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DEFEATING TROLLS: THE IMPACT OF *OCTANE* AND *HIGHMARK* ON PATENT TROLLS

*Aria Soroudi**

This Comment discusses two Supreme Court cases, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, and their impact on patent litigation involving patent trolls. Prior to these cases, patent troll litigation was on a continual rise and Congress's proposed measures were failing to curb the problem. Many companies, particularly startups, were left vulnerable to a patent troll threat because they could not afford the potential court costs to defend their case. This problem was compounded by the fact that traditional attorney fee shifting awards were extremely rigid and difficult to prove. This Comment argues that *Octane* and *Highmark* are able to hinder patent troll litigation because they reduce the standard by which attorney fees may be awarded to the prevailing party.

Moreover, *Octane* and *Highmark* are better able to address this problem better than other proposed and implemented solutions such as *Alice Corp. Pty. v. CLS Bank* and the Innovation Act. The argument is that *Octane* and *Highmark* allow an easier award of attorney fees while minimizing the adverse affects the other two alternatives carry. Lastly, by implementing a mandatory bonding requirement on patent plaintiffs, the patent troll business model will be severely impacted and result in a decline in frivolous patent litigation.

I. INTRODUCTION

Mention the word “troll” and what is the first thing that comes to mind? For some, it may be images of a mythological creature that lives under bridges and scares small children. For others however, like Google, Apple, and Intel, a particular type of troll—“a patent troll”—is the first to

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come to mind. Why is this the case? These three companies have paid one of the most infamous patent trolls in the industry, Intellectual Ventures, a combined \$6 billion in payouts and settlement fees.¹ It is no wonder why venture capitalist and PayPal co-founder, Peter Theil, has called Intellectual Ventures a “parasitic tax on the tech industry.”² Despite repeated efforts to curb patent trolls, the problem continues to worsen year after year.³

On April 29, 2014, it became evident that the United States Supreme Court was ready to put a stop to this growing problem.⁴ Patent trolls, also known as non-practicing entities (“NPEs”)⁵, make the bulk of their money by holding patents solely to license and enforce them against alleged infringers.⁶ They bring suits against both large and small companies alike.⁷

For young startups, however, an action brought by a patent troll can be devastating for the company.⁸ With tight budgets, these companies do

1. Ashlee Vance, *Silicon Valley's Most Hated Patent Troll Stops Suing and Starts Making*, BUS. WK. (Sept. 4, 2014), <http://www.businessweek.com/articles/2014-09-04/intellectual-ventures-patent-troll-funds-startups-new-products>.

2. *Id.*

3. See, e.g., Tracie L. Bryant, Note, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 688 (2012) (“[O]ne of the purposes of the AIA, including the joinder provision, is to address the problem of patent trolls.”); James Bessen, *Patent Trolling Was up 11 Percent Last Year*, WASH. POST (Jan. 31, 2014), <http://www.washingtonpost.com/blogs/the-switch/wp/2014/01/31/patent-trolling-was-up-11-percent-last-year/> (“[In 2013], patent trolls filed 18 percent more lawsuits than in 2012, suing 11 percent more companies.”).

4. See, e.g., Judith R. Blakeway, *Patent Trolls Beware: Award of Attorney's Fees to Prevailing Party in a Patent Case Can Be Reversed Only for Abuse of Discretion*, STRASBURGER & PRICE, LLP INTELL. PROP. BLOG (May 14, 2014), <http://www.strasburger.com/patent-trolls-beware/>.

5. Throughout this Note, the terms “patent troll” and “NPE” are used interchangeably.

6. Caroline Coker Coursey, *Battling the Patent Troll: Tips for Defending Patent Infringement Claims by Non-Manufacturing Patentees*, 33 AM. J. TRIAL ADVOC. 237, 237–38 (2009) (citing *Taurus IP, LLC v. DaimlerChrysler Corp.*, 519 F. Supp. 2d 905, 911 (W.D. Wis. 2007), *aff'd in part, rev'd in part*, 726 F.3d 1306 (Fed. Cir. 2013)).

7. See, e.g., WILLIAM J. WATKINS, JR., PATENT TROLLS: PREDATORY LITIGATION AND THE SMOTHERING OF INNOVATION 11–13, 17 (2013) (discussing the most pursued companies by patent trolls and the impact of patent trolls on small businesses).

8. See John Villasenor, *'Fee-Shifting' and Patent Reform: A Double-Edged Sword for Startup Companies*, FORBES (Dec. 18, 2013, 3:59 PM), <http://www.forbes.com/sites/johnvillasenor/2013/12/18/fee-shifting-and-patent-reform-a-double-edged-sword-for-startup-companies/>.

not have the money or the incentive to battle patent trolls in court because the fees themselves are enough to put the company out of business.⁹ Under the American rule, each party by default is responsible for paying its own attorney's fees regardless of the outcome.¹⁰ In patent cases, only in "exceptional cases" do courts award reasonable attorney's fees to the prevailing party.¹¹ Even then, this standard was so demanding that it rendered Section 285 of the Patent Act "largely superfluous."¹² However, this Comment argues that by properly shifting attorney fees upon the obstructive party, patent trolls will be forced to reevaluate their traditional business practices. Two recent Supreme Court decisions, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* ("Octane") and *Highmark, Inc. v. Allcare Health Management Systems, Inc.* ("Highmark") ultimately address this solution by lowering the burden for the award of attorney's fees.

Part II defines patent trolls and discusses their continual rise and the danger they pose on the economy. Part II also discusses Congress's failure to adequately address the patent troll problem. Part III provides a summary and history of attorney's fees under Section 285 of the Patent Act prior to the Supreme Court decisions in *Octane* and *Highmark*. Subsequently, Part IV discusses and analyzes *Octane*, while Part V discusses and analyzes *Highmark*. Part VI then addresses *Highmark* and *Octane*'s impact on patent trolls. Part VII discusses the impact of other various legislative and Supreme Court solutions to address patent trolls while also proposing a third complimentary solution to *Octane* and *Highmark*. Lastly, Part VIII provides a summary and conclusion of this Comment.

II. ORIGINS OF THE PATENT TROLL

A troll, a character from Norwegian folklore, is an odd name to characterize a company that buys and enforces patents. Peter Detkin, while assistant general counsel for Intel Corporation, first coined the phrase "patent troll" for NPEs.¹³ According to Detkin, "a patent troll is somebody

9. *Id.*

10. FED. R. CIV. P. 54(d).

11. Section 285 of the Patent Act governs attorney fees. 35 U.S.C. § 285 (2012).

12. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1752 (2014).

13. WILLIAM J. WATKINS, JR., PATENT TROLLS: PREDATORY LITIGATION AND THE SMOTHERING OF INNOVATION 11 (2013).

who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.”¹⁴ The problem with this business model is that it undermines the purpose for granting patents, which is the development of new inventions.¹⁵

The limited monopoly of patents, in turn, “provides inventors with an incentive to . . . invent, disclose, and commercialize.”¹⁶ The most important of these incentives is the incentive to invent.¹⁷ A limited monopoly on an invention allows inventors to use their monopoly “to charge a price that more closely approaches the value that users get from the inventions.”¹⁸ Therefore, investors are able to recover their investment, which ultimately provides the motivation to invent.¹⁹ Moreover, patents incentivize inventors to commercialize the product.²⁰ The patent gives the inventor time to attain commercial viability for the products, allowing the patent investors to recoup their investment.²¹

The Founding Fathers also understood the importance of protecting intellectual property by including Article I, Section 8 in the United States Constitution, which states, “Congress shall have Power . . . to promote the

14. *Id.* (citing Anna Mayergoz, *Lesson from Europe on How to Tame U.S. Patent Trolls*, 42 CORNELL INT’L L.J., 241, 245 (2009)).

15. *See* Brief of Apple Inc. as Amicus Curiae in Support of Neither Party at 15, *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014) (No. 12-1163), 2013 WL 6492296, at *15 (citing *Atl. Works v. Brady*, 107 U.S. 192, 200 (1883)) (“The design of the patent laws is to reward those who make some substantial discovery or invention, which adds to our knowledge and makes a step in advance in the useful arts.”).

16. Tina M. Nguyen, Note, *Lowering the Fare: Reducing the Patent Troll’s Ability to Tax the Patent System*, 22 FED. CIR. B.J. 101, 110 (2012) (citing MARTIN J. ADELMAN, RANDALL R. RADER & JOHN R. THOMAS, *CASES AND MATERIALS ON PATENT LAW* 28, 30, 33–34 (3d ed. 2009)).

