

No. \_\_\_\_\_

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IN THE  
**Supreme Court of the United States**

NEWEGG INC.,

*Petitioner,*

v.

MACROSOLVE, INC.,

*Respondent.*

ON PETITION FOR WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR THE  
FEDERAL CIRCUIT

**PETITION FOR WRIT OF CERTIORARI**

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**QUESTIONS PRESENTED**

1. Whether, in resolving a motion for attorneys' fees under 35 U.S.C. § 285 brought by a defendant, the Eastern District of Texas and the Federal Circuit may disregard this Court's analytical framework provided in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014) ("*Octane*"), and create and apply a special, heightened burden of proof whenever the patent plaintiff avoids adjudication on the merits by unilaterally dismissing its case before judgment?

2. Whether the Eastern District of Texas rule requiring proof by clear and convincing evidence that a lawsuit is frivolous improperly limits or circumvents *Octane*, in which this Court rejected both requirements?

**PARTIES TO THE PROCEEDING**

Petitioner and Defendant-Appellant is Newegg Inc. (“Petitioner” or “Newegg”).

Respondent and Plaintiff-Appellee is MacroSolve, Inc. (“Respondent” or “MacroSolve”).

**RULE 29.6**  
**CORPORATE DISCLOSURE STATEMENT**

Pursuant to Supreme Court Rule 29.6, Petitioner Newegg states that it has no parent companies, and that no publicly held company owns 10% or more of its stock.

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## OPINIONS BELOW

The order below of the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) issued on February 9, 2016, at D.I. 49 in case number 15-1642 before the Federal Circuit. The Federal Circuit issued a one-line, *per curiam* summary affirmance. App. 1a–2a. That unreported order is available on Westlaw at 2016 WL 495593.

A prior unreported order of the district court denying Newegg’s Motion for Attorneys’ Fees issued on October 16, 2014, at D.I. 573 in case number 6:11-cv-00287-MHS-KNM in the United States District Court for the Eastern District of Texas (“Eastern District”). App. 55a–62a. A prior unreported order of the district court denying Newegg’s Motion for Reconsideration of the district court’s order on Newegg’s Motion for Attorneys’ Fees issued on April 6, 2015, at D.I. 578, also in case number 6:11-cv-00287-MHS-KNM in the Eastern District. App. 48a–54a.

## JURISDICTION

The United States Court of Appeals for the Federal Circuit entered final judgment on February 9, 2016. This Court has jurisdiction under 28 U.S.C. § 1254(a).

## STATUTES INVOLVED

This case involves 35 U.S.C. § 285, which states:

“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

## INTRODUCTION

1. 35 U.S.C. § 285 (“Section 285”) of the Patent Act provides that district courts “may award reasonable attorney fees to the prevailing party” in “exceptional cases.” In 2014, this Court unanimously decided in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (“*Octane*”), that a district court’s determination of whether a patent case is “exceptional” under 35 U.S.C. § 285 was an “exercise of [] discretion” that must be performed while “considering the totality of the circumstances.” *Id.* at 1756. Up until that point, district courts had been constrained by Federal Circuit precedent in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), *abrogated by Octane*, 134 S. Ct. at 1753, which had required patent defendants seeking fees under Section 285 to prove by clear and convincing evidence both that litigation was “brought in subjective bad faith” and that the litigation was “objectively baseless.” 393 F.3d at 1381.

The now-repudiated *Brooks Furniture* rule made it virtually impossible for patent infringement defendants to obtain attorneys’ fees from patentees even where infringement claims were clearly meritless. That enabled and encouraged a particular subset of patent enforcement actions—“patent troll cases”—in which plaintiffs opportunistically capitalized on the costs and risks of litigation.

*Octane* meant to correct this state of affairs. In fact, this Court recently clarified that Section 285 is intended as a “safeguard” against litigants that “use

patents as a sword to go after defendants for money, even when their claims are frivolous.” *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015). District courts accordingly have a meaningful “responsibility to ensure frivolous cases are dissuaded.” *Id.*

Under *Octane*, “exceptionality” under Section 285 must now be judged by a “preponderance” standard (as opposed to the “clear and convincing” standard in *Brooks Furniture*). Rather than requiring proof of both frivolousness and bad faith, courts are directed to consider the “totality of the circumstances” of the case in determining whether to award fees. *Octane*, 134 S. Ct. at 1756.

2. To achieve the goal of discouraging frivolous suits, fees must be available in a critical set of cases—patent lawsuits dropped before judgment on the merits. Nuisance-value lawsuits are the biggest problem facing the patent system today, and many abusive plaintiffs purposely drop their lawsuits once any defendant demonstrates a willingness to take a stand on principle.

Courts in the Eastern District of Texas, including the court below in this case, have repeatedly and blatantly chosen to deviate from *Octane*. They have created and apply a rule that conflicts with *Octane* in spirit and letter. If the plaintiff has abandoned its case before a ruling on the merits, for example because no one would pay a cost-of-defense settlement, Eastern District judges have refused to investigate the meritlessness of the case for purposes of a fee motion unless the truncated litigation has itself exposed the exceptional nature of the case.

Specifically, in the Eastern District, “[f]or a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes.” App. 60a (quoting *SFA Sys., LLC v. 1-800-Flowers.com, Inc.*, No. 6:09-CV-340, 2014 WL 10919514, at \*2 (E.D. Tex. July 8, 2014) (“*SFA Systems I*”).

The Eastern District rule creates a special standard which effectively forecloses Section 285 fees where a patentee unilaterally dismisses a case with prejudice before trial. The Eastern District of Texas rule improperly requires “evidence of frivolity” to be “reasonably clear” without the judge actually considering the merits of the case. Mechanically, the rule absolves the district court of any duty to conduct an examination of the merits sufficient to determine whether the case is exceptional. This hurdle is virtually impossible to overcome given the absence of a decision on the merits. It creates a loophole permitting abusive plaintiffs to avoid any negative consequences for their bad acts merely by dismissing their cases. Principled defendants are unjustly left without the recourse Section 285 and this Court, through *Octane*, sought to provide.

In practice, this Eastern District rule also improperly treats prevailing patentee-plaintiffs and prevailing defendants differently, in contravention of *Octane*. Only prevailing defendants face this special burden; prevailing plaintiffs never do. *Cf. Octane*, 134 S. Ct. at 1758; *see also Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 525 n.12 (1994) (noting that federal fee-shifting statute for patent actions supports “a party-neutral approach”) (citing and quoting *Eltech*

*Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 811 (Fed. Cir. 1990) (“[T]here is and should be no difference in the standards applicable to patentees and infringers who engage in bad faith litigation”).

