IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

E. I. DU PONT DE NEMOURS AND COMPANY,	)	
Plaintiff,	)	C.A. No. N10C-09-058 MMJ CCLD
v.	)	
MEDTRONIC VASCULAR, INC.,	)	
Defendant.	)	

Submitted: March 15, 2013
Decided: April 24, 2013

On Defendant Medtronic Vascular, Inc.'s
Motion for Attorneys' Fees and Costs
DENIED, WITH LIMITED EXCEPTION

OPINION

Richard L. Horwitz, Esquire and John A. Sensing, Esquire, Potter, Anderson & Corroon, LLP., Wilmington, Delaware, John P. Donohue, Jr., Esquire, David J. Wolfsohn, Esquire (argued), Aleksander J. Goranin, Esquire and Kevin M. Bovard, Esquire, Woodcock Washburn, LLP, Philadelphia, Pennsylvania, Attorneys for Plaintiff

David S. Eagle, Esquire, Sally E. Veghte, Esquire and Sean M. Brennecke, Esquire, Klehr Harrison Harvey Branzburg, LLP, Wilmington, Delaware, William Z. Pentelovitch, Esquire (argued), Haley N. Schaffer, Esquire (argued), D. Scott Aberson, Esquire and David E. Suchar, Esquire, Maslon Edelman Borman & Brand, LLP, Minneapolis, Minnesota, Attorneys for Defendant.

JOHNSTON, J.

PROCEDURAL CONTEXT

Plaintiff E.I. du Pont de Nemours and Company ("DuPont") filed an action against Defendant Medtronic Vascular, Inc. ("Medtronic") on September 9, 2010 alleging claims of breach of contract, fraudulent misrepresentation, and negligent misrepresentation. The parties agreed to dismissal of the fraudulent misrepresentation and negligent misrepresentation claims, and the Court dismissed the tort claims by Order dated November 26, 2012.

Medtronic and DuPont filed a series of dispositive and non-dispositive cross-Motions for Summary Judgment which the Court resolved in its Opinion dated January 18, 2013.[1] The Court granted Medtronic's dispositive Motion for Summary Judgment, determining that the breach of contract claims alleged by DuPont were barred by the applicable statute of limitations. By way of alternative holding, the Court resolved some of the remaining issues raised in the cross-Motions for Summary Judgment in favor of Medtronic, and others in favor of DuPont.

Medtronic filed this Motion for Attorneys' Fees and Costs with the Court on February 4, 2013. Medtronic now seeks the award of fees and costs it incurred

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[1] *E.I. duPont de Nemours & Co. v. Medtronic Vascular, Inc.*, 2013 WL 261415, at *27-28 (Del. Super.).

during the course of discovery and litigation. Medtronic alleges that this action was brought by DuPont in bad faith and for oppressive reasons.

For the reasons detailed below, the Court denies the Motion, with the limited exception of an award of certain costs pursuant to Superior Court Civil Rule 54(d).

PARTIES' CONTENTIONS

Medtronic alleges that it is entitled to the award of fees and costs arising out of litigation that DuPont brought and conducted in bad faith. DuPont's claims were ostensibly without merit and furthermore barred by the applicable statute of limitations, conditions known by DuPont prior to initiating the litigation. ***First***, Medtronic argues that DuPont was aware that its tort claims were frivolous, and therefore it was bad faith on the part of DuPont to knowingly bring such meritless claims. ***Second***, Medtronic contends that DuPont was aware, prior to bringing its Breach of Contract claim, that this claim was barred by the applicable statute of limitations, and that, as a result, bringing this action with knowledge of the bar was bad faith on DuPont's part. ***Third***, Medtronic alleges that it was forced to incur additional fees and costs as a result of DuPont's extensive and far-reaching discovery requests, and therefore its harm was exacerbated by DuPont's bad faith litigation conduct. ***Finally***, Medtronic alleges that this bad faith litigation was

part of a broader strategy of DuPont's "Legal Recovery Initiative" to generate profits through aggressive litigation.

In response, DuPont alleges that Medtronic has failed to satisfy the stringent standard required to show that an award of fees and costs is appropriate as an exception to the American Rule. ***First***, DuPont alleges that Medtronic agreed, and the Court memorialized in its Order, that each party would cover its own fees and costs stemming from the tort claims. Therefore, according to DuPont, it should not be liable to Medtronic for any fees or costs associated with litigating the tort claims, which encompass the lion's share of the award Medtronic is seeking. ***Second***, DuPont contends that Medtronic has not shown that DuPont engaged in "intentional misconduct" under the "clear evidence" standard. Specifically, DuPont alleges that because it had more than a "colorable basis" for its claims, DuPont did not act in bad faith, and the American Rule should apply. ***Finally***, DuPont alleges that method by which Medtronic calculated its claimed fees and costs was unreasonable, and therefore an improper award under Delaware law.

