Using “Octane” to Deter Nuisance Patent Suits

By Andrew Grossman, Ericka J. Schulz & Steven Moseley


The Supreme Court’s unanimous decision in Octane Fitness a year ago shifted the analysis of whether a case was “exceptional” under 35 U.S.C. §285 from a rigid test with a demanding clear-and-convincing standard of proof, to a holistic, discretionary analysis requiring only a preponderance of the evidence. Compare Octane, 134 S. Ct. at 1756-58, with Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc., 393 F.3d 1378 (Fed. Cir. 2005) (requiring either independently sanctionable misconduct or that the litigation was both “objectively baseless” and “brought in subjective bad faith”). According to Octane, a court may award reasonable attorney fees to a prevailing party if the case “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.” 134 S. Ct. at 1756. Courts no longer need to find both objective baselessness and bad faith. See id. Instead, a court may look to the totality of the circumstances, using a “nonexclusive” list of factors that include “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.” Id. at 1756 n. 6 (quoting Fogerty v. Fantasy, 510 U.S. 517, 534, n.19 (1994) (discussing a similar provision to the Copyright Act).

Although early in the post-Octane era, we have found a number of district courts that use the “deterrence’ prong” of the Octane test as a means to award attorney fees against plaintiffs that pursue baseless patent litigation. We provide three examples below.

As a first example, in Lumen View Tech. LLC v. Findthebest.com, Inc., Lumen, a patent holding company, brought a lawsuit for a multi-lateral matchmaking system against FindTheBest.com, Inc.’s (“FTB”) website. 2014 WL 2440867, at *1. Lumen’s complaint alleged FTB’s website used a bilateral matchmaking system (e.g., preferences entered by more than one party). Id. at *2. Shortly after Lumen filed the complaint, it sent a demand letter to FTB, threatened expensive litigation, protracted and extensive discovery, offered a settlement license, and threatened a settlement demand escalator. Id. at *3. FTB informed Lumen that FTB’s website used a unilateral matchmaking process, not bilateral
(as required by the claims), and thus could not infringe the Lumen patent. *Id.* Lumen refused to provide FTB with infringement evidence. *Id.*

Although FTB quickly disposed of the case, the court still found the case exceptional under §285 because (1) no reasonable litigant could have expected to succeed on the merits since it was uncontested that the claims required bilateral matchmaking, which FTB did not use, (2) the most basic pre-suit investigation would have revealed this fact, and Lumen was on notice of it from the outset, and (3) Lumen’s motivation was to extract a nuisance settlement. *Id.* at *6–*7. The court found that Lumen had engaged in a "predatory strategy aimed at reaping financial advantage from the inability or unwillingness of defendants to engage in litigation against even frivolous patent lawsuits." *Id.* at *7. This "predatory strategy" was evidenced by threats of expensive litigation, the number of substantially similar lawsuits settled within a short time frame, the absence of a pre-suit investigation, and the objective baselessness of the case. *Id.*

The *Lumen* court not only granted attorney fees, but doubled the award to FTB in order to “be substantial enough to deter Lumen from pursuing baseless claims in [that] manner....” *Lumen View Tech., LLC v. Findthebest.com, Inc.*, No. 13-cv-3599, 2014 WL 5389215, at *5 (S.D.N.Y. Oct. 23, 2014). This contrasts starkly, however, with *TNS Media Research, LLC v. Tivo Research & Analytics*, in which the court limited plaintiff’s attorney fees award to those “causally-related” to a baseless claim construction, judicial estoppel argument, and attack of a witness’s credibility. No. 11 Civ. 4039(SAS), 2014 WL 5639930, at *5 (S.D.N.Y Nov. 4, 2014).

