

## **A SHIFTING LANDSCAPE FOR SHIFTING FEES: ATTORNEY-FEE AWARDS IN PATENT SUITS AFTER OCTANE AND HIGHMARK**

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*Abstract:* Section 285 of the Patent Act authorizes courts to award attorney fees to the prevailing party in patent litigation in “exceptional cases.” Until recently, interpretation of § 285 had been governed by a highly restrictive formulation set forth by the United States Court of Appeals for the Federal Circuit. In April 2014, the United States Supreme Court released a pair of decisions—*Octane Fitness v. ICON Health & Fitness*, and *Highmark Inc. v. Allcare Health Management System, Inc.*—that rejected the Federal Circuit’s interpretation of § 285 and reinvigorated the potential for fee shifting in patent suits. This Note argues that the Supreme Court’s decisions in *Octane* and *Highmark* broaden the potential for parties in patent litigation—particularly defendants—to seek and receive awards of attorney fees. This Note presents a survey and analysis of the district court opinions deciding attorney-fee motions under § 285 announced in the eight months following *Octane* and *Highmark*. The results of that survey indicate that defendants are now significantly more likely to receive attorney-fee awards than they were previously. This Note ultimately argues that defendants in patent suits should consider these new fee dynamics as a key element of their litigation strategy from the outset of patent defense cases. Doing so may enable them to take advantage of the newly expanded opportunity for fee shifting. To that end, this Note suggests that defendants should actively strive to inform district court judges about their broad authority to award fees. Additionally, this Note recommends that litigants avoid analogizing to prior successful cases when arguing for fees. Instead, this Note proposes that parties should follow the example set by the Supreme Court and focus on the plain meaning of the statute using common sense arguments.

### INTRODUCTION

*“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”*<sup>1</sup>

In civil litigation in the United States, “[e]ach litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.”<sup>2</sup> This “bedrock principle [is] known as the ‘American

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1. 35 U.S.C. § 285 (2012).

2. *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010) (“‘Our basic point of reference’ when considering the award of attorney’s fees is the bedrock principle known as the ‘American Rule’: Each litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” (quoting *Ruckelshaus v. Sierra Club*, 463 U.S. 680, 683 (1983))).

Rule.”<sup>3</sup> Title 35 of the United States Code, the title that governs patent law, contains one of the exceptions to that general rule. The fee-shifting provision in § 285 allows district courts discretion to award attorney fees “in exceptional cases.” The text of § 285 has remained identical since 1952.<sup>4</sup> For most of the last ten years, however, judicial interpretation of § 285 had been governed by the “rigid and mechanical formulation”<sup>5</sup> set forth by the United States Court of Appeals for the Federal Circuit in *Brooks Furniture Inc. v. Dutailier International, Inc.*<sup>6</sup>

The *Brooks Furniture* framework, as it came to be known, permitted attorney fees awards in only two circumstances: if a moving party could prove that its opponent had engaged in material litigation misconduct, or when the case was brought in subjective bad faith and the claims were objectively baseless.<sup>7</sup> Moving parties were required to show these elements by clear and convincing evidence.<sup>8</sup> Over time, the rigid interpretation of § 285 under *Brooks Furniture* garnered an increasing amount of criticism from prominent commentators, who argued that patent litigants—particularly defendants—needed a “flexible” rule that would “discourage aggressive suits and frivolous demands.”<sup>9</sup> Practically speaking, patent defendants have had relatively little opportunity to use fee awards to discourage frivolous, expensive litigation.<sup>10</sup> As of last spring, that landscape is shifting.

In April 2014, the United States Supreme Court responded to the

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3. *Id.*; see also BLACK’S LAW DICTIONARY 102 (10th ed. 2014) (defining “American rule” as “[t]he general policy that all litigants, even the prevailing one, must bear their own attorney’s fees”). This default rule is codified in Federal Rule of Civil Procedure 54(d)(1) (“Unless a federal statute, these rules, or a court order provides otherwise, costs—other than attorney’s fees—should be allowed to the prevailing party.”). The American Rule traces its roots back at least to the eighteenth century. See *Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306, 306 (1796) (holding that it was error for the district court to include a charge of counsel fees against the losing party because “[t]he general practice of the United States is in opposition to it; and even if that practice were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute” (original spelling maintained)). This practice lies in direct contrast to the “so-called English rule, under which the loser at trial bears his opponent’s legal fees as well as his own.” STEVEN SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 428 (2004).

4. *Compare* 35 U.S.C. § 285 (2012), with 35 U.S.C. § 285 (1952).

5. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_\_U.S. \_\_\_, 134 S. Ct. 1749, 1754 (2014).

6. 393 F.3d 1378 (Fed. Cir. 2005).

7. *Id.* at 1381.

8. *Id.* at 1382.

9. Randall R. Rader, Colleen V. Chien & David Hricik, Op-Ed., *Make Patent Trolls Pay in Court*, N.Y. TIMES, June 5, 2013, at A25 (noting that “[f]rivolous suits are costing billions and hurting innovation;” and urging federal judges to exercise their discretion under 35 U.S.C. § 285 to award attorney fees against “patent trolls”).

10. *Id.* (observing that, despite having “the authority they need to shift the cost burden of litigation abuse from the defendant . . . [.] judges don’t do so very often”).

longstanding criticism that the Federal Circuit had improperly eviscerated congressional intent to provide meaningful fee-shifting in § 285. In two landmark decisions—*Octane Fitness, LLC v. ICON Health & Fitness, Inc.*<sup>11</sup> and *Highmark Inc. v. Allcare Health Management System, Inc.*<sup>12</sup>—the Court may have significantly expanded the availability of attorney fee awards in patent infringement suits, and, consequently, fundamentally altered the dynamics of patent litigation suits.

This Note documents the shifting landscape of fee awards under § 285, and offers concrete suggestions to litigants, particularly defendants, about how best to take advantage of courts' new potential receptivity to awarding fees in appropriate cases. In Part I, this Note briefly describes the statutory history of the Patent Act's fee-shifting statute, and reviews the provision's interpretation prior to the Supreme Court's twin decisions in *Octane* and *Highmark*—including a synopsis of the now-defunct *Brooks Furniture* framework that governed previously. Part II describes the *Octane* and *Highmark* decisions, analyzing the Court's interpretation of the language as well as the purpose behind § 285. Part III examines the post-*Octane* world. It canvasses and describes the results from the first fifty-five decisions that have applied *Octane* and *Highmark*. It includes a survey of the district court opinions deciding a motion for attorney fees under § 285 released between April 29, 2014 (the day *Octane* and *Highmark* were decided), and December 31, 2014. Finally, in Part IV, this Note suggests that defendants in patent litigation should more aggressively seek fees in light of the most recent developments. In particular, this Note argues (1) that litigants should strive to inform courts that awards of attorney fees are within the discretion of individual judges considering the totality of the circumstances in a particular case, and (2) that judges should use common sense, informed by their own experience, in determining whether an individual case is “exceptional.” The information presented in this Note is designed to assist litigants who wish to take advantage of the apparently broadening opportunity to receive fee awards in the new legal landscape opened by *Octane* and *Highmark*.

## I. THE WORLD BEFORE *OCTANE* AND *HIGHMARK*

In order to understand the effect that the Supreme Court's decisions in *Octane* and *Highmark* will have on attorney-fee disputes going forward, it is necessary to understand the state of the law prior to these decisions.

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11. \_\_U.S.\_\_, 134 S. Ct. 1749 (2014).

12. \_\_U.S.\_\_, 134 S. Ct. 1744 (2014).

Part I.A begins with a discussion of the legislative history of the fee-shifting statute that applies in patent suits, 35 U.S.C. § 285. Part I.B outlines the Federal Circuit's decision in *Brooks Furniture Inc. v. Dutilier International, Inc.*,<sup>13</sup> which governed interpretation of § 285 from 2005 until April 2014, when the *Octane* and *Highmark* cases were decided.

A. *Statutory History of 35 U.S.C. § 285*

Prior to 1946, the American Rule—by which each party to litigation pays its own attorney fees—applied in patent litigation just as it does in civil litigation generally.<sup>14</sup> Then in 1946, Congress created a statutory exception in the body of law that governs patent litigation and granted district courts the discretion to “award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case.”<sup>15</sup> This fee-shifting provision was added to the former 35 U.S.C. § 70 (now § 285) and took effect immediately upon approval.<sup>16</sup>

Congress had no intention, however, for that amendment to transform the American patent litigation system into a loser-pays regime. On the

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13. 393 F.3d 1378 (Fed. Cir. 2005).

14. See *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252–53 (2010) (“‘Our basic point of reference’ when considering the award of attorney’s fees is the bedrock principle known as the ‘American Rule’: Each litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” (quoting *Ruckleshaus v. Sierra Club*, 463 U.S. 680, 683 (1983))).

15. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778, 778. There is no definitive understanding of what motivated Congress’s decision to enact a fee-shifting provision in 1946. Research into contemporary news sources suggests that the public conversation on patent reform was focused primarily on the perception that large corporations were exploiting the patent monopoly to unfairly restrain trade. See, e.g., Editorial, *Revamping the Patent System*, L.A. TIMES, Nov. 25, 1945, at 4 (decrying a proposed compulsory license regime as “socialization” and commenting that “it is little business which most needs patents, to protect itself from big business”). This sentiment was expressed by Representative Jerry Voorhis of California, who presented to the House a list of “possible areas for action” to “check the abuses that threaten our American System of Free Competitive Enterprise.” 92 CONG. REC. A35–36 (Jan. 14, 1946) (statement of Rep. Voorhis). Among other suggestions to promote competition and support technological developments, proposals included the following, which was captioned “Government, financial and legal assistance to inventors or businessmen who are financially unable to defend their patents”:

Many a business has been throttled, and many an inventor has been kept from enjoying the benefits of his patent because of a suit for infringement brought against him by a powerful corporation. In such cases, it is almost inevitable that the small patent holder must yield to the rich corporation—because patent litigation is long and costly. It is suggested that Government be required by law to subsidize patent litigation—thus giving both parties to the suit an even break. Here again we have good precedent for such a law—even a common criminal is furnished legal counsel for his defense if he is unable to secure such counsel with his own means.

*Id.* at A36 (statement of Rep. Voorhis). Granting courts the discretion to award attorney fees, conceivably, was a way to remedy the perceived power imbalance in patent litigation without requiring direct government subsidy.

16. Act of Aug. 1, 1946, 60 Stat. at 778.

contrary, the Senate Committee on Patents reported that it did “not contemplate[] that the recovery of attorney’s fees [would] become an ordinary thing in patent suits.”<sup>17</sup> Congress included the provision “so as to enable the court to prevent a gross injustice to an alleged infringer.”<sup>18</sup> Allowing district courts the discretion to award fees, Congress believed, would also deter willful infringement “by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.”<sup>19</sup>

In the years following the amendment’s adoption, courts understood that Congress wanted the provision to be applied only in limited circumstances. An early decision out of the Northern District of Ohio explained that, in that court’s view, it was “apparent from the wording of the statute and its history that an award of attorneys’ fees should not be made in an ordinary case. The court is invested with discretionary power where it is necessary to prevent gross injustice.”<sup>20</sup> A few years later, in 1951, the Ninth Circuit expressed essentially the same interpretation of the 1946 fee-shifting provision:

Congress made plain its intention that such fees be allowed only in extraordinary circumstances. . . . Thus, the payment of attorney’s fees for the victor is not to be regarded as a penalty for failure to win a patent infringement suit. The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear.<sup>21</sup>

This reading was supported by numerous decisions from courts across the country.<sup>22</sup>

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17. S. REP. NO. 1503 (1946), *in* 1946 U.S.C.C.S. 1386, 1387.

18. *Id.*

19. *Id.*

20. *Lincoln Electric Co. v. Linde Air Prods. Co.*, 74 F. Supp. 293, 294 (N.D. Ohio 1947) (finding no “special circumstances of gross injustice” in the case before it and denying fees), *aff’d*, 171 F.2d 223 (6th Cir. 1948).

21. *Park-In Theatres v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951).

22. *See, e.g., Merrill v. Builders Ornamental Iron Co.*, 197 F.2d 16, 25 (10th Cir. 1952) (explaining that “where conventional procedure is followed by the unsuccessful party litigant, attorney’s fees are not to be awarded against him as a penalty for failing to prevail”); *Orrison v. C. Hoffberger Co.*, 190 F.2d 787, 791 (4th Cir. 1951) (affirming district court’s award of fees for “vexatious and unjustified” litigation conduct); *Blanc v. Spartan Tool Co.*, 178 F.2d 104, 105 (7th Cir. 1949) (affirming district court’s award of fees but noting that “attorneys’ fees are not to be allowed in the usual patent case”); *Phillips Petroleum Co. v. Esso Standard Oil Co.*, 91 F. Supp. 215, 217 (D. Md. 1950) (“[W]e are not disposed to make an award under the provision of [35 U.S.C. § 70] except, of course, in a very extreme or aggravated situation involving more oppressive or vexatious conduct on the part of a patentee than we find in the present case.”), *aff’d*, 185 F.2d

In 1952, Congress enacted a large-scale revision and recodification of the patent laws.<sup>23</sup> As part of the 1952 Patent Act, the fee-shifting provision—which had previously appeared in § 70—received its own section, 35 U.S.C. § 285. That statute reads in its entirety as follows: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>24</sup> The text of § 285 has remained identical since 1952.<sup>25</sup>

Although on its face the 1952 Amendment appeared to narrow the scope of the fee-shifting provision, the legislative history indicates that Congress had no desire to change the way courts were adjudicating fee awards in patent suits.<sup>26</sup> In fact, the historical and revision notes that

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672 (5th Cir. 1950).

23. Act of July 19, 1952, Pub. L. No. 593, 66 Stat. 792 (codified in title 35 U.S.C. (2012)).

24. 35 U.S.C. § 285 (2012). Note that Congress added an identical fee-shifting provision into the Lanham Act, governing trademarks, in 1975. Act of Jan. 2, 1975, Pub. L. No. 93-600, § 3, 88 Stat. 1955 (codified at 15 U.S.C. § 1117(a) (2012)).

