No. 21-___

IN THE

# Supreme Court of the United States

HEAT ON-THE-FLY, LLC, AND SUPER HEATERS NORTH DAKOTA, LLC,

*Petitioners,*

*v.*

ENERGY HEATING, LLC, ROCKY MOUNTAIN OILFIELD SERVICES, LLC, MARATHON OIL CORPORATION, AND MARATHON OIL COMPANY,

*Respondents.*

**ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

## PETITION FOR A WRIT OF CERTIORARI

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## QUESTION PRESENTED

Must a district court consider litigation misconduct, or lack thereof, in determining whether a case is exceptional under 35 U.S.C. § 285?

## CORPORATE DISCLOSURE STATEMENT

Petitioners Heat On-The-Fly, LLC, and Super Heaters North Dakota, LLC, both have as a parent corporation Phoenix Consolidated Oilfield Services, LLC. The parent corporation of Phoenix Consolidated Oilfield Services, LLC, is Phoenix Services, LLC, and the parent of Phoenix Services, LLC, is Quantum Energy Partners. No publicly held company owns more than 10 percent of the stock of either Heat On-The-Fly, LLC or Super Heaters North Dakota, LLC.

## RELATED PROCEEDINGS

The following proceedings are directly related to this case within the meaning of Rule 14.1(b)(iii):

- *Energy Heating, LLC v. Heat On-The-Fly, LLC*, No. 4:13-00010-RRE-ARS, U.S. District Court for the District of North Dakota. Judgment entered June 17, 2020.

- *Energy Heating, LLC v. Heat On-The-Fly, LLC*, No. 15-1545, U.S. Court of Appeals for the Federal Circuit. Appeal dismissed July 20, 2015.

- *Energy Heating, LLC v. Heat On-The-Fly, LLC*, Nos. 16-1559, 16-1893, and 16-1894, U.S. Court of Appeals for the Federal Circuit. Judgment entered May 4, 2018.

- *Energy Heating, LLC v. Heat On-The-Fly, LLC*, No. 20-2038, U.S. Court of Appeals for the Federal Circuit. Judgment entered October 14, 2021.

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Petitioners Heat On-the-Fly, LLC and Super Heaters North Dakota, LLC (collectively, "HOTF"), respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit (the "Federal Circuit") in this case.

## OPINIONS BELOW

The opinion of the court of appeals (App. 1a-13a) is published in the Federal Reporter at 15 F.4th 1378. The district court's order finding this case exceptional pursuant to 35 U.S.C. § 285 (App. 14a-17a) is unreported. That order adopts the report and recommendation of the magistrate judge (App. 18a-58a), which is also unreported.

## JURISDICTION

The judgment of the court of appeals was entered on October 14, 2021. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## STATUTORY PROVISION

35 U.S.C. § 285 provides: "The court in exceptional circumstances may award reasonable attorney fees to the prevailing party."

## STATEMENT OF THE CASE

HOTF alleged that Respondents Energy Heating, LLC, Rocky Mountain Oilfield Services, LLC, Marathon Oil Company, and Marathon Oil Corporation infringed HOTF's U.S. Patent No. 8,171,993 ("the '993 Patent"). Prior to trial, the district court granted summary

judgment dismissal of HOTF's patent infringement claims, holding that the '993 Patent was invalid as obvious. On January 14, 2016, after trial, the district court entered an Order finding that the patentee had engaged in inequitable conduct during prosecution of the '993 Patent.

Respondents subsequently moved for attorneys' fees based on their contention that this is an exceptional case under 35 U.S.C. § 285. On March 16, 2016, the district court denied those motions, holding that "HOTF's defense of this case was not exceptional nor out of the ordinary." Among other factors, the district court considered HOTF's manner of litigation and, specifically, whether HOTF engaged in litigation misconduct. The district court made detailed findings that HOTF had not engaged in litigation misconduct, concluding that neither HOTF nor its counsel engaged in "vexatious litigation tactics or any pattern of litigation misconduct." The district court expressly found that:

- HOTF and its counsel did not engage in "vexatious litigation tactics or any pattern of litigation misconduct."

- HOTF did not unreasonably or unnecessarily delay this matter.

- HOTF did not "use the high cost [of litigation] to extract a nuisance-value settlement."

- HOTF and its counsel did not "deliberately misrepresent[] any law" or "introduce[] or rel[y] on any expert testimony that did not meet minimal standards of reliability."

Considering the totality of the circumstances, the district court found that this case was not exceptional and that it was "not persuaded that equity requires it to depart from the American Rule and award attorney fees" to Respondents.

On appeal, the Federal Circuit affirmed the district court's finding that the '993 Patent was unenforceable due to inequitable conduct, but vacated and remanded for reconsideration the district court's finding that the case was not exceptional. *Energy Heating, LLC v. Heat On-the-Fly, LLC*, 889 F.3d 1291 (Fed. Cir. 2018). The Federal Circuit vacated and remanded because the district court's statement that "HOTF reasonably disputed facts with its own evidence and provided a *meritorious* argument against a finding of inequitable conduct" contradicted *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011), which held that "when there are multiple reasonable inferences that may be draw, intent to deceive cannot be found.'" *Id.* at 1308.

On remand, the district court found that this case is exceptional under 35 U.S.C. § 285. (App. 14a-17a). The presiding judge, the honorable Ralph R. Erickson,[1] referred Respondents' renewed motions to Magistrate Judge Alice R. Senechal for a Report and Recommendation. The magistrate judge issued a Report and Recommendation recommending that the district court find this case exceptional "considering recent case law, the nature and extent of HOTF's inequitable conduct,

1. Judge Erickson had in the meantime been appointed to the United States Court of Appeals for the Eighth Circuit, but continued to preside over this case by designation.

and the jury's findings of bad faith." (App. 18a-58a). The recommendation rested on two bases. First, the magistrate judge reviewed the case law and noted that all of the reported post-*Therasense* and *Octane Fitness* cases found exceptionality when there was a finding of inequitable conduct. Second, the magistrate judge gave "considerable weight to the jury's finding, by clear and convincing evidence, that it was both objectively and subjectively baseless for HOTF to suggest its patent was valid, that no reasonable person could expect to prevail on claims of the patent's validity, and that HOTF either knew that the patent was invalid or the invalidity of the patent was so obvious HOTF should have known it was invalid." (App. 53a). Based on that finding, the magistrate judge concluded that "HOTF's case was substantively weak" and that its pursuit of its claims was unreasonable. *Id.* The magistrate judge did not address or apparently consider whether HOTF had engaged in litigation misconduct. The district court adopted the Report and Recommendation without any substantive discussion. (App. 14a-17a).

HOTF appealed the district court's determination that this case is exceptional to the Federal Circuit, arguing in part that the district court had abused its discretion by failing to consider HOTF's manner of litigation, specifically, whether it had engaged in litigation misconduct. The Federal Circuit affirmed, holding in part that the district court was not required to affirmatively weigh HOTF's purported 'lack of litigation misconduct.'" *Energy Heating, LLC v. Heat On-The-Fly, LLC*, 15 F.4th 1378, 1383 (Fed. Cir. 2021) (App. 9a). The Federal Circuit held that the "district court properly considered the totality of the circumstances, including the manner of HOTF's litigation, finding that 'HOTF litigated the case

in an unreasonable manner by persisting in its positions.'" *Id.* at 1384 (App. 10a).

## REASONS FOR GRANTING THE PETITION

This Court held in *Octane Fitness* that district courts must "determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014). Recent decisions of the Federal Circuit, however, have created uncertainty regarding the required scope of the factors that the district courts must consider in order to properly exercise their discretion in determining exceptionality.

In *Electronic Comm'n Techs., LLC v. Shopperschoice.com, LLC*, 963 F.3d 1371 (Fed. Cir. 2020), the Federal Circuit considered when a district court abuses its discretion in the application of the *Octane Fitness* test. The Federal Circuit held that the district court abuses its discretion when it does not properly consider or weigh relevant factors: "An abuse of discretion occurs where a district court makes 'a clear error of judgment in weighing relevant factors or in basing its decision on an error of law or on clearly erroneous factual findings.'" *Id.* at 1376, *quoting Bayer CropScience AG v. Dow AgroSciences LLC*, 851 F.3d 1302, 1306 (Fed. Cir. 2017). In that case, the Federal Circuit held unequivocally that the district court had abused its discretion by failing to address the patentee's "manner of litigation." *Id.* at 1377. The Federal Circuit noted that, "[w]hile [a] district court need not reveal its assessment of every consideration of § 285 motions, it must actually assess the totality of the

circumstances." *Id.* at 1378, *quoting AdjustaCam, LLC v. Newegg, Inc.*, 861 F.3d 1353, 1360 (Fed. Cir. 2017). "By not addressing the 'adequate evidence of an abusive pattern' of ECT's litigation, … the District Court failed to conduct an adequate inquiry and so abused its discretion …." *Id.* at 1378-79 (citations omitted).

The Federal Circuit's holding in *Electronic Comm'n* was clear and easily applied by district courts and litigants: district courts must address and consider the parties' "manner of litigation" when determining exceptionality, including whether the relevant party engaged in litigation misconduct. In this case, however, the Federal Circuit contradicted its clear rule from *Electronic Comm'n*, holding that the "the district court was not required to affirmatively weigh HOTF's purported 'lack of litigation misconduct.'" *Energy Heating*, 15 F.4th at 1383 (App. 9a). Although the Federal Circuit agreed that the "manner of litigation" is "a relevant consideration," *id.* at 1378 (App. 10a), it held that "the absence of litigation *misconduct* is not separately of mandatory weight." *Id.* at 1384 (App. 10a). This is a distinction without a difference. Consideration of a party's "manner of litigation" necessarily includes consideration of potential litigation misconduct.

The Federal Circuit's opinion further illustrates the confusion caused by its holding. Here, the Federal Circuit found that the district court "properly considered the totality of the circumstances, including the manner of HOTF's litigation, finding that 'HOTF litigated the case in an unreasonable manner by persisting in its positions.'" *Id.* at 1384 (App. 10a). This conclusion, however, ignores the distinction between "the substantive strength of a party's litigating position" and "the unreasonable manner

in which the case was litigated." *Octane Fitness*, 572 U.S. at 554. The district court's holding cited by the Federal Circuit goes to the substantive strength of HOTF's litigating position, not to its manner of litigating the case. Thus, the district court failed to consider an undisputedly relevant factor: the manner in which HOTF litigated the case; and specifically, whether it engaged in litigation misconduct. That is an abuse of discretion, particularly in light of the district court's prior determination that HOTF did not engage in such misconduct.

