future litigation abuse, punish present litigation abuse, compensate victims of litigation abuse, and streamlining the court docket and management of cases by eliminating cases that should not have been brought in violation of the rules. *Merrigan v. Affiliated Bankshares of Colorado*, 775 F. Supp. 1408, 1412-13 (D. Colo. 1991), *aff’d*, 956 F.2d 278 (10th Cir.), *cert. denied*, 506 U.S. 823 (1992); *White v. General Motors Corp.*, 908 F.2d 675, 683 (10th Cir. 1990). Sanctions measured by attorney’s fees are the normal method of achieving deterrence against

lawsuits filed in violation of the rules. *Merrigan v. Affiliated Bankshares of Colorado*, 775 F. Supp. at 1413.

That the Rule 11 violation was costly to the defendant weighs in favor of fully compensatory monetary sanctions because fully compensatory monetary sanctions in cases where the costs are large make plain to the offending lawyer the full consequences of the Rule 11 violation to the aggrieved party.

Temple v. WISAP USA in Texas, 152 F.R.D. 591, 602 (D. Neb. 1993).

Some courts measure the amount of the sanctions by the costs of the violation, *i.e.*, fully compensatory monetary sanctions, in order to achieve deterrence by impressing upon the offending party the full consequences of the violation. *D'Aquino v. Citicorp/Diner's Club, Inc.*, 139 F.R.D. 357, 360 (N.D. Ill. 1991) (sanctions must be fashioned to ensure “that those who create unnecessary costs bear them.”).

[T]he award of attorneys’ fees is explicitly targeted to deterrence of litigation abuse. By forcing [plaintiff] to internalize the cost to [defendant] of responding, the award of attorneys’ fees approximates optimal deterrence.

Merriman v. Security Insurance Co., 100 F.3d 1187, 1194 (5th Cir. 1996).

In addition, some courts reason that legitimate sanctions motions should be encouraged by reimbursing the opposing party for the costs incurred in proving the Rule 11 violation. *Temple v. WISAP USA in Texas*, 152 F.R.D. 591, 606 (D. Neb. 1993) (“[I]t would not serve the purposes of Rule 11 to discourage the filing of legitimate sanctions motions by failing to make aggrieved parties whole, or nearly so, respecting costs reasonably incurred in proving a violation of Rule 11.”).

Some courts have justified the imposition of significant sanctions by reasoning that imposing insufficient sanctions upon litigants who are found guilty of acts committed

in bad faith that are an abuse of process “would send the wrong message to litigants and the bar.” *Pope v. Federal Express Corp.*, 138 F.R.D. 684, 691 (W.D. Mo. 1991).

Although an award of attorneys’ fees is limited to expenses and fees reasonably necessary to resist a baseless lawsuit, arguments that the defendant failed to mitigate its expenses rarely succeed. *See Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, 2006 U.S. Dist. LEXIS 91735, at *8 (W.D. Wash. Dec. 19, 2006) (“The Court is not persuaded that Flagstar could have mitigated its costs and legal fees by filing an earlier motion, or by taking some different course.”). In the absence of evidence of collusion or bad faith, common experience suggests that a defendant will not pay the bills from its attorneys if the amount is unreasonable. *Cf. Haswell v. Liberty Mutual Insurance Co.*, 557 S.W.2d 628 (Mo. 1977) (“Based upon the common experience of everyday life, the jury may infer that people do not pay bills where the reasonableness of the charge is disputed.”)

The amount of fees and expenses awarded in patent cases can be high. This is because “[p]atent litigation is expensive, and usually a time consuming affair.” *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, No. C05-2129MJP, 2006 U.S. Dist. LEXIS 91735, at *8 (W.D. Wash. Dec. 19, 2006). In the *Eon-Net* case, the court awarded \$141,984.70. *Id.* at 12-13. In the *Refac* case, the court awarded sanctions in the amount of \$1,446,511.49. *Refac International, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281, 291 (C.D. Cal. 1991). Courts have frequently considered the American Intellectual Property Law Association Economic Survey in evaluating the reasonableness of attorneys’ fees in patent litigation. *Eon-Net, P.L. v. Flagstar Bancorp, Inc.*, *supra*, at *11; *View Engineering, Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 987 (Fed. Cir. 2000).

In considering the amount of sanctions to be imposed, it is proper to consider the sanctioned party's litigation history. *White v. General Motors Corp.*, 77 F.3d 499, 502 (10th Cir. 1992) ("The offending party's litigation history is one factor which the court may consider in determining an appropriate Rule 11 sanction."); *Obert v. Republic Western Insurance Co.*, 264 F. Supp.2d 106, 123 (D.R.I. 2003) ("In determining sanctions, a court may consider the wrongdoer's history."); *Kratage v. Charter Township of Commerce*, 926 F. Supp. 102, 105 (E.D. Mich. 1996) ("In fashioning an appropriate sanction, the court may consider past conduct of the individual responsible for violating Rule 11."). For example, repeat offenders may require larger sanctions in order to achieve deterrence from future misconduct. Based upon a consideration of an attorney's litigation history demonstrating willful conduct, courts have found that harsh sanctions may be appropriate in a given case so as to coerce compliance. *Temple v. WISAP USA in Texas*, 152 F.R.D. 591, 604 (D. Neb. 1993).

A district court judge generally has broad discretion in determining the amount of sanctions to be imposed in a case. The judge is well acquainted with the litigants and the circumstances in a particular case, and is usually considered to be in the best position to decide what sanction fits a particular case. *Anderson v. Beatrice Foods Co.*, 900 F.2d 388, 394 (1st Cir.) ("The trial judge is best positioned to decide what sanction best fits a particular case or best responds to a particular episode or pattern of errant conduct."), *cert. denied*, 498 U.S. 891 (1990).

When the district court settles upon a monetary sanction and fixes a dollar amount, a reviewing tribunal should defer, within broad limits, to the district court's exercise of its informed discretion.

