

2020-2038

United States Court of Appeals
for the Federal Circuit

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 Case No. 4:13-cv-00010-RRE-ARS*

BRIEF OF APPELLANTS

Devan V. Padmanabhan
Paul J. Robbennolt
Padmanabhan & Dawson, PLLC
45 South 7th St., Suite 2315
Minneapolis, MN 55402
Telephone: (612) 444-3601
devan@paddalawgroup.com
paul@paddalawgroup.com

Attorneys for Appellants

October 22, 2020

FORM 9. Certificate of Interest

Form 9 (p. 1)
July 2020

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

CERTIFICATE OF INTEREST

Case Number 2020-2038

Short Case Caption Energy Heating, LLC v. Heat On-The-Fly, LLC

Filing Party/Entity Heat On-The-Fly, LLC and Super Heaters North Dakota, LLC

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I certify the following information and any attached sheets are accurate and complete to the best of my knowledge.

Date: 08/07/2020

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1. Represented Entities. Fed. Cir. R. 47.4(a)(1).	2. Real Party in Interest. Fed. Cir. R. 47.4(a)(2).	3. Parent Corporations and Stockholders. Fed. Cir. R. 47.4(a)(3).
Provide the full names of all entities represented by undersigned counsel in this case.	Provide the full names of all real parties in interest for the entities. Do not list the real parties if they are the same as the entities. <input checked="" type="checkbox"/> None/Not Applicable	Provide the full names of all parent corporations for the entities and all publicly held companies that own 10% or more stock in the entities. <input type="checkbox"/> None/Not Applicable
Heat On-The-Fly, LLC	N/A	Phoenix Consolidated Oilfield Services, LLC
Heat On-The-Fly, LLC	N/A	Phoenix Services, LLC
Heat On-The-Fly, LLC	N/A	Quantum Energy Partners
Super Heaters North Dakota, LLC	N/A	Phoenix Consolidated Oilfield Services, LLC
Super Heaters North Dakota, LLC	N/A	Phoenix Services, LLC
Super Heaters North Dakota, LLC	N/A	Quantum Energy Partners

☐ Additional pages attached

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4. Legal Representatives. List all law firms, partners, and associates that (a) appeared for the entities in the originating court or agency or (b) are expected to appear in this court for the entities. Do not include those who have already entered an appearance in this court. Fed. Cir. R. 47.4(a)(4).

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☒ None/Not Applicable

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STATEMENT OF RELATED CASES

This is an appeal of the following orders and judgment entered by the United States District Court for the District of North Dakota in case number 4:13-00010-RRE-ARS: 1) the magistrate judge's Report and Recommendation recommending that the district court find that this case is exceptional and the district court's Order adopting that Report and Recommendation; 2) the magistrate judge's Report and Recommendation recommending that the district court award attorneys' fees and non-taxable costs to Appellees and the district court's Order adopting that Report and Recommendation; and 3) the Third Amended Judgment.

There have been two other appeals from the same civil action. An appeal of a summary judgment in this case was dismissed by this Court after the district court refused to certify under Rule 54(b). *See Energy Heating, LLC v. Heat On-The-Fly, LLC*, Case No. 15-1545. A second appeal was filed after final judgment. *See Energy Heating, LLC, v. Heat On-the-Fly, LLC.*, Case Nos. 2016-1559, 2016-1893, and 2016-1894 (Fed. Cir.). That matter was decided on May 4, 2018. The panel was composed of Circuit Judge Moore, Circuit Judge Hughes, and Circuit Judge Stoll. The Court's decision is reported at *Energy Heating, LLC v. Heat On-the-Fly, LLC*, 889 F.3d 1291 (Fed. Cir. 2018).

There is no other case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this Court's decision in the pending appeal.

JURISDICTIONAL STATEMENT

The district court had jurisdiction over the parties' patent claims pursuant to 28 U.S.C. § 1338(a) and had supplemental jurisdiction over the state law claims pursuant to 28 U.S.C. § 1367. This Court has jurisdiction under 28 U.S.C. § 1295(a)(1), because this is an appeal from a final decision of a district court of the United States in a civil action arising under the Patent Act.

STATEMENT OF THE ISSUES

1. Whether the district court abused its discretion by finding that this case is exceptional based on an erroneous factual finding, to which the district court gave “considerable weight,” that the jury had concluded that Appellants’ case was “substantively weak” and that their claims were objectively and subjectively baseless, when the jury’s finding of bad faith was unrelated to the assertion of patent infringement claims against the Appellees and where the jury found that HOTF did not engage in inequitable conduct by ruling for it on the tort of deceit.

2. Whether the district court abused its discretion by finding that this case is exceptional after failing to address this Court’s request to explain or reconcile the district court’s statement that HOTF’s defenses to inequitable conduct were “meritorious” and after failing to assess the totality of the circumstances or to properly weigh all of the relevant factors.

3. Whether the district court abused its discretion by failing to properly apply the law relating to a finding of exceptionality in patent cases that distinguishes between affirmative misrepresentations to the Patent Office and a failure to disclose information to the Patent Office and effectively determining that a finding of inequitable conduct mandates a finding that the case is exceptional.

STATEMENT OF THE CASE

This case presents an extraordinary circumstance: the district court has come to **two diametrically opposed** conclusions about the exceptionality of this case **based on exactly the same** factual findings. The district court first conducted a detailed analysis of the claims and defenses of Appellants Heat On-the-Fly, LLC (“Heat On-the-Fly”) and Super Heaters North Dakota, LLC (“SHND”) (collectively, “HOTF”) and of HOTF’s litigation conduct and concluded that this case is **not exceptional**. Specifically, the district court found that HOTF’s claims and defenses were not so specious or meritless so as to “stand out” from the norm and be “exceptional”; it also found that neither HOTF nor its counsel engaged in any litigation misconduct. The district court therefore held that this case was not exceptional. It confirmed that finding in denying a motion for reconsideration.

This Court subsequently held that it could not determine whether the district court had abused its discretion because the district court had described HOTF’s defenses as “meritorious.” This Court thus vacated the district court’s holding that this case is not exceptional and remanded for reconsideration, asking the district court to provide “further explanation or reconciliation of the court’s reasoning with regard to its finding of inequitable conduct.”

On remand, the presiding judge referred this matter to a magistrate judge for a Report and Recommendation. The magistrate judge, however, did not answer

this Court's question, and did not change **any** of the factual findings the district court had made in its original exceptionality finding. Despite the fact that the magistrate judge had not made **any** additional factual findings that would support a finding that the case is exceptional, the magistrate judge nevertheless flipped the district court's conclusion and held that this case is exceptional. Without additional factual findings, however, there is no basis for the magistrate judge's conclusion. Further, the magistrate judge's finding that the case is exceptional is an abuse of discretion for three reasons.