17. *Id.* at 111.

18. *Id.* (citing William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 269 (1966); John S. McGee, *Patent Exploitation: Some Economic and Legal Problems*, 9 J.L. & ECON. 135, 137–39 (1966)).

19. Nguyen, *supra* note 16, at 111.

20. *Id.* (citing MARTIN J. ADELMAN, RANDALL R. RADER, & JOHN R. THOMAS, *CASES AND MATERIALS ON PATENT LAW* 28, 33 (3d ed. 2009)).

21. *Id.* at 112 (citing MARTIN J. ADELMAN, RANDALL R. RADER & JOHN R. THOMAS, *CASES AND MATERIALS ON PATENT LAW* 28, 34 (3d ed. 2009)).

Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”²² Patent trolls, however, undermine patent policy goals because they “extract all of the rights from a patent without conferring upon society any of the benefits.”²³

A. How Patent Trolls Work

Patent trolls often acquire their patents from technology companies that failed.²⁴ When a company files for bankruptcy, its patent portfolio is sold in bankruptcy auctions,²⁵ allowing patent trolls to accumulate massive portfolios.²⁶ Additionally, patent trolls buy patents from independent inventors or, alternatively, search the country for patents on older technology that might be used in modern products.²⁷ Once acquired, patent trolls do not produce products, but rather, identify companies in the same industries and attempt to collect license fees or sue them for infringement.²⁸

What makes patent trolls extremely problematic in court is their leverage over other product-producing companies.²⁹ When NPEs file a suit, they cannot in turn be countersued for patent infringement because they are not producing an actual product with the patent they acquired.³⁰ Moreover, because patent trolls do not use patented inventions themselves, the parties cannot settle with a cross-licensing agreement, which is a common way patent infringement suits are settled between entities that use

22. U.S. CONST. art. I, § 8.

23. Watkins, *supra* note 13 (citing Victoria E. Luxardo, Comment, *Towards a Solution to the Problem of Illegitimate Patent Enforcement Practices in the United States: An Equitable Affirmative Defense of “Fair Use” in Patent*, 20 EMORY INT’L. L. REV. 791, 796 (2006)).

24. *Id.* at 13.

25. *Id.*

26. *Id.*

27. *Id.*

28. *Id.*

29. Tracie L. Bryant, Note, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 691 (2012).

30. *Id.*

patented inventions.³¹ This allows patent trolls to bring claims without fear of severe backlash.

One need not look further than *NTP, Inc. v. Research In Motion, Ltd.* to understand the damage that patent trolls can inflict.³² NTP is a NPE, which owns about twenty-five patents.³³ In 2001, NTP filed suit against Research in Motion (“RIM”) alleging RIM infringed on NTP patents.³⁴ RIM defended its suit on the theory that NTP’s patents were too obvious to be patentable.³⁵ The case went to trial and the jury returned a verdict for NTP, awarding NTP \$53 million.³⁶ The court also granted a permanent injunction against RIM, which prohibited RIM from manufacturing and selling Blackberry devices.³⁷ RIM appealed and the injunction was stayed pending the decision.³⁸ While on appeal, the United States Patent and Trademark Office (“USPTO”) reexamined NTP’s patents to determine whether they were valid.³⁹ Eventually, the USPTO found all of NTP’s patents were invalid.⁴⁰ NTP appealed the decision of the USPTO, further delaying the injunction pending against RIM.⁴¹ With the threat of an injunction still looming, RIM decided to settle with NTP for \$612.5 million.⁴² Ultimately the patents were held invalid, but not after RIM paid half a billion dollars in licensing fees.⁴³

31. *Id.*

32. *See generally* NTP, Inc. v. Research In Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005).

33. Watkins, *supra* note 13, at 21.

34. *NTP*, 418 F.3d at 1290.

35. *Id.* at 1325.

36. *Id.* at 1292.

37. *Id.*

38. *Id.*

39. Nguyen, *supra* note 16, at 107.

40. *Id.*

41. *Id.*

42. *Id.*

43. *Id.*

Although this case was in 2001, patent infringement lawsuits involving NPEs have “increased dramatically over the last decade, by an average of 22% *per year* since 2004.”⁴⁴ Just two years ago, “patent trolls filed 18% more lawsuits in 2013 than in 2012, suing 11% more companies.”⁴⁵ Of all patent lawsuits filed in 2013, approximately 52% involved patent trolls.⁴⁶

B. Major Causes of Patent Trolling

In part, the rise in NPE litigation has resulted from the USPTO itself. In recent decades, the USPTO funding has been slashed, which has led to a diminished examination of patent applications.⁴⁷ For instance, “[b]etween ‘1983 to 2003, the number of patent applications received by the USPTO more than tripled . . . [while] the number of examiners . . . decreased by 20%.’”⁴⁸ As a result, the USPTO approves “thousands of ambiguous [and overbroad] patents . . . every year.”⁴⁹ These overbroad patents make it difficult for product-producing companies to determine whether a patent’s claims will be invalidated in litigation.⁵⁰

Despite the USPTO’s faults, patent trolls are most able to thrive due to the cost of litigation. The average legal cost to defend a patent suit ranges from “\$420,000 for small and medium-sized companies to \$1.52

44. *Litigations Over Time*, PATENT FREEDOM, <https://www.patentfreedom.com/about-npes/litigations/> (last visited Mar. 29, 2015) (emphasis added).

45. James Bessen, *Patent Trolling Was Up 11 Percent Last Year*, WASH. POST (Jan. 31, 2014), <http://www.washingtonpost.com/blogs/the-switch/wp/2014/01/31/patent-trolling-was-up-11-percent-last-year>.

46. *Id.*

47. Ashley Chuang, Note, *Fixing the Failures of Software Patent Protection: Detering Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J. 215, 227 (2006).

48. *Id.* at 227–28 (“In 2004, nearly 118,000 patent applications previously reviewed by the USPTO were resubmitted as new applications with only minor changes, thus ‘wast[ing] the limited time examiners have to review an application and prevent[ing] examiners from focusing on the most important issues in an application.’ Further, of the 355,000 new applications filed in 2004, over forty percent of them had more than twenty claims each.”).

49. *Id.* at 228 (“[O]n appeal, examiner decisions are commonly reversed and overturned.”).

50. *Id.*

million for large companies.”⁵¹ Because many small companies have no other business alternatives and cannot afford the risks and costs of litigation, they are forced to settle for needless licenses.⁵² Patent trolls know this and exploit these small companies for a quick profit.

C. *The Dangers of Patent Trolls*

Some see the rise in patent litigation involving patent trolls as beneficial, contending that trolls fight large companies otherwise held unaccountable for infringement due to smaller companies’ inability to afford the costs of going to court.⁵³ “Trolls fight for the rights of the little guy . . . [b]y purchasing the patent [and] infus[ing] capital into small business that can in turn focus on more R&D. NPEs assume the risk of enforcing patents, and inventors can focus on inventing.”⁵⁴

While patent trolls may partly inject capital into small businesses, they also exact a severe toll on the economy and innovation. It is estimated that from 1990 through October 2010, “NPE lawsuits ‘[were] responsible for over half a trillion dollars in lost wealth.’”⁵⁵ This loss even caught the attention of President Obama, and the White House’s Council of Economic Advisors released a report, “Patent Assertion and U.S. Innovation,” finding that defendants and licensees paid patent trolls “\$29 billion in 2011, a 400% increase from 2005.”⁵⁶ The report further “estimated that less than 25% of this money flowed back to innovation.”⁵⁷ From 2007 through October 2010, patent lawsuits reduced the capitalization of targeted firms by an estimated \$83 billion per year, which is equal to more than one-

51. James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 400 (2014).

52. Matthew Shay, *Time to Demand an End to Abusive Patent Troll Tactics*, THE HILL (Nov. 20, 2013, 9:00 AM), <http://thehill.com/blogs/congress-blog/economy-budget/190779-time-to-demand-an-end-to-abusive-patent-troll-tactics>.

53. Watkins, *supra* note 13, at 16.

54. *Id.*

55. *Id.*

56. EXECUTIVE OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 9 (2013), available at https://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.

57. *Id.* at 9.

quarter of U.S. industrial research and development spending per year.⁵⁸ This lost wealth results in less spending on innovative technology for companies at the forefront of technological innovation.

