Nos. 2017-2597, -2598, -2600, -2602, -2605, -2606, -2609, -2611, -2612, -2627, -2628, -2629, -2630, -2631, -2632, -2633, -2634, 2018-1006

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PRINCETON DIGITAL IMAGE CORPORATION,
Plaintiff/Cross-Appellant,

v.

OFFICE DEPOT INC., J.C. PENNEY COMPANY, INC., QVC INC., SEARS HOLDINGS CORPORATION, LIMITED BRANDS INC., GAP, INC., WILLIAMS-SONOMA, INC., COSTCO WHOLESALE CORPORATION, NORDSTROM.COM LLC, NORDSTROM.COM INC., NORDSTROM INC.,
Defendants,

ADOBE SYSTEMS INCORPORATED,
Defendant/Appellant.

On Appeal from the United States District Court for the District of Delaware, Nos. 1:13-cv-00239-LPS, 1:13-cv-00287-LPS, 1:13-cv-00288-LPS, 1:13-cv-00289-LPS, 1:13-cv-00326-LPS, 1:13-cv-00330-LPS, 1:13-cv-00331-LPS, 1:13-cv-00404-LPS, 1:13-cv-00408-LPS, Chief Judge Leonard P. Stark

RESPONSE AND REPLY BRIEF FOR APPELLANT ADOBE SYSTEMS INCORPORATED

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March 12, 2018

CERTIFICATE OF INTEREST

Counsel for Appellant Adobe Systems Incorporated certifies the following:

1. The full name of every party or *amicus* represented by me is:

Adobe Systems Incorporated.

2. The names of the real party in interest represented by me is:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

WILMER CUTLER PICKERING HALE AND DORR LLP: Brittany Blueitt Amadi, Tasha J. Bahal, Rachel Weiner Cohen, Robert D. Cultice, Tara D. Elliott

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5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

Princeton Digital Image Corporation v. Amazon.com, Inc., No. 1:13-cv-00237-LPS (D. Del.).

Princeton Digital Image Corporation v. Netflix, Inc., No. 1:13-cv-00328-LPS (D. Del.).

Dated: March 12, 2018

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INTRODUCTION

PDIC filed and maintained—for over two years—baseless claims against Adobe's licensed customers. PDIC finally dismissed with prejudice its frivolous claims against Adobe's customers, but only after Adobe intervened and expended valuable time and resources pursuing dismissals for its licensed customers. PDIC's dismissals were based on the same representations Adobe offered from the start, that defendants used licensed Adobe products to perform the allegedly infringing conduct. Indeed, PDIC's own expert confirmed—using publicly available information that was accessible prior to the filing of PDIC's lawsuits—that several defendants used licensed Adobe products. PDIC has, so far, avoided repercussions for filing and maintaining its improper lawsuits. Rather than defend the district court's rulings, PDIC argues that this Court lacks jurisdiction to hear the appeal even though a final, appealable judgment entered on August 25, 2017. PDIC also repeatedly claims, without justification or support, that Adobe waived certain legal arguments. PDIC's jurisdictional and waiver arguments are red herrings.

When PDIC does engage on the merits, it avoids the legal issues by hiding behind the American Rule. But that rule has no application here. Adobe is entitled to its attorneys' fees pursuant to 35 U.S.C. § 285, and because those fees are consequential damages of PDIC's breach of contract. PDIC does not defend the

district court's refusal to award fees under § 285—even though the court found these cases exceptional (a finding PDIC does not challenge). Moreover, PDIC does not cite any caselaw that prevents Adobe from recovering fees as a measure of compensatory damages.

PDIC's arguments on its cross-appeal are also meritless. The district court acted well within its discretion by sanctioning PDIC for ignoring its obligation to answer Adobe's complaint and failing to prepare its corporate designee for deposition. Those rulings—further highlighting PDIC's exceptional litigation misconduct—should be affirmed.

ARGUMENT

I. THIS COURT HAS JURISDICTION

This Court has jurisdiction to hear Adobe's appeal from the district court's August 25, 2017 final judgment. The district court's legal rulings regarding the type of damages Adobe could recover rendered Adobe unable to prove an element of its breach of contract claim, *Coyle v. Englander's*, 488 A.2d 1083, 1088 (N.J. Super. Ct. App. Div. 1985) (elements of breach of contract claim include "a valid contract, defective performance by the defendant, and ***resulting damages***" (emphasis added)), and had the effect of terminating Adobe's claim, *see Raceway Properties, Inc. v. Emprise Corp.*, 613 F.2d 656, 657 (6th Cir. 1980) (in antitrust action plaintiffs were unable to establish any claim on the basis of market

definition adopted by court and requested dismissal; judgment was appealable because appellants' stipulated dismissal "was designed only to expedite review of an order which had in effect dismissed appellants' complaint"). In contrast to its argument before this Court, RB32, PDIC expressly recognized below, Appx5227(68:7-14), that the district court's damages determination is akin to an unfavorable claim construction ruling, after which a party may stipulate to judgment of non-infringement to facilitate an immediate appeal. *See Jang v. Boston Scientific Corp.*, 532 F.3d 1330, 1334 (Fed. Cir. 2008) ("It is clear that a judgment entered based on a stipulation of the parties may in appropriate circumstances be reviewed on appeal," for example claim construction judgments "entered with the express purpose of obtaining appellate review").

Notwithstanding Adobe's disagreement with the district court's interpretation of the law, Adobe preserved its right to appeal and went through its invoices line-by-line to identify fees the district court might have considered "defensive." OB23-27. The district court still found those fees to be, at a minimum, inextricably intertwined and not recoverable. Appx5203-5205. In view of these erroneous rulings, there were no damages to prove (as PDIC itself acknowledged, Appx3592). Thus, Adobe informed the district court that it would stipulate to judgment in favor of PDIC, and expressly preserved its right to appeal. *See* OB23-27. PDIC agreed to the entry of final judgment in lieu of a jury trial.

Appx5227(68:15-22); *see* Appx107-108. The district court's August 25, 2017 "Final Judgment" reflected Adobe's preservation of rights, ordering that "Adobe's request for entry of final judgment is GRANTED, without prejudice to Adobe's ability to appeal[,]" and "Adobe and PDIC expressly reserve the right to appeal from this judgment, including any interlocutory orders of the Court." Appx108.[1]

PDIC now ignores that the district court's legal rulings on damages meant that Adobe's claim was effectively dismissed and that Adobe expressly reserved its right to appeal. PDIC's arguments that this Court is stripped of its statutory authority to hear this appeal are meritless:

First, the district court's entry of judgment for PDIC satisfies the "final judgment rule" because there is no action remaining for the district court to take. *See, e.g., Robert Bosch, LLC v. Pylon Mfg. Corp.*, 719 F.3d 1305, 1308 (Fed. Cir.

[1] The district court's assertion that some "purely defensive fees" could have been proven is incorrect, and in any event, irrelevant. Indeed, neither the district court, nor PDIC ever identified in the proceedings below a single category of fees that would qualify as "purely defensive" under the court's ruling. Moreover, Adobe was not required to litigate through trial as the only means to obtain a final, appealable judgment. *See, e.g., Southland Farms, Inc. v. Ciba-Geigy Corp.*, 914 F.2d 220, 221 n. *** (11th Cir. 1990) (after district court ruled a disclaimer of liability for consequential damages applied, plaintiff stated that time and expense of trial could not be justified by claim for compensatory damages alone; district court entered final judgment, with consent of all parties, dismissing action, and appeals court exercised jurisdiction because "if affirmed," "the district court will not take further action"); *United States v. Rent-A-Homes Sys. of Ill., Inc.*, 602 F.2d 795, 797 (7th Cir. 1979).

2013) (under Final Judgment Rule, a party may not take an appeal until the district court renders a decision that ends the litigation on the merits and leaves nothing for the court to do but execute the judgment); Appx5228(69:11-14) (recognition by the court that once proposed order is executed "this case [will be] ready for appeal" and there "would be no further substantive proceedings in this [c]ourt.").

Indeed, PDIC does not (and cannot) identify any remaining actions because there are none. PDIC instead claims there is no jurisdiction because Adobe is appealing an interlocutory, evidentiary ruling. The test for finality is not whether a challenged ruling is interlocutory, but rather whether the district court proceedings were "fully adjudicated." *See, e.g., Pandrol USA, LP v. Airboss Ry. Prods., Inc.*, 320 F.3d 1354, 1362 (Fed. Cir. 2003) (district court's order that trial would be limited to damages operated as final judgment that defendants waived invalidity counterclaims). Thus, even if the district court's rulings were interlocutory, that is irrelevant. Once an appeal is taken from a final judgment that ends the litigation, earlier rulings can be reviewed. *See, e.g., Intel Corp. v. VIA Techs., Inc.*, 319 F.3d 1357, 1364-1365 (Fed. Cir. 2003) (finding jurisdiction over accused infringer's cross-appeal taken from stipulated final judgment that "dispos[ed] of … entire case," not denial of summary judgment).

Second, by agreeing to an adverse judgment, Adobe promoted judicial efficiency, not piecemeal litigation, because the judgment resolved the only

remaining claim and allowed all issues to be resolved in this single appeal. *See Loughlin v. Ling*, 684 F.3d 1289, 1292-1293 (Fed. Cir. 2012) ("Judicial economy is promoted, not frustrated, by permitting [Plaintiff] to request adverse judgment and seek review … of the dispositive legal issue in this appeal."); *see also Doe v. United States*, 513 F.3d 1348, 1352-1354 (Fed. Cir. 2008).

Third, the Supreme Court's ruling in *Microsoft Corp. v. Baker*, 137 S. Ct. 1702 (2017), does not strip this Court of jurisdiction. At issue in *Microsoft* was whether an appellate court has jurisdiction to review the denial of a class-certification order if plaintiffs voluntarily dismiss their individual claims with prejudice. The court concluded that plaintiffs' "voluntary-dismissal tactic" to precipitate an immediate appeal of class certification despite a prior denial of interlocutory review clashed with the purposes and history of 28 U.S.C. § 1291 and Federal Rule of Civil Procedure 23(f). *Id*. at 1712-1715. Neither the purpose nor history of these legal tenets is relevant here.

