IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

ADAPTIX, INC.,	§	
	§	
Plaintiff,	§	
	§	
v.	§	
	§	**CASE NO. 6:12-CV-22**
ALCATEL-LUCENT USA, INC., ET AL.,	§	**LEAD CASE**
	§	
Defendants.	§	

ORDER

Before the Court is Defendants' Motion for Attorney Fees and Costs (Docket No. 635). The Court heard argument on March 1, 2016. For the following reasons, the Motion is **GRANTED**.

INTRODUCTION

Following a jury verdict of noninfringement and invalidity of all asserted claims, Defendants request the Court find that this case is exceptional under 35 U.S.C. § 285 based on Adaptix's late production of documents, which resulted in a 14-week continuance of the trial. During the continuance, the Court found that the metadata associated with these documents show the conception date of U.S. Patent Number 6,870,808 ("the '808 Patent") was August 9, 2000. Previously, based on Adaptix's representations, the parties had assumed the conception date was the filing date of the '808 Patent, October 18, 2000. Moving the conception date from October 18, 2000 to August 9, 2000 had significant consequences on Defendants' derivation, standing, and § 102(e) defenses.

BACKGROUND

The case was scheduled for trial starting on August 31, 2015. Five days prior to trial, Adaptix produced two native versions of documents that it previously produced in PDF form (the

"critical documents"). Docket No. 635-7, Ex. 1 (email from Adaptix's counsel). Specifically, Adaptix produced a MS Word version of a draft of the asserted '808 Patent application and a MS Power Point with figures for the '808 Patent. The metadata associated with these native documents identified the "last modified date" as August 9, 2000 and the "Company" as the University of Washington. Until that time, Adaptix had stated the conception date was the filing date of October 18, 2000. *See, e.g.*, Docket No. 635-9 at 7–8 (Adaptix's Resp. to First Set of Joint Interrogs).

For at least two years, the parties litigated the issues of standing, derivation, and invalidity under § 102(e) based on a conception date of October 18, 2000. Regarding standing, Defendants asserted that Adaptix did not have standing to assert the '808 Patent because the first named inventor, Dr. Liu, had assigned his interest to his then-employer, the University of Washington. Through summary judgment briefing on this issue, Adaptix contended that Dr. Liu did not assign his interest to the University because the patent was conceived during his sabbatical, which started on September 16, 2000. *See, e.g*, Docket Nos. 313 at 2–3, 407. By moving the conception date to August 9, 2000, Adaptix had to concede that Dr. Liu conceived of the invention while he was a full-time employee at the University.[1]

Defendants also asserted that Adaptix derived the invention from AT&T by hiring AT&T engineers who were working on a similar technology under the codename of "Project Angel." Docket Nos. 304, 437, 448. Defendants' derivation defense relied on testimony that Adaptix's predecessor filled technology gaps by "lure[ing]" and "steal[ing]" away AT&T engineers. *See* Docket No. 432-2 (July 1, 2014 Dep. of Dr. Liu Tr. at 185:7–11, 204:23–205:10, 279:3–24,

[1] Adaptix did not, however, concede that it lacked standing. Following the Report and Recommendation recommending denying summary judgment to Adaptix on a related issue, Adaptix began to assert that the issue of standing was "one of contract interpretation" that could be decided without any factual inquiry. Docket No. 440 at 2–3.

352:5–18); Docket No. 432-4 (email describing a "PR campaign" to hire engineers, containing admitted falsehoods in the form of a "pitch"). Adaptix made numerous attempts to either defeat this derivation defense or to prevent the jury from hearing such potentially prejudicial evidence. *See* Docket No. 267 (Adaptix's motion for summary judgment of no derivation, which was denied), Docket No. 475 (Adaptix's motion for reconsideration of that denial, which was denied), Docket No. 416 (Adaptix's motion *in limine* to exclude evidence related to Project Angle, which was denied), Docket No. 436 (Adaptix's motion for separate trial as to derivation, which was denied). The earliest that Defendants alleged Adaptix derived its invention from the AT&T engineers in question was at their interviews in September and October, 2000. Docket No. 543 at 2. By moving the '808 Patent's conception date before these interviews, Defendants' derivation defense failed as a matter of law. Docket No. 567 at 2.