Navarro-Ayala v. Nunez, 968 F.2d 1421, 1426 (1st Cir. 1992). *See also Empire State Pharmaceutical Society, Inc. v. Empire Blue Cross & Blue Shield*, 778 F. Supp. 1253,

1260 (S.D.N.Y. 1991) (“District courts have broad discretion in ascertaining the appropriate amount of a defendant’s attorneys fees though reasonable to serve the purpose of the rule, which is to deter baseless filings in the district courts, thereby streamlining administration and procedure of the federal courts.”).

A district court is accorded broad discretion in setting the amount of sanctions. An appellate court will be reluctant to substitute its judgment for that of the district court judge who is better informed of the totality of the circumstances in a particular case. *Jimenez v. Madison Area Technical College*, 321 F.3d 652, 657 (7th Cir. 2003) (“[I]n all cases, we are to give the trial court ‘*significant discretion* in determining *what* sanctions ... should be imposed for a Rule 11 violation’.”) (emphasis in original), *quoting from Fries v. Helsper*, 146 F.3d 452, 459 (7th Cir. 1998).

H. Who Is Liable For Rule 11 Sanctions

Under Rule 11, the court may “impose an appropriate sanction upon the attorneys, law firms, or parties” that violated the rule, or that were responsible for the violation. Rule 11(c), Fed.R.Civ.P. The court can sanction a party, or the attorneys, or both. *Mike Ousley Productions, Inc. v. WJBF-TV*, 952 F.2d 380, 383 (11th Cir. 1992) (“Rule 11 clearly provides for sanctions against attorneys.”). The person signing a pleading in violation of the rule is clearly within the scope of the court’s power to sanction. However, the rule extends potential liability further, and also includes persons who were “responsible” for the violation. The policy guiding a determination of who should be sanctioned for a rule violation is “that those who create unnecessary costs bear them.” *D’Aquino v. Citicorp/Diner’s Club, Inc.*, 139 F.R.D. 357, 360 (N.D. Ill. 1991).

There are many cases in which liability for Rule 11 sanctions has been imposed jointly and severally upon the attorneys and the party that they represented. *Estate of Calloway v. Marvel Entertainment Group*, 9 F.3d 237, 239 (2nd Cir. 1993) (“[P]ersons liable for Rule 11 sanctions may be jointly and severally liable.”), *cert. denied*, 511 U.S. 1081 (1994); *Obert v. Republic Western Insurance Co.*, 264 F. Supp.2d 106, 111-12 (D.R.I. 2003) (“Those individuals and law firms are jointly and severally liable for those payments.”); *Pope v. Federal Express Corp.*, 138 F.R.D. 684, 690 (W.D. Mo. 1991) (“as a sanction, the Court finds that [plaintiff] and [plaintiff’s attorney] should be jointly and severally liable to defendants...”); *Empire State Pharmaceutical Society, Inc. v. Empire Blue Cross & Blue Shield*, 778 F. Supp. 1253, 1260 (S.D.N.Y. 1991) (attorney and represented party ordered “to pay those sanctions jointly and severally.”).

A law firm is jointly liable for Rule 11 sanctions unless there are exceptional circumstances that weigh against such liability. Rule 11(c)(1)(A), Fed.R.Civ.P. (“Absent exceptional circumstances, a law firm shall be held jointly responsible for violations committed by its partners, associates, and employees.”).

I. Due Process

An attorney who files papers with no basis in fact needs no more notice, for due process purposes, than the existence of Rule 11 itself. *Merriman v. Security Insurance Co.*, 100 F.3d 1187, 1191 (5th Cir. 1996); *Mike Ousley Productions, Inc. v. WJBF-TV*, 952 F.2d 380, 383 (11th Cir. 1992).

In the Rule 11 context, due process demands only that the sanctioned party be afforded notice and an opportunity to be heard. *Merriman v. Security Insurance Co.*, 100 F.3d 1187, 1191 (5th Cir. 1996). In Rule 11 cases, the opportunity to respond through

written submissions usually constitutes sufficient opportunity to be heard. *Id.* at 1192; *International Ore & Fertilizer Corp. v. SGS Control Services, Inc.*, 38 F.3d 1279 (2nd Cir. 1994), *cert. denied*, 515 U.S. 1122 (1995); *Taylor v. County of Copiah*, 937 F. Supp. 580, 584 (S.D. Miss. 1995) (“Simply giving the individual accused of a Rule 11 violation a chance to respond through the submission of a brief is usually all that due process requires.”); *Smith v. Ricks*, 31 F.3d 1478, 1488 (9th Cir. 1994), *cert. denied*, 514 U.S. 1035 (1995).

The Advisory Committee Note accompanying the 1983 amendments to Rule 11 cautioned that a court should limit sanction proceedings to a review of the case record where possible, and to avoid spawning parallel proceedings and satellite litigation:

In many situations, the judge’s participation in the proceedings provides him with full knowledge of the relevant facts and little further inquiry will be necessary. To ensure that the efficiencies achieved through more effective operation of the pleading regimen will not be offset by the cost of satellite litigation over the imposition of sanctions, the court must to the extent possible limit the scope of sanction proceedings to the record.

Merriman v. Security Insurance Co., 100 F.3d 1187, 1192 (5th Cir. 1996), *quoting* Advisory Committee Note.

J. Standard of Review on Appeal

Caisse Nationale de Credit Agricole-CNCA v. Valcorp, Inc., 28 F.3d 259, 264 (2nd Cir. 1994) (“In reviewing a district court’s decision with regard to the imposition of sanctions, we apply a deferential standard of review since the district court, which is ‘[f]amiliar with the issues and litigants, ... is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11.’”), *quoting from Cooter & Gell v. Hartmarz Corp.*, 496 U.S. 384, 402 (1990); *Jimenez v. Madison Area Technical College*, 321 F.3d 652, 656 (7th Cir. 2003) (“We

review a trial court’s decision to grant Rule 11 sanctions with deference ... ‘because the trial court alone has an intimate familiarity with the relevant proceedings...’”), *quoting from Divane v. Krull Elect. Co.*, 200 F.3d 1020, 1025 (7th Cir. 1999); *Navarro-Ayala v. Nunez*, 968 F.2d 1421, 1425 (1st Cir. 1992) (“Because the decision about whether a litigant’s (or lawyer’s) actions merit the imposition of sanctions is heavily dependent upon the district court’s firsthand knowledge of the case and its nuances, appellate review is deferential. Thus, a party protesting an order in respect to sanctions bears a formidable burden in attempting to convince the court of appeals that the district court erred in finding that Rule 11 was, or was not, violated.”) (citations omitted).