3. The Eastern District rule by its terms also violates the *Octane* test. *Octane* rejected a requirement of objective baselessness; by contrast, the Eastern District rule requires evidence of “frivolity.” *Octane* rejected a clear and convincing evidence standard; by contrast, the Eastern District rule requires proof that frivolity is “reasonably clear”—the very language lower courts have used to describe the clear and convincing evidence standard.

4. The district court applied the Eastern District rule and only cursorily addressed, or outright ignored, Newegg’s key arguments in its motion for fees. On appeal to the Federal Circuit, Newegg explicitly highlighted the erroneous Eastern District rule and explained how it conflicted with *Octane*. See App. 43a–46a.

Nevertheless, the Federal Circuit summarily affirmed the district court’s judgment without explanation. App. 2a. The Federal Circuit has previously affirmed another Eastern District of Texas decision applying that court’s “evidence of the frivolity of the claims must be reasonably clear” standard. See *SFA Sys., LLC v. Newegg Inc.*, 793 F.3d 1344, 1348–49 (Fed. Cir. 2015) (“*SFA Systems II*”). The fact that it did not even feel the need to write an opinion in this case establishes that the Federal Circuit has decided to accept as routine the Eastern District of Texas standard as a permissible rule in cases dismissed before judgment on the merits. Nearly half of all patent cases in the

country, including a large majority of all patent troll cases, are filed in the Eastern District of Texas. As a result, if this Court denies review, the effect of Federal Circuit acquiescence will be that a large percentage of the cases *Octane* sought to redress will effectively be immune from the possibility of attorneys' fees simply because the plaintiff dismissed its case voluntarily before judgment. The Eastern District rule provides an impermissible and easily accessible safe harbor for abusive patent plaintiffs.

Review is necessary to ensure that district courts in the Eastern District of Texas and elsewhere are not permitted to create rules in defiance of Supreme Court precedent or abdicate their judicial responsibility to fairly discuss and weigh the "totality of the circumstances" of a patent case merely because a patentee seeking nuisance-value settlements dismisses its claims before trial.

*Octane* has to stand for something.

## STATEMENT OF THE CASE

### A. The '816 Patent

This case involves U.S. Patent No. 7,822,816 ("the '816 Patent"), entitled "System and method for data management." The '816 Patent covers a method of transmitting an electronic questionnaire presenting a "series of questions" from a server to a remote device connected to a network, such that a user at the remote device can take the questionnaire and the user's responses to the questionnaire can be made available on the Web. *See* Supp. App. 1, 15 (claim 1[a] and Abstract). The steps of terminating

and re-establishing network connections are critical aspects of the patented method, which is directed to the particular problem of intermittent availability of network connections. *See App. 75a–76a.*

There is no dispute that the “series of questions” claim language means a *series* of, or *multiple*, questions. During the prosecution of the ’816 Patent, the PTO issued multiple rejections addressing the “series of questions” claim language, which it described as a “survey,” as being present in the prior art. *See App. 81a–83a, 89a–92a, 99a–106a.* And during the claim construction phase of this case, both MacroSolve and Newegg agreed “series of questions” required no construction.

### **B. Proceedings in the District Court**

The patent was asserted by MacroSolve, a prolific “patent assertion entity,” or patent troll, that unabashedly embraces its patent licensing business model. From March 2011 to September 2013, it sued more than a hundred distinct entities in the Eastern District of Texas for alleged infringement of the ’816 Patent, including online retailers, banks, loan servicing companies, airlines, hotels, car rental companies, drug stores, restaurants, clothing stores, software companies, telecommunications providers, and social media companies. MacroSolve settled with virtually all of those defendants for nuisance value settlements, and has licensed the ’816 Patent to at least 63 entities, virtually all for low, round dollar figures well less than the cost of litigation. *See App. 34a.* In January 2012, MacroSolve sued Newegg for alleged infringement of the ’816 Patent.

Newegg's case was consolidated with nine other suits brought by MacroSolve.

Unlike the vast majority of defendants sued by MacroSolve, Newegg refused to settle claims which were clearly baseless. Newegg instead counterclaimed on validity and non-infringement and proceeded to litigate the case with the full intention of proceeding to trial. By the time this case entered the claim construction phase, every defendant had settled with MacroSolve except for Newegg and its Co-defendant Government Employees Insurance Co. ("GEICO").

In April 2013, GEICO filed a petition for *ex parte* reexamination challenging all claims of the '816 Patent, which the USPTO promptly instituted. While the reexamination was pending, MacroSolve filed 11 new lawsuits in the Eastern District of Texas.

MacroSolve's case against Newegg and GEICO continued, and a claim construction hearing was held on September 26, 2013. Fact and expert discovery continued, and Newegg's litigation costs started to grow quickly. In November 2013, while the parties awaited the district court's claim construction order, non-party RPX Corporation filed a petition for *inter partes* review challenging every claim of the '816 Patent. The USPTO ultimately instituted that *inter partes* review proceeding, finding at least a "reasonable likelihood" that the patent claims were invalid. 35 U.S.C. § 314(a).

Six days after the district court issued its claim construction order on January 21, 2014, both Newegg and GEICO filed motions for summary

judgment of invalidity and non-infringement. Hearing on those motions was set for April 15, 2014.

On March 12, 2014, GEICO settled. Newegg, on the other hand, refused to settle because it believed MacroSolve's patent invalid and its infringement theories baseless. *See* App. 34a–38a.

Unable to secure any settlement money from Newegg, MacroSolve decided that it would dismiss Newegg with prejudice without any payment or settlement rather than lose on the merits. MacroSolve also unilaterally covenanted not to sue Newegg in the future on the '816 Patent. Newegg was thus unable to maintain its declaratory judgment counterclaims and have its non-infringement positions vindicated by the district court.

All claims of the '816 Patent were ultimately canceled as invalid by the USPTO in June 2014.

### **C. Newegg's Motion For Attorneys' Fees**

After MacroSolve's unilateral dismissal with prejudice, Newegg sought to recover its attorneys' fees and costs. *See* App. 69a. By the time Newegg filed its fee motion, it had spent more than \$650,000 defending MacroSolve's claims. Briefing on Newegg's fee motion closed on April 29, 2014, the same day that this Court decided *Octane*. Both parties filed notices of supplemental authority in the district court. The Magistrate Judge denied Newegg's fee motion, purportedly applying the *Octane* standard. App. 55a–62a. Newegg submitted objections under Rule 72 and moved for

reconsideration before the District Judge, who denied Newegg's motion. App. 48a–54a.