The damage to small startups, however, is even more severe. The White House Report found that “[i]n a recent survey of 223 technology company startups, 40 percent of [patent assertion entity]-targeted companies reported a ‘significant’ operational impact (e.g. change in business, delay in milestone, change in product, etc.) due to the suit or threat thereof,”⁵⁹ and 13% were forced to exit the business or pivot their business strategy.⁶⁰

There are also social costs to patent troll litigation. With over half of patent litigation brought by patent trolls, it could clog up already busy courtrooms and use resources that could be used for other cases. Where product-producing companies that bring patent infringement suits win 40% of their cases, patent trolls win only 8% of their suits.⁶¹ Therefore, patent trolls exhaust more patent litigation resources while proving to be less successful than product-producing entities.⁶² This comes at the cost of the taxpayers because their tax dollars are spent to support the court’s resources.⁶³

D. Congress’s Failed Solutions to Curb Patent Trolls

With the rise of patent litigation, Congress started to take notice. In 2011, Congress passed the America Invents Act.⁶⁴ The Act was predicted to curb the patent troll problem by limiting joinder of multiple defendants in patent litigation.⁶⁵ However, with patent litigation involving patent trolls

58. Watkins, *supra* note 13, at 17.

59. EXECUTIVE OFFICE OF THE PRESIDENT, *supra* note 56, at 10.

60. *Id.* at 11.

61. Bryant, *supra* note 29, at 693.

62. *Id.*

63. *See id.* at 688.

64. *See generally* Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

65. Bryant, *supra* note 29, at 689 (“[T]he purpose of the [act] was to abrogate case law that allowed joinder of defendants simply because the plaintiff claimed that they had infringed the

still on the rise,⁶⁶ it was apparent that further measures were needed.

Over the course of two years, the Electronic Frontier Foundation pushed Congress to make reforms to reign in patent trolls.⁶⁷ Congress finally responded in 2012 when Congressman Peter DeFazio introduced the SHIELD Act in the House of Representatives.⁶⁸ The act involved shifting attorney's fees in "computer hardware and software" patents where the patentee "did not have a reasonable likelihood of succeeding."⁶⁹ Although the SHIELD Act of 2012 failed to pass, it was reworked and re-introduced as the SHIELD Act of 2013.⁷⁰ The SHIELD Act of 2013 attempted to "[shift] fees against any party that is not: (1) the original inventor or assignee; (2) exploiting the patent commercially through sale or production of items practicing the patent; or (3) a university or technology transfer organization."⁷¹

The Act raises an issue, however, because courts may find it difficult to assess whether the losing party falls into the "exploitation of the patent" category.⁷² By presumptively shifting fees to the losing party, there is no determination as to the merits of the plaintiff's claim.⁷³ Therefore, the Act essentially presumes that the losing party's claim is frivolous. This may in turn deter small companies from filing legitimate claims. Therefore, Congress's proposed SHIELD Act does not seem to properly remedy patent litigation abuse.

Another bill, known as the Innovation Act, seemed to show more

same patent.").

66. *Id.* at 687.

67. Daniel Nazer, *Patent Reform Stalls in Congress As Trolls Roll On*, ELEC. FRONTIER FOUND. (May 15, 2014), <https://www.eff.org/deeplinks/2014/05/patent-reform-stalls-congress-trolls-roll>.

68. *Id.*

69. Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 VA. J.L. & TECH. 59, 109 (2013) (internal quotation marks omitted).

70. *Id.* at 112.

71. *Id.*

72. Emily H. Chen, *Making Abusers Pay: Deterring Patent Litigation by Shifting Attorneys' Fees*, 28 BERKELEY TECH. L.J. 351, 377 (2013).

73. *See id.*

promise. Much like the SHIELD Act, the Innovation Act seeks to reduce the cost and frequency of patent litigation by shifting fees.⁷⁴ However, the Innovation Act awards attorney's fees to the losing party by default.⁷⁵ The House of Representatives passed the Innovation Act in December 2013 by a staggering margin of 325 to 91, showing apparent signs of progress.⁷⁶ In May 2014, however, the Innovation Act was dealt a crucial blow.⁷⁷ Senator Patrick Leahy pulled it from the Judiciary Committee agenda, stating that "competing companies on both sides of [the] issue refused to come to agreement."⁷⁸ The bill has been repeatedly postponed,⁷⁹ and it seems Congress has failed once again to curb the problem.

III. DEVELOPMENT OF THE PATENT ACT'S FEE SHIFTING PROVISION

The Patent Act of 1952 is the current law governing patents in the United States.⁸⁰ The Act provides that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent."⁸¹ To obtain a patent, an inventor must submit an application to the USPTO.⁸² An examiner approves and issues a patent, which generally remains valid for twenty years.⁸³ Prior to 1946, the Patent Act did not authorize the

74. Liang & Berliner, *supra* note 69, at 124.

75. Michael Rosen, *Thwarting 'Patent Trolls': Not as Easy as It Sounds*, AM. ENTER. INST. (June 10, 2014, 8:53 AM), <http://www.aei.org/publication/thwarting-patent-trolls-not-as-easy-as-it-sounds/print/>.

76. Klint Finley, *U.S. Senate Drives a Stake Through Heart of Patent Reform*, WIRED (May 21, 2014, 8:53 PM), <http://www.wired.com/2014/05/rip-innovation-act/>.

77. Kelly Servick, *U.S. Senate Shelves Long-Debated 'Patent Troll' Bill*, SCI. MAG. (May 22, 2014, 5:00 PM), <http://news.sciencemag.org/policy/2014/05/u.s.-senate-shelves-long-debated-patent-troll-bill>.

78. *Id.*

79. *Id.*

80. 35 U.S.C. § 101 (2012).

81. *Id.*

82. *General Information Concerning Patents*, USPTO, <http://www.uspto.gov/patents-getting-started/general-information-concerning-patents> (last visited Mar. 29, 2015).

83. *Id.*

awarding of attorney's fees under any circumstances.⁸⁴ Instead, the Act followed the default American Rule under which both sides must bear its own attorney's fees.⁸⁵

In 1946, Congress introduced a discretionary fee-shifting provision, which stated that a court, "may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case."⁸⁶ In granting this power, the legislature made clear that the court should not award fees in patent cases as a matter of course.⁸⁷ The payment of attorney's fees was not seen as a penalty for failure to win, but rather, "was designed to prevent a gross injustice to an alleged infringer."⁸⁸ Also, "fraud practiced on the Patent Office or vexatious or unjustified litigation are adequate justification for awarding attorneys' fees."⁸⁹

In 1952, Congress re-codified the fee-shifting provision under the current Section 285.⁹⁰ The revised provision provides: "[t]he court in *exceptional cases* may award reasonable attorney fees to the prevailing party."⁹¹ Although Section 285 introduced the words "exceptional cases,"⁹² the revised language was "for purposes of clarification only."⁹³ As such, the courts continued to apply the fee-shifting provision in a discretionary manner, looking at the totality of the circumstances.⁹⁴

Courts used several factors to determine whether a given case was

84. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753 (2014).

85. *Id.*

86. 35 U.S.C. § 70 (1946).

87. *Pa. Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d 445, 450-51 (3d Cir. 1951).

88. *Id.* at 451.

89. *Id.*

90. *Octane*, 134 S. Ct. at 1753.

91. 35 U.S.C. § 285 (1952) (emphasis added).

92. *See* S. REP. NO. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2423 ("This section is substantially the same as the corresponding provision in R.S. 4921; 'in exceptional cases' has been added as expressing the intention of the present statute as shown by its legislative history and as interpreted by the courts.").

93. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 n.8 (1983).

94. *Octane*, 134 S. Ct. at 1753.

sufficiently “exceptional” to warrant attorney fees.⁹⁵ One such factor was the plaintiff’s motive in bringing the patent suit.⁹⁶ Therefore, if the plaintiff was aware that the patent was invalid at the time of the suit, then the court may deem the case exceptional.⁹⁷ Another factor was whether the tactics employed by the plaintiff in maintaining his suit justify an award of attorney fees.⁹⁸ For example, if the litigation is needlessly protracted, it may be deemed exceptional.⁹⁹ The most important factor, this Comment argues, is the patentee’s conduct in originally obtaining his patent, “since fraud on the Patent Office in that endeavor is enough itself to make a case exceptional.”¹⁰⁰ In *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co.*, the court explained that:

Such conduct is a serious breach of the patentee’s duty to the Patent Office. The party who succeeds in invalidating the unlawful patent performs a valuable public service. It is appropriate under such circumstances to reward the prevailing party by giving him attorney’s fees for his efforts, and it is equally appropriate to penalize in the same measure the patentee who obtained the patent by his wrongdoing.¹⁰¹

In 1982, Congress vested the United States Court of Appeals for the

95. *True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 508 (10th Cir. 1979).

