



2011

# Legal Ethics and Non-Practicing Entities: Being on the Receiving End Matters Too

David Hricik

Follow this and additional works at: <http://digitalcommons.law.scu.edu/chtlj>



Part of the [Law Commons](#)

### Recommended Citation

David Hricik, *Legal Ethics and Non-Practicing Entities: Being on the Receiving End Matters Too*, 27 SANTA CLARA HIGH TECH. L.J. 793 (2010).

Available at: <http://digitalcommons.law.scu.edu/chtlj/vol27/iss4/4>

This Symposium is brought to you for free and open access by the Journals at Santa Clara Law Digital Commons. It has been accepted for inclusion in Santa Clara High Technology Law Journal by an authorized administrator of Santa Clara Law Digital Commons. For more information, please contact [sculawlibrarian@gmail.com](mailto:sculawlibrarian@gmail.com).

# LEGAL ETHICS AND NON-PRACTICING ENTITIES: BEING ON THE RECEIVING END MATTERS TOO\*

David Hricik†

## A. INTRODUCTION

The symposium invited me to speak on the legal ethical issues that face counsel who represent non-practicing entities (“NPEs”) in patent litigation as plaintiff patentees. My first reaction was that, although obviously the same common law, statutes, ethical rules, and procedural rules apply to such counsel as any other, owing to the tremendous costs of patent litigation, that counsel who represented such a “troll” necessarily would have enhanced obligations to court and opposing counsel to ensure that the suit was not brought in bad faith, nor so conducted.

Upon analysis, however, I came to the somewhat counter-intuitive conclusion that, although the NPE’s counsel owes somewhat heightened duties, it is in fact the lawyer for the defendant, the accused infringer, whose duties are most implicated by the presence of an NPE in a patent suit. I arrived at that those twin conclusions based upon the following analysis and with some surprise.

After providing a very brief discussion of NPEs, the article turns to legal and ethical issues. The article is organized in roughly a chronological order, analyzing the ethical and legal obligations that counsel for an NPE face in investigating, filing, and litigating a suit. In each section, it explains the applicable law and then applies that law to the context of NPE litigation, analyzing how the presence of an NPE affects the duties of counsel for both the patentee and the accused infringer.

---

\* The title is from “The Receiving End” from the CD *John Wesley Harding Sings to a Small Guitar Volume 2*.

† Professor Hricik is the author of *PATENT ETHICS: LITIGATION* (Oxford Univ. Press 2010) and other books and articles on ethical issues in patent prosecution and litigation.

## B. SOME PERTINENT OBSERVATIONS ABOUT NPES

The laws governing issuance of patents do not distinguish between a patent issued to a large manufacturing corporation and one that issues to a solo inventor who has neither the wherewithal or desire to manufacture. All patents are issued as equals, giving the owner the right to exclude as codified in the patent statutes. One commentator stated this basic proposition:

Since as early as the ratification of the United States Constitution, a patent holder has had an exclusive right to his patent. The Founding Fathers believed that such an exclusive right would “scarcely be questioned” and that such a right was not only beneficial for the inventor, but equally so for the public good.<sup>1</sup>

In other words, an NPE is entitled to a patent on the same terms as is a large manufacturer. Indeed, prior practices in other countries to award patents to employers, guilds, and others, rather than to inventors, were rejected by our Founding Fathers who believed that any patent should go to its creator.<sup>2</sup>

Nor does the Patent Act prevent an individual from suing a large manufacturer who infringes a patent despite the fact that the individual has no actual damages in the form of lost profits.<sup>3</sup> While it may be more difficult post-*eBay* for an NPE to obtain an injunction against a manufacturing defendant,<sup>4</sup> a reasonable royalty and an injunction are obviously available remedies.<sup>5</sup> Every patent includes “the right to exclude others from making, using, offering for sale, or selling the invention.”<sup>6</sup>

Despite these facts and settled principles, many people attack NPES, characterizing them as “trolls” who abuse the patent system rather than further its goals.<sup>7</sup> PricewaterhouseCoopers recently analyzed damages in patent cases and showed that, whatever the Bar or courts think of NPES, juries and judges believe in and follow the

---

1. Paul M. Mersino, *Patents, Trolls and Personal Property: Will eBay Auction Away a Patent Holder's Right to Exclude?*, 6 AVE MARIA L. REV. 307, 307 (2007) (footnotes omitted).