STANDARD OF REVIEW

Delaware follows the American Rule, which provides that absent statutory or contractual fee-shifting provisions, litigants are responsible for the costs of their

own representation.[2] The Court has authority to award attorneys' fees and costs to prevailing parties when the losing party has acted in bad faith, even if there is no applicable contractual or statutory provision.[3] Delaware courts have awarded attorneys' fees and costs under the bad faith exception when parties have unnecessarily prolonged or delayed litigation, knowingly asserted frivolous claims, or without justification changed position on an issue.[4] The losing party must have acted in *subjective* bad faith. The prevailing party has the burden of proving bad faith by clear and convincing evidence.[5] Attorneys' fees and costs are not an appropriate remedy merely because the losing party "did not succeed. . .in obtaining the relief [it] sought [in the underlying action]."[6] Where there is a "colorable basis" for a claim, the award of attorneys' fees and costs is

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[2] *Dover Historical Soc'y v. City of Dover Planning Comm'n*, 902 A.2d 1084, 1089 (Del. 2006).

[3] *Kaung v. Cole Nat'l Corp.*, 884 A.2d 500, 506 (Del. 2005); *Citizens Bank v. Design-a-Drape, Inc.*, 2008 WL 3413329, at *2 (Del. Super).

[4] *Kaung*, 884 A.2d at 506; *Citizens Bank*, 2008 WL 3413329, at *3.

[5] *Arbitrium (Cayman Islands) Handels AG v. Johnston*, 705 A.2d 225, 231 (Del. Ch. 1997), *aff'd,* 720 A.2d 542 (Del. 1998); *see also Kosachuk v. Harper,* 2002 WL 1767542, at *7 (Del. Ch.).

[6] *Nevins v. Bryan*, 885 A.2d 233, 255 (Del. Ch. Jan. 21, 2005); *see also Jacobson v. Dryson Acceptance Corp.*, 2002 WL 31521109, at *17 (Del. Ch.).

unwarranted.[7] Finally, even if the requirements of the bad faith exception are otherwise met, attorneys' fees and costs will not be granted if the award would be unreasonable.[8]

DISCUSSION

Medtronic's Characterization of DuPont's Litigation Conduct

Medtronic acknowledges in its Opening Brief that it might be viewed "as presumptuous for a successful defendant to have the audacity to even ask a court to make an exception to the 'American Rule' and consider awarding it fees." Nevertheless, Medtronic alleges that an award of attorneys' fees is necessary in this case to achieve complete justice. Medtronic accuses DuPont of making "unfounded claims, "acting in bad faith and for oppressive reasons," and of "suing on its home turf and seeking to bully [Medtronic] into paying it tens or hundreds of millions of dollars on meritless and time-barred claims."

Medtronic asserts that DuPont's bad faith conduct has been demonstrated in at least four separate ways.

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[7] *P.J. Bale, Inc. v. Rapuano*, 888 A.2d 232 (Del. 2005) (Table); *see also Commonwealth Constr. Co. v. Cornerstone Fellowship Baptist Church, Inc.*, 2006 WL 2567916, at *26 (Del. Super.).

[8] *Johnston v. Arbitrium (Cayman Islands) Handels AG*, 720 A.2d 542, 546-47 (Del. 1998).

> First, DuPont brought frivolous tort claims (which make up a majority of the counts in its Complaint) and then failed to dismiss those claims until over two years into the litigation, without any explanation as to why those claims were initially brought and ultimately dropped. Similarly, DuPont brought and then later decided not to pursue a breach of contract claim based on Cordis' worldwide sales. Second, DuPont freely admitted that it had actual notice of Medtronic's termination of royalty payments in 2003 and it presented no valid legal argument for why its breach of contract claim relating to Medtronic's failure to pay DuPont fees for Medtronic's "Products" sold after July 5, 2003 should nonetheless survive dismissal on statute of limitations grounds. Third, despite an untold number of DuPont documents demonstrating the parties repeatedly discussed royalty apportionment for Medtronic's sales of stent systems, and that DuPont knew Medtronic was actually apportioning its sales of stent systems, DuPont continued its breach of contract action on royalty apportionment until the Court dismissed it, maintaining all the while that Medtronic *fraudulently concealed* this very information from DuPont. Finally, DuPont's discovery conduct in this case merely exacerbated the injury to Medtronic.

Additionally, Medtronic characterizes DuPont's discovery conduct as "scorched earth, win-at-all-costs." According to Medtronic, the discovery should have confirmed that DuPont's claims were "wholly lacking in merit."

The Court's Findings

Medtronic's allegations are extremely serious. In Delaware, no attorney or party should make such accusations without careful and sober consideration. This Court does not take such claims lightly.

The Court finds Medtronic's characterization of DuPont's conduct in this litigation to be unfounded and erroneous. As evidenced by the lengthy and detailed Opinion issued January 18, 2013, the issues in this case were intricate and highly nuanced. The Court struggled mightily in reaching decisions on all questions presented. Several rulings were close calls.

It is not this jurist's ordinary practice to provide alternative holdings. After determining that DuPont's breach of contract claims were time-barred, the Court made the following observations:

> This case is complicated. It would be an understatement to say that the record is extensive. The attorneys for both parties have provided the Court with excellent written briefs. Oral argument, held over three days, was extremely helpful. All attorneys demonstrated extraordinary advocacy before this bench.
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> Having exhaustingly reviewed the evidence, written submissions and transcripts, it seems appropriate to provide the parties with a fulsome analysis. Therefore, even having found that this case must be dismissed as barred by the statute of limitations, by way of alternative holding, a discussion of the substantive claim follows.