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.*

100. *Id.*

101. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 294 (9th Cir. 1969) (citations omitted) (“The District Court found that Monolith had made fraudulent representations to the Patent Office in four respects: (1) deliberate concealment of statutory bars; (2) falsehoods in a petition to make special; (3) misrepresentations about ‘unexpected results’; and (4) false statements of novelty in an affidavit by one Oscar Wicken procured by Monolith and filed in the Patent Office. Monolith argues that each of those findings is clearly erroneous. We examine the findings seriatim.”).

Federal Circuit with sole appellate jurisdiction over patent cases.¹⁰² Like the regional courts before, the Federal Circuit continued to consider the totality of the circumstances and various factors to assess whether a patent case was exceptional.¹⁰³

In 2005, however, the Federal Circuit, in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.* unexpectedly abandoned this discretionary and “equitable approach.”¹⁰⁴ The court in *Brooks* held that a case is exceptional under Section 285 only “when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates [Rule 11 of the Federal Rules of Civil Procedure], or like infractions.”¹⁰⁵ Additionally, “[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.”¹⁰⁶ Further, the court in *Brooks* held “[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith”¹⁰⁷ and the “underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence.”¹⁰⁸

Expanding on the issue, the Federal Circuit in *iLOR, LLC v. Google, Inc.* made clear that litigation is objectively baseless if it is “so unreasonable that no reasonable litigant could believe it would succeed.”¹⁰⁹

102. *Octane*, 134 S. Ct. at 1754.

103. *Id.*; see also *Yamanouchi Pharm. Co. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 1347 (Fed. Cir. 2000) (“In assessing whether a case qualifies as exceptional, the district court must look at the totality of the circumstances.”).

104. *Octane*, 134 S. Ct. at 1754 (citing *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381–82 (Fed. Cir. 2005)).

105. *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

106. *Id.*

107. *Id.* at 1382.

108. *Id.*

109. *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011).

It comes as no coincidence that following the decision in *Brooks*, the number of frivolous patent suits brought by patent trolls has risen astronomically.¹¹⁰ However, two Supreme Court cases, *Highmark* and *Octane*, have set out to slay patent trolls once and for all.

IV. *OCTANE FITNESS, LLC v. ICON HEALTH & FITNESS*

ICON Health & Fitness, Inc. (“ICON”) is a manufacturer of exercise equipment and owns U.S. Patent No. 6,019,710 (“Patent 710”) for an elliptical exercise machine.¹¹¹ Although ICON owns Patent 710, it never produced or commercially sold the design.¹¹² The defendant, Octane Fitness, LLC, (“Octane”) is also a manufacturer of exercise equipment and commercially sells two elliptical machines known as the Q45 and Q47.¹¹³ In 2011, ICON sued Octane, alleging that Octane’s Q45 and Q47 elliptical machines infringed on Patent 710.¹¹⁴ Octane denied the infringement and moved for summary judgment declaring non-infringement.¹¹⁵ The district court granted Octane’s motion, concluding that the Q45 and Q47 elliptical machines did not infringe on ICON’s Patent 710.¹¹⁶ Octane then moved for attorney’s fees under Section 285 arguing that ICON’s “unreasonable claim construction positions,” and its “privilege assertions over its pre-suit investigation” were made in bad faith.¹¹⁷ Further, during discovery, Octane

110. Brief of Amici Curiae Electronic Frontier Foundation, et al. in Support of Pet’r at 10, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (No. 12-1184), 2013 WL 6512960, at *10 (“PAEs accounted for only about five percent of patent litigation in 2000-2002 . . . This figure increased to about 22 percent in 2007, and then to almost 40 percent in 2011.”).

111. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1754 (2014) (“[t]he respondent, ICON Health & Fitness, Inc., owns U.S. Patent No. 6,019,710 ([]710 patent), which discloses an elliptical exercise machine that allows for adjustments to fit the individual stride paths of users.”).

112. *Id.* at 1755.

113. *Id.*

114. *Id.*

115. *Id.*

116. *Id.*

117. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 F. App’x. 57, 65 (Fed. Cir. 2012).

obtained emails from ICON's Vice President of Global Sales that were sent to two other employees, stating "[the] old patent we had for a long time that was sitting on the shelf.¹¹⁸ [We] are just looking for royalties."¹¹⁹ The "old patent" from the email referred to Patent 710.¹²⁰ However, the district court denied Octane's motion, determining that "Octane could show neither that ICON's claim was objectively baseless nor that ICON had brought it in subjective bad faith."¹²¹ Furthermore, "[t]he fact that [ICON] is a bigger company which never commercialized [Patent 710], and [this was] an e-mail exchange between two ICON sales executives," was insufficient to show that ICON brought the suit in bad faith.¹²²

ICON appealed the non-infringement judgment and Octane cross-appealed the denial of Section 285 attorney fees.¹²³ Specifically, Octane argued that the *Brooks* standard was "overly restrictive" in finding a case exceptional under Section 285.¹²⁴ However, the Federal Circuit affirmed both district court orders and declined to "revisit the settled standard for exceptionality."¹²⁵ Octane again appealed and the Supreme Court granted certiorari.¹²⁶ After almost seven months, the Supreme Court reversed the Federal Circuit decision and overturned the framework established by *Brooks*, finding that *Brooks* was "unduly rigid, and it impermissibly

118. *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, No. 09-319 ADM/SER, 2011 WL 3900975, at *4 (D. Minn. Sept. 6, 2011) ("[A]n Icon employee with the title of Vice President of Global Sales reported to two other employees, 'We are suing Octane. Not only are we coming out with a great product to go after them, but throwing a lawsuit on top of that.'").

119. *Id.*

120. *See Octane*, 134 S. Ct. at 1754.

121. *Id.* at 1755.

122. *Id.* (quoting *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, No. 09-319 ADM/SER, 2011 WL 3900975, at *4 (D. Minn. Sept. 6, 2011)) (internal quotation marks omitted).

123. *Id.*

124. *Id.* (quoting *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 F. App'x. 57, 67 (Fed. Cir. 2012)) (internal quotation marks omitted).

125. *Id.* (quoting *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 F. App'x. 57, 67 (Fed. Cir. 2012)) (internal quotation marks omitted).

126. *Octane*, 134 S. Ct. at 1755.

encumber[ed] the statutory grant of discretion to district courts.”¹²⁷ In its place, the Supreme Court held “[d]istrict courts may determine whether a case is exceptional in the case-by-case exercise of their discretion, considering the totality of the circumstances.”¹²⁸ Moreover, “[a]s in the comparable context of the Copyright Act, there is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised in light of the considerations.”¹²⁹

The Court’s reasoning behind this change started with an analysis of the text of Section 285 itself.¹³⁰ Because the Patent Act did not define the term “exceptional,” the Court construed it in “accordance with [its] ordinary meaning.”¹³¹ As such, the Supreme Court took “exceptional” to mean “uncommon, rare, or not ordinary.”¹³² Therefore, the Supreme Court held that an exceptional case is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.”¹³³

Another reason for the change in the rule was partly because the *Brooks* standard “superimpose[d] an inflexible framework onto statutory text that [was] inherently flexible.”¹³⁴ Previously, courts applying the *Brooks* standard would allow attorney’s fees where the litigation misconduct was independently sanctionable or the litigation was both objectively baseless and brought in subjective bad faith.¹³⁵ The Court in

127. *Id.*

128. *Id.* at 1756.

129. *Id.* (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994)) (internal quotation marks omitted).

130. *Id.* at 1755.

131. *Id.* at 1756 (quoting *Sebelius v. Cloer*, 133 S. Ct. 1886, 1893 (2013)); *see also* *Bilski v. Kappos*, 130 S. Ct. 3218, 3226 (2010) (internal quotation marks omitted) (“In patent law, as in all statutory construction, [u]nless otherwise defined, words will be interpreted as taking their ordinary, contemporary, common meaning.”).

132. *Octane*, 134 S. Ct. at 1756 (citing WEBSTER’S NEW INT’L DICTIONARY 889 (2d ed. 1934)) (internal quotation marks omitted).