First, the magistrate judge abused her discretion by giving "considerable weight" to a clearly erroneous factual finding. Specifically, the magistrate judge found that, when the jury determined that HOTF had acted in bad faith, it had concluded "in essence" that HOTF's case was "substantively weak." Because the jury's bad faith finding did not relate to HOTF's pursuit of this litigation or the strength of HOTF's claims, this finding is clearly erroneous. In fact, the jury found in HOTF's favor on the only claim that was expressly linked to the inequitable conduct claims: deceit. The district court instructed the jury that inequitable conduct was before it because "one of the claims presented is deceit based on the alleged inequitable conduct." By finding for HOTF on the deceit claim, the jury necessarily found that HOTF had not engaged in inequitable conduct, thereby demonstrating that HOTF's defenses were not "substantively weak."

Second, the magistrate judge abused her discretion by failing to consider or properly weigh all of the relevant factors. Most significantly, the magistrate judge did not consider or answer the sole question asked by this Court: whether the district court can explain or reconcile its statement that HOTF's claims and defenses were "meritorious." The district court's original order makes its meaning clear: it found that HOTF's claims and defenses were not "specious" or frivolous, and therefore did not support a finding that the case is exceptional. The magistrate judge neither addressed this issue nor conducted its own analysis of the strength of HOTF's claims and defenses. Thus, the magistrate judge's failure to take into account and properly weigh the district court's findings that HOTF's claims were not "substantively weak" constitutes an abuse of discretion. This error was compounded by the magistrate judge's failure to consider or give weight to the district court's findings that HOTF had not engaged in litigation misconduct. Finally, the magistrate judge failed to consider the fact that the Patent Office has allowed several continuation patents that claim priority to the '993 Patent and recite the same disclosure and substantially similar claims, which supports the district court's finding that HOTF's claims and defenses were not "substantively weak."

Third, the magistrate judge erred in her application of the law in the Report and Recommendation. The cases in which the courts find exceptionality based on

inequitable conduct concern affirmative acts of misconduct. This case, by contrast, presents only a failure to disclose material to the Patent Office, which has been described as “less egregious” than providing false information to the Patent Office.

The district court adopted the magistrate judge’s Report and Recommendation in its entirety without any substantive analysis. Because the district court’s determination that this case is exceptional constitutes an abuse of discretion, HOTF respectfully requests that this Court vacate that finding and remand for further proceedings.

I. THE PARTIES

Heat On-the-Fly owns U.S. Patent No. 8,171,993 (“the ‘993 Patent”), the patent at issue in the case below. Appx189. The ‘993 Patent, entitled “Water Heating Apparatus for Continuous Heated Water Flow and Method for Use in Hydraulic Fracturing,” describes and claims systems and methods for heating water “on demand” or inline during the process of oil fracing. *Id.* The sole inventor is Mark Hefley (“Hefley”), one of the founders of Heat On-the-Fly. SHND is a sister corporation of Heat On-the-Fly that provides water heating services for fracing operations in North Dakota.

Plaintiff-Appellees Energy Heating, LLC and Rocky Mountain Oilfield Services, LLC (collectively, “Energy Heating”) are companies that provide water

heating services for fracing operations in North Dakota and are competitors of SHND. Appx262.

II. THE COMMENCEMENT OF THE LITIGATION

Energy Heating commenced this action on January 14, 2013, seeking a declaratory judgment of invalidity and noninfringement of the ‘993 Patent. Appx212-217. Energy Heating also asserted claims of tortious interference with contract and with prospective business relationships against SHND. Appx215-216. Specifically, Energy Heating alleged that Ron Lyles, an employee of SHND, called Triangle Oil, a prospective customer of Energy Heating, and asserted that Energy Heating’s water heaters infringed the ‘993 Patent, raising the prospect of a patent infringement lawsuit. *Energy Heating*, 889 F.3d at 1298, 1304. Energy Heating alleged that, as a result of SHND’s actions, Triangle hired SHND, rather than Energy Heating, for its water heating jobs. *Id.*

HOTF did not immediately assert a counterclaim for infringement of the ‘993 Patent. Appx218-225. Instead, HOTF sought—and obtained—information concerning Energy Heating’s water heating operations sufficient to evaluate a claim of patent infringement. Appx228-229. Then, and only then, did HOTF assert a patent infringement claim against Energy Heating. HOTF subsequently asserted patent infringement claims against Third Party Defendants-Appellees Marathon Oil Corporation and Marathon Oil Company (collectively, “Marathon”).

III. THE INEQUITABLE CONDUCT CLAIMS

On December 4, 2014, Energy Heating and Marathon amended their pleadings to add claims seeking declaratory judgments that the ‘993 Patent was unenforceable due to inequitable conduct. Appx268-272. They alleged that Hefley publicly used and sold his invention prior to the critical date of the ‘993 Patent, but had failed to disclose that pre-critical date use to the United States Patent and Trademark Office (“Patent Office”) during prosecution of the ‘993 Patent. *Id.*

IV. THE TRIAL AND JURY VERDICT

The case proceeded to trial in August 2015. 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. Appx5. Energy Heating’s tortious interference claims were tried to the jury; concurrently, Energy Heating’s and Marathon’s inequitable conduct claims were tried to the district court. *Id.* Although the inequitable conduct claims were not to be directly decided by the jury, the district court instructed the jury that inequitable conduct was before it as an element of Energy Heating’s deceit claims:

The inequitable conduct claim is being tried to the court and will be decided by me. Even so, the issues related to the alleged inequitable conduct are before you in the state law claims—as one of the claims presented is deceit based on the alleged inequitable conduct—that is, that the defendants knew at the time of the events complained of

that they did not have a valid and enforceable patent because they had engaged in inequitable conduct.

Appx302.

The jury returned a verdict on September 4, 2015, finding in favor of Energy Heating on its tortious interference claim. Appx311-313. In connection with that claim, the jury found that HOTF had, in bad faith, made representations to Triangle that it had a valid patent. Appx312. Although the jury found that HOTF had knowingly engaged in unlawful sales or advertising practices under North Dakota law, it found that HOTF did **not** commit the tort of deceit or the tort of slander. Appx312-313.

V. THE DISTRICT COURT'S FINDING OF INEQUITABLE CONDUCT

After trial, the district court asked the parties to submit post-trial memoranda regarding the inequitable conduct claims. HOTF's defenses to these claims posited that Hefley did not engage in inequitable conduct because (1) the pre-critical date activity constituted experimental use that did not have to be disclosed to the Patent Office; (2) in any event, Hefley believed in good faith, based on the advice of counsel, that his pre-critical date activity constituted experimental use that did not have to be disclosed to the Patent Office, and therefore did not have a specific intent to deceive the Patent Office; and (3) the jury's finding that HOTF did not commit the tort of deceit established that the jury found that Hefley did not intend

to deceive the PTO, establishing that an intent to deceive is **not** the single most reasonable inference. *See, generally*, Appx344-345, Appx356-358, Appx371-395.

