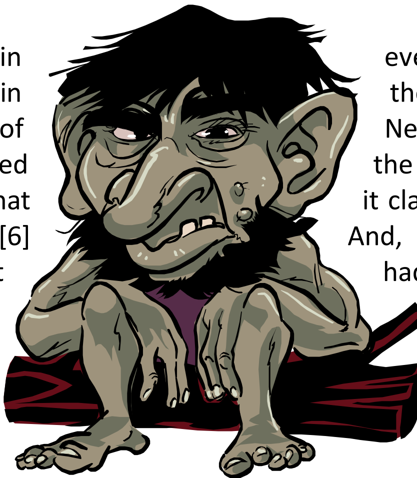
SILVER, GARLIC AND ATTORNEY'S FEES

How Judges May Increasingly Employ Fee Shifting to Ward Off So-Called "Patent Trolls"

This article was first published in Orange County Lawyer, October 2014 Vol. 56 No. 10.

In one of the first instances involving the shifting of fees under the new standards established in *Octane Fitness*, a federal court has ordered a plaintiff to pay the attorney's fees of a defendant. District Judge Denise Cote has granted FindTheBest.com's request for reimbursement, and ordered Lumen View Technology to pay the legal expenses FindTheBest incurred defending itself—an amount that could total over $200,000![1] This may be bad news for Non-Practicing Entities (NPEs)—perjoratively known as "patent trolls"—as it could indicate that U.S. district courts will now be imposing fee-shifting penalties more often as a means to deter the filing of frivolous claims.

On May 29, 2013, FindTheBest.com (FTB) was sued by Lumen View Technology, LLC. (Lumen View) for patent infringement. FTB is a Santa Barbara-based startup that operates a website that allows consumers to research and compare data on thousands of items – from cars to colleges to child care providers. Since its launch in 2010, FTB has raised around $17 million in venture capital funding and attracted over 23 million visitors.[2] Lumen View, a patent holding non-practicing entity (NPE), alleged that FTB's research engine infringed on its Patent No. 8,069,073, titled, "A System and Method for Facilitating Bilateral and Multilateral Decision-Making."[3] FTB's CEO Kevin O'Connor (former CEO and co-founder of DoubleClick) denied any infringement and vowed to fight, refusing Lumen View's settlement offer of $85,000.[4]



Unfortunately for Lumen View, the main event was decided before Lumen View even had a chance to lace up its gloves and get in the ring. On November 22, 2013, U.S. District Court for the Southern District of New York granted FTB's Motion for a Judgment on the Pleadings, and dismissed the suit.(5) The court completely invalidated Lumen View's purported patent, finding that it claimed an abstract idea, and was therefore patent ineligible under 35 U.S.C. § 101.[6] And, as the court noted in subsequent documents, even if Lumen View's patent had been valid, "the most basic pre-suit investigation would have revealed" that no infringement had occurred, as it was undisputed that FTB's research engine did not involve bilateral or multilateral decision-making.[7]

FTB then moved for the court to declare that this was an "exceptional case" under Section 285, and the matter was completely submitted by January 17, 2014.[8] But before the court ruled on this motion, the Supreme Court handed down its April 29 opinion on *Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* 572 U.S., 134 S. Ct. 1749, 188 L. Ed. 2d 816 (2014). After allowing the parties the opportunity to submit supplemental declarations, Judge Cote ultimately granted FTB's request for reasonable attorney's fees and non-taxable legal expenses on May 30, 2014. Judge Cote explained the basis of her decision by observing:

> The boilerplate nature of Lumen's complaint, the absence of any reasonable pre-suit investigation, and the number of substantially similar lawsuits filed within a short time frame, suggests that Lumen's instigation of baseless litigation is not isolated to this instance, but is instead part of a predatory strategy aimed at reaping financial advantage from the inability or unwillingness of defendants to engage in litigation against even frivolous patent lawsuits.[9]

And just in case there remained any room for confusion, Judge Cote clarified why the shifting of fees was warranted in this case by plainly stating, "Lumen's motivation in this litigation was to extract a nuisance settlement of $50,000 from FTB on the theory that FTB would rather pay an unjustified license fee than bear the costs of the threatened expensive litigation."[10]

The question is if Judge Cote would have reached the same conclusion in her Opinion & Order – i.e. that this was a "prototypical exceptional case" – if she had ruled on the motion *prior* to the *Octane Fitness* decision. Prior to the Supreme Court's April 29 ruling, it was almost impossible for a U.S. district judge to shift fees in a patent litigation case under the stringent requirements set forth by the Federal Circuit in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l*, *Inc*., 393 F.3d 1378 (Fed. Cir. 2005). Fortunately for FTB, a unanimous Supreme Court found these requirements to be "too restrictive" and "too inflexible," and overturned *Brooks Furniture,* declaring:

> In *Brooks Furniture Mfg*., the court held that a case is "exceptional" under § 285 only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Id.* at 1381. "Absent misconduct in conduct of the litigation or in securing the patent," the Federal Circuit continued, fees "may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Id.* The Federal Circuit subsequently clarified that litigation is objectively baseless only if it is "so unreasonable that no reasonable litigant could believe it would succeed *iLOR, LLC v. Google, Inc.,* 631 F.3d 1372, 1378 (Fed. Cir. 2011), and that litigation is brought in subjective bad faith only if the plaintiff "actually know[s]" that it is objectively baseless, id., at 1377.[11]

Thus, prior to *Octane Fitness,* the Federal Circuit adopted a very high standard wherein a case could only be declared "exceptional" upon a finding of litigation-related misconduct of an independently sanctionable magnitude, or where there is a determination that the litigation was so baseless that no reasonable person could believe they had a snowball's chance of success. Importantly, the Federal Circuit also required that such findings be made by "clear and convincing evidence."[12] In adopting a more flexible standard under *Octane Fitness,* the Supreme Court now allows for U.S. district court judges to decide if a case is exceptional in the "case-by-case exercise of their discretion, considering the totality of the circumstances."[13]

The Court further clarified in its *Octane Fitness* opinion 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.[14] The Supreme Court compared these new fee shifting provisions to those of the Copyright Act. The Court explained that under 17 U.S.C. §505, courts consider a "nonexclusive" list of factors, including "'frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.'"[15]

In a companion case that was also decided on April 29, 2014, *Highmark Inc. v. Allcare Health Mgmt. System.,* 572 U.S., 134 S. Ct. 1744, 188 L. Ed. 2d 829 (2014). the Supreme Court further determined that an appeal of a district court's decision to grant a request for reasonable fees based on 35 U.S.C. § 285 will no longer be reviewed de novo, but will instead reviewed for abuse of discretion. This, of course, means that it is much less likely that a district court's decision to grant reasonable fees in the "case-by-case exercise" of its discretion will be overturned.

In sum, NPEs – which some derisively refer to as "patent trolls" – should be wary of the change in precedent set by the High Court in the *Octane Fitness* and *Highmark*, given the Court's departure from the "American Rule," wherein each party to a lawsuit bears its own litigation costs. Under *Octane Fitness* and *Highmark*, district courts now have wide latitude to issue fee awards in patent infringement cases, particularly where they feel that there is a need to deter abuse from perceived "patent trolls." Prior to these decisions, NPEs were protected under the Federal Circuit's stringent test, and the presumption that the assertion of a duly granted patent is made in good faith. In the post-*Octane* and *Highmark* era, however, NPEs should probably think twice before they dive head-first into lawsuits and face the risk of paying the defendants' attorneys' fees.

ENDNOTES

[1] Joe Mullin, *Payback Time: First Patent Troll Ordered to Pay "Extraordinary Case" Fees*, Ars Technica (June 1, 2014), http://arstechnica.com/tech-policy/2014/06/its-payback-time-as-findthebest-wrests-legal-fees-from-patent-troll/?kw=100k_pvs&search=100k_pvs. (last visited on June 19, 2014).
[2] *FindTheBest*. Crunchbase, http://www.crunchbase.com/organization/findthebest (last visited on June 19, 2014).
[3] *Lumen View Tech. LLC v. Findthebest.com, Inc.,* No. 13 CIV. 3599 (DLC), 2013 WL6164341, (S.D.N.Y. Nov. 22, 2013). *Available at*: http://law.justia.com/cases/federal/district-courts/new-york/nysdce/1:2013cv03599/412511/55 (last visited June 19, 2014).
[4] *Id.*
[5] *Id.*
[6] *Id.*
[7] *Lumen View Technology LLC v. Findthebest.com, Inc.,* No. 13 Civ. 3599 (S.D.N.Y. May 30, 2014).
http://www.scribd.com/doc/227596331/FTB-Fee-Order
[8] *Lumen View Technology LLC v. Findthebest.com, Inc.,* No. 13 Civ. 3599 (DLC), 2014 WL 2050610 (S.D.N.Y. May 19, 2014).
[9] *See* 7 above
[10] *Id.*
[11] *Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* 134 S. Ct. 1749 (2014). http://www.patentprogress.org/documents/octane-fitness-v-icon-health-fitness-decision/
[12] *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). https://law.resource.org/pub/us/case/reporter/F3/393/393.F3d.1378.03-1379.html
[13] *See* 11 above. At 1756
[14] *Id.*
[15] *Id.* at 1756

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