

ALERT

Federal Circuit Patent Bulletin: *Drone Techs., Inc. v. Parrot S.A.*

October 3, 2016

"While 'all sanctions by their very nature involve an element of punishment,' a court may not enter a default judgment against a defendant who failed to comply with a discovery order as 'mere punishment.'"

On September 29, 2016, in *Drone Techs., Inc. v. Parrot S.A.*, the U.S. Court of Appeals for the Federal Circuit (Newman, Schall,* Chen) vacated and remanded the district court's award to Drone of \$7.8 million in damages and \$1.7 million in attorney fees under 35 U.S.C. § 285 and Fed. R. Civ. P. 37 in view of the default judgment that Parrot infringed U.S. Patents No. 7,584,071 and No. 8,106,748, which related to remote controlled machine systems. The Federal Circuit stated:

[A] dismissal or default sanction is "disfavored absent the most egregious circumstances." To determine whether a district court abused its discretion when imposing a default or dismissal sanction, the Third Circuit balances the six *Poulis* factors: (1) the extent of the party's personal responsibility; (2) whether the party had a history of dilatoriness; (3) whether the conduct of the party or the attorney was willful or in bad faith; (4) the meritoriousness of claims or defenses; (5) the prejudice to the adversary caused by the party's conduct; and (6) the effectiveness of sanctions other than dismissal or default. "[N]o single *Poulis* factor is dispositive," and the Third Circuit has recognized that "not all of the *Poulis* factors need be satisfied in order to dismiss a complaint." In this case, the district court concluded that five of the factors favor default, while one weighs neutrally. On that basis, the court imposed upon Parrot the sanction of a default judgment. . . .

We begin by looking at Parrot's personal responsibility for not complying with the July 1 and July 25 Orders. The district court correctly found that Parrot was "personally involved in the decision to not produce required initial disclosures and, therefore, [was] responsible for[its] failure to comply with th[e] Court's discovery Orders." [W]e see no reason to disturb the court's conclusion on this factor. . . .

[T]he record reflects that Parrot was fully aware of the consequences of its actions and that it vacillated, at least to some extent, on whether it intended to comply with the court's orders. Parrot indeed does not dispute that its positions "evolved over time," and it concedes that it should have informed the district court at the outset of its intention not to produce the on-board source code. The record therefore supports the court's findings on these factors.

The *Poulis* factors do not explicitly account for the propriety of a discovery order when considering the merits of a discovery sanction. . . . Despite the brevity of the court's analysis on this issue, we agree that this factor is neutral because both parties "advanced prima facie cases." . . .

As for prejudice to Drone, we think the district court erred by concluding that this factor "weighs heavily toward the imposition of severe sanctions." . . . Although the court did not specify what information Drone needed but did not receive, it presumably was referring to the on-board source code and documents relating to the Bebop Drone and MiniDrones. However, . . . Drone has not shown that this information is relevant or necessary to its case, so the record does not support a finding that lacking this information prejudiced Drone in any way, whether for claim-construction purposes or for trial. . . .

In our view, the remaining *Poulis* factor, the effectiveness of alternative sanctions, also militates against the sanction of default. In determining that default was the appropriate sanction, the district court stated that "monetary or other similar sanctions" would not "adequately account for or correct" the prejudice caused to Drone. The court also emphasized the need to "penalize" and "deter others from taking similar action." Lastly, the court concluded that lesser sanctions "would not meet the goals of sanctions" and that Parrot should not be allowed to remedy the situation through self-imposed sanctions. We find several problems with the court's analysis. . . .

While "all sanctions by their very nature involve an element of punishment," a court may not enter a default judgment against a defendant who failed to comply with a discovery order as "mere punishment." Two facts suggest that the default sanction here was meant to serve as "mere punishment." First, as explained above, "the sanction invoked [was] more stern than reasonably necessary" to cure the actual prejudice to Drone. And second, the record does not support the presumption that Parrot refused to provide its on-board source code because discovery of that information would have revealed the lack of merit in its defense against Drone's infringement case. To the contrary, the record indicates that Parrot repeatedly offered to make the on-board source code available for inspection. Parrot even offered to stipulate that all claim limitations relating to the "remote-controlled device" (i.e., limitations to which the on-board source might be relevant) are met if Drone could prove infringement of all of the "remote controller" limitations. In addition, Parrot proposed that the court sanction it by deeming all "remote-controlled device" limitations met or by precluding it from offering non-infringement defenses with respect to those limitations. Those offers are not indicative of a party trying to hide a smoking gun. Accordingly, we find that the district court abused its discretion in concluding that default was the only available remedy.

In sum, we conclude that the district court erred in its findings on prejudice and the availability of alternative sanctions and, consequently, erred in weighing the *Poulis* factors. We conclude that, on the facts of this case, those two factors outweigh the three factors suggesting that the imposition of severe sanctions was appropriate. Moreover, because "all sanctions originate from the realm of equity," we believe our vacatur of the district court's discovery orders underscores the notion that a default sanction was improper here.