

## High *Octane*: The New Landscape for Exceptional Case Determinations

Patrick M. Arenz & Christine S. Yun Sauer



---

### Recommended Citation:

Patrick M. Arenz & Christine S. Yun Sauer, *High Octane: The New Landscape for Exceptional Case Determinations*, 16 Sedona Conf. J. 151 (2015).

For this and additional publications see: <https://thesedonaconference.org/publications>

The Sedona Conference Journal® (ISSN 1530-4981) is published on an annual basis, containing selections from the preceding year's conferences and Working Group efforts. The Journal is available on a complementary basis to courthouses and public law libraries and by subscription to others (\$95; \$45 for conference participants and Working Group members). Send us an email ([info@sedonaconference.org](mailto:info@sedonaconference.org)) or call (1-602-258-4910) to order or for further information. Check our website for further information about our conferences, Working Groups, and publications: [www.thesedonaconference.org](http://www.thesedonaconference.org).

Comments (strongly encouraged) and requests to reproduce all or portions of this issue should be directed to:  
The Sedona Conference at [comments@sedonaconference.org](mailto:comments@sedonaconference.org) or call 1-602-258-4910.

The Sedona Conference Journal® designed by MargoBDesignLLC  
See [margobdesign.com](http://margobdesign.com) or [mbraman@sedona.net](mailto:mbraman@sedona.net).

Cite items in this volume to "16 Sedona Conf. J. \_\_\_\_ (2015)."

Copyright 2015, The Sedona Conference.  
All Rights Reserved.

## HIGH OCTANE: THE NEW LANDSCAPE FOR EXCEPTIONAL CASE DETERMINATIONS

---

*Patrick M. Arenz & Christine S. Yun Sauer\**  
*Robins Kaplan LLP*  
*Minneapolis, MN & Mountain View, CA*

### INTRODUCTION

The Supreme Court just upped the stakes of patent litigation. Already known as an area of law with millions of dollars routinely on the line, the Supreme Court recently lowered the standard and burden of proving when attorney fees should be awarded to a prevailing party, and underscored that district courts maintain the discretion to make such a determination. This article will summarize the Federal Circuit precedent before the Supreme Court's decisions, detail the Court's holdings in *Octane Fitness* and *Highmark*, identify trends from the district courts since the Court's rulings, and suggest a few hot topics that district courts and litigants will need to address moving forward.

---

\* Patrick M. Arenz is a principal at the national law firm of Robins Kaplan LLP. He is a trial lawyer who focuses his practice on patent and complex litigation. He can be reached at [PArenz@robinskaplan.com](mailto:PArenz@robinskaplan.com). Christine Yun Sauer is an associate in the Intellectual Property Litigation Department at Robins Kaplan LLP who focuses her practice on intellectual property litigation and patent office trials. She can be reached at [CYunSauer@robinskaplan.com](mailto:CYunSauer@robinskaplan.com).

*The content of this article should not be taken as legal advice or as an expression of the views of the firm, its attorneys, or any of its clients. We hope the article spurs discussion in the legal community with insight into the experience of the authors.*

I. THE FEDERAL CIRCUIT'S PRE-OCTANE & HIGHMARK APPROACH  
TO ATTORNEY FEES UNDER 35 U.S.C. § 285

As an exception to the American Rule on attorney fees, a prevailing party in patent litigation may receive an award of attorney fees in “exceptional cases.” The entirety of 35 U.S.C. § 285 provides: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” The Federal Circuit interpreted § 285 in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*<sup>1</sup> and held that a patent case is exceptional in two circumstances: “when there has been some material inappropriate conduct,” or “if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.”<sup>2</sup> The Federal Circuit required a prevailing party to prove one of these circumstances by clear-and-convincing evidence.<sup>3</sup>

On appeal, the Federal Circuit developed different standards of review over time. Following *Brooks Furniture*, the Federal Circuit generally reviewed district courts’ exceptional case determinations for an abuse of discretion.<sup>4</sup> Nevertheless, the Federal Circuit made clear that it would give detailed review of a trial court’s decision to declare a case exceptional and award attorney fees because of the impact such awards have on litigants and their attorneys:

---

1. 393 F.3d 1378 (Fed. Cir. 2005).

2. *Id.* at 1381.

3. *See, e.g.,* *Wedgetail Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304-06 (Fed. Cir. 2009).

4. *See, e.g.,* *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1376 (Fed. Cir. 2011) (“The objective baselessness standard for enhanced damages and attorneys’ fees against a non-prevailing plaintiff under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorneys’ fees against an accused infringer for § 284 willful infringement actions under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).”).

