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The Changing Landscape of Patent Litigation: Fee Awards and Exceptional Case Status

Date: June 17, 2014

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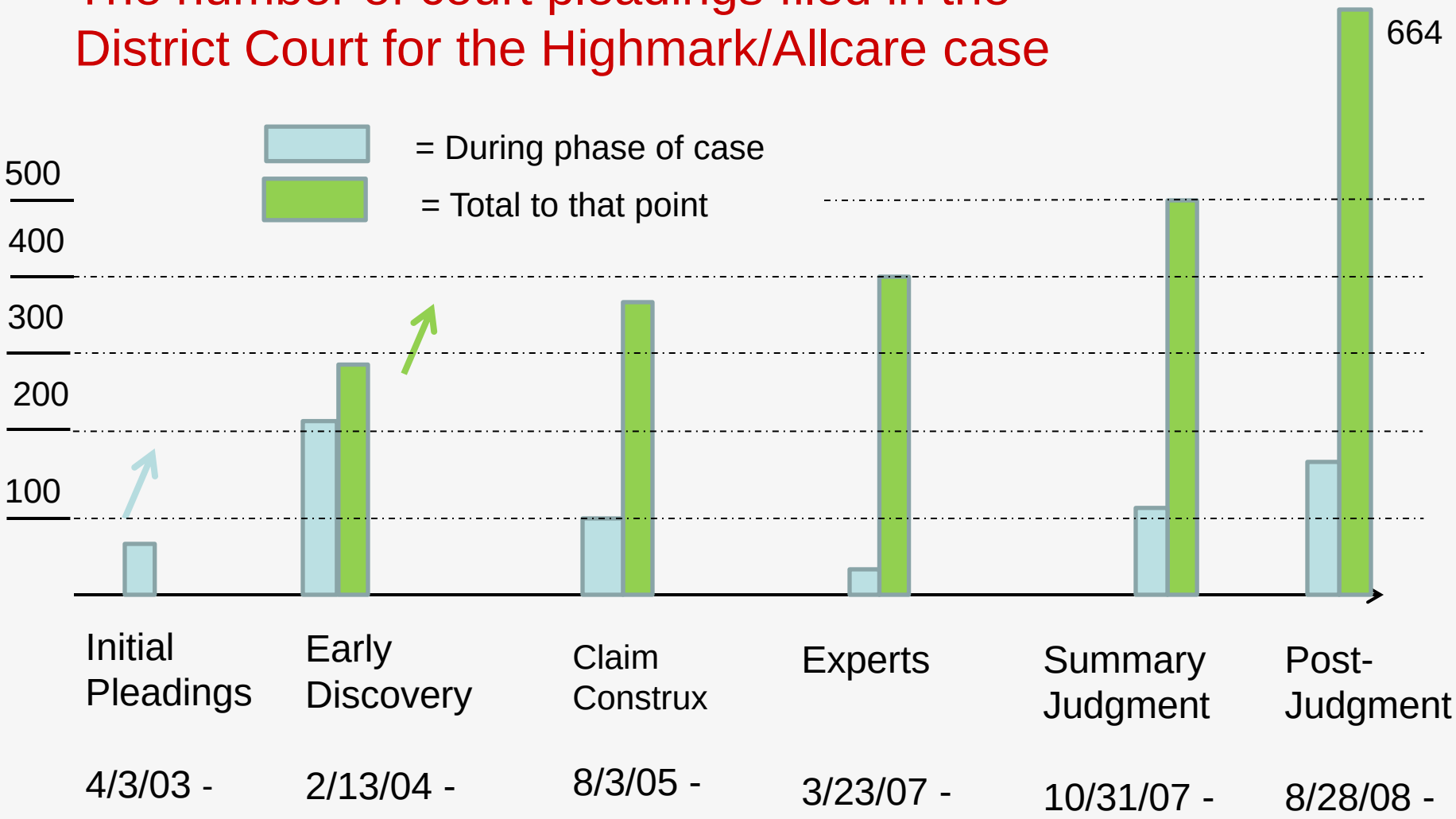
The number of court pleadings filed in the District Court for the Highmark/Allcare case



Profile of Allcare Health Managements Systems, Inc.