PDIC cites nothing for its tendentious argument that *Microsoft* prevents the Court from exercising jurisdiction in this case, and in fact, does not explain how *Microsoft* has any bearing on the facts or procedural posture of this case. There are no class allegations in this case, and no order equivalent to one denying class

certification.[2] Thus, the Supreme Court's "prime" consideration in *Microsoft*—that plaintiffs' "dismissal tactic undercut Rule 23(f)'s discretionary regime," 137 S. Ct. at 1714—has no application here. Both the court and PDIC "agreed to proceed as Adobe requested." Appx106-107; *see Munns v. Kerry*, 782 F.3d 402, 408 n.4 (9th Cir. 2015) (finding judgment final where there was no evidence of intent to manipulate appellate jurisdiction). PDIC's attempt to expand *Microsoft* well beyond the facts of that case should be denied.[3]

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[2] In *Camesi v. University of Pittsburgh Medical Center*, 729 F.3d 239 (3d Cir. 2013), the jurisdictional question in a Fair Labor Standards Act case was analyzed using class action precedents because the Third Circuit "look[s] to Rule 23 decisions by analogy in determining appealability of orders in FLSA collective actions." *Id*. at 245-247 (citation and internal quotation omitted). *Camesi*, like *Microsoft*, is inapposite. In *Camesi*, after the district court denied class certification, the named plaintiffs voluntarily dismissed their individual claims with prejudice "to secure a final judgment for purposes of appeal." *Id*. at 244-246. In declining to find appellate jurisdiction, the Third Circuit rejected the "procedural sleight-of-hand" plaintiffs had used in their "attempt[] to short-circuit the procedure for appealing an interlocutory district court order that is separate from, and unrelated to, the merits of their case." *Id*. at 245.

[3] *Microsoft* addressed a narrow issue under § 1291. It does not stand for the wholesale proposition—as PDIC contends without citation, RB30-31—that all dismissals and stipulated judgments are not final, appealable orders. *Cf. Brown v. Cinemark USA, Inc.*, 876 F.3d 1199, 1201 (9th Cir. 2017) (unpublished) (exercising appellate jurisdiction over dismissal of class allegations and distinguishing *Microsoft*); *In re Brewer*, 863 F.3d 861, 871 (D.C. Cir. 2017) (same).

II. THE DISTRICT COURT ERRED IN DENYING SANCTIONS AFTER DEEMING THE CASE EXCEPTIONAL

A. The District Court Abused Its Discretion By Denying Attorneys' Fees Under § 285

The district court's decision to deny attorneys' fees under 35 U.S.C. § 285 was contrary to law, contrary to its own findings that PDIC delayed the litigation and Adobe acted reasonably under the circumstances, and was an abuse of discretion. OB31-37. Remarkably, ***PDIC makes no attempt to defend the court's reasoning***. PDIC provides no legal or factual argument to defend the district court's mistaken finding that "Adobe's actions [were] 'aggressive.'" RB7. There is none. Nor is there any justification for the district court's refusal to award fees in those cases it deemed exceptional. Unable to defend the denial of fees, PDIC resorts to arguing waiver and an alternative ground of affirmance (that Adobe was not the prevailing party). PDIC's arguments are meritless and fail to support the district court's denial of sanctions.

1. Adobe is the prevailing party.

To be a "prevailing party," this Court requires: "(1) that the party received at least some relief on the merits, and (2) that relief must materially alter the legal relationship between the parties by modifying one party's behavior in a way that directly benefits the opposing party." *SSL Servs., LLC v. Citrix Sys., Inc.*, 769 F.3d

1073, 1086 (Fed. Cir. 2014) (internal quotation marks omitted). A party does not need to prevail on all claims to qualify as the prevailing party. *Id*.

Adobe is the prevailing party entitled to fees in these exceptional cases because it received relief on the merits and materially altered the legal relationship of the parties by ***successfully obtaining dismissal with prejudice*** of PDIC's infringement lawsuits against Adobe customers who sought defense and indemnity. *See Armament Sys. & Procs., Inc. v. IQ Hong Kong Ltd.*, 546 F. Supp. 2d 646, 656-657 (E.D. Wis. 2008). The court in *Armament*, on facts like those here, awarded an intervenor fees under § 285 after the original parties filed a stipulated dismissal settling the original dispute. *Id*. (awarding fees to intervenor-defendant who intervened based on an indemnity agreement with a named defendant because it reasonably incurred fees in defending itself against the risk to which plaintiff's suit exposed it); *see also International Rectifier Corp. v. Samsung Elecs. Co.*, 424 F.3d 1235, 1241 (Fed. Cir. 2005) ("the mere fact that a party voluntarily intervened does not preclude an award of attorney fees").

PDIC wrongly asserts—without support—that Adobe cannot rely on the "dismissals" to prove it is a prevailing party because it alleges "Adobe has not obtained a 'material alteration of the legal relationship of the parties'"; "Adobe was not a party to the dismissals"; and PDIC and defendants agreed to bear their own fees and costs as between them. RB34. PDIC is wrong on all counts. A

"dismissal with prejudice … constitute[s] a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain [a] fee claim under [§ 285]." *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1035 (Fed. Cir. 2006). And once the district court granted Adobe's motion to intervene, Adobe became a party to this litigation, *e.g.*, *Schneider v. Dumbarton Developers, Inc.*, 767 F.2d 1007, 1017 (D.C. Cir. 1985), who may be awarded fees, *International Rectifier Corp.*, 424 F.3d at 1241. Finally, Adobe did ***not*** agree to bear its own fees and costs, and PDIC's and customers' agreement to do so could not affect Adobe's rights. Adobe did not waive any rights to recover attorneys' fees due to PDIC's exceptional conduct.

PDIC's contention that it is the prevailing party is also wrong. PDIC relies solely on Adobe's stipulation to judgment for PDIC on the breach of contract claim, but that judgment is not determinative of the "prevailing party" requirement because § 285 "applies only to infringement actions." *E.g.*, *California E. Labs., Inc. v. Gould*, 896 F.2d 400, 403 (9th Cir. 1990); *see Gjerlov v. Schuyler Labs., Inc.*, 131 F.3d 1016, 1025 (Fed. Cir. 1997). Because § 285 is concerned with only patent claims—and PDIC's patent infringement claims were dismissed in Adobe's and its customers' favor—judgment in favor of PDIC on Adobe's state-law breach of contract claim cannot make PDIC the "prevailing party" for purposes of awarding sanctions under § 285. *See Gjerlov*, 131 F.3d at 1025 (finding that

patentees were not entitled to award of attorneys' fees since issues involved contract law, not patent law).

Finally, PDIC inexplicably claims that Adobe waived its right to show it is the prevailing party. RB33. PDIC's position is completely unsupported. A party need not raise on appeal an issue it did not lose below. *See, e.g.*, *Engel Indus., Inc. v. Lockformer Co.*, 166 F.3d 1379, 1383 (Fed. Cir. 1999); *Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 953 (Fed. Cir. 1997). Here, the district court did not find against Adobe; just the opposite: the court assumed that "Adobe is the prevailing party" for purposes of evaluating Adobe's renewed motion for sanctions. Appx26. Because there was no adverse ruling against Adobe on the prevailing party issue, there can be no waiver on appeal.[4]

2. PDIC's litigation misconduct should have resulted in an attorneys' fee award.

PDIC does not deny nor refute several critical points that demonstrate the district court abused its discretion in denying fees:

1. PDIC does not even acknowledge—much less dispute—that the district court found the cases exceptional. The district court detailed PDIC's

[4] The cases PDIC cites are not to the contrary, and indeed are irrelevant. Neither *Walker v. Health International Corp.*, 845 F.3d 1148 (Fed. Cir. 2017), nor *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312 (Fed. Cir. 2006), dealt with waiving the prevailing party determination and neither addressed waiver in the context of a district court's provisional decision in favor of appellant.

serious litigation misconduct—including, *inter alia*, "delay" in disclosing its theory of infringement; "inconsistent misrepresentations before the [c]ourt"; "not learn[ing] of the Adobe License prior to filing suit"; and "not" identifying "any suppliers of software that may have executed the [accused] functionality," Appx27-34; OB17-18—and came to the inevitable and correct conclusion that these cases are exceptional. Appx39-40; OB31-33.

2. PDIC makes no attempt to defend the district court's sole explanation for denying fees—that "Adobe has chosen to litigate these cases aggressively." Appx41. Indeed, the district court's characterization of Adobe's litigation conduct as "aggressive" is unsupported by the record and inconsistent with the court's own findings. OB36-37. For example, the district court recognized that PDIC needlessly multiplied the proceedings and had PDIC disclosed its purported infringement theory earlier, including during the 21-day safe harbor period, Adobe may have been able to avoid the subsequent motions, briefing, hearings, and opinions addressing sanctions. Appx30-31.

3. PDIC does not cite and makes no attempt to distinguish the facts or holding in this Court's governing opinion in *Oplus Technologies, Ltd. v. Vizio, Inc.*, 782 F.3d 1371, 1374-1375 (Fed. Cir. 2015). In *Oplus*, like here, after detailing serious misconduct and finding the case exceptional, the explanation the court gave for denying fees, that the "case has been fraught with delays and

avoidance tactics to some degree on both sides," was unsupported. *Id*. at 1374-1375. This Court vacated in light of the detailed findings of misconduct and the lack of basis for denying fees. *Id*. Like in *Oplus*, "it is difficult to imagine how [Adobe] had not incurred additional [litigation] expenses" as a result of PDIC's misconduct. *Id*. at 1374; *see* OB33-36.

PDIC's complete failure to respond to Adobe's arguments is telling. Unable to respond directly, PDIC resorts to restating three alleged factual findings made by the district court—*see* RB37 (PDIC made an investigation, even if it was "far from ideal" and "incomplete"; PDIC had a reasonable belief that defendants infringed; and PDIC acted in good faith)—claiming, without citation to any legal or record support, that "[these] conclusions are sufficient basis to sustain the [d]istrict [c]ourt's exercise of discretion." RB38. PDIC is wrong. Not only are these assertions contradicted in the record,[5] they are beside the point. The district court considered each of these alleged facts and still found the cases exceptional. Appx27-34; Appx39-40. Moreover, none played a role in the district court's

[5] *See, e.g.*, Appx2820(18-20) ("[PDIC's counsel] did not make an independent investigation."); Appx4161, Appx2621(¶19), Appx2625(¶30) (Meagher's knowledge and experience with the '056 Patent pre-date "early 2013," the alleged development of the server level infringement theory in 2013); Appx30-31, RB14-15, 38-39 (district court's observation that Meagher had a good faith belief that the '056 Patent was valid and infringed is inconsistent with PDIC's conduct over 2.5 years, PDIC's counterclaim, PDIC's interrogatory response, and what was demanded from defendants to dismiss these cases).

determination to refuse fees, which was solely dependent on the district court's incorrect view that Adobe litigated "aggressively," Appx41—a finding that PDIC makes no attempt to defend.