In sum, the Federal Circuit's decision in this case creates uncertainty and confusion regarding the factors that district courts must address and consider in order to properly exercise their discretion and consider the "totality of the circumstances" when determining exceptionality. This case presents the Court with an opportunity to clarify its test for exceptionality under *Octane Fitness* and provide clarity to district courts and litigants on this important issue.

## CONCLUSION

For the foregoing reasons, Petitioners Heat On-The-Fly, LLC, and Super Heaters North Dakota, LLC, respectfully request that this Court issue a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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Dated: January 12, 2022

# APPENDIX

**APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, FILED OCTOBER 14, 2021**

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2020-2038

ENERGY HEATING, LLC, ROCKY MOUNTAIN OILFIELD SERVICES, LLC,

*Plaintiffs-Appellees,*

MARATHON OIL CORPORATION, MARATHON OIL COMPANY,

*Third-Party Defendants-Appellees,*

v.

HEAT ON-THE-FLY, LLC, SUPER HEATERS NORTH DAKOTA, LLC,

*Defendants-Appellants.*

Appeal from the United States District Court for the District of North Dakota in No. 4:13-cv-00010-RRE-ARS, Chief Judge Ralph R. Erickson.

October 14, 2021, Decided

*Appendix A*

Before MOORE, *Chief Judge*, PROST and STOLL, *Circuit Judges*.

PROST, *Circuit Judge*.

On remand on the issue of attorneys' fees (following an affirmed judgment of patent unenforceability due to inequitable conduct), the district court found this case exceptional under 35 U.S.C. § 285 and entered judgment awarding fees to Energy Heating, LLC, Rocky Mountain Oilfield Services, LLC, Marathon Oil Corporation, and Marathon Oil Company (collectively, "Appellees"). Heat On-The-Fly, LLC and Super Heaters North Dakota, LLC (collectively, "HOTF")[1] now appeal the district court's exceptionality determination. We affirm.

## BACKGROUND

This case is before us for a second time. In the first appeal, we affirmed the district court's judgment that U.S. Patent No. 8,171,993 ("the '993 patent") is unenforceable due to inequitable conduct but vacated the district court's denial of attorneys' fees under § 285 and remanded on that issue alone. *Energy Heating, LLC v. Heat On-The-Fly, LLC*, 889 F.3d 1291, 1308 (Fed. Cir. 2018). On remand, the district court found the case to be exceptional under § 285 and awarded attorneys' fees.

1. Heat On-The-Fly is the patent owner and Super Heaters is a "sister corporation" of Heat On-The-Fly and a licensee of the patent. Appellants' Br. 6; J.A. 3307. The district court and the parties used "HOTF" to refer collectively to both entities. We do the same for consistency.

*Appendix A*

I

HOTF owns the '993 patent, which relates to a "method and apparatus for the continuous preparation of heated water flow for use in hydraulic fracturing," also known as fracking. *Id.* at col. 1 ll. 28-30, 36-37. Energy Heating and Rocky Mountain Oilfield Services (collectively, "Energy") compete with HOTF in providing water-heating services during fracking. After a dispute arose between Energy and HOTF over possible patent infringement, Energy sought a declaratory judgment that the '993 patent was unenforceable due to inequitable conduct, invalid as obvious, and not infringed. Energy additionally pled state-law tort claims.[2] In response, HOTF filed counterclaims of infringement against Energy and filed a third-party infringement complaint against Marathon Oil Corporation and Marathon Oil Company (collectively, "Marathon"), which contracted with Energy for on-demand water-heating services. Marathon then filed counterclaims of its own that mirrored Energy's declaratory-judgment suit.

Before trial, the district court granted partial summary judgment in Appellees' favor, finding no direct infringement of certain claims of the '993 patent and holding all claims invalid as obvious. The case then proceeded to a jury trial and a bench trial held concurrently—the jury heard Energy's tort claims and the district court heard Appellees' inequitable-conduct

2. Energy also pled trademark claims on which it prevailed at trial.

claims. The district court ultimately concluded that the '993 patent was unenforceable due to inequitable conduct. Specifically, the court found by clear and convincing evidence that the patent would not have issued but for HOTF's deliberate decision to withhold information from the Patent and Trademark Office ("PTO")—information about substantial on-sale and public uses of the claimed invention well before the patent's critical date, and that it withheld with an intent to deceive. The jury, for its part, found that HOTF tortiously interfered with Energy's business. It awarded damages for that con-duct. *See* J.A. 312-13. The jury also found, by clear and convincing evidence, that HOTF represented in bad faith that it held a valid patent (although the jury found that HOTF did not commit the torts of deceit or slander). J.A. 312-13. The district court subsequently denied attorneys' fees under § 285.[3]

After trial, HOTF appealed the judgments of inequitable conduct and tortious interference, the summary judgments of obviousness and no direct infringement, and the construction of disputed claim terms. Appellees cross-appealed the district court's denial of attorneys' fees under § 285. As to HOTF's appeal, we affirmed the judgment that the '993 patent is unenforceable due to inequitable conduct and therefore declined to reach the remaining patent issues raised by HOTF. *Energy Heating*, 889 F.3d at 1296. We also

3. The district court also denied attorneys' fees and treble damages that Energy sought under state law because Energy did not plead the relevant cause of action. We affirmed this denial in the prior appeal. Energy Heating, 889 F.3d at 1305.

affirmed the judgment of tortious interference. *Id.* As to Appellees' cross-appeal, we vacated the district court's denial of attorneys' fees under § 285 because the court's opinion left us "unsure as to whether the court's basis for denying attorneys' fees rests on a misunderstanding of the law or an erroneous fact finding" and remanded the issue to the district court for reconsideration. *Id.* at 1307-08.

## II

On remand, Appellees renewed their motions for attorneys' fees under § 285, and the district court referred the motions and all supplemental briefing to a magistrate judge. The magistrate judge conducted a hearing and then recommended that the case be found "exceptional" because "the case stands out from others within the meaning of § 285 considering recent case law, the nature and extent of HOTF's inequitable conduct, and the jury's findings of bad faith." J.A. 4. By a preponderance of the evidence, the magistrate judge found that "this case stands out from others with respect to the substantive strength of HOTF's litigation position" and that "HOTF litigated the case in an unreasonable manner by persisting in its positions." J.A. 29. The magistrate judge also found, for example, that "[t]he number of undisclosed prior sales and the amounts HOTF received from those prior sales constitute affirmative egregious conduct" and that HOTF "pursued claims of infringement without any apparent attempt to minimize litigation costs" "despite [its] knowledge that its patent was invalid." J.A. 29.

HOTF subsequently filed various objections to the report and recommendation. The district court considered HOTF's "additional evidence and arguments" but adopted the report and recommendation in its entirety, therefore finding the case exceptional under § 285. J.A. 37-38. The district court then awarded attorneys' fees to Appellees and entered judgment accordingly. J.A. 1.

HOTF appealed. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## Discussion

### I

The only issue HOTF raises in this appeal is the district court's exceptionality determination under § 285, which we review for an abuse of discretion. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 572 U.S. 559, 563-64, 134 S. Ct. 1744, 188 L. Ed. 2d 829 (2014); *Bayer CropScience AG v. Dow AgroSciences LLC*, 851 F.3d 1302, 1306 (Fed. Cir. 2017). We "must give great deference to the district court's exercise of discretion in awarding fees." *Energy Heating*, 889 F.3d at 1307 (citing *Highmark*, 572 U.S. at 564). To meet the abuse-of-discretion standard, the appellant must show that the district court made "a clear error of judgment in weighing relevant factors or in basing its decision on an error of law or on clearly erroneous factual findings." *Bayer*, 851 F.3d at 1306 (quoting *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 150 F.3d 1374, 1377 (Fed. Cir. 1998)).

Under § 285, a "court in exceptional cases may award reasonable attorney fees to the prevailing party." An "exceptional" case under § 285 is "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." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554, 134 S. Ct. 1749, 188 L. Ed. 2d 816 (2014). The party seeking fees must prove that the case is exceptional by a preponderance of the evidence, and the district court makes the exceptional-case determination on a case-by-case basis considering the totality of the circumstances. *Id.* at 554, 557-58. We have explained that "prevailing on a claim of inequitable conduct often makes a case 'exceptional,'" *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1289 (Fed. Cir. 2011) (en banc), although not necessarily so, *Energy Heating*, 889 F.3d at 1307 ("We reaffirm that district courts may award attorneys' fees after finding inequitable conduct, but are not required to do so.").

II

HOTF challenges the district court's exceptionality determination on three principal grounds: (1) that the district court based its decision on an erroneous factual finding, (2) that the district court failed to address or properly weigh the relevant factors, and (3) that the district court failed to properly apply the law. We address each issue in turn and conclude that the district court did not abuse its discretion in determining this case to be exceptional under § 285.

First, HOTF contends that the district court erroneously credited the jury's bad-faith finding in determining that "the jury concluded HOTF's case was substantively weak and . . . HOTF [unreasonably] persisted with its claims." Appellants' Br. 23 (quoting J.A. 30). HOTF's theory is that the district court abused its discretion in relying on the jury's bad-faith finding because that finding "had nothing to do with the strength or weakness of HOTF's litigation positions; it was tied exclusively to [Energy's] tortious interference claim." Appellants' Br. 23-24. We disagree. That HOTF made representations in bad faith that it held a valid patent was within the district court's "equitable discretion" to consider as part of the totality of the circumstances of HOTF's infringement case. *See Octane Fitness*, 572 U.S. at 554.

HOTF further argues that the district court erroneously relied on the jury verdict in finding exceptionality because "[b]y finding that HOTF did not commit the tort of deceit, the jury necessarily found that HOTF did not engage in inequitable conduct." Appellants' Br. 25 (emphases omitted). HOTF also argues that the district court on remand erroneously failed to address factual findings purportedly made in the court's order denying fees before the first appeal. Appellants' Br. 26. Neither argument is persuasive. As to the former, inequitable conduct was tried to the district court, not the jury, resulting in a judgment of unenforceability that we affirmed in the prior appeal. *Energy Heating*, 889 F.3d at 1308. The jury's finding of no state-law "deceit" simply has no bearing on inequitable conduct. As to the latter

argument, the district court's previous order denying attorneys' fees is inapposite because we vacated that order in the prior appeal. *Id.* (vacating and remanding to the district court for "reconsideration" of attorneys' fees); *Camreta v. Greene*, 563 U.S. 692, 713, 131 S. Ct. 2020, 179 L. Ed. 2d 1118 (2011) ("Vacatur . . . strips the decision below of its binding effect and clears the path for future relitigation." (cleaned up)).