Despite acknowledging and purporting to follow the proper test from *Octane*, neither the Magistrate nor the District Judge correctly applied the “totality of the circumstances” in the Section 285 analysis. Instead, the court ignored completely or addressed only cursorily many of Newegg's arguments regarding the substantive merits of the case—including MacroSolve's questionable infringement theories and history of abusive patent assertions.

The district court ignored the following evidence showing the weakness of MacroSolve's case.

“Series of questions”

First, the district court never addressed Newegg's argument that MacroSolve never had a plausible argument that Newegg's app met the “series of questions” requirement of each of the asserted claims.

MacroSolve accused Newegg's mobile device application, which users can download and install to browse and purchase Newegg's many products. According to MacroSolve and its infringement expert, the “questionnaire comprising a series of questions” limitation was allegedly practiced by this screenshot of the Newegg mobile application:



The screenshot, in reality, is a menu of categories under which products sold by Newegg are organized. *See* 40a-42a. This was hardly a “questionnaire” that contained a single “question”, much less a “series of questions” (*see id.*; App. 75a n.1), any more than a menu of food items at a restaurant is a “questionnaire” comprising a “series of questions.”

*“Terminating” and “Establishing”*

Second, the district court cursorily addressed Newegg’s arguments concerning the baselessness of MacroSolve’s indirect infringement theories as well as its direct infringement theory premised on steps performed by users not controlled or directed by Newegg.

MacroSolve’s infringement theory was both factually strained and legally hopeless from the outset. Its theory of infringement was that while Newegg’s customers were filling out the “questionnaire,” some of them might (a) deliberately shut off their Internet connection and then restart that connection, or (b) wander out of and back into the range of the wireless network, thus meeting the “terminating” and “establishing” network requirements. That seems implausible on its face. When pressed, MacroSolve’s fallback position—that network interruptions would necessarily have occurred at exactly the moment required by the claims (i.e., in the middle of the questionnaire being completed by a user of the Newegg mobile app)—was at least equally implausible. *See* Supp. App. 15 (“(f) after said first wireless modem or wireless LAN network connection is terminated, executing at least a portion of said plurality of tokens representing said questionnaire at said remote computing device to collect a response from a user”).

Nor did any of these things happen in practice. Even at the summary judgment stage, MacroSolve and its expert never identified any specific instance of infringement in which a single person (other than MacroSolve’s own expert, who was presumably licensed to do so) performed the steps of the claimed method. It is well-established in patent law that “[h]ypothetical instances of direct infringement are insufficient to establish vicarious liability or indirect infringement.” *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007).

*Divided and Indirect Infringement.*

MacroSolve's problems did not stop there. Even if it could have prevailed on both of the issues above, MacroSolve conceded that *Newegg* did not itself perform every step of the asserted method claims. Instead, it argued that Newegg's *customers* performed seven of the ten steps of claim 1 of the '816 Patent.

MacroSolve's view was that it could aggregate together the independent acts of Newegg and its customers in a manner creating direct infringement liability. That joint tortfeasor theory was clearly foreclosed by Federal Circuit law at the time this case was litigated. *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008) (“[D]irect infringement requires a single party to perform every step of a claimed method.”).

There is, it is true, an exception to the single party rule when one party directs or controls the actions of its users. But MacroSolve never explained, much less adduced proof of, how Newegg controlled or directed users of its mobile application to turn their wireless accounts on and off while visiting the Newegg site, nor why Newegg would want to do any such thing. Indeed, the evidence to the contrary was un rebutted. *See* App. 38a–39a; 75a–77a.

MacroSolve's theory of inducement was similarly hopeless. *See* App. 77a. That theory required MacroSolve to prove that Newegg knew of the patent and knew it was encouraging infringement of the patent, *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 131 S. Ct. 2060, 2068 (2011),

something MacroSolve made no effort to do. MacroSolve also adduced no evidence that Newegg, at any time, encouraged its customers to disconnect and reconnect to wireless networks, let alone at the precise time required by the claims. There was no reason Newegg would ever intend or encourage its customers to disconnect from a wireless network while browsing Newegg's site, and no evidence that it ever did so.

In short, this was never a case in which any reasonable person would have thought MacroSolve might prevail.

Newegg raised each of these points in its motions in the district court, complete with evidence and extensive citations to the record. Neither the Magistrate Judge nor the District Judge once addressed *the merits* of MacroSolve's infringement theories, much less MacroSolve's admitted failure to adduce fact evidence (of, for example, intent to induce or of direct infringement by users) or show investigation towards finding that evidence. *Global-Tech*, 131 S. Ct. at 2068; *ACCO Brands*, 501 F.3d at 1313–14 (patentee must provide “evidence of specific instances of direct infringement”). Instead, they relied on the Eastern District of Texas rule that the court will not examine the merits in detail in a fee proceeding if the merits were not resolved in the underlying case. *See* App. 60a. (“[f]or a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes.”).

The Magistrate Judge disposed of virtually all of these points not by examining the reasonableness of

MacroSolve's infringement theories, but by faulting Newegg for proffering alternative claim construction positions during the case: "Newegg has not shown that Macrosolve's infringement theories were baseless or frivolous. Its own shifting claim construction positions refute such arguments." App. 45a. And the Magistrate Judge shrugged away MacroSolve's failure to introduce inducement evidence by saying: "Newegg's mere assertion that it would not desire network connections to terminate while its mobile application is in use does not show that Macrosolve's indirect infringement theory was meritless." App. 60a. *See also* App. 53a–54a.

The fact that MacroSolve won several claim construction disputes (and lost several others) does not bear on the frivolity of MacroSolve's infringement positions; neither does the fact that Newegg's claim construction positions evolved in litigation render MacroSolve's theories less frivolous. At no time was there any way MacroSolve could have prevailed on its infringement theories, even after the claim construction order.

*MacroSolve's Abuse of the Patent System.*

If MacroSolve could never have prevailed on its suit, why did it file that suit and pursue it for over two years before unilaterally dropping it? The answer is simple: MacroSolve is in the business of leveraging the cost and uncertainty of lawsuits against entities large and small to obtain quick, nuisance payouts.