A sanctions order will be affirmed unless it constitutes an abuse of discretion.

We review the grant of sanctions with deference because of the familiarity of the trial court with the relevant proceedings. The imposition of sanctions, under either Rule 11 or the court’s inherent power, is reviewed for an abuse of discretion.

Method Electronics, Inc. v. Adam Technologies, Inc., 371 F.3d 923, 925-26 (7th Cir. 2004) (citation omitted). All aspects of a district court decision to award sanctions, including the court’s findings of fact, assessment of bad faith, and determination of the adequacy of the pre-filing investigation, are reviewed only for an abuse of discretion. *Caisse Nationale de Credit Agricole-CNCA v. Valcorp, Inc.*, 28 F.3d 259, 264 (2nd Cir. 1994) (“All aspects of the district court’s decision to award Rule 11 sanctions, including its findings of fact, its assessment of the signer’s credibility, and its determination that the legal arguments were frivolous, are reviewed for abuse of discretion.”).

Unless the district court judge based his ruling “on an erroneous view of the law or on a clearly erroneous assessment of the evidence,” no abuse of discretion should be

found. *Cooter & Gell v. Hartmarz Corp.*, 496 U.S. 384, 402-05 (1990); *Caisse Nationale de Credit Agricole-CNCA v. Valcorp, Inc.*, 28 F.3d 259, 264-65 (2nd Cir. 1994).

In addition, the court of appeals “can affirm ‘a grant of sanctions on any basis supported by the record and the law.’” *Method Electronics, Inc. v. Adam Technologies, Inc.*, 371 F.3d 923, 925-26 (7th Cir. 2004), quoting *Divane v. Krull Elect. Co.*, 200 F.3d 1020, 1026 (7th Cir. 1999). Sanctions may be affirmed even on a ground that was denied by the district court. “There is no ‘single jeopardy’ requirement regarding sanctions.” *Smith v. Ricks*, 31 F.3d 1478, 1488 (9th Cir. 1994), cert. denied, 514 U.S. 1035 (1995).

II. SANCTIONS UNDER 35 U.S.C. §285

The patent statute includes a provision allowing an award of reasonable attorneys fees in “exceptional cases.” 35 U.S.C. §285. A case is “exceptional” within the meaning of the statute if a patent infringement lawsuit is brought by a plaintiff who knew or, on reasonable investigation, should have known, that the infringement claim was baseless. *Haynes International, Inc. v. Jessop Steel Co.*, 8 F.3d 1573, 1579 (Fed. Cir. 1993); *Bayer Aktiengesellschaft v. Duphar International Research*, 738 F.2d 1237, 1242 (Fed. Cir. 1984)(unjustified litigation or frivolous suit); *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)(unjustified litigation or frivolous suit).

Conduct that violates Rule 11 can be the basis for an award of attorneys fees under 35 U.S.C. §285. *Brooks Furniture Mfg., Inc. v. Dutailier International Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). Thus, if a patent infringement lawsuit is filed without an adequate pre-filing investigation, the party filing the lawsuit may be sanctioned under

35 U.S.C. §285 and required to pay the reasonable attorneys fees incurred by the accused infringer in defending against the baseless patent infringement claim.

An award of attorneys' fees under Section 285 has two purposes. First, an award of fees is designed to "reimburse a party injured when forced to undergo an exceptional case." *Mathis v. Spears*, 857 F.2d 749, 753 (Fed. Cir. 1988). In addition, an award of attorneys' fees under § 285 is a sanction that is designed to deter parties from bringing or prosecuting bad faith litigation. *Mathis*, 857 F.2d at 754; *Samsung Electronics Co. v. Rambus Inc.*, No. 3:05cv406, 2006 U.S. Dist. LEXIS 50074, at *14-17 & 26 (E.D. Va. July 18, 2006); ("[A]n imposition of sanctions, whether under § 285 or the court's inherent powers, is critically important to the ability of district courts to punish misconduct by the parties or counsel. That is particularly so where the misconduct can impose significant costs on the adversary of the offending party and can significantly burden the resources of the judicial system.").

"The purpose of sanctions goes beyond reimbursing parties for expenses incurred responding to unjustified or vexatious claims. Rather, sanctions are designed to punish a party who has already violated the court's rules."

Perkins v. General Motors Corp., 965 F.2d 597, 599 (8th Cir.), *cert. denied*, 506 U.S. 1020 (1992).

In an action involving both patent and non-patent claims, recovery is available under section 285 for the non-patent claims if the issues involved are intertwined with the patent issues. *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1552 n.2 (Fed. Cir. 1989); *Finkelstein v. Bergna*, 804 F. Supp. 1235, 1238-39 (N.D. Ca. 1992) (No reduction in legal fees where "all of the legal theories put forward arose from the same nucleus of operative facts," and could not be viewed as discrete claims because they involved "a common core of facts."); *see Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1564

(Fed. Cir. 1983) (fees are available where the evidence is material to both patent and non-patent issues). In the case of *Nikko Materials USA, Inc. v. R.E. Service Co.*, No. C 03-2549 SBA, 2006 U.S. Dist. LEXIS 3750, at *29-30 (N.D. Cal. Jan. 13, 2006), the court rejected the argument that an attorneys' fee award under 35 U.S.C. § 285 should be allocated between the patent infringement claims and counterclaims, and instead awarded the prevailing party all of its requested fees and costs without reduction. In reaching this result, the *Nikko* court held that § 285 is intended to compensate the prevailing party "for its monetary outlays" in defense of the suit, and includes "the recovery of *all* reasonable expenses incurred in prosecuting *the entire action.*" *Id.* at *16 (emphasis added), citing *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983).

