Highmark and *Octane* Helped, But Legislation on Fee Shifting Still Necessary

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There is a continued need for patent reform to address the asymmetrical costs that patent litigation imposes on defendants. Given the substantial costs imposed on U.S. technology companies by the number of suits brought by Patent Assertion Entities (PAEs), the standards for award of attorneys' fees have been a focus of patent reform. The White House's June 2013 Report on Patent Assertion and U.S. Innovation suggested that it is important to reduce "disparity in the costs of litigation for patent owners and technology users."[1]

However, just "fixing" the rules associated with attorneys' fees is not enough. Action should also be taken to prevent PAEs from being able to simply walk away from cases where there is about to be an assessment of litigation costs or attorneys' fees, either by dissipating all of their assets so they are effectively judgment proof or by filing for bankruptcy.

Last term, proposed legislation contained fee shifting provisions that would make it easier for a prevailing party—either a plaintiff or a defendant—to obtain attorneys' fees in a patent infringement suit. That legislative effort died last May, in wake of the U.S. Supreme Court's decisions in *Octane Fitness v. Icon Health*[2] and *Highmark v. Allcare*.[3]

According to some, these cases essentially mooted the need for fee shifting legislation. *Octane* may make it easier for district courts to award attorneys' fees when a PAE brings a meritless patent infringement claim, or one is defended in bad faith.[4] *Highmark* makes it more difficult for the Federal Circuit to reverse such awards, because the Federal Circuit is reviewing the awards for abuse of discretion.[5]

However, nothing in these cases addresses the proposed reforms to make the real parties in interest who are managing PAEs responsible for fees and costs. In lieu of legislation that permits real parties in interest to be joined in an action, patent defendants are left with the somewhat unsatisfactory remedy of the state-bystate provisions for bonding. For example, in Texas, a defendant can within 90 days of appearing, move the court for a determination that the plaintiff is a vexatious litigant.[6] If it is determined that the plaintiff is vexatious litigant, the court may require the plaintiff to post a security to assure payment to the defendant of reasonable expenses incurred in or in connection with the litigation.[7]

Recent decisions from the California district courts may be instructive with respect to how useful such a remedy may be. Section 1030 of the California Code of Civil Procedure allows a defendant to force the plaintiff to file a bond to secure an award of costs and fees when (1) the plaintiff resides out of state or is a foreign corporation and (2) there is a "reasonable possibility" that the defendant will prevail.[8] The purpose of section 1030 is to help California defendants "secure costs in light of the difficulty of enforcing a judgment

1 Patent Assertion and U.S. Innovation, Executive Office of the President, June 2013 p.1 (86 PTCJ 274, 6/7/13), http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (accessed on Oct. 8, 2014).

2 *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014) (88 PTCJ 28, 5/2/14).

3 *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 2014 BL 118430, 110 U.S.P.Q.2d 1343 (2014) (88 PTCJ 28, 5/2/14).

4 *Octane Fitness*, 134 S. Ct. at 1756 ("We hold, then, 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.").

5 *Highmark*, 134 S. Ct. at 1744 ("We therefore hold that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's § 285 determination.").

6 Tex. Civ. Prac. & Rem. § 11.051.

7 Tex. Civ. Prac. & Rem. § 11.055.

8 Cal. Civ. Proc. Code § 1030.

for costs against a person who is not within the court's jurisdiction."[9]

Section 1030 may also be applied by a California federal court, as federal courts "[t]ypically . . . follow the forum state's practice" in considering a motion regarding security for costs."[10] The statute is also consistent with a Northern District of California Civil Local Rule that provides that "the Court may require any party to furnish security for costs which can be awarded against such party in an amount and on such terms as the Court deems appropriate."[11]

A handful of defendants in patent litigation brought by PAEs have sought relief under section 1030. The first such recent motion was brought in *IPVZX Patent Holdings v. Voxernet*, where the defendant requested that the court require the plaintiff to post a $749,000 undertaking to cover anticipated attorneys' fees and costs.[12] The defendant claimed that the plaintiff was a patent troll and should be required "to put its money where its mouth is."[13] The defendant was also concerned that when it prevailed, the plaintiff would just disappear, leaving the defendant without recourse to recover fees and costs.[14]