B. The District Court Abused Its Discretion By Denying Attorneys' Fees Under Rule 11

1. Adobe has standing to seek sanctions under Rule 11.

PDIC erroneously asserts that Adobe lacks standing to move for sanctions. PDIC cites to cases holding that a ***non-party*** cannot move for or intervene for the sole purpose of seeking Rule 11 sanctions. RB35-36. But "[w]hen a party intervenes, it becomes a full participant in the lawsuit and is treated just as if it were an original party." *Schneider*, 767 F.2d at 1017.

PDIC also incorrectly asserts that Adobe lacks standing because the underlying actions have been dismissed. RB36. This argument is contrary to governing caselaw: "To hold that a district court has no power to order sanctions after a voluntary dismissal is to emasculate Rule 11 in those cases where wily plaintiffs file baseless complaints, unnecessarily sap the precious resources of their adversaries and the courts, only to insulate themselves from sanctions by promptly filing a notice of dismissal." *In re Schaefer Salt Recovery, Inc.*, 542 F.3d 90, 98

(3d Cir. 2008); *see also In re Bath & Kitchen Fixtures Antitrust Litig.*, 535 F.3d 161, 166 n.8 (3d Cir. 2008).[6]

2. PDIC violated Rule 11 by failing to conduct a reasonable pre-suit investigation.

Adobe demonstrated that PDIC violated Rule 11 by failing to conduct a reasonable pre-suit investigation, and that the district court's finding that PDIC conducted an adequate, "although incomplete and far from ideal," Appx35, pre-suit investigation was an abuse of discretion. OB37-39. In response, PDIC ***admits*** that it ***did not consider the Adobe license prior to filing suit***, and further admits that it conducted ***no pre-suit investigation*** to determine if "any Adobe products could encode images on the websites." RB38. The district court found these aspects of PDIC's pre-suit investigation "deficient." Appx27. Indeed, the district court found that counsel for PDIC did not undertake any independent investigation but

[6] PDIC also asserts (without citation) that Adobe cannot seek sanctions because PDIC's improper conduct was directed at defendants (Adobe's customers) and not Adobe itself. RB36. PDIC ignores that each defendant requested defense and indemnification for use of Adobe products during the alleged infringement period. *E.g.*, Appx1080-1081; Appx1087-1088; Appx1090. Adobe was compelled to intervene due to PDIC's baseless claims and inability to state any basis for alleged infringement separate and apart from defendants' use of Adobe's licensed products. PDIC admittedly dismissed its claims against Adobe's customers after receiving declarations stating that they used licensed Adobe products to perform the allegedly infringing conduct. Appx2981; Appx2987; OB15; RB7. Thus, Adobe properly sought sanctions for PDIC's failure to comply with Rule 11's requirement that counsel conduct "a reasonable investigation of the facts," *Mary Ann Pensiero, Inc. v. Lingle*, 847 F.2d 90, 94 (3d Cir. 1988), which directly resulted in Adobe's intervention as of right and expenditure of fees.

relied entirely on the pre-suit investigation of its client as the basis for filing suit. *Id.*; *see* Appx2506-2507(21:22-22:7); Appx1858-1860; Appx2625-2626(¶¶30-36). The district court's failure to award Rule 11 sanctions on this ground was an abuse of discretion. *See Antonious v. Spalding & Eventflo Cos., Inc.*, 275 F.3d 1066, 1073-1074 (Fed. Cir. 2002) ("Rule 11 requires an attorney who files a patent infringement action to compare the accused device with the construed patent claims. The attorney may consult with his client but may not rely solely on the client's lay opinion that the accused device infringes the patent." (citations omitted)).

PDIC rhetorically asks why Adobe thinks PDIC should have been considering Adobe's products at all. RB38. The answer is replete throughout the record going as far back as PDIC's 2011 License Agreement with Adobe that covered Adobe's customers. Having negotiated and signed the Adobe License just two years prior, PDIC's President, General Counsel, and sole employee Thomas Meagher was aware of the License, its broad and unambiguous terms, and PDIC's covenant not to sue Adobe's licensed customers. Despite receiving payment from Adobe per the terms of the License and accepting Adobe's part of the bargained-for exchange, Meagher did nothing to honor PDIC's part of the deal. Rather, PDIC admittedly sued Adobe's licensed customers for use of Adobe-licensed products notwithstanding its grant of a covenant not to sue.

Had counsel conducted a reasonable pre-suit investigation, PDIC would have determined it could not state a claim against defendants for infringement of the '056 Patent. In fact, as PDIC acknowledged, the very same information that led PDIC to dismiss its claims (and that led PDIC's expert to state, in December 2014, that there was no evidence of infringement for several defendants, OB11-12) was publicly available before it filed suit more than two years earlier. Appx2509(30:18-23, 31:21-32:20); OB35. PDIC should not be allowed to file baseless cases in breach of a license first and investigate its claims, if ever, later. Such covenants would be meaningless.[7]

Adobe further demonstrated that rather than conduct a reasonable pre-suit investigation prior to filing over 50 infringement actions, PDIC developed a post hoc rationale and changed its theory of infringement well into the litigation. OB38-39. PDIC's response that it never changed its infringement theory but just provided additional detail, RB38, is not supported by the district court's opinion, Appx29 n.20, or the record, *e.g.*, Appx2511(39:22-40:2) (PDIC's own representations regarding the issues in this case and what PDIC required for

[7] PDIC seeks to excuse its failure to conduct a proper pre-suit investigation as moot because Adobe "never disputed" that an expert "could not have discovered from any investigation whether a Defendant utilized Adobe's Scene7." RB38. This is irrelevant. As the district court found, in the materials Thomas Meagher reviewed prior to filing suit "there are indications that Scene7 was used in at least some of Defendants' websites" and that Scene7 was an Adobe product. Appx29.

dismissal—*i.e.*, declarations that defendants' images in 2007 were created by Adobe Photoshop and not anything about "server level" infringement). Indeed, PDIC's position that the "server level" infringement theory was its basis for filing suit is belied by the fact that it appears nowhere in PDIC's infringement complaints and was not proffered in any detail until after more than 2 ½ years of litigation, two motions to intervene, and a Rule 11 inquiry. Appx30-31; *see, e.g.*, OB38-40 & n.5. Thus, PDIC's statements and actions demonstrate that its basis for suit had nothing to do with a "server level" infringement theory.

Even if PDIC's failure to conduct a pre-suit investigation were not reason enough to impose sanctions under Rule 11 (it is), PDIC also violated Rule 11 by maintaining its infringement suits despite receiving undisputed evidence that the defendants used only licensed Adobe products to create the accused images. *See, e.g.*, OB35 (PDIC waited seven months after receiving evidence of non-infringement from Nordstrom before dismissing its claims). PDIC knew that maintaining its claims in the face of such clear evidence contravenes the requirements of Rule 11; indeed, its counsel won a motion for Rule 11 sanctions on similar grounds while these actions were pending. *See Vehicle Operation Techs. LLC v. American Honda Motor Co.*, 67 F. Supp. 3d 637, 655 (D. Del. 2014) (imposing sanctions where plaintiff's attorneys "maintained these lawsuits despite being provided clear and undeniable evidence throughout the litigation that the

Defendants could not infringe the … patent as a matter of law"). PDIC violated Rule 11 by making "untenable contentions" long "after learning that they cease[d] to have any merit." *Phonometrics, Inc. v. Economy Inns of Am.*, 349 F.3d 1356, 1361-1362 (Fed. Cir. 2003).

3. PDIC violated Rule 11 by filing and maintaining baseless infringement lawsuits for the improper purpose of extracting settlement fees.

The district court abused its discretion by failing to award Rule 11 sanctions on the independent basis that PDIC's lawsuits were not filed for a proper purpose. OB6-7, 40-41. Rather than investigate its claims, PDIC filed numerous virtually identical complaints, notified every defendant of suit with an accompanying nuisance-value settlement offer, and then waited for defendants to disprove PDIC's infringement claims. *Id.* These facts demonstrate that PDIC filed suits for the improper purpose of seeking settlement fees. *See Eon-Net LP v. Flagstar Bancorp*, 249 F. App'x 189, 195-198 (Fed. Cir. 2007). PDIC's response that its nuisance-value settlement offers were reasonable is based on the incorrect premise that PDIC had a "meritorious claim," Appx2673-2674(¶11); in fact, PDIC dismissed with prejudice its frivolous claims based on evidence and representations establishing that Adobe's customers used licensed products to perform the allegedly infringing conduct. And PDIC makes no attempt to distinguish these cases from other exceptional cases involving exploding nuisance-value settlement

offers. *See Eon-Net LP*, 249 F. App'x at 195-198; *First Bank of Marietta v. Hartford Underwriters Ins. Co.*, 307 F.3d 501, 524 (6th Cir. 2002); *Summit Data Sys., LLC v. EMC Corp.*, No. 10-749-GMS, 2014 WL 4955689, at *4 (D. Del. Sept. 25, 2014).

III. THE COURT ERRED IN LIMITING ADOBE'S POTENTIAL RECOVERY TO ONLY "PURELY DEFENSIVE FEES"

The district court committed legal error in ruling that, under New Jersey law, only "purely defensive [attorneys'] fees" are recoverable as damages for breach of a covenant not to sue, Appx98—and "defense fees that are 'inextricably intertwined' with affirmative fees are ***not*** recoverable," Appx87(¶14). OB43-57. PDIC does not defend the district court's decision; it offers no caselaw to support the district court's opinion, and does not explain how or why the district court's reasoning was correct. Instead, PDIC focuses its response on the American Rule, which is inapplicable, and suggests the caselaw cited by Adobe is distinguishable (even though it cites no supportive caselaw of its own). PDIC's response fails to justify the district court's erroneous damages rulings; this Court should reverse.

A. The District Court Erred As A Matter Of Law In Holding That Adobe Could Not Recover Fees Associated With Its Breach of Contract Claim

1. The American Rule does not preclude Adobe from recovering its attorneys' fees as compensatory damages caused by PDIC's breach.

As Adobe explained, OB43-48, the district court committed legal error by ruling that "Adobe cannot collect as damages for the breach of contract any attorney fees Adobe incurred in the affirmative breach-of-contract suit." Appx64; OB43-48. New Jersey law provides that attorneys' fees should be awarded where, as here, a party breaches an agreement not to sue and that breach is obvious or in bad faith. OB45-46 (citing *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002, 1008 (2d Cir. 1966), *Borbely v. Nationwide Mut. Ins. Co.*, 547 F. Supp. 959, 980-981 (D.N.J. 1981) (applying New Jersey law)). PDIC does not address the rule outlined in *Artvale* or *Borbely*; nor does PDIC cite any case indicating that the prevailing law in New Jersey is something other than as Adobe explained. Rather, PDIC rests its entire opposition on its incorrect assertion of the pervasiveness of the "American Rule." RB41-42. In doing so, PDIC conflates two distinct concepts, and like the district court, fails to recognize that the legal fees sought by Adobe are legitimate compensatory damages falling outside the prohibitions on recovery of fees by the American Rule.

