New Rules Mean It's Payback Time in Patent Cases

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It's been two years since the U.S. Supreme Court rewrote the rules for fee-shifting in patent cases and opened the door for companies to more easily recover millions of dollars in any patent case that "stands out from others."

Data compiled by The Recorder suggests that judges have been actively using the tool, though perhaps not exactly the way patent reform advocates had hoped—to make litigation more expensive for nonpracticing entities, often labeled "patent trolls."

Click here to view our full data.

Click here to see how NPE cases compare to non-NPE cases.

Overall, judges have granted 38 percent of the fee requests submitted since April 2014, when the Supreme Court issued its twin rulings in *Octane Fitness v. Icon Health & Fitness* and *Highmark v. Allcare Health Management Systems*. About half of the awards have come in competitor cases, while the awards against nonpracticing entities, NPEs for short, have often been against small individual inventors, not Intellectual Ventures, Round Rock Research, IP Nav and other 800-pound gorillas that monetized patent litigation.

Location also seems to matter for tallying the odds of a successful fee motion. The Southern District of New York has been the best place to ask for fees, as seven of 12 requests have been granted there. At the other end of the spectrum is the plaintiff-friendly Eastern District of Texas, where only one has been blessed.

Fee awards have ranged from $0 to $7.9 million, with about a dozen others settling for confidential amounts. The average reported award was $1.72 million, with a median of $700,000.

While fee shifting has had some impact on deterring abusive patent litigation, lawyers interviewed for this story said it has not been as important as the advent of inter partes review at the Patent Trial and Appeal Board, or even the Supreme Court's *Alice* ruling in some segments of the patent market.

Octane Fitness is the equivalent of a police car by the side of the road, said Durie Tangri

partner Clement Roberts. "People see it and they take it into account," said Roberts, whose firm secured $1.18 million in attorney fees for Zynga Inc. last fall in the Northern District of California. The impact has been "a matter of degree, not a great twist of the dial."

Buether, Joe & Carpenter partner Eric Buether, whose firm filed one fee motion and defended against four others in The Recorder survey, said there has been a push for fees against nonpracticing entities solely on the basis of suing multiple defendants and settling for amounts claimed to be nuisance value. But, he said, "most district courts have refused to base their decision on whether to find a case exceptional on the business model adopted by a litigant, properly focusing on whether the losing party pursued an extremely weak litigation position or engaged in litigation misconduct."

What that has meant in practice is that fee awards have tended to come against smaller, less sophisticated companies that have overstepped the bounds of fair play. In one such case, a family-owned web company demanded $50,000 from a nature photographer for allegedly infringing its "vote for your favorite photo online" patent. A New Jersey federal judge ruled the patent invalid and declared the case exceptional March 30. A fee award of about $30,000 appears likely in *Garfum.com v. Reflections by Ruth*.

Such cases may be small, but they can still make life miserable for the target of the lawsuit, said Electronic Frontier Foundation staff attorney Daniel Nazer, who was pro bono counsel to photographer Ruth Taylor in the case. He notes that the law firm representing Garfum.com, Austin Hansley, was tagged with the only fee award issued yet in the Eastern District of Texas. Austin Hansley did not respond to an emailed request for comment.

"There's no doubt that *Octane Fitness* has made a difference. It's increased the risk of bringing really frivolous litigation," Nazer said. "We don't know the extent to which these judgments are being collected on. At the end, there's a lot TBD."

HIGHER COMFORT LEVEL UNDER HIGHMARK

Section 285 of the Patent Act provides for fee shifting in "exceptional cases." Until two years ago, the U.S. Court of Appeals for the Federal Circuit interpreted "exceptional" as requiring proof that a litigant's case was both objectively baseless and brought in bad faith. The Supreme Court ruled in *Octane Fitness* that that standard was too rigid, and said instead that fees could be awarded when a case "stands out from others" with respect to its substantive strength or the unreasonable manner in which it was litigated.

Highmark, issued the same day as *Octane*, held that the Federal Circuit may reverse fee awards only when district judges have abused their discretion.

The Recorder surveyed all exceptional-case orders reported on Lexis through April 24. For cases decided before March 1, 2015, we drew in part from research published in the Berkeley Technology Law Journal. For NPE classifications we relied on data from defensive patent aggregator RPX Corp., plus our own additional research.

Though many of the largest NPEs remain virtually unscathed, Acacia Research Group is an exception; four fee awards totaling $1.8 million have been meted out against its subsidiary companies, though four other fee petitions have been fought off.

