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Octane Fitness and *Highmark* Decisions Turn Three

Both courts and litigants are only now appreciating the full impact of the Supreme Court's 2014 decisions on fee shifting in patent cases.

Key Points:

- Successful Section 285 motions have increased substantially in the last three years.
- Litigants should understand both the defensive and offensive implications of recent changes to the law on Section 285.

Introduction

Three years ago, the Supreme Court significantly changed the criteria for determining when district courts adjudicating patent cases may award attorney fees to the prevailing party under 35 U.S.C. § 285. In *Octane Fitness, LLC v. ICON Health & Fitness*, the Court held that a district court can deem a case to be "exceptional" — and thus eligible for fee-shifting — if it is "one that stands out from others with respect to the substantive strength of a party's litigating position … or the unreasonable manner in which the case was litigated."[1] In *Highmark Inc. v. Allcare Health Management System, Inc.*, the Court held that on appeal, a district court's decision to shift fees under Section 285 is subject to a deferential, abuse-of-discretion standard of review.[2]

Three years later, the full impact of *Octane Fitness* and *Highmark* is only now being fully appreciated. Plaintiffs are increasingly filing Section 285 motions and courts are granting them at much higher rates than before. District courts differ significantly in how they apply the flexible *Octane Fitness* test to conduct that, in the past, was unlikely to trigger an exceptional case finding. A successful motion can often lead to a substantial fee award, as the costs of patent litigation are typically in the millions of dollars.[3] But farsighted litigants can better navigate this uncertainty by taking early steps to ensure they are well positioned to prevail in an eventual dispute over attorney fees.

A Brief History of Section 285

Section 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." In *Octane Fitness* and *Highmark*, the Supreme Court abandoned the "overly rigid" approach previously developed by the Federal Circuit in favor of a more "flexible" test that gives the district court greater discretion to shift fees.[4]

The *Brooks Furniture* Test

Before 2014, obtaining an exceptional case finding under Section 285 was a daunting task. In its 2005 decision in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, the Federal Circuit held that there were only two scenarios in which a finding of exceptionality would have been appropriate.[5] First, the court found that a case "may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as 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."[6] Second, absent an explicit marker for "exceptionality" such as willfulness, a case was only "exceptional" if the non-prevailing party's actions were *both* "objectively baseless" *and* carried out in "subjective bad faith."[7]

The Federal Circuit's pre-*Octane Fitness* case law also imposed significant procedural hurdles to obtaining a fee award. *Brooks Furniture* required prevailing parties to prove exceptionality by clear and convincing evidence, rather than by the preponderance of the evidence standard that governs most factual questions in patent law.[8] In later decisions, the Federal Circuit further held that it retained authority to review de novo the question of whether litigation conduct was objectively reasonable, even though attorney fee determinations were otherwise generally left to the discretion of the district court.[9] These rules caused difficulties for litigants trying to prove exceptionality and greatly limited the authority of district courts.

Octane Fitness and *Highmark*

In its 2014 *Octane Fitness* decision, the Supreme Court did away with the highly rigid and formulistic test for awarding attorney fees which the Federal Circuit had imposed and replaced it with a more flexible approach. The new standard that the Supreme Court articulated simply states that an "exceptional" case for purposes of Section 285 is one that "stands out from others" in light of "the substantive strength of a party's litigation position … or the unreasonable manner in which the case was litigated."[10] In the current absence of bright-line rules for making these determinations, the Supreme Court has instructed courts to consider the totality of the circumstances, including frivolousness, motivation, objective unreasonableness, compensation to the prevailing party, and deterrence of similar conduct in the future.[11] The Court thereby conferred discretion on district courts to award fees in situations where the lower courts could not do so before, such as when a "party's unreasonable conduct [is] not necessarily independently sanctionable" or if a party pressed "exceptionally meritless claims" (even in the absence of bad faith). But while the Court lessened the threshold for awarding fees, it also cautioned that an award of fees is still atypical — a party cannot obtain fees simply by being the prevailing party.[12]

On the same day as *Octane Fitness*, the Supreme Court also issued its decision in *Highmark*. That case involved the standard of appellate review of a district court's decision to find a case exceptional and to award fees. As in *Octane Fitness,* the Court also rejected the Federal Circuit's framework that allowed the circuit court to review fee awards de novo. Instead, the Supreme Court found that all aspects of an exceptional finding are committed to the discretion of the district court, and thus are to be reviewed for an abuse of discretion.[13] The Court's ruling in *Highmark* — particularly when combined with the parallel decision in *Octane Fitness* — provides greater latitude and discretion to the district courts and increases the likelihood that such determinations will be upheld on appeal.