2. See generally *In re Comiskey*, 554 F.3d 967, 976-77 (Fed. Cir. 2009).

3. 35 U.S.C. § 284 (2006). *E.g.*, *Wahl v. Carrier Mfg. Co.*, 511 F.2d 209, 214 (7th Cir. 1975).

4. See generally Mersino, *supra* note 1, at 308.

5. See Todd Klein, *eBay v. MercExchange and KSR Int'l Co. v. Teleflex, Inc.: The Supreme Court Wages War Against Patent Trolls*, 112 PENN ST. L. REV. 295, 307-08 (2007).

6. 35 U.S.C. § 154(a)(1) (2006).

7. There are countless examples in the literature calling non-practicing entities “trolls” and the like.

patent laws described above.<sup>8</sup> Specifically, the study found that judges award median damages to NPEs in about the same amount as practicing entities, and juries award significantly more.<sup>9</sup>

So the playing field, at least in the courtroom, is level. What of course are not level are the costs that an NPE might incur in litigation when compared to that of a practicing entity. A practicing entity obviously will have significantly more documents subject to discovery requests, and as a result also incur significantly more costs responding to electronic discovery demands. An NPE does not have employees whose time is taken away by deposition preparation, searching for documents and responsive information, answering discovery, and preparing for trial. And, a party that does not manufacture products cannot be the subject of a counterclaim for infringing a patent owned by the defendant.

An NPE can, by filing an infringement suit, impose significant costs on a practicing entity. Simply put, the legal playing field is level, but the practical one is not.

### C. ETHICS AND THE NPE

#### 1. *A Brief Caveat About Choice of Law*

The law discussed in this article may be different in other jurisdictions.<sup>10</sup> While patent cases must be appealed to the Federal Circuit,<sup>11</sup> Federal Circuit law does not apply to all issues in patent cases. Foremost, regional circuit law applies to “procedural” issues, but Federal Circuit law applies to “patent” issues.<sup>12</sup> More specifically, the Federal Circuit applies regional circuit law to procedural matters “that are not unique to patent issues,”<sup>13</sup> but it applies its own law to

---

8. See CHRIS BARRY ET AL., PRICEWATERHOUSECOOPERS, THE CONTINUED EVOLUTION OF PATENT DAMAGES LAW: PATENT LITIGATION TRENDS 1995-2009 AND THE IMPACT OF RECENT COURT DECISIONS ON DAMAGES 12-15 (2010), available at <http://www.pwc.com/us/en/forensic-services/publications/assets/2010-patent-litigation-study.pdf>.

9. *Id.* at 11.

10. See generally DAVID HRICK, PATENT ETHICS: LITIGATION (Oxford Univ. Press 2010). Much of this discussion comes from PATENT ETHICS: LITIGATION.

11. 28 U.S.C. § 1295(a)(1) (2006). See, e.g., *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002).

12. See *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1359-60 (Fed. Cir. 1999).

13. *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75 (Fed. Cir. 1984).

procedural matters that “are related to patent issues.”<sup>14</sup>

The division between issues “unique to patent law” and those that are not can be critical. In its latest pronouncements, the Federal Circuit stated that a procedural issue is subject to Federal Circuit law if it (1) “pertain[s] to” the substance of a patent right, (2) “bear[s] an essential relationship to matters committed to [the Federal Circuit’s] exclusive control by statute,” or (3) “clearly implicate[s] the jurisprudential responsibilities of [the Federal Circuit] in a field within its exclusive jurisdiction.”<sup>15</sup>

The Federal Circuit has so far held that ethical issues are not unique to patent law and has applied the law of the proper regional circuit.<sup>16</sup> Accordingly, for instance, a lawyer litigating a case in Texas must consult the approach of the Fifth Circuit, while a litigator in federal court in New York consults the law of the Second Circuit, and so on. While a complete canvas of the varying approaches that federal courts apply to the choice of law issue can form the basis of its own book, this example of two circuits illustrates the range.