Awards under section 285 are not limited to attorneys' fees. *Mathis v. Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988) (In awarding fees under § 285, "courts should not be, and have not been, limited to ordinary reimbursement of only those amounts paid by the injured party for purely legal services of lawyers, or precluded from ordinary reimbursement of legitimate expenses defendant was unfairly forced to pay."). Section 285 permits the recovery of reasonable costs, including postage, fax, photocopy, electronic research, telephone, court reporter, and travel. *GT Development Corp. v. Temco Metal Products Co.*, No. C04-0451Z, 2005 U.S. Dist. LEXIS 37501, at *8 (W.D. Wash. August 31, 2005).

Under Section 285, it is proper to include in the award of attorneys' fees the attorney time expended in connection with the claim for attorneys' fees. *Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1577-78 (Fed. Cir. 1983); *Mathis v. Spears*, No.

CV 80-4481 MRP, 1986 U.S. Dist. LEXIS 23590, at *10-11 (C.D. Cal. June 26, 1986), *aff'd without opinion*, 818 F.2d 874 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 826 (1987).

III. SANCTIONS UNDER 28 U.S.C. §1927

Under 28 U.S.C. § 1927, “[a]ny attorney or other person admitted to conduct in 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.” Section 1927 awards are appropriate “only in instances evidencing a serious and standard disregard for the orderly process of justice.” *White v. American Airlines, Inc.*, 915 F.2d 1414, 1427 (10th Cir. 1990) (internal quotations omitted); *but see Trulis v. Barton*, 107 F.3d 685 (9th Cir. 1995) (reversing the district court’s denial of an award of sanctions where counsel engaged in reckless conduct “and vexatiously multiplied the proceedings in violation of § 1927.”).

Cases where the patentee fails to make an adequate pre-filing investigation can also involve sanctions under 28 U.S.C. § 1927. For example, in the case of *Verve, LLC v. Hypercom Corp.*, the patentee unreasonably and vexatiously filed multiple lawsuits without probable cause against the same accused infringer in Michigan, Texas, California, and the patentee also brought a proceeding in Washington, D.C. before the International Trade Commission. *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *3-5 & 19-22 (D. Ariz. Aug. 16, 2006).

In order to award sanctions under section 1927, the court must find (1) that the attorney engaged in “unreasonable and vexatious” conduct, and (2) that the “unreasonable and vexatious” conduct “multiplied the proceedings.” *Sangui Biotech Int’l*

v. Helmut, 179 F. Supp.2d 1240, 1243 (D. Colo. 2002). “Actions are considered vexatious and unreasonable if the attorney acts in bad faith ... or if the attorney’s conduct constitutes a reckless disregard for the duty owed by counsel to the court.” *Shackelford v. Courtesy Ford, Inc.*, 96 F. Supp.2d 1140, 1144 (D. Colo. 2000). Sanctions are appropriately imposed under § 1927 on counsel who repeatedly attempt to litigate matters that have been decided or who continue to pursue claims that are no longer reasonable. *Sangui Biotech Int’l v. Helmut*, 179 F. Supp.2d 1240, 1243-44 (D. Colo. 2002); *Dreiling v. Peugeot Motors of America, Inc.*, 768 F.2d 1159, 1165-66 (10th Cir. 1985) (upholding sanctions against attorney who continued to assert claims “long after it would have been reasonable and responsible to have dismissed the claims”); *Limerick v. Greenwald*, 749 F.2d 97, 101-02 (1st Cir. 1984) (per curiam) (sanctioning counsel who, among other things, brought repetitive motions and sought to relitigate matters already concluded).

A party can only recover its attorneys’ fees and expenses that were reasonably incurred, and there is a duty on the part of the party seeking sanctions to mitigate damages. *Ullmann v. Olwine, Connelly, Chase, O’Donnell & Weyher*, 123 F.R.D. 559, 563-64 (S.D. Ohio 1987), *aff’d*, 857 F.2d 1475 (6th Cir. 1988) (unpublished), *cert. denied*, 489 U.S. 1080 (1989).

There is a split of authority on whether sanctions under 28 U.S.C. § 1927 must be supported by a finding of bad faith. *Compare B.K.B. v. Maui Police Dept.*, 276 F.3d 1091, 1107-08 (9th Cir. 2002) (affirming sanctions supported by a finding of subjective bad faith) *with Jones v. Continental Corp.*, 789 F.2d 1225, 1230 (6th Cir. 1985) (Section 1927 permits the award of fees despite the absence of conscious impropriety) *and Braley*

v. Campbell, 832 F.2d 1504, 1512 (10th Cir. 1987) (en banc) (subjective bad faith not required).

This statute generally only provides for sanctions against an “attorney.” However, if a party to the case is also an attorney, he or she can be sanctioned. *Ullmann v. Olwine, Connelly, Chase, O’Donnell & Weyher*, 123 F.R.D. 559, 561 (S.D. Ohio 1987) (holding that the plaintiff, who was also an attorney, was personally liable under § 1927 where she acted on her own behalf and proceeded *pro se*), *aff’d*, 857 F.2d 1475 (6th Cir. 1988) (unpublished), *cert. denied*, 489 U.S. 1080 (1989); *Claiborne v. Wisdom*, 414 F.3d 715, 720-21 (7th Cir. 2005) (affirming award of sanctions against plaintiff who was an attorney).

28 U.S.C. § 1927 does not authorize the imposition of sanctions upon law firms. *Federal Trade Comm. v. Alaska Land Leasing, Inc.*, 974 F.2d 1166, 1170 (9th Cir. 1992); *Sangui Biotech Int’l v. Helmut*, 179 F. Supp.2d 1240, 1244-45 (D. Colo. 2002); *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *20-21 (D. Ariz. Aug. 16, 2006) (“Although there may be other avenues of authority to sanction a law firm, such authority does not lie under § 1927.”) (citation omitted).

Courts finding liability under section 1927 based on the filing of multiple lawsuits have imposed sanctions in the form of costs and attorneys fees associated with the instant case before the court only. *Stone v. Baum*, 409 F. Supp.2d 1164, 1172 (D. Ariz. 2005); *Pentagen Tech. International Ltd. v. United States*, 172 F. Supp.2d 464, 474 (S.D.N.Y. 2001); *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *21 (D. Ariz. Aug. 16, 2006) (“[T]hose courts finding § 1927 liability

based on the filing of multiple lawsuits have imposed sanctions in the form of costs and attorneys' fees associated with the instant action only.”).