Lessons From Three Years of *Octane Fitness* and *Highmark*

Octane Fitness and *Highmark* Increased the Likelihood of Section 285 Fee Awards

By weakening the criteria for exceptionality and lowering the burden of proof on prevailing parties, the Supreme Court's ruling in *Octane Fitness* increased the likelihood that district court judges will deem a case exceptional. According to a study presented at the Berkeley-Stanford Advanced Patent Law Institute in December 2016, about one in three exceptional case motions were granted in whole or in part in the 20 months after *Octane Fitness* and *Highmark* were decided, as compared to one in five over the same period of time immediately prior to the decisions.[14] But this significant increase understates the scale of the impact because the number of Section 285 motions filed and decided by district courts has nearly doubled in the relevant period.[15] Thus, there has been a marked increase in successful Section 285 motions even though litigants are seeking fees more often and targeting a broader spectrum of conduct.

At the same time, creating a totality-of-the-circumstances test for assessing exceptionality in *Octane Fitness* and eliminating de novo review in *Highmark* has resulted in significant disparities in how various jurisdictions treat such motions. For instance, the Eastern District of Texas grants full or partial relief on motions for an exceptional case finding only 15% of the time, while in jurisdictions such as the Northern District of California, the grant rate is closer to 40%.[16] Applying *Highmark*, the Federal Circuit has generally deferred to these rulings thus far. In its precedential and non-precedential decisions on Section 285 motions since *Octane Fitness* and *Highmark*, the Federal Circuit has reversed a district court's order on an exceptional case motion only once, and it has remanded fee rulings for further consideration by the district court just four times. Taken together, the combination of a flexible legal test with relatively limited appellate review has resulted in increased risk and uncertainty for litigants.

Different District Courts Are Taking Different Approaches to the Individual Factors Bearing on Whether a Fee Award Is Appropriate

Octane Fitness did not completely set aside the factors district courts consider when assessing exceptionality under the *Brooks Furniture* test. But the courts' treatment of those factors has changed considerably. The significance of those changes can be seen by examining the most common factors that courts consider when adjudicating fee motions.

"The Strength of a Party's Litigating Position"

In the aftermath of *Octane Fitness*, district courts remain uncertain about the proper weight to afford unsuccessful merits arguments. For instance, in the pre-*Octane Fitness* world, the threshold for a proposed claim construction that rendered a case "exceptional" was extremely high. In a leading case, *iLOR, LLC v. Google, Inc.*, the Federal Circuit held that the relevant inquiry on objective reasonableness for claim construction was whether the "broader claim construction was so unreasonable that no reasonable litigant could believe it would succeed."[17]

Post-*Octane Fitness*, the dividing line between claim constructions that are within the norms of patent litigation and those that are not is less crisp. Some courts continue to be tolerant when litigants misstate the law on claim construction or put forward substantively weak proposals, pointing to the Federal Circuit's high reversal rates on claim construction generally.[18] Other courts are quicker to conclude that a losing or weak claim construction is exceptional, even if the proposed construction attempts to be faithful to the law and is supported by expert testimony.[19] Given the range of views among district courts and the Federal Circuit's deferential approach, litigants must now proceed more cautiously to avoid their proposed construction becoming the subject of an exceptional case motion.

"The Unreasonable Manner in Which the Case Was Litigated"

In the wake of *Octane Fitness*, district courts have become increasingly suspect of abusive litigation, including the repeat filings of patent infringement cases for the sole purpose of obtaining settlements.[20] While courts have been historically hesitant to question the motives of a plaintiff, prevailing parties are now using Section 285 to frame concerns that some litigants (especially non-practicing entities) are taking advantage of the high cost of defending against patent infringement claims to extract small payouts. That argument has persuaded some district courts, including the Eastern District of Texas, to award fees under Section 285. For example, in *eDekka LLC v. 3Balls.com, Inc.*, the court recently awarded fees against a plaintiff who had filed more than 200 cases that raised strikingly similar claims.[21] The plaintiff in that case had a pattern of agreeing to early settlements for amounts significantly below the cost of defense before a determination on the merits, including offers from plaintiff's counsel of a four-figure settlement to the remaining defendants before a dispositive hearing.[22] The court found this conduct exceptional because the plaintiff was exploiting the high cost of defending patent litigation purely to extract nuisance value settlements.[23] Such rulings are likely to encourage parties subjected to serial litigation to seek resolution of cases on the merits and pursue a Section 285 motion as a potential alternative to a quick settlement.

