Published on *The National Law Review* https://natlawreview.com

# Federal Circuit Reverses Eastern District of Texas Denial of Attorneys' Fees Motion

Article By:

Kenneth M. Albridge III

A little over three years ago, the Supreme Court's decisions in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014) drastically changed the Federal Circuit's standards governing the award of attorneys' fees under 35 U.S.C. § 285, making attorneys' fees easier to recover in district court patent litigation and increasing deference toward fee decisions on appeal. In *Highmark*, the Supreme Court held that "an appellate court should review all aspects of a district court's § 285 determination for abuse of discretion." 134 S. Ct. at 1747. And in *Octane*, the Supreme Court explained that § 285 "imposes one and only one constraint" on that discretion—"[t]he power is reserved for 'exceptional' cases," which the Supreme Court characterized as those standing 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." 134 S. Ct. at 1755-56. Since that time, the Federal Circuit has had a number of occasions to address § 285 determinations by the district courts and generally recognized the deference owed to the district courts in deciding fee motions. However, it also has recognized that deference is not absolute.

On July 5, 2017, the Federal Circuit issued a precedential decision in *AdjustaCam, LLC v. Newegg, Inc.*, No. 2016-1882, slip op. (Fed. Cir. July 5, 2017), reinforcing the limits on a district court's discretion to deny fee motions under *Octane*. In *AdjustaCam*, the Federal Circuit held that the United States District Court for the Eastern District of Texas abused its discretion by not awarding fees to the defendants because "its decision was based on a clearly erroneous assessment of the evidence." *Id.* at 10 (quotations omitted). "Where a district court bases its decision on a clearly erroneous view of the evidence, as it did here," the Federal Circuit explained, "the court abuses its discretion in denying fees." *Id.* at 10.

The Federal Circuit had previously remanded the case with instructions to evaluate the defendants' motion for fees under the new *Octane* standards. *AdjustaCam, LLC v. Newegg, Inc.*, 626 F. App'x 987, 991 (Fed. Cir. 2015). On remand, however, the district court simply adopted the fact findings from its prior, pre-*Octane* exceptional case determination and concluded that the plaintiff's infringement and validity arguments were not so weak, and its litigation conduct was not so poor, as to make the case stand out from others. The Federal Circuit disagreed.

First, the Federal Circuit found that while the plaintiff "may have filed a weak infringement lawsuit,"

the "suit became baseless after the district court's *Markman* order" because there was "no dispute" about how the accused products functioned and "no possible way for [the accused] products to infringe." *AdjustaCam*, slip op. at 13-14. According to the Federal Circuit, those are "traits of an exceptional case" that "warranted" an award of fees. *Id.* at 14. The Federal Circuit also found that the plaintiff litigated the case in an unreasonable manner by repeatedly using "after-the-fact [expert] declarations" to press its frivolous arguments. *Id*. at 14-15. Finally, the Federal Circuit took note of "irregularities in [the plaintiff's] damages model" and "the purported nuisance value of many of its settlements," which the Federal Circuit concluded "should have played a role" in the district court's exceptional case determination. *Id.* at 15-16. The Federal Circuit therefore reversed the district court's decision and remanded the case with instructions to calculate attorneys' fees.

The Federal Circuit's decision in *AdjustaCam* is another example demonstrating that post-*Octane*, § 285's authorization to award attorneys' fees in exceptional cases has teeth. And the decision illustrates how parties defending against nuisance-value lawsuits in plaintiff-friendly jurisdictions traditionally viewed as reluctant to award fees can nevertheless leverage the *Octane* standard to their advantage.

## Other Notable Decisions – Week of July 7, 2017

Shinn Fu Co. of Am., Inc. v. Tire Hanger Corp., No. 2016-2250 (Fed. Cir. July 3, 2017) (non-precedential): In *Shinn Fu*, the Federal Circuit vacated and remanded a Patent Trial and Appeal Board decision granting a patent owner's motion to amend in an *inter partes* review proceeding. The Federal Circuit concluded "that the Board erred by ignoring the manner in which [the petitioner] proposed its obviousness combinations in opposition to [the patent owner's] motion to amend." The patent owner's combinations sought to modify "prior art references by *adding* features from particular references together," whereas "the Board addressed the prior art references by *removing* elements from individual references to achieve the resulting combination and found no motivation to combine the reference in this manner." "Because the Board did not provide any analysis with regard to the manner in which [the petitioner] proposed its key obviousness combination," the Federal Circuit found it had "no meaningful way to review the Board's patentability determination in light of [the petitioner's] arguments."

*Hitachi Metals, Ltd. v. Alliance of Rare-Earth Permanent Magnet Indus.*, Nos. 2016-1824, 2016-1825 (Fed. Cir. July 6, 2017) (non-precedential): In *Hitachi*, the Federal Circuit largely affirmed the Patent Trial and Appeal Board's unpatentability determinations in two related *inter partes* review proceedings. The Federal Circuit mostly upheld the Board's obviousness determinations based on "the Board's findings that the prior art elements were well-known, one of ordinary skill would have known how to combine them, and the results of so doing would have been predictable." The Federal Circuit also upheld the Board's anticipation determination, rejecting a claim construction challenge by the patent owner and reasoning "that the doctrine of claim differentiation requires" the Board's construction. The Federal Circuit, however, reversed the Board's obvious determinations as to two dependent claims based on a separate claim construction issue.

*IPCom GmbH & Co. v. HTC Corp.*, No. 2016-1474 (Fed. Cir. July 7, 2017) (precedential): In *IPCom*, the Federal Circuit affirmed the Patent Trial and Appeal Board's obviousness findings in *inter partes* reexamination proceedings except as to a single means-plus-function limitation, which the Federal Circuit concluded was erroneously construed. With respect to the claim construction issue, the Federal Circuit reaffirmed that § 112 ¶ 6 "applies regardless of the context in which the interpretation of means-plus-function language arises, i.e., whether as part of a patentability determination in the PTO or as part of a validity or infringement determination in a court." It then

concluded that “[t]he Board’s analysis was erroneous because it never specified what it believed was the actual algorithm disclosed in the [challenged] patent for performing the [claimed] function.” Instead, the Board “impermissibly treated the means-plus-function limitation in its patentability analysis as if it were a purely functional limitation.” Accordingly, the Federal Circuit vacated the Board’s claim construction of that limitation and remanded “for the Board to identify the corresponding algorithm (if any) in the specification in the first instance.”



National Law Review, Volume VII, Number 193