- No contribution to development of invention
- Sold no products or services
- Used industry terminology in company name (in this case, the title of the patent)
- Sued over 2 dozen parties
- According to Highmark's brief, settled 100% of cases to that point all at a fraction of defense cost (N.D. Tex., 4:03-cv-01384, Doc. 515, October 28, 2008, p. 4)

- From Brief of Pet. (Octane), p. 4. "Asserting unreasonably weak patent claims and using the cost of litigation as a weapon of coercion is what all abusive patent cases have in common."
- Reading the tea leaves: zero interest to discuss merits of position will usually indicate coercive tactics aimed at leveraging settlement.

BACKGROUND LAW – EXCEPTIONAL CASE STATUS

- American Rule: Each litigant pays its own lawyer

BUT

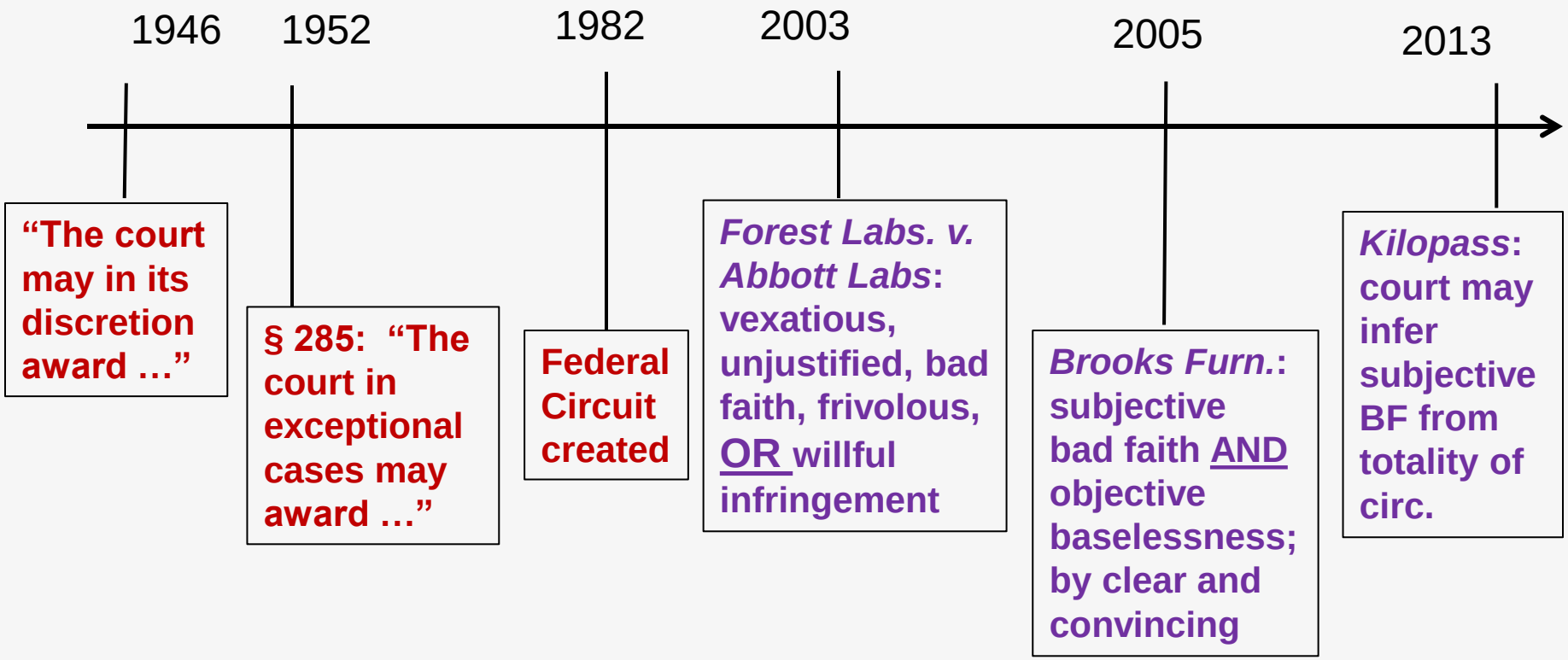
- 35 U.S.C. § 70 (1946): The "court may **in its discretion** award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case."