Additionally, district courts have become increasingly critical of hard-nosed litigation tactics. Courts recognize an attorney's duty to zealously advocate for his client, but they are now more willing to use an award of attorney fees to punish conduct that might not otherwise be sufficiently objectionable to trigger sanctions under Rule 11 or the court's inherent authority. Such behavior might include: taking contradictory positions on key issues during the case; requesting overly broad and unduly burdensome discovery that is ultimately never relied upon; imposing unreasonable deposition schedules over holiday weekends; and attempting to re-litigate issues that have already been decided.[24]

Notably, the Federal Circuit has interpreted the liberal totality-of-the-circumstances standard as allowing district courts to consider the conduct of the party seeking fees in deciding whether to make an award.[25] Thus, both parties to the case should be mindful of their own conduct and remain aware that their own behavior throughout the litigation could help or hurt their chances in a later dispute over fees.

Navigating Section 285 Motions Today

The threat of attorney fees now potentially implicates a far broader swath of patent litigation than before. For some this may be a cause for concern — but it is also a source of opportunity. Litigants can take proactive steps throughout litigation, both to ward off the threat of a Section 285 motion in the event of an adverse outcome, and to position themselves for bringing an effective motion if litigation is resolved favorably.

Perhaps the most obvious consequence of *Octane Fitness* and *Highmark* is that potential litigants must be especially careful in bringing borderline patent infringement cases, raising marginal defenses in those cases, and taking an overly aggressive approach to pre-trial discovery and other proceedings. Under the more liberal *Octane Fitness* standard, Section 285 is a powerful tool for district courts to wield against unreasonable behavior in litigation. Under *Highmark*'s abuse-of-discretion standard of review, most fee awards are likely to be affirmed on appeal.

Litigants must also recognize that exceptionality evolves over the course of litigation. Even if a defense, claim, or tactic could be justified initially, it can later become the basis for an exceptional case finding as a result of further factual development or intervening changes in the law. Courts have the authority to make narrow findings of exceptionality that focus on a subset of the issues raised in the case, or on a point in time after which it was unreasonable to assert a particular claim or defense.[26] Therefore litigants should be sure to assess the strength of litigating positions not only at the outset of the case, but also after

important developments — for example, a claim construction order, an important fact or expert deposition, or a definitive ruling from the Federal Circuit on a contested legal issue.

This continuous assessment can serve an offensive purpose, as well. Litigants who believe they may have a basis for an exceptional case motion should take proactive steps to build a record supporting a finding of exceptionality in the event judgment is rendered in their favor. These efforts could include preparing a letter or similar form of notice for opposing counsel that identifies issues that could form the basis of an exceptional case finding and sets forth the basis for that belief prior to filing a dispositive motion on the issue. Although formal notice is not required under Section 285, unlike with other forms of sanctions, the letter can serve as evidence of a party's subjective bad faith in litigating a meritless issue, particularly if the district court's reasoning closely tracks the arguments set forth in the letter. Such evidence may prove critical when the district court eventually decides whether, under the totality of the circumstances, a litigant's conduct is worthy of an exceptional case finding and a potential award of attorney fees.

Finally, litigants considering whether to appeal a district court's determination under Section 285 to the Federal Circuit should be cognizant of the deferential, abuse-of-discretion standard of review. That standard will generate difficulties for litigants challenging a district court's case-specific analysis of the totality of the circumstances. In general, appellants should seek to highlight legal errors that potentially infected the district court's determination of whether to award fees.[27]

Conclusion

In the three years after the Supreme Court's rulings in *Octane Fitness* and *Highmark*, Section 285 fee motions have become an even more important component of mainstream patent litigation. Once reserved only for flagrant cases of misconduct, courts are now able and willing to award fees in a wider range of circumstances, based on their own assessment of the parties' conduct throughout the litigation. This shift should be a cause for vigilance and caution throughout litigation. But the change also represents an opportunity for litigants to capitalize on the pliability of the *Octane Fitness* standard by laying the groundwork for an exceptional case motion as early as possible.