1. As an initial matter, there is no doubt that MacroSolve was engaged primarily in the business of

extracting settlements. No one seriously disputes this characterization—neither the parties in this case nor observers in industry. See Florian Mueller, *Worse than Lodsys, MacroSolve sues little app developers without advance warning*, FOSS PATENTS (May 18, 2011), <http://www.fosspatents.com/2011/05/worse-than-lodsys-macrosolves-sues.html>. Though MacroSolve was once a company with software products, it has not sold or developed products for years. See Robert Evatt, *Bits and Bytes: The rise and fall of Tulsa-based MacroSolve*, TULSA WORLD (Dec. 23, 2014, 12:24 a.m.), [http://www.tulsaworld.com/business/technology/bits-and-bytes-the-rise-and-fall-of-tulsa-based/article\\_daa88f06-bdf7-5a22-b8d1-5b5e8f24fa60.html](http://www.tulsaworld.com/business/technology/bits-and-bytes-the-rise-and-fall-of-tulsa-based/article_daa88f06-bdf7-5a22-b8d1-5b5e8f24fa60.html)).

Soon after the '816 Patent issued in October 2010, MacroSolve launched a barrage of lawsuits in the Eastern District of Texas asserting infringement of the '816 Patent. It filed 15 cases in 2011, including ten separate lawsuits on December 21, 2011. 2012 saw 29 new suits filed by MacroSolve, and MacroSolve ended 2013 having filed 31 new cases, including 11 new cases filed on September 12, 2013 alone.

In total, more than a hundred entities in a wide range of different businesses found themselves victims of MacroSolve's nuisance-value settlement litigation model. The complaints in virtually all of MacroSolve's cases were copy-and-pasted boilerplate, with frequently the only difference for each defendant being the name of the product or service accused. Virtually all of MacroSolve's cases settled

well before claim construction, and many even before an initial scheduling order was entered.

By May 2012, MacroSolve had already settled 21 cases involving the '816 Patent—at which point MacroSolve's Vice Chairman Jim McGill publicly stated to investors: "I'm comfortable we could probably identify 700 to 1000 infringing parties. Right now we're just taking our time and working our way through the names."<sup>1</sup>

2. It was no accident that MacroSolve, like most patent trolls, filed in the Eastern District of Texas. That district is notoriously plaintiff-friendly.<sup>2</sup> Senator Schumer (D-NY) observed that patentees in the Eastern District "know that court will give them favorable proceedings", and defendants understand they would be forced to "spend millions of dollars for discovery and everything else in a court they believe they can't get a fair trial in, so they settle." 157 Cong. Rec. S5410 (daily ed. Sept. 8, 2011).

MacroSolve's practice was to join multiple, unrelated companies, each with distinct and

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<sup>1</sup> Brian Mahoney, *MacroSolve Targets JPMorgan, LinkedIn Over Mobile App IP*, LAW360 (June 18, 2012, 6:03 p.m.), <http://www.law360.com/articles/351216/macrosolve-targets-jpmorgan-linkedin-over-mobile-app-ip>.

<sup>2</sup> Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. CAL. L. REV. 241, 243 (2016); Episode 441: *When Patents Attack!*, THIS AMERICAN LIFE (July 22, 2011), [http://www.thisamericanlife.org/sites/default/files/TAL441\\_transcript.pdf](http://www.thisamericanlife.org/sites/default/files/TAL441_transcript.pdf); IP Friendly, TYLER4TECH (accessed May 3, 2016), <http://tyler4tech.com/ipfriendly.html>.

unrelated products, in a single lawsuit<sup>3</sup>, a practice made possible by the Eastern District of Texas’s unique, widely criticized, and since-rejected interpretation of Rule 20 of the Rules of Civil Procedure. *MyMail, Ltd. v. America Online, Inc.*, 223 F.R.D. 455, 457 (E.D. Tex. 2004). The Eastern District’s *MyMail* rule imbued patentees with enormous bargaining power, not only because co-defendants often had little hope in severing and transferring their portions of the case to their home districts, but also because defendants were typically consolidated for trial under limits that seriously hindered the ability of each defendant to present its claims and defenses.<sup>4</sup> Further, joining companies that otherwise had few similarities or commonalities made defensive cooperation harder to organize, maximizing defensive litigation costs, thus increasing the probability of settlement with each defendant regardless of the merits.

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<sup>3</sup> For example, in *MacroSolve, Inc. v. Canvas Solutions, Inc.*, 6:11-cv-00194-LED at D.I. 1 (“Complaint”) (E.D. Tex. Apr. 18, 2011), MacroSolve sued six separate entities for selling six distinct sets of products and services. All defendants appear to have settled before the year’s end.

<sup>4</sup> Section 299 of the America Invents Act of 2011 (now 35 U.S.C. § 299) was enacted precisely to eliminate this practice. *See, e.g.*, 157 Cong. Rec. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (observing Section 299 “effectively codifies current law as it has been applied everywhere outside of the Eastern District of Texas.”).

3. Newegg provided voluminous evidence in its fee motion that MacroSolve was an abusive patent plaintiff uninterested in the merits of its patent suit, but instead in the business of obtaining settlement payments from targets. Newegg also demonstrated that MacroSolve settled all its suits for round-number lump-sum payments well less than the cost of defense. App. 34a–35a, 70a–71a.

MacroSolve addressed this argument in a single paragraph by stating that “MacroSolve’s [earlier] settlements were based on numerous factors, primarily MacroSolve’s own financial issues. That its financial position required difficult compromises does not mean it acted in bad faith.” App. 64a–65a. But MacroSolve’s explanation that it was “required” to sign “difficult compromises” due to its “financial position” was contradicted not only by the evidence submitted by Newegg in this case that MacroSolve’s nuisance-value litigation strategy had been quite profitable, but also by the public statements of MacroSolve’s officers extolling the profitability of its holdup strategy.

In its suit against Newegg, MacroSolve sought an award of between \$350,000 and \$32 million. *See* App. 34a. Every license granted by MacroSolve to other alleged infringers, however, was *multiple orders of magnitude* less than the alleged \$32 million in damages. MacroSolve’s business model relied on low settlement offers “less than ten percent of the cost [] to defend suit”, which business model “effectively ensured that [] baseless infringement allegations remained unexposed” and thus allowing MacroSolve “to collect additional nuisance value settlements.” *Eon-Net LP v. Flagstar Bancorp*, 653

F.3d 1314, 1327 (Fed. Cir. 2011). In an effort to coerce a similar nuisance settlement, MacroSolve told Newegg that “this case is about to get expensive” and “[y]ou are aware of the average settlement and we would hope for a counter offer at least near that number.” App. 30a.

MacroSolve, in short, is engaged in precisely the business against which this Court warned in both *Octane* and *Commil*—suing large numbers of defendants, regardless of how weak its case, knowing that most defendants will pay nuisance-value settlements rather than spending the time and money to defeat the patent. That business model is bad-faith litigation, pure and simple, and it imposes a “harmful tax on innovation.” *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (citation omitted). MacroSolve exemplifies the many companies taking advantage of the unique rules and practices of the Eastern District of Texas that practice this type of self-aggrandizing litigation.