On June 18, 2014, the Court denied the defendant's motion, noting that section 1030 requires a separate basis for fees and that 35 U.S.C. § 285 provides that basis by allowing an award of attorney's fees to the prevailing party in exceptional patent cases.[15] The court observed that while the plaintiff bore some hallmarks of a patent troll, it was not automatically the villain simply because it had brought infringement actions against multiple defendants.[16] The court also concluded that the defendant had failed to demonstrate a reasonable possibility that it would prevail because this appeared to be a matter in which the parties simply held strongly divergent views as to the scope of the patent claims.[17]

Similarly, in *GeoTag. v. Zoosk*, the defendant brought a motion to require an undertaking of $750,000 to cover anticipated attorneys' fees and costs.[18] The plaintiff had filed similar causes of action against over numerous defendants in multiple district courts throughout the country.[19] In denying the motion, the court held that while the defendant had shown a reasonable possibility that it would prevail, the defendant had not shown a reasonable possibility of establishing an exceptional case pursuant to 35 U.S.C. § 285.[20]

The same courts that denied the undertaking motions in these patent litigations have directed that they be provided in copyright matters. In a trio of cases—*AF Holdings v. Trinh*,[21] *AF Holdings v. Navasca*[22] and *AF Holdings v. Magsumbol*[23]—the courts held that the defendants had met the requirements of section 1030 and required the plaintiffs to post a bond (in the amount of $48,000 in two of the actions and $50,000 in the other).

This difference—the district courts' willingness to conclude that it is likely to shift fees in copyright litigation, but not in patent litigation—suggests that it may continue to be difficult to get a bond early in a patent case, before the courts have made substantial decisions on the merits and can determine what claims are least meritorious. It is at that point, where a defendant has already incurred substantial fees and costs defending against a claim that proves to lack merit, where the PAE is most likely to unwind its

9 *Shannon v. Sims Serv. Center*, 164 Cal. App. 3d 907, 913 (1985).

10 *Simulent E. Assoc. v. Ramada Hotel Operating Co.*, 37F.3d 573, 574 (9th Cir. 1994).

11 Northern District of California Civil L.R. 65.1-1(a).

12 *IPVZX Patent Holdings, Inc. v. Voxernet, LLC*, No. 5:13- cv-01708 HRL, D.I. 120 (N.D. Cal.).

13 *Id.* at *2.

14 *Id.*

15 *Id.* at *2-3.

16 *Id.* at *3.

17 *Id.* at *4.

18 *GeoTag, Inc. v. Zoosk, Inc.*, No. 13-cv-00217-EMC, D.I. 204 at *2 (N.D. Cal.). This is a matter in which the authors are involved.

19 *Id.* at *2-3.

20 *Id.* at *5-6.

21 *AF Holdings LLC v. Trinh*, No. C 12-02393 (N.D. Cal. Nov. 9, 2012).

22 *AF Holdings LLC v. Navasca*, No. C-12-2396 EMC D.I. 22 (N.D. Cal. Feb. 5, 2013).

23 *AF Holdings LLC v. Magsumbol*, 106 U.S.P.Q. 2d 1586 (N.D. Cal. March 18, 2013).

operations. For example, in *Kelora v. Target*, the Court granted defendants summary judgment on invalidity and awarded costs to defendants.[24] However, Kelora filed for bankruptcy before it ever paid a dime to the defendants.[25]

Therefore, even with the recent Supreme Court decisions of *Octane Fitness* and *Highmark*, in order to curb the abusive patent litigation by PAEs, we still likely need legislative remedies to address collection concerns.

One approach would be to make bonding more readily available early in an action. Another approach would be to assure that real parties in interest are identified to the court, so that it is easier to use the usual debt collection tools. This has limited usefulness where the PAE is set up by entities themselves that are foreign, making discovery of asserts and collection difficult. A third approach, the subject of discussion in the last session, was to not only require that these parties be identified, but also make sure that where possible they are before the court handing the patent litigation matter, which could then take steps to prevent asset disposition by those entities from making the patent holder judgment proof.

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24 *Kelora Sys., LLC v. Target Corp.*, No. 4:11-cv-01548-CW, D.I. 481 (N.D. Cal. May 21, 2012).

25 *See Kelora Sys., LLC v. Target Corp.*, No. 4:11-cv-01548- CW, D.I. 551 (N.D. Cal. July 9, 2013) (vacating order of appointment of receiver because Kelora had filed Chapter 7).