Second, HOTF contends that the district court abused its discretion because it "failed to address or properly weigh" factors relevant to exceptionality under § 285, namely, the "strength or weakness" of HOTF's litigation position, the absence of a finding of litigation misconduct, and the PTO's subsequent allowance of certain continuation patents claiming priority to the '993 patent. Appellants' Br. 26-33 (capitalization normalized). We disagree. For starters, the district court provided ample support for its conclusion that HOTF's case was "substantively weak"—for example, HOTF knew "that its patent was invalid" and that "no reasonable person could expect to prevail on claims of the patent's validity." J.A. 29-30. Indeed, here, HOTF mainly regurgitates its (losing) argument that the district court's previous order denying fees should control. *See* Appellants' Br. 28-30.

Next, contrary to HOTF's assertion, the district court was not required to affirmatively weigh HOTF's purported "lack of litigation misconduct." *See* Reply Br. 10-11. In support, HOTF relies on *Electronic Communication Technologies, LLC v. ShoppersChoice.com, LLC*, 963 F.3d 1371, 1378 (Fed. Cir. 2020). But HOTF mistakenly

sees in that case its own proposition that "evidence that a party did not engage in [litigation] misconduct is equally relevant [to evidence of litigation misconduct] and must be considered." Appellants' Br. 32. Rather, in *Electronic Communication*, we merely held in relevant part that "the manner in which [patentee] litigated the case or its broader litigation conduct" is "a relevant consideration." 963 F.3d at 1378; *accord Octane Fitness*, 572 U.S. at 554 (holding that an "exceptional" case under § 285 is "one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated"). In other words, while the "manner" or "broader conduct" of litigation is relevant under § 285, the absence of litigation *misconduct* is not separately of mandatory weight. *See Octane Fitness*, 572 U.S. at 554 (concluding that there is "no precise rule or formula" for making determinations under § 285 (citation omitted)). Likewise, we reject HOTF's further suggestion that litigation misconduct is "necessary to find a case exceptional," Reply Br. 10; *see also* Oral Arg. at 1:40-2:15,[4] a proposition wholly lacking support, *see, e.g.*, *Octane Fitness*, 572 U.S. at 554; *Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd.*, 726 F.3d 1359, 1366 (Fed. Cir. 2013) ("[A]s a general matter, many forms of misconduct can support a district court's exceptional case finding . . . ."); *Therasense*, 649 F.3d at 1289. Here, the district court properly considered the totality of the circumstances, including the manner of HOTF's litigation, finding that "HOTF litigated the case in an unreasonable manner by

4. No. 20-2038, http://oralarguments.cafc.uscourts .gov/default.aspx?fl=20-2038_06072021.mp3.

persisting in its positions." J.A. 29. We see no abuse of discretion in the district court's apparent refusal to credit HOTF for not further engaging in litigation misconduct.

In addition, HOTF argues that the district court "failed to consider or weigh" that the PTO has issued "several continuation patents that claim priority to the '993 [p]atent and recite similar claims, despite the fact that HOTF [has now] disclosed [the] pre-critical date uses of [the] invention to the [PTO] during prosecution of those patents." Appellants' Br. 33. HOTF suggests that by allowing these claims, the PTO "apparently agreed that [HOTF's] pre-critical date uses were experimental, providing strong evidence of the strength of HOTF's litigation defenses to the inequitable conduct claims." Reply Br. 20. We are unpersuaded. HOTF's inequitable conduct as to the '993 patent was affirmed in the first appeal. The district court did not abuse its discretion in finding the later-issued continuation patents (which concern different claims) of little or no relevance to its exceptionality determination.

Third, HOTF contends that the district court misapplied the law because it "viewed an inequitable conduct finding as mandating a finding of exceptionality." Appellants' Br. 36. Not so. The district court correctly explained that "[a] finding of inequitable conduct does not mandate a finding of exceptionality." J.A. 17; *see Energy Heating*, 889 F.3d at 1307 ("We reaffirm that district courts may award attorneys' fees after finding inequitable conduct, but are not required to do so."). And while the district court stated that after *Octane Fitness* "it appears

other courts have universally" found "exceptionality if inequitable conduct is found," the district court nonetheless appropriately considered the governing law and the facts of this case in reaching its conclusion. J.A. 29. We discern no legal error and so no abuse of discretion in the district court's application of the relevant law.

In sum, the district court did not abuse its discretion in finding this case to be exceptional under § 285.

## III

Relatedly, Appellees requested attorneys' fees under § 285 for this appeal in their respective briefs. *See* Energy's Br. 29-31; Marathon's Br. 40-41. We generally have authority to award appellate fees under § 285. *See, e.g., D.L. Auld Co. v. Chroma Graphics Corp.*, 753 F.2d 1029, 1032 (Fed. Cir. 1985) (explaining that § 285 "authorizes us to award to the prevailing party before this court its attorney[s'] fees incurred in its successful handling of an appeal"); *Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688, 692 (Fed. Cir. 1984) ("We construe the language of § 285 as applicable to cases in which the appeal itself is exceptional . . . ."). But, as HOTF notes, *see* Reply Br. 21-22, Appellees' request is premature under Federal Circuit Rule 47.7, which requires here that "the application must be made within thirty (30) days *after* entry of the judgment or order denying rehearing, whichever is later," Fed. Cir. R. 47.7(a)(2) (emphasis added); *see Vidal v. U.S. Postal Serv.*, 143 F.3d 1475, 1481 (Fed. Cir. 1998). Accordingly, we decline to consider the merits of Appellees' request.

*Appendix A*

CONCLUSION

We have considered HOTF's remaining arguments about the district court's exceptionality determination but find them unpersuasive. For the reasons above, we affirm the district court's judgment awarding attorneys' fees.

**AFFIRMED**

**APPENDIX B — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NORTH DAKOTA, DATED OCTOBER 2, 2019**

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NORTH DAKOTA

Civil Case No. 4:13-cv-10

ENERGY HEATING, LLC, AN IDAHO LIMITED LIABILITY COMPANY; ROCKY MOUNTAIN OILFIELD SERVICES, LLC, AN IDAHO LIMITED LIABILITY COMPANY,

*Plaintiff/Counterclaim Defendants,*

vs.

HEAT ON-THE-FLY, LLC, A LOUISIANA LIMITED LIABILITY COMPANY, AND SUPER HEATERS NORTH DAKOTA, A NORTH DAKOTA LIMITED LIABILITY COMPANY,

*Defendants,*

and

HEAT ON-THE-FLY, LLC, A LOUISIANA LIMITED LIABILITY COMPANY,

*Counterclaimant.*

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*Appendix B*

HEAT ON-THE-FLY, LLC, A LOUISIANA LIMITED LIABILITY COMPANY,

*Third-Party Plaintiff/Counterclaim Defendant,*

vs.

MARATHON OIL CORPORATION,

*Third-Party Defendant/Counterclaimant.*

**ORDER GRANTING MOTION FOR LEAVE TO FILE SUPPLEMENTAL OBJECTIONS AND ADOPTING REPORT AND RECOMMENDATION**

This case is before the court following remand from the United States Court of Appeal for the Federal Circuit. On July 2, 2019, Magistrate Judge Alice R. Senechal filed a Report and Recommendation addressing two issues: (1) whether this case is exceptional under 35 U.S.C. § 285, and (2) whether Defendants Heat On-The-Fly and Super Heaters North Dakota, LLC (collectively "HOTF") should be required to disclose information regarding the attorney fees it has incurred in this litigation.[1] The magistrate judge has recommended: (1) that the undersigned find this case exceptional; (2) that Energy Heating, LLC and Rocky Mountain Oilfield Services (collectively "Energy Heating") and Marathon Oil Corporation and Marathon Oil Company (collectively "Marathon") might be entitled to attorney fees in an amount to be determined; and (3) that HOTF be required to disclose information regarding attorney fees it has incurred to date.

1. Doc. #750.

HOTF has filed objections to the Report and Recommendation.[2] In summary, HOTF asserts that the Federal Circuit's opinion does not require the court to revisit its finding on whether the case is exceptional and, even if the court revisits the issue, this court should not change its prior decision because there was no error of law or mistake of fact in its earlier analysis. Energy Heating and Marathon have each responded to HOTF's objections.[3]

HOTF has also moved for leave to file supplemental objections, seeking to inform the court of a new continuation patent that claims priority to the patent at issue in this litigation.[4] Upon consideration, the court **HEREBY GRANTS** HOTF's motion for leave to file supplemental objections and has considered HOTF's additional evidence and arguments[5] in deciding whether or not to adopt the magistrate judge's Report and Recommendation.

Upon review of the entire record as well as the Report and Recommendation and the parties' arguments in response to the Report and Recommendation, the court finds that the magistrate judge's findings and exhaustive analyses and application of the case law is correct. Unpersuaded that the magistrate judge has made any factual or legal error in her Report and Recommendation, the court overrules all of HOTF's

2. Doc. #751.

3. Docs. #753 & #754.

4. Doc. #755.

5. Doc. #755-1.

objections and supplemental objections to the Report and Recommendation and **HEREBY ADOPTS** in its entirety the Report and Recommendation. For the reasons stated therein, the undersigned finds this case is exceptional under 35 U.S.C. § 285. The undersigned **HEREBY GRANTS** Energy Heating and Marathon's joint motion to compel the disclosure of information regarding HOTF's attorney fees.[6] HOTF is ordered to disclose *within 20 days of the date of this Order* the following information: (1) its total attorney's fees incurred to date in this action, both in this court and on appeal; and (2) the hourly rates and number of hours billed by each timekeeper, segregated by fees incurred in this court and on appeal.

Energy Heating and Marathon shall file any supplementation to their fee petitions within *20 days of receipt* of the data HOTF has been ordered by the Court to produce.

HOTF shall file any response to the supplementation within 14 days of service.

**IT IS SO ORDERED.**

Dated this 2nd day of October, 2019.

*/s/ Ralph R. Erickson*
Ralph R. Erickson, Circuit Judge
Sitting by Designation

6. Doc. #733.

**APPENDIX C — REPORT AND RECOMMENDATION OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NORTH DAKOTA, FILED JULY 2, 2019**

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NORTH DAKOTA

Case No. 4:13-cv-10

ENERGY HEATING, LLC, AN IDAHO LIMITED LIABILITY COMPANY, AND ROCKY MOUNTAIN OILFIELD SERVICES, LLC, AN IDAHO LIMITED LIABILITY COMPANY,

*Plaintiffs,*

v.