Finally, Defendants asserted Adaptix's own United States Patent No. 7,072,315 ("the '315 Patent"), which was filed before the '808 Patent, was prior art under 35 U.S.C. § 102(e). Adaptix tried several times to exclude the '315 Patent as prior art. Docket No. 270 (Adaptix's summary judgment motion that the '315 Patent is not prior art, which was denied); Docket No. 416 (Adaptix's motion *in limine* to exclude the '315 Patent as prior art, which was denied); Docket No. 635-13 Ex. 8 at 48–53 (Pre-Trial Hr'g Tr. at 48:14–53:22 where Adaptix asked to brief the '315 Patent issue once again, which was denied). This defense hinged on the assumption that the '315 Patent conception date (October 10, 2000) preceded the date that the '808 Patent was conceived and reduced to practice. By moving the '808 Patent's conception date to August 9, 2000, Defendants' § 102(e) argument failed upon the minimal showing that the inventors were diligent in reducing the '808 Patent to practice. Docket No. 567 at 2–4.

Because of these defenses of standing, derivation and § 102(e), evidence related to the conception date of the '808 Patent was critical to both parties. This is further evidenced by the fact that Defendants asked for documents related to conception or reduction to practice on multiple occasions. *See, e.g.*, Docket No. 495, Ex. 12 (Apr. 12, 2013), Ex. 9 (March 28, 2013), Ex. 10 (Aug. 26, 2013), Ex. 11 (May 19, 2014).

Nevertheless, Adaptix asserted that it did not discover the critical documents until it searched the Ware hard drive on August 25 or 26, 2015, in response to a separate metadata issue. Docket No. 502-1, (Decl. Michael Ercolini Aug. 29, 2015) ¶¶ 7–11. The Ware hard drive is a large hard drive from a server that was controlled by Adaptix's former counsel in a prior lawsuit. Docket No. 635, Ex. 13 (Decl. Michael Ercolini May 28, 2013) ¶ 4. The Ware hard drive was known to potentially contain relevant information to both parties and had been the subject of previous discovery requests. *See, e.g.*, Docket No. 495-12, Ex. 10 (Defendants' document request) ¶¶ 41, 60–65; Docket No. 659 at 54:9–11. Adaptix did not produce metadata from the Ware hard drive in response to any of these requests, but instead declared that metadata on the Ware hard drive "was irrecoverably lost." Docket No. 635, Ex. 13 (Decl. Michael Ercolini May 28, 2013) ¶ 4. This statement turned out to be incorrect, as the critical documents were located in a subfolder titled "Conception Documents," which was nested in a folder titled "Backup." Docket No. 502-1, (Decl. Michael Ercolini Aug. 29, 2015) ¶ 10.

LEGAL STANDARD

"The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. An exceptional case "is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing

law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

"District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Octane Fitness*, 134 S. Ct. at 1756; *see also Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014) ("[T]he determination of whether a case is 'exceptional' under § 285 is a matter of discretion."); *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011) ("[W]e are mindful that the district court has lived with the case and the lawyers for an extended period."). "After determining that a case is exceptional, the district court must determine whether attorney fees are appropriate," which is within the Court's discretion. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998) (citations omitted). Ultimately, a party must prove entitlement to attorney fees only by a preponderance of the evidence. *Octane Fitness*, 134 S. Ct. at 1758.

Significantly, sanctionable conduct is not the standard for awarding fees under § 285. *Id.* at 1756. "[A] district court may award fees in the rare case in which a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees." *Id.* at 1757.

ANALYSIS

Defendants argue that this case is exceptional under 35 U.S.C. § 285 because Adaptix failed to make a reasonable search for the critical documents. Docket No. 635 at 11. Defendants seek to recover their costs associated with continuing the trial. *Id*. at 15. Adaptix argues fees are unwarranted because (1) there is no evidence that Adaptix intentionally withheld the documents, (2) the documents ultimately turned out to be helpful to Adaptix, and (3) Defendants willingly

joined Adaptix's request for a continuance. Docket No. 647 at 1. None of these reasons is persuasive.