25. Compare 35 U.S.C. § 285 (1952), with 35 U.S.C. § 285 (2012). Although members of Congress introduce amendments from time to time, none have proved successful. See, e.g., Innovation Act, H.R. 3309, 113th Cong. § 3(b)(1) (introduced Oct. 13, 2013) (proposing an amendment to 35 U.S.C. § 285 that would mandate an award of costs and fees in patent suits unless the losing party was “substantially justified or . . . special circumstances make an award unjust”); Patent Abuse Reduction Act of 2013, S. 1013 113th Cong. § 5 (introduced May 22, 2013) (proposing amending 35 U.S.C. § 285 to require awards of attorney’s fees to prevailing parties in patent suits unless a non-prevailing party can prove that its litigation conduct was reasonable and that it had a good faith justification for commencing the suit); Patent Litigation Integrity Act of 2013, S. 1612, 113th Cong. (introduced Oct. 30, 2013). For additional discussions of recent attempts at patent reform, see Ryan Hauer, *Another Attempt at Patent Reform: S.1013 The Patent Abuse Reduction Act of 2013*, 24 DEPAUL J. ART, TECH. & INTELL. PROP. L. 367 (2014).

26. In the hearing before the house subcommittee on Patents, Trademarks, and Copyrights of the House Judiciary Committee, P.J. Federico, a long-time, high-ranking official within the Patent Office, addressed this issue directly in response to questioning by committee member Rep. Shepard J. Crumpacker, Jr.:

MR. CRUMPACKER: “On attorney fees, it says the court in exceptional cases may award reasonable attorney fees. Does not that open the door to all kinds of interpretations as to what is meant by the language, or is there already a body of law as to what ‘exceptional cases’ are intended?”

MR. FEDERICO: “The present statute says the court may award reasonable attorney fees to the prevailing party; which was introduced into the law by an act of 1946. The hearings and the reports of the committees showed that they intended that to apply to exceptional cases without going into detail, and the court decisions have followed that principle of awarding attorney fees in exceptional cases. What that constitutes is left, and stays left, to the discretion of the court that is conducting the case.”

MR. CRUMPACKER: “Should not there be some kind of an expression of the particular areas that they intended to apply to? I never saw any statutory language as unclear to the uninitiated as that would be. It may mean something to an experienced patent lawyer, but just to look at that—”

MR. FEDERICO: “That provision, as I said, came into the statute in 1946. There have been a number of rulings on it. In some cases the courts have denied attorney fees and in others, they have allowed them.”

MR. CRUMPACKER: “You say the 1946 statute just said that the court in its discretion may award reasonable attorney fees; is that right?”

MR. FEDERICO: “Yes.”

accompany § 285 explain that Congress meant for the current statute to be “substantially the same” as its predecessor.<sup>27</sup> Congress added the phrase “in exceptional cases” to “express[] the intention of the present statute as shown by its legislative history and as interpreted by the courts.”<sup>28</sup> In essence, therefore, by adding the phrase “in exceptional cases” Congress believed that it was merely codifying into the plain language of § 285 the interpretation that courts had read into the fee-shifting provision ever since it was first adopted six years earlier.<sup>29</sup>

Following the adoption of the 1952 Act, the district courts and various courts of appeals across the country interpreted § 285 just as they had evaluated the former § 70, using a holistic evaluation of the law and facts in each case.<sup>30</sup> After 1952—indeed, from the passage of the 1946 Amendment—federal courts recognized that the decision whether or not to award fees was within the discretion of trial judges evaluating the totality of the circumstances, and, consequently, that grants or denials of fees could not be overturned unless there had been an abuse of discretion by the trial judge.<sup>31</sup> Then, in 1982, Congress established the Court of Appeals for the Federal Circuit and granted that court exclusive

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MR. CRUMPACKER: “But this term ‘exceptional cases’ is introduced for the first time here, is it not?”

MR. FEDERICO: “Yes. It was picked up from the reports in passing that first law, which indicated that that was what was meant, and the decisions of the courts that have followed that.”

MR. CRUMPACKER: “That is all.”

1 PATENT LAW CODIFICATION & REVISION 108–09 (1952).

27. 35 U.S.C. § 285 (2012).

28. *Id.*

29. *See* 1 PATENT LAW CODIFICATION & REVISION 108–09 (1952).

30. *See, e.g.,* *Tex. Co. v. Globe Oil & Ref. Co.*, 114 F. Supp. 144, 147 (N.D. Ill. 1953) (interpreting 35 U.S.C. § 285 and explaining that “[j]udicial discretion, as we understand it, is impartial reasoning, guided and controlled in its exercise by fixed legal principles, requiring the court, in consideration of the facts and circumstances, to decide as its reason and conscience dictate; it requires that the court be discreet, just, circumspect and impartial, and that it exercise cautious judgment. The term connotes the opposite of caprice and arbitrary action” (quoting *Dixie Cup Co. v. Paper Container Mfg. Co.*, 174 F.2d 834, 836 (7th Cir. 1949) (internal quotation marks omitted)); *Nat’l-Simplex-Bludworth, Inc. v. Prothero*, 130 F. Supp. 146, 152 (W.D. Wash. 1954) (“After a consideration of cases cited under the statute, together with all the facts and circumstances of this case, the Court feels that it is not a proper case for the award of attorneys fees.”).

31. *See, e.g.,* *Turchan v. Cincinnati Mill. Mach. Co.*, 208 F.2d 228, 229 (6th Cir. 1953) (explaining that after a district court awards attorney fees “the reviewing court will not interfere unless there has been an abuse of discretion amounting to caprice or an erroneous conception of law”); *Shingle Prod. Patents, Inc. v. Gleason*, 211 F.2d 437, 441 (9th Cir. 1954) (holding that if a “district court has clearly stated the basis for its award of attorney’s fees, [an appellate] court may not interfere with the district court’s exercise of discretion except where there is an abuse of discretion . . . on the part of the trial judge” (internal quotation marks omitted)); *Randolph Labs. v. Specialties Dev. Corp.* 213 F.2d 873, 875–76 (3d Cir. 1954) (affirming denial of fees and finding “no basis in [the] record for holding that the district court abused its discretion in refusing to award . . . counsel fees”).

jurisdiction over appeals in patent suits.<sup>32</sup> Congress recognized that patent law was becoming “an area in which the application of the law to the facts of a case often produces different outcomes in different courtrooms in substantially similar cases.”<sup>33</sup> Congress created the Federal Circuit with the hope that “the new court [would] bring[] uniformity to this field of law.”<sup>34</sup> As the Federal Circuit became the only court with authority to hear patent appeals, the meaning of § 285 began to stray from the interpretation courts had employed previously.<sup>35</sup>

### B. *The Federal Circuit and the Brooks Furniture Framework*

The most important early development in the Federal Circuit’s interpretation of § 285 was the institution of a higher burden of proof for the issue of “exceptionality.” In the 1990s, the court began requiring parties seeking attorney fees to prove exceptionality by clear and convincing evidence<sup>36</sup>—the level of proof normally required for fraud or

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32. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified in scattered sections of 35 U.S.C.).

33. S. REP. No. 97-275, at 5 (1982), *reprinted in* 1982 U.S.C.C.A.N. 11, 15.

34. *Id.*

35. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_\_ U.S. \_\_\_, 134 S. Ct. 1749, 1754 (2014) (noting that at first the Federal Circuit, “like the regional circuits before it, instructed district courts to consider the totality of the circumstances when making fee determinations under § 285,” but that later the appellate court “abandoned that holistic, equitable approach in favor of [the] more rigid and mechanical formulation” expressed in *Brooks Furniture*). Supreme Court criticism of the Federal Circuit’s decision-making is not unique to the § 285 context. Some commentators have noted that the “recent flurry of Supreme Court reversals is long overdue because the Federal Circuit has diverged from long-standing Supreme Court precedent in several core areas of patent law.” Gary M. Hoffman & Robert Kinder, *Supreme Court Review of Federal Circuit Patent Cases: Placing the Recent Scrutiny in Context and Determining If It Will Continue*, 20 DEPAUL J. ART, TECH. & INTELL. PROP. L. 227, 248 (2010). Additionally, observers have noted that the Federal Circuit often engages in “judicial hyperactivity”—a term that describes the court’s tendency “to lose track of the important distinction between trial and appellate roles . . . a form of decision-making at odds with traditional notions of appellate review.” William C. Rooklidge & Matthew F. Weil, *Judicial Hyperactivity: The Federal Circuit’s Discomfort with Its Appellate Role*, 15 BERKELEY TECH. L.J. 725, 726 (2000). The Federal Circuit’s “hyperactivity” has been thoroughly studied in the context of patent law. *See, e.g.*, Ted L. Field, “*Judicial Hyperactivity*” in *the Federal Circuit: An Empirical Study*, 46 U.S.F. L. Rev. 721, 776 (2012) (finding that “the Federal Circuit in patent cases is more judicially hyperactive than the regional circuits”).

36. This standard was in place at least by 1992 when the court decided *Cambridge Products, Ltd. v. Penn Nutrients, Inc.*, 962 F.2d 1048 (Fed. Cir. 1992). That opinion relies, arguably erroneously, on an earlier, 1985 decision by the Federal Circuit in *Reactive Metals & Alloys Corp. v. ESM Inc.*, 769 F.2d 1578 (Fed. Cir. 1985). In *Reactive Metals*, a case involving allegations of fraud perpetrated on the PTO, the court had explained that, when seeking attorney fees under § 285, “the quantum of proof required to prove *bad faith conduct* is clear and convincing evidence.” *Id.* at 1582 (emphasis added). In *Cambridge Products* and subsequent decisions, the court took the rationale further, and noted that exceptionality often arose in the context of bad faith litigation. Accordingly, the court demanded clear and convincing evidence on the issue of exceptionality itself, regardless of whether that characterization was due to bad faith, fraud, substantive weakness, or some other



similar offenses<sup>37</sup>—rather than by a preponderance of the evidence—the burden of proof that applies in most civil suits.<sup>38</sup> In 2005, the Court of Appeals for the Federal Circuit brought about the most dramatic shift in patent attorney-fee jurisprudence since the passage of the 1946 Amendment:<sup>39</sup> the landmark decision in *Brooks Furniture Manufacturing, Inc. v. Dutilier International, Inc.*<sup>40</sup>

In *Brooks Furniture*, the Federal Circuit exerted its authority to unify interpretation of the patent laws and imposed a rigid, one-size-fits-all analysis of § 285. This formulation replaced the free-form, totality-of-the-circumstances evaluation that had previously governed fee-shifting disputes and which arguably created differing results despite similar factual scenarios. *Brooks Furniture* arose from a controversy between two companies that manufacture rocking chairs.<sup>41</sup> Dutilier sent its competitor, Brooks Furniture, a cease-and-desist letter alleging that one of Brooks Furniture’s products infringed Dutilier’s design patent for rocking chair trim.<sup>42</sup> Brooks Furniture then filed suit in the Eastern District of Tennessee, requesting a declaratory judgment of non-infringement and invalidity of Dutilier’s design patent.<sup>43</sup> Brooks Furniture also asserted unfair competition and patent mismarking claims.<sup>44</sup> Dutilier subsequently filed suit in the District of Delaware “asserting patent infringement, Lanham Act and common law unfair competition, and deceptive trade practices under state consumer protection law.”<sup>45</sup> Dutilier failed in its attempt to have the Tennessee case transferred to Delaware,<sup>46</sup> so it brought its allegations as counterclaims to Brooks Furniture’s suit in Tennessee.<sup>47</sup>

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reason. *Cambridge Prods.*, 962 F.2d at 1050–51.

37. See RESTATEMENT (THIRD) OF TORTS: LIAB. FOR ECON. HARM § 9 cmt. e (Tentative Draft No. 2, 2014) (noting that the “majority of courts apply the clear-and-convincing standard of proof to all elements of a claim for fraud”).

38. See, e.g., RESTATEMENT (THIRD) OF PROP.: WILLS & DONATIVE TRANSFERS § 12.1 cmt. e (2003 & Supp. 2014) (“The normal standard of proof in civil cases is preponderance of the evidence.”); BLACK’S LAW DICTIONARY 1373 (10th ed. 2014) (defining preponderance of the evidence and noting that it “is the burden of proof in most civil trials”).

39. See *Octane*, 134 S. Ct. at 1754–55 (recounting the history of § 285 and explaining that the Federal Circuit “abandoned” more than fifty years of precedent when it imposed the “rigid and mechanical formulation” of *Brooks Furniture*).

40. *Brooks Furniture Mfg., Inc. v. Dutilier Int’l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005).

41. *Id.* at 1379.

42. *Id.*

43. *Id.* at 1380.

44. *Id.*

45. *Id.*

46. *Id.*

47. *Id.*

Brooks Furniture moved for summary judgment on its non-infringement claim, and the district court in Tennessee granted the motion.<sup>48</sup> By stipulated order, Brooks Furniture agreed to dismiss its remaining claims, and Dutailier dismissed its counterclaims.<sup>49</sup> The court then granted Brooks Furniture's motion for attorney fees under § 285, holding that the "circumstances of the case were exceptional" and that "Brooks had clearly prevailed on the infringement issue."<sup>50</sup> Once the district court determined the amount of the fee award, Dutailier appealed to the Federal Circuit, where the appellate panel reversed the district court's judgment and vacated the fee award.<sup>51</sup>

In its opinion overruling the district court's judgment, the Federal Circuit imposed a new rule for interpreting § 285. It held that parties seeking attorney fees in patent litigation could prevail in only two circumstances: if they could prove either material inappropriate litigation conduct,<sup>52</sup> or else "only if *both* (1) the litigation is brought in subjective bad faith, *and* (2) the litigation is objectively baseless."<sup>53</sup> Moreover, the framework laid out in *Brooks Furniture* required a showing of each element by clear and convincing evidence.<sup>54</sup> Effectively, the Federal Circuit announced that it would reserve for itself the power ultimately to adjudicate individual disputes by proclaiming that it would review appeals de novo.