Under the American Rule, "the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys' fee from the loser." *See North Bergen Rex Transport, Inc. v. Trailer Leasing Co.*, 730 A.2d 843, 848 (N.J. 1999). Even when fees are recoverable (whether by statute, contract, or for some other reason), they are a form of collateral relief ordered as costs by the court, not an element of damages found by the factfinder. *See, e.g., Hutto v. Finney*, 437 U.S. 678, 697 (1978). In contrast, fees incurred as a result of a breach of contract are not an "award" to the "prevailing litigant," but are recoverable as compensatory damages under New Jersey law if they are the natural and probable consequence of the breach. *See Pickett v. Lloyd's*, 621 A.2d 445, 474 (N.J. 1993).

In this case, Adobe's attorneys' fees are the ***actual measure of damages*** of PDIC's breach of the covenant not to sue. OB43-48; *see Verhagen v. Platt*, 61 A.2d 85, 91 (N.J. 1948) (holding that attorneys' fees are recoverable where the breach of contract is "the cause of litigation" that the breaching party "had reason to foresee when the contract was made"; "the plaintiff's ***reasonable expenditures in such litigation are included in estimating his damages***") (emphasis added)); *Gerhardt v. Continental Ins. Cos.*, 225 A.2d 328, 334 (N.J. 1966) ("Since the insurer defaulted on its obligation to defend the insured in the workmen's compensation proceeding, it must bear, as a ***traditional element of damage***, the

expense including the reasonable counsel fee incurred by the insured in defending there in its stead.").

Thus, while the American Rule generally prevents a successful litigant from recovering attorneys' fees in the absence of statutory authority or an explicit contractual term providing for an award to the prevailing party, the rule does not prevent an award of attorneys' fees that is an appropriate element of compensatory damages for breach of contract. *See Anchor Motor Freight, Inc. v. International Bhd. of Teamsters, Chauffeurs, Warehousemen & Helpers of Am., Local Union No. 377*, 700 F.2d 1067, 1072 (6th Cir. 1983) (explaining that the American Rule prevents only an award of attorneys' fees to "the successful litigant in the case at hand," and does not apply when the fees "are the subject of the law suit itself" (internal quotation marks omitted; emphasis removed)); *Riveredge Assocs. v. Metropolitan Life Ins. Co.*, 774 F. Supp. at 897, 901-902 (D.N.J. 1991) (rejecting plaintiff's invocation of the "American Rule"); *Cefali v. Buffalo Brass Co.*, 748 F. Supp. 1011, 1026 (W.D.N.Y. 1990) (rejecting invocation of the "American Rule" because "this is not the typical case where the prevailing party seeks attorneys' fees;" "[i]n this case, the fees can be seen as a direct measure of damages for the alleged breach of contract"); *see also Gregoire v. Lucent Techs., Inc.*, 2005 WL 1863429 (M.D. Fla. 2005) (denying plaintiff's motion to dismiss counterclaim for breach of contract and holding that, since the attorneys' fees sought were damages

incurred solely as a result of a breach of a covenant not to sue, the American Rule did not apply); *Paper, Allied, Chemical & Energy Workers Int'l Union, Local 5-508, AFL-CIO v. Slurry Explosive Corp.*, 107 F. Supp. 2d 1311, 1331 (D. Kans. 2000) (defendant-employer was not precluded from recovering attorneys' fees incurred in conjunction with its counterclaim against plaintiff-union notwithstanding American Rule where employer asserted it entered into agreement specifically to avoid cost of litigation).[8]

Contrary to PDIC's unfounded assertion, Adobe is not asking this court to overturn the American Rule, or even create a new exception to it. Adobe simply recognizes the inherent difference between litigation costs incurred in enforcing a contractual right (which, under the American Rule, are not ordinarily recoverable) and attorneys' fees incurred as damages from a suit filed in breach of a contract.

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[8] Adobe properly cited *Dorofee v. Planning Board of Pennsauken Township*, 453 A.2d 1341 (N.J. Super. Ct. App. Div. 1982), in support of this principle, OB44: that "the recovery of counsel fees arising out of breach of contract" is appropriate where such fees represent the actual damages and "is not precluded by [New Jersey's court rules codifying limited exceptions to the American Rule]." *Id.* at 1343. Despite accurately quoting the case, PDIC accuses Adobe of misrepresenting *Dorofee*, *see* RB43-44; but it is PDIC, not Adobe, that does so. In *Dorofee*, despite New Jersey's general adherence to the American Rule, the court recognized the principle, reflected in *Restatement of Torts (Second)* § 914, that one whose tortious conduct requires another to ***bring or defend a suit*** against a third party to protect his interests may be assessed the attorneys' fees incurred in the third-party action as an element of damages arising from the tort. 453 A.2d at 1343.

OB47; *see Anchor Motor Freight*, 700 F.2d at 1072. New Jersey law, as it currently exists, OB43-48, supports Adobe's claim for attorneys' fees on its breach of contract claim without violating the American Rule. The *Artvale*/*Borbely* rule protects the contractual undertaking involved in negotiating and executing a covenant not to sue by permitting recovery of the actual damages incurred when the party who gave the covenant commits an obvious or bad faith breach. At the same time, the *Artvale*/*Borbely* rule, in accordance with the American Rule, does not permit the recovery of litigation costs where the agreement is subject to good faith ambiguity. *See Lubrizol Corp. v. Exxon Corp.*, 957 F.2d 1302, 1306 (5th Cir.), *cert. denied*, 506 U.S. 864 (1992) (applying New York law). Thus, the law regarding attorneys' fees as compensatory damages is separate and distinct from caselaw governing the American Rule, and these two bodies of law can and do, as PDIC recognizes, "co-exist without any conflict." RB43.

2. PDIC's breach was the but-for cause of Adobe's attorneys' fees.

As Adobe explained, the Supreme Court has recognized a but-for test for monetary damages. OB48 (citing *Goodyear Tire & Rubber Co. v. Haeger*, 137 S. Ct. 1178, 1184 (2017)). This test is satisfied here: Adobe and PDIC entered into a contract in which PDIC agreed not to sue Adobe's customers for infringement of the '056 Patent, but then PDIC sued Adobe's customers in breach of that contract. Appx1955-1967. The direct consequence of PDIC's breach is that Adobe incurred

attorneys' fees—both in defending its customers who sought indemnification and defense and in enforcing the terms of the License through its breach of contract action—that it would not have incurred but-for PDIC's breach. PDIC's breach deprived Adobe of the very benefit it bargained for and obtained in the License Agreement.

PDIC does not deny that its actions are the but-for cause of Adobe's fees. Instead, it says only that *Goodyear* should not apply because it is a fee petition case, RB46, but PDIC does not explain why that matters. Indeed, PDIC's proposed distinction is of no effect—"but for" damages are entirely consistent with Adobe's claim for compensatory damages under New Jersey law. *See* OB43-44 (Adobe is entitled to recover damages sufficient to put Adobe in as good a position as it would have occupied had the breach not occurred).

B. The Court Erred As a Matter Of Law In Holding That Defense Fees That Are "Inextricably Intertwined" With Affirmative Fees Are Not Recoverable

The district court also committed legal error in ruling that New Jersey law does not permit the recovery of defensive fees that are inextricably intertwined with affirmative fees. OB49-55. PDIC now tacitly concedes that most, if not all, of Adobe's fees should be considered defensive in nature, and thus even under the court's erroneous articulation of the law, these fees are recoverable. That is, PDIC asserts that "[i]f Adobe wanted to address indemnification requests, or limit or

defeat any liability, Adobe would have asserted a license defense, which was all that was necessary to support its customers and would have the most effective defense." RB48. But this is exactly what Adobe did: to assert a license defense to aid in the dismissal of its customers, Adobe had to intervene with a pleading. *See* Fed. R. Civ. P. 24(c) ("A motion to intervene … must state the grounds for intervention and be accompanied by a pleading that sets out the claim or defense for which intervention is sought."). PDIC does not explain how Adobe could have asserted a license defense in any other manner, and its claim that Adobe did not assert such a defense is wrong. Adobe pled a license defense in its complaint in intervention. *See* Appx1966 (requesting "[a] judgment that customers and end users of Adobe's licensed products and services … have a license to the '056 Patent under the Agreement"); *see also* Appx5192(33:17-23) ("Adobe had few choices here, and it chose the route that would allow it to come across all the cases in order [to assert] their defenses which was a license defense and a patent misuse which you cannot do as a nonparty.").

Moreover, PDIC ***fails to cite a single case*** that could possibly support or explain the district court's ruling; instead, it attempts to distinguish (on irrelevant grounds) some, but not all, of the cases Adobe cited. And PDIC relies, once again, on the American Rule, which, as explained above, does not apply here.

PDIC does not dispute that New Jersey law permits the recovery of "inextricably intertwined" fees in some circumstances. Instead, it contends that recovery of such fees is only permitted in the insurance context without giving any reasonable justification for cabining the rule so narrowly. RB50-51. In conclusory fashion, PDIC asserts the insurance caselaw is "unique because insurance policies are viewed as 'adhesion contracts.'" RB50. PDIC does not actually argue that any of the cases Adobe cited permit the recovery of inextricably intertwined fees based on the underlying insurance policy being an adhesion contract, and indeed, the cases are not decided on that basis. *See, e.g.*, *Ultra Coachbuilders, Inc. v. General Sec. Ins. Co.*, 229 F. Supp. 2d 284, 289 (S.D.N.Y. 2002) (holding insurer must pay the costs of insured's counterclaims that were "'inextricably intertwined with the defense of [defendant's] claims and necessary to the defense of the litigation as a strategic matter'"); *Oscar W. Larson Co. v. United Capitol Ins. Co.*, 845 F. Supp. 458, 461 (W.D. Mich. 1993), *aff'd*, 64 F.3d 1010 (6th Cir. 1995) (where prosecuting counterclaims and cross-claims is defensive and reasonably necessary to limit or defeat the insured's liability, the costs are recovered as defense costs). Nor does PDIC explain why adhesion contracts are subject to a different rule regarding damages.