At the outset, Adaptix argues that there is no evidence of bad faith or litigation misconduct, nor any allegation that Adaptix intentionally withheld the critical documents. Defendants clarified at the March 1, 2016 hearing that they are seeking fees under § 285, where the standard is whether the case simply stands out from others with respect to the unreasonable manner in which the case was litigated. Docket No. 659 at 56:24–8, 63:12 (citing *Octane Fitness*, 134 S. Ct. at 1756). So the focus is not so much on Adaptix's bad faith, but whether Adaptix's search and production of these documents was so unreasonable and the harm so great that the case stands out from others.

No one disputes that this metadata should have been produced much earlier in the litigation and that Adaptix's failure to do so caused great expense to both parties. Adaptix admits this evidence "directly refute[s]" Defendants' derivation defense. Docket No. 502-1 (Decl. of Miachel Ercolini Aug. 28, 2015) ¶ 12. Yet, prior to producing these documents, the parties engaged in at least five rounds of briefing concerning derivation and the related issues of standing and invalidity under § 102(e). Defendants asked specifically for documents from the Ware hard drive. In response, Adaptix filed a declaration that the metadata was "irrecoverably lost." Docket No. 635, Ex. 13 (Decl. Michael Ercolini May 28, 2013) ¶ 4. Nevertheless, five days prior to jury selection, the metadata was found on the Ware hard drive in a sub-folder labeled "Conception Documents." This late production caused the parties to move to continue the trial shortly after the jury panel was qualified. These events alone make this case "stand out" from the ordinary, even accepting as true Adaptix's explanation that failing to search for this metadata was an honest mistake.

Adaptix next argues that this case is not exceptional because the critical documents were helpful, not harmful, to Adaptix. Docket No. 647 at 2–4. Even if true, it does not change the fact that Adaptix was required by the local rules,[2] federal rules,[3] and Defendants' discovery requests, to produce this evidence much earlier in the case. Adaptix's failure to do so caused direct and significant costs to the parties, the Court, and the many members of the public who appeared for jury duty.

But more fundamentally, it was not clear at the time that these documents helped Adaptix. As described above, when the documents were produced, Adaptix was caught between a rock and a hard place with respect to the issue of date of conception. On its face, the metadata appeared to help Adaptix on derivation, but hurt it on the issue of standing.[4] Ultimately, the documents were helpful to Adaptix—they disposed of Defendants' derivation defense and allowed the parties to focus on the standing issue, which was ultimately resolved in Adaptix's favor as well. None of this was certain at the time, however.

[2] Local Patent Rule 3-2(b) requires Adaptix to produce "[a]ll documents evidencing the conception, reduction to practice, design, and development of each claimed invention, which were created on or before the date of application . . . ."

[3] Federal Rule of Civil Procedure 26(a)(1)(A)(ii) requires Adaptix to produce "a copy—or a description by category and location—of all documents, electronically stored information, and tangible things that the disclosing party has in its possession, custody, or control and may use to support its claims or defenses."

[4] In the briefing, Adaptix claims these documents had no bearing on the standing issue, which was ultimately decided by the Court interpreting Dr. Liu's employment agreement with the University of Washington. Docket No. 561 at 240:25–241:13. Adaptix's argument that standing turns on the legal question of contract interpretation was a late development in the litigation. Adaptix's original position on the standing issue was that the University of Washington has no legal interest in the '808 patent, primarily because Dr. Liu conceived of the inventions while he was on sabbatical. *See* Docket No. 313 at 2, 3 & n.3 (arguing the University had no ownership in the '808 Patent because "Dr. Liu was on a partial leave of absence at the time the inventions claimed in the '315 patent and the '808 patent were made (October 10 and October 18, 2000)"); *see also* Docket No. 526 at 2 (Order Adopting the July 16, 2015 Report and Recommendation). The critical documents refute directly that argument. However, a few months before Adaptix produced these documents, Adaptix refocused its argument to assert that the question of standing turned on interpreting Dr. Liu's employment contract. Docket No. 440 at 2–3. The Court did not have an opportunity to address Adaptix's new argument regarding standing (or even determine whether it was properly before the Court) until after the trial was continued.