The Magistrate Judge devoted only a single sentence to discussing the overwhelming evidence of MacroSolve’s bad faith: “That Macrosolve asserted the ’816 patent against a wide variety of defendants and settled many of those cases for significantly less than litigation costs does not alone show bad faith.” App. 60a. Putting aside for the moment that *Octane* requires weighing the “totality of the circumstances” instead of viewing any single argument, instance, or circumstance “alone” (as the district court here appeared to do), that single sentence was, according to the district court, enough to constitute “explicit analysis of such facts and circumstances.” App. 53a.

### **D. Proceedings in the Federal Circuit**

Newegg appealed the district court's denial of attorneys' fees under Section 285 to the Federal Circuit. Newegg's appellate briefing, among other things, sought review of the "special analytical framework" of the Eastern District rule which the district court had applied. App. 44a–45a. The Federal Circuit panel heard oral argument on February 1, 2016.

On February 9, 2016, the Federal Circuit affirmed in a one-sentence summary order.

### **REASONS FOR GRANTING THE PETITION**

The Eastern District of Texas, by far the single busiest district in the country for patent litigation, has adopted and repeatedly utilized a rule that allows a party to file a meritless lawsuit and escape proper scrutiny or consequence for its actions by simply unilaterally dismissing its case before it loses on the merits. That rule undermines this Court's *Octane* decision and "increases the *in terrorem* power of patent trolls. . . ." *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1932 (2015) (Scalia, J. dissenting, joined by Roberts, C.J.). The Federal Circuit has repeatedly acquiesced to that rule. That rule is unlikely to face further challenge and will functionally eviscerate the intent of *Octane* in a venue that controls more than 40% of United States patent litigation. If *Octane* is to have meaning, this Court must act.

Defending a patent lawsuit is expensive, whether the claims are frivolous or not. In 2015, the

American Intellectual Property Law Association (“AIPLA”) reported that the median cost for defending a patent case brought by non-practicing entity, involving asserted damages comparable to MacroSolve’s here, was \$3,750,000.00. *See* 2015 Report of the Economy Survey at 38, AIPLA (June 2015), *available at* <http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf>. Smaller companies, like software developer start-ups, have neither the expertise nor financial wherewithal to litigate the claims to a final resolution, and so reaching a below-cost settlement is almost always the preferred option. *See* Roger Allan Ford, *The Patent Spiral*, 164 U. PA. L. REV. 827, 845 (2016) (“Since settlement allows a defendant to avoid the substantial costs of litigating even a frivolous claim, even a nakedly invalid patent can have a substantial nuisance-settlement value.”). As a result, companies like MacroSolve will file patent suits anytime they “expect[] to receive a sufficiently large nuisance settlement,” *id.*, whether or not those suits have any merit.

This Court’s opinion in *Octane* marked a significant shift away from the Federal Circuit’s unduly restrictive *Brooks Furniture* test, which had made it virtually impossible for patent defendants to obtain attorneys’ fees against patent trolls. And this Court has since acknowledged that Section 285 should be a “safeguard” against patentees who “use patents as a sword to go after defendants for money, even when their claims are frivolous.” *Commil*, 135 S. Ct. at 1930.

The Eastern District of Texas rule at issue here, now blessed by the Federal Circuit, eliminates that safeguard and makes that District largely immune from the binding precedent issued by this Court. It effectively insulates from fee awards patentees who survive and thrive on generating revenue through below-cost settlement fees from multiple and often serially filed lawsuits but who do not take their cases to judgment. These are the plaintiffs who have the least claim to be legitimate users of the court system. The Eastern District framework conflicts directly with *Octane*, in which this Court emphasized that “[t]here is no precise rule or formula for making these determinations.” *Octane*, 134 S. Ct. at 1756 (citation omitted). And it conflicts with this Court’s decision in *Highmark*, which emphasized the importance of holistically considering the merits of each case carefully in evaluating fee requests. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 701 F.3d 1351, 1360 (Fed. Cir. 2012).

Because the majority of all abusive patent suits are filed in the Eastern District of Texas, and because the Federal Circuit has demonstrated that it will not review or moderate the Eastern District’s rule, this Court should grant *certiorari* to clarify that *Octane*’s “totality of the circumstances” test requires a district court to assess the merits of the case, even where the patentee-plaintiff voluntarily dismisses its claims with prejudice.

### A. The Eastern District Rule

The district court's refusal to grapple substantively with the exceptionality of MacroSolve's infringement theories, evidentiary failures, and history of nuisance-settlement litigation is clearly reversible legal error. That error is based on the flawed Eastern District rule: that is, "[f]or a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a 'mini-trial' on the merits for attorneys' fees purposes." *SFA Sys., LLC v. 1-800-Flowers.com, Inc.*, No. 6:09-CV-340, 2014 WL 10919514, at \*2 (E.D. Tex. July 8, 2014) ("*SFA Systems I*"). The Eastern District's error was compounded by the Federal Circuit in *SFA Systems, LLC v. Newegg Inc.*, 793 F.3d 1344, 1348-49 (Fed. Cir. 2015) ("*SFA Systems II*").

In *Trover Group, Inc. v. Dedicated Micros USA*, No. 2:13-CV-1047-WCB, 2015 WL 4910875, at \*3 (E.D. Tex. Aug. 17, 2015), Federal Circuit Judge Bryson, sitting by designation, went further:

This Court doubts that when the Supreme Court in *Octane* gave district courts broader discretion to grant fee awards in patent cases, it intended to create a regime in which the merits of a patent case would have to be decided twice: once on the issue of liability and a second time on the issue of the prevailing party's right to a fee award. Accordingly, the Court agrees that "for a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably

clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes.”

*Id.* (citation omitted); *see also Charge Lion, LLC v. Linear Tech. Corp.*, 6:12-CV-769-JDL, 2014 U.S. Dist. LEXIS 184576, at \*5 (E.D. Tex. Aug. 25, 2014) (applying Eastern District rule). The rule, though originating from and endemic to the Eastern District of Texas, was recently cited and approved by two judges in the Southern District of Florida. *See Net Talk.com, Inc. v. Magic Jack Vocaltec Ltd.*, No. 12CV81022, 2015 WL 10015379, at \*5 (S.D. Fla. Nov. 20, 2015) (“The Court agrees that ‘for a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes.”), *report and recommendation adopted*, 2016 WL 498437 (S.D. Fla. Feb. 9, 2016), *appeal docketed*, No. 16-1683 (Fed. Cir. Mar. 10, 2016). It was also recently cited and approved by a judge in the Northern District of Illinois. *See Snap-on Inc. v. Robert Bosch, LLC*, No. 09-cv-6914, slip. op. at 15 (N.D. Ill. Apr. 28, 2016) (“Evidence of meritless claims must be reasonably clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes, and Bosch has not made such a showing.” (citing *SFA Systems II*)). And it determined the outcome here.