For the foregoing reasons, it is possible that a specific court facing an actual problem could take a very different approach to the issues discussed in this article. However, for the most part, the issues presented in this article implicate central and fairly uniformly interpreted laws and rules. Nonetheless, care must always be given to choice of law, since a court may require more than this article suggests.

## 2. *Pre-Suit Investigations*

Various rules, federal statutes, and state substantive law (in the form of claims for malicious prosecution and the like) require that lawyers not invoke the power of any court without good reason.<sup>17</sup> This section summarizes four principal sources of a lawyer’s obligations of inquiry and investigation commonly raised in patent suits.<sup>18</sup>

The purposes behind requiring pre-suit investigations are many and include weeding out frivolous claims and defenses, reducing the scope of the controversy, and eliminating unnecessary disputes over

---

14. *Id.* at 1575 n.14.

15. *Bose Corp. v. JBL, Inc.*, 274 F.3d 1354, 1360 (Fed. Cir. 2001).

16. *Sun Studs, Inc. v. Applied Theory Assocs., Inc.*, 772 F.2d 1557, 1566 (Fed. Cir. 1985).

17. *E.g.*, FED. R. CIV. P. 11; 28 U.S.C. § 1927 (2006).

18. *See* HRICIK, *supra* note 10.

facts.<sup>19</sup> But pre-suit and pre-answer investigations would no doubt occur even without legal requirement since litigation is expensive. Because counsel for both parties are generally interested in prevailing, asserting meritless claims or defenses is generally perceived to indicate weakness, not strength. To do so can diminish the value of strong claims or defenses.<sup>20</sup>

The focus of this article is on ethics. The principal ethical rule that pertains to pre-suit investigations is Model Rule 3.1, which provides in pertinent part: “A lawyer shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis in law and fact for doing so that is not frivolous, which includes a good faith argument for an extension, modification or reversal of existing law.”<sup>21</sup> A comment to the rule explains:

The filing of an action or defense or similar action taken for a client is not frivolous merely because the facts have not first been fully substantiated or because the lawyer expects to develop vital evidence only by discovery. What is required of lawyers, however, is that they inform themselves about the facts of their clients’ cases and the applicable law and determine that they can make good faith arguments in support of their clients’ positions. Such action is not frivolous even though the lawyer believes that the client’s position ultimately will not prevail. The action is frivolous, however, if the lawyer is unable either to make a good faith argument on the merits of the action taken or to support the action taken by a good faith argument for an extension, modification or reversal of existing law.<sup>22</sup>

Prior to 2006, the Model Rule expressly stated that an action was frivolous if the client acted “primarily for the purpose of harassing or maliciously injuring a person.”<sup>23</sup> However, the language remains in some state versions<sup>24</sup> of Rule 3.1 today. In my experience, despite its deletion, courts consider all circumstances in determining whether an action was—or was not—frivolous, including indicia of bad faith.

19. See, e.g., *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295 (Fed. Cir. 2004) (explaining that reasonable pre-suit inquiry into claim interpretation and application of claims to accused products is required to avoid frivolous filings).

20. See Robert B. Fitzpatrick, *Plaintiff's Pre-Trial Strategies*, in BASIC EMPLOYMENT AND LABOR LAW – IN DEPTH: ALI-ABA COURSE OF STUDY MATERIALS (1996).

21. MODEL RULES OF PROF'L CONDUCT R. 3.1 (2010).

22. *Id.* at cmt. 2.