Had the statute of limitations issue clearly been one-sided, the Court would have concluded its analysis at that point. However, because of the complexity of the contract interpretation issues, and because of the extraordinary time and effort expended by the parties in presentation, the Court determined that the parties would benefit from further merits analysis in the event either party were to

consider whether to appeal or to engage in settlement negotiations in lieu of an appeal. The eleven holdings on the contract interpretation issues were virtually evenly split between Medtronic and DuPont.

DuPont's Legal Recoveries Initiative

Medtronic further takes issue with DuPont's business decision to use its legal counsel to generate corporate profits. In its Answering Brief, Medtronic describes DuPont's "Legal Recoveries Initiative" as follows:

> In 2004, DuPont began a program called the Legal Recoveries Initiative, the goal of which was to turn DuPont's corporate legal department "from a drain on profits into a money-maker." ... According to a 2007 article from Bloomberg, the program is designed to "find ways to generate revenue by filing lawsuits the company would not otherwise have initiated...."
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> A committee of DuPont lawyers is charged with identifying ways to recover money and calculating an expected return annually. ... According to then Assistant General Counsel—now Senior Vice President and General Counsel—Thomas Sager: "We've asked them to serve as our eyes and ears and identify through whatever means – word of mouth, periodicals, trade press – opportunities where DuPont might advance a claim or where we believe our rights have been perhaps infringed." ... One apparent component of the program is to recognize those within DuPont who focus on recoveries.
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> ***
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> DuPont also looks to outside counsel to seek out recovery opportunities under the program:

> We have also provided incentives to our law firms to seek out recovery opportunities and bring us new ideas. When we need to pursue litigation, we've done that usually through an attractive alternative fee arrangement. In some cases, we have offered a firm a pure contingency arrangement in which they will get a percentage of any recovery.
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> ***
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> Since its inception in 2004, DuPont's Legal Recoveries Initiative has recovered over $2 billion. ... So proud is DuPont of its program, its attorneys regularly present on the topic and offer tips to help other law departments replicate it.

Medtronic argues that the Legal Recoveries Initiative evidences DuPont's "overreach[ing] by bringing frivolous suits under its aggressive business model." Thus, DuPont "should have to bear the consequences of its overreaching by paying its opponents' legal fees." Medtronic accuses DuPont of attempting "to bully a defendant unwilling to negotiate a pre-litigation business settlement into paying it many millions of dollars on meritless and time-barred claims"

The Court's Findings

The Court finds Medtronic's argument to be wholly without merit. Medtronic has not demonstrated that this case has anything to do with a "Legal Recoveries Initiative." But, even if the case were to have any connection to such a program, DuPont has every right to vigorously defend its intellectual property, through litigation if necessary. There is nothing nefarious about a corporation

generating profits through its legal department. It would be naive to suggest that provision of legal services is by its nature a purely not-for-profit enterprise. So long as in-house counsel conduct the corporation's business in an ethical and professional manner, it is not contrary to any public policy to obtain revenue for shareholders. It could in fact be argued that such activities are at least consistent with (if not affirmatively required as part of) managing a company in the appropriate exercise of fiduciary duties. Recovery of over $2 billion since 2004 is evidence of DuPont's prosecution of meritorious, not frivolous, claims.

CONCLUSION

This entire case is replete with complex and difficult legal issues. The Court concluded that this action is barred by the statute of limitations only after painstaking analysis of a very close question. The Court's alternative rulings on the contract interpretation issues were split between the parties.

Under the American Rule, the unsuccessful party ordinarily is not liable for the successful party's attorneys' fees.[9] The bad faith exception to the American Rule applies only in extraordinary circumstances "as a tool to deter abusive litigation and to protect the integrity of the judicial process." [10] To justify an award

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[9] *Nevins v. Bryan,* 855 A.2d 233, 255 (Del. Ch. 2005).

[10] *P.J. Bale, Inc. v. Rapuano,* 2005 WL 3091885, at *1 (Del.).

of attorneys' fees, a litigant must have acted "vexatiously, wantonly, or for oppressive reasons."[11]

The Court finds that there is not a scintilla of evidence that DuPont acted in bad faith. To the contrary, DuPont asserted colorable claims. The litigation was pursued - by highly competent counsel for both parties - with appropriate vigor.

THEREFORE, Defendant Medtronic Vascular, Inc.'s Motion for Attorneys' Fees and Costs is hereby **DENIED**, with the limited exception that pursuant to Superior Court Civil Rule 54(d), Medtronic is awarded the portion of its filing fees attributable to defense of DuPont's tort claims.

IT IS SO ORDERED.

/s/ Mary M Johnston
The Honorable Mary M. Johnston

[11] *Kuang v. Cole Nat'l Corp.,* 884 A.2d 500, 506 (Del. 2005).