At trial, HOTF presented testimony and contemporaneous documents and physical exhibits to support its defenses. The evidence included testimony from independent witnesses to the experimental nature of the pre-critical date activity (Trial Testimony of Larry Green and Stephen Costello) (Appx345-352, Appx357, Appx375-377); notebooks from a company man, Larry Green, confirming the experimental nature of the activity (Appx358, Appx375-376); invoices and spec sheets for new heating trucks purchased and modified by HOTF (Appx358, Appx375); manifold prototypes showing experimental modifications to the manifold (Appx351, Appx358, Appx375); invoices that show Hefley's limitation of pre-critical date activities to the sites of essentially two customers who had approved the experimentation (Appx354, Appx358, Appx376); and pre-litigation documentation confirming HOTF's and Hefley's pre-existing belief that the pre-critical date activity was experimental. (Appx357, Appx374). HOTF also submitted offers of proof from Hefley and HOTF's patent counsel, Seth Nehrbass and Len Brignac, establishing that Hefley relied on the advice of counsel that his pre-critical date uses of his invention constituted experimental use and that, therefore, he was not required to disclose them to the Patent Office. Appx318, Appx329-332, Appx339-340. The district court, however, excluded that evidence

on the grounds that HOTF had asserted privilege during depositions of Hefley and Nehrbass, and this Court affirmed that decision. *Energy Heating*, 889 F.3d at 1303.

On January 14, 2016, the district court entered an Order finding inequitable conduct. Appx398-407. In so doing, the district court rejected HOTF's defense that Hefley's pre-critical date uses constituted experimental use. *Id.*

VI. THE DISTRICT COURT'S HOLDING THAT THIS CASE IS NOT EXCEPTIONAL

Energy Heating and Marathon subsequently moved for attorneys' fees based, in part, 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." Appx415.

The district court applied the *Octane Fitness* standard to determine whether this case "stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Appx411, quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014). With respect to the substantive strength of HOTF's litigating position, the district court noted that it is not the "correctness or eventual success" of a party's position that governs, but whether the party's position was "not so merit-less as to

‘stand out’ from the norm and, thus, be exceptional.” Appx412, *quoting SFA Sys., LLC v. Newegg, Inc.*, 793 F.3d 1344, 1348 (Fed. Cir. 2015). In assessing HOTF’s positions, the district court, based on its extensive experience with the litigation, found that, “even though the evidence at trial was sufficient for the jury to find bad faith by clear and convincing evidence and for the court to find inequitable conduct by clear and convincing evidence, HOTF’s evidence and arguments at trial were neither specious nor without merit.” Appx414 (also referring to HOTF’s arguments as ‘colorable and good faith”).

The district court also considered other factors relevant to its determination. It concluded that none of these factors warranted a finding that this case was exceptional. The district court noted specifically that:

- HOTF did not initiate this case, but instead only asserted patent infringement after Energy Heating sought a declaration that the ‘993 Patent was invalid;
- HOTF and its counsel did not engage in “vexations litigation tactics or any pattern of litigation misconduct;”
- HOTF did not unreasonably and unnecessarily delay this matter;
- HOTF did not “use the high cost [of litigation] to extract a nuisance-value settlement;”
- HOTF did not “deliberately misrepresent[] any law;” and
- HOTF did not “introduce[] or rel[y] on any expert testimony that did not meet minimal standards of reliability.”

Appx413-414. Considering the totality of 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 or nontaxable costs” to Energy Heating and Marathon. Appx414-415. *See also* Appx416-417 (discussing Marathon’s allegations and finding that, “in reviewing the totality of circumstances,” the case was not exceptional).

Energy Heating subsequently moved for reconsideration of the district court’s denial of its motion for attorneys’ fees; the district court confirmed its decision and denied Energy Heating’s motion for reconsideration. Appx432-433.

VII. THE FEDERAL CIRCUIT’S DECISION VACATING AND REMANDING THE DISTRICT COURT’S FINDING THAT THE CASE IS NOT EXCEPTIONAL

On appeal, this Court affirmed the district court’s finding that the ‘993 Patent was unenforceable due to inequitable conduct. *Energy Heating*, 889 F.3d at 1303. This Court also vacated and remanded for reconsideration the district court’s finding that the case is not exceptional. In its opinion, this Court stated that it reviews a district court’s grant or denial of attorneys’ fees for an abuse of discretion. *Id.* at 1307. It noted, however, that “given the strict standard in *Therasense*, ... a district court must articulate a basis for denying attorneys’ fees following a finding of inequitable conduct.” *Id.* Here, the Court stated that it could not determine whether the district court abused its discretion because of one

comment made by the district court: “HOTF reasonably disputed facts with its own evidence and provided a *meritorious* argument against a finding of inequitable conduct.” *Id.*, citing Appx415 (emphasis in original). The Court then noted that “[e]ven 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.’” *Id.* at 1308. The Court then explained its concern with the district court’s opinion: “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.” *Id.* Without “further explanation” of that finding and “reconciliation of the court’s reasoning with regard to its finding of inequitable conduct,” this Court could not review the district court’s decision. *Id.* Accordingly, this Court vacated and remanded the district court’s finding that this case is not exceptional. *Id.*

VIII. THE MAGISTRATE JUDGE’S REPORT AND RECOMMENDATION FINDING THAT THIS CASE IS EXCEPTIONAL

After remand, Energy Heating and Marathon renewed their motions for attorneys’ fees, Appx434 and Appx457, and HOTF responded to those motions. *See* Appx826. The Honorable Ralph R. Erickson, who had presided over the trial, had in the meantime been appointed to the United States Court of Appeals for the

Eighth Circuit; he continued to preside over this case by designation. Appx2. The presiding judge referred Energy Heating's and Marathon's renewed motions for attorneys' fees to Magistrate Judge Alice R. Senechal for report and recommendation. Appx180 (Dkt. Entry 732). After briefing and a hearing, 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, and the jury's findings of bad faith." Appx4. The recommendation rested on two bases.

First, the magistrate judge analyzed the case law and concluded that this case is consistent with those cases in which the courts found exceptionality based on findings of inequitable conduct. Appx17-29. The magistrate judge noted that all of the reported post-*Therasense* and *Octane Fitness* cases found exceptionality when there was a finding of inequitable conduct. Appx17-24, Appx29. Although earlier cases had been decided both ways, the magistrate judge distinguished the cases in which no exceptionality was found and concluded that this case was closer to those in which exceptionality was found. Appx26-29 (HOTF's "withholding of prior sales during the procurement process is comparable to the withholding of material information in *Worldwide Home Prods.*, *Taltech*, *Nilssen*, *Agfa*, and *Bruno*").

