

Obtaining Fees, Sanctions, and Enhanced Damages post *Octane Fitness*

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Sanctions and Fees in Patent Litigation

- Sanctions and Fees in Patent Litigation
 - Rule 11
 - 28 U.S.C. § 1927
 - Inherent Authority of the Court
 - Enhanced Damages & Willful Infringement § 284
 - Attorney's Fees § 285
- Effect of *Octane Fitness* on § 285
 - Pre-*Octane Fitness*
 - *Octane Fitness*
 - Post-*Octane Fitness*
- Legislative Efforts

Rule 11

Rule 11

1. Prohibits a “pleading, written motion, or other paper ... presented for any improper purpose”
2. “legal contentions [must be] warranted by existing law or by a nonfrivolous argument for extending ... existing law”
3. “factual contentions [must] have evidentiary support”
4. “denials of factual contentions [must be] warranted”

Rule 11

Sanctions

The sanction may include nonmonetary directives; an order to pay a penalty into court; or ... to the movant ... of the reasonable attorney's fees and other expenses directly resulting from the violation.

Rule 11

Safe Harbor

“The [Rule 11] motion ... must not be filed or be presented to the court if the challenged paper, claim, defense, contention, or denial is withdrawn or appropriately corrected within 21 days after service”

Inherent Authority of the Court

Inherent Authority of the Court

“We have long recognized a common-law exception to the general ‘American rule’ against feeshifting—an exception, ‘inherent in the ‘power [of] the courts’ that applies for ‘willful disobedience of a court order’ or ‘when the losing party has ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons ...’”

Octane Fitness, LLC v. ICON Health & Fitness, Inc., Case No. 12–1184 (Supr. Ct. Apr. 29, 2014) (quoting *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U. S. 240, 258–259 (1975))

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Inherent Authority of the Court

“the alleged sanctionable conduct ... attempted to deprive this Court of jurisdiction by acts of fraud ... performed outside the confines of this Court ... and [] attempted, by other tactics of delay, oppression, harassment and massive expense to reduce plaintiff to exhausted compliance.”

Inherent Authority of the Court

“the conduct ... could not be reached by Rule 11, which governs only papers filed with a court.”

Chambers v. Nasco, Inc., 501 U.S. 32, 41 (1991)

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28 U.S.C. § 1927

28 U.S.C. § 1927

“Any attorney ... who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys’ fees reasonably incurred because of such conduct.”

28 U.S.C. § 1927

“The key term in the statute is ‘vexatiously’; carelessly, negligently, or unreasonably multiplying the proceedings is not enough. ... [A] finding that the attorney recklessly or intentionally misled the court is sufficient to impose sanctions under § 1927 and a finding that the attorneys recklessly raised a frivolous argument which resulted in the multiplication of the proceedings is also sufficient[.]”

35 U.S.C. § 284
Enhanced Damages
&
Willful Infringement

35 U.S.C. § 284

“the court may increase the damages up to three times the amount found or assessed”

Beatrice Foods Co. v. New England Printing & Lithographing Co.

“enhanced damages
requires a showing of
willful infringement”

Willfulness

Two Prong Test

1

“acted despite an objectively high likelihood that its actions constituted infringement of a valid patent”

In re Seagate Technology LLC,
497 F.3d 1360 (Fed. Cir. 2007) (en banc)

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Willfulness

Two Prong Test

2

“this objectively defined risk ... was either known or ... should have been known to the accused infringer.”

In re Seagate Technology LLC,
497 F.3d 1360 (Fed. Cir. 2007) (en banc)

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Willfulness

1. “deliberately copied”
2. “formed a good-faith belief that it was invalid or that it was not infringed”;
3. “behavior as a party to the litigation”;
4. “Defendant’s size and financial condition”;
5. “Closeness of the case”;
6. “Duration of defendant’s misconduct”;
7. “Remedial action by the defendant”;
8. “Defendant’s motivation for harm”;
9. “Whether defendant attempted to conceal its misconduct”.