23. See ABA, A LEGISLATIVE HISTORY: THE DEVELOPMENT OF THE ABA MODEL RULES OF PROFESSIONAL CONDUCT 1982-2005 424 (2006).

24. E.g., MASS. R. OF PROF'L CONDUCT 3.1 (2011); GEORGIA R. PROF'L CONDUCT 3.1 (2010).

Although there is no “empty head pure heart” defense to a violation of Rule 3.1, the test is objective and an evil heart can make a difference, particularly in close cases.

Before turning to how this ethical rule applies to suits by NPE-patentees, the article briefly summarizes the other law applicable to pre-suit investigations, since the ethical rules are only a small part of the body of law that requires pre-suit investigations.

a. Federal Rule of Civil Procedure 11

First, Rule 11 of the Federal Rules of Civil Procedure provides in part:

(a) Signature. Every pleading, written motion, and other paper must be signed by at least one attorney of record in the attorney’s name—or by a party personally if the party is unrepresented. The paper must state the signer’s address, e-mail address, and telephone number. Unless a rule or statute specifically states otherwise, a pleading need not be verified or accompanied by an affidavit. The court must strike an unsigned paper unless the omission is promptly corrected after being called to the attorney’s or party’s attention.

(b) Representations to the Court. By presenting to the court a pleading, written motion, or other paper—whether by signing, filing, submitting, or later advocating it—an attorney or unrepresented party certifies that to the best of the person’s knowledge, information, and belief, formed after an inquiry reasonable under the circumstances:

(1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation;

(2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;

(3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and

(4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information.<sup>25</sup>

---

25. FED. R. CIV. P. 11.

As with all suits filed in federal court, before a patent suit can be filed, a lawyer must comply with Rule 11 by conducting an adequate pre-suit investigation as to the law and facts underlying the allegations of infringement in the complaint.<sup>26</sup> So, too, a defendant must investigate in compliance with Rule 11 before filing a motion or pleading in response to a patent infringement suit.<sup>27</sup> Because of the stakes often involved, as well as the complexity often associated with patent suits, however, it often takes significant effort in terms of time and money to comply.

The Federal Circuit applies regional circuit law to motions for sanction under Rule 11, since they are not unique to patent law.<sup>28</sup> Courts hold that a frivolous claim or pleading for Rule 11 purposes is one that was “legally or factually ‘baseless’ from an objective perspective” *and* was made without “a reasonable and competent inquiry.”<sup>29</sup> Thus, if the pleading or other paper was not objectively baseless, then the amount of inquiry is irrelevant; it is only if the pleading or paper was objectively baseless that the reasonableness of the factual and legal investigation matters.<sup>30</sup>

#### b. Exceptional Case Attorney Fee Shifting Under 35 U.S.C. § 285

Second, Section 285 provides that a “court in exceptional cases may award reasonable attorneys’ fees to the prevailing party.”<sup>31</sup> The statute authorizes fee shifting—awarding the accused infringer its attorneys’ fees, for example—where the prevailing party establishes that the suit was “objectively baseless.”<sup>32</sup> “Exceptional case” liability can be imposed against the patentee or accused infringer.<sup>33</sup> A patentee

26. See, e.g., *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295 (Fed. Cir. 2004); *View Eng’g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000). See also *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, 239 F.R.D. 609, 614 (W.D. Wash. 2006) (“Rule 11 is not about ‘after-the-fact investigation,’ and consulting with experts after filing to craft ‘colorable’ arguments does not cure a Rule 11 violation.” (quoting *Judin v. U.S.*, 110 F.3d 780, 785 (Fed. Cir. 1997))).

27. Rule 11 applies to all pleadings and signed documents, not just those of the plaintiff. See FED. R. CIV. P. 11.

28. *Q-Pharma*, 360 F.3d at 1299.

29. *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1127 (9th Cir. 2002).

30. See, e.g., *Eon-Net*, 239 F.R.D. at 609 (imposing sanctions under Rule 11 for inadequate pre-suit investigation).

31. 35 U.S.C. § 285 (2000).