[W]e have the responsibility, in light of the substantial economic and reputational impact of such sanctions, to examine the record with care to determine whether the trial court has committed clear error in holding the case exceptional or has abused its discretion with respect to the fee award.<sup>5</sup>

The Federal Circuit then recently explained that it would review a district court's determination that a case was "objectively baseless" *de novo*.<sup>6</sup> "To be objectively baseless, the infringement allegations must be such that no reasonable litigant could reasonably expect success on the merits."<sup>7</sup> The court reasoned that this determination "is a question of law based on underlying mixed questions of law and fact."<sup>8</sup> Accordingly, as the court recently held in an analogous standard for objective recklessness in a willfulness determination,<sup>9</sup> the Federal Circuit explained that the district court's determination "is subject to *de novo* review" and "without deference."<sup>10</sup>

---

5. *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 953 (Fed. Cir. 2010).

6. *Highmark, Inc. v. Allcare Health Mgmt. Sys.*, 687 F.3d 1300, 1309 (Fed. Cir. 2013).

7. *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008).

8. *Highmark*, 687 F.3d at 1309.

9. *See id.* (citing *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012)); *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011); *see also iLor*, 631 F.3d at 1376.

10. *Highmark*, 687 F.3d at 1309, 1316.

## II. THE SUPREME COURT'S *OCTANE FITNESS* AND *HIGHMARK* DECISIONS

The United States Supreme Court issued two key decisions last term addressing the standard and burden of proof for exceptional case determinations under 35 U.S.C. § 285. Those two cases are *Octane Fitness LLC v. Icon Health & Fitness, Inc.*<sup>11</sup> and *Highmark Inc. v. Allcare Health Management Systems*.<sup>12</sup> The Court granted certiorari in these two cases to evaluate both the standard and burden of proof governing district courts' determinations under § 285, and the standard of review on appeal of those determinations.

### *Octane Fitness*—A New Standard and Burden of Proof

In *Octane Fitness*, the Court addressed the proper standard and burden of proof district courts should apply when they make an exceptional case determination.<sup>13</sup> While the Federal Circuit has applied its two-circumstance standard in *Brooks Furniture* since 2005, the Court noted that the Federal Circuit “instructed district courts to consider the totality of circumstances when making fee determinations under § 285.”<sup>14</sup> The Court concluded that this equitable approach was proper, and not the Federal Circuit’s “rigid and mechanical formulation.”<sup>15</sup>

---

11. 134 S. Ct. 1749 (2014).

12. 134 S. Ct. 1744 (2014).

13. *Octane*, 134 S. Ct. 1749.

14. *Id.* at 1754 (citing *Rohm & Haas Co. v. Crystal Chemical Co.*, 736 F.2d 688, 691 (1984) (“Cases decided under § 285 have noted that ‘the substitution of the phrase “in exceptional cases” has not done away with the discretionary feature.’”) and *Yamanouchi Pharmaceutical Co., Ltd. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 1347 (2000) (“In assessing whether a case qualifies as exceptional, the district court must look at the totality of the circumstances.”)).

15. *See id.*

In a unanimous opinion authored by Justice Sotomayor, the Court held that “an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.”<sup>16</sup> The application of this standard is a “case-by-case exercise of discretion, considering the totality of the circumstances,” instead of the “rigid and mechanical formulation” by the Federal Circuit.<sup>17</sup> The Court reached this conclusion by simply construing “exceptional” “in accordance with [its] ordinary meaning.”<sup>18</sup> For instance, the Court looked at dictionary definitions of “exceptional” when Congress added it to § 285 in 1952.<sup>19</sup> Those dictionaries included definitions for “exceptional,” such as “uncommon,” “rare,” or “not ordinary.”<sup>20</sup>

The Court went on to explain why the Federal Circuit’s “rigid and mechanical formulation” was improper. With respect to the *Brooks Furniture* first category of cases—those involving litigation misconduct, the Court explained that “sanctionable conduct is not the appropriate benchmark.” Based on the new standard, a district court may find a case exceptional when a party’s conduct is “unreasonable,” even if not “independently

---

16. *Id.* at 1756.

17. *Id.* at 1754, 1756. The Court explained in a similar provision in the Copyright Act that district courts consider a “‘nonexclusive’ list of ‘factors,’ including ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.’” *Id.* at 1756 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

18. *Id.* at 1756.

19. *Id.* at 1756.

20. *Id.* at 1756.

sanctionable.”<sup>21</sup> The second category of cases was also too restrictive because it required both a finding that the case “was objectively baseless *and* that the plaintiff brought it in subjective bad faith.” Under the Court’s new standard, “a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.”<sup>22</sup> Lastly, the Court concluded that the Federal Circuit’s exacting standard was “so demanding that it would appear to render § 285 largely superfluous.”<sup>23</sup>

The Court also reversed the Federal Circuit’s clear-and-convincing evidence burden of proof for exceptional case determinations. The Court explained that it has not interpreted comparable fee-shifting statutes to require such a high evidentiary burden. Nor did anything in the statute justify such a burden. Instead, § 285 “demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one.” As a result, the preponderance-of-evidence standard is more appropriate because that generally governs patent-infringement and civil litigation, and “allows both parties to ‘share the risk of error in roughly equal fashion.’”<sup>24</sup>

### *Highmark—A New Standard of Review on Appeal*

In parallel with its *Octane Fitness* decision, the Court issued *Highmark Inc. v. Allcare Health Management System*. The issue in *Highmark* was the Federal Circuit’s “*de novo*” review of objectively baseless determinations. The Court reversed the Federal Circuit again and remanded the case back to the District Court, finding that “[b]ecause § 285 commits the determination whether a case is ‘exceptional’ to the discretion of the district

---

21. *Id.* at 1756-57.