IV. A COURT'S INHERENT POWER TO IMPOSE SANCTIONS

Under appropriate circumstances, the exercise of a tribunal's inherent power to impose sanctions may be warranted even where Rule 11 procedures are not met. In *Chambers v. NASCO, Inc.*, 501 U.S. 32, 49 (1991), the Supreme Court held that “the inherent power of a court can be invoked even if procedural rules exist which sanction the same conduct.” The sanctioning scheme of the rules, including the safe harbor provisions, does not displace the inherent power to impose sanctions for bad faith conduct. *Id.* at 46.

Rule 11 has not robbed the district courts of their inherent power to impose sanctions for abuse of the judicial system.

Method Electronics, Inc. v. Adam Technologies, Inc., 371 F.3d 923, 927 (7th Cir. 2004).

In *Method Electronics, Inc. v. Adam Technologies, Inc.*, 371 F.3d 923 (7th Cir. 2004), the plaintiff obtained a temporary restraining order based upon a verified complaint that included venue allegations made recklessly or in bad faith. The case proceeded at a rapid pace with an injunction hearing. When the lack of proper venue became apparent during the injunction hearing, and the court issued a *sua sponte* show cause order concerning sanctions, the plaintiff dismissed the complaint. 371 F.2d at 925. Under the circumstances, the defendants did not have sufficient time to comply with the safe harbor provisions of Rule 11. The court exercised its inherent power to order the plaintiff to pay the defendants a portion of their reasonable attorneys fees. *Id.* at 927. Although Rule 11 does not allow an award of attorneys' fees to the opposing party unless a motion is made in compliance with the safe harbor procedures, the sanctions order in

the *Method Electronics* case was affirmed on appeal as a valid exercise of the trial court's inherent power.

A district can impose sanctions even if the court has determined that it does not have subject matter jurisdiction over a case. *Willy v. Coastal Corp.*, 503 U.S. 131, 137 & 140 (1992)(“[T]he interest in having the rules of procedure obeyed ... does not disappear upon a subsequent determination that the court was without subject matter jurisdiction.”).

In a case where sanctions are authorized by statute or rule, but the statute or rule does not include within its scope a person who is responsible for the sanctionable conduct, a court may rely upon its inherent power in order to sanction the person. *Lockary v. Kayfetz*, 974 F.2d 1166 (9th Cir. 1992).

V. LIABILITY FOR MALICIOUS PROSECUTION

A malicious prosecution claim exists where a defendant: “(1) instituted a civil action which was (2) motivated by malice, (3) begun without probable cause, (4) terminated in plaintiff's favor and (5) damaged plaintiff.” *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *6-7 (D. Ariz. Aug. 16, 2006); *Bradshaw v. State Farm Mutual Automobile Ins. Co.*, 157 Ariz. 411, 417, 758 P.2d 1313, 1319 (1988).

A. Probable Cause

The plaintiff must prove the absence of probable cause for institution of the prior proceeding. The existence of probable cause is measured by the objective standard of Rule 11 of the Federal Rules of Civil Procedure. *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *7 (D. Ariz. Aug. 16, 2006); *Wolfinger v. Cheche*, 80 F.3d 783, 788-789 (9th Cir. 2003). “In the patent litigation

context, probable cause requires a reasonable pre-filing investigation of the accused product in comparison to the patent claims.” *Verve, LLC v. Hypercom Corp.*, *supra*, at *7.

“The initiator of the [prior] action must honestly *believe* in its possible merits; and, in light of the facts, that *belief must be objectively reasonable.*” *Bradshaw v. State Farm Mutual Automobile Ins. Co.*, 157 Ariz. 411, 417, 758 P.2d 1313, 1319 (1988)(emphasis in original). Moreover, “[t]he test generally applied is whether, upon the appearances presented ... a reasonably prudent man would have instituted or continued the proceeding.” *Slade v. City of Phoenix*, 112 Ariz. 298, 301, 541 P.2d 550, 553 (1975). The existence of “probable cause ... constitutes a complete and absolute defense to an action for malicious prosecution.” *Slade v. City of Phoenix*, 112 Ariz. at 301.

The only facts that are material to the question of probable cause are those that were known to the defendant prior to filing the malicious lawsuit. *Hydranautics v. FilmTec Corp.*, 204 F.3d 880, 886 (9th Cir. 2000) (“[T]he lack of probable cause question must be answered based upon facts actually known to FilmTec at the time it prosecuted its patent application and infringement case...”).

B. Malice

Malice can be inferred from a lack of probable cause. *Cullison v. City of Peoria*, 120 Ariz. 165, 169, 584 P.2d 1156, 1160 (1978) (“The key element of malicious prosecution is malice, which can be inferred from a lack of probable cause.”). “The malice element in a civil malicious prosecution action does not require proof of intent to injure. ... Instead, a plaintiff must prove that the initiator of the action primarily used the action for a purpose ‘other than that of securing the proper adjudication of the claim.’”

Bradshaw, 157 Ariz. at 418 (citation omitted). “The malice element in a civil malicious prosecution action does not require proof of intent to injure. ... Instead, a plaintiff must prove that the initiator of the action primarily used the action for a purpose ‘other than that of securing the proper adjudication of the claim.’” *Bradshaw*, 157 Ariz. at 418 (citation omitted). The element of malice can be proven by showing that the defendant filed the previous lawsuit for an improper purpose, such as “forc[ing] a settlement upon an unwilling opponent.” *Bradshaw v. State Farm Mutual Automobile Ins. Co.*, 157 Ariz. 411, 418-19, 758 P.2d 1313, 1320-21 (1988).

In the *Verve* case, the court said, “Here, malice is established by the counter-defendants’ wholly insufficient pre-filing investigation of the infringement claims; representing Verve as the proper patent owner knowing Omron held substantial rights in the patents; continuing to pursue claims in various jurisdictions once it was established that it lacked standing; and the tactic of filing multiple lawsuits in multiple jurisdictions without a reasonable explanation for doing so.” *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *14 (D. Ariz. Aug. 16, 2006).