32. See *Q-Pharma*, 360 F.3d at 1295.

33. Exceptional cases can involve bad faith litigation by either party, inequitable conduct by the patentee, or willful infringement by the accused infringer. See *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1380 (Fed. Cir. 2001).



who files an infringement suit can be liable for “exceptional case” damages if the patentee’s actions are “manifestly unreasonable in assessing infringement.”<sup>34</sup> Significantly, liability can be imposed even if the patentee files suit but then *voluntarily* dismisses it.<sup>35</sup>

The Federal Circuit applies its own law to liability under Section 285, since it is unique to patent law.<sup>36</sup> Exceptional cases include those involving “inequitable conduct before the [Patent and Trademark Office]; misconduct during litigation, vexatious or unjustified litigation, and frivolous suit.”<sup>37</sup> If even one type of conduct is present, the district court must “weigh intangible as well as tangible factors: the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factors whereby fee shifting may serve as an instrument of justice.”<sup>38</sup>

### c. Liability Under the Federal Antitrust Laws

Third, antitrust liability can arise, and a patentee can be found liable for bad faith litigation or bad faith enforcement or publicity of a patent in rare circumstances.<sup>39</sup> Likewise, in some circumstances, an affirmative claim for relief, under state law or federal antitrust laws, can arise through enforcement of an invalid or unenforceable patent for other forms of litigation involving patents.<sup>40</sup>

The Federal Circuit applies regional circuit law to antitrust claims since they are not unique to patent law.<sup>41</sup> Although a full discussion of the federal antitrust laws is beyond the scope of this article, some general principles relate directly to the issue of pre-suit inquiry. For example, the accused infringer may prove that the

34. *Eltech Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 809-10 (Fed. Cir. 1990). *See Taurus IP, LLC v. DaimlerChrysler Corp.*, 559 F. Supp. 2d 947 (W.D. Wis. 2008) (finding case exceptional).

35. *See Micromesh Technology Corp. v. American Recreation Products, Inc.*, No. C-06-6030 MHP., 2007 WL 2501783, (N.D. Cal. Aug. 30, 2007).

36. *Q-Pharma*, 360 F.3d at 1299; *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1377 (Fed. Cir. 2001).

37. *Superior Fireplace Co.*, 270 at 1377 (quoting *Multiform Desiccants, Inc. v. Medzam Ltd.*, 133 F.3d 1473, 1481-82 (Fed. Cir. 1998)); *see Brooks Furn. Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005) (describing additional forms of conduct that can violate Section 285).

38. *Nat'l Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1197 (Fed. Cir. 1996). *Superior Fireplace Co.*, 270 F.3d at 1377; *see Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990) (similar test).

39. *See Q-Pharma*, 360 F.3d at 1295.

40. *See, e.g., Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1992) (state law and antitrust counterclaims filed arising out of disputed result in interference proceeding).

41. *See Filmtec Corp. v. Hydranautics*, 67 F.3d 931 (Fed. Cir. 1995).

asserted patent was obtained through “*Walker Process*” fraud—that is, knowing and willful fraud.<sup>42</sup> Or, the accused infringer may prove that the earlier suit was “a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor.”<sup>43</sup> Thus, under rare circumstances, a patentee may need to examine the file history if it has red flag warnings of serious wrongdoing.

#### d. Liability Under State Law and Other Federal Statutes

Fourth, actions in federal court can give rise to state law claims for malicious prosecution and the like.<sup>44</sup> Obviously, the existence and scope of these torts vary by state, and a particularized discussion is beyond the scope of this article. In addition to Rule 11, other laws inspired by tort reform efforts can require pre-suit investigation as well.<sup>45</sup>

Likewise, other federal statutes in rare circumstances can apply to patent suits. For example, 28 U.S.C. § 1927 provides that any person “admitted to conduct cases in any court of the United States . . . 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.”<sup>46</sup> Where multiple suits are filed without basis, violations of Section 1927 have been found, but the cases are not common.<sup>47</sup>

42. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998) (citing *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965)).

43. *Id.* (quoting *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1960)).