22. *Id.* at 1757.

23. *Id.* at 1758.

24. *Id.* at 1758 (internal citations omitted).



court, that decision is to be reviewed on appeal for abuse of discretion.”<sup>25</sup> The Court rejected the Federal Circuit’s determination that the standard of review should be *de novo* because “objective baseless determinations” were a matter of law.<sup>26</sup> “Although questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, ‘rooted in factual determinations.’”<sup>27</sup> On June 23, 2015, the Northern District of Texas issued its order on remand, affirming its original decision that the case was exceptional and awarded attorney’s fees.<sup>28</sup> Even under the Supreme Court’s *Octane* standard, where an “exceptional” patent case is one that “stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated),” the district court found that the original factual findings certainly “stood out” to the court.<sup>29</sup>

Despite the Northern District of Texas’s decision, in light of these two Supreme Court decisions, the Federal Circuit, district courts, and litigants now must deal with the new landscape of exceptional case determinations post-*Octane Fitness* and *Highmark*.

---

25. *Highmark Inc. v. Allcare Health Management Sys. Inc.*, 134 S. Ct. 1744, 1747 (2014).

26. *Id.* at 1748. “Traditionally, decisions on ‘questions of law’ are ‘reviewable de novo,’ decisions on ‘questions of fact’ are ‘reviewable for clear error,’ and decisions on ‘matters of discretion’ are ‘reviewable for ‘abuse of discretion.’” *Id.* (internal citations omitted). And because a determination under § 285 is a matter of discretion, “the exceptional-case determination is to be reviewed only for abuse of discretion.” *Id.*

27. *Id.* at 1749 (citing *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990)).

28. *Highmark, Inc. v. Allcare Health Management Sys., Inc.*, 4:03-cv-01384 (N.D. Tex. June 23, 2015) at \*3.

29. *Id.*

### III. DISTRICT COURT TRENDS SINCE *OCTANE FITNESS* AND *HIGHMARK*

The change of the standard and burden of proof governing § 285 determinations has led to a precipitous increase in district court decisions on whether a case is exceptional. A recent study conducted by the Federal Circuit Bar Association found that after *Octane Fitness* and *Highmark* were decided, motions for attorneys' fees were granted at a rate almost three times as high as in the year preceding these decisions.<sup>30</sup> In fact, in between January 1, 2015, and March 31, 2015, 50 percent of motions for fees under § 285 filed by accused infringers were granted.<sup>31</sup> While it is still early to identify clear delineators of what makes a case "stand out from others," there are some trends among the early decisions on fees. For instance, one commentator concluded that "[t]hese decisions show an award of attorneys' fees is far from automatic, and courts have considerable discretion to grant or deny attorneys' fees based on the particular circumstances of the case."<sup>32</sup> Here are a few additional trends that we have identified.

#### *District Courts Will Not Hesitate to Award Fees in Egregious Cases*

To begin with the obvious, the following cases applied *Octane Fitness* and *Highmark* to support a grant of attorney fees to defendants accused of patent infringement in egregious factual circumstances. In *Homeland Housewares LLC, et al. v.*

---

30. Letter from Federal Circuit Bar Association Bench & Bar to Chairman Bob Goodlatte and Ranking Member John Conyers, Jr. (Apr. 13, 2015), available at <http://ipwatchdog.com/materials/Goodlatte-Conyers-Signed.pdf>.

31. *Id.*

32. Russell E. Cass & Kimberly D. Farbota, *The Fee-Shifting Climate After Octane and Highmark*, LAW360 (August 28, 2014), available at <http://www.law360.com/articles/568081/the-fee-shifting-climate-after-octane-and-highmark>.

*Sorensen Research and Development*, the Federal Circuit, applying the deferential standard of review from *Highmark*, concluded that the district court did not abuse its discretion in finding the patent holder's conduct "exceptional" and awarding attorney fees.<sup>33</sup> In *Homeland*, the district court awarded attorney fees because the patent holder, in a declaratory judgment action, never presented *any* evidence that the accused infringer's product infringed—even after a year of opportunities to take discovery.<sup>34</sup> Further, the district court found the case "exceptional" based on the patent holder's overall conduct in litigation which included repetitive and unsolicited filings, as well as filing multiple motions for reconsideration that the court deemed were without merit.<sup>35</sup> Although the Federal Circuit expressed doubt that the unsolicited filings, standing alone, could justify an "exceptional case," it saw no abuse of discretion in the court factoring in this conduct as part of a "totality of circumstances."<sup>36</sup>

Even more egregious, in *Summit Data Systems, LLC v. EMC Corp., et al.*, the district court found the case exceptional based on the totality of circumstances.<sup>37</sup> The district court determined that the plaintiff rested its entire theory of infringement on the defendant's use of Microsoft software, despite the fact that two months *before* it initiated suit, the plaintiff entered into a license agreement with Microsoft that would have covered the defendant's alleged infringement.<sup>38</sup> Throughout the litigation,

---

33. *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, 2014 U.S. App. LEXIS 17300, at \*7 (Fed. Cir. Sept. 8, 2014).