PDIC (like the district court, Appx84) fails to identify any statute, presumption, or rule of construction in insurance cases that compels a different

conclusion here. Nor does PDIC offer any other body of law that could or should apply. There is none. *See* OB53-54 n.7; *Krien v. Harsco Corp.*, 745 F.3d 313, 318 (7th Cir. 2014) ("Indemnification is a form of insurance. … The indemnity provisions in the contract … were the equivalent of provisions in insurance policies."). Thus, the cases arising in the insurance context are not distinguishable but rather contain the right framework and analytical tools for guiding the analysis. *See* OB53-54 n.7.[9] Again, PDIC is left to rely on the American Rule. But under New Jersey law, where compensable and non-compensable fees are intertwined—as the fees Adobe incurred in defense of its customers are intertwined with the prosecution of its contractual rights—all fees are compensable irrespective of the American Rule. *See* OB49-50; *Voorhees v. Preferred Mut. Ins. Co.*, 588 A.2d. 417, 425 (N.J. Super. Ct. App. Div. 1991); *see also Diamond v. John Martin Co.*, 753 F.2d 1465, 1467 (9th Cir. 1985).

PDIC's remaining argument, that Adobe has not proven its fees are "inextricably intertwined" as a factual matter, RB48-49, is a red herring. Adobe stipulated to judgment before the case was presented to the jury based on the

[9] PDIC also criticizes Adobe-cited caselaw not directed to insurance disputes. For instance, PDIC attempts to distinguish "fee petition cases" by stating those cases "are informed by the statutory language and intent." RB50. But PDIC identifies no statute or fee petition case cited by Adobe that was decided on any unique statutory basis. Indeed, PDIC makes no showing that a fee petition case is distinguishable from a damages claim in any relevant way.

Court's legal determination that inextricably intertwined fees are not recoverable and that no evidence of damages based on fees that are inextricably intertwined could be presented. Contrary to PDIC's assertion, RB49, Adobe was not planning to rely solely on attorney argument to prove its fees are inextricably intertwined. But for the district court's incorrect legal rulings on damages, Mr. Rao—Adobe's Vice President of Intellectual Property and Litigation—would have testified about the legal fees Adobe incurred in defense of its customers resulting from PDIC's breach. This testimony would have demonstrated that Adobe's affirmative breach of contract claim was essential to its strategy of obtaining dismissals of PDIC's claims against Adobe's customers. *See* Appx4493-4494(77:15-78:24); Appx5200-5201(41:23-42:9).

IV. THE COURT ERRED IN NARROWING THE SCOPE OF PDIC'S PRIVILEGE WAIVER

Adobe demonstrated that the district court correctly determined that PDIC waived both the attorney-client and attorney work product privileges, but (1) improperly granted PDIC's motion for reconsideration even though the standard for reconsideration had not been met (and, in fact, the court admitted it granted the motion without the proper showing, Appx74); and (2) misapplied the law by ruling that PDIC waived privilege only over documents in the nine cases in which Adobe intervened, and not other relevant documents. OB57-61. In its answering brief, PDIC completely ignores all facts and circumstances relating to

the district court's rulings regarding privilege and does not discuss this topic at all in its Statement of the Case. PDIC also completely ignores Adobe's points that the court granted PDIC's "motion for reargument" without a proper basis; and, PDIC concedes that Adobe is right on the law: waiver is not limited by the case number in which the communications were disclosed, but rather by the subject matter of the disclosed and undisclosed communications, RB55. Because PDIC must concede these key points, it is forced to find other ways to try to defend the district court's rulings—but there is no legal or factual defense for the district court's errors.

PDIC claims that Federal Rule of Evidence 502(a)—which dictates that when a party intentionally waives the attorney-client or work-product privilege, the waiver extends to undisclosed communications relating to the "same subject matter"—is not triggered in this case because PDIC never intentionally waived privilege. There are several problems with PDIC's argument, including—as PDIC admits, any contention that PDIC did not waive privilege is "moot," RB54; PDIC produced some privileged documents in response to the district court's order granting Adobe's motion to compel and has not challenged the district court's order finding waiver in its cross-appeal.

In addition to being moot, PDIC's argument that it never intentionally waived privilege is wrong on the merits. The evidence of intentional waiver is

overwhelming. *See* Appx4204 (identifying some of the privileged information disclosed by PDIC to Adobe, including privileged communications between Thomas and William Meagher describing pre-suit investigations and containing spreadsheets prepared in anticipation of litigation; a claim chart prepared by PDIC's counsel; Thomas Meagher's description of privileged communications concerning a "cost/benefit analysis assessing the impact of dismissing the suits against defendants"; and Thomas Meagher's discussion of an algorithm created in consultation with counsel to determine settlement amounts); *see also* OB20-21 & n.3; Appx3356-3357.[10] Based on this evidence, the district court correctly found that PDIC selectively disclosed privileged communications and protected work product, and further waived privilege by asserting advice of counsel and good faith defenses and relying on privileged communications or work product in support of those defenses. Appx4204-4205.

PDIC overlooks that it disclosed multiple forms of privileged information, and instead claims only that documents between Thomas Meager and his brother, William Meagher, cannot be privileged as a matter of law because William was a non-lawyer contractor working for PDIC and the two did not have an attorney-

[10] PDIC wrongly states that Adobe only "purports to cite two instances of PDIC's alleged disclosure," and that one of the cites was in error. RB56. To the contrary, Adobe cited several instances of PDIC's waiver. OB20-21 & n.3. None were cited in error.

client relationship. RB56. This argument makes no sense. Adobe did not claim that Thomas and William were lawyer and client; rather, as Thomas admitted at his deposition, the privilege was PDIC's. Appx3271(190:3-6). As PDIC's general counsel, Thomas hired William to work for PDIC, and under Thomas' direction, William researched potential litigation targets—*i.e.*, companies that employed JPEG encoding on their websites in 2007 and "[made] a ton of money from sales over the internet" that PDIC could sue for infringing the '056 Patent. Appx3269-3279(185:9-223:5); Appx3021. Moreover, as PDIC's Rule 30(b)(6) deponent, Thomas Meagher admitted that he labeled e-mails "confidential and privileged" to protect PDIC's privilege because he "was counsel for PDIC." Appx3270-3271(189:5-190:6).

PDIC also tries to defend the district court's ruling that narrowed the scope of PDIC's waiver on the basis that PDIC only asserted a good faith defense in the nine cases in which Adobe intervened. RB55. This argument has no basis in law. There is no reason to limit the scope of PDIC's waiver to documents addressing the nine cases in which Adobe intervened. *See* OB59-60. Rather, the proper inquiry is whether a document relates to the same subject matter as the privileged documents that PDIC intentionally disclosed. *See, e.g.*, *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005); *Brigham & Women's Hosp. Inc. v. Teva Pharms. USA, Inc.*, 707 F. Supp. 2d 463, 471-472 (D. Del. 2010).

Documents explaining PDIC's basis for filing suit against defendants on whose behalf Adobe did not intervene certainly relate to the same subject matter as the disclosed documents—which discuss PDIC's reasons for filing suit—because PDIC's pre-suit conduct and theories of infringement were identical in the related cases.

PDIC does not dispute that Adobe's breach of contract claim was not limited to PDIC's filing and maintaining actions against only the nine defendants who were parties to the underlying actions; it is thus unclear how PDIC's good faith defense to Adobe's breach claim could be so limited. PDIC also does not dispute that many of the privileged documents that PDIC selectively disclosed during discovery were relevant to cases beyond the nine in which Adobe intervened, or that its considerations regarding dismissal were the same in each case. *Id*. While PDIC tries to argue that the claims in each of its infringement suits were different because defendants each had different websites, RB56-57, PDIC's "incomplete, and far from ideal" investigation, theories of infringement, algorithm for demand letters and settlement, and bases for dismissal all remained the same. *See* OB59-60.

PDIC's remaining arguments do not attempt to defend the district court's narrowing of its privilege waiver. Rather, PDIC attacks Adobe's brief for perceived deficiencies. *First*, PDIC claims that Adobe failed to explain how it was

harmed by the court's narrowing of the privilege waiver. RB53-54. But Adobe did explain: by ignoring the "widely applied standard" that "waiver applies to all other communications relating to the same subject matter," *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294, 1299 (Fed. Cir. 2006), the district court "deprived Adobe of the opportunity to discover further evidence showing PDIC's bad faith," OB4, which "seriously prejudiced" Adobe in preparing its case, OB61. *See also*, *e.g.*, OB29-30; OB60. *Second*, PDIC faults Adobe's brief for not addressing the "fairness" requirement of Federal Rule of Evidence 502. RB53-55. As Adobe noted, OB3-4, 21, the district court granted Adobe's motion to compel, holding that "fairness" required "examination of protected communications." Appx4205. Adobe had no reason to challenge this proper fairness determination in its opening brief.

The district court's narrowing of PDIC's privilege waiver was contrary to its own recognition that "information about all PDIC cases asserting the '056 Patent are relevant and discoverable by Adobe," Appx3339, contrary to law, and an abuse of discretion. PDIC has not shown otherwise.

STATEMENT OF ISSUES FOR CROSS-APPEAL

1. Whether the district court abused its discretion by sanctioning PDIC for its culpable default in failing to respond to Adobe's complaint.

2. Whether the district court abused its discretion by granting Adobe's application for attorneys' fees caused by PDIC's failure to prepare its corporate designee for deposition.

STATEMENT OF FACTS FOR CROSS-APPEAL

A. The District Court Ordered PDIC To Pay Adobe's Attorneys' Fees Incurred Due To PDIC's Culpable Default

When the district court granted Adobe's omnibus motion to intervene on behalf of its customers, it ordered Adobe to file a pleading pursuant to Federal Rule of Civil Procedure 24(c). Appx142(D.I.45). Adobe filed a complaint in each of the nine cases in which it was intervening on May 8, 2015. *E.g.*, Appx1955; Appx384(D.I.50). PDIC's responsive pleadings were due by June 1, 2015. *See* Fed. R. Civ. P. 12(a); Fed. R. Civ. P. 6(d) (2015). On May 29, 2015, PDIC filed an answer to Adobe's complaint in eight of the nine cases in which Adobe had intervened. *E.g.*, Appx1968-1980. But PDIC did not answer or file any other responsive pleading in *Princeton Digital Image Corp. v. Nordstrom.com LLC*, No. 13-cv-00408 (D. Del.).

That evening, Adobe sent counsel for PDIC an e-mail inquiring whether PDIC would be filing an answer in *Nordstrom*. Appx5588.[11] Adobe's counsel received no response, and PDIC failed to file any responsive pleading in *Nordstrom* before the June 1 deadline. On June 12, 2015, Adobe's counsel again contacted PDIC's counsel, stating that Adobe would "not object to [PDIC's] late-filed answer, provided it is served by Wednesday, June 17." Appx5590. Adobe further apprised PDIC that, if PDIC did not file an answer, it may request entry of default. Appx5590. PDIC again failed to respond to Adobe's outreaches, and did not file an answer. Appx5578(¶7).