44. *See Dominant Semiconductors SDN. BHD. v Osrarn GMBH*, 524 F.3d 1254 (Fed. Cir. 2008) (discussing liability for bad faith litigation and bad faith publicity of patent rights); *Taurus IP, LLC v. DaimlerChrysler Corp.*, 559 F. Supp. 2d 947 (W.D. Wis. 2008) (analyzing award of attorneys’ fees for breach of contract action related to patent infringement suit); *Verve, LLC v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 WL 2390505 (D. Ariz. Aug. 16, 2006) (discussing claims for malicious prosecution and abuse of process for filing patent suit under Arizona state law); *PSN Ill., Inc. v. Ivoclar Vivadent, Inc.*, No. 04 C 7232, 2005 WL 2347209 (N.D. Ill. Sept. 21, 2005) (analyzing counterclaims to infringement suit under state and federal law). *See also Carter v. Ozoeneh*, No. 3:08cv614-RJC, 2009 WL 3003836 (W.D. N.C. Sept. 16, 2009) (claims by former client that current litigation was actionable).

The assertion of state law claims can implicate preemption and related doctrines. *See Zenith Elec. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1349 (Fed. Cir. 1999); *Pro-Mold and Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574-75 (Fed. Cir. 1996).

45. *See, e.g., Hinchman v. Gillette*, 618 S.E.2d 387 (W.Va. 2005) (contrasting statutory pre-suit certificate with state version of Rule 11 in separation of powers challenge).

46. 28 U.S.C. § 1927 (2006).

47. *Verve, LLC*, 2006 WL 2390505 (concluding that attorney violated Section 1927 in

e. Application of Ethical Rules Concerning Pre-Suit Investigations to NPE Suits: Heightened Responsibilities?

NPEs lack the competitive benefit that practicing entities have in filing suit and may find their motives more closely scrutinized than counsel for a practicing patentee. The suit is entirely economic—royalty-seeking—and not based upon business interests independent of obtaining damages. In addition, courts (and opposing counsel) are aware of the leverage that the mere filing of a patent infringement suit creates, and are also aware that a Federal Rule of Civil Procedure 12(b)(6) motion to dismiss for failure to state a claim upon which relief can be granted will likely fail, subjecting the accused infringer to the costs of litigation necessary to file for summary judgment.

Counsel for an NPE take into account the attitude of some courts towards NPE suits and perhaps engage in more extensive pre-suit infringement investigation than might otherwise be necessary. Absent unusual circumstances, however, the investigation needed by counsel for a patentee-NPE will concern proof of infringement, not validity or enforceability of the patent.<sup>48</sup> Nonetheless, and particularly in districts that require early disclosure of infringement contentions by local rule or otherwise, counsel for NPEs should be sure to carefully apply the claims to the accused products. While claim charts generally are not required at a pre-suit stage, counsel for an NPE should consider that, in order to protect themselves and their client from sanctions and other charges, vigilance in pre-suit infringement investigations is particularly warranted.

Nonetheless, the ethical obligation of defense counsel is also heightened when an NPE is the patentee-plaintiff. It is good practice for counsel to always analyze infringement early on in order to determine whether the plain language of the claims negates infringement or conduct during prosecution creates an estoppel or other limitation on the claims that precludes infringement. Defense

---

patent suit). *See also* *Baldwin Hardware Corp. v. Franksu Enterp. Corp.*, 78 F.3d 550 (Fed. Cir. 1996) (affirming award based on litigation misconduct); *Defendant's Answer, Great Am. Ins. Co. v. Godwin Pappas Ronquillo, LLP*, No. 3-07CV1727-N, 2008 WL 1881320 (N.D. Tex. March 6, 2008) (pleading involving insurance coverage dispute over sanctions in prior patent infringement case).