34. *Id.*

35. *Id.* at \*4.

36. *Id.* at \*7.

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

38. *Id.* at \*8-11.

the court found that the plaintiff could never identify an alternative theory of infringement for the defendant.<sup>39</sup> It is worth noting that the court found that *these facts alone* would support a finding that the case “stands out from others.”<sup>40</sup> Despite this finding, the court also found plaintiff’s delay in disclosing the existence of the license agreement, dismissal of its claims against the defendant with prejudice prior to the court issuing a ruling on the merits, and its practice of extracting settlements worth a fraction of what the case would cost to litigate all supported a finding that the case was exceptional.<sup>41</sup>

While none of the above cases are necessarily surprising, these cases will help shape the contours of which cases “stand[] out from others.”

*Unreasonable Claim Construction Positions Can Lead to an Award of Attorney Fees*

Claim construction has always been critical in patent cases. “[T]o decide what the claims mean is nearly always to decide the case.”<sup>42</sup> That can also be true with respect to § 285 determinations. Recent cases, in fact, underscore that unreasonable claim construction positions can lead to a finding that a case is exceptional because claim construction is so intertwined with liability.

In *Vehicle Operation Techs. LLC v. Am. Honda Motor Co.*, the court found a Rule 11 violation but eventually decided against

---

39. *Id.* at \*9.

40. *Id.* at \*10.

41. *Id.* at \*13-14.

42. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 989 (Fed. Cir. 1995).

awarding fees.<sup>43</sup> The crux of the Rule 11 motion against the patent holder revolved around the objectively unreasonable construction of the term “display.”<sup>44</sup> While the patent holder maintained that there was no prosecution disclaimer, the court found that any reasonable pre-suit investigation of the prosecution history would have led an attorney to conclude that there was such a disclaimer and the term “display” would have been limited—barring literal infringement and any argument under the doctrine of equivalence.<sup>45</sup>

Further, in *Linex Techs., Inc. v. Hewlett-Packard Co.*, the court found an exceptional case under *Octane Fitness* and *Highmark* based on the patent holder’s pursuit of claim constructions that had been rejected by two previous fora—the Eastern District of Texas and the United States International Trade Commission (ITC).<sup>46</sup> While the court acknowledged that neither forum’s previous claim construction were binding as *res judicata*, it found that the patent holder was not free to pursue another case targeting the same technology that it could only cover under the previously rejected claim constructions.<sup>47</sup> The court concluded that the patent holder knew how frivolous its claims were because, after the unfavorable claim construction in the Eastern District of Texas, it attempted to broaden the scope of its patents in the USPTO by drafting reissue patents.<sup>48</sup>

Additionally, in *Pure Fishing, Inc. v. Normack Corp.*, the court awarded attorney’s fees under the new *Octane Fitness* and

---

43. *Vehicle Operation Techs. LLC v. Am. Honda Motor Co.*, 2014 U.S. Dist. LEXIS 127855 (D. Del. Sept. 12, 2014).

44. *Id.* at \*18-22.

45. *Id.*

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

47. *Id.* at \*13.

48. *Id.* at \*15-16.

*Highmark* standard due to shifting claim construction position and total lack of support for claim construction positions.<sup>49</sup> In this case, the court noted that Pure Fishing had “failed, at any point in the litigation, to proffer support for its one-molecule theory.”<sup>50</sup> Once the court rejected Pure Fishing’s “one-molecule” theory, plaintiff conceded it could not succeed on its claim—suggesting not only that the claim construction was objectively baseless but also that the plaintiff should have understood that its claim was dependent on the claim construction.<sup>51</sup> Because the plaintiff could never articulate any reasonable basis for the claim construction on which its claim was dependent, the court found that the plaintiff’s case was exceptionally weak and supported an award under *Octane Fitness*.<sup>52</sup>

Similarly, in *IPVX Patent Holdings, Inc. v. Voxernet LLC*, although the party prevailed on its claim construction, the court found its position unreasonable because it could not provide any evidence to support its infringement position based on that claim construction.<sup>53</sup> And In *TNS Media Research, LLC v. Tivo Research & Analytics, Inc.*, the district court sanctioned the plaintiff because its proposed construction did “violence to the ordinary grammatical understanding of the past tense” and “rendered meaningless the amendments [the plaintiff] added after the [Patent and Trademark Office] rejected the original versions of the

---

49. *Pure Fishing, Inc. v. Normark Corp.*, 2014 U.S. Dist. LEXIS 153272 (D.S.C. Oct. 28, 2014).