Read Corp. v. Portec, Inc., 970 F.2d 816 (Fed. Cir. 1992)

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35 U.S.C. § 285

Shifting of
Attorneys' Fees

35 U.S.C. § 285

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

Effect of *Octane Fitness* on § 285:

Pre-Octane Fitness

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

U.S. Patent

Dec. 28, 1999

Sheet 1 of 2

Des. 417,983

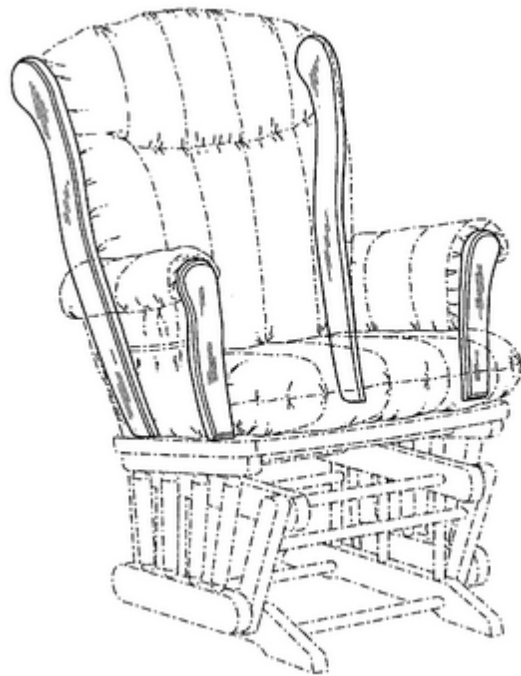


FIG. 1

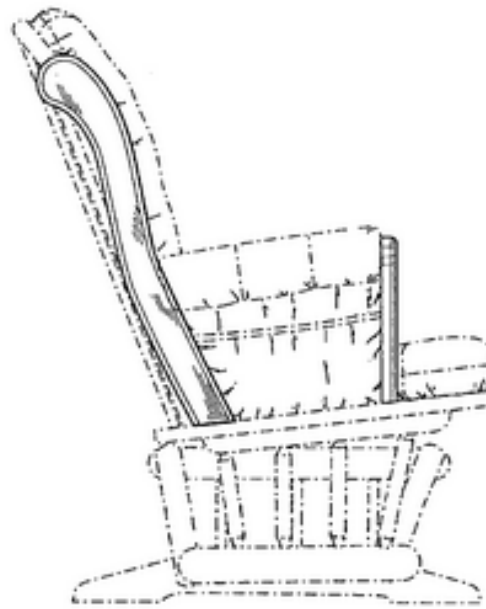


FIG. 2

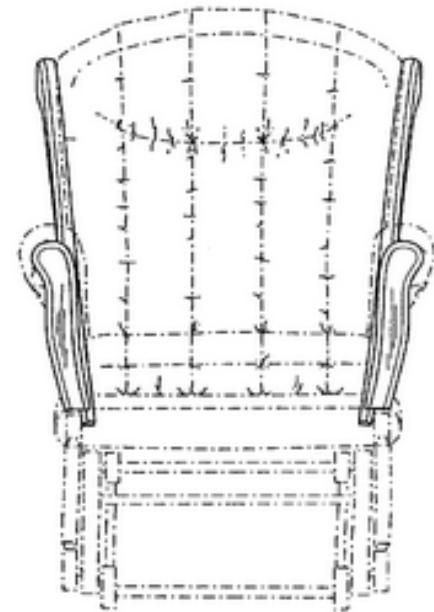
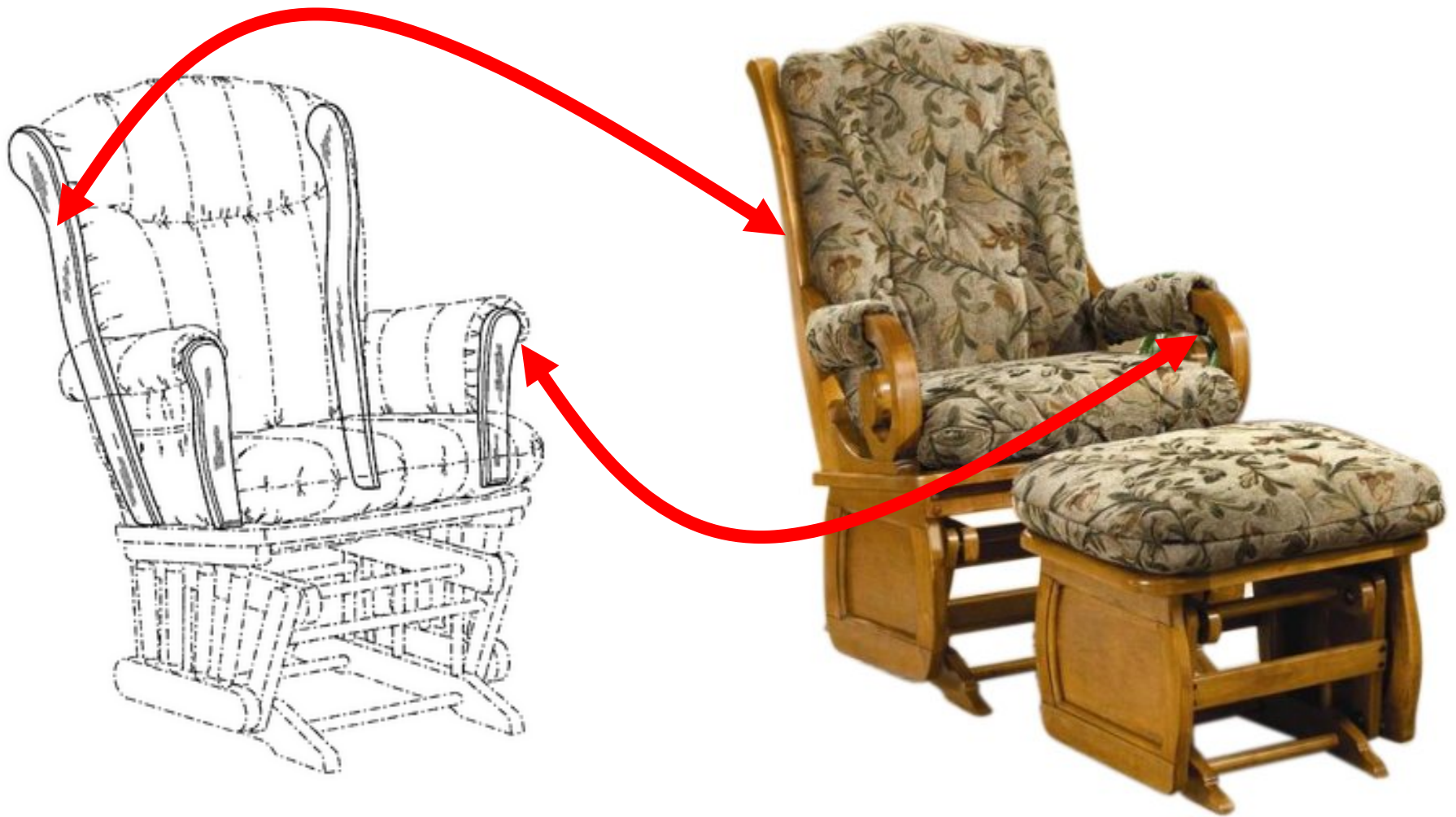


FIG. 3

U.S. Des. Pat. 417,983

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Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.



Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

District Court: Granting SJ of Noninfringement

“The limitation which requires the gentle ‘s’ curve to be parallel to the ‘s’ curve of the forward edge is not met. And, the limitation which requires that there be only a slight widening of the planar face is not met.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

District Court: Granting Atty's Fees Despite Op. of Counsel

“despite all of [the attorney’s] thoroughness in his infringement review . . . , [he] has failed to address several of the most important aspects of this infringement action which, therefore, requires the court to find that his opinion of infringement is, in fact, unreasonable.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Burden of Proof

“There is a presumption that the assertion of infringement of a duly granted patent is made in good faith.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Burden of Proof

“Thus, the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Two-Part Standard for “Exceptional” Cases

“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.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Two-Part Standard for “Exceptional” Cases

“Absent misconduct . . . sanctions may be imposed against the patentee only if both

(1) the litigation is brought in subjective bad faith, and

(2) the litigation is objectively baseless.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Reversed Award of Atty's Fees

“The fact that an infringement opinion may not have mentioned every detail of the patented or the accused design does not necessarily render the opinion wrong or unreliable.”

Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.

Federal Circuit: Reversed Award of Atty's Fees

“opinion ... by an attorney in the same firm that conducted the litigation”

“Dutailier ... disinterested in granting Brooks a license”

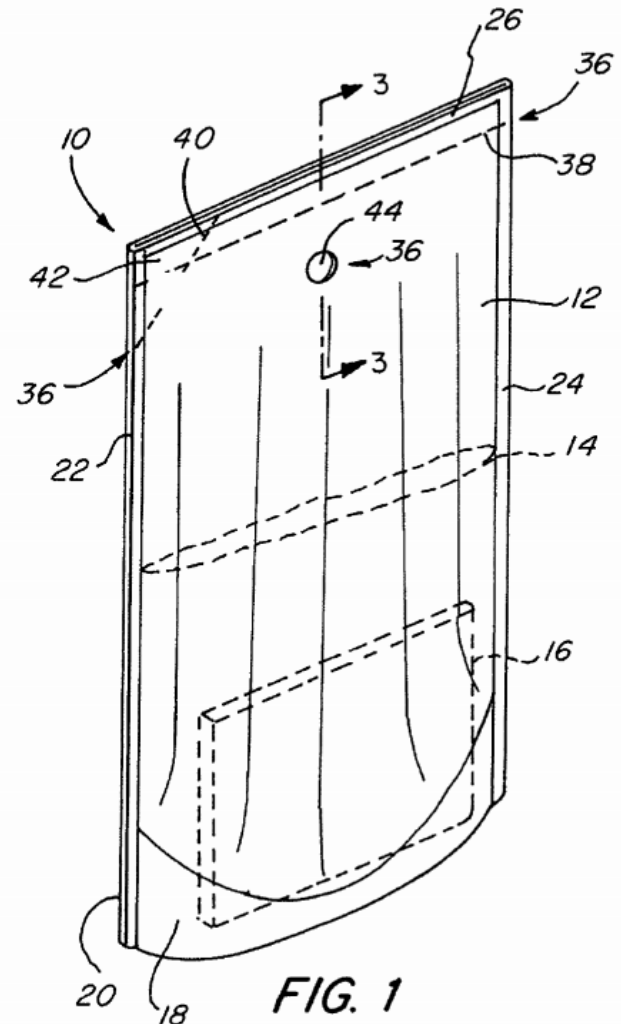
“Dutailier ... filed [lawsuits] against [competitors], and ... acquired one competitor after suing it”

“Dutailier was substantially larger than Brooks.”

“None of these facts supports the district court's conclusion that Dutailier acted in bad faith”

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“Defendants argue that the case is exceptional because Cygnus failed to conduct an adequate investigation before or after filing suit, the question of infringement was not a close call, and Cygnus prolonged the litigation in bad faith.”



Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“Reviewing the record in this case, Defendants have not met the high standard required for finding this case exceptional.”

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“Defendants’ allegation that Cygnus could not articulate its theory of infringement during the course of the litigation does not constitute clear and convincing evidence that the claims were objectively baseless. Cygnus complied with the Court’s scheduling order [for] infringement contentions”

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“[Patentee’s] proposed construction was not entirely frivolous. Similarly, Cygnus’s claims of [] infringement ... were not objectively baseless”

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“Finally, there is no evidence that Cygnus engaged in vexatious or unjustified litigation conduct ... Cygnus relied on its patent counsel’s opinions before sending the cease and desist letters ... and attempted to negotiate in good faith to avoid filing an action for infringement.”