133. *Id.*

134. *Id.*

135. *Id.* at 1756–57.

Octane, however, made clear that a party's unreasonable conduct, although not independently sanctionable, can still justify an award of attorney fees.¹³⁶ Moreover, the requirement that the litigation be both objectively baseless and brought in subjective bad faith was not Congress' intent when it drafted the "exceptional" language.¹³⁷ Rather, "a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently . . . warrant a fee award."¹³⁸

In its brief to the Supreme Court, ICON argued that the *Brooks* standard was properly adopted in another Supreme Court decision, *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* (hereinafter "*PRE*").¹³⁹ In *PRE*, the Court considered when the First Amendment provides immunity from antitrust liability for litigation activity.¹⁴⁰ The Court held "the plaintiff must have brought baseless claims in an attempt to thwart competition (i.e., in bad faith)."¹⁴¹ The Supreme Court in *Octane*, however, found that the adoption of the *PRE* standard in *Brooks* made little sense in the context of Section 285 fee awards.¹⁴² The Court in *PRE* "carved out . . . a narrow exception . . . to avoid chilling the exercise of the First Amendment right to petition the government for the redress of grievances."¹⁴³ The *PRE* court's "demanding standard reflects both the important First Amendment interests at stake in petitioning the government . . . and the distinct chilling effect of treble damages."¹⁴⁴

136. *Id.*

137. *See id.* at 1757.

138. *Octane*, 134 S. Ct. at 1757.

139. *Id.*

140. *See Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56 (1993).

141. *Octane*, 134 S. Ct. at 1757; *see also id.* at 60–61 (internal quotation marks omitted) (holding that to qualify as a "sham" a "lawsuit must be objectively baseless" and must conceal "an attempt to interfere *directly* with the business relationships of a competitor").

142. *Octane*, 134 S. Ct. at 1757.

143. *Id.*

144. Brief for Google, Inc. et al. as Amici Curiae Supporting Neither Party at 12, *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014) (No. 12-1163), *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014) (No. 12-1184), 2013 WL 6492299.

However, Section 285 of the Patent Act does not raise any of these First Amendment concerns.¹⁴⁵ Therefore, narrowly construing the shifting of attorney’s fees in *Brooks* was improper.¹⁴⁶

Another reason for the Court’s rejection of *Brooks* was that it rendered Section 285 “largely superfluous.”¹⁴⁷ The courts have recognized that litigating in bad faith is a sufficient basis for awarding attorney’s fees under the common law.¹⁴⁸ This common law rule existed, as it does today, at the time Congress enacted Section 285.¹⁴⁹ Therefore, if *Brooks* were correct and Section 285 required a subjective bad faith showing, Section 285 “would have had no effect: fee-shifting would be limited to the same category of cases in which it was available before the statute was enacted.”¹⁵⁰

Lastly, the Supreme Court in *Octane* rejected the *Brooks* standard because of the requirement that entitlement to fees under Section 285 be established by clear and convincing evidence.¹⁵¹ At no time before *Brooks* did the Supreme Court require entitlement to fees by clear and convincing evidence.¹⁵² Rather, “patent-infringement litigation ha[d] always been

145. See *Octane*, 134 S. Ct. at 1757; see also *Premier Elec. Const. Co. v. Nat’l Elec. Contractors Ass’n, Inc.*, 814 F.2d 358, 373 (7th Cir. 1987) (rejecting the argument that the *Noerr-Pennington* doctrine places limits on fee-shifting).

146. See *Octane*, 134 S. Ct. at 1757; see also Brief of Amici Curiae Electronic Frontier Foundation, et al. in Support of Pet’r at 10, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (No. 12-1184), 2013 WL 6512960, at *7.

147. *Octane*, 134 S. Ct. at 1758; see also Brief of Pet’r at 7, *Octane*, 134 S. Ct. 1749 (No. 12-1184) (“[T]he Federal Circuit’s interpretation also makes it superfluous.”).

148. *Octane*, 134 S. Ct. at 1758 (internal quotation marks omitted) (“We have long recognized a common-law exception to the general American rule against fee-shifting—an exception . . . that applies for willful disobedience of a court order or when the losing party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons . . .”).

149. Brief of BSA | The Software Alliance as Amicus Curiae in Support of Petitioner at 14, *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (No. 12-1184), 2013 WL 6492300, at *14.

150. *Id.* at 14–15; see also *Octane*, 134 S. Ct. at 1758 (“We have twice declined to construe fee-shifting provisions narrowly on the basis that doing so would render them superfluous, given the background exception to the American rule . . .”).

151. *Octane*, 134 S. Ct. at 1758.

152. *Id.*

governed by a preponderance of the evidence standard.”¹⁵³ For the foregoing reasons, the Supreme Court rejected *Brooks* and re-established the long held standard of totality of the circumstances when determining attorney fees.¹⁵⁴

V. *HIGHMARK INC. V.*
ALLCARE HEALTH MANAGEMENT SYSTEM, INC.

Allcare is a Virginia-based company that licenses intellectual property assets.¹⁵⁵ Among its assets is U.S. Patent No. 5,301,105 (“105 patent”), which covers “utilization review in managed health care systems.”¹⁵⁶ Like other patent trolls, Allcare conducted a survey of various healthcare management and insurance companies in order to find potential targets to collect fees.¹⁵⁷ From this survey, Allcare filed suit against twenty-four companies, including Highmark, claiming that the companies’ management systems infringed the 105 patent.¹⁵⁸ In April 2002, Allcare sent Highmark a letter demanding that Highmark purchase a license to the 105 patent or else face potential litigation.¹⁵⁹ Allcare then sent additional letters to Highmark, threatening litigation and warning Highmark of the high costs of litigation.¹⁶⁰

After failed discussions between the parties, Highmark filed suit against Allcare seeking a declaratory judgment of non-infringement, invalidity, and unenforceability of all claims of the 105 patent.¹⁶¹ Allcare

153. *Id.*

154. *See generally Octane*, 134 S. Ct. 1749.

155. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 706 F. Supp. 2d 713, 716 (N.D. Tex. 2010).

156. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1747 (2014) (internal quotation marks omitted).

157. *Highmark*, 706 F. Supp. 2d at 716.

158. *Id.*

159. *Id.*

160. *Id.*

161. *Highmark*, 134 S. Ct. at 1747.

counterclaimed for patent infringement.¹⁶² Both Highmark and Allcare then moved for summary judgment.¹⁶³ The district court granted summary judgment of non-infringement in favor of Highmark, and Allcare appealed.¹⁶⁴ While the appeal was pending, Highmark moved for attorney’s fees under Section 285.¹⁶⁵ The district court granted Highmark’s Section 285 motion, finding that Allcare “engaged in a pattern of ‘vexatious’ and ‘deceitful’ conduct throughout the litigation.”¹⁶⁶ Particularly, the district court found that “Allcare had ‘pursued [the] suit as part of a bigger plan to identify companies potentially infringing the 105 patent . . . and then to force those companies to purchase a license of the 105 patent under threat of litigation.’”¹⁶⁷ Moreover, “Allcare had ‘maintained infringement claims [against Highmark] well after such claims had been shown by its own experts to be without merit’ and had ‘asserted defenses it and its attorneys knew to be frivolous.’”¹⁶⁸

On appeal, however, the U.S. Court of Appeals for the Federal Circuit reversed in part and affirmed in part.¹⁶⁹ The court affirmed “the exceptional-case determination with respect to the allegations that Highmark’s system infringed one claim of the 105 patent, but reversed the determination with respect to another claim of the patent.”¹⁷⁰ The court then reviewed the district court’s determination de novo¹⁷¹ and held that “because the question whether litigation is ‘objectively baseless’ under *Brooks* . . . ‘is a question of law based on underlying mixed questions of law and fact,’ an objective-baselessness determination is reviewed on

162. *Id.*

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.*

167. *Highmark*, 134 S. Ct. at 1747.