C. Favorable Termination of Prior Lawsuit

Termination of the prior lawsuit has not occurred for purposes of a malicious prosecution if an appeal is still pending. *Frey v. Stoneman*, 150 Ariz. 106, 109-10, 722 P.2d 274, 277-78 (1986). When the prior case ends without an adjudication on the merits, there may be an issue of fact concerning the question of whether the prior proceedings ended in a manner favorable to the plaintiff. The fact finder is required to look at the substance of how the prior proceeding terminated in order to determine whether it was favorable. *Frey v. Stoneman*, 150 Ariz. 106, 111, 722 P.2d 274, 279 (1986). “When a

termination or dismissal indicates in some fashion that the accused is innocent of wrongdoing it is a favorable termination. However, if it is merely a procedural or technical dismissal it is not favorable.” *Frey v. Stoneman*, 150 Ariz. 106, 110, 722 P.2d 274, 278 (Ariz., 1986).

[W]here there has been no adjudication on the merits the existence of a "favorable termination" of the prior proceeding generally must be found in the substance rather than the form of prior events and often involves questions of fact. In such cases . . . it will be necessary to determine what actually occurred. If the action was dismissed because of voluntary withdrawal or abandonment by the plaintiff, the finder of fact may well determine that this was, in effect, a confession that the case was without merit. However, there may be many reasons, other than lack of merit, for such withdrawal or abandonment. For instance, the plaintiff might have had insufficient funds to pursue the action or could have decided that a possible recovery was not worth the cost, pecuniary or emotional, of litigating; the plaintiff might have decided to forgive and forget or the defendant may have paid smart money or taken other measures, such as apology, to assuage plaintiff's anger. None of these factors alone may be determinative, and thus it may actually be necessary to try a case within the case, as is often done in legal malpractice claims.

Frey v. Stoneman, 150 Ariz. at 111 (citation omitted).

D. Who Is Liable

An instigator of a lawsuit can be held liable as an initiator, even if the action was not filed in the instigator's name. *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *14 (D. Ariz. Aug. 16, 2006) (“Galasso, Imes and the SGF Firm, as instigators of the litigation, can be held liable even if the actions were not filed in their names.”); *Bradshaw v. State Farm Mutual Automobile Ins. Co.*, 157 Ariz. 411, 417, 758 P.2d 1313, 1319 (1988). Corporate officers may be liable if they personally participated in the alleged malicious prosecution. *Hoover Group, Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1411 (Fed. Cir. 1996) (“[C]orporate officers have

been held personally liable when they participated in ... malicious prosecution...”) (citations omitted).

E. Federal Preemption

Federal patent law does not preempt state law claims for malicious prosecution based upon patent infringement actions filed without probable cause and with the requisite malice. *U.S. Aluminum Corp. v. Alumax, Inc.*, 831 F.2d 878, 880-81 (9th Cir. 1987) (“While we do not deny that conflict is possible between state malicious prosecution laws and federal patent laws, the policies underlying each are not inherently antithetical. Patents do not create an exemption from state malicious prosecution laws.”); *see Hydranautics v. FilmTec Corp.*, 204 F.3d 880, 886 (9th Cir. 2000) (reversing district court dismissal of malicious prosecution claim based on patent infringement action). A state cause of action that “implicates conduct that occurred in connection with federal patent proceedings is not sufficient for patent preemption to apply.” *Method Electronics, Inc. v. Hewlett-Packard Co., Inc.*, No. C 99-04214 SBA, 2000 U.S. Dist. LEXIS 12701, at *7 (N.D. Cal. May 4, 2000); *Zenith Laboratories, Inc. v. Abbott Laboratories*, No. 96-1661, 1996 U.S. Dist. LEXIS 22567, at *11-12 (D.N.J. Aug. 7, 1996) (state law claims of unfair competition and abuse of process arising from conduct precipitating “sham patent infringement litigation” not preempted).

F. Damages

In an action for malicious prosecution, the plaintiff may recover actual and compensatory damages covering both pecuniary and nonpecuniary losses. *Bradshaw*, 157 Ariz. at 411. Recoverable damages include the costs of defending the prior action, including reasonable attorneys’ fees. *Id.* Damages may also include compensation for

injury to character and reputation, including injury to social or business standing in the community, and compensation for mental suffering and humiliation resulting from the initiation and prosecution of the prior action. 7 *Am. Jur. Proof of Facts*.2d 181.

The level of proof required for proving attorneys' fees as an element of damages on a claim for malicious prosecution is not the same as what is required when a party makes a detailed fee application. The reasonableness of the attorneys' fees that were paid does not necessarily have to be shown by direct testimony. *McIntosh v. Wales*, 21 Wyo. 397, 418-19, 134 P. 274, 280 (1913) ("Evidence that such a fee amounting to \$250 had been paid by herself and her husband was proper to go to the jury as an item of expense if reasonable in amount, and it appearing that the hearing was held in a country precinct a distance of eighty miles from the county seat where her attorneys resided, without railroad connection, we think it may be assumed that the amount was reasonable although its reasonableness was not shown by testimony."); *Waufle v. McLellan*, 51 Wis. 484, 8 N.W. 300, 301 (1881) ("Neither did it require direct proof to show that it was necessary for the plaintiff to employ counsel to conduct his defense, or that \$50 was a very reasonable fee for his services.").