On July 27, 2015, Adobe requested an entry of default. Appx5576. PDIC did not respond. *See* Appx2862(91:16-21). On March 8, 2016, the district court heard oral argument on "all pending motions." Appx387(D.I. 87). PDIC's counsel

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[11] On May 19, 2015, PDIC had dismissed with prejudice its infringement claim against Nordstrom. Appx384(D.I.51); Appx5538. Though PDIC's dismissal of its own infringement claim extinguished the patent dispute pending between PDIC and Nordstrom, there was no question that Adobe's claims in intervention against PDIC remained pending. Adobe was not a signatory to PDIC's stipulation with Nordstrom, and the stipulation did not moot Adobe's complaint. Nevertheless, after PDIC dismissed its own claim, the court's ECF system reflected a "Civil Case Terminated" designation on the docket. Appx384(entry of May 28, 2015). Adobe's counsel promptly called the district court staff on May 28, 2015, and advised that Adobe's complaint in intervention was still pending notwithstanding the administrative notation on the docket. Appx5588. The court staff advised Adobe that the "terminated" designation would be removed from ECF. *Id.* Adobe informed PDIC of these communications on May 29, 2015, and reiterated that Adobe's complaint was still outstanding and unanswered by PDIC. *Id.*

stated that he "did not recall any briefing" relating to a request for default, Appx2862(91:6-7), and that he "just [could not] address Nordstrom at this point," Appx2863(92:7-10). Following the hearing, the clerk granted Adobe's request and entered a default against PDIC in *Nordstrom*. Appx5605.

Three days later, PDIC moved to set aside the default. Appx5606-5613. PDIC argued that when the district court gave PDIC permission to move to dismiss Adobe's claims for lack of jurisdiction at an August 6, 2015 scheduling conference, it impliedly denied Adobe's request for default. Appx5611.[12] PDIC argued in the alternative that the default should be vacated so that PDIC could present its defenses on the merits. Appx5612-5613.

Adobe responded that the court had not previously addressed Adobe's request for entry of default—and certainly had not denied that request—and a late-filed motion to dismiss could not somehow restart the clock on PDIC's obligation to file an answer. Appx5634; Appx5641-5642. Adobe further argued that it would be prejudiced if PDIC were allowed to file a late answer, PDIC lacked a meritorious defense, and PDIC acted culpably in failing to answer Adobe's complaint. Appx5635-5643. Adobe asked that, if the court granted PDIC's

[12] The district court declined to substantively address Adobe's request for default at that scheduling conference, stating that it would first consider jurisdictional issues. Appx2586-2587(21:15-22:3).

motion to set aside the default, the court impose sanctions requiring PDIC to compensate Adobe for the time and effort involved in all default-related filings. Appx5643(n.12).

On August 16, 2016, the district court granted PDIC's motion to set aside the default. Appx5665. The court found that the default resulted from PDIC's culpable conduct, and that PDIC's refusal to answer the complaint—particularly given the "numerous opportunities" Adobe provided PDIC to do so—was "inexcusable." Appx5668. Nevertheless, the court set aside the default to permit PDIC to defend itself on the merits. *Id.* But the court also agreed with Adobe that monetary sanctions were appropriate considering PDIC's culpable conduct. Appx5666; Appx5669.

On August 7, 2017, the district court ordered PDIC to pay Adobe $42,631.75 for "attorneys' fees and related costs associated with all [of Adobe's] default-related filings." Appx5760.

B. The District Court Ordered PDIC To Pay All Expenses Associated With A Second Deposition Of Thomas Meagher Due To His Lack Of Preparation For His First Deposition

Adobe deposed PDIC's corporate designee, President and General Counsel Thomas Meagher, on January 19, 2017. *See* Appx153(D.I.165). Meagher was unprepared to testify regarding numerous questions within the scope of topics in Adobe's deposition notice. For example, Meagher was unable to state whether

PDIC had entered into license or settlement agreements with certain companies it had sued; identify which of PDIC's litigation targets had provided PDIC with evidence that they used Adobe products to create the accused images; describe the content of that evidence; or testify as to how much revenue PDIC obtained from enforcing the '056 Patent. *See* Appx5761; Appx3223-3319.

Accordingly, Adobe sought a second deposition on the topics for which Meagher had been unprepared. When PDIC refused, Adobe moved to compel PDIC to "re-produce Mr. Meagher … at PDIC's expense." Appx3219. The district court granted Adobe's motion, finding that "PDIC failed its obligation under Rule 30(b)(6) to prepare its witness on the noticed deposition topics." Appx3339. The court ordered Meagher to appear for a second deposition "at PDIC's expense." *Id.*

Following his second deposition, Adobe sought to recover its expenses, including attorneys' fees, from PDIC. Adobe provided PDIC with redacted invoices showing how many hours each attorney worked in connection with the second deposition, and described the general categories of work performed. Appx5801; Appx5810-5812. PDIC responded that the entire second deposition was "on Adobe's nickel" because, in PDIC's view, Adobe asked questions beyond the scope of the "three questions" that PDIC claimed Adobe was limited to in the second deposition, and which Thomas Meagher had previously been unprepared to

answer. Appx5806. PDIC later agreed to pay for 15 minutes of the videographer's time and for court reporter fees equivalent to the transcription of three questions, but maintained that it was not required to pay any of Adobe's attorneys' fees. Appx5790. PDIC did not calculate the amount it was willing to pay or make any actual counteroffer. *Id.*

On July 10, 2017, Adobe moved the court for an award of costs and fees. Appx5789-5792. Adobe explained that the court's prior ruling that the second deposition be "at PDIC's expense" had contemplated the payment of attorneys' fees. Appx5790-5791; *see* Fed. R. Civ. P. 37(d)(3) ("the court must require the party failing to act … to pay the reasonable ***expenses, including attorney's fees***, caused by the failure" (emphasis added)). Adobe further explained that its questions fell within the topics for which Meagher was previously unprepared to testify. Appx5791. Finally, Adobe explained that the federal rules and governing caselaw justified an award to compensate Adobe for its attorneys' fees expended in pursuing the fee application that the court had already ordered, which had already exceeded $10,000. *Id.*

Over PDIC's objections, Appx5813-5816, on July 14, 2017, the district court granted-in-part Adobe's request for fees. The court explained that its prior "[o]rder compelling PDIC to re-produce Mr. Meagher at PDIC's expense granted in full the relief sought by Adobe, which included reasonable attorney fees."

Appx5897. The district court found "no indication that Adobe proceeded unreasonably in taking Mr. Meagher's second deposition." *Id.* The court explained that its order had permitted Adobe to explore "three topics, not simply three 'questions,' and it was fair for Adobe's attorneys both to be fully prepared for the deposition and to delve fully into the permissible topics during the deposition." *Id.* Despite these findings, the court granted PDIC some relief, ordering PDIC to reimburse Adobe for only half of Adobe's requested expenses. *Id.*

The district court also granted Adobe's request for fees incurred in support of its fee application, explaining "that the Court previously ordered PDIC to cover expenses, that PDIC was uncooperative in not making a counterproposal when Adobe requested reimbursement …, and that PDIC unreasonably trie[d] to minimize the scope of relief previously granted." Appx5897. In total, the court awarded Adobe $34,861. Appx5900.

SUMMARY OF THE ARGUMENT ON CROSS-APPEAL

PDIC's exceptional conduct in this case is further evidenced by the two instances in which the district court imposed sanctions. PDIC's cross-appeal should be rejected because the district court acted well within its discretion in sanctioning PDIC for its blatant disregard of the Federal Rules.

1. The district court properly entered a default when PDIC failed to timely answer Adobe's complaint. Fed. R. Civ. P. 55(a). The district court's later

willingness to entertain a motion to dismiss for lack of jurisdiction did not reset the clock for PDIC to file an answer or moot Adobe's pending request for default.

PDIC's argument that the district court lacked authority to sanction PDIC for its default is waived, because PDIC did not raise that argument below. In any event, the argument fails. A court has inherent power to condition setting aside a default upon the payment of a sanction. Indeed, in the Third Circuit, a district court considering a motion to set aside a default ***must*** consider "the effectiveness of alternative sanctions," such as a monetary penalty. *Emcasco Ins. Co. v. Sambrick*, 834 F.2d 71, 73 (3d Cir. 1987). Because PDIC acted in bad faith by ignoring its obligation to answer Adobe's complaint—despite repeated reminders to do so—the district court acted within its discretion in imposing a monetary sanction.

2. The district court's award of expenses associated with Thomas Meagher's second deposition was adequately supported by law. When PDIC failed to prepare its corporate designee for deposition, the Federal Rules required the district court to award Adobe its "reasonable expenses, including attorney's fees, caused by the failure." Fed. R. Civ. P. 37(d). The district court correctly found that Adobe's questions at Thomas Meagher's second deposition were caused by Meagher's failure to prepare for his first deposition. As the court explained, Adobe was not limited to re-asking the specific questions that Meagher had

previously been unable to answer, but was permitted to fully explore the topics on which he had been unprepared. Appx5897.

PDIC waived its argument that Adobe's fee petition and the district court's fee award were inadequately supported by failing to raise that argument below. Even if PDIC's arguments were not waived, however, they are meritless. Adobe met its burden of producing evidence of its fees by providing PDIC and the district court with redacted versions of its attorneys' invoices and describing the types of work performed. *See* Appx5812; Appx5801. And the district court's fee award was also adequately supported because the court considered, addressed, and rejected PDIC's objections to Adobe's fee request. The district court had no obligation to address other, un-raised objections to the number of hours claimed. *See Rode v. Dellarciprete*, 892 F.2d 1177, 1183 (3d Cir. 1990).

Finally, PDIC had adequate notice that Adobe was requesting its attorneys' fees incurred in connection with its fee application, and that request was supported by governing law. *See Planned Parenthood of Cent. N.J. v. Attorney Gen. of N.J.*, 297 F.3d 253, 268 (3d Cir. 2002). The district court properly exercised its discretion in concluding that this case was an appropriate one to award fees for time spent litigating a fee application.

STANDARD OF REVIEW

This Court applies the law of the regional circuit when reviewing the imposition of sanctions. *Regeneron Pharms., Inc. v. Merus N.V.*, 864 F.3d 1343, 1351 (Fed. Cir. 2017). A district court's order imposing sanctions is reviewed for abuse of discretion. *Chambers v. NASCO, Inc.*, 501 U.S. 32, 55 (1991); *Quinn v. Consolidated Freightways Corp. of Del.*, 283 F.3d 572, 576 (3d Cir. 2002). Appellate courts "review *de novo* the standards and procedures applied by the [d]istrict [c]ourt in determining attorneys' fees," but "review the findings of fact for clear error" and the "reasonableness of a fee award itself … for abuse of discretion." *Planned Parenthood*, 297 F.3d at 265.