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.” Appx30. 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.*

Nowhere in the Report and Recommendation did the magistrate judge withdraw, cast doubt on, or even mention the district court’s factual findings in its order denying attorneys’ fees. Nor did the magistrate judge make any **new** factual findings that would support a finding of exceptionality. Most significantly, the magistrate judge did not provide any explanation or reconciliation of the district court’s reasoning with regard to its finding of inequitable conduct as required by this Court. The magistrate judge simply ignored the district court’s factual findings, leaving them intact and unamended.

On October 2, 2019, the district court adopted the Report and Recommendation without any substantive discussion. Appx36-38. The sum total of the district court’s discussion of the analysis in the Report and Recommendation was:

[T]he court finds that the magistrate judge's findings and exhaustive analysis 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 objections and supplemental objections to the Report and Recommendation and **HEREBY ADOPTS** in its entirety the Report and Recommendation.

Appx38.

SUMMARY OF THE ARGUMENT

In its first order on exceptionality, the district court made detailed factual findings that mandated its conclusion that this case is **not** exceptional. The district court—which had tried the case and heard all of the evidence—found that HOTF’s claims and defenses, including its defenses to inequitable conduct, were not specious or frivolous. Thus, despite the jury’s bad faith finding that the district court’s inequitable conduct finding, the district court concluded that HOTF’s litigation positions were not so substantively weak as to support a finding of exceptionality. The district court also conducted a detailed analysis of the litigation conduct of HOTF and concluded, based on numerous factual findings, that HOTF **did not** engage in litigation misconduct.

After remand, the magistrate judge did not alter, adjust, or withdraw the district court’s factual findings. Nowhere in the Report and Recommendation does the magistrate judge find that HOTF’s litigation positions were so substantively weak as to “stand out from others”; nor does the magistrate judge find, or even suggest, that HOTF engaged in any litigation misconduct. Nor did the magistrate judge make **any other** additional factual findings that would support a finding of exceptionality. Nevertheless, apparently based on **the same record** and the **same factual findings**, the magistrate judge reached **the opposite conclusion** and found this case exceptional, a decision that was adopted by the district court. The district

court's two irreconcilable conclusions based on the same factual record and findings demonstrates that there is no basis for the district court's exceptionality finding, and that the district court abused its discretion.

The magistrate judge's determination that this case is exceptional is based on three fundamental errors. Because the district court adopted the magistrate judge's Report and Recommendation in its entirety without any substantive analysis, the district court's decision constitutes an abuse of discretion. This Court should therefore vacate the finding that this case is exceptional and remand for reconsideration.

The magistrate judge abused her discretion by giving "considerable weight" to her finding that the jury found HOTF's claims to be "substantively weak" when it held that HOTF had acted in bad faith. This finding was clearly erroneous. The jury's bad faith finding was unrelated to HOTF's pursuit of infringement claims in this litigation; it related solely to Energy Heating's allegations that a SHND employee had tortiously interfered with Energy Heating's business by telling a potential customer that Energy Heating's trucks infringed the '993 Patent. In fact, the jury did make one finding that bears on the strength of HOTF's litigation positions. The jury found that HOTF had not committed the tort of deceit, which is the only claim that the district court linked to the inequitable conduct claims in its

instructions. Thus, the jury effectively determined that HOTF's defenses **were not** substantively weak.

The magistrate judge also abused her discretion by failing to address or answer the question posed by this Court, and thus by failing to consider or properly weigh all of the relevant factors. Specifically, the magistrate judge did not reconcile or explain the district court's reasoning with regard to its finding of inequitable conduct when it found that "HOTF ... provided a *meritorious* argument against a finding of inequitable conduct." 889 F.3d at 1307-08 (emphasis in original). Also, the magistrate judge did not consider the strength of HOTF's litigation positions or the fact that HOTF did not engage in litigation misconduct. Further, the magistrate judge failed to consider the fact that the Patent Office has allowed several continuation patents that claim priority to the '993 Patent and recite the same disclosure and substantially similar claims, which supports the district court's finding that HOTF's claims and defenses were not "substantively weak."

Finally, the magistrate judge erred in the application of the law in the Report and Recommendation. The cases in which the courts find exceptionality based on inequitable conduct concern affirmative acts of misconduct. This case, by contrast, presents only a failure to disclose material to the Patent Office, which has been described as "less egregious" than providing false information to the Patent Office.

This is particularly applicable in this case, where the Patent Office has allowed multiple continuations that included substantially similar claims over the same art—Hefley’s pre-critical date uses of his invention.

Accordingly, HOTF respectfully requests that this Court vacate the finding that this case is exceptional and remand for reconsideration.

ARGUMENT

I. STANDARD OF REVIEW

“Under 35 U.S.C. § 285, a ‘court in exceptional cases may award reasonable attorney fees to the prevailing party.’” *SFA Sysys.*, 793 F.3d at 1347; *see also Spineology, Inc. v. Wright Med. Tech., Inc.*, 910 F.3d 1227, 1229 (Fed. Cir. 2018). 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.” *Octane Fitness*, 572 U.S. at 554.

The Supreme Court has held that district courts “may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.* at 554. “This analysis considers the case based on the totality of the circumstances, requiring a movant to show the case is exceptional by a preponderance of the evidence.” *Munchkin, Inc. v. Luv n’ Care, Ltd.*, 960 F.3d 1373, 1378 (Fed. Cir. 2020). “While ‘there is no precise rule or

formula’ for considering the totality of the circumstances, ... a district court may weigh such factors as ‘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[.]’”

Electronic Comm’n Techs., LLC v. Shopperschoice.com, LLC, 963 F.3d 1371, 1376 (Fed. Cir. 2020), *quoting Octane Fitness*, 572 U.S. at 554 n.6 (internal citations omitted). “While [a] district court need not reveal its assessment of every consideration of § 285 motions, it must actually assess the totality of the circumstances.” *Electronic Comm’n Techs.*, 963 F.3d at 1378, *quoting AdjustaCam, LLC v. Newegg, Inc.*, 861 F.3d 1353, 1360 (Fed. Cir. 2017).

On appeal, this Court reviews the district court’s exceptional case determination for an abuse of discretion. *SFA Sys.*, 793 F.3d at 1347, *citing Highmark Inc. v. Allcare Health Mgmt. Sys.*, 572 U.S. 559, 560 (2014); *Munchkin*, 960 F.3d at 1378. “A district court abuses its discretion when it 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.’” *Munchkin*, 960 F.3d at 1378, *quoting Bayer CropScience AG v. Dow AgroSciences LLC*, 851 F.3d 1302, 1306 (Fed. Cir. 2017). “A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.” *SFA Sys.*, 793 F.3d at 1348, *quoting Cooter & Gell v. Hartmarx*

Corp., 496 U.S. 834 (1990). A factual finding is clearly erroneous if the Court is left with “the definite and firm conviction that a mistake has been made.”