LATER AMENDED

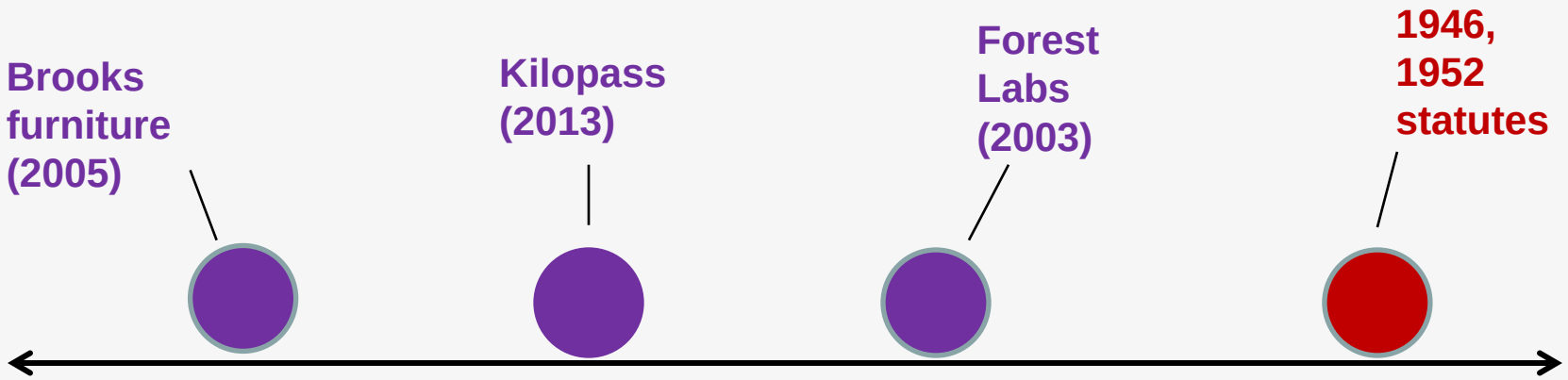
- 35 U.S.C. § 285 (1952): The "court **in exceptional cases** may award reasonable attorney fees to the prevailing party."

Timeline related to Exceptional

Legend: **Congress action**
Fed. Cir. case



Representative sampling of pre-2014 authorities



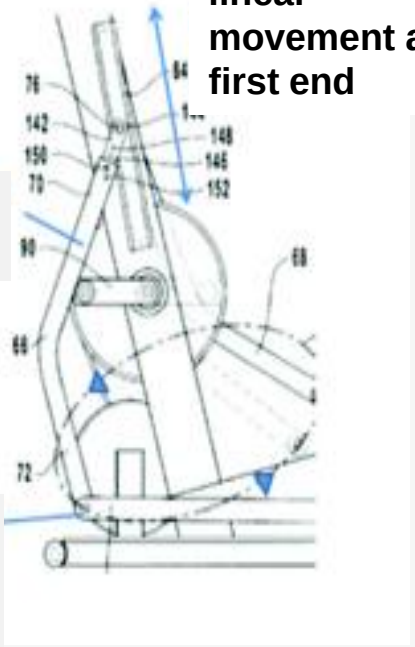
Most restrictive of district court discretion to award