Under the stringent *Brooks Furniture* framework, obtaining an award of attorney fees in a patent suit became very difficult. One study found that, during the period the *Brooks Furniture* framework was in force, attorney fees were awarded in only 0.6 percent of all patent cases.<sup>55</sup> Even when courts did grant fees, seventy-one percent of fee awards went to plaintiffs and only twenty-nine percent went to defendants.<sup>56</sup> This result is interesting, when one considers that defendants, on average, are much more likely to be the prevailing party. With the exception of default judgment cases, "defendants won 71 percent of cases that reached judgment," yet "plaintiffs won more than twice the number of

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48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.* at 1385.

52. *Id.* at 1381.

53. *Id.* (emphasis added).

54. *Id.* at 1382.

55. Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 VA. J.L. & TECH. 59, 87 & n.73 (2013) (reporting that fees under § 285 were awarded in only 208 of the approximately 32,570 patent cases filed between 2003 and mid-May 2013).

56. Saurabh Vishnubhakat, *What Patent Attorney Fee Awards Really Look Like*, 63 DUKE L.J. ONLINE 15, 25 (2014).

fee awards as defendants.”<sup>57</sup> The Federal Circuit did not hesitate to overrule district court decisions that it felt failed to reach the high bar.<sup>58</sup> It was in this climate that the parties in *Octane Fitness* and *Highmark* litigated their patent disputes.

## II. THE UNITED STATES SUPREME COURT REJECTS THE FEDERAL CIRCUIT’S INTERPRETATION OF § 285 AND REINVIGORATES ATTORNEY-FEE AWARDS IN PATENT CASES

On April 29, 2014, the Supreme Court released two decisions that have the potential dramatically to change patent infringement litigation going forward. In *Octane* and *Highmark*, the Supreme Court struck down the “rigid and mechanical formulation”<sup>59</sup> for interpreting 35 U.S.C. § 285 articulated by the United States Court of Appeals for the Federal Circuit in *Brooks Furniture Inc. v. Dutailier International, Inc.*<sup>60</sup> These decisions are analyzed below. Part II.A outlines the factual and procedural background of the *Octane* case and Part II.B summarizes the Court’s holding and the reasoning behind it. Part II.C includes a brief history of the *Highmark* case, and an analysis of its conclusions. Finally, Part II.D contains a synopsis of the law that arises from *Octane* and *Highmark* together.

### A. *In Octane Fitness the Supreme Court Reinterpreted § 285 and Declared that Analysis Should Focus on the Text of the Statute*

In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*,<sup>61</sup> the Supreme Court abrogated the Federal Circuit’s *Brooks Furniture* framework for evaluating motions for attorney fees under 35 U.S.C. § 285 and declared that the plain language of the statute grants district courts broad discretion to define “exceptional cases.” *Octane* is a relatively small manufacturer of exercise equipment.<sup>62</sup> One of its

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57. Liang & Berliner, *supra* note 55, at 89.

58. *See, e.g.*, *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011) (reversing district court’s award of attorney fees for failure to satisfy the “exacting standard” of *Brooks Furniture*). Between 2003 and May 2013 the Federal Circuit reversed approximately forty percent of district court attorney-fee awards under § 285. *See* Liang & Berliner, *supra* note 55, at 88 & n.78. Awards to defendants were reversed in roughly one out of every two cases, while awards to plaintiffs were reversed only half as often. *Id.*

59. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1754 (2014).

60. 393 F.3d 1378 (Fed. Cir. 2005).

61. 134 S. Ct. 1749.

62. *Id.* at 1754–55.

competitors in this field is ICON Health & Fitness.<sup>63</sup> ICON held a number of patents on exercise devices, and in 2008 ICON sued Octane for allegedly infringing one of its patents on an elliptical exercise machine.<sup>64</sup> Octane denied infringement and argued that anyone who observed its device and compared it to ICON's patent would plainly see that there had been no infringement.<sup>65</sup> The district court agreed that there was no infringement.<sup>66</sup> Octane then moved for attorney fees under § 285, and claimed that the suit was objectively baseless.<sup>67</sup> Octane also argued that the suit had been brought in subjective bad faith.<sup>68</sup> To support this allegation, Octane's attorneys pointed to internal emails between ICON employees that—according to Octane—tended to show that the entire suit had been brought “as a matter of commercial strategy.”<sup>69</sup> Essentially, Octane argued, ICON had brought the suit in a blatant attempt to cripple Octane, its much smaller competitor in the fitness equipment market.<sup>70</sup>

The district court ruled in Octane's favor on summary judgment.<sup>71</sup> But, applying the stringent *Brooks Furniture* framework, it denied Octane's motion for attorney fees.<sup>72</sup> As the court noted, under *Brooks Furniture*, litigation could be deemed objectively baseless only when “a party's assertions [were] ‘so unreasonable that no reasonable litigant could believe [they] would succeed.’”<sup>73</sup> The district court agreed that the suit had lacked merit, but could not conclude that it was objectively baseless.<sup>74</sup> Because Octane failed to prove the first prong of *Brooks*

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63. *Id.*

64. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-CV-319 ADM/SRN (D. Minn. Feb. 4, 2010) (Report and Recommendation of Nelson, Mag. J.) *adopted by* *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-CV-319 ADM/SRN, 2010 BL 99910 (D. Minn. May 5, 2010).

65. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-319 ADM/SER, 2011 WL 39000975, at \*2 (D. Minn. Sept. 6, 2011) (“In Octane's view, the Court's rulings should have been a foregone conclusion to anyone who visually inspected its machines' linkage system, making Icon's infringement assertions unreasonable and unsupportable.” (internal quotations and citation omitted)).

66. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-319 ADM/SER, 2011 WL 2457914 (D. Minn. June 17, 2011).

67. *Octane*, 134 S. Ct. at 1755.

68. *Id.*

69. *Id.* (internal citation omitted).

70. *Id.* at 1755 & n.5.

71. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-319 ADM/SER, 2011 WL 2457914 (D. Minn. June 17, 2011).

72. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, Civil No. 09-319 ADM/SER, 2011 WL 39000975 (D. Minn. Sept. 6, 2011).

73. *Id.* (quoting *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011)).

74. *Id.* at \*1.

*Furniture* by clear and convincing evidence, the court did not need to evaluate the second prong: subjective bad faith.<sup>75</sup> The court elected, however, to examine the allegations anyway.<sup>76</sup> The court explained that “[s]ubjective bad faith,” under *Brooks Furniture*, “means ‘the plaintiff’s case must have no objective foundation, and the plaintiff must actually know this.’”<sup>77</sup> In the court’s view, Octane had failed to support its assertion of bad faith on the part of ICON by clear and convincing evidence, and the court declined to grant Octane’s motions for attorney fees under § 285.<sup>78</sup> Both ICON and Octane appealed.<sup>79</sup>

On appeal, the Federal Circuit affirmed both conclusions. First, the court agreed that there had been no infringement and that the district court’s order granting summary judgment was appropriate.<sup>80</sup> Second, the appellate court affirmed the denial of attorney fees under 35 U.S.C. § 285.<sup>81</sup> Octane had contended that the district court, following *Brooks Furniture*, “applied an overly restrictive standard in refusing to find the case exceptional under § 285.”<sup>82</sup> The three-judge panel spurned that contention and reiterated that the *Brooks Furniture* framework applied, commenting that it saw “no reason to revisit the settled standard for exceptionality.”<sup>83</sup> Octane’s attorneys moved for writ of certiorari and the Supreme Court granted review.<sup>84</sup>

Because the Federal Circuit is the only court of appeals with jurisdiction to hear appeals in patent suits, its decisions are binding upon district courts across the country. It is impossible to have a circuit split.<sup>85</sup> Many have argued that this “exclusive jurisdiction leads to poor percolation of legal ideas, less experimentation with legal principles, and ultimately, a patent law that, although uniform, is insular and severed from economic reality.”<sup>86</sup> When the Supreme Court grants certiorari in a

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75. *Id.* at \*3 (“Because Icon’s case was not objectively baseless, the inquiry could end here.”).

76. *Id.*

77. *Id.* (quoting *iLOR*, 631 F.3d at 1377).

78. *Id.* at \*4.

79. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1755 (2014).

80. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 F. App’x 57, 63–64 (Fed. Cir. 2012).

81. *Id.* at 65.

82. *Id.*

83. *Id.*

84. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 49 (2013) (mem.) (granting certiorari).

85. Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1442 (2012) (proposing the theory that the Federal Circuit’s “nonpatent docket” particularly in the realm of Veterans’ appeals, “might affect the development of patent law”).

86. *Id.*

patent case that the Federal Circuit has decided, most commentators anticipate that the case will be overturned.<sup>87</sup> Thus, when the Supreme Court granted review of both *Octane* and *Highmark*, patent litigators across the country expected something to happen.<sup>88</sup> Many observers predicted that the Supreme Court would ultimately “make it much easier for victors in patent suits to force their opponents to pay their legal fees.”<sup>89</sup> It was not apparent, however, how extensive the Court’s reexamination of § 285 would be.

The Supreme Court’s decision in *Octane Fitness* was a complete rejection of *Brooks Furniture* and of the Federal Circuit’s interpretation of § 285.<sup>90</sup> Writing for a unanimous Court,<sup>91</sup> Justice Sotomayor<sup>92</sup> called the *Brooks Furniture* framework “unduly rigid and mechanical”<sup>93</sup> and explained that the Federal Circuit’s test “impermissibly encumbers the statutory grant of discretion to district courts.”<sup>94</sup> The Court announced that its “analysis begins and ends with the text of § 285.”<sup>95</sup> Section 285’s text, the Court held, was “patently clear”<sup>96</sup> and “inherently flexible.”<sup>97</sup> The key term, according to the Court, is the phrase “in exceptional

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87. See Steven Seidenberg, *Federal Circuit Gets Reined in Over Patent Fees in Infringement Suits*, A.B.A.J. (July 1, 2014, 8:50AM), [http://www.abajournal.com/magazine/article/federal\\_circuit\\_gets\\_reined\\_in\\_over\\_patent\\_fees\\_in\\_infringement\\_suits](http://www.abajournal.com/magazine/article/federal_circuit_gets_reined_in_over_patent_fees_in_infringement_suits) (noting that the Supreme Court led by Chief Justice Roberts has “decided an unusually large number of patent cases” and “almost always overrul[es] the Federal Circuit”). The popular perception, as expressed by Heath W. Hoglund, chair of the Patents Division of the ABA Section of Intellectual Property Law, is that “[t]he only reason the Supreme Court will take up a Federal Circuit case is if the Supreme Court thinks the case should be reversed.” *Id.* Between 1999 and 2008, the Supreme Court reversed more than ninety-three percent of the patent decisions it reviewed from the Federal Circuit. Roy E. Hofer & Joshua H. James, *Supreme Court Reversal Rates for Federal Circuit Cases*, 6 LANDSLIDE, no. 4, Mar.–Apr. 2014, at 40. Between 2008 and 2012, however, the Court reversed only about twenty-eight percent of the Federal Circuit’s patent cases it reviewed. *Id.* at 41. The overall reversal rate for the Federal Circuit’s patent cases at the Supreme Court between the October 1999 term and the 2012 term that ended in June 2013 was roughly sixty-six percent. *Id.*

88. See, e.g., Floyd Norris, *Extracting a Toll from a Patent “Troll”*, N.Y. TIMES, Oct. 18, 2013, at B1 (reviewing the background of the *Octane* and *Highmark* cases and speculating that the Supreme Court’s rulings might “make it much more expensive to file a frivolous [patent] suit, and perhaps scare patent holders away from filing meritorious suits”).

89. *Id.*

90. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1758 (2014).

91. While the Supreme Court was unanimous in the judgment of the *Octane* case, Justice Scalia declined to join in the first three footnotes, relating to the legislative history of § 285. *Id.* at 1752.

92. Before joining the federal bench, Justice Sotomayor was an intellectual property litigator at the boutique Manhattan firm of Pavia & Harcourt. See SONIA SOTOMAYOR, MY BELOVED WORLD 264–71 (2013).

93. *Octane*, 134 S. Ct. at 1754.

94. *Id.* at 1755.

95. *Id.*

96. *Id.*

97. *Id.* at 1756.

cases.”<sup>98</sup> For definition of that phrase, the Court looked to dictionaries and to similar phrases in other sections of the U.S. Code.<sup>99</sup>

The Court further declared that adjudications should be made on a “case-by-case” basis, and that district courts should look to “the totality of the circumstances.”<sup>100</sup> Additionally, the burden of proof in § 285 cases should be preponderance of the evidence, thus mirroring the burden in other elements of patent litigation, and civil litigation in general.<sup>101</sup> The Federal Circuit’s clear-and-convincing standard was too high, and the Supreme Court rejected it.<sup>102</sup>

*B. In Highmark, the Supreme Court Declared that Review of Decisions Under § 285 Should be for Abuse of Discretion*

In *Highmark Inc. v. Allcare Health Management System, Inc.*,<sup>103</sup> the Supreme Court rejected the Federal Circuit’s standard for reviewing § 285 attorney-fee awards and announced that discretionary fee awards should be reviewed only for abuse of discretion.<sup>104</sup> The litigation arose when Highmark, Inc., a health insurance company,<sup>105</sup> sued Allcare Health Management System, Inc., a company in the business of “licensing of intellectual-property assets,”<sup>106</sup> seeking a declaratory judgment of invalidity related to an Allcare-managed patent covering “utilization review in managed health care systems.”<sup>107</sup> Both Highmark and Allcare filed motions for summary judgment, and the district court granted Highmark’s motion.<sup>108</sup> The Federal Circuit affirmed.<sup>109</sup> The

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98. *Id.*; see also examples and discussion *infra* Part II.C.

99. *Octane*, 134 S. Ct. at 1756. Courts interpreting the Lanham Act’s identical fee-shifting provision, § 35(a) (codified at 15 U.S.C. § 1117(a) (2012)), have relied on the Supreme Court’s decision in *Octane* for precedent. See, e.g., *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 314–15 (3d Cir. 2014) (noting that the Court’s definition of “exceptionality” in *Octane* “controls . . . interpretation of § 35(a) of the Lanham Act”).

100. *Octane*, 134 S. Ct. at 1756.

101. *Id.* at 1758.

