

Digeo, Inc. v. Audible, Inc.

No. 07-1133, Federal Circuit (Michel,* Moore, Cote)

Once a litigant moves based upon non-frivolous allegations for a Rule 11 sanction, the burden of proof shifts to the non-movant to show it made a reasonable pre-suit inquiry into its claim. However, the burden of proof for § 285 motions remains with the movant to show by clear and convincing evidence that the case is exceptional.

On November 1, 2007, the Federal Circuit affirmed the district court's denial of Audible's motion for attorney fees under 35 U.S.C. § 285 in a case where Digeo's claim that Audible infringed U.S. Patent No. 5,734,823, which related to video pocket readers, was dismissed because Digeo lacked title to the '823 patent due to forged assignments, including a false declaration that one of the inventors was deceased. The Federal Circuit stated:

The determination of whether a case is exceptional and, thus, eligible for and warranting an award of attorney fees under § 285 is a two-step process in which the district court must (1) determine whether there is clear and convincing evidence that a case is exceptional, a factual determination reviewed for clear error, and (2) if so, then determine in its discretion whether an award of attorney fees is justified, a determination that we review for an abuse of discretion. . . . If there is clear and convincing evidence that a plaintiff has brought a baseless or frivolous suit against an accused infringer, that is a sufficient basis to require a district court to deem the case exceptional under § 285. . . .

Audible argues that the district court committed error by switching the burden of proof to Audible to show that Digeo had not performed an appropriate pre-suit investigation, rather than leaving that burden with Digeo Motions under Rule 11 and § 285 are different. . . . Once a litigant moves based upon non-frivolous allegations for a Rule 11 sanction, the burden of proof shifts to the non-movant to show it made a reasonable pre-suit inquiry into its claim. However, the burden of proof for § 285 motions remains with the movant to show by clear and convincing evidence that the case is exceptional. Although a Rule 11 violation can serve as the basis for finding a case exceptional, there was no Rule 11 motion or finding by the district court below upon which to base a finding of exceptionality. Thus, had Audible brought a successful Rule 11 motion against Digeo, the burden would have shifted to Digeo to show it did conduct a reasonable pre-suit investigation. That Rule 11 conduct, if so found by the district court, could have served as the basis for a separate, § 285 motion in which Audible would have to show the exceptionality of the case by clear and convincing evidence. However, as noted above, there was no such finding in this

case. [W]e conclude that the district court did not misapply the legal standard under § 285 and thus did not err.

Audible advocates on appeal, albeit without legal support, for a heightened standard of pre-suit investigation when a patent holder purchases a patent “as is.” Per Audible, Digeo ignored red flags, such as the absence of an assignment to Microtome in the file history of the ‘823 patent; a change in Hsiao Chang’s signature; no proof of Edward Chang’s death; and an “as is” sale. Audible also cites as a further indicium of an inadequate pre-suit investigation, the lack of evidence that Digeo read the file history of the ‘823 patent. We disagree with Audible’s expansive reading of § 285, for we have never required a heightened investigation into the legal title of all patents purchased “as is.” We decline to do so now.

[M]erely negligent conduct does not suffice to establish that a case is exceptional. The pertinent inquiry here is whether Digeo knew or should have known its legal title was defective. Although Digeo offered evidence that it obtained the file history prior to its purchase of the ‘823 patent, there is no evidence that Digeo read the file history. In fact, the declaration is evidence of a pre-purchase activity, not a pre-suit investigation. Juxtaposed with the file history is the issued patent’s listing of Microtome as the assignee. Given the inventors’ potential involvement as the creators and/or officers of Microtome and the lack of evidence of what Audible did to discover the fraud, the district court did not commit clear error in finding that Digeo did not perpetrate or know about, nor should Digeo have known about, the forged documents—and hence a possible defect in its legal title. Although the facts of this case are unusual, the case is not exceptional under § 285.

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