Fractured Foundation → Fees

***Energy Heating, LLC v. Heat On-The-Fly, LLC*, No. 20-2038, 2021 WL 4782468 (Fed. Cir. Oct. 14, 2021)**

By: Iftekhar Zaim & Ted Mahan | November 3, 2021

The Federal Circuit ("CAFC") affirmed an award of exceptional case attorneys' fees under 35 U.S.C. § 285 ("§ 285") over Appellant Heat On-The-Fly ("HOTF")'s arguments that the district court erred in failing to consider certain factual findings, and that it mis-weighed the strength of HOTF's litigation positions and a purported lack of litigation misconduct in assessing exceptionality. This case is important both for its clarification of how inequitable conduct factors into the "exceptional case" determination, and its illustration of the hazards of pursuing shaky claims with high-pressure litigation tactics.

Plaintiff-appellee Energy Heating ("Energy") filed suit for a declaratory judgment that HOTF's patent for on-demand water heaters used in hydraulic fracturing ("fracking") were invalid as obvious, unenforceable due to HOTF's inequitable conduct, and not infringed. HOTF counterclaimed for infringement and brought a third-party claim for induced infringement against one of Energy's clients, Marathon. The district court found HOTF's patent obvious as well as unenforceable for inequitable conduct for failure to disclose 61 commercial uses prior to the critical date. Energy and Marathon moved under § 285 for over $5MM in attorneys' fees, but the court denied it for lack of litigation misconduct by HOTF, aggressive litigation tactics from all parties, and a determination that HOTF's arguments against inequitable conduct were "meritorious" (despite finding inequitable conduct by clear and convincing evidence). The CAFC then vacated the order denying fees, avoiding the factual determinations to instead indicate that the CAFC could not discern what standard the lower court had applied. Notably, the CAFC pointed out that if a court finding inequitable conduct ***declines*** to find the case exceptional under § 285, it should explain why. On remand, the district court awarded § 285 fees. The present appeal ensued.

Most notably, the CAFC rejected HOTF's argument that the district court failed to give due consideration to the ***absence*** of a finding that HOTF engaged in litigation misconduct. The CAFC noted the lower court's determination that "HOTF litigated the case in an unreasonable manner ***by persisting in its positions***," and saw "no abuse of discretion in the district court's apparent refusal to credit HOTF for not ***further*** engaging in litigation misconduct." It also rejected HOTF's suggestion that the district court had *per se* found exceptionality from inequitable conduct, finding instead that it had correctly applied the law regardless of its note that courts appeared to universally find exceptionality following inequitable conduct.

This case reinforces the importance not only for district courts to seriously consider exceptionality whenever inequitable conduct is found (especially given *Therasense*'s high standard of proof), but for litigants to compare their litigation tactics against the strength of their positions. The CAFC has again[1] committed in appellate ink a district court's sketch of the bounds of reasonable litigation conduct, this time after having erased that court's prior, more lenient take on the bounds of zealous representation.

[1] *See, e.g., Blackbird Tech. LLC v. Health in Motion LLC*, No. 2018-2393 (Fed. Cir. Dec. 16, 2019) (summarized here).