168. *Id.*

169. *Id.*

170. *Id.*

171. *Id.*

appeal ‘de novo’ and ‘without deference.’”¹⁷² It then determined that Allcare’s claim was “not so unreasonable that no reasonable litigant could believe it would succeed,” and therefore held that none of Allcare’s conduct warranted Section 285 attorney’s fees under *Brooks*.¹⁷³ Judge Mayer, however, dissented to the court’s decision to adopt a “de novo” standard.¹⁷⁴ Despite the dissent of five judges, the Federal Circuit denied a rehearing en banc.¹⁷⁵ The Supreme Court, however, granted certiorari.¹⁷⁶

In granting certiorari, the Supreme Court reversed the Federal Circuit’s decision, holding that “an appellate court should apply an abuse of discretion standard in reviewing all aspects of a district court’s Section 285 determination.”¹⁷⁷ The Court reasoned that “decisions on ‘questions of law’ are ‘reviewable de novo,’ decisions on ‘questions of fact’ are ‘reviewable for clear error,’ and decisions on ‘matters of discretion’ are ‘reviewable for abuse of discretion.’”¹⁷⁸ Because the district’s court’s determination to award Section 285 attorney’s fees was a matter of discretion, it should have been reviewed only for abuse of discretion.¹⁷⁹

VI. THE IMPACT OF *HIGHMARK* AND *OCTANE*

After the decisions in *Highmark* and *Octane*, many commentators wonder about their immediate impacts and consequences in the patent

172. *Id.*

173. *Highmark*, 134 S. Ct. at 1747–48.

174. *Id.* (Judge Mayer dissented in part, disagreeing with the view “that no deference is owed to a district court’s finding that the infringement claims asserted by a litigant at trial were objectively unreasonable.”).

175. *Id.* at 1748.

176. *See id.*

177. *Id.* at 1749.

178. *Id.* at 1748; *see also* *Pierce v. Underwood*, 487 U.S. 552, 559-60 (1988) (“We recently observed, with regard to the problem of determining whether mixed questions of law and fact are to be treated as questions of law or of fact for purposes of appellate review, that sometimes the decision ‘has turned on a determination that, as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question.’”) (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985)).

179. *See Highmark*, 134 S. Ct. at 1748.

field.¹⁸⁰ Standing together, it is clear the decisions make it easier for district court judges to award attorney's fees in patent cases.¹⁸¹ In *Octane*, the standard for Section 285 attorney's fees was restored to its original, intended standard, making it easier for courts to weed out frivolous cases brought by patent trolls.¹⁸² Moreover, the decision in *Highmark* places patent law more in sync with other areas of law.¹⁸³ The Federal Circuit will now be required to allow the district court's decision to stand unless it is shown on appeal that the district court judge abused his or her discretion. This is a high standard that will typically prevent the Federal Circuit from reversing the district court's decision in most cases.¹⁸⁴ Ultimately, with lowered standards, patent trolls will now have to think twice before bringing a costly infringement suit against innovative companies, knowing they may have to pay the attorney's fees.

The impact of *Octane* and *Highmark* are already being felt. Just one month after the rulings in *Octane* and *Highmark*, the U.S. District Court for the Southern District of New York awarded attorney fees to FindTheBest.com ("FTB") in a prolonged suit with Lumen View Technology.¹⁸⁵ Judge Cote, who oversaw the trial, explained that "Lumen's motivation . . . was to extract a nuisance settlement . . . from FTB on the theory that FTB would rather pay an unjustified license fee than bear the costs of the threatened expensive litigation."¹⁸⁶ On these grounds, Section 285 attorney's fees were justified.¹⁸⁷ Moreover, since the

180. See generally Rich Steeves, *Octane, Highmark Cases to Impact Future of Fee Shifting*, INSIDE COUNSEL (May 1, 2014), <http://www.insidecounsel.com/2014/05/01/octane-highmark-cases-to-impact-future-of-fee-shif> (asking the practical impact of *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014) to fee shifting in patent cases).

181. *Id.*

182. See *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1749 (2014).

183. See generally Judith R. Blakeway, *Patent Trolls Beware*, STRASBURGER BLOGS (May 14, 2014), <http://www.strasburger.com/patent-trolls-beware> (demonstrating that courts have become more in sync with each other in terms of patent standards of review).

184. See *id.*

185. John F. O'Rourke, Patrick Soon & Rebecca Bellow, *Silver, Garlic, and Attorney's Fees*, ORANGE COUNTY LAWYER (Oct. 2014), available at <http://www.whglawfirm.com/SILVER-GARLIC-AND-ATTORNEY-S-FEES.pdf>.

186. *Id.*

187. *Id.*

decisions, 101 district courts have cited *Octane*.¹⁸⁸ This is a testament to the impact these two Supreme Court decisions are making in patent law.

Highmark and *Octane* are not only impacting the patent world, but are impacting trademark law as well.¹⁸⁹ In a Third Circuit case, *Fair Wind Sailing, Inc. v. Dempster*, the court determined that *Octane*'s ruling on awarding attorney's fees in patent cases should apply equally to trademark cases under the Lanham Act.¹⁹⁰ Traditionally, the Third Circuit has utilized a two-step approach, much like the *Brooks* standard, that required (1) a finding of culpable conduct, and (2) an assessment that that conduct is extraordinary before assessing attorney's fees in trademark suits.¹⁹¹ In holding that the test no longer applies, the Third Circuit noted the Supreme Court "was sending a clear message that it was defining 'exceptional' not just for the fee provision in the Patent Act, but for the fee provision in the Lanham Act as well."¹⁹² Not only is the language in the Lanham Act's attorney's fee provision very similar to that in Section 285, the Supreme Court in *Octane* cited a Lanham Act case when defining "exceptional."¹⁹³

Despite the visible impact of these cases in the patent field, many doubt whether *Highmark* and *Octane* will actually be the dagger in the heart for patent trolls.¹⁹⁴ One such argument contends that *Highmark* and *Octane* will not likely impact patent trolls because the "business model for many trolls is only based on threatening to bring lawsuits as a tactic for forcing settlements rather than actually bringing law suits."¹⁹⁵ Given that attorney's fees are not awarded when a matter is settled, patent trolls will

188. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

189. *See Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 314–15 (3d Cir. 2014).

190. *Id.*

191. *Id.*

192. *Id.* at 315.

193. *Octane*, 134 S. Ct. at 1756 (citing *Noxel Corp. v. Firehouse No. 1 Bar-B-One Restaurant*, 771 F.2d 521, 526 (D.C. Cir. 1985)).

194. *See, e.g.*, Andrew Beckerman-Rodau, *The Potential Unintended Consequences of Fee Shifting After the Supreme Court Decisions in Octane Fitness and Highmark*, JHTL (Apr. 30, 2014), <http://jhtlblog.wordpress.com/2014/04/30/the-potential-unintended-consequences-of-fee-shifting-after-the-supreme-court-decisions-in-octane-fitness-and-highmark/>.

195. *Id.*

continue to exploit small and large companies alike.¹⁹⁶ This argument has its merits given that 97% of patent claims settle before they even reach trial.¹⁹⁷ However, this argument fails to take into account the *inherent* business model of these patent trolls, which is to threaten costly litigation knowing that settling is a cheaper option than paying attorney's fees.¹⁹⁸ With the decisions in *Highmark* and *Octane*, the patent troll business model has changed because product-producing companies now know that the other side will likely bear the cost of their attorney fees.¹⁹⁹ With this knowledge, companies will have the confidence to stand up to patent trolls and not compromise on settlements.

Lumen View Technology, LLC v. Findthebest.com, Inc. is the perfect example.²⁰⁰ There, the company's CEO, Kevin O'Connor, vowed to fight back rather than pay the \$50,000 licensing fee Lumen (the NPE) was demanding.²⁰¹ The company quickly defeated the claim in court and FTB was awarded \$200,000 in attorney fees.²⁰² O'Connor said he hoped "other companies [will] see this as a sign that settling isn't the only way out."²⁰³

Ultimately, empirical evidence supports the proposition that *Highmark* and *Octane* are starting to curb patent litigation involving NPEs. According to data from *Lex Machina*, there has been a sharp decline in the number of patent litigation filings since May 2014.²⁰⁴ There were just 387

196. *See id.*

197. Kal Raustiala & Christopher Jon Sprigman, *How to Know a Patent Troll When You See One? You Can't*, TIME (July 8, 2013), <http://business.time.com/2013/07/08/how-to-know-a-patent-troll-when-you-see-one-you-cant/>.

198. *Id.*

199. *See id.*

200. *See generally* Lumen View Tech., LLC v. Findthebest.com, Inc., 24 F. Supp. 3d 329 (S.D.N.Y. 2014).

