

IN RE: REMBRANDT TECH. LP PATENT LITIGATION, Appeal No. 2017-1784 (Fed. Cir. July 27, 2018). Before O'Malley, Mayer and Reyna. Appealed from D. Del. (Judge Sleet).

Background:

Rembrandt amassed a portfolio of patents from Paradyne and later from Zhone who acquired Paradyne. Rembrandt unsuccessfully sued various cable providers for infringement of nine patents from the portfolio. In response to a motion for sanctions by appellees, the district court determined that this case was exceptional and awarded more than \$51 million in attorney fees to all appellees based on the totality of the following: (i) Rembrandt improperly compensated fact witnesses contingent on the outcome of the suits, in violation of ethical rules of conduct; (ii) Rembrandt engaged in, or failed to prevent, widespread document spoliation over a number of years; and (iii) Rembrandt should have known that two of the nine patents were unenforceable due to inequitable conduct. Rembrandt appealed.

Issues/Holdings:

Did the district court err in finding this case exceptional? No, affirmed.

Did the district court err in its fee award of \$51 million? Yes, vacated and remanded.

Discussion:

Rembrandt argued that its fee structure for its fact witnesses was analogous to a contingent fee arrangement that requires an inventor to participate in subsequent litigation, which is common in patent sale agreements. However, the Federal Circuit determined that Rembrandt's fee structure was not based on a sale of a right in a patent, and was improperly linked to the outcome of the case, giving rise to considerable risk of tainted testimony. The Federal Circuit ruled that Rembrandt violated ethical rules in compensating fact witnesses contingent on the outcome of the suit.

Rembrandt argued that it did not engage in bad faith document spoliation because it had no control over the documents that were destroyed by Zhone. The Federal Circuit found that Rembrandt was aware of the risk of document destruction after Paradyne was acquired by Zhone, and Rembrandt did not issue a formal document retention notice until 3 years after initiation of Rembrandt's first suit. This constituted sufficient evidence to support bad faith spoliation by Rembrandt.

Rembrandt argued under the *Therasense* standard that it did not intend to deceive the USPTO because it was not involved in Paradyne's misrepresentation of material information. However, the Federal Circuit ruled that Rembrandt acted with deceptive intent because Rembrandt had sufficient knowledge to learn of the fraud committed by Paradyne. The two patents were unenforceable because Paradyne, in its petition to revive, did not disclose to the USPTO that it had consciously chosen to abandon the two patents.

Rembrandt argued that the \$51 million attorney fee award is excessive because the district court failed to establish a causal connection between the claimed misconduct and the amount in fees awarded. The Federal Circuit agreed with Rembrandt and ruled that that the district court did not assess which issues Rembrandt's misconduct affected, and did not establish a causal connection between the awarded fees and Rembrandt's misconduct.