Latham & Watkins has won significant fee awards under Section 285 in *Vehicle Interface Techs., LLC v. Jaguar Land Rover N. Am., LLC*, No. 1:12-cv-01285, 2015 U.S. Dist. LEXIS 171964 (D. Del. Dec. 28, 2015), and *Lugus IP, LLC v. Volvo Car Corp.*, No. 12-2906, 2015 WL 1399175 (D.N.J. Mar. 26, 2015). Noted above, Latham partner Roman Martinez argued *Octane Fitness* in the Supreme Court for the United States government as amicus curiae while serving as an Assistant to the Solicitor General, and he was the lead drafter of the government's brief in *Highmark*.

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Endnotes

[1] 134 S. Ct. 1749, 1756 (2014).

[2] 134 S. Ct. 1744, 1747 (2014).

[3] American Intellectual Property Law Association, *2015 Report of the Economic Survey*, at 37-41 (2015).

[4] *Octane Fitness*, 134 S. Ct. at 1756.

[5] 393 F.3d 1378 (Fed. Cir. 2005).

[6] *Id.* at 1381.

[7] *Id.*

[8] *Id.* at 1382.

[9] *See Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012).

[10] *Octane Fitness*, 134 S. Ct. at 1756.

[11] *Id.* at 1756 n.6.

[12] *See id.* at 1756.

[13] *Highmark*, 134 S. Ct. at 1748.

[14] *See* Rich Hung, "For Services Rendered: Seeking Fees For Exceptionality," 17th Annual Berkley-Stanford Advanced Patent Law Institute, December 9, 2016, *available at* https://www.law.berkeley.edu/wp-content/uploads/2016/09/Attorneys-Fees.pdf; *see also* Ryan Davis, *Fee Awards Loom Large in Patent Law 3 Years After* Octane, IP Law360, Apr. 27, 2017, *available at* https://www.law360.com/articles/915516/fee-awards-loom-large-in-patent-law-3-years-after-octane; Scott Graham, *New Rules Mean It's Payback Time in Patent Cases*, The Recorder, April 30, 2016.

[15] *See* Hung*, supra* n.14.

[16] *Id.*

[17] 631 F.3d 1372, 1378 (Fed. Cir. 2011).

[18] *Site Update Solultions, LLC v. Accor N.A., Inc.*, No. 5:11-cv-3306-PSG, 2015 WL 581175, at *4-12 (N.D. Cal. Feb. 11, 2015).

[19] *Vehicle Interface Techs., LLC v. Jaguar Land Rover N. Am., LLC*, No. 1:12-cv-01285, 2015 WL 9462063, at *4-5 (D. Del. Dec. 28, 2015).

[20] *SFA Sys., LLC v. Newegg Inc.,* 793 F.3d 1344, 1349-50 (Fed. Cir. 2016).

[21] No. 2:15-cv-541, 2015 WL 9225038 (E.D. Tex. Dec. 17, 2015).

[22] *Id.* at *4-5.

[23] *Id.*

[24] *Georgetown Rail Equip. Co. v. Holland L.P.*, No. 6:13-cv-366, 2016 WL 3346084, at *21-24 (E.D. Tex. June 16, 2016); *Cambrian Sci. Corp. v. Cox Commc'ns, Inc.*, 79 F. Supp. 3d 1111, 1117-20 (C.D. Cal. 2015); *Cognex Corp. v. Microscan Sys., Inc.*, No. 13-cv-2027, 2014 WL 2989975, at *4 (S.D.N.Y. June 30, 2014).

[25] *Gaymar Indus., Inc. v. Cincinnati SubZero Prods., Inc.*, 790 F.3d 1369, 1373 (Fed. Cir. 2015).

[26] *See, e.g. Source Search Techs., LLC v. Kayak Software Corp.*, No. 11-3388(NLH/KMW), 2016 WL 1259961, at *7 (D.N.J. Mar. 31, 2016) (case deemed exceptional from point in time at which defendants filed a motion for summary judgment in the wake of the recently issued *Alice* decision).

[27] *Highmark*, 134 S. Ct. at 1748 n.2.