IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

PAR SYSTEMS, INC., ET AL.	§	
	§	
VS.	§	CIVIL ACTION NO. 4:10-CV-393-Y
	§	
IPHOTON SOLUTIONS, LLC, ET AL.	§	

ORDER GRANTING APPLICATION AND AWARDING
SANCTIONS FOR VIOLATION OF PROTECTIVE ORDER

Pending before the Court is Plaintiffs' Application for Expenses and Attorneys' Fees (doc. 189), filed July 12, 2012. The Court previously determined that Plaintiffs were entitled to a sanctions award for Defendants' admitted violation of the Court's protective order. The Court now GRANTS Plaintiffs' application and determines the appropriate sanctions.

I. BACKGROUND

A. MOVEABLE-BEAM APPLICATION AND PATENT

In May 2008, Defendants filed a provisional patent application for a laser ultrasonic measurement system that included an articulated arm delivering a moveable laser beam ("the moveable-beam application"). (Hr'g Tr. 14, 26, 36.) Defendants filed a utility application for the moveable beam in May 2009. (Hr'g Tr. 36, 75.) On June 4, 2010, Plaintiffs filed a patent-infringement suit against Defendants alleging that Defendants infringed on two patents owned by Plaintiffs that disclose a method and apparatus using laser ultrasonics to identify imperfections in aircraft parts made of composite materials. One patent was directed to the composition of the detection laser ("the composition patent"), and the other patent attempted to improve the pulse profile used by the detection laser ("the pulse-profile patent").

On August 23, the Court entered a protective order that included a prosecution bar

prohibiting Defendants' litigation counsel, Paul Storm, from prosecuting "any patent applications in the field of laser ultrasonics" for two years after the conclusion of the litigation. (Agreed Protective Order 5.) After the protective order was entered, Plaintiffs produced confidential information to Storm, including drawings of moveable-beam, laser-detection systems and business plans for such systems.

On July 25, 2011, the United States Department of Commerce's Patent and Trademark Office ("the PTO") notified Defendants' patent-prosecution counsel, who were attorneys in Storm's law firm, that it was rejecting all claims in the moveable-beam application. Storm had begun the process of closing his law firm, and, by September 20, all of Storm's patent-prosecution counsel had departed. Storm filed an information-disclosure statement in the moveable-beam application with the PTO. Storm then met with the PTO to discuss proposed new claims and amendments to existing claims in the moveable-beam application to secure approval of the moveable-beam application. On October 25, Storm canceled all the pending claims in the moveable-beam application and submitted new claims. The scope of the amended claims was narrower than, but included within, the scope of the original claims. (Hr'g Tr. 31.) The PTO examined the amended, narrower claims and agreed to issue the patent on the amended moveable-beam application ("the moveable-beam patent"). After Plaintiffs' counsel contacted Storm about his patent-prosecution activities and the prosecution bar, Storm admitted that he violated the prosecution bar, though he insists it was inadvertent.[1]

[1]Storm also pursued another patent application revealing a method and apparatus to inspect composite structures using laser frequencies; however, Plaintiffs do not seek sanctions regarding this violation of the prosecution bar. (Hr'g Tr. 6.)

B. Plaintiffs' Sanctions Motion and Application for Attorneys' Fees

Plaintiffs sought sanctions against Defendants for the violation. *See* Fed. R. Civ. P. 37(b). The Court concluded that a violation had occurred and inferred that Storm used Plaintiffs' confidential information in prosecuting the moveable-beam application. However, the Court could not fashion an appropriate remedy for the violation based on the parties' briefing. In short, Defendants wanted no sanction other than the withdrawal of Storm as their attorney, while Plaintiffs asked the Court to decree the moveable-beam patent unenforceable as against Plaintiffs. Because these options seemed extreme, the Court set a hearing date and ordered the parties to brief other alternatives to address the protective-order violation.

At the hearing, Plaintiffs' suggested a remedy that was slightly different than the remedy originally requested in their motion for sanctions:

1. During the first ten years of the term of the moveable-beam patent, Defendants will grant a royalty-free, non-exclusive license to Plaintiffs.

2. During the last ten years of the term of the moveable-beam patent, Defendants will grant a royalty-bearing, non-exclusive license to Plaintiffs with a royalty rate of 4%.