HEAT ON-THE-FLY, LLC, A LOUISIANA LIMITED LIABILITY COMPANY, AND SUPER HEATERS NORTH DAKOTA, LLC, A NORTH DAKOTA LIMITED LIABILITY COMPANY,

*Defendants,*

and

HEAT ON-THE-FLY, LLC, A LOUISIANA LIMITED LIABILITY COMPANY,

*Third-Party Plaintiff,*

v.

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MARATHON OIL CORPORATION AND
MARATHON OIL COMPANY,

*Third-Party Defendants.*

July 2, 2019, Decided
July 2, 2019, Filed

**REPORT AND RECOMMENDATION**

This matter is before the court on remand from the Court of Appeals for the Federal Circuit for further proceedings on motions of the plaintiffs and third-party defendant for awards of attorney fees pursuant to 35 U.S.C. § 285.

After the presiding judge[1] ruled defendants Heat On-The-Fly, LLC, and Super Heaters North Dakota (collectively HOTF) engaged in inequitable conduct during the patent procurement process, plaintiffs Energy Heating, LLC, and Rocky Mountain Oilfield Services, LLC, (collectively Energy Heating) and third-party defendants Marathon Oil Corporation and Marathon Oil Company (collectively Marathon) moved for attorney fees, contending HOTF's actions make the case "exceptional" within the meaning of § 285. (Doc. 632; Doc. 644). The presiding judge denied the motions. (Doc. 677).

1. The case was assigned to the Honorable Ralph R. Erickson, who was then a United States District Judge, on October 22, 2013. (Doc. 93). Now, he is a judge on the United States Court of Appeals for the Eighth Circuit and is presiding in this case by designation. He is referred to as the presiding judge throughout this report and recommendation.

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The Federal Circuit vacated the denial of attorney fees and remanded. Following remand, Energy Heating and Marathon renewed their respective motions for attorney fees, (Doc. 736; Doc. 738), again asserting exceptionality. The presiding judge referred the motions to the undersigned magistrate judge for report and recommendation. (Doc. 732). The undersigned conducted a hearing on January 9, 2019, at which all parties presented oral argument.[2] (Doc. 748).[3]

Also pending is a joint motion of Energy Heating and Marathon to compel disclosure of attorney fees that HOTF incurred in the litigation. (Doc. 731; Doc. 732). An October 11, 2018 order of this court held that motion in abeyance, concluding the amount of HOTF's fees was not relevant to whether there is any entitlement to fees under § 285. In light of this court now recommending a finding of exceptionality, the motion to compel is also addressed herein.

**Summary of Recommendation**

The Federal Circuit remanded for reconsideration of the question of whether the case is exceptional within the meaning of § 285. In this court's opinion, the case

2. A digital recording of the January 9, 2019 hearing is available through the court's computer system.

3. Subsequent to the oral argument, plaintiffs filed a Request for Judicial Notice of a complaint in a case recently filed in another district, contending that complaint evidences HOTF's continuing efforts to assert the patent found invalid in this case. (Doc. 749). This court has not considered that document in preparing this opinion.

stands out from others within the meaning of § 285 considering recent case law, the nature and extent of HOTF's inequitable conduct, and the jury's findings of bad faith. The presiding judge should find exceptionality, and Energy Heating and Marathon should be awarded attorney fees in an amount to be determined. If the presiding judge determines the case exceptional, Energy Heating and Marathon's joint motion to compel should be granted.

**Background**

HOTF is the owner and licensor of U.S. Patent No. 8,171,993, a "Water Heating Apparatus for Continuous Heated Water Flow and Method for Use in Hydraulic Fracturing." Ransom Mark Hefley is the sole owner named in the '993 patent and was a founder and part owner of HOTF. Hefley was also part owner and president of Super Heaters.[4] (Doc. 578; Doc. 579-8). Energy Heating and Rocky Mountain are companies that provide services to heat water for use in the hydraulic fracturing process employed in oil extraction. HOTF was their competitor in oilfields in western North Dakota at times relevant to this litigation.

In its Second Amended Complaint against HOTF, Energy Heating sought declarations (1) that the '993 patent was invalid as obvious, (2) that the '993 patent was

4. While the litigation was pending in the trial court, Phoenix Oilfield Services, LLC, purchased HOTF and Super Heaters, and Hefley acquired stock in Phoenix Oilfield Services. (Doc. 579-8). Phoenix Oilfield Services is not a party to this litigation.

unenforceable because of HOTF's inequitable conduct, and (3) of non-infringement of the '993 patent. Energy Heating also sought declaration of non-infringement of the "Heat On-The-Fly" trademark claimed by HOTF and for cancellation of that trademark. Finally, Energy Heating brought state law claims for tortious interference with contracts and for tortious interference with business relationships. HOTF counterclaimed, alleging Energy Heating's infringement of the '993 patent. HOTF also brought a third-party claim against Marathon—a company that contracted for Energy Heating's services in the oilfields—alleging induced infringement and contributory infringement. Marathon counterclaimed against HOTF, seeking a declaration of invalidity of the '993 patent, of noninfringement, and of unenforceability due to inequitable conduct.

After extensive pretrial motion practice, the case proceeded to a fourteen-day trial, with a jury trial and bench trial held concurrently. (Doc. 567). Pretrial rulings included granting partial summary judgment against HOTF, finding the '993 patent invalid as obvious, and denying HOTF's motion to dismiss the inequitable conduct claims. (Doc. 358). The only issues tried to the jury were Energy Heating's tortious interference and trademark cancellation claims against HOTF, and the only issues tried to the court were the inequitable conduct claims Energy Heating and Marathon asserted against HOTF.

As to Energy Heating's tortious interference claims, the jury was instructed:

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To prevail on the state law claims of tortious interference with a contract and/or tortious interference with a business relationship, Energy Heating must prove that Heat On-The-Fly asserted that it possessed a legally enforceable patent and that the assertion was made in bad faith. To prove that Heat On-The-Fly acted in bad faith by attempting to enforce the patent, Energy Heating must first prove, by clear and convincing evidence, the following element:

(1) Heat On-The-Fly's assertions were "objectively baseless."

To show a claim is objectively baseless, Energy Heating must prove that no reasonable person in Heat On-The-Fly's position could realistically expect to prevail in a lawsuit disputing the validity of the patent.

If you find that Heat On-The-Fly's assertions had an objective basis, then you must find for Heat On-The-Fly on the issue of bad faith. You will not be asked to reach the question on subjective baselessness.

If you find that Heat On-The-Fly's assertions regarding the patent's validity were objectively baseless, then you must go on to decide the question of subjective baselessness. Energy Heating must prove, by clear and convincing evidence, the following element:

> (2) Heat On-The-Fly's assertions were "subjectively baseless."
>
> Statements made by Heat On-The-Fly that the patent was enforceable were subjectively baseless if, at the time the statements were made, Heat On-The-Fly knew the patent was invalid or the invalidity of the patent was so obvious Heat On-The-Fly should have known that it was invalid.
>
> The communication of accurate information about patent rights alone, whether by direct notice to potential infringers or by publicity release, does not support a finding of bad faith.

(Doc. 571, pp. 19-20).

On the questions submitted to it, the jury found (1) the mark "Heat On-The-Fly" was generic; (2) to the greater weight of the evidence, HOTF made representations to Triangle Oil—a non-party—that it had a valid patent on the water heating system; (3) by clear and convincing evidence, HOTF acted in bad faith by representing it held a valid patent; (4) Energy Heating had a contract with Triangle Oil, and HOTF unlawfully interfered with that contract; (5) Energy Heating had a prospective business relationship with Triangle Oil, and HOTF unlawfully interfered with that relationship by knowingly engaging in unlawful sales and advertising practices; (6) the tort of deceit was not proven by clear and convincing evidence; and (7) the tort of slander was not proven by the greater

weight of the evidence. The jury awarded Energy Heating damages of $750,000 for HOTF's intentional conduct. (Doc. 573; Doc. 574).

On the inequitable conduct claims tried to the court, the presiding judge issued a declaratory judgment in favor or Energy Heating and Marathon. *Energy Heating v. Heat On-The-Fly, LLC*, No. 4:13-cv-10, 2016 WL 10837799 (D.N.D. Jan. 14, 2016). In that ruling, the presiding judge (1) found the critical date for the on-sale and public-use bars of 35 U.S.C. § 102(b) was September 18, 2008, one year prior to Hefley's earliest provisional patent application; (2) found clear and convincing evidence of substantial on-sale and public uses of the claimed invention beginning almost two years before the critical date; (3) specifically found Hefley admitted at trial that he and his companies had used water-heating systems containing all elements of the claimed invention on at least 61 hydraulic fracturing jobs before the critical date and that Hefley's companies collected over $1.8 million for on-the-fly water-heating services prior to the critical date; and (4) found Hefley could not claim ignorance of either the significance of the "critical date" as it related to the '993 patent or the one-year grace period for filing a patent application on his claimed invention. *Id.* at *1-*2. It was undisputed that Hefley did not report prior sales to the Patent and Trademark Office (PTO) during prosecution of the '993 patent application. The presiding judge also found HOTF's prior sales were not experimental and any alleged experimentation was unrelated to any claims expressed in the '993 patent. *Id.* at *2. The presiding judge reached the following conclusions of law:

(1) To clear and convincing evidence Hefley and/or HOTF deliberately withheld information regarding prior sales from the PTO.

(2) The patent would not have issued if the Examiner had been provided with the information regarding the prior sales.[5]

(3) To clear and convincing evidence the withheld information was material to the issuance of the patent.

(4) The single most reasonable inference to be drawn from the evidence requires a finding of deceitful intent in light of all of the circumstances, and intent to deceive was proven by clear and convincing evidence.

(5) Hefley and HOTF engaged in inequitable conduct in order to obtain the '993 patent.

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5. The Federal Circuit noted:

> Eight months after the district court's inequitable conduct judgment, while this appeal was pending, the PTO issued a continuation patent related to the same invention *after* all 61 frac jobs were disclosed. HOTF did not ask the district court to reconsider its inequitable conduct determination in light of the PTO's notice of allowance of its continuation patent.

*Energy Heating, LLC, v. Heat On-The-Fly, LLC*, 889 F.3d 1291, 1300 (Fed. Cir. 2018). HOTF did not mention the continuation patent in its briefing or oral argument on the current motions.

(6) The inequitable conduct renders the patent unenforceable.

*Id.* at *4.