Least restrictive

The comparison in Octane

linear movement at first end

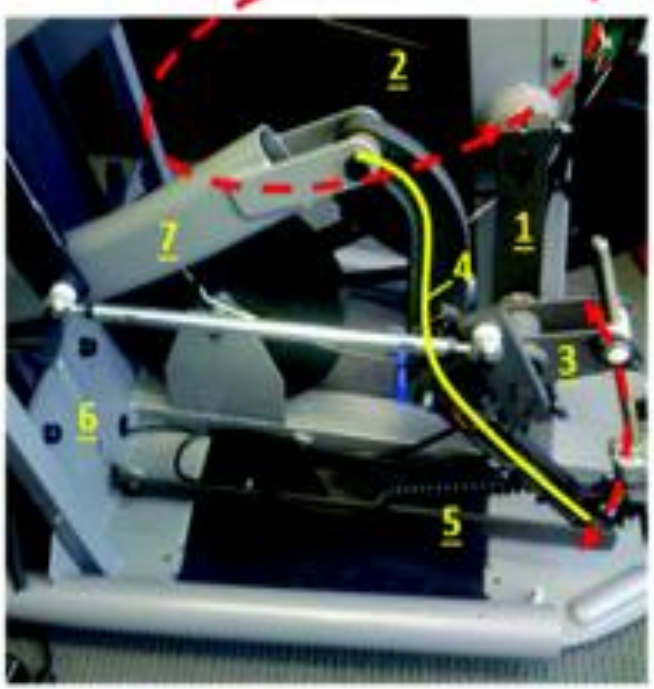
stroke rail



Elliptical movement at 2nd end

Icon's '710 patent.

VS.

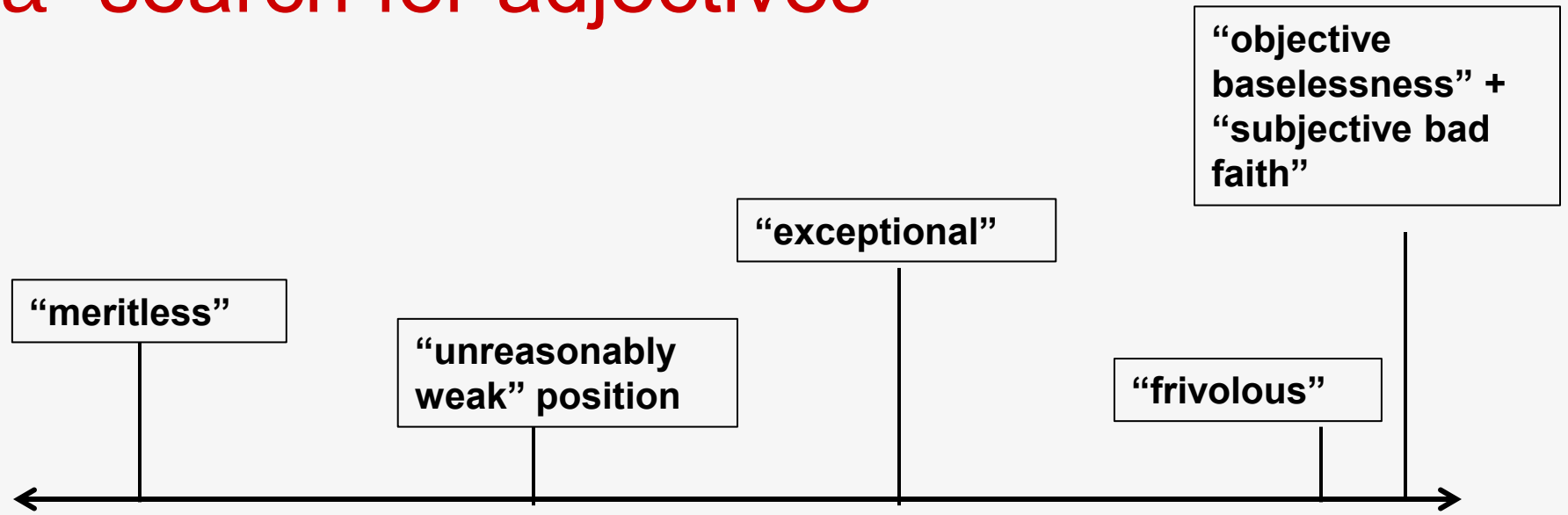


Octane's accused product. No linear movement at either end.