Electronic Comm’n Techs., 963 F.3d at 1376.

II. THE DISTRICT COURT’S EXCEPTIONAL CASE DETERMINATION CONSTITUTES AN ABUSE OF DISCRETION

A. The District Court Based Its Decision on a Clearly Erroneous Factual Finding that the Jury Found That HOTF’s Case Was “Substantively Weak” and that HOTF’s Maintenance of Its Claim Was Unreasonable

The magistrate judge explicitly based her decision that this case is exceptional on a factual finding that is clearly erroneous: her finding that the jury’s “bad faith” finding meant that “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.” Appx 30. The magistrate judge’s finding was incorrect. The jury’s bad faith finding had nothing to do with the strength or weakness of HOTF’s litigation positions; it was tied exclusively to Energy Heating’s tortious interference claim. On the sole issue that implicated the inequitable conduct claims—deceit—the jury found **in HOTF’s favor**, necessarily concluding that HOTF **did not engage** in inequitable conduct.

In the Report and Recommendation, the magistrate judge explicitly based her decision on the jury’s bad faith finding, stating that she “gives considerable weight” to that finding. Appx30. Based on the jury’s bad faith finding, the

magistrate judge determined that the jury concluded that HOTF's "case was substantively weak" and that HOTF's decision to pursue its claims was "unreasonable." *Id.*

The magistrate judge's finding that the jury concluded that HOTF's case was "substantively weak" and that HOTF's decision to pursue its claim was "unreasonable" is clearly erroneous. The jury's bad faith finding was made in the context of Energy Heating's tortious interference claim. It related solely to Energy Heating's allegation that Ron Lyles—an employee of SHND, not HOTF, the company that owned the '993 Patent—interfered with Energy Heating's prospective business relations when he told a potential customer, Triangle, that Energy Heating's water heaters infringed the '993 Patent. *Energy Heating*, 889 F.3d at 1298, 1304. The jury's bad faith finding was unrelated to the inequitable conduct allegations and had nothing to do with the strength or weakness of HOTF's litigation positions. The magistrate judge's leap in concluding that the jury "essentially" concluded that HOTF's litigation claims were "weak" and "unreasonable" was erroneous.

In fact, the magistrate judge **ignored** the **most relevant** jury finding: that HOTF did not commit the tort of deceit. Appx312. In its jury instructions, the district court tied only one claim to Energy Heating's inequitable conduct claims—deceit:

The inequitable conduct claim is being tried to the court and will be decided by me. Even so, the issues related to the alleged inequitable conduct are before you in the state law claims—as one of the claims presented is **deceit based on the alleged inequitable conduct**—that is, that the defendants knew at the time of the events complained of that they did not have a valid and enforceable patent because they had engaged in inequitable conduct.

Appx302 (emphasis added). By finding that HOTF did **not** commit the tort of deceit, the jury necessarily found that HOTF **did not engage in inequitable conduct**. Thus, in the jury’s eyes, HOTF’s defenses to the **only validity or enforceability issue** that was tried—inequitable conduct—were not “weak”; those defenses actually prevailed. Thus, contrary to the magistrate judge’s finding, the jury verdict did not support a finding that the case was exceptional; in fact, it strongly weighs **against** such a finding.

This is consistent with the district court’s detailed findings in its first order on exceptionality that HOTF’s positions and defenses were not frivolous. At that time, the district court had presided over the case for two and a half years; had heard and decided numerous summary judgment and non-dispositive motions; had presided over a two-and-a-half-week trial, listening to all of the evidence presented by all of the parties; and had heard and decided Energy Heating’s and Marathon’s inequitable conduct claims. Based on that extensive experience, and with full knowledge of the jury’s bad faith finding and its own inequitable conduct finding,

the Court held that Defendants' defenses were not so "substantively weak" or frivolous as to make this case exceptional:

[E]ven though the evidence at trial was sufficient for the jury to find bad faith by clear and convincing evidence and for the court to find inequitable conduct by clear and convincing evidence HOTF's evidence and arguments at trial were neither specious nor without merit.

Appx414. The district court explicitly found that HOTF's claims and defenses were not "unreasonable": "[c]onsidering the posture of the case, HOTF's proffered [experimental use] defenses and its assertion of its [patent infringement] counterclaims **were not unreasonable.**" Appx414. The magistrate judge did not address or disturb any of the district court's factual underpinnings that supported its conclusions.

Thus, the magistrate judge's exceptional case finding was explicitly based on a clearly erroneous factual finding. The district court adopted the Report and Recommendation in its entirety without any substantive discussion whatsoever, thus repeating the magistrate judge's error. Accordingly, the district court's finding that this case is exceptional was an abuse of discretion. This Court should vacate that finding and remand for reconsideration.

B. The District Court Failed to Address or Properly Weigh All of the Relevant Factors

1. The District Court Failed to Address This Court's Sole Question and Failed to Properly Weigh the Substantive Strength of HOTF's Litigating Position

This Court has held that a district court abuses its discretion when it makes a “clear error of judgment in weighing relevant factors.” *Munchkin*, 960 F.3d at 1378, quoting *Bayer*, 851 F.3d at 1306. Under *Octane Fitness*, one of the key factors for consideration is “the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case)” *Octane Fitness*, 572 U.S. at 554. In its determination that this case is exceptional, however, the district court failed to properly consider and weigh the substantive strength of HOTF’s litigating positions. Had it done so, the district court would have concluded—as it did the first time it considered this issue—that the case is not exceptional.

