Recent Developments In Patent Litigation Fee Shifting Under § 285

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35 U.S.C. § 285

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

Old Standard: Federal Circuit's *Brooks Furniture* Test

- Case "Exceptional" under 1 of 2 circumstances
  - 1. Material inappropriate conduct related to the matter in litigation
    - Includes:
      - willful infringement
      - fraud or inequitable conduct in procuring the patent
      - misconduct during litigation
      - vexatious or unjustified litigation
      - conduct that violates Fed. R. Civ. P. 11 or like infractions

Brooks Furniture Mfg. v. Dutailier Int'l, Inc., 393 F.3d 1378 (Fed. Cir. 2005).

Old Standard: Federal Circuit's *Brooks Furniture* Test

- 2. Litigation "brought in subjective bad faith" and "objectively baseless"

Brooks Furniture Mfg., 393 F.3d at 1381.

  - Litigation is "brought in subjective bad faith" only if plaintiff "actually know[s]" that its position is objectively baseless
  - Litigation is objectively baseless if it is "so unreasonable that no reasonable litigant could believe it would succeed"

iLOR, LLC v. Google, Inc., 631 F.3d 1372, 1377 (Fed. Cir. 2011).

Old Standard: Federal Circuit's *Brooks Furniture* Test

- Presumption that patent infringement litigation brought in good faith
- "[U]nderlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence."

Brooks Furniture Mfg., 393 F.3d at 1382.

New Standard: *Octane Fitness*

- In *Octane Fitness*, Supreme Court expressly overruled Federal Circuit's test: "The question before us is whether the Brooks Furniture framework is consistent with the statutory text. We hold that it is not."

  Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014).

- Only limit on district court's discretion in awarding fees is that "the power is reserved for 'exceptional' cases."

  Id. at 1756.

Octane Fitness: Definition Of Exceptional

- Ordinary meaning
- Exceptional case is one that stands out from others with respect to:
  - substantive strength of a party's litigation position
  - unreasonable manner in which case was litigated

Octane Fitness, 134 S. Ct. at 1756.

- Contrary to *Brooks Furniture*, either subjective bad faith or exceptionally meritless claims is sufficient to declare a case exceptional

Octane Fitness, 134 S. Ct. at 1757.

Octane Fitness: Rejects *Brooks Furniture* Test

- Acts that qualified under *Brooks Furniture* as litigation misconduct would be independently sanctionable under Fed. R. Civ. P. 11
  - Renders Section 285 superfluous

- Court indicates it should be more difficult to get sanctions under Rule 11 than fees under Section 285

  Octane Fitness, 134 S. Ct. at 1756.

  - Under Rule 11, court must find that party/attorney has both engaged in an inadequate investigation and that the claims are frivolous

Octane Fitness: Shifts Power Back To District Courts

- "District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."

Octane Fitness, 134 S. Ct. at 1756.

- Courts should consider factors such as:
  - frivolousness
  - motivation
  - objective unreasonableness (factual and legal)
  - compensation and deterrence

Octane Fitness, 134 S. Ct. at 1756 n.6.

Octane Fitness: Revises Burden Of Proof

- Court rejects clear and convincing evidence standard
- "Nothing in Section 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one."
- Now: <u>preponderance of the evidence standard</u>

Octane Fitness, 134 S. Ct. at 1758.

Highmark: Standard Of Review

- Companion case
- Emphasized the importance of affording deference to district court's determinations under Section 285
- New standard: "[A]n appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's Section 285 determination."

Highmark Inc. v. Allcare Health Mgmt. Sys., 134 S. Ct. 1744, 1749 (2014).

Federal Circuit's Reaction

- Remands
  - Allowing district courts to apply new *Octane Fitness* standard in first instance
    - *Site Update Solutions, LLC v. Accor N. Am.*, 556 Fed. Appx. 962 (Fed. Cir. 2014)
    - *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, 576 Fed. Appx. 1002 (Fed. Cir. 2014)
    - *Highmark, Inc. v. Allcare Health Mgmt. Sys*., 577 Fed. Appx. 995 (Fed. Cir. 2014)
  - *Checkpoint Sys. v. All-Tag Sec. S.A.*, 572 Fed. Appx. 988, 989 (Fed. Cir. 2014)
    - Federal Circuit noted that on remand "the district court should consider the guidance from our prior opinion in which we explained that tests or experiments on the actual accused products are not always necessary to prove infringement. In some instances, circumstantial evidence alone may suffice."