Finally, the fact that Defendants joined Adaptix's request to continue the trial is beside the point. This was not a strategic choice by Defendants. Adaptix is correct that the Court agreed to Defendants' initial request to simply exclude the documents. However, on the morning of jury selection, both parties recognized that trying a case while ignoring such relevant evidence would seriously call into question the jury's verdict, regardless of which party ultimately prevailed. Neither party was in a position to try the case to the jury with that level of uncertainty. Docket No. 517 at 19:25–20:1 (Defendants: "So going to trial with this document in or this document out, causes problems"), 30:9–17. As the transcript shows, both parties agreed that the only reasonable course of action was continuing the trial in light of these documents. *Id.* at 40:1–41:23. Continuing the trial was not merely a strategic choice but a necessity.

Having carefully considered and rejected each of Adaptix's arguments, the Court finds that Adaptix's manner of litigating the case regarding the conception date, and specifically its failure to produce metadata concerning the critical documents, warrants a finding of exceptionality. Because of the unique circumstances here, small changes in the conception date had a substantial effect on the course of the litigation. Defendants specifically requested documents related to the conception date multiple times from Adaptix. Adaptix claimed, until five days before trial, that the metadata was irrecoverably lost and that the conception date was the filing date of the patent application. Based on those representations, the parties engaged in many rounds of briefing concerning defenses that assumed a conception date as the filing date of the application, at significant expense to the parties and to the Court. The metadata production rendered the majority of that effort useless. Further, once the metadata was produced, both parties—on the morning of jury selection—recognized that the documents were so crucial that simply excluding them was not a viable option and therefore moved to continue the trial. During

the continuance, the parties submitted additional briefing concerning defenses related to the conception date and the Court held a full-day evidentiary hearing on the matter.

In the end, Adaptix had a clear obligation to timely search and produce this information, and it did not do so at significant cost to many people. To address the unusual nature of these events, and to advance the considerations of deterrence and compensation, the Court is obligated to find this case exceptional. *See Octane*, 134 S. Ct. at 1756 n.6. The Court makes this finding only after carefully and thoroughly considering the arguments of the parties and exhaustively reviewing the record. To be sure, not every case where counsel's belief about the existence or non-existence of evidence turns out to be mistaken falls outside the norm. Ultimately, however, where critical evidence directly relevant to a range of highly contested and potentially dispositive issues is repeatedly requested throughout the course of litigation but is produced only days before trial, necessitating a lengthy and costly continuance, and whose disclosure causes the parties to substantially rebrief many of the dispositive issues, the case must be said to "stand[] out from others."

A finding of exceptionality is made by considering the totality of the circumstances. Therefore, the Court separately addresses two mitigating factors in Adaptix's favor regarding these events. First, Adaptix cooperated fully with Defendants during the continuance and produced the requested information from the Ware hard drive. Second, while the timing and manner of the production may raise some eyebrows, Defendants do not directly assert, and the Court does not find, that Adaptix acted in bad faith. To be clear, by making this finding of exceptionality, the Court does not imply that Adaptix's counsel violated any professional responsibility. Indeed, as noted, there has been no specific allegation that Adaptix or its counsel intentionally withheld the critical documents. A party should always disclose evidence of this

nature regardless of when it is discovered and, given these circumstances, Adaptix's counsel did the right thing by promptly disclosing the documents once discovered. These factors, however, do not contravene the huge expense Adaptix caused, although they may limit the fees Defendants can recover. As indicated at the hearing, the fees requested should be restricted to any duplicative or direct costs that Defendants incurred as a result of the trial's continuance. *See* Docket No. 659 at 88:22–21.

CONCLUSION

For the foregoing reasons, Defendants' Motion is **GRANTED**. The parties are ordered to meet and confer and propose fees in accordance with the guidance in this Order and during the hearing no later than **March 23, 2015**.

So ORDERED and SIGNED this 18th day of March, 2016.

Robert W Schroeder III

ROBERT W. SCHROEDER III
UNITED STATES DISTRICT JUDGE