The strength or weakness of HOTF’s litigation position was at the heart of this Court’s decision to vacate the district court’s original finding that the case is not exceptional and remand for further consideration of that issue. In its first decision on exceptionality, the district court found that HOTF’s litigation positions were **not** substantively weak or frivolous, despite the jury finding of bad faith and the Court’s finding of inequitable conduct. Appx413-414. This Court’s **sole concern** regarding the district court’s finding that the case was not exceptional was the district court’s use of the term “meritorious” in describing HOTF’s defenses. *Energy Heating*, 889 F.3d at 1307-08. This Court found that the district court’s characterization of HOTF’s claims contradicted *Therasense*, which provides that

the intent to deceive must be the single most reasonable inference. *Id.* at 1308. Thus, the Court explained that it could not properly review the district court’s finding on exceptionality without further explanation of a single statement: that the HOTF “provided a *meritorious* argument against a finding of inequitable conduct.” *Energy Heating*, 889 F.3d at 1307-08. Notably, this Court did not find that the district court abused its discretion when it found that this case was not exceptional. *Id.* at 1308 (“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”). To make that determination, it requested “further explanation or reconciliation of the court’s reasoning” *Id.*

Oddly, the magistrate judge did not address the **sole question** asked by this Court. Nowhere in the Report and Recommendation did the magistrate judge provide “further explanation or reconciliation of the court’s reasoning.” Appx2-35. Although the magistrate judge noted that the Federal Circuit’s opinion “contemplates reconsideration of those findings,” the magistrate judge **did not**, in fact **ever** reconsider or address the district court’s detailed findings that HOTF’s arguments were “neither specious nor without merit.” The Report and Recommendation does not directly address the strength of HOTF’s arguments at all. *Id.* It only indirectly addressed that issue in its one-paragraph discussion of the jury’s bad faith finding, inferring that the jury therefore found “in essence” that

“HOTF’s case was substantively weak.” As shown above, however, that factual finding was clearly erroneous. The jury’s bad faith finding was not directly related to the strength of HOTF’s defenses and, in its finding that HOTF had not committed the tort of deceit, the jury actually found **in favor of HOTF** on inequitable conduct.

The magistrate judge’s failure to address the sole question asked by this Court, and utter failure to address the strength of HOTF’s litigating positions, constitutes an abuse of discretion. The magistrate judge did not withdraw or reverse the district court’s detailed findings that HOTF’s defenses were not specious or frivolous. Further, the district court’s description of HOTF’s defenses as “meritorious” is easily reconciled with *Therasense*. The district court’s analysis makes clear that, when it described HOTF’s arguments as “meritorious,” it meant simply that those positions were not substantively weak or frivolous. That interpretation is consistent with the district court’s description of HOTF’s arguments as “colorable” and not “specious.” *See, e.g., 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’”); *Stilwell Dev. Inc. v. Chen*, No. CV86-4487-GHK, 1989 WL 418783, at *3 (C.D. Cal. Apr. 25, 1989) (finding that, to be “specious,” “the claim must have been without substance in reality, if not frivolous”). Thus, the district court was just conducting the analysis required

by this Court, which asks the district court in part to determine whether “the party’s litigation position was not so **merit-less** as to ‘stand out’ from the norm and, thus, be exceptional.” *SFA Sysys*, 793 F.3d at 1348 (emphasis added), *citing Octane Fitness*, 572 F.3d at 553-54 (Fed. Cir. 2015). *See also Octane Fitness*, 572 F.3d at 546 (“exceptionally meritless claims” may warrant a fee award). The district court simply determined that HOTF’s arguments were “meritorious” in the sense that they were not “so meritless” as to warrant an award of attorneys’ fees.

In its order denying Energy Heating’s and Marathon’s motions for attorneys’ fees, the district court, which had first-hand experience of the entire case, found that HOTF’s litigation positions were not so meritless as to “‘stand out’ from the norm and, thus, be exceptional.” *SFA Sysys.*, 793 F.3d at 1348. The magistrate judge did not reconsider those findings, nor did the magistrate judge conduct its own analysis of the strength of HOTF’s litigating position. The only factual findings on this issue are those made by the district court when it denied Energy Heating’s and Marathon’s attorneys’ fees motions, which weigh strongly against a finding that the case is exceptional. The magistrate judge’s failure to consider this key factor or properly weigh the district court’s prior findings constitutes an abuse of discretion. The district court’s adoption of the Report and Recommendation without any substantive analysis compounds that error. Accordingly, this Court

should vacate the finding that this case is exceptional and remand for reconsideration.

2. The District Court Failed to Address or Properly Weigh the Factual Finding that HOTF Did Not Engage in Litigation Misconduct

The district court's original decision denying Energy Heating's and Marathon's attorneys' fees motions cited numerous additional factors that supported its finding that this case is not exceptional. The magistrate judge did not withdraw, or even address, **any** of these considerations. These factors are indisputably relevant to the determination of exceptionality, as evidenced by the fact that the district court both addressed and relied upon them in its first order. The magistrate judge's failure to properly consider or weigh the relevant factors constitutes an abuse of discretion. *See Munchkin*, 960 F.3d at 1378 ("clear error of judgment in weighing relevant factors" constitutes an abuse of discretion); *Electronic Comm'n Techs.*, 963 F.3d at 1377 (court abuses discretion if it improperly weighs the relevant factors).

Perhaps most significantly, the magistrate judge failed completely to address or consider the manner in which HOTF litigated the case. This is one of the key factors identified by the Supreme Court in *Octane Fitness*. 572 U.S. at 545 (exceptional case is one that stands out with respect to "the substantive strength of a party's litigating position ... or the unreasonable manner in which the case was

litigated”). In its first exceptionality order, the district court thoroughly analyzed this issue and concluded that HOTF’s litigation conduct **did not** support a finding that the case is exceptional. The district court, for example, expressly found that:

- HOTF and its counsel did not engage in “vexatious litigation tactics or any pattern of litigation misconduct,” Appx413;
- HOTF did not unreasonably or unnecessarily delayed this matter, *id.*;
- HOTF did not “use the high cost [of litigation] to extract a nuisance-value settlement,” *id.*; and
- 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.” *Id.*

None of these findings were disturbed by this Court on appeal or contradicted or withdrawn by the magistrate judge in the Report and Recommendation.

The magistrate judge’s inexplicable failure to address, or even consider, these factual findings regarding HOTF’s litigation conduct constitutes an abuse of discretion. This Court has held that failing to consider “the manner in which [a party] litigated the case or its broader litigation conduct” is an abuse of discretion because litigation conduct is a “relevant consideration.” *Electronic Comm’n Techs.*, 963 F.3d at 1378. Although the district court in *Electronic Comm’n Techs.* erred by failing to consider evidence of litigation **misconduct**, evidence that a party did **not** engage in misconduct is equally relevant and must be considered. The magistrate judge’s failure to properly consider or weigh HOTF’s litigation conduct, and the district court’s adoption of the Report and Recommendation

without any substantive analysis, constitutes an abuse of discretion. Accordingly, this Court should vacate the district court's finding that the case is exceptional and remand for further proceedings.

3. The District Court Failed to Address or Properly Weigh the Fact that the Patent Office Has Allowed Several Continuation Patents Despite Hefley's Pre-Critical Date Uses of His Invention

Another relevant factor that the magistrate judge failed to consider or weigh is the fact that the Patent Office has allowed several continuation patents that claim priority to the '993 Patent and recite similar claims, despite the fact that HOTF disclosed all of Hefley's pre-critical date uses of his invention to the Patent Office during prosecution of those patents. The Patent Office's decisions to issue those patents strongly suggests that the Patent Office agreed with HOTF's position that the pre-critical date activity constituted experimental use; absent that finding, the claims should not have been allowed. Thus, these decisions confirm that HOTF's defenses to Energy Heating's inequitable conduct claims in this case were, at the very least, not so meritless or substantively weak so as to "stand out" from the norm and, thus, be exceptional.