Effect of *Octane Fitness* on § 285:

Octane Fitness

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

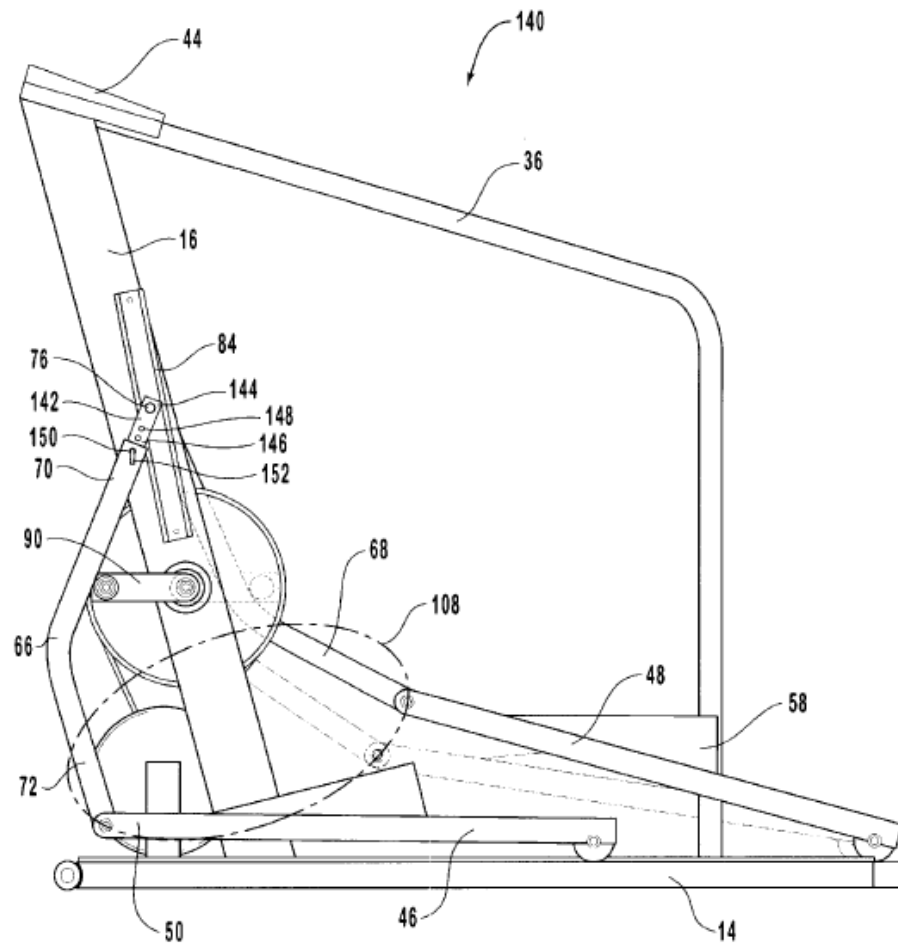


FIG. 5

U.S. Pat. No. 6,019,710 at Fig. 5; *see also* 134 S. Ct. 1749 (2014).

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Octane Fitness, LLC v. ICON Health & Fitness, Inc.

1. An exercise apparatus comprising:
 - (a) a frame ...;
 - (b) ... foot rails ...;
 - (c) a pair of stroke rails ...;
 - (d) means for connecting each stroke rail to the frame such that linear reciprocating displacement of the first end of each stroke rail results in [elliptical] displacement of the second end