102. *Id.* (“[N]othing in § 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard . . .”).

103. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1744 (2014).

104. *Id.* at 1749.

105. *Id.* at 1747.

106. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 706 F. Supp. 2d 713, 716 (N.D. Tex. 2010).

107. *Highmark*, 134 S. Ct. at 1747 (internal quotation marks omitted).

108. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, Civil Action No. 4:03-CV-1384-Y, 2008 WL 4137959 (N.D. Tex. Sept. 2, 2008).

109. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 329 F. App’x 280 (Fed. Cir. 2009) (per

district court awarded attorney fees based on Highmark's argument that Allcare had engaged in "vexatious and, at times, deceitful conduct."<sup>110</sup>

In the appeal of the attorney-fee decision, the Federal Circuit panel affirmed the award of attorney fees for one of the infringement claims, but reversed for the other claim.<sup>111</sup> In the majority opinion, the appellate court reasoned that the objective baselessness prong of the *Brooks Furniture* framework "is a question of law based on underlying mixed questions of law and fact and is subject to *de novo* review."<sup>112</sup> Because the majority viewed the inquiry as a question of law, it explained that it would "review the court's determination . . . without deference."<sup>113</sup>

In his partial dissent, Judge Mayer criticized the majority's decision to review the second prong without deference and explained that he would have "affirm[ed] the district court's award of attorney fees and expenses in its entirety."<sup>114</sup> Judge Mayer disparaged the Federal Circuit's "increasing infatuation with *de novo* review"<sup>115</sup> and reasoned that the court's "exclusive appellate jurisdiction in patent cases does not . . . grant [it] license to invade the fact-finding province of the trial courts."<sup>116</sup> The Federal Circuit declined to rehear the case en banc, over a dissent from five judges.<sup>117</sup> Highmark appealed, and the Supreme Court granted review.<sup>118</sup>

Like its decision in *Octane*, the Supreme Court's *Highmark* decision was unanimous. Justice Sotomayor, once more writing for the Court, again rejected the Federal Circuit's interpretation of § 285 and held that the appellate court had erred in applying a *de novo* standard of review.<sup>119</sup> The Court explained that "as a matter of the sound administration of

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curiam).

110. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 706 F. Supp. 2d 713, 737 (N.D. Tex. 2010).

111. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300 (Fed. Cir. 2012). The appellate court "affirmed the District Court's exceptional-case determination with respect to the allegations that Highmark's system infringed one claim of the . . . patent, but reversed the determination with respect to another claim of the patent." *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1744, 1747 (2014) (citations omitted).

112. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1309 (Fed. Cir. 2012) (quoting *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc., Inc.*, 682 F.3d 1003, 1004–06 (Fed. Cir. 2012)).

113. *Id.*

114. *Id.* at 1319 (Mayer, J. dissenting in part).

115. *Id.* at 1320.

116. *Id.*

117. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 701 F.3d 1351 (Fed. Cir. 2012). Judges Moore, Rader, O'Malley, Reyna, and Wallach dissented. *Id.* at 1356.

118. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 48 (2013) (mem.).

119. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_134 S. Ct. 1744, 1749 (2014).



justice, the district court is better positioned to decide whether a case is exceptional because it lives with the case over a prolonged period of time.”<sup>120</sup> “Traditionally,” the Court expounded, “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.”<sup>121</sup> Because Congress, in § 285, explicitly placed the award of attorney fees at the discretion of district courts, a court of appeals—in this context, the Federal Circuit—can only overturn fee awards under § 285 if it finds that there had been an abuse of discretion.<sup>122</sup> In essence, “an appellate court should apply an abuse-of-discretion standard in reviewing *all* aspects of a district court’s § 285 interpretation.”<sup>123</sup> Consequently, the Federal Circuit may only overturn a grant (or denial) of attorney fees to correct “a district court’s legal or factual error.”<sup>124</sup>

C. *Octane and Highmark Significantly Broaden District Court Discretion to Award Fees Under § 285*

When analyzed together, the Supreme Court’s decisions in *Octane* and *Highmark* completely reject the Federal Circuit’s *Brooks Furniture* framework. Section 285, the Court declared, “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.”<sup>125</sup> Because that discretion belongs to the district courts, appellate courts should review awards under § 285 for abuse of discretion.<sup>126</sup> The term “exceptional cases” is not defined by the statute, so the Court instructed lower courts to interpret it “in accordance with [its] ordinary meaning.”<sup>127</sup> In other words, courts should do what they always do when confronted with ambiguous statutory language: they should use common

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120. *Id.* at 1748 (quoting *Pierce v. Underwood*, 487 U.S. 552, 559–60 (1988)) (internal quotation marks omitted).

121. *Id.* (quoting *Pierce v. Underwood*, 487 U.S. 552, 558 (1988)) (internal quotation marks omitted).

122. *Id.*

123. *Id.* at 1749 (emphasis added).

124. *Id.* at 1748 n.2 (citing *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990) (“A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.”)).

125. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1755–56 (2014).

126. *Highmark*, 134 S. Ct. at 1749.

127. *Octane*, 134 S. Ct. at 1756 (quoting *Sebelius v. Cloer*, \_\_U.S.\_\_, 133 S. Ct. 1886, 1893 (2013)) (alteration in original).

sense,<sup>128</sup> and look to dictionaries<sup>129</sup> and similar language in other provisions.<sup>130</sup>

Demonstrating the process by looking at dictionaries—both modern and contemporary to the 1952 Act—the Court listed definitions of the word “exceptional.”<sup>131</sup> According to the Court, “exceptional” means “uncommon,” “rare,” “not ordinary,” “unusual,” “out of the ordinary course,” and “special.”<sup>132</sup> The Court also looked to how courts interpreted the term “exceptional” in trademark litigation, using the phrase “not run-of-the-mill.”<sup>133</sup>

In its holding in *Octane*, the Court proclaimed 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>134</sup> Thus, under § 285, district courts have the discretion to declare a case exceptional, and award fees, if it is *either* substantively weak, based on either the *law* or the *facts* of the case, *or* if it was litigated in an unreasonable manner.<sup>135</sup> The applicable burden of proof is preponderance of the evidence—not clear and convincing evidence.<sup>136</sup> Furthermore, district courts should not fear that awards of attorney fees under § 285 will easily be reversed, because—as *Highmark* explains—the Federal Circuit may only overturn such awards for abuse of discretion.<sup>137</sup>

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128. See William N. Eskridge, Jr. & Philip J. Frickey, *Statutory Interpretation as Practical Reasoning*, 42 STAN. L. REV. 321, 354–55 (1990) (“Textual analysis starts with the specific words of the statutory provision being interpreted. The interpreter should approach the statutory text as a reasonably intelligent reader would and give the text its most commonsensical reading.”).

129. See Jacob Scott, *Codified Canons and the Common Law of Interpretation*, 98 GEO. L.J. 341, 353 (2010) (“Because dictionaries report common usage, the dictionary rule supports consulting widely used dictionary definitions of terms the legislature has not defined.”); *id.* at 355 (“Consulting a dictionary is often the default primary route for interpreters to reveal the ‘common and approved usage of the language’ . . .”).

130. See Eskridge & Frickey, *supra* note 128, at 355 (noting that “the Court will sometimes look to similar provisions in other statutes, especially those regulating similar things.”); *Octane*, 134 S. Ct. at 1756 (citing *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 526 (D.C. Cir. 1985) for its interpretation of “the term ‘exceptional’ in the Lanham Act’s identical fee-shifting provision”).

131. *Octane*, 134 S. Ct. at 1756.

132. *Id.*

133. *Id.* (citing *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 526 (D.C. Cir. 1985) (R.B. Ginsburg, J., joined by Scalia, J.) (interpreting “exceptional” in the identical language in § 35(a) of the Lanham Act)).

134. *Id.* at 1756.

135. *Id.* (emphasis added).

136. *Id.* at 1758.

137. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1744, 1749 (2014).

### III. EARLY DECISIONS APPLYING *OCTANE* AND *HIGHMARK* OFFER HOPE FOR MORE FREQUENT FEE AWARDS

The decisions in *Octane* and *Highmark* were highly anticipated.<sup>138</sup> Following their announcement, federal district courts at once began to apply the new standard for awards of attorney fees. The goal of this Part is to collect and evaluate § 285 attorney-fees cases under the new regime articulated in *Octane* and *Highmark* in order to provide insight into how litigants may take advantage of the apparently widening opportunity to receive an award of fees. Part III.A outlines the process through which this issue was approached. Part III.B presents a brief review of that research. Finally, Part III.C contains an abbreviated analysis of the results and clarifies the limits of the data.

#### A. *Overview of Methodology*

Research for this Note began in June 2014. The first step was to find and collect each decision interpreting § 285. Because not every case appears in each database, the author carried out searches in WestlawNext, LEXIS Advance, and Bloomberg Law. A few unpublished orders were passed to the author by colleagues. Once the cases were collected, they were read and sorted by court of decision, party seeking fees, success of fee award, and type of case (i.e., infringement, declaratory judgment of non-infringement, etc.). In the third step, the data was correlated to make it as useful as possible. Decisions continue to be released, so the results were routinely updated and revised. In order to prepare this Note for publication, it was necessary to “cut off” attempts to update. The results summarized here include cases announced as of December 31, 2014.

As with any survey, the findings presented in this Note should be understood in context. It should be evident, first of all, that the total number of cases decided so far under the *Octane* and *Highmark* standard is relatively small. It would be unwise to attempt to use this sample to predict the outcome of a particular attorney-fee motion. This caveat is especially important when one takes into account the fact that the newly articulated standard explicitly requires a case-by-case, totality-of-the-circumstances evaluation of the evidence.

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138. See, e.g., Dennis Crouch, *Supreme Court's New Patent Cases*, PATENTLY-O (Oct. 1, 2013), <http://patentlyo.com/patent/2013/10/the-supreme-court-today-granted-two-petitions-for-writ-of-certiorari-in-patent-related-cases-appealed-from-the-court-of-appea.html> (summarizing case history and the potential impact of the decision); Mary Pat Dwyer, *Petition of the Day*, SCOTUSBLOG (Sep. 5, 2013, 8:35 PM), <http://www.scotusblog.com/2013/09/petition-of-the-day-471/> (indicating that *Octane* had been selected as the “petition of the day”); Norris, *supra* note 88.

It is also important to keep in mind as well that each of the underlying cases to which the attorney-fee motions are connected was initiated long before the Supreme Court's *Octane* decision.<sup>139</sup> In many of these examples, therefore, the litigation conduct at issue, and even the decision whether or not to seek fees, took place before *Octane* when the prior *Brooks Furniture* standard prevailed. By extension, therefore, perhaps some of the earliest successful awards would have been granted regardless of the Supreme Court's recent pronouncement.<sup>140</sup> As courts and litigants become more comfortable with the newly expanded interpretation, however, there is every indication that parties—especially defendants—can expect more success when seeking fees.

Despite its limitations, this analysis should be helpful to litigants in patent suits going forward. In particular, it may prove beneficial as parties decide whether to seek fees, as well as how to frame arguments in support of fees.

#### B. *Survey of Decisions Interpreting 35 U.S.C. § 285 Following Octane and Highmark*

Research reveals that between April 29, 2014 (the day the *Octane* and *Highmark* decisions were announced) and December 31, 2014, judges in twenty-four federal district courts have ruled on attorney-fee motions under 35 U.S.C. § 285 in fifty-five cases.<sup>141</sup> Of those fifty-five decisions,

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139. Although a variety of factors affect the length of time it takes for patent suits to arrive at resolution, research suggests that the average “time-to-trial has remained relatively steady, at about 2.5 years, since 2005.” PRICEWATERHOUSECOOPERS, 2014 PATENT LITIGATION STUDY: AS CASE VOLUME LEAPS, DAMAGES CONTINUE TO DECLINE 16 (2014), available at <http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml>. For those patent suits that went to trial in the last quarter of 2013, the average time to trial was 1135 days. LEX MACHINA, 2013 PATENT LITIGATION YEAR IN REVIEW 5 (2014), available at <https://lexmachina.com/2014/05/patent-litigation-review/>.

140. See, e.g., *Pure Fishing, Inc. v. Normark Corp.*, No. 10-cv-2140-CMC, 2014 WL 5474589 (D.S.C. Oct. 28, 2014) (reconsidering award of attorney fees that had been granted prior to *Octane* and *Highmark* and increasing amount of award).

141. *Action Star Enters. v. Kaiject Tech. Int'l*, No. 2:12-cv-08074 BRO (MRWX) (C.D. Cal. July 7, 2014); *Automobili Lamborghini S.p.A. v. Johnson*, No. 5:13-cv-1136-TMP, 2014 WL 4388425 (N.D. Ala. Aug. 29, 2014); *Bayer CropScience AG v. Dow AgroSciences LLC*, No. 12-256 (RMB/JS), 2014 WL 7336766 (D. Del. Dec. 22, 2014), amended and superseded by 2015 WL 108415 (D. Del. Jan. 5, 2015); *Ceiva Logic Inc. v. Frame Media Inc.*, No. SACV 08-00636-JVS (RNBx), 2014 WL 7338840 (C.D. Cal. Dec. 19, 2014); *Chalumeau Power Sys. LLC v. Alcatel-Lucent*, No. 11-1175-RGA, 2014 WL 4675002 (D. Del. Sept. 12, 2014); *Chi. Bd. Options Exch., Inc. v. Sec. Exch., LLC*, No. 07 C 623, 2014 WL 6978644 (N.D. Ill. Dec. 10, 2014); *Classen Immunotherapies, Inc. v. Biogen IDEC*, No. WDQ-04-2607, 2014 WL 2069653 (D. Md. May 14, 2014); *Cognex Corp. v. Microscan Sys., Inc.*, No. 13-cv-2027 (JSR), 2014 WL 2989975 (S.D.N.Y. June 30, 2014); *CreAgri, Inc. v. PinnacLife, Inc.*, No. 11-CV-6635-LHK, 2014 WL 2508386 (N.D. Cal. June 3, 2014); *Douglas Dynamics, LLC v. Buyers Prods. Co.*, No. 09-cv-261-wmc, 2014 WL 7409503 (W.D. Wis. Dec. 31, 2014); *EON Corp. IP Holdings, LLC v. Cisco Sys. Inc.*, No. 12-cv-

twenty-six (i.e., roughly forty-seven percent) resulted in an award of attorney fees.