Big fee awards can and do happen. Just a few weeks ago U.S. Magistrate Judge Elizabeth

Laporte of San Francisco ordered the Alzheimer's Institute of America to pay a whopping $7.9 million to Eli Lilly and Co. and Elan Pharmaceuticals Inc. That was the largest post-*Octane* award in The Recorder's survey. A special master is also recommending that the Alzheimer's Institute pay $3.9 million to Avid Radiopharmaceuticals Inc. in related litigation in Pennsylvania.

Kaye Scholer partner Deborah Fishman represented Elan, which is now part of Perrigo Cos. and helped obtain a big chunk of the award. She says the facts of the case are so egregious she calls it the "Sex, Lies and Videotape" of patent litigation. A jury found that two university researchers conspired to cut their employers out of the credit for a genetically engineered mouse, in part by leaving one of their names off of a patent application. One of the researchers then teamed up with a venture capitalist to form the Alzheimer's Institute and sue multiple biopharma companies that were using the mice to study therapies for Alzheimer's disease. Kaye Scholer has been litigating the case alongside Finnegan, Henderson, Farabow, Garrett & Dunner; Dickstein Shapiro; and other law firms.

Fishman said she believes the Supreme Court's *Highmark* decision has actually had more impact on fee litigation strategy than *Octane Fitness*. After a long case, clients can be wary of taking the additional expense of pursuing fees if they aren't confident they'll stick on appeal, she said. Under *Highmark*, "If you think the judge has a real basis for ruling for you, it's much less likely to be overturned on appeal."

The flip side of the equation is that orders denying fees aren't vulnerable to appellate attack, either. "*Highmark* cuts both ways" is how Federal Circuit Judge Timothy Dyk put it at an April 6 argument. The court in that case affirmed U.S. District Judge Claudia Wilken's order granting $78,000 in fees for Adobe Systems Inc. but denied the company's bid for more.

That broad discretion afforded by the Supreme Court has led to substantial variation among trial judges, both in results and in tone.

"Plaintiff is a patent assertion entity (PAE) (known colloquially as a patent troll)," Judge Colleen McMahon of the Southern District of New York wrote August 28, finding a case filed by Advanced Video Technologies exceptional. "The threat of costly and disruptive litigation is their strongest tool, and it is a potent threat."

U.S. District Judge Anthony Trenga of Virginia brushed off Capital One Financial Corp.'s fee motion against Intellectual Ventures, saying he would not consider IV's status as a patent-assertion entity. "[P]atent litigation offers a wide opportunity for aggressive advocacy that does not exceed appropriate boundaries," Trenga wrote.

For companies that pursue fees aggressively, the Eastern District of Texas is the most frustrating venue. U.S. District Judge Rodney Gilstrap has denied four of five motions located by The Recorder's survey. Federal Circuit Senior Judge William Bryson has turned down four of four while presiding there as a visiting judge.

The unpredictable nature of fee litigation is going to weigh on each patent holder differently, particularly in competitor cases, said McDonnell Boehnen Hulbert & Berghoff partner Paul Berghoff. "Multinational companies litigating patent cases in Europe are used to paying the other side's fees," Berghoff said, though the awards there aren't usually as high. "Others are going to be chilled. That could be a good thing or a bad thing."

'THE LANDSCAPE IS CHANGING'

Collectively, the Northern District of California has charted a middle course on patent fee shifting, approving fees in one-third of cases. Judge Yvonne Gonzalez Rogers has rejected three motions while Judges Richard Seeborg and Paul Grewal have turned away two each. Judge Susan Illston granted a $5.3 million award in the competitor case *Kilopass v. Sidense* while denying two others. Wilken has granted two of three while trimming the amounts requested substantially. U.S. District Judge Vince Chhabria turned away Apple's request for $12.5 million against NPE Unwired Planet in August before ordering Segan LLC to pay Zynga $1.18 million the following month. The order held Segan's lawyers at Blank Rome responsible for $100,000, solely because Segan's claim construction positions and infringement theories were "objectively baseless."

In his Segan order, Chhabria said he would not hold the law firm responsible for the full fee amount because *Octane Fitness* wasn't on the books when it filed suit. "But the landscape is changing," Chhabria added, "such that the attorneys had less notice in 2011 than they do today of their own potential liability."

Durie Tangri's Roberts said the message was loud and clear: "Hear ye, hear ye, this is a one-time only get-out-of-jail-free card."

The challenge going forward will be how to advise clients ethically before pushing the outer boundaries of a patent claim, Roberts said. "Should you represent a client if the claim satisfies Rule 11 but you have an exceptional-case problem?" he asked. "I think it's going to be interesting the next time something comes up in this district."