201. Joe Mullin, *Payback Time: First Patent Troll Ordered to Pay "Extraordinary Case" Fees*, ARS TECHNICA (June 1, 2014, 4:30 PM), <http://arstechnica.com/tech-policy/2014/06/its-payback-time-as-findthebest-wrests-legal-fees-from-patent-troll>.

202. *See Lumen View Tech*, 24 F. Supp. 3d at 337 ("The question of whether this case is exceptional is not close, and fee shifting in this case will 'serve as an instrument of justice.'"); O'Rourke et al., *supra* note 185.

203. Mullin, *supra* note 201.

204. *September 2014 New Patent Case Filings Down 40% From September 2013*, LEX

new cases in May 2014 compared to 502 cases in May 2013, which roughly amounts to a 23% decrease.²⁰⁵ It is no coincidence that *Octane* and *Highmark* were both decided in late April 2014. Even more staggering is that just 329 patent suits were filed in September 2014 compared to 549 patent filings in September 2013, which is roughly a 40% decrease.²⁰⁶ This strong correlation indicates that *Octane* and *Highmark* are likely beginning to impact the patent trolls' business model.

VII. ALTERNATIVE SOLUTIONS

While there are emerging signs of improvement in patent troll abuse, there is always more to be done. Even with great victories in *Octane* and *Highmark*, the war itself is still not over. So what more can be done? One proffered solution is the previously discussed Innovation Act.²⁰⁷ Another alternative, which has already been implemented, involves the recent Supreme Court decision, *Alice Corp. Pty. Ltd. v. CLS Bank International*.²⁰⁸ With these proposed and implemented solutions in motion, this Comment argues that while the Innovation Act and *Alice Corp.* will benefit patent holders in theory, they carry grave consequences that outweigh their inherent benefits. As a result, a bonding requirement is actually the best solution to put the patent troll to rest.

A. *The Consequences of the Innovation Act*

Like *Octane*, the Innovation Act addresses fee-shifting provisions in patent cases. Unlike *Octane*, however, the Innovation Act would automatically require the losing party to pay the other side's attorney's fees instead of an award of fees only in exceptional cases.²⁰⁹ Each side bears its own attorney's fees only if the court finds that the non-prevailing party was

MACHINA (Oct. 8, 2014), <https://lexmachina.com/2014/10/september-2014-new-patent-case-filings-40-september-2013/>.

205. *Id.*

206. *Id.*

207. See Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 VA. J.L. & TECH. 59, 124 (2013).

208. See generally *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014).

209. Liang & Berliner, *supra* note 207, at 125.

“‘substantially justified’ or that special circumstances make an award unjust.”²¹⁰ This of course is contrary to the established American Rule, and instead aligns itself with the “loser-pays” English rule.²¹¹ Under the Innovation Act, many perceive that there will be a reduction in the number of cases filed, even more so than with awards under Section 285.²¹² One of the effects of this method is that contingency fee plaintiff’s attorneys will suffer a significant loss in the form of the other party’s attorney’s fees if they are unsuccessful in court.²¹³ Because many patent trolls use contingency fee arrangements, their attorneys will be discouraged from representing them, knowing the potential for additional, substantial costs. Therefore, there would likely be a reduction in the number of NPE claims filed. A “loser-pays” system adopted by the Innovation Act would also discourage low-merit, high-damage cases.²¹⁴ Patent trolls are notorious for bringing dubious and vague claims, as is evidenced by their 8% success rate at trial.²¹⁵

Despite the positive aspects of the Innovation Act, the consequences of adopting such a measure are severe. One of the dangers associated with a loser pays system is that it also impacts patent companies that initiate litigation in good faith, not just NPEs.²¹⁶ For small innovators, there will be a reluctance to file a legitimate claim “because they will fear that they will lose a lawsuit and end up paying exorbitant costs of the people who

210. *Id.*

211. See Susanne Di Pietro & Teresa W. Carns, *Alaska’s English Rule: Attorney’s Fee Shifting in Civil Cases*, 13 ALASKA L. REV. 33, 36 (1996) (“In most European countries, civil litigation follows the general rule that the losing party pays the winning party’s attorney’s fees, a practice that is loosely referred to as the “European Rule.””).

212. See Liang & Berliner, *supra* note 207, at 90 (explaining the “British Rule, or two-way fee shifting, as more effective than the American Rule at reducing the number and cost of cases filed.”).

213. *Id.* at 93.

214. *Id.*

215. Tracie L. Bryant, Note, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 693 (2012).

216. John Villasenor, ‘Fee-Shifting’ And Patent Reform: A Double-Edged Sword For Startup Companies, FORBES (Dec. 18, 2013), <http://www.forbes.com/sites/johnvillasenor/2013/12/18/fee-shifting-and-patent-reform-a-double-edged-sword-for-startup-companies/>.

they litigated against, even though their claim was legitimate.”²¹⁷ This leaves large patent holders at a substantial advantage in a dispute because they are likely to ignore the small company’s claim and increase their attorney fees, knowing that the smaller company cannot afford the costs of litigation that does not go their way.²¹⁸

For an example, take FTB’s CEO Kevin O’Connor, only this time imagine he is suing a large corporation, such as Apple, for infringing several of FTB’s patents. FTB engages in discussions with the goal of having Apple obtain a licensing agreement to use his patents. Apple, however, would most likely ignore his claim because Apple knows that the fee-shifting exposure for FTB would devastate the company. A loss for Apple, however, would only cause a small dent in the company’s massive assets. It seems, though, that if FTB has such a strong claim, he should still pursue it against Apple.

In patent cases, however, the “winners” and “losers” are difficult to discern because the merits are not so clear.²¹⁹ Patent litigation involves complex technical and legal issues that are often decided by judges and juries with minimal knowledge of patent law.²²⁰ Moreover, patent laws are “slow to adapt to new technologies that present new fact patterns, which adds further uncertainty as to the merits of a patent case.”²²¹ Due to this uncertainty, federal appellate courts reverse the district court’s decisions at a rate of approximately 30%-40%.²²² This situation would not bode well for FTB because there is a considerable chance the suit will be wrongly decided and fees shifted onto the wrong party.

Some may argue this situation is unlikely to occur, however, because attorney’s fees will not be awarded if the non-prevailing party was “substantially justified” in bringing the claim. Congress, however, has repeatedly failed to adequately define the standard when it was first applied

217. *Id.*

218. *See id.*

219. Liang & Berliner, *supra* note 207, at 94.

220. *Id.*

221. *Id.* at 95.

222. David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335, 349 (2012).

in the Equal Access to Justice Act of 1980.²²³ Courts “found it extremely difficult to provide any meaningful content for the ‘substantially justified’ standard that governs fee-shifting under the Act.”²²⁴ The Innovation Act adopts this same standard that Congress has yet to properly define.²²⁵ This vagueness of the “substantial justification” standard has led to inconsistent decisions in the courts, which has made the award of attorney’s fees the standard rather than the exception.²²⁶ Because a large portion of patent plaintiffs have “substantial justification” for bringing their case and the complexity of technologies in many patent cases, disputes over whether a case is “substantially justified” will likely increase litigation costs, which is contrary to the Innovation Act’s ultimate goal.²²⁷

The Patent Act’s Section 285 attorney’s fees, as governed by *Highmark* and *Octane*, is ultimately a better solution than the Innovation Act because Section 285 emphasizes the substance of the infringement claim rather than focusing on the winners and losers of the case.²²⁸ Determining whether a claim is frivolous involves addressing the lack of merit, not necessarily who prevailed, and “attempts to single out a class of patent owners will devalue patents, reduce the ability of patent owners to realize a return on their investment, and ultimately decrease the incentives to innovate.”²²⁹ Therefore, Section 285 under *Octane* and *Highmark* is a better solution because it addresses the merits of the claim itself, while maintaining an even playing field between big and small innovators.

223. Niki Kuckes, *Reenacting the Equal Access to Justice Act: A Proposal for Automatic Attorney’s Fee Awards*, 94 YALE L.J. 1207, 1210-11 (1985) (“The term is not a carefully crafted term of art, but rather a conscious legislative compromise, designed as an ‘acceptable middle ground’ between automatic fee-shifting and the bad faith standard advocated by the Executive.”).

224. *Id.* at 1210.

225. *Id.*

226. *See id.*

227. Liang & Berliner, *supra* note 207, at 125.

228. 35 U.S.C. § 285 (1952).

229. Daniel Roth, *Patent Litigation Attorneys’ Fees: Shifting from Status to Conduct*, 13 CHI.-KENT J. INTEL. PROP. 257, 272 (2013) (concluding that “all entities that assert claims of patent infringement should be held to the same standard of conduct.”).

