IP Alert | Federal Circuit Finds Attorney's Fees Were Justified by Patent Assertion Entity's Litigation Misconduct

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Have you wondered how a patent assertion entity (PAE) operates?[1] The U.S. Court of Appeals for the Federal Circuit recently laid out the modus operandi of one such PAE for all to see in Blackbird Tech LLC v. Health in Motion LLC (No. 2018-2393) (Dec. 16, 2019).

Blackbird Tech is an all-in-one operation. It owns patents and serves as attorneys to litigate them against potential infringers. Typically, its suits settle prior to receiving a decision on the merits. Since its founding in 2014, Blackbird Tech has filed over 100 such suits.

In 2016, Blackbird Tech sued Health in Motion and Leisure Fitness Equipment for infringement of U.S. Patent No. 6,705,976, a patent relating to exercise equipment. After the defendants filed a successful motion to transfer the suit, Blackbird Tech offered to settle for $80,000. The defendants declined, stating that the infringement allegations lacked merit and they expected to obtain a court-ordered award of attorney fees. The defendants counteroffered that they would settle if Blackbird Tech paid them $120,000. Later, Blackbird Tech offered to settle if defendants paid Blackbird $50,000. The defendants declined, and Blackbird Tech then offered to settle for $15,000. Again, the defendants declined. Then Blackbird Tech offered a settlement in which no cash changed hands, and Blackbird Tech would grant a license. All settlement offers were declined.

With regard to litigation conduct, Blackbird Tech delayed document production. After full briefing of a motion for summary judgment, it filed a notice of voluntary dismissal with the court and granted the defendants a covenant not to sue, all without notifying the defendants. The district court denied the motion to dismiss and authorized the defendants to file a motion for attorney fees and

expenses. The court later granted that motion and awarded the defendants $363,000, after finding that the case was “exceptional” because Blackbird Tech’s litigation position was meritless and frivolous and its litigation behavior unreasonable.

Blackbird Tech audaciously appealed the award of fees. The Federal Circuit determined that the district court had not abused its discretion in finding that this case was exceptional and thereby awarding reasonable attorney fees because indeed the litigation behavior was exceptional and the fees were reasonable. The Federal Circuit noted that even using Blackbird Tech’s proposed claim construction, the accused device did not meet the elements of the ’976 patent claim.

The district court also found Blackbird Tech’s litigation conduct unreasonable. It pointed to the series of decreasing settlement demands that were far less than the anticipated cost of defending the suit. These settlement demands constituted nuisance value settlement offers, the district court concluded. The district court also determined that Blackbird Tech’s delay and failure to produce documents was unreasonable. These were either unexcused or unexplained at the time.

In addition, the district court found unreasonable the unannounced filing of Blackbird Tech’s notice of dismissal of suit and the timing of that filing on the same day that pretrial submissions were due. Based on these findings, the Federal Circuit ruled no abuse of discretion in designating the case exceptional. It also found appropriate the district court’s motivation for the attorney fees; it aimed to deter future abusive litigation in view of Blackbird Tech’s pattern of litigiousness.

Blackbird Tech also asked the Federal Circuit to consider whether the district court inappropriately granted attorney fees to the defendants for the whole litigation, rather than merely for the part relating to the purported misconduct. This, too, was not a helpful argument for Blackbird Tech because the Federal Circuit found that the misconduct severely affected every stage of the litigation.

The Federal Circuit has dissected and displayed the techniques used by at least one PAE for all to see.

Click here to view the Federal Circuit’s decision in Blackbird Tech v. Health in Motion LLC.

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[1] Some call these non-practicing entities, or even less generously, patent trolls.

Posted: December 19, 2019