50. *Id.* at \*8.

51. *Id.* at \*11.

52. *Id.* at \*12.

53. *IPVX Patent Holdings, Inc. v. Voxernet LLC*, 2014 U.S. Dist. LEXIS 158037 (N.D. Cal. Nov. 6, 2014).

claim language,” effectively “und[oing] the prosecution history.”<sup>54</sup>

*Lack of Pre-filing Investigation or Knowledge that Claim is Meritless May Warrant Attorney Fees*

The Federal Circuit has stated that an adequate pre-filing investigation into infringement requires a party to “interpret the asserted patent claims and compare the accused device with those claims before filing a claim alleging infringement.”<sup>55</sup> District courts have therefore used failure to conduct adequate pre-filing investigations or to exercise due diligence before filing a suit as a basis for finding a case exceptional.

In *Yufa v. TSI, Inc.*, the court found an exceptional case because the plaintiff testified that he filed the patent infringement action without purchasing or testing any of the defendant’s accused products to determine if they infringed the patent-in-suit.<sup>56</sup> The court also considered facts that the plaintiff continued to pursue its claims despite its lack of merit—after reviewing the defendant’s discovery that clearly set forth noninfringement, the plaintiff continued to pursue its claims with no admissible evidence and relied solely on conclusory allegations of infringement and claims that the defendant was lying.<sup>57</sup>

---

54. *TNS Media Research, LLC v. Tivo Research & Analytics, Inc.*, 2014 U.S. Dist. LEXIS 155914, at \*5, 7 (S.D.N.Y. Nov. 4, 2014).

55. *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300 (Fed. Cir. 2004).

56. *Yufa v. TSI, Inc.*, 2014 U.S. Dist. LEXIS 113148, at \*8 (N.D. Cal. Aug. 14, 2014).

57. *Id.* at \*9.

Even further, in *Parallel Iron LLC v. NetApp Inc.*, the plaintiff accused defendant's products by reference to their implementation of the pNFS standard.<sup>58</sup> Plaintiff produced over 1000 pages of documents and claim charts that it had prepared in its pre-suit investigation, but did not investigate whether the defendant's product implemented the pNFS standard and did so in such a way as to infringe each of the patents-in-suit.<sup>59</sup> For these reasons, the court found that the plaintiff litigated the case in "bad faith, vexatiously, and wantonly" and granted the defendant's motion for attorney fees, not only to compensate the defendant but to deter the plaintiff from continuing to litigate in such a manner in the future.<sup>60</sup>

*Attorney Fee Awards is a Two-way Street for Patent Holders and Alleged Infringers*

Based on the rhetoric of patent litigation these days, many alleged infringers welcomed the *Octane Fitness* and *Highmark* decisions as a tool to attack aggressive patent holders. But it is important to note that the Supreme Court's decisions are a tool that kicks as hard as it shoots. The *Octane Fitness* and *Highmark* decisions are agnostic as to whether the prevailing party in a § 285 analysis is a patent holder or accused infringer. And district courts have proven this point since those decisions.

For example, in *Romag Fasteners, Inc. v. Fossil, Inc., et al.*, the district court granted the winning plaintiff patent holder's

---

58. *Parallel Iron LLC v. NetApp Inc.*, 2014 U.S. Dist. LEXIS 127850 (D. Del. Sept. 12, 2014).

59. *Id.* at \*11-21.

60. *Id.* at \*23-24.



motion for attorney fees after it found that the infringer aggressively pursued frivolous invalidity counterclaims.<sup>61</sup> In particular, the court found the alleged infringer's indefiniteness claim frivolous because the previous judge who had decided claim construction described the argument as a "woefully inadequate showing" and granted summary judgment *sua sponte* in favor of the plaintiff.<sup>62</sup> Further, as for the alleged infringer's invalidity claims, the court found it "exceptional" that although it did not present evidence in support of its invalidity defenses, the alleged infringer kept its validity expert on the trial witness list, forcing the patent holder to present its case for validity, and did not formally withdraw the defenses until the patent holder moved for judgment as a matter of law after trial.<sup>63</sup>

Also important, the court in *Romag* raised special concerns regarding compensation and deterrence of patent infringement. Romag was a small company whose business revolved around the patented technology. And while the award was small and was only a minute portion of the alleged infringer's costs and profits, the court expressed concern that the alleged infringer's actions—aggressively pursuing frivolous invalidity counterclaims in an attempt to prolong litigation and increase the cost of litigation—would discourage other similarly small businesses in bringing patent cases.<sup>64</sup>

The court in *Romag* is not alone in awarding attorney fees against alleged infringers. For instance, in *Integrated Tech. Corp., et al. v. Rudolph Techs., Inc.*, the court found the case exceptional because the defendant "hid its infringement for years, provided false discovery responses, filed summary judgment papers even

---

61. *Romag Fasteners, Inc. v. Fossil, Inc.*, 2014 U.S. Dist. LEXIS 113061 (D. Conn. Aug. 14, 2014).