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

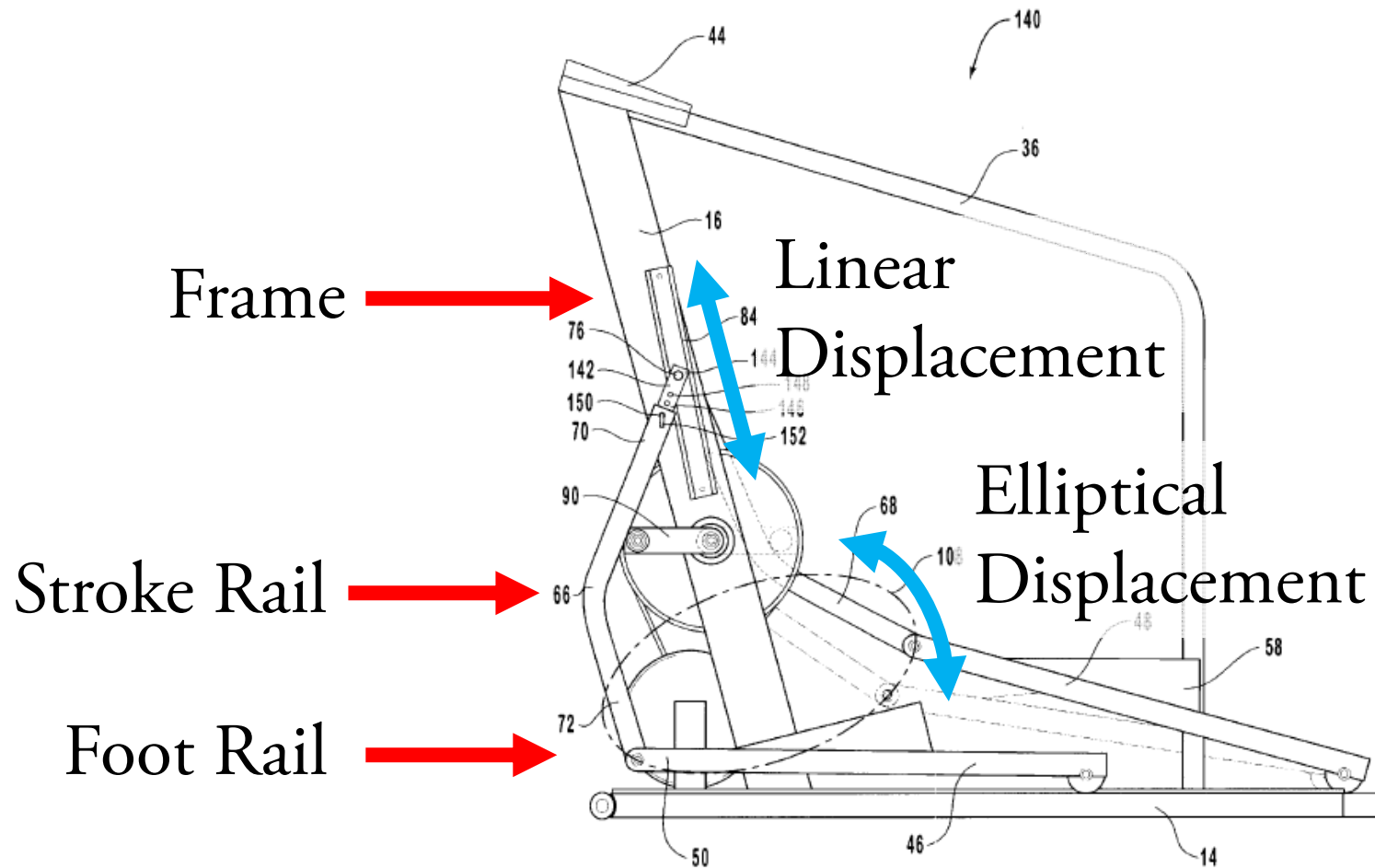
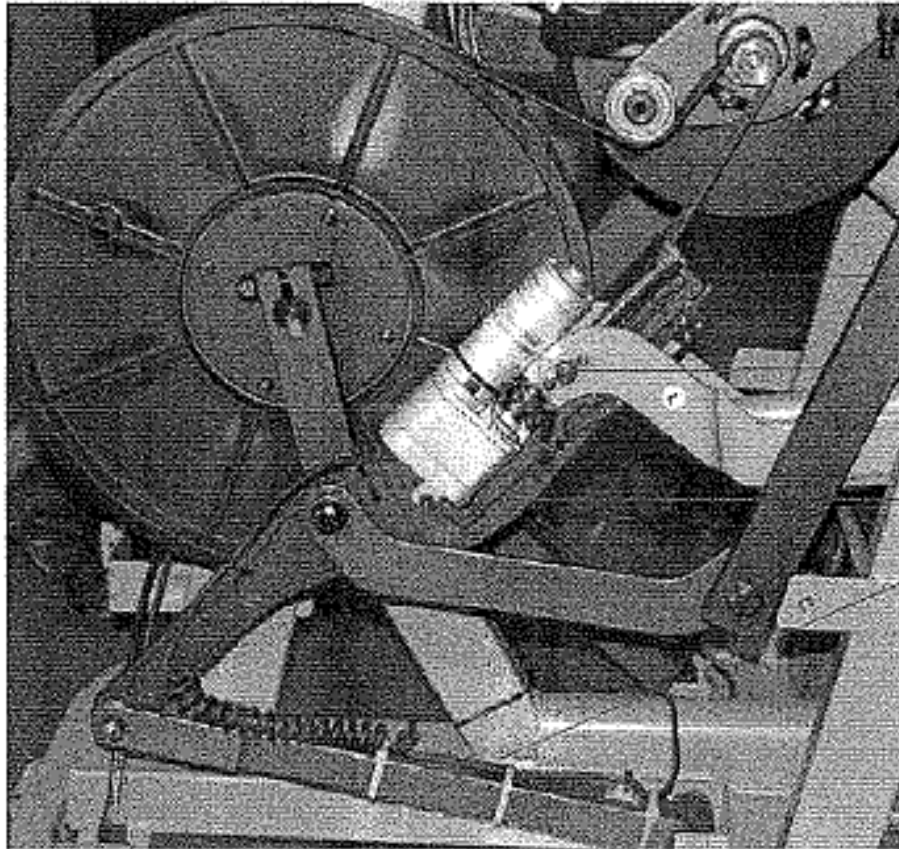