As a second example, in *Summit Data Systems, LLC v. EMC Corporation*, the court similarly granted attorney fees against a non-practicing entity ("NPE") in order to deter "reckless and wasteful litigation in the future.” No. 10–749–GMS, 2014 WL 4955689, at *5 (D. Del. Sept. 25, 2014). There, Summit pursued an induced infringement action against a number of defendants, including NetApp, Inc. *Id.* at *1. Prior to filing the suit, Summit licensed the technology to a group that included another tech company, but withheld this vital fact from NetApp for an additional eighteen months. *Id.* at *1–*2. Knowing from the start that NetApp users primarily used the other tech company’s initiator software, it took two years for Summit to concede that NetApp could not induce infringement of its users using that tech company’s product due to the 18-month old license, and it dismissed its claims. *Id.* at *2–*3. The court found that (1) the baselessness of the claims, (2) the delay in disclosing the license, and (3) the fact that Summit “extracted settlements from co-defendants worth a fraction of what it would actually cost them to defend the lawsuit, and then voluntarily dismissed its claims [against NetApp] with prejudice prior to the court issuing a ruling on the merits[,]” all weighed in favor in finding the case exceptional under §285. *Id.* at *5.

As a last example, like Summit, IPVX Patent Holdings, Inc. was told to fork over attorney fees because the court found its conduct “exceptional.” *IPVX Patent Holdings, Inc. v. Voxernet LLC*, No. 5:13–cv–01708 HRL, 2014 WL 5795545, at *5 (N.D. Cal. Nov. 6, 2014). The court granted fees because IPVX prosecuted the case in assembly-line fashion, served boilerplate complaints on dozens of defendants, failed to perform a pre-suit investigation, and failed to expend the resources needed to support its infringement positions. *Id.* The court found “[d]etering similar behavior... is an appropriate consideration in awarding fees.” *Id.* (citing *Octane*, 134 S.Ct. at 1756, n.6); see also *Kilopass Tech. Inc. v. Sidense Corp.*, No. 10-cv-02066-S, 2015 WL 1065883, at *5,*14 (N.D. Cal. Mar. 11, 2015) (finding the case “exceptional” and awarding attorney fees of $5.5 million against pro se plaintiff computer chip manufacturer for its failure to conduct an adequate pre-trial investigation and for filing a baseless case).
It is important to note that these examples stand apart from others deemed “exceptional” due to “egregious behavior.” See, e.g., Intellect Wireless, Inc. v. Sharp Corp., No. 10–6763, 2014 WL 2443871, at *6 (N.D. Ill. May 30, 2014) (awarding fees based on false declarations before the PTO, without which, the court concluded, the plaintiff would not have obtained the patents at issue); Cognex Corp. v. Microscan Sys., Inc., No. 13–2027, 2014 WL 2989975, at *4 (S.D.N.Y. June 30, 2014) (criticizing plaintiff for post-trial motions that simply sought to re-litigate issues decided during trial and awarding fees at least as to those motions).

Conversely, other courts have found cases that were pursued on “loose footing,” were nevertheless non-exceptional. LendingTree, LLC v. Zillow, Inc., No. 3:10–cv–00439–FDW–DCK, 2014 WL 5147551, at *11 (W.D.N.C. Oct. 9, 2014). In LendingTree, the court denied Zillow’s motion for attorney fees although LendingTree continued to pursue its case after the court’s claim construction “substantially limited” LendingTree’s infringement allegations. Id. Although the court found LendingTree’s evidence “minimal,” it repeatedly denied Zillow’s motions for summary judgment, suggesting the case was not “frivolous or groundless.” Id. At *12.

This makes clear that the fact-based determination of what does, or does not, tip the scale to make a case “exceptional” under §285 is left to the court’s discretion. Moreover, this discretion is afforded much deference, and is now reviewable only for an abuse of discretion, instead of de novo as previously required. Highmark Inc. v. Allcare Health Mgmt., 134 S. Ct. 1744 (2014). This will likely make it more difficult to reverse a finding of “exceptional” under §285.

Andrew Grossman is a partner at Paul Hastings who focuses on intellectual property litigation, primarily patent litigation, in the electronics, semiconductor, software, medical device, and green technology industries. Ericka Jacobs Schulz is an associate at Paul Hastings who focuses on patent and trade secret litigation in a wide range of technical fields involving electrical, software, networking, mechanical, and medical device systems. Steven P. Moseley is an associate at Paul Hastings who focuses on intellectual property litigation, with a particular emphasis on patent-related matters.

This article originally appeared in The Recorder, published on May 4, 2015.

If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

Los Angeles
Andrew B. Grossman
1.213.683.6250
andrewgrossman@paulhastings.com

San Diego
Ericka Schulz
1.858.458.3025
erickajschulz@paulhastings.com