The Octane and Highmark cases – history leading up to S.Ct.

	OCTANE	HIGHMARK
DISTRICT COURT	• Competitor vs. competitor (i.e., not a troll case) • SJ of non-infringement • Motion for fees denied • Deft spent $1.8 M in fees	• SJ of non-infringement • Motion for fees granted, finding "objective baselessness" • >$5M in fees and expenses defending
FEDERAL CIR.	• SJ affirmed • Denial of fees affirmed	• SJ affirmed • Reviewing exceptional finding *de novo*, fee award affirmed for one claim and vacated for another • Denied motion for rehearing *en banc* (6-5)
Question presented to S. Ct. (paraphrase)	What standard should a district court apply in determining whether a case is "exceptional?"	Is a district court's exceptional case finding entitled to deference?

The oral argument in Octane: a "search for adjectives"



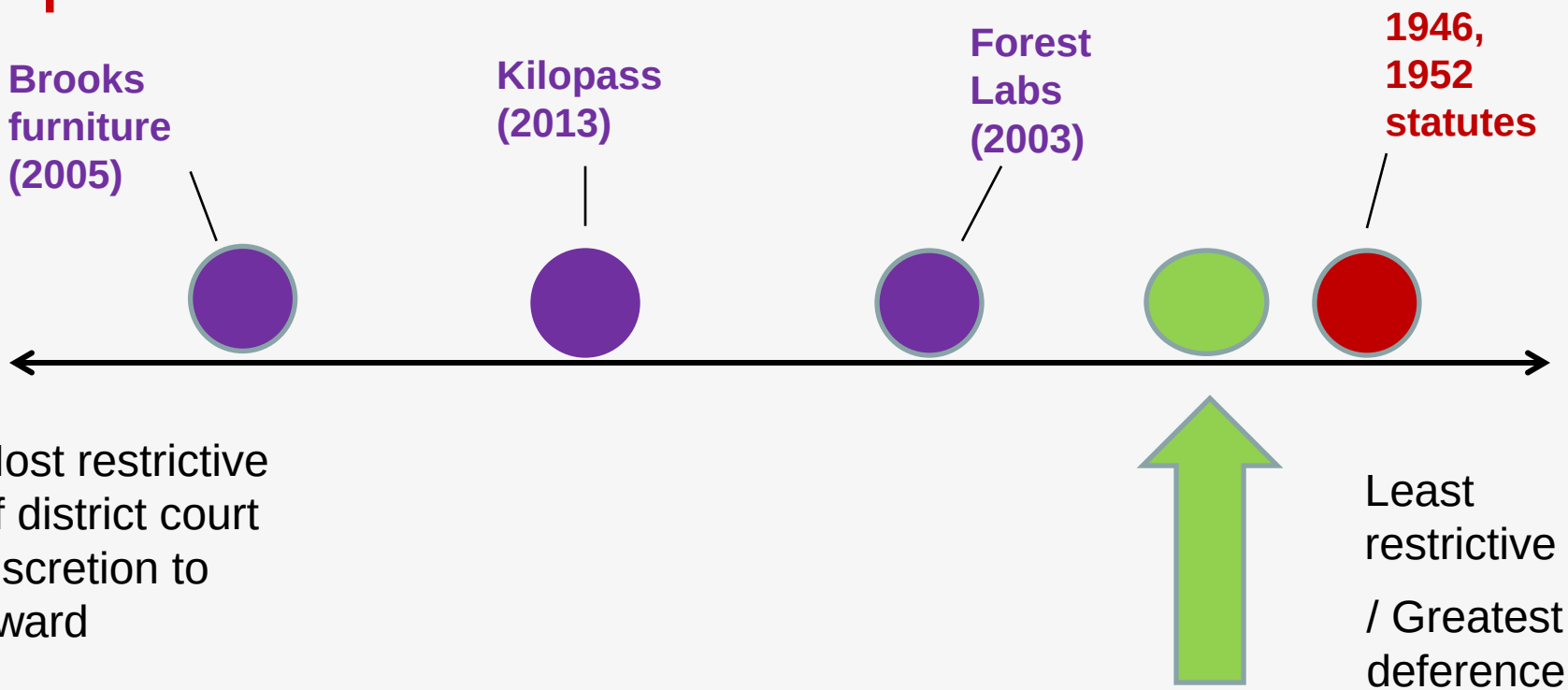
Easier to make an award of fees

More difficult to make award

Key holdings of the Octane and Highmark cases (both unanimous)

	OCTANE	HIGHMARK
How is decision made	"Exceptional" is given its ordinary dictionary meaning (1952): "uncommon," "rare," not ordinary." *Octane*, 134 S.Ct. at 1756.	
Non-exclusive list of factors	Fn 6: frivolousness, motivation, objective unreasonableness, deterrent effect	
Evidentiary Std	Preponderance of evidence. *Octane*, 134 S.Ct. at 1758.	
Std of review on appeal		Abuse of discretion. *Highmark*, 134 S.Ct. at 1749.

Octane and HighMark cases on the spectrum



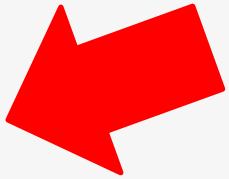
Most restrictive of district court discretion to award

Least restrictive

/ Greatest deference to District Judge

3 different times where conduct could lead to exceptional finding:

1. At the USPTO: Inequitable Conduct
2. During the Pre-Assertion Phase: Inadequate Investigation
3. In Court: Litigation Misconduct



“Exceptional” Case Issues Are Not Limited to Any One Type of Party

Whether:

- Plaintiff or Defendant,
- The patent holder (asserter) or the accused,