FIG. 5

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

Accused Product



Octane Fitness, LLC v. ICON Health & Fitness, Inc.

District Court: Granting SJ of Noninfringement

“Icon’s linkage system translates linear reciprocating displacement into elliptical motion. Octane’s linkage system translates arcuate displacement into elliptical motion. ... [N]o reasonable jury could find the functions to be identical. There is no literal infringement”

No. 09-319, 2011 U.S. Dist. LEXIS 64770, 2011 WL 2457914
(D. Minn. Jun. 17, 2011) (emphasis added)

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Octane Fitness, LLC v. ICON Health & Fitness, Inc.

District Court: Denying Attorney's Fees

“The Court does not agree that the conclusions were so easily reached. ... Icon's argument that Octane's machines had a 'stroke rail,' although not ultimately persuasive, was not frivolous.”

No. 09-319, 2011 U.S. Dist. LEXIS 100113
(D. Minn. Sept. 6, 2011)

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Octane Fitness, LLC v. ICON Health & Fitness, Inc.

Federal Circuit: Affirms

“[The District] court did not err ... in granting summary judgment of noninfringement, and in denying the motion to find the case exceptional.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

Federal Circuit: Affirms

“Octane argues in its cross-appeal that the court applied an overly restrictive standard in refusing to find the case exceptional under § 285. ... We have no reason to revisit the settled standard for exceptionality.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Going Back to Basics

“The framework established by the Federal Circuit in *Brooks Furniture* is unduly rigid”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Going Back to Basics

“[§285] imposes one and only one constraint on district courts’ discretion to award attorney’s fees in patent litigation: The power is reserved for ‘exceptional’ cases.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Going Back to Basics

“The Patent Act does not define ‘exceptional,’ so we construe it ‘in accordance with [its] ordinary meaning.’”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Going Back to Basics

“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.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Suggests Fees May Be Based On, e.g.,

“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.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: § 285 Can Be Broader Than Other Bases for Awarding Sanctions

“Under the standard announced today, a district court may award fees in the rare case in which a party’s unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so “exceptional” as to justify an award of fees.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: § 285 Can Be Broader Than Other Bases for Awarding Sanctions

“*[Brooks Furniture]* is so demanding that it would appear to render §285 largely superfluous.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: § 285 Can Be Broader Than Other Bases for Awarding Sanctions

“[E]ither subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.”

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

SCOTUS: Applying Preponderance of the Evidence Standard

“we reject the Federal Circuit’s requirement that patent litigants establish their entitlement to fees under §285 by ‘clear and convincing evidence[.]’ ... Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one.”

Highmark Inc. v. Allcare Health Mgmt. Sys.

SCOTUS: §285 Decisions Reviewed for Abuse of Discretion

“the determination whether a case is ‘exceptional’ under § 285 is a matter of discretion. And as in our prior cases involving similar determinations, the exceptional-case determination is to be reviewed only for abuse of discretion.”