(Pls. Hr'g Br. 1; Hr'g Tr. 4, 28, 77.) Defendants contended an appropriate remedy would be an agreement not to sue Plaintiffs for any product falling within the narrow moveable-beam patent. Under Defendants' suggested sanction, they would be able to enforce their moveable-beam patent against any product falling within the broader moveable-beam application as originally filed. (Defs. Hr'g Br. 2.) After the hearing, Plaintiffs' submitted an application for attorneys' fees relating to their efforts in seeking sanctions against Defendants for the violation of the protective order.

II. DISCUSSION

A. APPROPRIATENESS OF SANCTIONS

The Court is convinced that Storm's violation of the prosecution bar was a regrettable mistake that was entirely inadvertent. *See Smith & Fuller, P.A. v. Cooper Tire & Rubber Co.*, 685 F.3d 486, 489 (5th Cir. 2012) (holding trial court has discretion to impose sanctions for inadvertent violation of protective order). Although understandable, a violation occurred through Storm's prosecution efforts for the moveable-beam patent. *See generally Lyn-Lea Travel Corp. v. Am. Airlines*, 283 F.3d 282, 291 (5th Cir. 2002) (listing elements petitioner must prove to justify sanctions for respondent's violation of protective order). This violation cannot go completely unaddressed, especially after Plaintiffs specifically asked the Court during discovery to enforce the protective order fearing that Defendants would receive confidential information and capitalize on that information. *See Smith & Fuller*, 685 F.3d at 487-88, 490 (5th Cir. 2012). The magistrate judge denied Plaintiffs' motion to enforce because the protective order "sufficiently constrains [Defendants] from any inappropriate use of confidential information in this matter." (Oct. 20, 2010 Order 10.) Further, "the lack of willful, contumacious, or prolonged misconduct" does not allow escape from all sanctions. *See Chilcutt v. United States*, 4 F.3d 1313, 1323 n.23 (5th Cir. 1993).

B. COVENANT-NOT-TO-SUE SANCTION

Plaintiffs' suggested sanction is problematic. To do as Plaintiffs request would force the parties into a commercial relationship whereby Defendants initially would grant Plaintiffs a royalty-free license with Plaintiffs later paying a royalty to Defendants for the use of the moveable-beam patent. (Hr'g Tr. 4, 75.) Such sanctions are akin to a death-penalty sanction that would eviscerate Defendants' ability to enforce its moveable-beam patent against its only competitor. (Hr'g Tr. 27,

68-69.) Further, such a severe sanction would be warranted only if Defendants' conduct had substantially prejudiced Plaintiffs or was committed in bad faith or willfully. *See Smith & Fuller*, 685 F.3d at488; *Coane v. Ferrara Pan Candy Co.*, 898 F.2d 1030, 1032 (5th Cir. 1990). Plaintiffs have proffered no evidence that Storm's actions substantially prejudiced them or were done in bad faith or willfully. Indeed, Storm's prohibited prosecution actions narrowed the patent to overcome prior art, which mitigates against an argument that Defendants gained an unfair advantage. *See Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891, at *7 (E.D. Tex. Dec. 19, 2006).

Defendants have proposed "a covenant not to sue [Plaintiffs] for any product falling within the scope of the moveable[-]beam claims submitted by Storm on October 25, 2011, but which did not fall within the claims as originally filed." (Defs. Hr'g Br. 2.) The Court concludes that Defendants' suggested covenant not to sue along with an award of reasonable attorneys' fees and expenses incurred by Plaintiffs in seeking sanctions for the admitted protective-order violation is sufficient to deter future abuse of discovery and remedy any harm to Plaintiffs. *See Smith & Fuller*, 685 F.3d at 490; *see also* Fed. R. Civ. P. 37(b)(2)(C); Apr. 17, 2012 Order 9. Therefore, the Court concludes that Plaintiffs' products should not be subject to a claim of infringement of any patent that claims priority to Defendants' moveable-beam patent if (1) Plaintiffs' products are within the scope of the claim submitted by Storm to the PTO on October 25, 2011, (2) Plaintiffs' products are not within the scope of the previously pending claims in the original moveable-beam application, and (3) Plaintiffs' products were described in confidential material produced under the Court's protective order. (Defs. Hr'g Br. 4-5.) *See Pressey v. Patterson*, 898 F.2d 1018, 1021 (5th Cir. 1990) (holding court has broad discretion to fashion remedy under Rule 37(b)).