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01011-JST, 2014 WL 3726170 (N.D. Cal. July 25, 2014); EON Corp. IP Holdings, LLC v. FLO TV Inc., No. 10-812-RGA, 2014 WL 2196418 (D. Del. May 27, 2014); Gametek LLC v. Zynga, Inc., No. CV 13-2546 RS, 2014 WL 4351414 (N.D. Cal. Sept. 2, 2014); Gevo, Inc. v. Butamax Advanced Biofuels LLC, No. 13-576-SLR, 2014 WL 4247735 (D. Del. Aug. 26, 2014); Home Gambling Network, Inc. v. Piche, No. 2:05-CV-610-DAE, 2014 WL 2170600 (D. Nev. May 21, 2014); H-W Tech., Inc. v. Overstock.com, Inc., No. 3:12-CV-0636-G (BH), 2014 WL 4378750 (N.D. Tex. Sept. 3, 2014); Intellect Wireless, Inc. v. Sharp Corp., No. 10 C 6763, 2014 WL 2443871 (N.D. Ill. May 30, 2014); Inventio AG v. Thyssenkrupp Elevator Corp., No. 08-00874-RGA, 2014 WL 5786668 (D. Del. Nov. 6, 2014); IPVX Patent Holdings, Inc. v. Taridium, LLC, No. 12-CV-5251 (KAM) (SMG), 2014 WL 4437294 (E.D.N.Y. Aug. 6, 2014); IPVX Patent Holdings, Inc. v. Voxernet LLC, No. 5:13-cv-01708 HRL, 2014 WL 5795545 (N.D. Cal. Nov. 6, 2014); JS Prods., Inc. v. Kabo Tool Co., No. 2:11-cv-01856-RJ-GWF, 2014 WL 7336063 (D. Nev. Dec. 22, 2014); Kaneka Corp. v. Zhejiang Med. Co., No. 2:11-cv-02389-MRP-SS, 2014 U.S. Dist. LEXIS 91659 (C.D. Cal. May 23, 2014); Keystone Global LLC v. Auto Essentials Inc., No. 12 Civ. 9077(DLC)(GWG), 2014 WL 4897104 (S.D.N.Y. Oct. 1, 2014); Kilopass Tech. Inc. v. Sidense Corp., No. C 10-02066 SI, 2014 WL 3956703 (N.D. Cal. Aug. 12, 2014); Lendingtree, LLC v. Zillow, Inc., No. 3:10-cv-00439-FDW-DCK, 2014 WL 5147551 (W.D.N.C. Oct. 9, 2014); Linex Tech., Inc. v. Hewlett-Packard Co., No. C 13-159 CW, 2014 WL 4616847 (N.D. Cal. Sept. 15, 2014); Logic Devices, Inc. v. Apple Inc., No. C 13-02943 WHA, 2014 WL 6844821 (N.D. Cal. Dec. 4, 2014); Lumen View Tech., LLC v. Findthebest.com, Inc., 24 F. Supp. 3d 329 (S.D.N.Y. 2014); Medtrica Solutions Ltd. v. Cygnus Medical LLC, No. 12-CV-538 (W.D. Wash. July 10, 2014); Meyer Intellectual Props. Ltd. v. Bodum USA, Inc., No. 06 C 6329, 2014 WL 3724797 (N.D. Ill. July 28, 2014); Momenta Pharm., Inc. v. Teva Pharm. USA, Inc., No. 10-12079-NMG, 2014 WL 6481668 (D. Mass. Nov. 20, 2014); Ohio Willow Wood Co. v. Alps S., LLC, No. 2:04-cv-1223, 2014 WL 4775374 (S.D. Ohio Sept. 24, 2014); Parallel Iron LLC v. NetApp Inc., No. 12-769-RGA, 2014 WL 4540209 (D. Del. Sept. 12, 2014); Pragmatus Telecom LLC v. Newegg Inc., No. 12-1533-RGA, 2014 WL 3724138 (D. Del. July 25, 2014); Precision Links Inc. v. USA Prods. Grp., Inc., No. 3:08-cv-00576-MR, 2014 WL 2861759 (W.D.N.C. June 24, 2014); Pure Fishing, Inc. v. Normark Corp., No. 10-cv-2140-CMC, 2014 WL 5474589 (D.S.C. Oct. 28, 2014); Rates Tech., Inc. v. Broadvox Holding Co., No. 13 Civ. 0152(SAS), 2014 WL 5023354 (S.D.N.Y. Oct. 7, 2014); Realtime Data, LLC v. CME Grp., Inc., No. 11-cv-6697-KBF, 2014 U.S. Dist. LEXIS 91051 (S.D.N.Y. June 24, 2014); Rimlinger v. Shenyang 245 Factory, No. 2:13-CV-2051-JAD-NJK, 2014 WL 2527147 (D. Nev. June 4, 2014); Robinson v. Bartlow, No. 3:12-cv-00024, 2014 WL 2468817 (W.D. Va. June 3, 2014); Romag Fasteners, Inc. v. Fossil, Inc., No. 3:10cv1827(JBA), 2014 WL 4073204 (D. Conn. Aug. 14, 2014); Rubbermaid Commercial Prods., LLC v. Trust Commercial Prods., No. 2:13-cv-02144-GMN-GWF, 2014 WL 4987878 (D. Nev. Aug. 22, 2014); Shire LLC v. Amneal Pharm., LLC, No. 11-3781 (SRC), 2014 WL 2861430 (D.N.J. June 23, 2014); Small v. Implant Direct Mfg. LLC, No. 06 Civ. 683(NRB), 2014 WL 5463621 (S.D.N.Y. Oct. 22, 2014); SmartWater, Ltd. v. Applied DNA Scis., Inc., No. 12-cv-05731, 2014 U.S. Dist. LEXIS 120401 (E.D.N.Y. Aug. 27, 2014); Stragent LLC v. Intel Corp., No. 6:11-cv-421, 2014 WL 6756304 (E.D. Tex. Aug. 6, 2014); Summit Data Sys., LLC v. EMC Corp., No. 10-749-GMS, 2014 WL 4955689 (D. Del. Sept. 25, 2014); Tech. Advancement Grp., Inc. v. IvySkin, LLC, No. 2:13cv89, 2014 WL 3501060 (E.D. Va. July 14, 2014); TNS Media Research, LLC v. TIVO Research & Analytics, Inc., No. 11 Civ. 4039(SAS), 2014 WL 5639930 (S.D.N.Y. Nov. 4, 2014); TransPerfect Global v. Motionpoint Corp., No. C 10-2590 CW, 2014 WL 6068384 (N.D. Cal. Nov. 13, 2014); Univ. of Manitoba v. Draeger Med., Inc., No. 2:13-cv-48, 2014 WL 7204839 (D.N.D. Dec. 17, 2014); WBIP, LLC v. Kohler Co., No. 11-10374-NMG, 2014 WL 4471412 (D. Mass. Sept. 8, 2014); W. Holdings Corp. v. Summers, No. 2:13-CV-144 TS, 2014 WL 4922628 (D. Utah Sept. 30, 2014); Wiley v. Rocktenn CP, LLP, No. 4:12-cv-00226-KGB, 2014 WL 4929447 (E.D. Ark. Sept. 30, 2014); Yufa v. TSI Inc., No. 09-cv-01315-KAW, 2014 WL 4071902 (N.D. Cal. Aug. 14, 2014).

**Table 1**

<b>District</b>	<b>Decisions Under 35 U.S.C. § 285</b>	<b>Awards</b>
N.D. Cal.	9	5
D. Del.	8	3
S.D.N.Y.	7	3
D. Nev.	4	2
C.D. Cal.	3	2
N.D. Ill.	3	2
D.Mass.	2	1
E.D.N.Y.	2	0
W.D.N.C.	2	2
D. Ark.	1	0
D. Conn.	1	1
D. Md.	1	1
D. Utah	1	0
D.N.D.	1	0
D.N.J.	1	0
D.S.C.	1	1
E.D. Tex.	1	0
E.D. Va.	1	0
N.D. Ala.	1	1
N.D. Tex.	1	0
S.D. Ohio	1	1
W.D. Va.	1	0
W.D. Wash.	1	1
W.D. Wis.	1	0
<b>Total:</b>	<b>55</b>	<b>26</b>

Defendants<sup>142</sup> brought forty-two of the motions, and were successful in twenty cases (i.e., roughly forty-eight percent of the time).

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142. The term “defendant” in patent litigation may refer to either an alleged infringer or, in some cases, such as a suit for declaratory judgment of non-infringement, a patent holder. Because many patent suits involve counterclaims, a named plaintiff might stand as a defendant when it defends itself against counterclaims brought by the original defendant. *See, e.g.,* TransPerfect Global, Inc. v. Motionpoint Corp., No. C10-2590 CW, 2014 WL 6068384 (N.D. Cal. Nov. 13, 2014). For purposes of this analysis, the term “defendant” is used to refer to a party defending itself from the assertion of infringement, whether preemptively or in response to a suit filed by a patent-holding plaintiff.

Plaintiffs<sup>143</sup> brought thirteen motions for fees, and won six times (i.e., roughly forty-six percent of the time). Overall, forty-seven percent of the attorney-fee motions were granted.<sup>144</sup>

These early decisions suggest that defendants may be much more likely to recover fees under the newly articulated standard than they would have been previously. In the decade leading up to 2013, patentees (normally plaintiffs) benefited from seventy-one percent of fee awards under § 285, with the other twenty-nine percent going to defendants.<sup>145</sup> After *Octane*, by contrast, only twenty-three percent of awards went to plaintiffs, and the remaining seventy-seven percent went to defendants.

**Table 2**

Party Seeking Fees	Attempts	Awards
Defendant	42 (76% of attempts)	20 (77% of awards)
Plaintiff	13 (24% of attempts)	6 (23% of awards)
Total:	55	26 (47%)

As observers might have anticipated, decisions in attorney-fee motions have concentrated in a relatively small number of districts. Three districts account for nearly half of all § 285 cases decided in the eight months following *Octane*. One district—the Northern District of California—has decided nine cases. The District of Delaware decided eight, and the Southern District of New York decided seven.

**Table 3**

District	Decisions	Motions by Defendants	Successful Motions by	Motions by	Successful Motions
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143. The term “plaintiff” in patent litigation can refer to alleged infringers as well as patent holders in patent litigation. It can also refer to other persons who wish, for example, to have a patent corrected and to have their own names added as inventors. *See, e.g.*, *Falana v. Kent State Univ.*, No. 5:08 CV 720, 2014 WL 3788695 (N.D. Ohio July 31, 2014) (plaintiff sued for correction of inventorship and successfully won fees). For purposes of this analysis, the term “plaintiff” means a patent-holding party asserting its right, whether affirmatively or in response to a preemptive suit from an alleged infringer, to request a declaratory judgment of non-infringement.

144. These findings are roughly similar to preliminary evaluations conducted by others during the same time period. *See* Andrew S. Baluch et al., *Attorney Fee Awards in Patent Cases After Octane Fitness*, 21 WESTLAW J. INTELL. PROP. 17 (2014).

145. Vishnubhakat, *supra* note 56, at 25; *see also* Liang & Berliner, *supra* note 55, at 86–89 (reporting that of the 208 attorney fee awards between 2003 and 2013, sixty-six (thirty-two percent) went to defendants, and 142 (sixty-eight percent) went to plaintiffs); James Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation*, 9 J.L. ECON. & POL’Y 59, 80–81 & tbl. 6 (2012) (reporting that of the 137 attorney fee awards made between 1985 and 2004, twenty-eight (thirty-two percent) went to defendants, and fifty-nine (sixty-six percent) went to plaintiffs).

			<b>Defendants</b>	<b>Plaintiffs</b>	<b>by Plaintiffs</b>
N.D. Cal.	9	8	5 (63%)	1	0 (0%)
D. Del.	8	8	3 (38%)	0	0
S.D.N.Y.	7	5	2 (40%)	2	1 (50%)
Total:	24	21	10 (48%)	3	1 (33%)

Apart from these three leading districts, one other—the District of Nevada—decided four cases. Five additional districts decided either two or three cases.<sup>146</sup> The remaining fifteen districts have ruled on only one motion each. Noticeably underrepresented in this survey is the Eastern District of Texas. Although that district adjudicates approximately twenty-five percent of patent suits,<sup>147</sup> as of December 31, 2014 it had announced only one attorney-fee decision under § 285 after the Supreme Court’s *Octane* and *Highmark* opinions.<sup>148</sup>

### C. *Lessons from the Early Decisions*

The Supreme Court in *Octane* held that the decision whether or not to award fees is within the discretion of individual judges—not constrained by arbitrary or formulaic rules of precedent.<sup>149</sup> The Court further elaborated in *Highmark* that the discretionary determination of exceptionality under § 285 is “multifarious and novel, not susceptible to useful generalization. . . .”<sup>150</sup> It is not possible, therefore, to articulate a

146. See *supra* Table 1.

147. Of the 6092 patent cases filed in 2013, 1495 were filed in the Eastern District of Texas. LEX MACHINA, *supra* note 139, at 1–2. The Eastern District of Texas has often been referred to as a “Rocket Docket” for patent litigation. Saurabh Vishnubhakat, *Reconceiving the Patent Rocket Docket: An Empirical Study of Infringement Litigation 1985–2010*, 11 J. MARSHALL REV. INTELL. PROP. L. 58, 64–67 (2011).

148. *Stragent LLC v. Intel Corp.*, No. 6:11-cv-421, 2014 WL 6756304 (E.D. Tex. Aug. 6, 2014). Although no other Eastern District of Texas cases were counted, that district did announce a decision roughly two weeks after *Octane* and *Highmark* in which it declined to reconsider a previously decided denial of fees. *Bianco v. Globus Med., Inc.*, No. 2:12-CV-00147-WCB, 2014 WL 1904228, at \*1 (E.D. Tex. May 12, 2014) (declining to reconsider motion for fees and commenting that the movant had “urged [the] Court to apply the Federal Circuit test for section 285 attorney fee motions, not the more liberal test urged by the petitioner in *Octane Fitness* and ultimately adopted by the Court”).

149. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1748, 1755–56 (2014) (holding that the patent act’s fee-shifting statute “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”).

150. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1744, 1748–49 (2014) (internal quotation marks omitted).



single formula from the emerging case law that will predict when fees will, and will not, be awarded. Indeed, the Supreme Court eschewed just such a rigid construction when it overruled *Brooks Furniture*.<sup>151</sup> As the Court explained, “[a]lthough questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, ‘rooted in factual determinations.’”<sup>152</sup> An attempt to provide a case-by-case review of the recently decided cases quickly devolves into a list of facts that, although informed by the law, will never precisely match the factual scenario in an open dispute.<sup>153</sup> This is not to say that the emerging cases have no value. On the contrary, several relevant questions of law<sup>154</sup> have been addressed and clarified. Some of these will be addressed briefly below.

First, the recently expanded freedom to declare “exceptional cases” has not affected courts’ definition of “prevailing party.” As the statute explains, awards of attorney fees under § 285 may only go to the prevailing party. The phrase, “prevailing party,” is not defined by the statute and it is not uncommon in patent litigation for plaintiffs to succeed on some of their claims while losing others.<sup>155</sup>

The Federal Circuit has explained that it should be construed in essentially the same manner as it would in other contexts, such as when awarding costs and fees under Federal Rule of Civil Procedure 54(d)(1).<sup>156</sup> The Federal Circuit recently expounded on its standard for determining when a party is the “prevailing party” under § 285. “To be the ‘prevailing party,’ we require: (1) that the party ‘received at least some relief on the merits,’ and (2) ‘[t]hat relief must materially alter the legal relationship between the parties by modifying one party’s behavior in a way that ‘directly benefits’ the opposing party.’”<sup>157</sup> Even after *Octane* and *Highmark*, a defendant cannot be declared a prevailing party, and expect a fee award, when the plaintiff simply fails successfully to pursue its claims and the matter is dismissed without prejudice.<sup>158</sup> Likewise, courts will not classify a defendant as the

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151. *Octane*, 134 S. Ct. at 1756 (describing *Brooks Furniture* as an “overly rigid . . . formulation [that] superimposes an inflexible framework onto statutory text that is inherently flexible”).

152. *Highmark*, 134 S. Ct. at 1749.

153. *See id.*

154. *Id.*

155. *See, e.g.,* *SSL Servs., LLC v. Citrix Sys., Inc.*, 769 F.3d 1073, 1077–78 (Fed. Cir. 2014) (reviewing case history and mentioning that some, but not all, of plaintiff’s willful infringement claims were successful and that the district court judge declined to designate plaintiff as the prevailing party).

156. *See id.* at 1086.

157. *Id.* (alterations in original) (citations omitted).

158. *See* *Robinson v. Bartlow*, No. 3:12-cv-00024, 2014 WL 2468817 (W.D. Va. June 3, 2014).

prevailing party when a case is dismissed after the parties realize that the defendant's allegedly infringing conduct is covered by a license (or sublicense) granted by the plaintiff to a third party.<sup>159</sup>

Second, even if a party suspects from the outset that a case is exceptional, courts will probably not rule on the issue of exceptionality until after the case is finally decided on the merits. Even when pleadings signify that a case is extraordinarily weak, courts cannot evaluate the totality of the circumstances until the litigation has run its course and a prevailing party has been declared.<sup>160</sup> This question has arisen when defendants ask judges to require plaintiffs to post a bond that will cover the expected attorney fee award. Some of the discussion about patent reform in the years prior to *Octane* and *Highmark*—including some of the recent legislative proposals—unsuccessfully sought to require a bond or undertaking at the outset of every patent suit.<sup>161</sup> So far, courts have not been willing impose such a requirement under the existing § 285.<sup>162</sup>

As many have observed, a large proportion of patent infringement lawsuits involve so-called Non Practicing Entities (NPEs)<sup>163</sup>—companies that are “not actually in business using patents but merely own[] them to collect royalties and damages.”<sup>164</sup> Many NPEs operate as

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159. See *Pragmatus Telecom LLC v. Newegg Inc.*, No. 12-1533-RGA, 2014 WL 3724138, at \*9 (D. Del. July 25, 2014) (explaining that “[i]f there were a prevailing party, it would seem that it would more likely be [the plaintiff], as [plaintiff] filed suit because it believed that its patent was infringed, and as a result, in part because of the suit, [plaintiff] was able to negotiate a license covering potential infringement of its asserted patent”); *Parallel Iron LLC v. NetApp Inc.*, No. 12-769-RGA, 2014 WL 4540209 (D. Del. Sept. 12, 2014) (citing *Pragmatus Telecom*, 2014 WL 3724138, and holding that defendant’s acquisition of a license (or sublicense) to use allegedly infringing technology is insufficient to qualify the defendant as a prevailing party in a patent infringement suit).

160. See, e.g., *IPVX Patent Holdings, Inc. v. Voxernet, LLC*, No. 5:13-CV-01708 HRL, 2014 WL 2772297, at \*2 (N.D. Cal. June 18, 2014) (clarifying that “Section 285 addresses fee-shifting that occurs at the conclusion of a case”). Although the court declined to award fees at the outset, the defendant ultimately prevailed in the case and received an award of fees totaling \$820,642. *IPVX Patent Holdings, Inc. v. Voxernet LLC*, No. 5:13-cv-01708 HRL, 2014 WL 5795545 (N.D. Cal. Nov. 6, 2014).

161. See Patent Litigation Integrity Act of 2013, S. 1612, 113th Cong. § 201(a). This particular attempt at reform was “declared all but dead” in May 2014. Edward Wyatt, *Legislation to Protect Against “Patent Trolls” Is Shelved*, N.Y. TIMES, May 22, 2014, at B2.

162. See, e.g., *IPVX Patent Holdings, Inc. v. Voxernet, LLC*, No. 5:13-CV-01708 HRL, 2014 WL 2772297, at \*2 (N.D. Cal. June 18, 2014) (denying defendant’s motion to require plaintiff “to post an undertaking in the amount of \$749,000 to cover attorney’s fees and costs that [defendant] expects to incur through claim construction and early summary judgment proceedings”).

163. NPEs, also called Patent Assertion Entities or, pejoratively, “patent trolls,” filed nearly two-thirds of patent infringement lawsuits in 2013. RPX CORP., 2013 NPE LITIGATION REPORT 4 (2014). Additionally, “20% of identified decisions in 2013 involved NPE patent holders, reflecting the much higher tendency for NPE-filed cases to settle or be dismissed.” PRICEWATERHOUSECOOPERS, *supra* note 139, at 2.

164. Norris, *supra* note 138.

shell companies with few assets other than the patents they assert. The fear is that ordering an NPE to pay attorney fees at the end of a suit could be futile if the company simply “throws up its hands, declares bankruptcy, and walks away.”<sup>165</sup> Requiring the plaintiff to post a bond at the outset would, in theory, mitigate that risk, but the only known attempt was unsuccessful.<sup>166</sup>

Finally, courts will probably not view a plaintiff’s decision to continue pursuing a case despite an adverse claim construction ruling—by itself—as enough to classify the case as exceptional.<sup>167</sup> Claim construction is an important phase of most patent infringement suits in which the district court judge construes the language of the patent “including the terms of art within its claim” as a matter of law.<sup>168</sup> This process is alternatively known as a *Markman* hearing, after the 1996 Supreme Court decision from which the process derives, *Markman v. Westview Instruments, Inc.*<sup>169</sup>

Once the district court has construed the claims of the patent as a matter of law, the finder of fact can decide whether the alleged infringer’s activities actually infringed the patent by “mak[ing], us[ing], offer[ing] to sell, or sell[ing the] patented invention, within the United States . . . during the term of the patent therefor.”<sup>170</sup> Infringement suits are normally resolved quickly after claim construction.<sup>171</sup> It is commonly understood, however, that “[a] claim construction ruling alone does not suffice to end a case at the trial court.”<sup>172</sup> Claim construction rulings are often argued at appeal, so it is not always unreasonable for a plaintiff to press forward with a claim despite an unfavorable *Markman* ruling at the trial court, especially since such determinations are reviewed *de novo* by

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165. Charles Duan, Opinion, *Patent Trolls Are the Economy-Suffocating Exception to the “No Free Lunch” Rule*, FORBES (Nov. 15, 2013, 8:00 AM), <http://www.forbes.com/sites/realspin/2013/11/15/patent-trolls-are-the-economy-suffocating-exception-to-the-no-free-lunch-rule/>.

166. *IPVX Patent Holdings*, 2014 WL 2772297.

167. See, e.g., *Kaneka Corp. v. Zhejiang Med. Co.*, No. 2:11-cv-02389-MRP-SS, 2014 U.S. Dist. LEXIS 91659, at \*10–14 (C.D. Cal. May 23, 2014); *Realtime Data, LLC v. CME Group, Inc.*, 11-cv-6697-KBF, 2014 U.S. Dist. LEXIS 91051, at \*9 (S.D.N.Y. June 24, 2014) (rejecting defendant’s argument that plaintiff ought to have dropped its claims following claim construction and explaining that plaintiff’s conduct was not “so extreme or unreasonable that this case stands out from others”).

168. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996).

169. *Id.*

170. 35 U.S.C. § 271(a) (2012).

171. REBECCA N. EYRE, JOE S. CECIL & ERIC TOPOR, FED. JUDICIAL CTR., PATENT CLAIM CONSTRUCTION: A SURVEY OF FEDERAL DISTRICT COURT JUDGES 22 (2008) (reporting that fifty percent of cases surveyed were resolved on summary judgment, injunctive relief, or “settled without further decisions on the merits” following claim construction).

172. *Kaneka*, 2014 U.S. Dist. LEXIS 91659, at \*11 (citing *Nystrom v. TREX Co.*, 339 F.3d 1347, 1350 (Fed. Cir. 2003)).

the Federal Circuit.<sup>173</sup> Once a court does reach a final decision in the case, however, it will probably not postpone deciding the issue of exceptionality until after appeals are heard.<sup>174</sup>

The landscape for shifting fees is shifting, and it is likely that attorney fee awards—particularly for defendants—will become more common going forward. As decisions continue to be released, and as courts become more comfortable with their newly expanded discretionary authority, the insights presented in this Note may enable practitioners to take advantage of the opportunity to seek fees under § 285 and more precisely to focus their arguments.

*Octane* and *Highmark* have the potential dramatically to impact patent litigation in the future. This brief overview of the emerging decisions demonstrates the limits of that impact and illuminates the highly fact-dependent nature of attorney-fee determinations. Not every aspect of patent litigation—such as the definition of “prevailing party”—has been, or is likely to be, impacted. It is important for litigators to recognize how and when to frame their arguments for fees and avoid disputes over issues that are unlikely to yield benefit, despite the apparently changing climate.

#### IV. FOLLOWING *OCTANE* AND *HIGHMARK*, PARTIES IN PATENT LITIGATION SHOULD MORE AGGRESSIVELY SEEK ATTORNEY FEES UNDER 35 U.S.C. § 285

In the wake of *Octane* and *Highmark*, district courts enjoy broader discretion to declare a case exceptional under 35 U.S.C. § 285. Moreover, they need not fear that their decisions will be easily reversed under a de novo review by the Federal Circuit. Under the newly articulated standard, prevailing parties may be awarded attorney fees if their opponents’ cases are *either* substantively weak, based on the law *or* the facts of the individual cases, *or* if the cases were litigated in an unreasonable manner.<sup>175</sup> To take advantage of the expanded opportunity to seek attorney fees under § 285, this Note suggests that defendants in

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173. *Lighting Ballast Control LLC v. Philips Elecs. N. Am. Corp.*, 744 F.3d 1272 (Fed. Cir. 2014) (en banc). *But see* *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, \_\_U.S.\_\_, 135 S. Ct. 831, 841 (2015) (holding that while the Federal Circuit should “review the district court’s ultimate construction of the claim *de novo* . . . to overturn the judge’s resolution of an underlying *factual dispute*, the Court of Appeals must find that the judge, in respect to those factual findings, has made a clear error” (emphasis added)).

174. *See* *Linex Tech., Inc. v. Hewlett-Packard Co.*, No C 13-159 CW, 2014 WL 4616847, at \*5 (N.D. Cal. Sept. 15, 2014) (rejecting plaintiff’s argument that court should delay making § 285 attorney fee decision).

175. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1756 (2014).

patent litigation should (1) strive to inform courts of their expanded authority to shift fees; and (2) focus their arguments on the text of § 285 using common sense, while avoiding analogizing to other “exceptional cases.”

A. *Defendants in Patent Suits Should Strive to Inform District Court Judges that Awarding Fees Under 35 U.S.C. § 285 Is Now Within the Courts’ Discretion*

In *Octane*, the Supreme Court held that § 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.”<sup>176</sup> Despite the Court’s acknowledgement of broad discretionary authority in this area, many judges may still be hesitant to grant attorney-fee motions.<sup>177</sup> As one judge put it, “application of the American Rule remains the well-established presumption even in patent cases, and this Court will not depart from it lightly.”<sup>178</sup> Thus, when confronted by a “close case,” many judges will presumably “exercise [their] discretion not to award attorney’s fees.”<sup>179</sup>

There are a number of possible explanations for this attitude. It may stem from unfamiliarity with the complexities of patent litigation, for instance, or from fear of having a decision overturned—especially in light of the recently overruled line of cases following the *Brooks Furniture* framework. Alternatively, it may simply be general discomfort with the notion of shifting fees. To overcome this reluctance, parties—especially defendants—should actively seek to remind district court judges about the availability of fee awards, and judges should freely exercise their authority to grant fees without fear of being easily overruled when they decide to do so.

In American civil litigation generally, awards of attorney fees are rare. Indeed, requiring each party to pay its own fees in most instances is a “bedrock principle” of litigation in this country.<sup>180</sup> But in *Octane* and *Highmark*, the Supreme Court undeniably held that district courts have broad authority to award attorney fees in patent suits. In doing so, it

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176. *Id.* at 1755–56.