Energy Heating then moved for an award of $3,458,231 in attorney fees, asserting entitlement under § 285 and 15 U.S.C. § 1117(a)[6] as to both the trademark and patent disputes.[7] (Doc. 633, p. 5). Marathon moved for fees totaling $1,602,730 on the patent dispute. (Doc. 644). The presiding judge denied both motions, concluding HOTF's conduct did not meet the standard of exceptionality of either § 285 or § 1117(a). (Doc. 677). Energy Heating moved for reconsideration of the order, and the presiding judge denied reconsideration. (Doc. 689).

HOTF appealed from the judgment with regard to inequitable conduct, obviousness, tortious interference, claim construction, and divided infringement. *Energy Heating, LLC, v. Heat On-The-Fly, LLC*, 889 F.3d 1291, 1296 (Fed. Cir. 2018) (citations omitted). Energy Heating and Marathon cross-appealed the denial of attorney fees under § 285. The Federal Circuit (1) affirmed the

6. Under the Lanham Act, 15 U.S.C. § 1171(a), the court may award attorney fees in exceptional cases involving trademark disputes.

7. In the current motion, Energy Heating does not assert the trademark dispute as a basis for finding exceptionality but does assert HOTF prolonged litigation and multiplied expenses by unsuccessfully appealing seven issues, one which it abandoned after briefing had been completed—that Energy Heating lacked standing to challenge HOTF's trademark. (Doc. 739, p. 24).

declaratory judgment that the '993 patent is unenforceable due to inequitable conduct, (2) affirmed the jury's findings on tortious interference, (3) declined to address the issues of obviousness, claim construction, and divided infringement in light of the patent being unenforceable, and (4) vacated and remanded the denial of attorney fees.[8]

**Applicable Law**

The governing statute, 35 U.S.C. § 285, provides, "The court in exceptional cases may award attorney fees to a prevailing party" in a patent case. The Supreme Court has described an "exceptional case" as (1) "one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case)" or (2) one that was litigated in "an unreasonable manner." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). *Octane Fitness* rejected the previous requirement that a case be both objectively baseless and brought in subjective bad faith to justify a fee award; rather, in determining whether a case is exceptional, a court is to exercise its discretion based on the totality of the circumstances. The court may consider a non-exclusive list of factors, which includes "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," as well as "either subjective bad faith or

8. The Federal Circuit also affirmed the district court's denial of remedies under the North Dakota Unlawful Sales or Advertising Practices Act.

exceptionally meritless claims." *Id.* at 1756 n.6 (citation and internal quotation marks omitted). A finding of exceptionality is to be made on a preponderance of the evidence rather than on the clear and convincing evidence standard that had been required prior to the *Octane Fitness* decision. *Id.* at 1758.

Also relevant is *Therasense, Inc. v. Becton, Dickinson & Co.*, where the Federal Circuit stated that "prevailing on a claim of inequitable conduct often makes a case 'exceptional.'" 649 F.3d 1276, 1289 (Fed. Cir. 2011). "[B]ut inequitable conduct does not automatically render a case exceptional." *Snap-on Inc. v. Robert Bosch, LLC*, No. 09 CV 6914, 2016 WL 1697759, at *4 (N.D. Ill. Apr. 28, 2016). "[T]here is no per se rule of exceptionality in cases involving inequitable conduct." *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1358 (Fed. Cir. 2008). *Therasense* changed the law governing inequitable conduct by requiring clear and convincing evidence of specific intent to deceive. Under *Therasense*, specific intent to deceive must be the single most reasonable inference to be drawn from the evidence in order to find inequitable conduct.

Among the more common bases for a determination of exceptionality are findings (1) of failure to conduct adequate pre-litigation investigation or to exercise pre-litigation due diligence, (2) that the plaintiff should have known its claim was meritless and/or lacked substantive strength, (3) that the plaintiff initiated litigation to attempt to extract settlements from defendants wanting to avoid costly litigation, (4) that a party proceeded in bad faith, and (5) litigation misconduct. *Bayer Cropscience AG*

*v. Dow Agrosciences LLC*, No. 12-256, 2015 WL 1197436, at *4 (D. Del. Mar. 13, 2015).

Even if a case is determined exceptional under a totality of the circumstances, a district court has discretion to decline to award fees but must articulate its reasons for doing so once finding a case to be exceptional. *Oplus Techs., Ltd. v. Vizio, Inc.*, 782 F.3d 1371, 1375-76 (Fed. Cir. 2015). An appellate court reviews a § 285 fee determination under an abuse of discretion standard. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014).

**Federal Circuit Decision**

In discussing its remand of the attorney fee determination, the Federal Circuit wrote:

> District courts have often awarded attorneys' fees under § 285 following a finding of inequitable conduct, and this court has upheld such awards. Many of these cases predate *Therasense*, where we heightened the standard for inequitable conduct. As we explained in *Therasense*, inequitable conduct requires specific intent to deceive, and "to meet the clear and convincing evidence standard, the specific intent to deceive must be 'the single most reasonable inference able to be drawn from the evidence.'" Following *Therasense*, district courts have continued to tend to grant attorneys' fees following a finding of inequitable conduct. Given *Therasense*'s

heightened standard for intent in finding inequitable conduct, this tendency makes sense.

We do not suggest, however, that a district court must always award attorneys' fees following a finding of inequitable conduct. Indeed, the Supreme Court in *Octane Fitness* emphasized that there are no per se rules and rather a determination should be made based on the totality of circumstances. Moreover, our court must give great deference to the district court's exercise of discretion in awarding fees. *See Highmark*, 134 S. Ct. at 1748-49 ("[T]he district court 'is better positioned' to decide whether a case is exceptional, because it lives with the case over a prolonged period of time . . . . [T]he question is 'multifarious and novel,' not susceptible to 'useful generalization' of the sort that de novo review provides . . . ."). We reaffirm that district courts may award attorneys' fees after finding inequitable conduct, but are not required to do so.

Nonetheless, given the strict standard in *Therasense*, we are of the view that a district court must articulate a basis for denying attorneys' fees following a finding of inequitable conduct. Just as it is incumbent on a trial court to articulate a basis for finding a case exceptional, it is equally necessary to explain why a case is not exceptional in the face of an express finding of inequitable conduct. . . .

> Here, we cannot determine whether the district court abused its discretion in denying attorneys' fees. In explaining why it would not award fees, the district court found: "HOTF reasonably disputed facts with its own evidence and provided a *meritorious* argument against a finding of inequitable conduct." Even if we were to assume that the district court used the word "meritorious" to mean "plausible," the court's finding contradicts *Therasense*, which holds that "when there are multiple reasonable inferences that may be drawn, intent to deceive cannot be found."
>
> Ultimately, this finding in the court's opinion leaves us unsure as to whether the court's basis for denying attorneys' fees rests on a misunderstanding of the law or an erroneous fact finding. Accordingly, we are unable to affirm the court's exercise of discretion, absent further explanation or reconciliation of the court's reasoning with regard to its finding of inequitable conduct. We vacate the portion of the judgment denying attorneys' fees on the basis that this is not an exceptional case under § 285, and we remand to the district court for reconsideration.

*Energy Heating*, 889 F.3d at 1307-08 (citations omitted).

*Appendix C*

## Positions of Energy Heating and Marathon

Energy Heating argues the totality of circumstances supports a finding of exceptionality. First, Energy Heating contends the nature and extent of HOTF's inequitable conduct is sufficient reason to find the case exceptional. Further, Energy Heating argues (1) HOTF engaged in discovery misconduct in delaying production of evidence of prior frac jobs, arranging for its attorneys to represent nonparty deponents at depositions, and attempting to use privilege as both a sword and shield; (2) HOTF's bad faith assertion of the patent, both before litigation and in its counterclaim, makes the case exceptional; (3) HOTF took weak and objectively unreasonable positions on the merits, including asserting experimental sales, making a claim for lost profits which it was not allowed as a "non-practicing entity," and continuing to claim infringement after an adverse claim construction ruling; and (4) a finding of exceptionality would further statutory goals of deterrence and compensation. (Doc. 739, pp. 12-22).

Third-party defendant Marathon makes similar contentions, asserting (1) Marathon prevailed on each of its claims, with HOTF's claims against it being dismissed on summary judgment; (2) HOTF aggressively pursued its claims even after it was clear the '993 patent was invalid and unenforceable; (3) HOTF acted fraudulently in obtaining the '993 patent, and its intent to deceive was the "single most reasonable inference for its failure to disclose prior sales"; (4) HOTF made multiple threats to sue its competitors' customers and carried through on that threat against Marathon; and (5) the jury's findings

of objective and subjective baselessness in suggesting the patent was valid are "truly rare," since the jury's findings required determinations that no reasonable person could expect to prevail on claims of the patent's validity and that invalidity of the patent was so obvious that HOTF should have known it was invalid. (Doc. 737, pp. 2-13). In summary, Marathon argues, "If a case involving clear and convincing evidence that an underlying patent was procured by fraud and then vigorously asserted against both competitors and competitors' customers does not stand out from others, it is difficult to imagine a case that would." *Id.* at 12.

As to litigation tactics, Marathon alleges HOTF acted improperly in (1) concealing evidence of prior sales and stalling discovery of that evidence; (2) not being forthcoming regarding location and contact information for witnesses it identified, including HOTF's own employees; (3) acting as counsel for third-party witnesses—customers to whom it had made pre-patent sales—at depositions and not disclosing its representation of those witnesses until each deposition began; (4) withholding critical information from its own experts; and (5) persisting in litigation after a claim construction ruling it should have treated as dispositive. *Id.* at 13-21.

**Position of HOTF**

HOTF argues the Federal Circuit's decision does not require reconsideration of the exceptionality determination but instead requires only reconciliation of language of that determination with the finding of

inequitable conduct. In footnotes, HOTF goes so far as to suggest that the finding of inequitable conduct be reversed, despite the Federal Circuit's affirmance of that finding. (Doc. 744, p. 20, n.2 and n.3).

HOTF contends the Federal Circuit's criticism of the word "meritorious" can be addressed by interpreting "meritorious" to mean "not exceptionally weak or frivolous":

> [T]here is a straightforward explanation that reconciles this Court's use of that term with *Therasense*. When the Court described HOTF's defenses to inequitable conduct as "meritorious," what this Court meant was that HOTF's defenses to inequitable conduct were not exceptionally weak or frivolous. This interpretation is consistent with this Court's finding that HOTF's defenses to inequitable conduct were "colorable."