Prior to the Report and Recommendation, the Patent Office had allowed two continuation patents that claim priority to the '993 Patent and which have the same disclosure as, and similar claims to, the '993 Patent. Appx941, citing Appx955-

999).¹ HOTF disclosed to the Patent Office during prosecution of the ‘498 and ‘495 Patents all of the evidence regarding HOTF’s pre-critical date activity, all of Energy Heating’s and Marathon’s invalidity and inequitable conduct allegations based on that activity, and the district court’s Findings of Fact and Conclusions of Law on inequitable conduct. Appx941. The Patent Office nevertheless allowed the claims of the ‘498 and ‘495 Patents, concluding, as the patentee argued, that the pre-critical date activity constituted experimental use and therefore did not affect the patentability or validity of the claims (and was not material to patentability).

The Federal Circuit, in affirming district court’s inequitable conduct finding, distinguished the claims of the **‘498 Patent** on the grounds that they “materially differ from the ‘993 patent’s claims” because they “recite the heating-capacity and flow-rate limitations that were the subject of Mr. Hefley’s alleged experimentation.” *Energy Heating*, 889 F.3d at 1302. This Court did not, however, address the claims of the **‘495 Patent**, which do not contain the heating-capacity and flow-rate limitations that were the basis for the Court’s distinction. *See* Appx997-999. In fact, those claims are broader in all material respects than claim 1 of the ‘993 Patent, as shown in this comparison:

¹ Subsequently, the Patent Office allowed yet another continuation patent despite Hefley’s pre-critical date uses of his invention. *See* Appx1031-1032, Appx1035-1041.

1. A method of heating water for use in fracturing ~~a formation producing at least one of an~~ oil and/or gas producing formation, comprising the steps of: a) providing a ~~transportable~~ heating apparatus for heating water to a temperature of at least about 40 degrees F. (4.4 degrees C.); b) ~~transmitting~~receiving a water stream of cool or cold water ~~to~~at a mixer, the cool or cold water stream being at a temperature of less than a predetermined target temperature; c) the mixer having a first inlet that receives cool or cold water from the stream of step "b" and a first outlet that enables discharge of a substantially continuous stream which is a mix of cool or cold and ~~heated~~hot water; d) the mixer having a second inlet that enables heated water to enter the mixer; e) adding heated water from the transportable heating apparatus of step "a" to the mixer via the second inlet; f) wherein the volume of ~~cool or cold~~ water of step "b" is much greater than the volume of ~~heated~~ water of step "~~e~~"; g) ~~adding~~wherein a selected proppant is added to the ~~mix of cool or cold and heated~~ water discharged from the mixer after step "f"; and h) ~~transmitting~~wherein the ~~mix of cool or cold and heated~~ water and the proppant are transmitted into ~~a formation~~an oil and/or gas producing ~~at least one of oil and gas~~formation, wherein water flows substantially continuously from the first inlet to the first outlet during the fracturing process.

The red strikethrough shows language that was in claim 1 of the '993 Patent but not in Claim 1 of the '495 Patent, and the blue underlined passages were added to Claim 1 of the '495 Patent. These claims do not incorporate the heating-capacity and flow-rate limitations cited by this Court in connection with the '498 Patent.

The Patent Office's allowance of the continuation patent confirms the district court's findings in its first exceptionality order that HOTF's litigation position—specifically, its defense to the inequitable conduct claims—was not frivolous or meritless. In fact, the Patent Office **agreed** that Hefley's pre-critical date uses of his invention constituted experimental use. The magistrate judge's failure to consider or properly weigh this factor, and the district court's adoption of the Report and Recommendation without any substantive analysis, constitutes an abuse of discretion. Thus, the Court should vacate the district court's exceptional case finding and remand this case for reconsideration.

C. The District Court Failed to Properly Apply the Law

The other explicit basis for the magistrate judge's exceptional case recommendation was her analysis of the relevant case law and her application of that law to this case. As shown below, the magistrate judge committed errors in the application of the case law. In fact, the magistrate judge's reliance on her finding that, since *Octane Fitness*, courts have "universally" found exceptionality when inequitable conduct is found, *see* Appx29, suggests that the magistrate judge viewed an inequitable conduct finding as mandating a finding of exceptionality. This is not consistent with this Court's precedent, which holds that an inequitable conduct finding does not mandate a finding of exceptionality. "Inequitable conduct may serve as grounds for finding a case exceptional, but there is no *per se* rule of exceptionality." *Intellect Wireless, Inc. v. Sharp Corp.*, 45 F. Supp. 3d 839, 848 (N.D. Ill. 2014). Not all cases that involve inequitable conduct are "necessarily exceptional." *Id.* 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." *Energy Heating*, 889 F.3d at 1307.

The magistrate judge's analysis of the cases, and application of the law to this case, was erroneous. The bulk of the analysis in the Report and Recommendation consists of a discussion of the cases in which the courts considered exceptionality in the context of a finding of inequitable conduct. The

magistrate judge discussed each of the post-*Therasense* and *Octane Fitness* cases and noted that, in each one, the courts found the cases exceptional. Appx19-24. The magistrate judge then discussed nine pre-*Therasense* cases; four of those cases were found exceptional and five were not. Appx24-28. The magistrate judge distinguished the cases that were found to be not exceptional, and determined that this case was equivalent to those in which the courts found exceptionality. Appx24-29.

As noted, the magistrate judge found that, in post-*Octane Fitness* cases, the courts “universally” found exceptionality. There were, however, only **four** such cases.² Each of these cases can be distinguished from this case by the nature of the inequitable conduct at issue. In each of the cases, the patentee was found to have made **affirmative misrepresentations** to the Patent Office. In *Deep Sky*, the patentee made affirmative misrepresentations to the Patent Office regarding the prior art and also engaged in litigation misconduct. *Deep Sky Software, Inc. v. Southwest Airlines Co.*, NO. 10-cv1234-CAB, 2015 WL 11202634, at *1, 4 (S.D.

² The Report and Recommendation discusses seven post-*Therasense* cases, Appx19-24, but, as it notes, three of those cases did not present a finding of inequitable conduct. See *Raniere v. Microsoft Corp.*, 887 F.3d 1298 (Fed. Cir. 2018) (discussed at Appx19-20); *Rothschild Connected Devices Innovations, LLC v. Guardian Protection Svcs., Inc.*, 858 F.3d 1383 (Fed. Cir. 2017) (discussed at Appx20-21); and *Oplus Techs., Ltd. v. Vizio, Inc.*, 782 F.3d 1371 (Fed. Cir. 2015) (discussed at Appx22).