62. *Id.* at \*10.

63. *Id.* at \*11-12.

64. *Id.* at \*11-13.

though it knew its product infringed, argued a never fully explained theory that [the plaintiff] did not own the underlying patent, and during and after trial played semantic games regarding what its machines did and what functions were important to it and its customers.”<sup>65</sup>

*District Courts Will Exercise Their Discretion to Deny Attorney Fee Requests*

Despite the increased frequency in motions for attorney fees following *Octane Fitness* and *Highmark*, district courts have made clear that they will undertake a vigorous review of the record and exercise their discretion to fees. In other words, attorney fee awards are anything but automatic.

For example, in *Stragent, LLC v. Intel Corp.*, Judge Dyk, sitting by designation, denied Intel’s motion for attorney fees.<sup>66</sup> Judge Dyk explained that attorney fees awards are still reserved for “rare” and “unusual” circumstances.<sup>67</sup> And the mere fact that the losing party makes a losing argument is not relevant to the consideration under § 285; the focus must be whether the arguments were frivolous or made in bad faith.<sup>68</sup> As part of his consideration, Judge Dyk also looked at the conduct of counsel while deciding against an award of attorney fees: “counsel for both sides were cooperative in reaching stipulations and minimizing disputes over collateral issues throughout the case. This not only saved the court’s time, but surely lowered the parties’

---

65. *Integrated Tech. Corp., et al. v. Rudolph Techs., Inc.*, No. 06-cv-2182, D.I. 646 (D. Ariz. Aug. 8, 2014) at 2; *see also Deckers Outdoors Corp. v. Superstar Int’l Inc., et al.*, No. 13-cv-0566, D.I. 48 (C.D. Cal. Aug. 18, 2014) at 3-4.

66. *Stragent, LLC v. Intel Corp.*, No. 6:11-cv-421, D.I. 364 (E.D. Tex. Aug. 6, 2014).

67. *Id.*

68. *Id.*

costs as well. Such professionalism is to be commended, and it weighs against a finding that an award of attorney's fees is warranted."<sup>69</sup>

Additionally, there have been a number of recent cases where the district court undertook a vigorous review of the case and denied attorney fees. For example, in *Ted Wiley v. RockTenn CP, LLC*, the court found that unclear infringement positions, lack of success at summary judgment, and never responding to discovery requests did not rise to the level of "exceptional."<sup>70</sup> In *Gametek v. Zynga*, the court denied attorney fees despite a plaintiff's aggressive litigation strategy on a patent found invalid due to it being an unpatentable abstract idea.<sup>71</sup> And finally, in *H-W Technology, L.C. v. Overstock.com, Inc.*, the court found that a clerical error rendering the patent invalid and plaintiff's accusation of smartphone applications despite its own admission that the patent claims only applied to IP phone manufacturers did not rise to the level of "exceptional."<sup>72</sup>

#### IV. THREE HOT TOPICS SINCE *OCTANE FITNESS* AND *HIGHMARK*

##### 1. *What Discovery Should be Allowed and When?*

A common practice by both patent holders and alleged infringers is to include a request for attorney fees as part of their complaint or answer. This practice will likely only increase fol-

---

69. *Id.*

70. *Wiley v. RockTenn CP, LLC*, 2014 U.S. Dist. LEXIS 138399 (E.D. Ark. Sept. 30, 2014) (noting that the defendant never filed a motion to compel).

71. *Gametek LLC v. Zynga, Inc.*, 2014 U.S. Dist. LEXIS 122834 (N.D. Cal. Sept. 2, 2014).

72. *H-W Tech., L.C. v. Overstock.com, Inc.*, 2014 U.S. Dist. LEXIS 122667 (N.D. Tex. Aug. 15, 2014).

lowing the Supreme Court's *Octane Fitness* and *Highmark* decisions. Therefore, whether a party receives discovery to support its attorney fees request, and when it receives that discovery, will be a key question for district courts to address.

The Eastern District of Texas addressed this issue in *UltimatePointer LLC v. Nintendo*.<sup>73</sup> The alleged infringer moved to compel an answer to an interrogatory requesting the date the patent holder first learned of each accused product. The court determined that the interrogatory was relevant to the accused infringer's claim for attorney fees under § 285, and granted the motion. Thus, one option is for district courts to permit discovery in parallel with discovery over core disputes of the case, like infringement, validity, and damages. The advantage of this approach is it avoids piecemeal discovery, and presents cases for quicker disposition when a decision on the merits occurs.

A second option is to delay any discovery until there has been a determination that leads to a prevailing party. The primary benefits and rationale for this approach include the following two reasons. First, it avoids unnecessary discovery and satellite litigation until the issue is ripe for the court to decide. The reality of patent litigation is that it is both expensive and often resolved before a decision on the merits. Therefore, delaying discovery on a request for relief—not even an actual claim or defense—until the request is even potentially ripe will both reduce costs for the litigants and avoid unnecessary discovery disputes for district courts.