*Id.* at 8. HOTF further contends:

> A finding that the inequitable conduct defenses were not exceptionally weak or frivolous is consistent with the Court's other statements that HOTF's defenses were "colorable" and not "specious." The Federal Circuit never suggested that those findings were inconsistent with *Therasense*; accordingly, those findings are the law of the case. Moreover, it makes sense that this Court intended only that the inequitable

> conduct defenses were not exceptionally weak or frivolous. While the word "meritorious" suggests "worthiness" or—as the Federal Circuit suggested—"plausibility" (which the Federal Circuit found to be inconsistent with *Therasense*), the other phrases do not. For example, a "colorable" argument is one "that is legitimate and that may reasonably be asserted, given the facts presented and the current law (or a reasonable and logical extension or modification of the current law.)." BLACK'S LAW DICTIONARY 282 (9th ed. 2009); *see also McBride Cotton & Cattle Corp. v. Veneman*, 290 F.3d 973, 981 (9th Cir. 2002) ("A colorable claim is one that is not 'wholly insubstantial, immaterial, or frivolous.'" (internal citation omitted)). Similarly speciousness is akin to frivolousness or without substance. *See, e.g., Stilwell Dev. Inc. v. Chen*, No CV86-4487-GHK, 1989 WL 418783, at *3 (C.D. Cal. Apr. 25, 2989) (finding that, to be "specious," "the claim must have been without substance in reality, if not frivolous" (citing Webster's Third New International Dictionary 1287 (1996) (defining "specious" to mean, among other things, "apparently right or proper; superficially fair, just, or correct but not so in reality. . . .")).

*Id.* at 20-21 (docket citation and footnote omitted).

HOTF identifies the following language of the order denying a finding of exceptionality as supporting its

position: (1) HOTF had not previously taken court action to enforce rights to its patent; (2) HOTF did not initiate this litigation; (3) HOTF's "proffered defenses and its assertion of its counterclaims were not unreasonable" in the posture of the case; (4) there was not sufficient evidence that the conduct of HOTF or its lawyers was worse than that of Energy Heating and its lawyers; (5) HOTF moved for certification under Federal Rule of Civil Procedure 54(b) to expedite its appeal on patent validity; (6) there was not adequate evidence that HOTF used the cost of defense to extract a nuisance-value settlement, deliberately misrepresented any law, or relied on expert testimony that did not meet minimum standards of reliability; (7) the court was not persuaded that there was evidence of vexatious litigation tactics or a pattern of litigation misconduct, or other activity that required a finding of exceptionality; (8) HOTF's evidence and arguments at trial were not specious or without merit, and it presented "colorable good faith arguments that could well have supported an opposite conclusion by the finders of fact"; (9) HOTF reasonably disputed facts with its own evidence; (10) summary judgment orders precluded HOTF from fully presenting its evidence of infringement at trial; (11) HOTF had not given up on defending its patent; and (12) HOTF's lawful presentation of its evidence to support its claims was not exceptional. *Id.* at 11-12.

HOTF also asserts the absence of motions for sanctions and the fact that neither Energy Heating nor Marathon moved for summary judgment on their inequitable conduct claims demonstrate lack of exceptionality. *Id.* at 22. Additionally, HOTF contends that its conduct was not

as egregious as that which led to exceptionality findings in many of the post-*Octane Fitness* cases which Energy Heating and Marathon cite, asserting its conduct was less culpable because it was based on withheld information rather than on affirmative false statements. *Id.* at 24-27. And HOTF argues the law of the case doctrine prohibits revisiting factual findings made in the order denying the earlier motions for attorney fees. *Id.* at 27-31.

**Discussion**

First, this court addresses HOTF's assertion that the Federal Circuit directed only reconciliation of language, rather than reconsideration of exceptionality. The Federal Circuit stated:

> Accordingly, we are unable to affirm the court's exercise of discretion, absent further explanation or reconciliation of the court's reasoning with regard to its finding of inequitable conduct. We vacate the portion of the judgment denying attorneys' fees *on the basis that this is not an exceptional case* under § 285, and *we remand to the district court for reconsideration*.

*Energy Heating*, 889 F.3d at 1308 (emphasis added). In this court's view, the Federal Circuit remanded for reconsideration of the question of exceptionality. Thus, this court does not consider HOTF's arguments that findings in the order denying the motion for attorney fees are the law of the case and cannot be disturbed; the reconsideration directed by Federal Circuit contemplates

reconsideration of those findings. *Id.* This court therefore considers case law, especially that which has developed since *Therasense* made proof of inequitable conduct more difficult and *Octane Fitness* made proof of exceptionality less difficult, to make a recommendation of whether the case should be found exceptional within the meaning of § 285.

A finding of inequitable conduct does not mandate a finding of exceptionality, though both before and since *Octane Fitness* a finding of inequitable conduct is sufficient reason—by itself—to find a case exceptional. *See, e.g., Intellect Wireless, Inc. v. Sharp Corp.*, 45 F. Supp. 3d 839, 853 (N.D. Ill. 2014) ("Plaintiff's inequitable conduct in procuring the patents here, alone, makes this case exceptional under Section 285"); *Ohio Willow Wood Co. v. Alps S., LLC*, No. 2:04-CV-1233, 2014 WL 4775374, at *47 (S.D. Ohio Sept. 24, 2014). Conversely, exceptionality can be found in the absence of inequitable conduct. *Asghari-Kamrani v. United Servs. Auto. Ass'n*, No. 2:15cv478, 2017 WL 4418424 (E.D. Va. July 27, 2017). Energy Heating and Marathon assert cases involving inequitable conduct "nearly always" stand out from other cases within the meaning of *Octane Fitness*. And, as noted in *Therasense*, "prevailing on a claim of inequitable conduct *often* makes a case 'exceptional,' leading potentially to an award of attorneys' fees under 35 U.S.C. § 285." 649 F.3d at 1289 (emphasis added).

While recognizing there is no per se rule, Energy Heating urges a presumption of exceptionality when there is a finding of inequitable conduct, (Doc. 745, p. 8), but cites

no case in which a court has applied that presumption. Rather, the Federal Circuit wrote of a "tendency" to award fees when inequitable conduct is present, noting: "Following *Therasense*, district courts have continued to tend to grant attorneys' fees following a finding of inequitable conduct. Given *Therasense*'s heightened standard for intent in finding inequitable conduct, this tendency makes sense." *Energy Heating*, 889 F.3d at 1307 (internal citation omitted).

One commentator suggests "cases where inequitable conduct alone sufficed to find a case 'exceptional' generally involved some type of 'affirmative egregious misconduct.'" Jeffrey D. Mills, *Patent Litigation Two Years After Octane Fitness: How to Enhance the Prospect of Recovering Attorneys' Fees*, 45 AIPLA Q.U. 27, 52 (2017). That same commentator states "fees have been awarded in every published decision where inequitable conduct was found" subsequent to the *Octane Fitness* decision. *Id.* In its October 2018 brief and at the January 2019 oral argument, Energy Heating stated it was not aware of any published decisions postdating that article in which inequitable conduct was found but fees were not awarded. HOTF has cited no post-*Octane Fitness* cases in which a court found inequitable conduct but did not find the case exceptional, apart from this one, and at oral argument HOTF acknowledged it was not aware of any such cases. Nor has the court's research identified other post-*Octane Fitness* cases in which inequitable conduct was found and exceptionality was not found. The court next discusses post-*Octane Fitness* cases that addressed fee awards under § 285.

*Raniere v. Microsoft Corp.* did not involve a finding of inequitable conduct, but the Federal Circuit affirmed a finding of exceptionality based on a "pattern of obfuscation and bad faith." 887 F.3d 1298, 1308 (Fed. Cir. 2018). The plaintiff alleged infringement of five patents by two defendants. When a defendant asserted the plaintiff did not own the patents at issue, plaintiff's counsel represented to the court that ownership had been transferred to the plaintiff. In response to a court order, the plaintiff produced documentation purporting to show ownership, but the documentation did not establish ownership of the patent. The district court dismissed the case for lack of standing, dismissing with prejudice after the court concluded the plaintiff was likely unable to cure the standing defect. Additionally, the district court based dismissal with prejudice on the plaintiff's conduct demonstrating a "clear history of delay and contumacious conduct," and the plaintiff's conduct having "multiplied the proceedings." *Id.* at 1301-02. The Federal Circuit concluded a litigant need not prevail on the merits to be considered a prevailing party for purposes of § 285, and the dismissal based on lack of standing sufficed to make the defendants prevailing parties. Further, the Federal Circuit concluded the district court properly determined the case to be exceptional under the totality of the circumstances.

Though *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Services, Inc.* involved no allegation of inequitable conduct, the Federal Circuit reversed a district court's denial of fees because the district court did not consider the plaintiff's "willful

ignorance of the prior art." 858 F.3d 1383, 1388. (Fed. Cir. 2017). The Federal Circuit also found the plaintiff's history of vexatious litigation warranted an exceptional case finding.

Rothschild sued several defendants, including ADS Security, L.P., asserting various security systems infringed its patent. ADS sent Rothschild a letter, stating prior art anticipated one claim of the patent and offering to settle the case. Rothschild rejected the offer, and ADS moved for judgment on the pleadings and sent Rothschild a "Safe Harbor Notice" pursuant to Rule 11. *Id.* at 1386. Rothschild then moved to voluntarily dismiss the action, and ADS moved for attorney fees pursuant to § 285. In reversing the district court's denial of fees, the Federal Circuit noted Rothschild's counsel stated he had "not conducted an analysis of any of the prior art asserted [by ADS] to form a belief as to whether that prior art would invalidate" the patent. *Id.* at 1388. The Federal Circuit also noted Rothschild had filed 58 cases against various companies and settled the majority of those cases for less than the average cost of defending a patent infringement case. *Id.* at 1389. Finally, the Federal Circuit held that whether a party engaged in sanctionable conduct under Rule 11 "is not the appropriate benchmark; indeed, a district court may 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 1390 (quoting *Octane Fitness*, 134 S. Ct. at 1756-57) (internal quotation marks omitted).

*Appendix C*

*Deep Sky Software, Inc. v. Southwest Airlines Co.* involved an attempt to patent "a system and method for filtering and sorting data in a graphical user interface." No. 10-cv1234-CAB, 2015 WL 11202634, at *1 (S.D. Cal. June 1, 2015). In initiating the litigation, Deep Sky asserted a flight-search function on Southwest's website infringed its patent. Southwest counterclaimed for noninfringement and asserted invalidity of the patent. The case was stayed pending inter partes reexamination of the patent.