Federal Circuit's Reaction

- Nonprecedential approval of district court fee awards
  - Example: "The district court here did not abuse its discretion in finding this case 'exceptional'."
    - Plaintiff filed multiple repetitive, unsolicited briefs, even after district court took issues under submission
    - Plaintiff repeatedly reargued issues in case without adequate justification, including meritless motions for reconsideration

Homeland Housewares, LLC v. Sorensen Research & Dev. Trust, 2014 U.S. App. LEXIS 17300, at *8 (Fed. Cir. Sept. 8, 2014).

What Makes a Case Exceptional?

- 3 broad and overlapping categories:
  - Litigation misconduct
  - Bad faith
  - Meritless/objectively baseless claims

Litigation Misconduct

- Courts consider conduct throughout litigation
  - excessive filings
  - Seeking to relitigate issues decided at trial
- Overall strategy
  - Delay tactics
- "Patent troll" behavior
  - "[T]he need for the deterrent impact of a fee award is greater where there is evidence that the plaintiff is a 'patent troll' or has engaged in extortive litigation."

    Small v. Implant Direct Mfg., LLC, 2014 U.S. Dist. LEXIS 154468, at *10 (S.D.N.Y. Oct. 22, 2014) (Buchwald, J.).

  - Fees awarded where plaintiff's conduct was "part of a predatory strategy aimed at reaping financial advantage from the inability or unwillingness of defendants to engage in litigation against even frivolous patent lawsuits."

    Lumen View Tech., LLC v. Findthebest.com, Inc., 2014 U.S. Dist. LEXIS 74209 (S.D.N.Y. May 30, 2014) (Cote, J.).

Litigation Misconduct

- D. Del.: Misconduct where plaintiff used litigation for sole purpose of extracting license or settlement fee
  - Plaintiff's "entire litigation strategy was devoted to stringing out the case" so that Defendant would incur fees and costs while Plaintiff did not
    - Example: Plaintiff's disclosure of expert only days before close of fact discovery allowed Plaintiff to keep costs low at expense of Defendant

  Chalumeau Power Sys. LLC v. Alcatel-Lucent Holding Inc., 2014 U.S. Dist. LEXIS 127645 (D. Del. Sept. 12, 2014).
- S.D.N.Y.: Misconduct where defendant wasted Court's time and increased plaintiff's costs
  - Post-trial motions sought to relitigate issues already decided at trial
  - Defenses offered at trial were "particularly weak and lacked support in evidence"

Cognex Corp. v. Microscan Sys., 2014 U.S. Dist. LEXIS 91203 (S.D.N.Y. June 29, 2014) (Rakoff, J.).

Bad Faith

- Generally not used as an independent basis for fee awards since *Octane Fitness*
  - Example: Court noted that although defendants engaged in "questionable motion practice" that resulted in award of fees, they had "generally litigated in good faith and raised nonfrivolous claims."

Cognex Corp., 2014 U.S. Dist. LEXIS 91203 at *9.

- Often discussed in conjunction with misconduct or unreasonable litigation tactics
  - Example: "[W]e find no evidence that [Plaintiff] brought the case in bad faith or that she engaged in any misconduct in the course of the litigation."

Small, 2014 U.S. Dist. LEXIS 154468 at *12.

Objectively Baseless Or Meritless Claims

- Party knew or willfully ignored evidence of meritlessness
- Lack of merit could have been discovered by pre-trial investigation
- Baselessness made clear to court early in the litigation
- Must be more than just a losing argument

Objectively Baseless: Inadequate Prefiling Investigation

- Courts more likely to award fees where pre-filing investigation inadequate
  - Fact intensive inquiry
- D. Del.: found investigation inadequate where plaintiff admitted not every accused product family vetted; too many claim limitations analyzed together

  Chalumeau Power Sys. LLC v. Alcatel-Lucent Holding Inc., 2014 U.S. Dist. LEXIS 127645 (D. Del. Sept. 12, 2014).
- N.D. Cal.: found investigation inadequate where plaintiff had not purchased accused products for testing, analysis

Yufa v. TSI Inc., 2014 U.S. Dist. LEXIS 113148 (N.D. Cal. Aug. 14, 2014) (Westmore, Mag. J.).