Open Questions After *Octane Fitness*

- When Does a Case “Stand Out”?
 - Compared to Other Patent Cases? All Cases?
 - Compared to Particular Judge’s Docket or all Cases within Judicial District?
 - Judges with No Patent Experience?
- Other Equitable / Deterrence Factors?
 - NPE or Practicing Entity
 - Ability to Pay?

Open Questions After *Octane Fitness*

- Will Discretionary Approach Influence Forum Shopping?
 - Experienced Patent Courts?
 - Stern or Forgiving Judges (either for or against fees)?
 - Lax or rigid expectations for civility/discovery/contentions/etc.?

Effect of *Octane Fitness* on § 285:

Post-*Octane Fitness*

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“under [the] restrictive framework [set forth in *Brooks Furniture*,] the Court found that [Plaintiff] failed to show by clear and convincing evidence that Cygnus acted in bad faith or that its claims were objectively baseless. ...”

2-12-cv-00538 at 3 (W.D.Wash. July 11, 2014)
(internal marks omitted).

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Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“Under the discretionary, flexible framework endorsed by the Supreme Court, the Court finds that this case is exceptional within the context of §285.”

Medtrica Solutions Ltd. v. Cygnus Medical, LLC

“there was no evidence of bad faith or litigation misconduct ... [H]owever, ... this case is uncommon based on the absence of evidence supporting Cygnus’s theories of infringement at summary judgment. Cygnus had a sample of the accused product and the opportunity to engage in discovery for more than one year Based on Cygnus’s failure to produce any evidence supporting infringement, despite ample opportunity to obtain supporting evidence, the Court [awards fees].”

Attorneys Fees
Post-*Octane Fitness*:

An Increase in
Fee Awards?

Cases Awarding Fees Post-Octane:

- Willful Infringement

- *AGSouth Genetics, LLC v. Georgia Farm Servs., LLC*, No. 1:09-cv-00186-WLS (M.D. Ga. May 21, 2014)

- Inequitable Conduct

- *Intellect Wireless, Inc. v. Sharp Corp.*, No. 1:10-cv-06763 (N.D. Ill. May 30, 2014)

- Litigation Misconduct

- *Cognex Corp. v. Microscan Sys., Inc.*, No. 13-cv-2027 (JSR), 2014 U.S. Dist. LEXIS 91203 (S.D.N.Y. June 29, 2014);
- *Precision Links, Inc. v. USA Prods. Grp., Inc.*, No. 3:08-cv-00576-MR 2014 U.S. Dist. LEXIS 85694 (W.D.N.C. June 24, 2014)

- Weak Case

- *Medtrica Solutions Ltd. v. Cygnus Med. LLC*, No. 2:12-cv-00538-RSL (W.D. Wash. July 11, 2014);
- *Cognex Corp.*, 2014 U.S. Dist. LEXIS 91203;
- *Precision Links, Inc.*, 2014 U.S. Dist. LEXIS 85694;
- *Lumen View Tech., LLC v. Findthebest.com, Inc.*, No. 1:13-cv-03599-DLC (S.D.N.Y. May 30, 2014);
- *Home Gambling Network, Inc. v. Piche*, No. 2:05-cv-00610-DAE-VCF (D. Nev. May 22, 2014);
- *Classen Immunotherapies, Inc. v. Biogen Idec*, No. 1:04-cv-02607-WDQ, (D. Md. May 14, 2014)

Legislative Efforts

Innovation Act, H.R.3309

“The court shall award, to a prevailing party, reasonable fees and other expenses ... unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust.”

Patent Abuse Reduction Act, S.1013

“The court shall award to the prevailing party reasonable costs and expenses, including attorney’s fees, unless-- (1) the position and conduct of the non-prevailing party were objectively reasonable and substantially justified; or (2) exceptional circumstances make such an award unjust.”

Patent Abuse Reduction Act, S.1013

- Burden Shifting
- Position and Conduct Must be Reasonable in Law and Fact
- Court can Refuse Fee Shifting in “Special” Circumstances

Questions