

GUST, INC. v. ALPHACAP VENTURES, LLC, Appeal No. 2017-2414 (Fed. Cir. Sept. 28, 2018). Before Wallach, Linn, and Hughes. On appeal from S.D.N.Y. (Senior Judge Cote).

Background:

AlphaCap hired a law firm on a contingency basis (Gutride) to represent it in a patent infringement suit against ten internet crowdfunding companies. AlphaCap and the companies except Gust settled for less than \$50,000 each. AlphaCap and Gust continued to engage in settlement discussions, Gust continuing to allege that AlphaCap's patents were invalid under 35 USC §101 in view of *Alice v. CLS Bank*. The settlement discussions ultimately bogged down, resulting in Gust filing a Declaratory Judgment action, but offering to dismiss it if AlphaCap, *inter alia*, dismissed its patent infringement suit with prejudice and paid all of Gust's attorneys' fees. AlphaCap refused. Ultimately, the district court dismissed all of Gust's and AlphaCap's claims but granted Gust's motion for attorneys' fees and other expenses under 35 USC §285 and 28 USC §1927, finding the case "exceptional" in that AlphaCap and Gutride's litigation conduct was unreasonable and taken in bad faith, thus holding Gutride and AlphaCap jointly and severally liable for fees totaling over \$500,000.

The court's rationale was that it was objectively unreasonable to believe that AlphaCap's patents were not invalid for claiming patent-ineligible subject matter under *Alice*; that the case was brought "to extract a nuisance settlement from Gust" and that a venue transfer from the Eastern District of Texas to the Southern District of New York was frivolously opposed, even though the Texas venue was distant from Gust's Delaware home. Gutride appealed to the Federal Circuit. (AlphaCap did not appeal.)

Issue/Holding:

Did the district court err in awarding fees against Gutride? Yes, reversed.

Discussion:

In a 2-1 decision, the Federal Circuit held that Gutride's conduct did not violate 28 USC §1927, which states, in pertinent part, that an attorney in a U.S. court

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.

Applying the law of the applicable regional circuit, i.e., the Second Circuit, which reviews sanctions under an abuse of discretion standard, the court found that Gust had not shown that Gutride's claims were "entirely without color" and "were brought in bad faith-that is, motivated by improper purposes such as harassment and delay" and thus, held that the district court abused its discretion. Particularly, the court found that the law on patent-eligibility was still developing between *Alice* and the time of AlphaCap's complaint in Texas and thus, the conduct was colorable. The court also found that much of the planning, such as where to sue, should have been attributed to the client AlphaCap, rather than to Gutride.

Judge Wallace dissented, finding that the district court, in finding both lack of a colorable claim and bad faith, did not abuse its discretion concluding that "the majority improperly steps out of the appellate role and substitutes its own findings of fact for that of the District Court's."