*Octane* notwithstanding, the special analytical framework of the Eastern District rule has been expressly or impliedly approved by at least seven judges of the Federal Circuit. The Federal Circuit refused to correct this error and in fact has entrenched it, effectively eviscerating *Octane* for any

but the least intelligent or most stubborn patent plaintiffs.

**B. The Eastern District Rule Conflicts with *Octane* and Hinders Meaningful Judicial Review**

This Court explained in *Octane* that, under Section 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.” 134 S. Ct. at 1756. To determine whether a case is exceptional, “[d]istrict courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.* The case-by-case approach requiring a review of the “totality of the circumstances” eschews “rigid and mechanical formulation.” *See id.* at 1754. “There is no precise rule or formula for making these determinations.” *Id.* at 1756 (citation omitted).

While the outcome of any case depends on the totality of the circumstances, the policy behind Section 285 is clear. It is a “safeguard” against litigants that “use patents as a sword to go after defendants for money, even when their claims are frivolous.” *Commil*, 135 S. Ct. at 1930. District courts are charged with the “responsibility to ensure frivolous cases are dissuaded[,]” whether through Rule 11 sanctions or through Section 285. *Id.*

1. Notwithstanding *Octane* and *Commil*, the prevailing rule in the Eastern District of Texas,

approved as a matter of routine by the Federal Circuit, is a rigid and mechanical formulation: “For a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a ‘mini-trial’ on the merits for attorneys’ fees purposes.” *SFA Systems I*, 2014 WL 10919514, at \*2.

The Eastern District rule replaces thorough case-specific analysis required of district courts by *Octane* with something very different: a review that refuses to look into the “totality of the circumstances,” instead awarding fees only where evidence of frivolity is “reasonably clear” without actually doing any serious investigation of the merits. This restriction conflicts directly with *Octane*.

2. The Eastern District rule by its terms permits a district court to completely ignore arguments or evidence from a fee movant that the court believes, apparently without considering the merits, does not make a “reasonably clear” case of frivolity. The problem is compounded because if an order denying an attorneys’ fees motion under this rule is silent with respect to some or all of the movant’s arguments, that order is effectively insulated from appellate review. Because *Octane* places discretion in the district court to make the requisite determinations relevant to Section 285 fee motions (134 S. Ct. at 1756), a district court’s cursory recitation and rejection of a fee movant’s arguments, no matter how strong, is paradoxically even *more* insulated from appellate review. If the district court may be “presumed” to have *sub silentio* performed the appropriate analysis, how could an appellate court meaningfully review such findings? In such a

case, the Federal Circuit might simply assume that the district court reviewed the arguments and made the appropriate findings to decide a fee motion, even in the absence of evidence to that effect. This appears to be what the Federal Circuit did here. *See* App. 5a (“THE COURT: Well, [the district judge is] *presumed* to have reviewed the arguments. It’s not incumbent upon him to address every single argument that’s made by your side.”) (emphasis added). The decision not to look at the merits in detail becomes its own defense, for there is no record to review.

The facts of this case demonstrate the problems with the Eastern District rule. Newegg’s arguments and evidence regarding MacroSolve’s record as a patent troll in the business of leveraging a large number of lawsuits into quick-cash settlements were dismissed by the Magistrate Judge *in a single sentence*: “That Macrosolve asserted the ’816 patent against a wide variety of defendants and settled many of those cases for significantly less than litigation costs does not alone show bad faith.” App. 60a. On Newegg’s motion for reconsideration, the District Judge characterized this *single sentence* as “explicit analysis of such facts and circumstances” regarding MacroSolve’s record as an abuser of the patent system. App. 53a. This cannot be the thorough consideration of the “totality of the circumstances” *Octane* required.

3. The Eastern District rule also contravenes equitable judicial practice. Courts have long recognized that, even in the administrative context where deferential review is applied to agency decisions, a reviewing court cannot abandon its duty

to meaningfully examine the record to resolve a genuine dispute. *See Ainsworth v. Finch*, 437 F.2d 446, 447 (9th Cir. 1971) (“While we are not to try the claim de novo, ‘this does not mean that it was intended that the courts should abdicate their conventional judicial function to review.’” (quoting *McMullen v. Celebrezze*, 335 F.2d 811, 814 n.4 (9th Cir. 1964)); *Hicks v. Gardner*, 393 F.2d 299, 302 (4th Cir. 1968) (“[T]he Court must not abdicate its required function to scrutinize the record as a whole to determine whether the conclusions reached have a reasonable basis in law.”); *Sanchez v. Schwartz*, 688 F.2d 503, 506 (7th Cir. 1982).<sup>5</sup> To do so undermines public trust in the legal system.

In the patent context, this Court has made clear that a district court’s analysis should be explicit in order to facilitate meaningful judicial review even where that analysis relied on legal or mixed law/fact determinations of the district court. In *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 418 (2007), the Court held that a district court’s conclusion on the whether there were reasons to combine prior art references for analysis under the 35 U.S.C. § 103, though fact-intensive, should be clear and capable of being meaningfully reviewed. *Id.* (“To facilitate review [of findings on motivations

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<sup>5</sup> This Court has on occasion delved into the factual record for itself to resolve insufficiencies apparent in the opinion being reviewed. *See, e.g., Chicago Great W. Ry. Co. v. Rambo*, 298 U.S. 99, 101-04 (1936). If it so chooses, the Court is free to do the same in this case.

to combine prior art], this analysis should be made explicit.”). For instance, a rejection or invalidation based on obviousness grounds “cannot be sustained by mere conclusory statements” and instead “there must be some articulated reasoning with some rational underpinning to support the legal conclusion. . . .” *Id.* (quoting *In re Kahn*, 441 F.3d 977, 988 (Fed. Cir. 2006)).

