

25 November 2003



TECHNOLOGY LAW UPDATE

A report of the latest Federal Circuit updates brought to you by Preston Gates.

Phonometrics, Inc. v. Economy Inns of Am.

Nos. 02-1502 *et al.* (Fed. Cir. Nov. 21, 2003)

“[O]ral statements that ‘later advocat[e]’ untenable contentions made in previously-filed papers are sanctionable under Rule 11.”

On November 21, 2003, the Federal Circuit affirmed the district court’s order that awarded the defendants their attorney fees of \$13,565 under Federal Rule of Civil Procedure 11 relating to claims against various hotel chains of infringement of U.S. Patent No. 3,769,463, which was directed to internal telephone equipment to calculate, display, and record the cost of long distance telephone calls. The Federal Circuit stated:

[T]he present actions were stayed pending the resolution in *Northern Telecom*, and then again pending the resolution in *Choice Hotels*. Thereafter, once Phonometrics indicated that it would continue to pursue its claims in these actions, the fourteen defendants awarded attorney fees pursuant to Rule 11 served Phonometrics with a dismissal demand and copy of the Rule 11 motion they later filed with the court. At this point, the issue of the viability of Phonometrics’ claims was placed in sharp relief for Phonometrics and its counsel. Nevertheless, it persisted in its position; specifically -- at that juncture -- by filing with the court its opposition to the Rule 11 motion. Subsequently, at least as to some of the defendants awarded fees, Phonometrics filed yet another paper advocating its infringement contentions -- its opposition to the defendants’ joint motion for summary judgment. Thus the district court did not impose sanctions for the mere failure to withdraw non-meritorious claims. In contrast, the district court granted Rule 11 sanctions only after (1) *Northern Telecom* was decided (1998), (2) *Choice Hotels* was decided (2001), (3) Phonometrics refused to withdraw its claims in the face of the Rule 11 safe-harbor letter (2001), (4) Phonometrics opposed the Rule 11 motion (2002), and (5) Phonometrics opposed the defendants’ motions for summary judgment (2002). Given this sequence of events, we discern no abuse of the district court’s discretion. . . .

Mr. Sutton argues that sanctions are inappropriate because (1) the claim construction stated in *Northern Telecom* is incorrect and (2) evidentiary support exists for Phonometrics’ assertions of infringement. Yet it was the continued maintenance of these very positions that gave rise to the sanctions, and both are completely without merit. [I]t is appropriate to consider the propriety of the district court’s decision in light of the fact that each of the above-described actions, with the exception of Intellicall’s action for declaratory judgment against Phonometrics (finalized in 1992), was filed in the same court and assigned to the same judge, and that Mr. Sutton served as counsel for Phonometrics in each of Phonometrics’ appeals The district court and Mr. Sutton are both very familiar with the history of Phonometrics’ attempts to enforce the ‘463 patent. At least since *Northern Telecom*, each decision on the merits of Phonometrics’ infringement claims in each action, whether involving a hotel defendant or not, consistently applied and was resolved by the *Northern Telecom* claim construction. Each such decision conveyed the same message [and] each presented Phonometrics and its counsel not merely the opportunity, but the obligation, to reconsider the viability of Phonometrics’ claims in light of the evidence, and to refrain from further prosecution. . . .

The decision to impose sanctions on counsel, like the decision to impose sanctions at all and the amount of any sanction, are committed to the district court’s discretion. . . . Mr. Sutton is a registered patent attorney having extensive practice experience, including district court infringement litigation. The viability of Phonometrics’ claims against the defendants turns on the significance of legal precedent and the application of a patent claim construction In light of these facts, the district court’s allocation of responsibility for the violation was appropriate.