In the case of *Haswell v. Liberty Mutual Insurance Co.*, 557 S.W.2d 628 (Mo. 1977), the defendant challenged a jury verdict awarding damages for malicious prosecution on grounds that the "plaintiff offered no evidence that the fee was reasonable." 557 S.W.2d at 637. The trial court admitted evidence of attorneys fees paid as a result of the malicious lawsuit. Noting that "[o]ther jurisdictions passing on this precise issue have held that payment of attorneys' fees in a malicious prosecution action

by the plaintiff is *prima facie* evidence of the reasonableness of said fees,” 557 S.W.2d at 637 n.7, the court said:

Defendants liken this case to those concerning medical expenses where our courts have generally held that in order to recover for medical expenses incurred there must be substantial evidence that such expenses were reasonable and necessary. However, the cases cited properly recognize that such proof may be made by inference from the circumstances, and that payment of a bill for such services should properly be considered some substantial evidence of the reasonableness of the charge. The rationale of these rulings is plain. Where no evidence of collusion or bad faith appears, the court and the jury are entitled to presume and ascribe honest motives, good faith and right conduct in the preparation and submission of the bill. Based upon the common experience of everyday life, the jury may infer that people do not pay bills where the reasonableness of the charge is disputed. This rationale would appear to be particularly applicable in situations such as the case before us. There could be no clear expectation of recovering the amount paid because such recovery is entirely contingent on the outcome of the second suit. Thus, the likelihood of collusion is remote. We therefore hold that sufficient evidence of reasonableness was presented here. Of course, if the reasonableness of the amount charged is disputed, the defendant remains free to attack the reasonableness of the charge by evidence, argument or both.

557 S.W.2d at 637 (citations and footnote omitted).

In the absence of evidence of collusion or bad faith, the fact that the attorneys’ fees were actually paid is sufficient to establish a *prima facie* case of reasonableness, unless it is obvious that the fees paid are excessive. *Drumm v. Cessnum*, 61 Kan. 467, 473, 59 P. 1078, 1080 (1900) (“When it does not appear that the attorneys’ fees and other expenses are obviously excessive, testimony of the amounts paid will constitute a *prima facie* case, and it will be assumed in such case that the attorneys’ fees so paid were reasonable unless the contrary appears.”). The defendant is free to attack the reasonableness of the attorneys’ fees and to offer any evidence it may have of collusion, bad faith, unreasonableness, or lack of causation.

In *Barlin v. Barlin*, 156 Cal. App.2d 143, 149-50, 319 P.2d 87, 91-92 (Cal. App. 2nd Dist. 1957), the court specifically rejected the contention that expert testimony is required on the reasonableness of the attorneys' fees claimed as damages in a malicious prosecution suit. According to the *Barlin* court, "proof of the reasonable value of legal services by expert testimony, while admissible, is not indispensable in establishing the value thereof." 156 Cal. App.2d at 149, 319 P.2d at 91 (emphasis added). The court held that it was not error to submit the issue to the jury based upon testimony as to the amount of attorneys' fees that the plaintiff paid in defense of the malicious action. 156 Cal. App.2d at 149, 319 P.2d at 91-92 ("The respondent testified as to the amount of attorney's fees which she had paid in defense of the attachment action which the jury could accept or reject as evidence of the reasonable value of such services"). The *Barlin* court quoted the following passage from another California case on point:

It is contended by appellant that there is no evidence of the reasonable value of the services rendered by Wheeler, and, therefore, the judgment must be reversed. In so arguing appellant assumes that expert testimony is essential to establish the reasonable value of an attorney's services. This assumption is not justified. While expert testimony is admissible, it is neither essential nor conclusive, and the court or jury may disregard it entirely. In the instant case the nature and extent of the services were in evidence. Moreover, the testimony of the witness Shea shows that the parties agreed to a fee equal to the sum of the executor's fees plus a bequest of \$ 2,000. The fee agreed upon by the parties is some evidence of the reasonable value of the services, and the jury could accept this evidence."

Mitchell v. Towne, 31 Cal.App.2d 259, 266, 87 P.2d 908, 912-13 (Cal. App. 1st Dist. 1939) (citations omitted).

Punitive damages may be recoverable in an appropriate case, but "in malicious prosecution ... proof of the tort does not automatically justify an award of punitive damages. ... [S]omething more is required. ... [W]e believe that the 'something more' can

best be characterized as defendant's 'evil mind.'" *Bradshaw*, 157 Ariz. at 422 (citation omitted).

The evil mind which will justify the imposition of punitive damages may be manifested in either of two ways. It may be found where defendant intended to injure the plaintiff. It may also be found where, although not intending to cause injury, defendant consciously pursued a course of conduct knowing that it created a substantial risk of significant harm to others. . . . Such damages are recoverable in bad faith tort actions when, **and only when**, the facts establish that defendant's conduct was aggravated, outrageous, malicious or fraudulent.

Rawlings v. Apodaca, 151 Ariz. 149, 162, 726 P.2d 565, 578 (1986) (emphasis in original). The standard for punitive damages may vary in different states, but generally, a finding of "malice" on a malicious prosecution claim will not be sufficient, standing alone, to support an award of punitive damages. This is because malice may be inferred from a lack of probable cause, which might be based upon conduct that is not necessarily willful.

VI. LIABILITY FOR ABUSE OF PROCESS

An abuse of process claim is established by showing that the defendant has: "(1) used a legal process against the plaintiff; (2) primarily to accomplish a purpose for which the process was not designed; and (3) harm has been caused to the plaintiff by such misuse of process." *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *15 (D. Ariz. Aug. 16, 2006); *Nienstedt v. Wetzel*, 133 Ariz. 348, 353, 651 P.2d 876, 881 (Ariz. Ct. App. 1982); *Clipper Affiliates v. Checovich*, 138 N.H. 271, 277, 638 A.2d 791, 795 (1994); *Blue Goose Growers, Inc. v. Yuma Groves, Inc.*, 641 F.2d 695 (9th Cir. 1981).

A. Process

“[T]he word ‘process’ as used in the tort ‘abuse of process’ is not restricted to the narrow sense of that term. Rather, it has been interpreted broadly, and encompasses the entire range of procedures incident to the litigation process.” *Nienstedt v. Wetzel*, 133 Ariz. at 352. The tort of abuse of process involves “some form of compulsory process forcing the performance or forbearance of some prescribed act.” *Long v. Long*, 136 N.H. 25, 31, 611 A.2d 620 (1992). It includes “some activity or procedure involving the exercise, or dependent upon the existence, of judicial authority.” *Amabello v. Colonial Motors*, 117 N.H. 556, 558, 374 A.2d 1182, 1183-84 (1977).