True, a motion for attorneys’ fees “should not result in a second major litigation.” *Hensley v. Eckerhart*, 461 U.S. 424, 437 (1983). Nonetheless, a district court must also “provide a concise but clear explanation of its reasons for [a] fee award” (*id.*), and must do the same where it declines to award fees. See *Tilton v. Playboy Entm’t Grp., Inc.*, 554 F.3d 1371, 1378-79 (11th Cir. 2009). And to provide those reasons the district court must evaluate the facts of the case to determine whether, taken as a whole, it stands out from others. That is particularly true in cases like this, in which the plaintiff unilaterally dismisses the action before a merits judgment. A fee motion is in a case like MacroSolve the *first and only* instance in which the district court has the opportunity to pass on the merits of the case. To deny consideration of the merits in such a case prejudices defendants and encourages the practice of hit-and-run litigation.

The Eastern District rule, in practice, enables a district court to determine that a case is not exceptional for purposes of Section 285 attorneys’ fees without ever even addressing substantive arguments raised in support thereof. Here, the district court only cursorily addressed Newegg’s arguments directed to MacroSolve’s evidentiary

failures and its history of extracting nuisance-value settlements. Moreover, the district court completely ignored Newegg’s argument that MacroSolve never had a reasonable infringement read for the “series of questions” limitation of each of the asserted claims or a theory on which anyone could be held liable as a direct infringer. The district court never “ma[d]e sufficient factual findings to enable the appellate court to track his decision.” *Sanchez*, 688 F.2d at 506. It did not do so, not because the district court was overworked or lazy, but because the Eastern District of Texas has adopted a rule of not looking at the facts in this important category of cases. The Federal Circuit compounded that error by refusing to adjudicate the dispute and instead issuing a one-sentence affirmance. App. 2a.

To this day, there is no indication that *any* court has considered the reasonableness of MacroSolve’s infringement position, despite three separate attempts by Newegg to raise that issue: (1) in the initial fee motion; (2) in the objections and motion for reconsideration; and (3) in Newegg’s appellate briefing. This cannot be what is intended by *Octane*, *Commil*, and Section 285.

### **C. The Eastern District Rule Reinstates Aspects of *Brooks Furniture* That Were Expressly Rejected In *Octane***

The Eastern District rule requires that “evidence of the frivolity of the claims must be reasonably clear without requiring a ‘mini-trial’ on the merits.” In so doing, the Eastern District refused to apply the two basic teachings of *Octane*.

First, the Eastern District has adopted and implemented the clear and convincing evidence requirement this Court rejected in *Octane*.

The phrase “reasonably clear” has long been understood by courts to mean “clear and convincing.” See *Ayotte v. Am. Econ. Ins. Co.*, No. CV 09-57-BU-RFC-CSO, 2010 WL 10862740, at \*4 (D. Mont. Aug. 31, 2010) (“The burden of proof required for ‘reasonably clear’ liability is more akin to the clear and convincing evidence standard, meaning that the thing to be proved is highly probable or reasonably certain.”); *Am. Universal Ins. Co. v. Med. Malpractice Joint Underwriting Ass’n of Mass.*, No. CA891749D, 1993 WL 818614, at \*22 (Mass. Super. Ct. Sept. 3, 1993) (holding that “reasonably clear” calls for a “higher level of certainty than ‘reasonably likely’ would”, and finding: “[I]f there is a room for objectively reasonable debate about whether liability exists, then it is not ‘reasonably clear.’”).

And in *Jackson v. State Farm Mutual Automobile Insurance Co.*, 600 S.E.2d 346, 215 W. Va. 634, 640 (W. Va. 2004), a case turning on the construction of the term “reasonably clear” in West Virginia’s unfair competition law, the Supreme Court of West Virginia opined:

Based upon our determination of the commonly accepted meaning of “reasonably clear,” we believe that it means something more than the circuit court’s definition of “more likely than not.” . . . Consistent with this definition of “clear” is its meaning in our standard of proof known as “clear and convincing evidence.” This standard means “[e]vidence indicating

that the thing to be proved is highly probable or reasonably certain. This is a greater burden than preponderance of the evidence[.]” BLACK’S LAW DICTIONARY 457.

*Id.* at 640 (alterations in original).

Raising the burden of proof on those seeking fees conflicts directly with this Court’s decision in *Octane*. The Court there rejected *Brooks Furniture*’s requirement that exceptionality be proven with clear and convincing evidence. *See Octane*, 134 S. Ct. at 1752 (“*Brooks Furniture*’s requirement that proof of entitlement to fees be made by clear and convincing evidence is not justified by § 285, which imposes no specific evidentiary burden.”).

Second, the Eastern District rule requires defendants to prove that the underlying lawsuit was frivolous. Frivolity – baseless litigation – is part of the very *Brooks Furniture* standard this Court rejected in *Octane*. As this Court said there in rejecting the *Brooks Furniture* test as “overly rigid,” “a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.” *Octane*, 134 S. Ct. at 1757. The proper test instead is whether the case is exceptional. “[A]n “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). . . .” *Id.* at 1756. This case surely stands out from the others in the weakness of MacroSolve’s positions as well as in the purpose and manner with which it was litigated.

The district court erred by requiring more: proof of frivolity.

The Eastern District rule is nothing less than a refusal to apply the law this Court set forth only two years ago in *Octane*.

#### **D. The Eastern District Rule Encourages the “Patent Troll” Model of Patent Enforcement**

The Eastern District rule does not merely disproportionately or disparately burden patent infringement defendants – it burdens *only* patent infringement defendants, especially defendants in patent troll litigation, where dismissal before adjudication on the merits is common. Section 285 does not countenance asymmetry of burden in either the exceptional case determination or the fee award analysis.

The Eastern District rule undermines one of the goals of Section 285: to serve as a “safeguard” and deterrent against patent abuse. *Commil*, 135 S. Ct. at 1930. Indeed, it gives the very worst patent trolls—companies that file multiple lawsuits solely for their settlement value, with no interest in the merits of their case – something close to a free pass. Those plaintiffs are the very ones least likely to let their cases go to judgment, because the patents are weak but exposing that fact would end the gravy train. So they settle early. When they can’t, as here, they voluntarily dismiss their claims without settlement and without any adjudication of the merits. But precisely because nuisance-value plaintiffs like MacroSolve won’t let their cases go to

judgment, defendants in those cases are ill-equipped to show that “evidence of frivolity” is “reasonably clear.”

Given the Eastern District rule, it is no surprise that patent trolls have long overwhelmingly favored the Eastern District of Texas, filing nearly half of all patent suits in the country there in 2015.<sup>6</sup> It is just one of the ways the Eastern District of Texas has created an environment hospitable to patent trolls. See Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. CAL. L. REV. 241 (2016).