177. *See, e.g.*, *Wiley v. Rocktenn CP, LLC*, No. 4:12-cv-00226-KGB, 2014 WL 4929447, at \*6 (D. Ark. Sept. 30, 2014) (holding that case was not exceptional and explaining that “[e]ven if this case were an exceptional case . . . this Court would exercise its discretion and decline to award fees”).

178. *EON Corp. IP Holdings LLC v. Cisco Sys. Inc.*, No. 12–cv–01011–JST, 2014 U.S. Dist. LEXIS 101923, at \*19 (D. Del. July 25, 2014).

179. *Id.* at \*23.

180. *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 253 (2010).

signaled that § 285 should not lie dormant: the statute is meant to be used.<sup>181</sup> But, because the change is so new, and because most district court judges see relatively few patent cases,<sup>182</sup> it should not be surprising that individual judges may not fully understand how § 285 applies in the complex world of patent litigation. Judges may not, in fact, even be aware of the statute at all. It is up to the parties seeking fees, therefore, to inform courts about their newly broadened powers under *Octane* and *Highmark*, and to urge them to exercise those powers.

As one strategy to accomplish this goal, parties should consider announcing their intention to seek fees during the early stages of litigation. An increasing number of defendants, for example, have begun asserting a request for attorney fees in their answer to the plaintiff's complaint.<sup>183</sup> While it would be improper for a court actually to rule on such an issue prior to the final resolution of the case,<sup>184</sup> raising the issue from the outset reminds the court to be on the lookout for legal or factual weaknesses, and signals to the opposing party that the defendant is prepared to argue the issue when the time comes.

Additionally, when moving for fees at the close of a case, parties

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181. This conclusion is apparent from the reasoning articulated by the Court in *Octane*. In *Octane*, the Court overruled *Brooks Furniture* in part because it was so restrictive as to make § 285 meaningless, especially in light of the court's inherent power to sanction litigation misconduct. *See Octane*, 134 S. Ct. at 1758 ("We reject *Brooks Furniture* for another reason: It is so demanding that it would appear to render § 285 largely superfluous."). In removing *Brooks Furniture*'s "inflexible framework," the Court freed district courts to "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." *Id.* at 1757. Additionally, the Court explained that trial courts should invoke the statute and award fees in "case[s] presenting *either* subjective bad faith or exceptionally meritless claims [that] sufficiently set [them] apart from mine-run cases to warrant a fee award." *Id.* (emphasis added).

182. As of this writing there are 677 sitting Federal District Court Judges, *Federal Judgeships*, USCOURTS.GOV, <http://www.uscourts.gov/JudgesAndJudgeships/FederalJudgeships.aspx> (last visited Jan. 16, 2015), in the ninety-four federal districts, 18 U.S.C. § 133 (2012). Of the 6092 new patent cases filed in 2013, 2831 (i.e., over forty-six percent) were filed in just two districts: the Eastern District of Texas and the District of Delaware. LEX MACHINA, *supra* note 139, at 2. And another 875 cases (i.e., over fourteen percent) were filed in just three districts: the Central, Northern, and Southern Districts of California. *Id.* The remaining 2386 (i.e., roughly thirty-nine percent) were spread over the other eighty-nine districts.

183. *See, e.g.*, Amended Answer of Defendant Google Inc. to First Amended Complaint for Patent Infringement at 7, *SimpleAir, Inc. v. Google Inc.*, No. 2:13-cv-937-JRG, 2014 WL 7406433 (E.D. Tex. Dec. 15, 2014), ECF No. 32 (denying infringement and requesting fees and costs); Defendant Microsoft Corporation's Answer and Counterclaims at 8, *Viatch Tech., Inc. v. Microsoft Corp.*, No. 14-1226-RGA, 2014 WL 7442499 (D. Del. Dec. 8, 2014), ECF No. 10; *Wockhardt Bio Ag, Wockhardt Ltd. and Wockhardt USA, LLC's Answer and Counterclaims* at 34, *Cephalon, Inc. v. Wockhardt Bio Ltd.*, No. 1:14-cv-01332-GMS, 2014 WL 7333567 (D. Del. Nov. 13, 2014), ECF No. 12.

184. *See, e.g.*, *IPVX Patent Holdings, Inc. v. Voxernet, LLC*, No. 5:13-CV-01708 HRL, 2014 WL 2772297, at \*2 (N.D. Cal. June 18, 2014) (clarifying that "Section 285 addresses fee-shifting that occurs at the conclusion of a case").

should base their arguments on the Supreme Court's holding in *Octane* that "[d]istrict courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."<sup>185</sup> But they should also focus on the Court's opinion in *Highmark* in which the Court constrained the Federal Circuit's power to review fee awards and held that the appellate court "should apply an abuse-of-discretion standard of review in reviewing *all* aspects of a district court's § 285 determination."<sup>186</sup> Emphasizing that district courts now possess both greater discretionary authority to interpret § 285 and greater freedom to exercise that authority may allay some of the apprehension about granting fee awards.

Finally, and perhaps obviously, parties arguing for fees should do just that: *argue* for fees. A surprising number of cases failed because the moving party simply neglected to articulate why its opponent's case was exceptional.<sup>187</sup> As discussed more fully in Part VI.B, below, parties should strive to frame their arguments thoroughly, appealing to the court's common sense. If the defense believes, for example, that the plaintiff has neglected to carry out sufficient pre-suit investigation, then it should explain to the court in detail what an appropriate investigation entails, and then identify how plaintiff's conduct failed to meet that standard. Additionally, if the opposing counsel has engaged in particularly obstructive or vexatious behavior, the defendant should document and record such actions, appeal to the court's desire to foster professionalism, and then communicate in detail how opposing counsel's behavior deviated from standard notions of decorum.

After *Octane* and *Highmark*, "there is no precise rule or formula for making [attorney fee] determinations."<sup>188</sup> As parties continue to invoke § 285, and as courts become more comfortable shifting fees, a more

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185. *Octane*, 134 S. Ct. at 1756.

186. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1744, 1749 (2014) (emphasis added).

187. *See, e.g.*, *Inventio AG v. Thyssenkrupp Elevator Corp.*, Civ. Action No. 08-00874-RGA, 2014 WL 5786668, at \*14 (D. Del. Nov. 6, 2014) (concluding that defendant offered no sufficient basis to declare the case exceptional and denying the motion for fees); *CreAgri, Inc. v. Pinnaclelife, Inc.*, No. 11-CV-6635-LHK, 2014 WL 2508386, at \*13 (N.D. Cal. June 3, 2014) (explaining that defendant's characterization of plaintiff's conduct as "obstructionist" was too simplistic and "unsupported by any analysis"); *Small v. Implant Direct Mfg. LLC*, No. 06 Civ. 683(NRB), 2014 WL 5463621, at \*3 (S.D.N.Y. Oct. 23, 2014) (commenting that "[m]ere assertions that a party's arguments were without merit are generally unavailing"); *IPVX Patent Holdings, Inc. v. Taridium LLC*, No. 12-CV-5251 (KAM) (SMG), 2014 WL 4437294, at \*6 (E.D.N.Y. Aug. 6, 2014) (denying plaintiff's motion for fees because "[p]laintiff has not proffered any argument, nor can the Court anticipate any reasonable argument, as to why this case should be designated an 'exceptional case' for purposes of awarding attorney's fees").

188. *Octane*, 134 S. Ct. at 1756.

robust framework may emerge. At this early stage, perhaps the simple suggestions presented here will advance that goal.

*B. Parties Seeking Fees Should Describe Their Cases as “Exceptional” by Focusing on the Text of § 285 and Appealing to the Court’s Common Sense*

The twin decisions in *Octane* and *Highmark* present a remarkable opportunity for parties in patent litigation, particularly defendants, to request and receive awards of attorney fees. This Note argues that litigants, particularly defendants, should embrace this opportunity and seek fees in appropriate circumstances. Because the issue of exceptionality is highly dependent on the unique facts of the case, courts and litigants should be cautious before comparing their cases to prior successful cases, as any deviation from such a case’s facts could prompt a court to deny a fees motion.<sup>189</sup> Instead, litigants should focus their arguments on the text of § 285 and employ common sense argument. A few examples from the recent decisions illustrate these suggestions.

*1. Parties Seeking Fees Should Avoiding Comparing the Facts of Their Cases to “Prototypical Exceptional Cases”*

The Supreme Court explained that when evaluating a motion for attorney fees in a patent suit, “analysis begins and ends with the text of § 285.”<sup>190</sup> In order to describe cases as “exceptional,” litigants reasonably attempt to describe what constitutes normal conduct and then point out why their opponent has deviated from that normal course.<sup>191</sup> No two cases present identical factual scenarios, however, and it might be relatively simple to distinguish the prior case on its facts and leave the moving party with a negative ruling. As they argue for fees, therefore, litigants should refrain from comparing the facts of their cases to prior successful cases. An example from the Southern District of New York follows to illustrate.

The first § 285 attorney-fee decision from the Southern District of New York following *Octane* and *Highmark* involved proceedings that, in the court’s view, constituted a “prototypical exceptional case.”<sup>192</sup> The

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189. See, e.g., *Small v. Implant Direct Mfg. LLC*, No. 06 Civ. 683(NRB), 2014 WL 5463621, at \*4-5 (S.D.N.Y. Oct. 23, 2014) (distinguishing the case from *Lumen View Tech., LLC v. Findthebest.com, Inc.*, 24 F. Supp. 3d 329 (S.D.N.Y. 2014), and denying fees, in part because the plaintiff was “not a patent troll”).

190. *Octane*, 134 S. Ct. at 1755.

191. See *infra* Part IV.B.2.

192. *Lumen View Tech., LLC v. Findthebest.com, Inc.*, 24 F. Supp. 3d 329, 331 (S.D.N.Y. 2014).



case had grabbed nationwide media attention as the defendant's CEO, Kevin O'Connor, openly wrote about how he intended to "slaughter a patent troll."<sup>193</sup> After a judgment on the pleadings, the court granted defendant's motion for attorney fees and explained that "[t]he question of whether this case is exceptional is not close."<sup>194</sup> The court explained that the plaintiff was a non-practicing entity motivated to sue only to "extract a nuisance settlement from [the defendant] on the theory that [defendant] would rather pay an unjustified license fee than bear the costs of the threatened expensive litigation."<sup>195</sup> The court summarized the conduct that prompted the exceptional case determination and, after applying a totality-of-the-circumstances test, the court determined that the lawsuit was "frivolous and objectively unreasonable."<sup>196</sup> In the court's words, "fee shifting in this case will serve as an instrument of justice."<sup>197</sup>

Just a few months later, another judge in the Southern District of New York declined to award fees in the case of *Small v. Implant Direct Manufacturing, LLC*<sup>198</sup> after distinguishing the facts of the case from *Lumen View*. The court in *Small* highlighted several fact-based indicators that, it perceived, tended to show that a case was exceptional in other post-*Octane* district court decisions. First, the court decided that the defendant had not sufficiently described the case as meritless "early in the litigation," as the defendants in *Lumen View* and other cases had.<sup>199</sup> Second, the court pointed out that *Small*, the plaintiff, was "not a patent troll,"<sup>200</sup> like the plaintiff in *Lumen View*.<sup>201</sup> The plaintiff was also not "guilty of any litigation misconduct . . . approaching that which

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193. Kevin O'Connor, *How to Slaughter a Patent Troll in 5 Steps*, PANDODAILY (July 26, 2013) <http://pando.com/2013/07/26/how-to-slaughter-a-patent-troll-in-5-steps/>.

194. *Lumen View*, 24 F. Supp. 3d at 337.

195. *Id.* at 336.

196. *Id.* at 335. For additional information about the case background, see Joshua Brustein, *Troll Fighting: Anatomy of a Patent Lawsuit*, BUSINESSWEEK, (Sept. 17, 2013), <http://www.businessweek.com/articles/2013-09-17/troll-fighting-anatomy-of-a-patent-lawsuit>.

197. *Lumen View*, 24 F. Supp. 3d at 337 (internal quotation marks omitted).

198. No. 06 Civ. 683(NRB), 2014 WL 5463621 (S.D.N.Y. Oct. 23, 2014).

199. *Id.* at \*3 (citing *Lumen View*, 24 F. Supp. 3d 329; *Kilopass Tech. Inc. v. Sidense Corp.*, C 10-02066 SI, 2014 WL 3956703 (N.D. Cal. Aug. 12, 2014); *H-W Tech., Inc. v. Overstock.com, Inc.*, 3:12-CV-0636-G BH, 2014 WL 4378750 (N.D. Tex. Sept. 3, 2014)). The court reasoned that, "although *Octane* reduced the showing required for an award on the ground of objective baselessness, courts continue to hold claims of baselessness to a high bar." *Id.*

200. "Patent troll" is a commonly used pejorative term for a Non-Practicing Entity (NPE)—a company that is "not actually in business using patents but merely owns them to collect royalties and damages." Norris, *supra* note 88.