Case Comparison: N.D. Cal

- *Eon Corp.*: fees denied
  - Court found plaintiff's infringement contentions lacked merit
  - Received highly unfavorable claim construction
  - Court could not conclude that no reasonable patentee could see an opening in the construction "through which the argument could be squeezed"

EON Corp. IP Holdings LLC v. Cisco Sys., 2014 U.S. Dist. LEXIS 101923 (N.D. Cal. July 25, 2014) (Tigar, J.).

Case Comparison: N.D. Cal

- *IPVX*: fees granted
  - Plaintiff primarily prevailed on claim construction
  - Did not avoid fee award
  - Infringement contentions were deficient and comparison of claims to accused products was "wholly conclusory"

    IPVX Patent Holdings v. Voxernet LLC, 2014 U.S. Dist. LEXIS 158037 (N.D. Cal. Nov. 6, 2014) (Lloyd, Mag. J.).
- In *Eon Corp.*, court did not award fees against party that lost on claim construction. In *IPVX*, court awarded fees against party that prevailed on claim construction.

Notable Cases

- *Linex Techs., Inc. v. Hewlett-Packard Co.*
- Fees awarded for plaintiff's pursuit of meritless claims
- Plaintiff had received unfavorable claim construction in two other fora
- Court determined that this weighed in favor of finding inadequate pre-trial investigation
- Also noted that plaintiff did not dismiss meritless claims in attempt to increase potential settlement
  - "[T]he appetite for licensing revenue cannot overpower a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate those cases in good faith."

Linex Techs., Inc. v. Hewlett-Packard Co., 2014 U.S. Dist. LEXIS 129717 (N.D. Cal. Sept. 15, 2014) (Wilken, J.).

Notable Cases

- *Summit Data Sys., LLC v. EMC Corp*.
  - Plaintiff executed licensing agreement; two months later filed suit against defendant covered by license
  - Licensing agreement not disclosed for 18 months
  - Plaintiff extracted settlements from co-defendants worth a fraction of what it would cost to defend suit
  - Plaintiff voluntarily dismissed claims with prejudice prior to court issuing a ruling on the merits
  - Court determined fee award was necessary to deter such "reckless and wasteful litigation in the future"

Summit Data Sys., LLC v. EMC Corp., 2014 U.S. Dist. LEXIS 138248 (D. Del. Sept. 25, 2014) (Sleet, J.).

Notable Cases

- *LendingTree, LLC v. Zillow, Inc.*
  - Fees awarded as to one defendant but not another
  - Defendant 1 received favorable claim construction, but plaintiff had "at least loose footing on which to rest infringement argument"
  - Court denied Defendant 1's motions for judgment as matter of law and summary judgment, mitigating against finding of meritlessness
  - Court did not find evidence that plaintiff sued for sole purpose of extracting settlement
    - Court specifically noted that parties were not NPEs, but instead were direct competitors

LendingTree, LLC v. Zillow, Inc., 2014 U.S. Dist. LEXIS 146336 (W.D.N.C. Oct. 9, 2014) (Whitney, J.).

Notable Cases

- *LendingTree, LLC v. Zillow, Inc*. – Defendant 2
  - Case exceptional because of inadequate pre-filing investigation and failure to recognize strength of Defendant 2's laches defense
  - Plaintiff failed to investigate "overall vexatious litigating strategy," but only as to Defendant 2
  - Court found that Plaintiff should have recognized the strength of Defendant's laches defense
  - Awarded all fees incurred after summary judgment

LendingTree, LLC v. Zillow, Inc., 2014 U.S. Dist. LEXIS 146336 (W.D.N.C. Oct. 9, 2014) (Whitney, J.).