The societal costs of the nuisance-value settlement model are clear. In *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011), the plaintiff, a notorious patent troll, filed, or directed to be filed, “over 100 lawsuits against a number of diverse defendants alleging infringement. . . .” *Id.* Like MacroSolve, the patentee in *Eon-Net* followed each complaint with a “demand for a quick settlement at a price far lower than the cost of litigation, a demand to which most defendants apparently have agreed.” *Id.* (citation omitted). As

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<sup>6</sup> See Jeff Bounds & Mark Curriden, *Patent lawsuits flood East Texas courts in November*, THE HOUSTON CHRONICLE (Dec. 10, 2015), <http://www.houstonchronicle.com/business/article/Patent-lawsuits-flood-East-Texas-courts-in-6690685.php> (“Lawyers filed 467 new patent cases last month in the U.S. District Court of the Eastern District of Texas. That represents 32 percent more infringement lawsuits than ever filed in a single month in any federal judicial district in U.S. history, according to legal-research provider Lex Machina.”).

the Federal Circuit explained, the plaintiffs are “exploiting the high cost to defend complex litigation to extract a nuisance value settlement. . . .” *Id.* This practice of offering “low settlement offers—less than ten percent of the cost [] to defend suit—effectively ensured that Eon-Net’s baseless infringement allegations remained unexposed, allowing Eon-Net to continue to collect additional nuisance value settlements.” *Id.*

Nor are *Eon-Net* and this case isolated or uncommon instances. The practice of unilaterally dismissing cases with prejudice before judgment is common among patent trolls whenever a defendant demonstrates a willingness to challenge the validity of a bad patent or a dubious infringement theory. Newegg alone has been the victim of this cut-and-run tactic on three other occasions in the last few years. *See SFA Systems II*, 793 F.3d at 1348-49; *Pragmatus Telecom LLC v. Newegg Inc.*, 625 F. App’x 528 (Fed. Cir. 2015); *AdjustaCam, LLC v. Newegg Inc.*, 626 F. App’x 987 (Fed. Cir. 2015). The Eastern District rule has also been applied to numerous cases not involving Newegg. *See supra* Section A.

At bottom, the nuisance-value lawsuit business model relies on making sure that the court does not evaluate the merits, especially if the patentee’s validity or infringement positions are flimsy to frivolous. *See, e.g.*, Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2176-77 (2013). The Eastern District rule makes it difficult if not impossible for patent infringement defendants to obtain attorneys’

fees from patentees intent on factory-farming nuisance-value settlements.

These facts are undisputed:

- MacroSolve was a non-practicing entity which filed patent infringement claims against more than 100 entities using boilerplate complaints. These settlements generated millions of dollars in revenue for MacroSolve.
- MacroSolve brought all of its suits in the Eastern District of Texas.
- MacroSolve sought and obtained nuisance-value settlements from almost every defendant it sued. The average dollar value of those settlements was several orders of magnitude lower than what it claimed were possible damages.
- MacroSolve never adduced evidence of direct infringement by Newegg or a Newegg customer. Nor did MacroSolve adduce evidence of intent to induce infringement by Newegg.
- When Newegg made clear in mediation that it intended to go to trial on the merits, MacroSolve unilaterally dismissed its claims with prejudice and covenanted not to sue.
- All claims of MacroSolve's '816 Patent were ultimately found invalid by the USPTO.

This is the archetypal patent abuse case targeted by the AIA, criticized by President Obama, excoriated by scholars, judges, and industry observers alike. By preventing an exceptional-case finding and an attorneys' fee award under Section 285 and by insulating that decision from meaningful judicial review merely because MacroSolve dropped its case before the court could throw it out, the Eastern District rule vitiates a core purpose of Section 285:

to prevent “gross injustice” to an accused infringer (S. Rep. No. 79-1503 (1946)) and to serve as a “safeguard” against litigants that “use patents as a sword to go after defendants for money, even when their claims are frivolous.” *Commil*, 135 S. Ct. at 1930.

### **E. This Case Is An Appropriate Vehicle To Consider The Eastern District Rule**

This case presents a clean and critical vehicle on an issue of national interest. Newegg has preserved its challenge to the application of the Eastern District rule by timely and consistently challenging that rule below. Multiple district courts have cited and approved the Eastern District of rule, including courts outside of the Eastern District of Texas. The rule commands outsized influence given plaintiff-patentees’ preference for filing infringement claims in the Eastern District of Texas. In 2015, 44% of all new patent cases in the United States were filed in the Eastern District.<sup>7</sup>

Absent intervention by this Court, the rule is likely to become even more entrenched. At least seven Federal Circuit judges, including the three judges on the panel in this case, have considered the Eastern District rule and found no error, contra to *Octane’s* guidance. The fact that the Federal Circuit

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<sup>7</sup> Brian C. Howard, *2015 End-of-Year Trends*, LEX MACHINA (July 14, 2015), <https://lexmachina.com/lex-machina-2015-end-of-year-trends/>.

panel in this case refused to address Newegg's challenge to the Eastern District rule, issuing only a summary affirmance, signals that the Federal Circuit does not consider application of the rule to present an open or unsettled legal question.<sup>8</sup> Thus, the nation's specialized appeals court for patent cases has concluded that the Eastern District rule is here to stay unless this Court acts.

That the Federal Circuit refused to issue an opinion is no barrier to *certiorari*. Writs may issue where there is only a summary order from the Court of Appeals, particularly where the summary order may insulate and protect clear legal error. *See, e.g., Stutson v. United States*, 516 U.S. 193, 196 (1996) (granting writ on summary affirmance, and cautioning against “immunizing summary dispositions by courts of appeals from our review”); *Webster v. Cooper*, 558 U.S. 1039 (2009) (writ on summary order).

This is a case in which the Federal Circuit summarily affirmed district court proceedings which relied on a rule created by courts in the Eastern District of Texas that (1) clearly conflicts with this Court's precedent in *Octane*, (2) imposes an asymmetrical barrier to fee and cost recovery by

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<sup>8</sup> Federal Circuit Rule 36 provides five grounds on which it is permissible to affirm without opinion. Since there was no agency action, no trial, and no factual findings by the district court, the only possible basis for the Federal Circuit's Rule 36 affirmance was Rule 36(e): the court's conclusion that “a judgment or decision has been entered without an error of law.”

victims of patent troll litigation, and (3) undermines the purposes of Section 285 by privileging patent plaintiffs who have no interest in the merits of their case. That issue deserves a full airing before this Court. At the very least, the conflict between the Eastern District rule and *Octane* demands an explanation from the Federal Circuit.

**CONCLUSION**

The petition for writ of certiorari should be granted.

Respectfully submitted,

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