During the course of reexamination, Deep Sky disclosed for the first time that a "key moment" in development of the software was purchase of a commercially-available software product from a third party. *Id.* at *2. The patent examiner concluded the disclosure of the software purchase showed the plaintiff did not in fact invent the claimed subject matter of the patent, but "rather simply used the existing available features of that software." *Id.* at *2. After the Patent Trial and Appeal Board affirmed, the district court stay was lifted, and Southwest sought a finding of exceptionality and an award of attorney fees. Though not making a specific finding of inequitable conduct, the district court found the case exceptional, stating "the decision to withhold disclosure of this software program during the initial prosecution of the patent, and to affirmatively represent that commercially available programs did not have the claimed capability of the invention, was deceptive." *Id.* at *4. Further, the court concluded that earlier disclosure of the software purchase could have substantially shortened the litigation and reexamination proceedings.

*Appendix C*

In another case not involving a finding of inequitable conduct, the Federal Circuit held a district court abused its discretion in denying fees under § 285 after the district court found the case exceptional based on plaintiff's misconduct, including amendment of claims to manufacture venue, abuse of the discovery process, and use of improper litigation tactics. *Oplus Techs.*, 782 F.3d 1371. The district court explained that the plaintiff's "malleable expert testimony and infringement contentions left [the defendant] in a frustrating game of Whac-A-Mole throughout the litigation." *Id.* at 1373. Despite having detailed the plaintiff's "serious misconduct" and concluding the case was exceptional, the district court denied fees because the "case ha[d] been fraught with delays and avoidance tactics to some degree on both sides." *Id.* at 1375. The Federal Circuit, noting the plaintiff's abuses would have increased litigation costs for the defendant, vacated the district court's order "[i]n light of the court's fact findings regarding the extent of harassing, unprofessional, and vexatious litigation, the change in legal standard by the Supreme Court, and the lack of sufficient basis to deny fees under § 285." *Id.* at 1376. On remand, the parties settled the case and stipulated to its dismissal. *See Oplus Techs., Ltd. v. Sears Holdings Corp.*, No. 2:12-cv-5707, Doc. 244 (C.D. Cal. June 2, 2015).

In *Worldwide Home Products, Inc. v. Bed, Bath & Beyond, Inc.*, the district court found the plaintiff had engaged in inequitable conduct to procure the patent at issue. The court found plaintiff's counsel had willfully misrepresented and selectively withheld material information about prior art during prosecution of the

patent. Plaintiff's counsel "then prosecuted the instant case on behalf of Plaintiff, alleging infringement of the wrongfully-procured patent." No. 11CV3633-LTS-MHD, 2015 WL 1573325, at *2 (S.D.N.Y. Apr. 9, 2015). The court rejected the plaintiff's contention that it should not be held liable for fees because it acted solely on the advice of its counsel, concluding, "Having considered the relevant factors, the Court finds that this case involves precisely the type of litigation conduct—frivolous claims motivated by unbridled desire to gain an improper patent monopoly windfall—that should be deterred by courts through the shifting of fees." *Id.* As a sanction against counsel, the court held plaintiff's counsel jointly and severally liable for payment of the fees and expenses awarded to the defendant. *Id.* at *6.

*Ohio Willow Wood* involved a plaintiff's assertion of infringement of its patent for gel-coated sock liners used by amputees. 2014 WL 4775374, at *1. The plaintiff asserted its products had gel on one side with no gel bleed-through while competing products had gel bleed-through. The court found inequitable conduct where, during reexmination proceedings, the plaintiff made false representations regarding a competitor's testimony and made a false assertion that no evidence corroborated the competitor's testimony that a pre-critical date product did not result in gel bleed-through. Because of the inequitable conduct finding and the fact that the defendant prevailed on the plaintiff's infringement claims, the court found the case exceptional under § 285 and awarded fees. *Id.* at *47.

*Intellect Wireless*, decided shortly after *Octane Fitness*, involved the patentee's false declarations to the PTO that he had actually reduced the patented invention to practice and a finding he had submitted a deceptive press release to the PTO. 45 F. Supp. 3d at 844-45. After obtaining the patent, the patentee sued 24 companies in six lawsuits, alleging infringement of the patents he had obtained through false representations. He also provided a misleading interrogatory response concerning when the invention was reduced to practice. And he had obtained a five-million-dollar settlement agreement—in the form of a licensing agreement—with a former accused infringer to induce other alleged infringers to settle. But the patentee failed to disclose an addendum to that agreement in which he agreed to refund the five million dollars if other accused infringers licensed the patent. On those facts, the court found inequitable conduct made the case exceptional under the standard announced in *Octane Fitness*.

Energy Heating and Marathon also cite several cases that predate *Therasense* and *Octane Fitness* in which findings of inequitable conduct led to awards of attorney fees. *Taltech Ltd. v. Esquel Enterprises Ltd* involved a patent "which is drawn to seams including thermal adhesive to reduce pucker." 604 F.3d 1324, 1327 (Fed. Cir. 2010). The Federal Circuit affirmed a district court's finding of inequitable conduct and award of fees under § 285, holding the patentee engaged in inequitable conduct in prosecution of its patent by failing to disclose prior art and misrepresenting the "double top-stitch seam." *Id.* at 1329-34. Additionally, the patentee had engaged in abusive litigation tactics, including (1) dismissal of its damages

claim after an alleged infringer conducted discovery and prepared a defense; (2) waiver of a jury trial only weeks before trial and after the alleged infringer extensively prepared for a jury trial; (3) voluntary dismissal with prejudice, in the middle of trial, of five claims of infringement to avoid responding to the alleged infringer's motion for entry of judgment under Federal Rule of Civil Procedure 52(c); (4) withdrawal of an International Trade Commission complaint shortly before the hearing began; and (5) continuing similar tactics after the case was first remanded to the district court. *Id.* at 1334.

In *Nilssen*, the plaintiffs alleged infringement of numerous patents related to electrical lighting products. 528 F.3d 1352. The district court found the patents at issue unenforceable because of the plaintiffs' inequitable conduct, including (1) misclaiming small entity status and improperly paying small entity maintenance fees, (2) failing to disclose related litigation, (3) misclaiming the priority of earlier filing dates, (4) withholding material prior art, and (5) submitting misleading affidavits to the PTO. On appeal, the Federal Circuit affirmed that decision. Thereafter, the defendants moved for an award of attorney fees, and the district court granted that motion, finding the case exceptional because of the plaintiffs' inequitable conduct, the frivolous nature of the lawsuit, and the plaintiffs' litigation misconduct. The plaintiffs argued on appeal that a finding of "benign" inequitable conduct without a showing of fraud was an insufficient ground for a finding of exceptionality. *Id.* at 1358. The Federal Circuit disagreed, stating "it is a contradiction to call inequitable conduct benign," and

found the district court did not clearly err in finding the plaintiffs' inequitable conduct constituted an exceptional case. *Id.* Predating both *Therasense* and *Octane Fitness*, the Federal Circuit further found, based on the plaintiffs' misconduct and engagement in inequitable conduct in securing and maintaining patents, the award of fees was appropriate. *Id.* at 1359.

In *Agfa Corp. v. Creo Products Inc*, a court found inequitable conduct based on a patentee's failure to disclose at least three pieces of prior art, with which the patentee had "extensive knowledge," to the PTO during prosecution of patents for a computer-to-plate system used in large scale printing. 451 F.3d 1366 (Fed. Cir. 2006). Because of that inequitable conduct, the Federal Circuit affirmed findings of inequitable conduct and exceptionality, and an award of fees under § 285.

In *Bruno Independent Living Aids, Inc. v. Acorn Mobility Services, Ltd*, a case involving a patent for a "stairlift," the defendant "produced numerous disclosures of prior art stairlifts that had not been considered by the patent examiner," and then moved for summary judgment of noninfringement and invalidity. 394 F.3d 1348, 1350 (Fed. Cir. 2005). The defendant accused the plaintiff of having intentionally withheld the prior art from the PTO and asked the court to find the case exceptional for the purpose of awarding attorney fees under § 285. The court found the plaintiff had failed to disclose to the PTO several prior art stairlifts, though it had concurrently submitted that prior art to the Food and Drug Administration in seeking approval to sell a stairlift covered by its patent.

The court found inequitable conduct, which was sufficient to render the case exceptional.

Although HOTF cites a number of cases in which a court found inequitable conduct but declined to find exceptionality, those cases all predate both *Octane Fitness* and *Therasense*. (Doc. 744, p. 18). HOTF cites *Frank's Casing Crew & Rental Tools, Inc. v. PMR Technologies, Ltd.*, 292 F.3d 1363 (Fed. Cir. 2002), where a named inventor had concealed involvement of another inventor and deliberately misrepresented material facts during the patent procurement process. The court found the patent unenforceable because of inequitable conduct but declined to award fees against the patent's owner, who was an assignee of the party whose conduct had been found inequitable. Since the party asserting the patent had not participated in the inequitable conduct, *Frank's Casing* is readily distinguishable from this case.

At oral argument, HOTF identified several other cases as supporting its position, and the court discusses each of those cases: *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*, No. S-02-2669, 2006 WL 2583025 (E.D. Cal. Sept. 6, 2006), *Isco International Inc. v. Conductus, Inc.*, 279 F. Supp. 2d 489 (D. Del. 2003), *J.P. Stevens Co. v. Lex Tex Ltd. Inc.*, 822 F.2d 1047 (Fed. Cir. 1987), and *Torin Corp. v. Phillips Industries, Inc.*, 625 F. Supp. 1077 (S.D. Ohio 1985). *McKesson Information Solutions* involved a defendant's motion for fees under § 285 after the court found the plaintiff's patent unenforceable for inequitable conduct. 2006 WL 2583025, at *1. Though the court found the case exceptional based

on withholding information from the PTO, it also found numerous factors militated against awarding fees: (1) the inequitable conduct occurred over twenty years earlier and neither the plaintiff nor its predecessor were involved in that conduct, (2) the plaintiff's claims and defenses were not frivolous, (3) the plaintiff engaged in no improper conduct during the litigation, and (4) "the case was not a 'David versus Goliath' contest." *Id.* at *6. *McKesson* is readily distinguishable because the presiding judge here found HOTF itself engaged in inequitable conduct.

*Isco* involved withholding a report—which rendered one of the patent claims obvious—from the PTO, and an advisory jury found the report material to patentability. 279 F. Supp. 2d at 500-01. In addition to establishing materiality, the defendants also needed to establish by clear and convincing evidence that the applicant intended to deceive the PTO. *Id.* at 499. Under that standard, the advisory jury found intent to deceive in withholding the report, and the court adopted the advisory jury's determination and found the patent unenforceable for inequitable conduct. But the court determined the jury's finding of bad faith was unfounded, and described the evidence of inequitable conduct as not "so egregious as to render the case exceptional." *Id.* at 511-12. However, *Isco* is distinguishable from this case because the jury here found clear and convincing evidence of HOTF's bad faith, and the Federal Circuit affirmed that finding. *Energy Heating*, 889 F.3d at 1305.