ARGUMENT

I. THE DISTRICT COURT ACTED WITHIN ITS DISCRETION IN SANCTIONING PDIC WHEN SETTING ASIDE THE DEFAULT

A. PDIC's Culpable Conduct Warranted The Sanctions Imposed

The district court properly found that PDIC's default in *Nordstrom* resulted from PDIC's culpable conduct. Appx5668. Adobe twice contacted PDIC to remind it to file a responsive pleading, and offered not to object to a late-filed answer. Appx5588; Appx5590. PDIC not only failed to file an answer, but also chose not to respond to Adobe's inquiries. If PDIC was somehow confused about its obligations, it failed to seek guidance from the court. Instead, PDIC repeatedly ignored Adobe's outreaches, disregarded its legal obligations, and even came to

court for a hearing scheduled to address "all pending motions" completely unprepared to discuss Adobe's pending request for entry of default. Appx387(D.I.87); Appx2862(91:6-7); Appx2863(92:7-10). Indeed, PDIC later admitted that it "failed to resolve the issue in a more appropriate manner" and "neglected to follow through as it should have." Appx5674(n.1). Such failures carry consequences.

When PDIC failed to timely answer, Adobe was entitled to entry of default. *See* Fed. R. Civ. P. 55(a). And although the court ultimately set aside that default, PDIC's blatant disregard of its obligations and unnecessary multiplication of the proceedings warranted sanctions.[13]

B. The Entry Of Default Was Proper

Contrary to PDIC's argument, RB59-61, the district court's willingness to entertain a motion to dismiss for lack of jurisdiction—two months after PDIC incurred a default by failing to answer Adobe's complaint—did not excuse PDIC's default. A motion to dismiss for lack of jurisdiction may be filed at any time, including after entry of default. *See* Fed. R. Civ. P. 12(h)(3).[14] And because lack

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[13] Contrary to PDIC's suggestion, RB62, Adobe acted reasonably in defending its properly obtained default. The district court found that PDIC's culpability weighed against granting the motion to set aside default. Appx5667-5668.

[14] PDIC failed to file a timely pre-answer motion to dismiss, which would have been due on June 1, 2015. *See* Fed. R. Civ. P. 12(a), (b).

of subject matter jurisdiction would render a default void, it made sense for the district court to assure itself of its jurisdiction before addressing Adobe's pending request for entry of default. *See Bauer v. Mortgage Elec. Registration Sys., Inc.*, 618 F. App'x 147, 150 n.7 (3d Cir. 2015) ("Where a complaint is dismissed for lack of subject matter jurisdiction … the entry of default is a nullity[.]"). But PDIC's motion to dismiss for lack of jurisdiction did not reset the clock for PDIC to file an answer or moot Adobe's pending request for entry of default. Under PDIC's logic, any defendant could ignore the time requirement of Rule 12(a), file a motion to dismiss for lack of subject matter jurisdiction at its leisure, and then file an answer within 14 days of that motion being denied. PDIC incurred the default when it failed to answer on June 1, 2015; no later motion to dismiss could excuse that default.

PDIC also argues that it would have been error to file an answer in *Nordstrom* because PDIC thought the district court lacked jurisdiction over Adobe's claim. RB60. But this position is belied by the fact that PDIC did file an answer in eight other related matters, which were also the subject of PDIC's later motion to dismiss on jurisdictional grounds. Appx1968-1980. Moreover, PDIC cannot decide to ignore its legal obligations set by the Federal Rules because it unilaterally decides the court lacks jurisdiction, and then avoid the consequences of its failure when the district court disagrees. If PDIC genuinely thought that the

district court lacked jurisdiction, it was required to file a ***timely*** pre-answer motion to dismiss. Fed. R. Civ. P. 12(b).

C. The District Court Had Authority To Sanction PDIC

1. PDIC waived any argument that the district court lacked authority to impose sanctions.

PDIC argues for the first time on appeal that the district court lacked authority to impose a sanction against PDIC or, at least, that it could not do so unless Adobe was a prevailing party. RB58-59, 61-62. Because these arguments were never raised before the district court, PDIC waived any appellate review of them. "[I]t is well established that failure to raise an issue in the district court constitutes a waiver of the argument." *Gass v. Virgin Islands Tel. Corp.*, 311 F.3d 237, 246 (3d Cir. 2002); *see also Sage Prods., Inc. v. Devon Indus., Inc.*, 126 F.3d 1420, 1426 (Fed. Cir. 1997).

After the district court imposed sanctions, PDIC noted its disagreement with that ruling. But even then, PDIC stated only that, "to avoid any future claim of waiver, [PDIC] must note that it respectfully disagrees with the [c]ourt's conclusion that it was so culpable" as to warrant sanctions. Appx5673. PDIC did not explain the basis for its disagreement. Furthermore, PDIC acknowledged that it "ha[d] not and [was] not seeking reconsideration of the [c]ourt's ruling." *Id.* Because this argument was never presented to the district court "at a point and in a

manner that permits the court to consider its merits," it cannot be raised on appeal. *Shell Petroleum, Inc. v. United States*, 182 F.3d 212, 218 (3d Cir. 1999).

2. The district court had authority to impose sanctions when setting aside the default.

Even if the argument were not waived (it is), the district court had authority to impose sanctions for PDIC's culpable conduct. In fact, one of the factors that district courts in the Third Circuit must consider when deciding whether to set aside a default is "the effectiveness of alternative sanctions." *Emcasco*, 834 F.2d at 73; *see also, e.g.*, *Nilsson, Robbins, Dalgarn, Berliner, Carson & Wurst v. Louisiana Hydrolec*, 854 F.2d 1538, 1546-1547 (9th Cir. 1988) ("[I]t is appropriate to condition setting aside a default upon the payment of a sanction[.]"). And district courts frequently impose sanctions—often in the amount of attorneys' fees—when setting aside a default that has been entered due to the defendant's culpable conduct. *See, e.g.*, *Foy v. Dicks*, 146 F.R.D. 113, 117-118 (E.D. Pa. 1993) ("This sanction is calculated to compensate plaintiffs' counsel for the time and expense they wasted on this, only the latest instance of procedural ineptitude in the City Solicitor's office. We entertain the hope that this significant sanction may serve as a wake-up call to a somnolent City Legal Department." (internal footnote omitted)); *International Bhd. of Elec. Workers, Local Union No. 313 v. Skaggs*, 130 F.R.D. 526, 530 (D. Del. 1990).

The power to impose sanctions as a condition for setting aside a default arises from a court's inherent power. *See* 10-55 *Moore's Fed. Prac. – Civil* § 55.70(6) (2017); 10A Wright et al., *Fed. Prac. & Proc.* § 2700 (4th ed. 2017). Federal courts possess inherent powers "to manage their own affairs so as to achieve the orderly and expeditious disposition of cases," which "authority includes the ability to fashion an appropriate sanction for conduct which abuses the judicial process." *Goodyear Tire*, 137 S. Ct. at 1186 (internal quotation marks omitted). The district court was well within its discretion to impose sanctions to punish PDIC's "bad faith, vexatious[], wanton[], or … oppressive" conduct. *Chambers*, 501 U.S. at 45-46.

Failing to file an answer in compliance with the Federal Rules—particularly when repeatedly reminded to do so—demonstrates bad faith or, at least, vexatious conduct. *See Hritz v. Woma Corp.*, 732 F.2d 1178, 1183 (3d Cir. 1984) (a court may find "willfulness" or "bad faith" where a defendant has shown "[r]eckless disregard for repeated communications from plaintiffs and the court"). Indeed, the district court's finding that PDIC acted culpably in incurring the default, Appx5668, necessarily includes a finding of willfulness or bad faith. *Gross v. Stereo Component Sys., Inc.*, 700 F.2d 120, 123-124 (3d Cir. 1983) ("In this context culpable conduct means actions taken willfully or in bad faith.").

PDIC's reliance on *Hardt v. Reliance Standard Life Insurance Co.*, 560 U.S. 242 (2010), RB61-62, is misplaced. The district court's sanction was not intended to shift attorneys' fees to the party that had succeeded on the merits. Rather, the court awarded attorneys' fees as an alternative sanction for PDIC's culpable conduct in failing to timely answer Adobe's complaint. Appx5669; *see also Emcasco*, 834 F.2d at 73. There is no "prevailing party" limitation on a court's inherent power to control its own proceedings.

II. THE DISTRICT COURT ACTED WITHIN ITS DISCRETION IN AWARDING ADOBE ITS ATTORNEYS' FEES EXPENDED IN CONNECTION WITH PDIC'S SECOND DEPOSITION

A. The District Court Properly Awarded Adobe Its Attorneys' Fees Caused By PDIC's Discovery Misconduct

At his first deposition, Thomas Meagher was unprepared and unable to answer numerous questions within the scope of the noticed Rule 30(b)(6) topics. *See* Appx5761. Meagher's deposition transcript contains page upon page of questions that he was either completely unable to answer or that he answered solely based on speculation. *E.g.*, Appx3292(274:4-275:4); Appx3293-3299(281:19-304:22); Appx3300-3301(307:12-312:15); Appx3315(366:4-367:5).

The district court properly ordered PDIC to produce Thomas Meagher for a second deposition "at PDIC's expense." Appx5785. As Adobe explained, Appx5762, under Rule 30(b)(6), "[a] corporation has an affirmative duty to produce a representative who can answer questions that are within the scope of the

matters described in the notice." *Crawford v. George & Lynch, Inc.*, 19 F. Supp. 3d 546, 554 (D. Del. 2013). Under Third Circuit law, PDIC's failure to prepare its witness was "'tantamount to a failure to appear' that is sanctionable under Rule 37(d)." *Black Horse Lane Assocs. v. Dow Chem. Corp.*, 228 F.3d 275, 304 (3d Cir. 2000). Rule 37(d) provides that "the court must require the party failing to act, the attorney advising that party, or both to pay the reasonable expenses, ***including attorney's fees***, caused by the failure" to attend or prepare for a deposition. (Emphasis added.)