Second, on the issue of discovery disputes, discovery relating to § 285 requests may often implicate a party's work product and attorney-client privilege issues. For instance, a party

---

73. *UltimatePointer LLC v. Nintendo*, No. 6:11-cv-496, D.I. 350 (E.D. Tex. Dec. 3, 2013).

may seek to prove subjective bad faith or an improper motivation for pursuing a patent infringement claim or defense and therefore focus discovery on a pre-suit investigation, such was the case in *UltimatePointer*.<sup>74</sup> Alternatively, a party opposing a fee request may wish to waive privilege or work product protection to demonstrate its good faith. Delaying discovery on these issues both serves judicial economy for courts to avoid difficult questions regarding work product and attorney-client privilege, and permits parties additional time to determine whether it will rely on privileged or protected information. In fact, local patent rules across the country include a provision delaying an accused infringer's decision as to whether it will waive privilege over opinions of counsel to attempt to defeat a willful infringement claim until late in the discovery schedule to avoid unnecessary decisions on such an important issue as work product and privilege.

2. *Is a Judgment of Willful Infringement a Per Se Finding that the Case is Exceptional?*

Willful infringement has always been relevant to a determination under § 285.<sup>75</sup> But the Federal Circuit has heightened the standard of proving such a claim over the last few years,<sup>76</sup> and the Supreme Court has just now lowered the standard and

---

74. See, e.g., *UltimatePointer*, No. 6:11-cv-496, D.I. 350, at \*6-8.

75. See, e.g., *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (explaining that "material inappropriate conduct related to the matter in litigation" includes willful infringement).

76. See, e.g., *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 682 F.3d 1003, 1005-06 (Fed. Cir. 2012) (explaining that willful infringement tends not to be found if an alleged infringer had a "reasonable defense" to infringement or validity) (citing *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010)).

burden of proof for exceptional cases. As a result of these contrasting standards, the question will be whether proof of willful infringement will necessarily mean that such a case “stands out from others” for purposes of § 285.

The argument in favor of such a *per se* rule is simple. Before *Octane Fitness* and *Highmark*, the Federal Circuit determined that the standard for objective recklessness for willful infringement was *the same* as objective baselessness for § 285.<sup>77</sup> And yet, as explained above, the standard and burden of proof for § 285 has now been lowered. Therefore, if a patent holder succeeds in proving the pre-*Octane Fitness* standard for purposes of willful infringement by the clear-and-convincing evidence standard, then it must simultaneously have established that the case “stands out from others” by a “preponderance of evidence.” An accused infringer may have a similar argument with respect to inequitable conduct because the Federal Circuit requires such a high burden to succeed on that defense that one could argue a successful case necessarily meets the Court’s *Octane Fitness* standard.<sup>78</sup>

The argument against such a *per se* rule is grounded in the discretion that the Supreme Court emphasized in *Octane Fitness*. The Supreme Court specifically rejected the Federal Circuit’s previous “rigid and mechanical” test for § 285, and therefore the Court may similarly oppose another such rule that

---

77. See, e.g., *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1376 (Fed. Cir. 2011) (“The objective baselessness standard for enhanced damages and attorneys’ fees against a non-prevailing plaintiff under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorneys’ fees against an accused infringer for § 284 willful infringement actions under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).”).

78. See, e.g., *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (requiring but-for materiality or “affirmative egregious misconduct” to be proven by clear-and-convincing evidence to establish inequitable conduct).

removes any discretion from the district court. Indeed, both *Octane Fitness* and *Highmark* underscored the discretion afforded the district court “considering the totality of the circumstances.”<sup>79</sup> It may be some additional time before the issue is properly considered, however. Two judges on the Federal Circuit called for en banc review of the willful infringement standard based on the *Octane Fitness* and *Highmark* decisions,<sup>80</sup> but recently the Federal Circuit denied en banc review to decide this issue. In its dissent of this en banc denial, Judge O’Malley, joined by Judge Hughes, argued that the court’s “jurisprudence governing the award of enhanced damages under § 284 has closely mirrored our jurisprudence governing the award of attorneys’ fees under § 285.”<sup>81</sup> But “[w]e now know that the artificial and awkward construct we had established for § 285 claims is not appropriate. We should assess whether the same is true with respect to the structure we continue to employ under § 284.”<sup>82</sup>

### 3. *What Fees Can be Recovered and When?*

Given the various reasons for deciding to award attorney fees, along with the complexity of patent litigation in general,

---

79. *Octane Fitness LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014); *Highmark Inc. v. Allcare Health Management Sys. Inc.*, 134 S. Ct. 1744, 1748 (2014) (explaining that “the determination whether a case is ‘exceptional’ under § 285 is a matter of discretion”).

80. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 2013-1472, -1656, at \*1-6 (Fed. Cir. Oct. 22, 2014) (O’Malley, C.J. dissenting, joined by Hughes, C.J.) (“[A]lthough we are bound by our precedent at the panel stage, I believe it is time for the full court to reevaluate our standard for the imposition of enhanced damages in light of the Supreme Court’s recent decisions in *Highmark Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014) and *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and the terms of the governing statutory provision, 35 U.S.C. § 284 (2012).”).

81. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 2013-1472, -1656, at \*2 (Fed. Cir. March 23, 2015).

82. *Id.* at \*4.

district courts will need to determine whether to award fees in full or only those in relation to specific claims or defenses, or at specific moments in time. The Federal Circuit has issued two relevant decisions, although neither provides firm answers on this challenging topic.

The Federal Circuit recently indicated it would give deference to a district court's determination that only fees would be awarded with respect to specific issues. In *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, the district court granted the defendant's motion for summary judgment of noninfringement and awarded attorney fees based on the plaintiff's infringement position.<sup>83</sup> The Court limited the award of fees up until the defendant's motion for summary judgment of noninfringement hearing date.<sup>84</sup> The Court declined to award fees for defendant's subsequent pursuit of its invalidity claims or discovery costs.<sup>85</sup> The Federal Circuit found that the district court did not abuse its discretion in this award. The Federal Circuit also rejected the plaintiff's argument that the district court should have limited the award to the costs that the defendant incurred in responding to specific acts of litigation misconduct, finding that specific level of granularity was not needed especially since exceptionality was based on a "totality of circumstances."<sup>86</sup>

The Federal Circuit also recently explained that a patent holder was a prevailing party in a litigation involving two patents, even though the alleged infringer received a non-infringement finding on one of the two patents. The district court concluded that neither party was a prevailing party because each

---

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

84. *Id.* at \*8-10.

85. *Id.*

86. *Id.*



side prevailed on one patent.<sup>87</sup> The Federal Circuit reversed that finding in *SSL Services Inc. v. Citrix Systems Inc.*<sup>88</sup> The Federal Circuit held that “[a] party does not need to prevail on all claims to qualify as the prevailing party.”<sup>89</sup> While the court did not assess how much or whether any fees should be awarded, it suggested that the amount of attorney fees awarded may be determined based on the amount of success. For instance, citing *Farrar v. Hobby*, “[t]he Court explained that the degree of the overall success impacts only the reasonableness of the fee award. Therefore, a district court may award minimal or no fees after considering the amount of success to the prevailing party.”<sup>90</sup> The court ultimately remanded the case, so the district court could determine whether any fees should be awarded.

The Northern District of California also recently granted \$5.3 million in attorney fees but not the additional \$2.8 million success fee the defendant owed its lawyers under a contingency fee agreement. In *Kilopass Tech., Inc. v. Sidense Corp.*, the defendant won summary judgment of noninfringement and the Honorable Susan Illston declared the case exceptional.<sup>91</sup> Under the contingency fee agreement, the defendant paid its attorneys 50 percent of fees for hours billed throughout the suit, while the remaining 50 percent became subject to a multiplier (0 to 2.5) based on the outcome.<sup>92</sup> The traditional standard governing at-

---

87. *SSL Servs., LLC v. Citrix Sys.*, 2012 U.S. Dist. LEXIS 132364, at \*21-23 (E.D. Tex. Sept. 17, 2012).

88. *SSL Servs., LLC v. Citrix Sys.*, 2014 U.S. App. LEXIS 19672 (Fed. Cir. Oct. 14, 2014).

89. *Id.* at 25.

90. *Id.* at 26 (citing *Farrar v. Hobby*, 506 U.S. 103, 111-16 (1992)).

91. *Kilopass Tech., Inc. v. Sidense Corp.*, 2015 U.S. Dist. LEXIS 30650 (N.D. Cal. March 11, 2015).

92. *Id.* at \*16.

torney fees allows for fees that reflect “the number of hours reasonably expended on the litigation multiplied by a reasonable hourly rate.”<sup>93</sup> Judge Illston found that the rates billed were reasonable but that the plaintiff did not owe any success fee beyond the originally billed amount.<sup>94</sup>

These three decisions suggest that an award of attorney fees, and specifically how much, will be a case-by-case determination and frequently litigated. In other words, it is far from automatic that just because a party prevails in a patent case and receives an award of fees that it will receive *all* of its fees. As a result, district courts can likely expect parties to debate—when there is an exceptional case determination—which fees should be awarded for which claims or defenses.

#### CONCLUSION

The patent law continues to be as dynamic and fast-changing as the technology underlying the cases. The latest change from the Supreme Court on attorney fee awards will have a significant impact on patent litigation, although its full effect is yet to be known. The metes-and-bounds of which cases “stand[] out from others” will be drawn over time by district courts which may deter litigants in the future from pursuing or defending exceptional patent litigation. At least until these lines are drawn, parties will vigorously litigate requests for attorney fees in almost every case with a prevailing party.

---

93. *Id.* at \*18.

94. *Id.* at \*41-42.