- One who makes, uses, and sells or a non-practicing entity,

Exceptional case status and fee shifting can be applied against any party based on conduct and positions.

Addressing Patent Assertion Entity (PAE) issues

- Do not ignore a demand letter.
- Evaluate cost of defense.
- Determine whether litigation is threatened; consider declaratory judgment action if appropriate.
- Apply pressure correctly.
- Strength in numbers / contact trade association.
- Review contracts with suppliers or other third parties for possible indemnity obligations.
- Check insurance status; put any insurers on notice who may potentially owe a duty to cover or defend.
- Balance costs/benefits/risks, and remain flexible.

Quotable – from the oral argument in Octane v. ICON, Feb. 26, 2014:

- "Say I'm a district judge someplace and I rarely get a patent case. How am I supposed to determine whether the case is exceptional if the standard is to take everything into account, litigation misconduct, the strength of the case, any indication of bad faith, and decide whether it's exceptional? Exceptional compared to what?" Justice Alito question to counsel for Pet., pp. 11-12.

- "[T]he district judge had to figure this [non-infringement] out with all the experts. After he goes through all the underbrush, he finds there's nothing there. And it's hard to say that that's objectively baseless to a district judge who's spent weeks studying this thing. But at the end of the day, suppose he finds there's nothing there?" Justice Kennedy question to counsel for Resp., p. 35.

Case citations

Forest Laboratories v. Abbott Laboratories, 339 F.3d 1324 (Fed. Cir. 2003).

Brooks Furniture Manufacturing, Inc. v. Dutalier International, Inc., 393 F.3d 1378 (Fed. Cir. 2005).

Kilopass Technology, Inc. v. Sidense Corp., 738 F.3d 1302 (Fed. Circ. 2013).

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

Highmark, Inc. v. Allcare Health Management Systems, Inc., 134 S.Ct. 1744 (2014).