The use of interrogatories has been held to be “process,” because such discovery requests are enforced with sanctions from the court. *Long v. Long*, 136 N.H. 25, 30, 611 A.2d 620 (1992). Similarly, a notice of deposition is “process,” because attendance at the deposition may be compelled by subpoena. *Long v. Long*, 136 N.H. at 31.

However, some courts have held that the “process” that is alleged to have been abused must be a judicial process, and have therefore rejected claims based upon administrative proceedings, including proceedings before the International Trade Commission. *Competitive Techs. v. Fijitsu Ltd.*, 286 F. Supp.2d 1118, 1155 (N.D. Cal. 2003); *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *16 (D. Ariz. Aug. 16, 2006) (“[C]ounter-defendants’ actions related to the ITC administrative proceedings cannot form the basis of an abuse of process claim.”).

B. Use Primarily To Accomplish A Purpose For Which The Process Was Not Designed

An action for abuse of process requires a showing that the process has been used primarily to accomplish an ulterior purpose for which the process was not designed. “It is

immaterial that the process may have been properly obtained or issued as a normal incident of the litigation involved. It is the subsequent misuse that constitutes the misconduct for which liability is imposed.” *Nienstedt v. Wetzel*, 133 Ariz. 348, 353, 651 P.2d 876, 881 (Ariz. Ct. App. 1982). No liability exists “where a party has done nothing more than carry out the process to its authorized conclusion, even though with ulterior intentions.” *Clipper Affiliates v. Checovich*, 138 N.H. 271, 277, 638 A.2d 791, 795 (1994); *Nienstedt*, 133 Ariz. at 353. In explaining this element of the tort, leading commentators have said:

The ulterior motive may be shown by showing a direct demand for collateral advantage; or it may be inferred from what is said or done about the process. It may also be inferred in some cases from the way the process was carried out, as for example in the case of excessive attachment from which the inference may be drawn that defendant sought extortionate advantage by tying up all the plaintiff’s property when attachment of a small amount would provide sufficient security for the debt.

Prosser and Keeton on the Law of Torts § 121 at 899 (5th ed. 1984).

“The improper purpose usually takes the form of coercion to obtain a collateral advantage, not properly involved in the proceeding itself, such as the surrender of property or the payment of money, by the use of the process as a threat or a club.” *Prosser and Keeton*, at 898. Abuse of process may be established where the ulterior or collateral purpose involved was to expose the injured party to excessive attorneys’ fees and legal expenses. *Nienstedt v. Wetzel*, 133 Ariz. at 354. “There is, in other words, a form of extortion, and it is what is done in the course of negotiation, rather than the issuance or any formal use of the process itself, which constitutes the tort.” *Clipper Affiliates v. Checovich*, 138 N.H. 271, 276-77, 638 A.2d 791, 795 (1994).

The case of *Dishaw v. Wadleigh*, 15 A.D. 205, 44 N.Y.S. 207 (1897), is an example of a case where liability was based on the way the process was carried out. In *Dishaw*, the defendant made an assignment of collection claims to an associate in a distant part of the state in order to purposely expose the debtors to the inconvenience and expense of attending a distant court.

To succeed in an action for abuse of process, “it is unnecessary for the plaintiff to prove that the proceeding has terminated in his favor, or that the process was obtained without probable cause or in the course of a proceeding begun without probable cause.” *Joseph v. Markovitz*, 27 Ariz. App. 122, 125, 551 P.2d 571, 575 (Ariz. Ct. App. 1976); *Nienstedt v. Wetzel*, 133 Ariz. at 353 (“It is immaterial that the process may have been properly obtained... . It is the subsequent misuse which constitutes the misconduct for which liability is imposed.”); *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *17 n.6 (D. Ariz. Aug. 16, 2006) (“We note that, unlike the tort of malicious prosecution, termination of the action in the claimant’s favor is not a requisite element of an abuse of process claim.”).

C. Damages

Actual as well as compensatory damages proximately caused by an abuse of process can be recovered, including indirect losses such as injury to financial standing and intangible losses such as mental suffering. *Morn v. City of Phoenix*, 152 Ariz. 164, 730 P.2d 873 (Ariz. Ct. App. 1976). Punitive damages may also be recoverable in an appropriate case. *Nienstedt v. Wetzel*, 133 Ariz. at 348.

VII. CONCLUSION

The failure to perform an adequate pre-filing investigation as required by Rule 11 of the Federal Rules of Civil Procedure can have significant adverse consequences. The sanction imposed under Rule 11 for the failure to conduct an adequate pre-filing investigation can include all of the attorneys' fees and expenses incurred by the defendant in opposing the baseless lawsuit. *Refac International, Ltd. v. Hitachi Ltd.*, 141 F.R.D. 281, 287-88 (C.D. Cal. 1991). In a patent case, conduct that violates Rule 11 can be the basis for an award of attorneys fees under 35 U.S.C. §285. *Brooks Furniture Mfg., Inc. v. Dutailier International Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). The failure to perform an adequate pre-filing investigation can result in liability for malicious prosecution, because probable cause on a malicious prosecution claim is measured by the standard of Rule 11, *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *7 (D. Ariz. Aug. 16, 2006), and malice can be inferred from a lack of probable cause, *Cullison v. City of Peoria*, 120 Ariz. 165, 169, 584 P.2d 1156, 1160 (1978). Filing patent infringement lawsuits for the purpose of extorting money from accused infringers, and not for the purpose of enforcing valid intellectual property rights, may give rise to a claim of abuse of process. *Nienstedt v. Wetzel*, 133 Ariz. 348, 353, 651 P.2d 876, 881 (Ariz. Ct. App. 1982). Continuing to pursue patent infringement claims long after the claims should be dismissed may give rise to sanctions under 28 U.S.C. §1927. *Dreiling v. Peugeot Motors of America, Inc.*, 768 F.2d 1159, 1165-66 (10th Cir. 1985).

Therefore, an attorney should exercise care in conducting an adequate pre-filing investigation before commencing any patent infringement lawsuit against an alleged infringer. Significant adverse consequences may result from the failure to do so.

Sid Leach

Snell & Wilmer

— L.L.P. —

One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202
(602) 382.6372 (direct)
(602) 382.6070 (facsimile)
sleach@swlaw.com