C. Attorneys' Fees as an Additional Sanction

In their application, Plaintiffs have requested $149,297.85 in attorneys' fees.[2] *See* Fed. R. Civ. P. 37(b)(2)(C). Defendants argue that this amount is excessive in light of the fact that Defendants have never denied that they violated the prosecution bar. A party who violates a protective order must be held responsible for the "reasonable . . . attorney's fees **caused by the failure**, unless the failure was substantially justified or other circumstances make an award of [attorney's fees] unjust." Fed. R. Civ. P. 37(b)(2)(C) (emphasis added). There is no compelling argument that Defendants' violation of the Court's protective order was substantially justified or that an attorneys'-fees award would be unjust.

1. The Lodestar Amount

The lodestar method is used to calculate attorneys' fees, which is "applied by multiplying the number of hours reasonably expended by an appropriate hourly rate in the community for the work at issue." *Smith & Fuller*, 685 F.3d at 490. The lodestar amount is presumed to be reasonable. *See id.* Plaintiffs have submitted billing records regarding the motion for sanctions, the supplemental briefing regarding a mid-continuum sanction, and the hearing, showing how the lodestar amount was calculated for each professional involved. (Appl. for Expenses Ex. A at 3-5.) When calculating attorneys' fees awarded as a sanction, the Court further should consider (1) the reasonableness of the requested attorneys' fees, (2) the minimum amount of attorneys' fees needed to deter future litigation abuse, (3) the sanctioned party's ability to pay the attorneys' fees, and (4)

[2]Although the Court determined that Plaintiffs were entitled to an award of expenses, including attorneys' fees, they incurred in seeking sanctions, Plaintiffs' evidence solely is directed to reimbursement of their attorneys' fees. (Appl. for Expenses 5, Ex. A at 2-5; Appl. App. in Supp.) Plaintiffs state in a conclusory manner that they incurred $820.05 in expenses, but they fail to itemize these expenses or otherwise explain what this amount represents. (Appl. for Expenses 4.) Thus, the Court will not award any sanction based on Plaintiffs' expenses.

the severity of the sanctionable conduct. *See* Michael C. Smith, *O'Connor's Federal Rules ✯ Civil Trials* 447 (2012).

Here, the lodestar amount suggested by Plaintiffs is excessive. Defendants do not argue persuasively that the hourly rates charged by Plaintiffs' lawyers and legal assistants were inappropriate. Thus, the Court will presume that such rates are appropriate in calculating the lodestar. But the hours "reasonably expended" should be less than those requested by Plaintiffs. To prepare the motion for sanctions, Plaintiffs argue they spent 210.8 hours in preparing the initial motion for sanctions and reply.[3] Although the briefing was helpful, much of it was overkill. For example, Plaintiffs spent 16 pages of their 20-page sanctions motion to argue that the protective order had been violated. Some of Plaintiffs' briefing was necessary to preemptively rebut Defendants' argument that the violation was not harmful to Plaintiffs, but not all of it was needed. (Defs. Resp. to Appl. 3-4.) If this work had been done by one attorney, Plaintiffs' requested hours would equate to one attorney's working for approximately six weeks on this one motion. The Court concludes that half of the hours requested by Plaintiffs in preparing the initial motion for sanctions—105.4 hours—would be reasonable. However, the 136 hours Plaintiffs spent in preparing a brief suggesting a mid-continuum sanction, preparing a hearing brief, preparing for the Court's hearing, conducting the hearing, and preparing the application for attorneys' fees were reasonably expended. This results in a lodestar amount of $107,987.40.[4]

[3]Although Plaintiffs submitted billing records for 220.7 hours, Plaintiffs are "writing-off" 9.9 of those hours, representing the efforts of Robert Mow, an attorney representing Plaintiffs. (Appl. for Expenses Ex. A at 3-4.)

[4]The Court reached this amount first by subtracting the $820.05 in expenses from the $82,266.85 amount requested by Plaintiffs for preparing the motion for sanctions. The difference— $81,466.80—was then reduced by half for a result of $40,723.40. The Court secondly added $40,723.40 to $67,264.00, which is the amount of attorneys' fees requested by Plaintiffs for the remedy portion of the sanctions proceeding.