After Thomas Meagher's second deposition, Adobe followed the proper procedures to recover its expenses. Adobe provided the district court and PDIC with redacted invoices supporting its fee application. Appx5789-5792; Appx5810-5812. The district court correctly found PDIC's objections to the fee petition unavailing. *First*, the district court explained that its previous order that the deposition be "at PDIC's expense" included an award of attorneys' fees as required by Rule 37(d) and the caselaw Adobe had cited in seeking the second deposition. Appx5897. *Second*, the district court rejected PDIC's argument that the second deposition had strayed beyond the bounds of the topics on which Thomas Meagher had previously been unprepared. *Id.* Each of those findings was correct, and certainly neither constituted clear error. Accordingly, the district court properly awarded Adobe its requested attorneys' fees, none of which would have been

expended had PDIC fulfilled its obligation to prepare Thomas Meagher for his deposition in the first place.

B. The District Court Correctly Found That The Scope Of PDIC's Second Deposition Was Proper

The district court considered and properly rejected PDIC's primary argument on appeal: that Adobe's questions at Thomas Meagher's second deposition were, in PDIC's view, not within the scope of topics for which Meagher was unprepared at his first deposition. RB63-67. As the district court explained, the second deposition was not limited to any particular questions; Adobe was permitted to "delve fully" into the topics on which Meagher had previously been unprepared. Appx5897. There is no clear error in the court's finding that Adobe did not "proceed[] unreasonably in taking Mr. Meagher's second deposition." *Id.*[15]

PDIC repeatedly complains that the second deposition took "6 hours and 278 transcript pages." RB21, 64, 67.[16] But the propriety of the deposition is not

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[15] PDIC identifies three questions asked at Thomas Meagher's second deposition that it asserts were unrelated to ones not previously answered. RB21-22. PDIC did not seek review of any specific questions in the district court. In any event, by isolating specific questions, PDIC ignores that all of Adobe's questions were asked in the context of the propounded topics.

[16] On appeal, the deposition seems to be getting longer still. PDIC told the district court (more accurately) there were "5½ [hours] of actual testifying time, which covered 268 pages of deposition transcript." Appx5814. In any event, PDIC's statements obscure the fact that a substantial part of Thomas Meagher's first deposition was taken up by questions for which Meagher was unprepared. Similarly, Meagher's second deposition was prolonged by Meagher repeatedly leaving the room to call his wife, *e.g.*, Appx5885-5886(269:22-271:16), by his

determined by its length, but by whether it fell within the scope of the district court's order. *See* Fed. R. Civ. P. 30(d)(1) ("***Unless … ordered by the court***, a deposition is limited to one day of 7 hours. The court must allow additional time … if the deponent, another person, or any other circumstance impedes or delays the examination." (emphasis added)). And the district court found that Adobe's questioning was proper; it correctly rejected PDIC's argument, RB65-66, that Adobe was only permitted to "re-ask[] the same questions that had been previously unanswered." Appx5897. Indeed, a contrary ruling would have rewarded PDIC's earlier misconduct by preventing Adobe from fully exploring Meagher's testimony. PDIC fails to show any clear error in the district court's finding that the entire deposition was appropriate, or any abuse of discretion in the court's decision that PDIC should pay half of Adobe's attorneys' fees for that deposition.

C. Adobe's Fee Petition And The Court's Award Were Adequately Supported

PDIC's argument that Adobe did not properly support its fee petition and that the district court did not adequately explain its award is also unavailing. RB67-71. *First*, these arguments are waived because they were not raised below.

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failure to prepare for the deposition by reviewing the relevant documents in advance, *e.g.*, Appx5836(70:23-72:18), by PDIC having withheld documents it had been previously ordered to produce, *see* Appx5785, and by PDIC's counsel creating documents solely for the deposition that were plainly inaccurate, Appx5789-5790; Appx5794-5799.

See Gass, 311 F.3d at 246. In opposing Adobe's request for fees, PDIC only briefly mentioned—and made no argument regarding—the factual support for Adobe's request. PDIC stated only that "Adobe's fee demand should be rejected, because Adobe has withheld all information relating to what work it allegedly did to support the fee claim." Appx5814. PDIC's single sentence, containing no citations, did not put Adobe on notice of PDIC's objection or give the district court an adequate opportunity to address it. *See Shell Petroleum*, 182 F.3d at 218; *see also Walker v. Trailer Transit, Inc.*, 824 F.3d 688, 690 (7th Cir. 2016) ("a few sentences" in a brief are "not enough to preserve [an] argument" for appellate review).[17] Following the district court's award, PDIC never moved for reconsideration arguing that the district court had not adequately supported its award or asked for additional explanation. Accordingly, PDIC cannot challenge on appeal the adequacy of Adobe's fee request or the district court's order.

Second, even if PDIC's arguments were not waived, they are meritless. Adobe met its initial burden of producing evidence of its fees by providing PDIC and the district court with redacted versions of its attorneys' invoices showing how much each attorney or paralegal billed and when the work was performed.

[17] This is particularly true given that PDIC's single sentence was not even correct. Adobe had provided PDIC with redacted invoices showing how much time each attorney spent on Thomas Meagher's second deposition and a brief description of the categories of work performed. Appx5801; Appx5810-5812.

Appx5812. Adobe also described the types of work performed. Appx5801 (Adobe requested reimbursement for time "spent communicating with [PDIC] to arrange a date and time for the deposition, preparing the deposition notice, preparing for the deposition, and attending the deposition"). No more detail was necessary. Third Circuit caselaw requires only general descriptions of the work performed, *see, e.g.*, *United Auto. Workers Local 259 Soc. Sec. Dep't v. Metro Auto Center*, 501 F.3d 283, 291 (3d Cir. 2007) (providing as examples, "partial discovery" and "settlement negotiations"), and Adobe's fee petition met that standard.

None of the cases that PDIC cites, RB68-69, suggests that Adobe was required to describe its attorneys' work at a greater level of specificity—for example, which documents were reviewed in preparation for the deposition and how long review of each document took. Indeed, such details about the work performed would be privileged. *See In re Pierce*, 102 F.3d 1264, 1266 (D.C. Cir. 1996) (noting that a fee applicant must "strike a balance between providing the court adequate descriptions of the work performed … and protecting privileged information"). Adobe's fee petition provided adequate information for the district court to determine whether Adobe's attorneys spent time that was "excessive, redundant, or otherwise unnecessary" in preparing for Meagher's deposition. *Hensley v. Eckerhart*, 461 U.S. 424, 434 (1983).

Third, PDIC's criticism of the district court's explanation is unavailing. Once Adobe submitted its fee petition, the burden shifted to PDIC "to challenge, by affidavit or brief with sufficient specificity to give fee applicants notice, the reasonableness of the requested fee." *Rode*, 892 F.2d at 1183. "The district court cannot 'decrease a fee award based on factors not raised at all by the adverse party.'" *Id.* The district court considered, addressed, and rejected PDIC's sole objection to the number of hours Adobe spent in connection with Meagher's deposition—that Adobe had prepared for subjects outside the proper scope of the deposition. *See* Appx5897. PDIC cannot now argue that the district court erred by not addressing other, un-raised objections to the number of hours claimed.

In the cases cited by PDIC, unlike here, the district courts failed to address specific objections raised by the party opposing the fee petition. *See Interfaith Cmty. Org. v. Honeywell Int'l, Inc.*, 726 F.3d 403, 416 (3d Cir. 2013) ("[W]here, as here, an objecting party has challenged specific types of work and states why it is contended that the hours claimed are excessive, the reviewing court must support its findings with a sufficient articulation of its rationale to allow for meaningful appellate review."); *Planned Parenthood*, 297 F.3d at 268 ("Although the Legislature argued that the hours were excessive, nowhere does the [d]istrict [c]ourt address this contention."). Here, PDIC did not "challenge[] specific types of work and state[] why it … contended that the hours claimed [were] excessive."

Interfaith Cmty. Org., 726 F.3d at 416. Accordingly, the district court had no obligation to consider such arguments on the record.

D. The District Court Properly Awarded Adobe Its Attorneys' Fees Incurred In Enforcing The Court's Prior Order

As the district court recognized, Adobe properly requested its attorneys' fees incurred in recovering the fees expended in connection with Meagher's second deposition. Appx5897 ("Adobe additionally requests expenses, including attorney fees, associated with bringing the present dispute to the [c]ourt."); *see also* Appx5791. That request was supported by governing law. "A party entitled to an award of attorneys' fees is also entitled to reimbursement for the time spent litigating its fee application." *Planned Parenthood*, 297 F.3d at 268.

PDIC's reliance on *American Board of Surgery, Inc. v. Lasko*, 611 F. App'x 69 (3d Cir. 2015), is unavailing. In that case, the plaintiff filed an affidavit stating the amount of fees incurred in supporting its earlier motion for sanctions, but did "not request additional sanctions or identify any possible basis for such sanctions." *Id.* at 72. Here, Adobe's July 10, 2017 letter brief specifically stated that it was "seek[ing] to recover its fees to enforce the Court's prior Order" and cited rules and caselaw in support of that request. Appx5791. PDIC responded to that letter brief two days later and specifically recognized (but did not offer arguments in response to) Adobe's request. *See* Appx5815 ("Adobe is not entitled to its attorney

fees in filing the present dispute."). PDIC cannot reasonably claim it lacked notice.

PDIC also argues that the district court improperly punished it for raising legitimate objections to Adobe's fee application. RB72-74. This argument was never raised in the district court, and thus is waived. *See Gass*, 311 F.3d at 246. In any event, the district court did not award fees to punish PDIC for opposing Adobe's fee petition, but rather because Adobe was entitled to those fees under governing law. *See Planned Parenthood*, 297 F.3d at 268.

Nor did the district court abuse its discretion in concluding that this was an appropriate case to award fees for time spent litigating a fee application. As the court explained, PDIC had unreasonably tried to evade the court's prior order holding PDIC responsible for all expenses, including attorneys' fees, associated with Meagher's second deposition. Appx5897; *see also supra* pp. 40-41, 52. And PDIC had been uncooperative in negotiating a resolution to the fee dispute, making only an unreasonable offer to pay for court reporter and videographer costs associated with "3 questions" asked in the second deposition. Appx5815; *see also* Appx5790. The district court acted well within its discretion in awarding Adobe its attorneys' fees.

CONCLUSION

The district court's Final Judgment entered on August 25, 2017, should be reversed and vacated. The district court's awards of attorneys' fees to Adobe should be affirmed.

Respectfully submitted,

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March 12, 2018

CERTIFICATE OF SERVICE

I hereby certify that, on this 12th day of March, 2018 I filed the foregoing Response and Reply Brief for Appellant Adobe Systems Incorporated with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users.

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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(g), the undersigned hereby certifies that this brief complies with the type-volume limitation of Circuit Rule 28.1(b).

1. Exclusive of the exempted portions of the brief, as provided in Fed. R. App. P. 32(f), the brief contains 13,984 words.

2. The brief has been prepared in proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(g), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

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