B. The Unintended Consequences of Alice Corp.

Many argue that the recent Supreme Court decision in *Alice Corp. Pty. v. CLS Bank International* presents another, more effective solution to the patent troll problem than that offered in *Octane* and *Highmark*.²³⁰ In *Alice Corp.*, the Supreme Court addressed the main issue of whether “computer-implemented” inventions “are patent-eligible under 35 U.S.C. § 101, or are instead drawn to a patent-ineligible abstract idea.”²³¹ Alice Corporation was the holder of several patents, one of which included a computer-implemented scheme for mitigating settlement risk.²³² CLS Bank was an operator of a global network that facilitates currency transactions.²³³ CLS Bank filed suit against Alice Corp., seeking a declaratory judgment that the computer-implemented scheme patent was invalid.²³⁴ Alice Corp. counterclaimed, alleging infringement by CLS Bank.²³⁵ Ultimately the court held that “the claims at issue [were] drawn to the abstract idea of intermediated settlement,” and that “merely requir[ing] generic computer implementation fail[ed] to transform that abstract idea into a patent-eligible invention.”²³⁶

The holding in *Alice Corp.* discourages patent trolls from filing claims because it changes the underlying conditions of their business model.²³⁷ Patent trolls thrive in the software sector because their patents

230. *See generally Alice*, 134 S. Ct. 2347.

231. *Id.* at 2352.

232. *Id.* at 2353 (explaining that the “patents in suit claim (1) the foregoing method for exchanging obligations (the method claims), (2) a computer system configured to carry out the method for exchanging obligations (the system claims), and (3) a computer-readable medium containing program code for performing the method of exchanging obligations (the media claims). All of the claims are implemented using a computer; the system and media claims expressly recite a computer, and the parties have stipulated that the method claims require a computer as well.”).

233. *Id.*

234. *Id.*

235. *Id.*

236. *Alice*, 134 S. Ct. at 2355, 2357.

237. *See id.* at 2354.

involve software patents of dubious quality.²³⁸ With the ruling in *Alice Corp.*, parties dealing with those various patents now have a “very important tool to fight back by invalidating those patents.”²³⁹ Moreover, the ruling will “help prevent dubious patents from being granted in the future” to patent trolls.²⁴⁰

While the Supreme Court struck down abstract software patents, it failed to define exactly what constitutes an “abstract idea.”²⁴¹ The Supreme Court failed to even address what, if anything, about software should be considered an “abstract idea.”²⁴² Justice Clarence Thomas, writing for the majority, explained that the Court “need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case.”²⁴³ By failing to define an abstract idea, however, the Court left the door open for patents trolls to prey on this ambiguity. The White House’s Council of Economic Advisors Report previously mentioned found that “a key factor in the rise of patent assertion by non-practicing entities . . . was a change in law or technology that led to uncertainty about whether a patent had been infringed.”²⁴⁴ The Supreme Court’s failure to define “abstract” in *Alice Corp.* will leave a product-producing company unable to determine if a NPE’s patents are valid, causing the company not to risk litigation. The *Alice Corp.* decision, therefore, created an effect opposite to that intended by the Supreme Court. Moreover, product-producing software companies are now left wondering if their patents are even valid. For Google, Oracle, and Microsoft, over half of their patent portfolios are software based.²⁴⁵

238. Klint Finley, *Supreme Court Deals Major Blow to Patent Trolls*, WIRED (June 19, 2014, 3:48 PM), <http://www.wired.com/2014/06/supreme-court-deals-major-blow-to-patent-trolls/>.

239. *Id.*

240. *Id.*

241. *See generally Alice*, 134 S. Ct. 2347.

242. *See generally id.*

243. *Id.* at 2357.

244. Executive Office of the President, PATENT ASSERTION AND U.S. INNOVATION 13 (2014).

245. Joff Wild, *Big US Tech Companies Face Major Patent Losses in the Post-Alice World*, IAM Research Reveals, IAM (Sept. 14, 2014), <http://www.iam-magazine.com/blog/Detail.aspx?g=2028b324-2d4a-4523-9f0d-f0773b8b3fa1>.

With the ruling in *Alice Corp.*, hundreds of thousands of software patents are potentially at risk. The rulings in *Octane* and *Highmark*, however, do not pose these issues because they attack the plaintiff's purpose for bringing the claim and not the underlying nature of the patent. Therefore, *Octane* and *Highmark* serve as a better solution than *Alice Corp.*.

C. The Bonding Requirement

Although *Octane* and *Highmark* currently pose a critical threat to patent trolls, an additional bonding requirement would supply a complimentary solution to these two decisions that would effectively end NPE litigation. A bonding requirement would require a plaintiff to post a bond before bringing a patent infringement claim.²⁴⁶ This requirement would force a NPE plaintiff to carefully consider the merits of their claim rather than filing for nuisance purposes.²⁴⁷ Moreover, a bonding requirement would solve the problem of patent trolls functioning as shell corporations, which are often set up by patent trolls to avoid paying a judgment.²⁴⁸ In the event of an unfavorable judgment, a patent troll simply declares bankruptcy and vanishes, leaving the defendant "empty-handed."²⁴⁹ With a bonding requirement, however, a defendant would still be rightfully paid.

Bonding requirements have also been effectively imposed in other legal fields.²⁵⁰ Under Rule 65 of the Federal Rules of Civil Procedure, a movant must post a bond before a court can issue a preliminarily injunction or temporary restraining order against the party to be enjoined.²⁵¹ The purpose, much like in the context of patent litigation, is to ensure that the enjoined party receives compensation to cover the costs and damages in the event the court later rules an injunction was not proper.²⁵² Along with a

246. Emily H. Chen, Note, *Making Abusers Pay: Deterring Patent Litigation by Shifting Attorneys' Fees*, 28 BERKELEY TECH. L.J. 351, 380 (2013).

247. *Id.*

248. Gary Shapiro, *Senate Should Finish Off The Patent Trolls*, THE HILL (Mar. 26, 2014, 11:00 AM), <http://thehill.com/blogs/congress-blog/technology/201701-senate-should-finish-off-the-patent-trolls>.

249. *Id.*

250. *See* FED. R. CIV. P. 65.

251. *Id.*

remedial benefit, a bonding requirement would force abusive NPEs to “put some skin in the game.”²⁵³

Congress has also embraced the benefits of a bonding requirement with its revision of the SHIELD Act.²⁵⁴ In 2013, U.S. Representatives Jason Chaffetz and Peter DeFazio introduced a revision of the SHIELD Act, which included a “carefully drafted” bonding requirement.²⁵⁵ Only time will tell, however, if the Act becomes reality.

VIII. CONCLUSION

Abusive patent litigation brought by patent trolls poses a serious threat to our economy. Not only do the actions of patent trolls result in billions of dollars of lost wealth, this lost wealth reduces spending on innovative technology.²⁵⁶ Moreover, these patent trolls use valuable court resources to litigate claims that are statically proven to lose.²⁵⁷ Fortunately, the Supreme Court has decided to challenge this looming threat and fight back with their decision in *Octane* and *Highmark*. Not only do *Octane* and *Highmark* make it easier for district court judges to award attorney’s fees against patent trolls, they do so without the residual ramifications observed in *Alice Corp.* and the Innovation Act. Coupled with a bonding requirement, product-producing companies, both large and small, will send patent trolls back under the bridge and keep them a creature of fairytales.

252. Tom Long, *Remember Bonds on Preliminary Injunctions*, NOSSAMAN LLP (Nov. 30, 2014), <http://www.nossamanlitigationadvocates.com/2014/11/remember-bonds-on-preliminary-injunctions/>.

253. Chen, *supra* note 246, at 381.

254. See SAVING HIGH-TECH INNOVATORS FROM EGREGIOUS LEGAL DISPUTES ACT OF 2013, H.R. 845, 113th Cong. (1st Sess. 2013).

255. Daniel Roth, *Patent Litigation Attorneys’ Fees: Shifting from Status to Conduct*, 13 CHI.-KENT J. INTEL. PROP. 257, 269 (2013).

256. See WILLIAM J. WATKINS, JR., PATENT TROLLS: PREDATORY LITIGATION AND THE SMOTHERING OF INNOVATION 27 (The Indep. Inst. 2013).

257. Tracie L. Bryant, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 693 (2012).