201. *Small*, 2014 WL 543621, at \*4 (reasoning that "the need for the deterrent impact of a fee award is greater where there is evidence that the plaintiff is a 'patent troll' or has engaged in extortive litigation" (citing *Lumen View*, 24 F. Supp. 3d 329)).

would be sanctionable under [Federal Rule of Civil Procedure] 11.”<sup>202</sup> Because the court was easily able to distinguish *Lumen View* and other prior cases on their facts, the court found that the case was not exceptional, and declined to award attorney fees—even though the court had explicitly stated in a previous opinion that the case “present[ed] an atypical, if not unique set of facts.”<sup>203</sup>

Because no two cases involve identical factual scenarios, the Supreme Court explicitly held that § 285 should be interpreted using a case-by-case, totality-of-the-circumstances evaluation.<sup>204</sup> Under the new framework laid out by the Court, it is neither necessary nor sufficient to point to the facts of a prior successful case in order to win an award of attorney fees under § 285. Instead of relying on analogies to prior successful cases when framing motions for fees—and risking failure when the prior cases are distinguished on their facts—parties should follow the example set by the Supreme Court in *Octane* and focus on the text of § 285.<sup>205</sup>

## 2. *Fee-Seeking Parties Should Focus Their Arguments on the Text of § 285 and Appeal to Common Sense*

*Octane* presents a straightforward method for evaluating attorney fee motions under § 285: “analysis begins and ends with the text of § 285.”<sup>206</sup> Instead of relying on analogies to prior successful cases when framing motions for fees, therefore, parties should follow the example set by the Supreme Court in *Octane* and focus on language of the statute.<sup>207</sup> The key term in § 285, Justice Sotomayor explained, is the word “exceptional.”<sup>208</sup> “Exceptional” is the adjectival form of the word “exception,” which comes from the Latin word *excipere* meaning “to take out.”<sup>209</sup> As the Court noted, “exceptional” means “uncommon,” “rare,” “not ordinary,” “unusual,” “out of the ordinary course,” “special,” and “not run-of-the-mill.”<sup>210</sup> Additional synonyms include

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202. *Id.* (citing *H-W Tech., Inc. v. Overstock.com, Inc.*, 3:12-CV-0636-G BH, 2014 WL 4378750 (N.D. Tex. Sept. 3, 2014)).

203. *Id.*

204. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_U.S.\_\_, 134 S. Ct. 1749, 1756 (2014).

205. *Id.* at 1755 (instructing that analysis of § 285 “begins and ends with the text of § 285”).

206. *Id.*

207. *Id.*

208. *Id.* at 1755–56 (holding that § 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”).

209. WEBSTER’S THIRD NEW INT’L DICTIONARY 791 (1993 ed.).

210. *Octane*, 134 S. Ct. at 1756 (citing *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771

“atypical,” “abnormal,” “surprising,” and “weird.”<sup>211</sup> In ordinary usage, the word connotes a deviation from what is usual or expected. Virtually anything can be exceptional, therefore, if it is somehow unlike others in a group.<sup>212</sup> In the litigation context, parties who wish to describe their case as exceptional must establish a conceptual pattern, and then demonstrate why the law or facts of the particular case deviate from that pattern using common sense.

The case of *Kilopass Technology Inc. v. Sidense Corp.*,<sup>213</sup> out of the Northern District of California, is an example of a decision that did not outline a set of factors from prior decisions in order to justify an exceptional-case determination, or try to distinguish the facts of the case from other § 285 cases. Instead, in that case the court simply evaluated “both the substantive strength of [the plaintiff’s] litigating position and the unreasonable manner in which the case was litigated”<sup>214</sup> to determine whether the case “[stood] out from others.”<sup>215</sup> The court weighed the strength of the plaintiff’s claims and found them to be “objectively baseless.”<sup>216</sup> The court held that the plaintiff had litigated the case “in an unreasonable manner by failing to conduct an adequate pre-filing investigation, shifting its theories of infringement late in the litigation and without following the proper procedures for amendment of contentions, and engaging in conduct that at times amounted to gamesmanship.”<sup>217</sup> Rather than comparing and contrasting the case with other patent suits, the court simply looked to “the totality of the circumstances” and concluded that the case was “an ‘exceptional’ case under 35 U.S.C. § 285.”<sup>218</sup> Unlike the court in *Small*, the *Kilopass* court rebuffed the notion that identifying the plaintiff as an NPE “is relevant to the determination of whether a case is ‘exceptional’ under § 285.”<sup>219</sup>

From these examples, parties can see that it may be unwise to try to cast the facts of a case in light of another case. It is not enough simply to

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F.2d 521, 526 (D.C. Cir. 1985) (R.B. Ginsburg, J., joined by Scalia, J.) (interpreting “exceptional” in the identical language in § 35(a) of the Lanham Act)).

211. CONCISE OXFORD AMERICAN THESAURUS 278 (2006 ed.).

212. For example, the U.S. President has ten days to sign a bill after presentment from Congress, “Sundays excepted.” U.S. CONST. art. I, § 7. In a more everyday scenario, a shop window might have a sign that reads: “Open every day except Sunday.” In both of these situations Sunday is exceptional.

213. No. C 10-02066 SI, 2014 WL 3956703 (N.D. Cal. Aug. 12, 2014).

214. *Id.* at \*9 (citing *Octane*, 134 S. Ct. at 1756).

215. *Id.* (quoting *Octane*, 134 S. Ct. at 1756).

216. *Id.* at \*14.

217. *Id.*

218. *Id.*

219. *Id.* n.15.

assert that the opponent is a “patent troll.”<sup>220</sup> Instead, a party should simply focus on the text of the fee-shifting statute and then use common sense to explain how the case deviates from court’s overall experience with litigation practices in general. Parties should explain to the court why relying on certain types of expert testimony in the pre-filing stage is unreasonable,<sup>221</sup> or point out why strategic decisions cross the ordinary bounds of civil litigation practice.<sup>222</sup> In essence, parties should urge judges to gauge whether the strength of the claims asserted by opposing parties and the manner in which they are pursued conform to the ordinary levels of civility, candor, and professionalism. Any deviation from ordinary practices is, arguably, “exceptional,” and litigants should not hesitate to bring such actions to the court’s attention.

The field of patent litigation is highly specialized and, many would say, altogether different from other fields of civil litigation.<sup>223</sup> Some may be concerned that the average district court judge around the country, who rarely hears a patent case, will not have enough experience with patent litigation to determine whether litigation conduct is unreasonable or not without a more formulaic interpretation structure, and will not be able to apply § 285 fairly and uniformly.<sup>224</sup> Additionally, as Justice Alito mentioned during the *Octane* oral arguments, patent litigators are perceived, as a group, to be a bit “different” from others.<sup>225</sup> This concern, however, is probably not much more than a paper tiger. In the eight months since *Octane* and *Highmark* judges in twenty-four different federal districts have decided § 285 attorney-fee cases.<sup>226</sup> Federal judges see parties from all walks of life and attorneys from every level of experience and competence. Furthermore, they adjudicate disputes

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220. *Id.*

221. *Id.* at \*14.

222. *Id.* at \*15 (describing the plaintiff’s conduct of shifting theories as “gamesmanship”).

223. See William T. Gallagher, *IP Legal Ethics in the Everyday Practice of Law: An Empirical Perspective on Patent Litigators*, 10 J. MARSHALL REV. INTELL. PROP. L. 309, 364 (2011) (explaining that “contemporary patent litigation may present a particularly challenging ethical landscape precisely because the cases can be complex, involve extraordinary numbers of documents, have multiple layers of attorneys involved, and also because the stakes in this type of litigation are often very high for both clients and their lawyers”).

224. See Transcript of Oral Argument at 11–12, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_\_U.S.\_\_\_, 134 S. Ct. 1749 (2014) (No. 12-1184) (Justice Alito: “[S]ay 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 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? I have very little basis for comparison. How do I do that?”).

225. *Id.* at 13; see also *Meyer Intellectual Props. Ltd. v. Bodum USA, Inc.*, No. 06 C 6329, 2014 WL 3724797, at \*2 (N.D. Ill. July 28, 2014) (“The Court notes that patent lawyers love to litigate aggressively and this was no exception on both sides.”).

226. See *supra* Part III.B.

relating to novel and complex issues of law spanning the entire spectrum of issues on a daily basis. There is no reason to presume, therefore, that courts will be unable to recognize legal or factual weaknesses in cases when they see them, so long as parties take the time carefully to aid the court in sifting through often complicated technical details that are the substance of most patent cases.

Courts can also recognize when parties—even those with legitimate claims—have chosen to pursue an unreasonable litigation strategy. For example, a recent case in the Northern District of California, *Linex Technologies, Inc. v. Hewlett-Packard, Co.*,<sup>227</sup> involved the following string of events. The plaintiff brought suit in the Eastern District of Texas against a multitude of defendants alleging that an industry standard technology infringed upon a patent it had acquired.<sup>228</sup> After the claim construction ruling, plaintiff settled the suit with the defendants, but then returned to the Patent and Trademark Office to seek a reissue of the patent—to broaden its scope.<sup>229</sup> Subsequently, the plaintiff refiled the suit in the District of Delaware, but requested a stay while a claim against the same defendants arising from the same patents was heard before the International Trade Commission (ITC)—despite awareness that the plaintiff could not establish domestic industry.<sup>230</sup> And then, after abandoning the ITC claim, seeing the suit transferred to yet another district, and ultimately losing on summary judgment of non-infringement.<sup>231</sup>

The defendants framed their argument for fees in the simplest manner

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227. *Linex Tech., Inc. v. Helwett-Packard Co.*, No C 13-159 CW, 2014 WL 4616847 (N.D. Cal. Sept. 15, 2014).

228. *Id.* at \*1.

229. *Id.*

230. The United States ITC “is an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade.” *About the USITC*, U.S. INT’L TRADE COMM’N, [http://www.usitc.gov/press\\_room/about\\_usitc.htm](http://www.usitc.gov/press_room/about_usitc.htm) (last visited Jan. 24, 2015). Entities that own intellectual property regularly initiate investigative actions against alleged infringers in the ITC to seek “exclusion orders,” prohibitions on importing infringing products into the United States, under 19 U.S.C. § 1337 (2012). The ITC is not a federal court and it operates with different laws and mandates, “most important among these being the mandate to protect domestic industry from ‘unfair trade practices’ under the trade acts enacted and amended throughout the twentieth century.” Taras M. Czebiniaik, Note, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in § 337 Investigations*, 26 BERKELEY TECH. L.J. 93, 93 (2011). The ITC was created to protect domestic industry, so patent owners that try to protect their intellectual property in that forum have been required, traditionally, to prove they have a domestic industry to protect. This is a troublesome task for NPEs, because, as the term non-practicing-entity expresses, they are not in the business of producing goods. This leaves the ITC with the dilemma of whether to “protect intellectual property rights or protect the domestic industry.” *Id.* at 94.

231. See *Linex*, 2014 WL 4616847, at \*1–2.

possible, asserting that the plaintiff's identical claims were "pursued in three different courts on three different occasions with substantially similar results"<sup>232</sup> and that doing so was exceptional. The court agreed, and held that the plaintiff, a self-described "three-person think tank,"<sup>233</sup> "knew or should have known that its . . . claims were meritless as asserted."<sup>234</sup> The court reasoned that the plaintiff's attempts to pursue essentially the same claims through three different fora—along with its "repeated[] attempt[s] to broaden the reach of its patents to capture technology it knew it did not invent"<sup>235</sup>—made the case exceptional, and an award of fees was justified.<sup>236</sup> Using common sense, the court evaluated the plaintiff's claims and conduct to conclude that they were unreasonable. The court did not attempt to find factual precedent for each element of the defendants' exceptionality arguments. On the contrary, the court accepted that the Supreme Court meant what it said in *Octane*, that the evaluation should be based on the totality of the circumstances without any "precise rule or formula."<sup>237</sup> Parties that wish to emulate the result in the *Linex* case should strive to convince courts to do likewise: to exercise their discretion by presenting them with common sense arguments and evaluating the entire spectrum of facts in the case.

Hopefully, these examples have illustrated that the most effective method for successfully seeking attorney fees under § 285 is to focus on the plain language of the statute, draw analogies to other areas of law, and, ultimately, appeal to a judge's common sense. For almost a decade, awards of attorney fees in patent suits were constrained by the "rigid and mechanical formulation"<sup>238</sup> of the *Brooks Furniture* framework. Under that "exacting standard,"<sup>239</sup> parties seeking fees in patent suits could only win if they were able to prove—by clear and convincing evidence—that the opposing party had engaged in material litigation misconduct, or else only when the case was brought in subjective bad faith *and* the claims are objectively baseless.<sup>240</sup> That is no longer the

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232. Scott Graham, *Apple, HP May Get "Half a Loaf" in Patent Fees*, THE RECORDER, July 31, 2014 (quoting oral argument of defense counsel, Bill Lee, partner at Wilmer Cutler Pickering Hale & Dorr).

233. *Id.* (quoting plaintiff counsel's statements at oral argument for attorney fees).

234. *Linex*, 2014 WL 4616847, at \*5.

235. *Id.*

236. *Id.*

237. *Id.* at \*3 (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, \_\_\_U.S.\_\_\_, 134 S. Ct. 1749, 1756 (2014)).

238. *Octane*, 134 S. Ct. at 1754.

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

240. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

case. After *Octane*, the analysis of § 285 “begins and ends with the text of § 285.”<sup>241</sup> Parties should seize this expanded opportunity, and seek to persuade district courts to exercise their broad discretion to award fees.

## CONCLUSION

In recent years it was difficult for parties—especially defendants—in patent litigation successfully to recover fees under 35 U.S.C. § 285. The United States Supreme Court’s decisions in *Octane* and *Highmark* have the potential dramatically to change that paradigm. In *Octane*, the Court held that district courts have broad discretion to award attorney fees, and that “there is no precise rule or formula for making [such] determinations.”<sup>242</sup> Instead, the fee shifting statute “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.”<sup>243</sup> In *Highmark*, the Court held that, under § 285—due to the highly fact-dependent nature of the exceptionality determination—district court awards of attorney fees are reviewed for abuse of discretion.<sup>244</sup>

This Note reviewed the legal landscape under § 285 before *Octane* and *Highmark* and then evaluated the law that has arisen in the months since those decisions reinterpreted the fee-shifting statute. In light of these developments, it is reasonable for parties in patent litigation—especially defendants—to feel empowered more aggressively to seek attorney fees under § 285.

In the new, post-*Octane* landscape, prevailing parties can recover attorney fees if their opponents’ cases are *either* substantively weak—based on either the *law* or the *facts* of the individual cases—*or* if the cases were litigated in an unreasonable manner.<sup>245</sup> To recover fees, this Note suggest that litigants should also strive to inform district courts that the decision whether or not to award fees lies within their broad discretion and that they need not fear easy reversal on this issue. When arguing for attorney fees, litigants should follow the Supreme Court’s example and focus on the plain meaning of § 285 using common sense and expertise gleaned from normal standards of civil litigation generally—not just the specialized field of patent litigation.

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241. *Octane*, 134 S. Ct. at 1755.

242. *Id.* at 1756.

243. *Id.* at 1755–56.

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

245. *Id.*