*J.P. Stevens*, a 1987 case, involved an appeal from a denial of fees after findings of inequitable conduct in not

disclosing prior art during the prosecution of a patent. Although the district court found the case exceptional, it awarded no fees. 822 F.2d at 1049. The Federal Circuit, noting the district court found "no deliberate fraud or deceptive intent" and further noting some of the factors discussed by the district court in support of its decision were "indicative of the closeness of the case," found no abuse of discretion in the denial of fees. *Id.* at 1051, 1053. *J.P. Stevens* is distinguishable from this case because here, the presiding judge found intent to deceive by clear and convincing evidence.

In *Torin*, a 1985 case, the court found the plaintiff had committed fraud on the PTO by failing to disclose one piece of prior art and considered whether that conduct warranted a finding of exceptionality. 625 F. Supp. at 1092. Relying on a Sixth Circuit opinion, rather than on one of the Federal Circuit, the court stated "attorney fees may be denied" even though there had been a "lack of candor [with the PTO] on the part of the patentee." *Id.* (quoting *Union Carbide Corp. v. Borg-Warner Corp.*, 550 F.2d 355, 363 (6th Cir. 1977)). Notwithstanding the patentee's fraud, the court concluded it was not an exceptional case because the fraud occurred nearly twenty years before the onset of litigation, the plaintiff conducted the litigation fairly and expeditiously and tried to minimize litigation costs, and when it became apparent that certain models of the defendant's product could not infringe the patent in suit, the plaintiff dropped those models from its claims of infringement. Aside from the fact that *Torin* is an older case, it is distinguishable because the jury concluded HOTF acted in bad faith when it claimed to have a valid

patent; moreover, despite HOTF's knowledge that its patent was invalid, it pursued claims of infringement without any apparent attempt to minimize litigation costs.

HOTF argues its conduct differed from that in cases on which Energy Heating and Marathon rely, in that those cases generally involved findings of affirmative misconduct rather than failures to disclose or involved conduct more egregious than that of HOTF. But the jury found affirmative wrongful acts by HOTF—representing it held a valid patent on the water heating system when no reasonable person could expect to prevail on claims of the patent's validity. And, because HOTF's failure to disclose the many prior uses to the PTO, with knowledge of its obligation to do so, was intentional, its failure to disclose was an affirmative decision. While HOTF's conduct may not have been as egregious as that described in *Intellect Wireless* or *Rothschild*, its intentional withholding of prior sales during the procurement process is comparable to the withholding of material information in *Worldwide Home Products, Taltech, Nilssen, Agfa*, and *Bruno*. The number of undisclosed prior sales and the amounts HOTF received from those prior sales constitute affirmative egregious conduct.

The Federal Circuit described a "tendency" to find exceptionality if inequitable conduct is found, and it appears other courts have universally done so subsequent to the *Octane Fitness* decision. In this court's opinion, by a preponderance of the evidence, this case stands out from others with respect to the substantive strength of HOTF's litigation position, considering both the governing

law and the facts of the case, and HOTF litigated the case in an unreasonable manner by persisting in its positions.

In reaching its recommendation, this court gives considerable weight to the jury's finding, by clear and convincing evidence, that it was both objectively and subjectively baseless for HOTF to suggest its patent was valid, that no reasonable person could expect to prevail on claims of the patent's validity, and that HOTF either knew the patent was invalid or the invalidity of the patent was so obvious HOTF should have known it was invalid. In essence, the jury concluded HOTF's case was substantively weak and further concluded that if HOTF persisted with its claims because it expected to prevail, that expectation was unreasonable.

HOTF argues that, even if the case is found exceptional, attorney fees should not be awarded. (Doc. 744, pp. 32-33). Other courts have denied fees even after determining a case to be exceptional. *See Asghari-Kamrani*, 2017 WL 4418424, at *5; *Stretchline Intellectual Props., Ltd. v. H&M Hennes & Mauritz LP*, No. 2:10-cv-371, 2015 WL 5175196, at *4 (E.D. Va. Sept. 3, 2015). And courts have sometimes awarded only those attorney fees incurred subsequent to a date after which claims are found to be "objectively without merit." *Inventor Holdings, LLC v. Bed Bath & Beyond Inc.*, No. 14-448-GMS, 2016 WL 3090633, at *3. If the presiding judge now finds the case to be exceptional, it *might* be appropriate to award only portions of the fees Energy Heating and Marathon request.

*Appendix C*

## Motion to Compel

Energy Heating and Marathon jointly moved to compel HOTF to disclose additional information about attorney fees it has incurred in this litigation, and this court ordered the motion held in abeyance, concluding the amount of HOTF's attorney fees was not relevant to the question of exceptionality. (Doc. 735). In light of the current recommendation that the case be found exceptional, this opinion addresses the joint motion to compel disclosure.

Energy Heating and Marathon contend HOTF's attorney fees have probative value in evaluating the reasonableness of their requested fees. They seek an order compelling HOTF to disclose its: "(1) total attorney's fees incurred to date in this action, both in this Court and on appeal, as well as (2) hourly rates and number of hours billed by each timekeeper, segregated by fees in this Court and on appeal." (Doc. 731, p. 2). With an earlier brief in which it argued Energy Heating's attorney fee request was unreasonable, HOTF provided a declaration which included the "average effective [hourly billing] rate" of each of the five attorneys who billed the most hours in this case. (Doc. 661, p. 2). HOTF contends that data constitutes "all of the information regarding its attorneys' fees that is potentially relevant to its objections to the reasonableness of Energy Heating's fees." (Doc. 730, p. 11).

In support of their motion, Energy Heating and Marathon contend their request has been narrowly tailored, the weight of authority recognizes the requested

information as probative of the reasonableness of their fee requests, and HOTF opened the door by questioning the reasonableness of their fee requests. (Doc. 731). They argue the limited information HOTF provided previously is not sufficient because (1) HOTF did not explain how it calculated the average effective rates or why the information was provided only as to the five attorneys who billed the greatest number of hours to the case, (2) the number of hours billed by each timekeeper is not included, and (3) it includes no data on fees later incurred on appeal. *Id.* at 4.

In contending no additional information is relevant, HOTF repeats its original objections to Energy Heating's fee request: (1) billing rates are too high for North Dakota litigation, (2) staffing of the case was unreasonable, and (3) motion practice and other litigation tactics were unreasonable. (Doc. 730, pp. 11-14). HOTF cites several cases which recognize a split of authority regarding relevance of an opposing party's billing information, but none of those cases is from this circuit. *Id.* at 10-11. Energy Heating and Marathon have identified no cases in which the Eighth Circuit directly addressed the question. Some courts have found relevance of an opponent's attorney fees depends on the nature of objections raised to a fee petition. *E.g., Mendez v. Radec Corp.*, 818 F. Supp. 2d 667, 668 (W.D.N.Y. 2011); *Pollard v. E.I. DuPont de Nemours & Co.*, No. 95-3010, 2004 WL 784489, at *3 (W.D. Tenn. Feb. 24, 2004). Case law in this district has stated, "One of the critical factors courts have looked to in analyzing the reasonableness of a party's request for attorney's fees is a comparison to the fees charged by opposing counsel."

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*Deadwood Canyon Ranch, LLP v. Fidelity Expl. & Prod. Co.*, No. 4:10-cv-081, 2014 WL 11531553, *5 (D.N.D. June 26, 2014) (citing *Heng v. Rotech Med. Corp.*, 720 N.W. 2d 54, 65 (N.D. 2006)).

HOTF acknowledges that the hourly rates of "attorneys of like skill in the area where the court sits" are relevant, but contends that hourly rates of its attorneys are not relevant because they are from Minnesota rather than from North Dakota. (Doc. 730, p. 12). Given the specialized work of patent law, "the area where the court sits" cannot reasonably be interpreted that narrowly. Whether the staffing, motion practice, and other litigation tactics of Energy Heating and Marathon were unreasonable may be relevant to any ultimate award of attorney fees, *see Deadwood Canyon Ranch*, 2014 WL 11531553, at *6, and HOTF's fee data may be relevant in considering those factors. HOTF cites no cases in which courts used limited information similar to what it has provided—its self-calculated average effective hourly rate—as a basis for comparing requested fees with fees charged to an opposing party, and this court's research has identified no cases using similarly limited information for comparison purposes. Further, HOTF offers no explanation of how it calculated its "average effective rates."

In addition to asserting it has already provided all potentially relevant information, HOTF contends the request for its fee data is premature since there has not been any finding of entitlement to attorney fees. This court agrees, as reflected in the order holding the motion to compel in abeyance. The data which Energy Heating

and Marathon request is relevant *only if* the presiding judge now determines the case to be exceptional within the meaning of § 285.

Finally, HOTF argues the motion to compel should be denied because briefing on the reasonableness of the fee requests through trial is complete, suggesting any additional briefing would not comport with Civil Local Rule 54.1. (Doc. 730, p. 14). The local rule, however, does not contemplate the present circumstances, where fees are requested following remand by an appellate court.

In this court's opinion, the requested information is relevant, the request is narrowly tailored so as not to require redaction of privileged information, and any burden is outweighed by relevance. Consistent with case law from this district, *if* the presiding judge finds the case to be exceptional, HOTF should be ordered to provide the information that Energy Heating and Marathon have requested within twenty days of the presiding judge's decision. Energy Heating and Marathon should then be ordered to submit any supplementation to their fee petitions within twenty days of receipt of the information from HOTF.

**Recommendation**

For the reasons discussed herein, this court recommends that the presiding judge find the case exceptional under 35 U.S.C. § 285. *Only if* the presiding judge finds the case exceptional, this court further recommends that the presiding judge (1) grant the joint

motion of Energy Heating and Marathon to compel HOTF's disclosure of (a) its total attorney's fees incurred to date in this action, both in this court and on appeal, and (b) the hourly rates and number of hours billed by each timekeeper, segregated by fees incurred in this court and on appeal; (2) order that HOTF provide the data described above within twenty days of any order finding exceptionality; (3) order Energy Heating and Marathon to submit any supplementation to their fee petitions within twenty days of receipt of the described data from HOTF; and (4) order that HOTF file any response to that supplementation within fourteen days of service.

Dated this 2nd day of July, 2019.

/s/ Alice R. Senechal
Alice R. Senechal
United States Magistrate Judge