Seeking Fees

- Because award dependent on "prevailing party" status, determined at conclusion of action
  - "[N]ot a stand-alone claim to be pleaded and litigated during the course of the proceeding"

    Genetic Techs. Ltd. v. Agilent Techs., Inc., 2014 U.S. Dist. LEXIS 111631, at *3-4 (N.D. Cal. Aug. 11, 2014) (Seeborg, J.).
- Fees sought by motion
  - Rely on evidence discovered during ordinary course

    See Aventis Cropscience, N.V. v. Pioneer Hi-Bred Int'l, Inc., 294 F. Supp. 2d 739 (M.D.N.C. 2003) (Eliason, Mag. J.).
- Additional discovery rarely allowed
  - One case allowed limited additional discovery after defendant demonstrated that plaintiff's counsel made affirmative misrepresentations to court

    Tesco Corp. v. Weatherford Int'l, Inc., 2014 U.S. Dist. LEXIS 118427, at *7 (S.D. Tex. Aug. 25, 2014) (Ellison, J.).

Period of Recovery for Fee Awards

- *Octane Fitness* did not address how courts should measure the period of recovery for fee awards
- Litigation misconduct cases:
  - District courts are not required to limit fee awards to costs incurred directly due to litigation misconduct, "because it is the 'totality of the circumstances,' and *not* just discrete acts of litigation conduct, that justify the court's award of fees."

    Homeland Housewares, 2014 U.S. App. LEXIS 17300, at *8-9 (nonprecedential).
  - Some courts hold that fees awarded for misconduct must be "causally related" to the misconduct

    TNS Media Research, LLC v. TiVo Inc., 2014 U.S. Dist. LEXIS 155914, at *38 (S.D.N.Y. Nov. 4, 2014) (Scheindlin, J.).

Period of Recovery for Fee Awards

- Objectively baseless litigation cases:
  - Courts measure from when the party knew or should have known of the meritless position
    - From inception or particular point in litigation
    - Example: Letter informing plaintiff's counsel that defendant did not manufacture or sell infringing products was "unrefuted evidence" that plaintiff knew claims were baseless as of that date

Classen Immunotherapies, Inc. v. Biogen Idec, 2014 U.S. Dist. LEXIS 67169, at *22-23 (D. Md. May 14, 2014) (Quarles, J.).

Fee Awards and Attorneys

- Under *Octane Fitness*, fees can be awarded under Section 285 against a party who engages in litigation misconduct or who pursues an objectively baseless litigating position
  - Court did not address applicability to attorneys
- Despite the emphasis on conduct during litigation, district courts have continued to find that fees under Section 285 are assessed against a party, not against its attorneys

Fee Awards and Attorneys

- Text of Section 285 does not have a basis for awarding fees against losing party's attorney
  - "[W]hen a fee-shifting statute that authorizes the courts to award attorneys' fees to prevailing parties does not mention an award against the losing party's attorney, as is the case in Section 285, the appropriate inference is that an award against attorneys is not authorized."

Rates Tech., Inc. v. Broadvox Holding Co., 2014 U.S. Dist. LEXIS 142998 (S.D.N.Y. Oct. 7, 2014) (Scheindlin, J.).

Prevailing Party

- *Octane Fitness* did not address the definition of "prevailing party"
- D. Del.: "In sum, precedent from both the Supreme Court and the Federal Circuit make clear that for a party to be a prevailing party, that party must win a dispute within the case in favor of it that materially alters the legal relationship between the parties"

  Parallel Iron LLC v. NetApp Inc., 2014 U.S. Dist. LEXIS 127850, at *7-8 (D. Del. Sept. 12, 2014) (Andrews, J.).
- Federal Circuit: "A party does not need to prevail on all claims to qualify as the prevailing party."

  SSL Servs., LLC v. Citrix Sys., 2014 U.S. App. LEXIS 19672, at *25 (Fed. Cir. 2014).

Prevailing Party

- D. Del.: Plaintiff's dismissal due to a license obtained by a third party that protects a defendant does not settle a dispute in favor of the defendant
  - "It cannot be correct that a party can benefit from a bona fide license agreement, obtained after the litigation began, and claim to be the prevailing party, without a single substantial court decision that favors that party."

    Pragmatus Telecom LLC v. Newegg Inc., 2014 U.S. Dist. LEXIS 101402, at *8 (D. Del. July 25, 2014) (Andrews, J.).