48. Validity and enforceability are of course essentially presumed, and so absent knowledge by the patentee or its counsel of significant questions as to validity or enforceability, little to no investigation is required. On the other hand, patentee's counsel should ensure that the plaintiff is in fact owner of the patent and that the patent is in force. *See* HRICIK, *supra* note 10, at 95-96, 101-03.

counsel should demand that NPE counsel describe infringement early since the asymmetry of discovery costs means that the NPE can cause the accused infringer to incur attorneys' fees in proportionately greater amount. Early and vigorous analysis of infringement contentions may lead to early settlement or the grant of summary judgment. In that regard, counsel for the defendant should analyze whether the court will permit limited discovery and motion practice on infringement prior to engaging in broader discovery as a means to protect the accused infringer from unnecessary attorneys' fees, costs, and delay.

### 3. *Fairness in Discovery*

Under applicable ethical rules, lawyers may not serve frivolous discovery,<sup>49</sup> and in federal court they may not, under the Federal Rules of Civil Procedure, serve discovery for an improper purpose, which includes "needlessly increas[ing] the cost of litigation," or which is unreasonably burdensome in light of the stakes in the case.<sup>50</sup>

As noted above, an NPE will in most cases have significantly fewer documents or witnesses and employees that are pertinent to a suit than will a practicing entity. Particularly where expensive electronic discovery is likely, the asymmetry in expenses can be significant. These asymmetries create the potential for abuse that counsel for both the NPE and for the accused infringer need to analyze.

As to counsel for the NPE, the temptation to use the cost of discovery, and particularly of e-discovery,<sup>51</sup> as a means to extract a settlement is evident. An NPE may have few, if any, responsive documents apart from the file histories and a few documents pertaining to ownership and maintenance of the patent, while the patentee very likely will have countless documents pertaining to damages alone. For these reasons, counsel for NPE-patentees have a greater incentive to engage in abusive discovery practices as a means of driving up costs to force settlement.

Counsel for accused infringers are not without their own ethical dilemmas. As one commentator noted, a factor in the expense of

---

49. MODEL RULES OF PROF'L CONDUCT R. 3.4(d) (2009) (prohibiting a lawyer from knowingly "in pretrial procedure, mak[ing] a frivolous discovery request . . .").

50. FED. R. CIV. P. 26.

51. See generally John Prudhomee, *Discovery in the Paperless World: How Speed and Ease of Technology Has Slowed and Complicated the Process*, 14 SMU SCI. & TECH. L. REV. 159 (2010).

electronic discovery, in particular, is the fact that “many lawyers bill by the hour.”<sup>52</sup> Again, this necessitates that defense counsel carefully scrutinize discovery requests and consider whether bifurcating the proceedings into stages will save the client money—even if it reduces the income to the lawyer. For example, bifurcating the case first into an inquiry regarding infringement of the patent—which turns primarily on the claim language itself and comparison of the construed claims to the accused products—will eliminate the need to examine validity, enforceability, or damages. Defense counsel’s aggressive pursuit of limitations on discovery and of other means to reduce costs can benefit the accused infringer enormously.

#### D. CONCLUSION: ONUS ON DEFENSE COUNSEL?

The patent laws give NPEs the same right to exclude as all patentees possess. Only Congress can change that fact. The realities thus remain, for counsel for both NPEs and for accused infringers, that the costs of litigation will be greater on the defendant. While the NPE must not seek frivolous discovery, the problem that defense counsel faces is that even complying with legitimate discovery requests can result in substantial and disproportionate costs to the accused infringer.

The only actor in the suit who has the responsibility and power to stop abuse and even to manage the case in a way that protects the client from unnecessary costs is defense counsel. By promptly and actively seeking a basis for judgment of noninfringement, or for otherwise limiting or bifurcating discovery, defense counsel can reduce the costs of litigation and protect the court and his client from even warranted costs.

The problem is that many counsel bill by the hour. There is an inherent tension between the interests of defense counsel, paid by the hour, and their clients, that is heightened by the presence of an NPE. In some respects, the NPE’s interests in avoiding early adjudication coincide with defense counsel’s interests in gaining a fee.

As a result, counsel for both parties to NPE litigation have heightened obligations to avoid unnecessary costs and take active steps to expedite litigation. The ethical obligations fall not only on the NPE’s counsel, but also on the lawyer representing the receiving end of the suit.

---

52. *Id.* at 159.