2. Adjustments to Lodestar Amount

Although this lodestar amount is presumed reasonable, it may be adjusted based on consideration of the following factors: (1) the time and labor required, (2) the novelty and difficulty of the issues, (3) the skill required to perform the legal services properly, (4) the preclusion of other employment by the attorney, (5) the customary fee, (6) the time limitations imposed by the client or circumstances, (7) the amount involved and results obtained, (8) the experience, reputation, and ability of the attorneys, (9) the undesirability of the case, (10) the nature and length of the professional relationship with the client, and (11) the award in similar cases.[5] *See Gagnon v. United Technisource, Inc.*, 607 F.3d 1036, 1044 (5th Cir. 2010) (citing *Johnson v. Ga. Highway Express, Inc.*, 488 F.2d 714, 717-19 (5th Cir. 1974)); *Feinberg v. Hibernia Corp.*, 966 F. Supp. 442, 451 (E.D. La. 1997). Defendants bear the burden of showing that a reduction is warranted under these factors. *See La. Power & Light Co. v. Kellstrom*, 50 F.3d 319, 329 (5th Cir. 1995). Several of these factors were part of the Court's lodestar analysis and will not be considered again. *See Green v. Adm'rs of the Tulane Educ. Fund*, 284 F.3d 642, 661 (5th Cir. 2002). Further, Defendants have not met their burden of proof regarding some of the factors, including Defendants' and Storm's inability to pay.[6]

However, Defendants have argued that Plaintiffs' lodestar amount should be reduced based on awards in similar cases. (Defs. Resp. to Appl. 5-6.) Defendants have pointed out several cases awarding sanctions based on violations of a discovery order. These cases show that the maximum award for such a violation was $29,667.71. *See Smith & Fuller*, 685 F.3d at 488, 490-91. Plaintiffs

[5]Although the case law includes consideration of whether the fee was fixed or contingent in adjusting the lodestar amount, it appears that factor has been disapproved. *See Walker v. United States Dep't of Hous. & Urban Dev.*, 99 F.3d 761, 772 (5th Cir. 1996).

[6]Although Storm declares that he is a sole practitioner and cannot pay a sanctions award, the Court is aware that Storm is now employed by a large law firm in Dallas, Texas. (Defs. Resp. to Appl. at Decl. ¶ 5.)

do not respond to this argument. The Court agrees with Defendants that awards in similar cases reveal the excessiveness of Plaintiffs' lodestar amount. Plaintiffs could argue that because this is a patent case, a larger award than the awards given in the cases cited by Defendants is justified. While the Court understands that patent cases require a higher level of competence than that held by a general practitioner, this sanctions proceeding did not call on those skills. Therefore, the Court determines that the lodestar amount must be reduced by 50% resulting in an attorneys' fee award of $53,993.70.

Defendants argue that this amount should not be paid by Defendants and Storm jointly and severally, as indicated in the Court's April 17 order, because Defendants were not responsible for the protective-order violation. (Defs. Resp. to Appl. 7.) However, Defendants were at an October 2010 deposition when Plaintiffs questioned Defendants' right to be present based on the likelihood that confidential information would be disclosed. As a result, Plaintiffs sought to enforce the protective order and exclude Defendants from the deposition of Plaintiffs' corporate representative. As discussed above, the magistrate judge held that Defendants could attend the deposition because they were bound by the protective order. Although defendant Thomas Edward Drake Jr. testified he was unaware of the effect of the protective order when Storm began prosecuting the moveable-beam patent in 2011, the Court gives this slight weight given the 2010 dispute regarding the protective order that specifically involved Defendants, including Drake, and the effect of the disclosure of confidential information. (Hr'g Tr. 66-67.) *See Rodriguez Trenado v. Cooper Tire & Rubber Co.*, 274 F.R.D. 598, 599 (S.D. Tex. 2011). Further, Defendants would be the beneficiaries of the violation, which warrants a sanction as a deterrent. *See Smith & Fuller*, 685 F.3d at 490.

III. CONCLUSION

Defendants inadvertently violated the Court's protective order. Defendants' suggested sanction is appropriate. Thus, Plaintiffs' products should not be subject to a claim of infringement of any patent that claims priority to Defendants' moveable-beam patent if (1) Plaintiffs' products are within the scope of the claim submitted by Storm to the PTO on October 25, 2011, (2) Plaintiffs' products are not within the scope of the previously pending claims in the original moveable-beam application, and (3) Plaintiffs' products were described in confidential material produced under the Court's protective order.

Plaintiffs are entitled to the additional sanction of an attorneys' fees award for the protective-order violation. The number of hours submitted by Plaintiffs, however, is excessive and must be reduced in calculating the lodestar amount. The lodestar amount must in turn be reduced based on awards in similar cases. The Court concludes that an attorneys' fees award of $53,993.70 is a reasonable award for Plaintiffs' efforts in seeking sanctions based on the lodestar amount and the adjustment factors. Defendants and Storm, jointly and severally, shall pay this amount to Plaintiffs no later than 28 days from the date of this order.

SIGNED October 17, 2012.

Terry R. Means

TERRY R. MEANS
UNITED STATES DISTRICT JUDGE