Cal. June 1, 2015). In *Worldwide Home Prods.*, the patentee engaged in affirmative acts of deception toward the Patent Office by providing false information to the Patent Office and “willfully misrepresenting” information. *Worldwide Home Prods., Inc. v. Bed, Bath & Beyond, Inc.*, No. 11cv3633-LTS-MHD, 2015 WL 1573325, at *1-2, 6 (S.D. N.Y. Apr. 9, 2015), *aff’d* 626 Fed. Appx. 1009 (Fed. Cir. 2015). The patentee in *Ohio Willow Wood* also made false representations to the Patent Office, regarding a competitor’s testimony and the nature of pre-critical date products. *Ohio Willow Wood Co. v. Alps South, LLC*, No. 2:04-cv-1223, 2014 WL 4775374, at *40 (S.D. Ohio Sept. 24, 2014), *aff’d* 813 F.3d 1350 (Fed. Cir. 2016). The patentee in *Intellect Wireless* made false declarations and submitted a deceptive press release to the Patent Office; he also engaged in litigation misconduct, providing a misleading interrogatory response and failing to disclose an addendum to a license agreement. *Intellect Wireless*, 45 F.Supp.3d at 848.

Unlike the cases cited in the Report and Recommendation, Hefley **withheld** information from the Patent Office, but did not make affirmative false statements to the Patent Office. This distinction is relevant to the egregiousness of the conduct. In analyzing whether a case is exceptional, at least one court following *Octane Fitness* described cases in which the inventor withheld information as less egregious than cases in which the inventor submitted misleading affidavits. *See*

Intellect Wireless, 45 F.Supp.3d at 849 (observing that, “[i]n this case, Plaintiff’s conduct is more egregious than that of the patent holders in *Frank’s Casing* or *Isco International*” because “[i]n those cases, the courts found inequitable conduct after the losing party withheld information from the Patent Office,” whereas, in the case at hand the Plaintiff made “affirmative, false representations to the PTO”). This is consistent with an analysis of cases considering exceptionality after a finding of inequitable conduct. One commentator noted that the “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.J. 27, 53 (2017) (emphasis in original and citing *Intellect Wireless*, 45 F.Supp.3d at 849-50 and *Worldwide Home Prods.*, 2015 WL 1573325, at *2). HOTF in this case did not make any affirmative misrepresentations to the Patent Office. The magistrate judge concluded that HOTF’s failure to disclose was intentional and therefore was an “affirmative decision,” but that would be true of every failure to withhold that forms the basis of an inequitable conduct finding in the case law. The magistrate judge ignored the fact that Hefley’s conduct is not comparable to the affirmative misrepresentations made to the Patent Office by the patentees in the cases cited in the Report and Recommendation.

The pre-*Therasense* cases cited and relied upon in the Report and Recommendation also do not support a finding that this case is exceptional. Each of those cases can be distinguished from this case on the same grounds: the patentees in those cases made **affirmative misrepresentations** to the Patent Office. In *Taltech*, unlike in this case, the patentee made affirmative misrepresentations to the Patent Office. *Taltech Ltd. V. Esquel Enterp. Ltd.*, 604 F.3d 1324, 1332-34 (Fed. Cir. 2010). Similarly, in *Nilssen*, the patentee submitted misleading affidavits to the Patent Office. *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1358-59 (Fed. Cir. 2008). In *Agfa*, the patentee made “misleading statements to the examiner.” *Agfa Corp. v. Creo Prod. Inc.*, 451 F.3d 1366, 1378 (Fed. Cir. 2006). Finally, in *Bruno*, the patentee made affirmative misrepresentations to the Patent Office. *Bruno Indep. Living Aids, Inc. v. Acorn Mobility Svcs., Ltd.*, 394 F.3d 1348, 1353 (Fed. Cir. 2005). Additionally, both *Taltech* and *Nilssen* are distinguishable because the patentees also engaged in litigation misconduct that supported the courts’ exceptionality finding. *Taltech*, 604 F.3d at 1334; *Nilssen*, 528 F.3d at 1358-59. The district court in this case found that HOTF **did not** engage in any such misconduct.

HOTF in this case did not make affirmative representations to the Patent Office. Instead, its conduct is equivalent to the conduct of the patentees in the cases in which the courts did not find exceptionality despite an inequitable conduct

finding. *See, e.g., Frank's Casing Crew & Rental Tools, Inc. v. PMR Technologies, Ltd.*, 292 F.3d 1363, 1376–78 (Fed. Cir. 2002) (finding inequitable conduct after the losing party withheld name of additional true inventor from the Patent Office, but declining to award attorneys' fees); *Isco International, Inc. v. Conductus, Inc.*, 279 F.Supp.2d 489, 500, 511-12 (D. Del. 2003), *aff'd* 123 Fed. Appx. 974 (Fed. Cir. 2005) (finding inequitable conduct after the losing party withheld information from the Patent Office, but declining to award attorneys' fees); *Torin Corp. v. Philips Indus., Inc.*, 625 F. Supp. 1077, 1097 (S.D. Ohio 1985) (finding “fraud on the Patent and Trademark Office” but nevertheless concluding “that this is *not* an exceptional case because, among other factors, “Plaintiff conducted this litigation fairly and expeditiously and has tried to minimize litigation costs to the parties and to conserve judicial resources” and, therefore, concluding that “this is not ‘vexatious or harassing litigation, really smelling of bad faith’”).

For example, in *Frank's Casing*, the Court found that the named inventors “engaged in inequitable conduct by failing to name [another individual] as an inventor”; “deliberately omitted [the other inventor] from the patent and acted to hide [the other inventor’s] involvement in the invention throughout the patent prosecution process”; “deliberately misrepresented the material facts surrounding the conception of the invention underlying the ... patents from the inception of the

patent process up to and through the hearing held before this Court.” *Frank's Casing*, 292 F.3d at 1370-71. Accordingly, the court held that the patents were unenforceable due to inequitable conduct. *Id.* at 1371. Nevertheless, the Federal Circuit upheld the district court’s decision that the case was not exceptional because the plaintiff’s “conduct was [not] wholly frivolous, vexatious, or in bad faith.” *Id.* at 1377 (internal citation omitted). Although it was decided before *Therasense* and *Octane Fitness*, in *Frank's Casing*, the court applied “clear and convincing evidence” to the inequitable conduct analysis (consistent with *Therasense*); and, consistent with *Octane Fitness*, the Court (1) considered inequitable conduct in deciding whether the case was exceptional; and (2) pointed to the lack of frivolous, vexatious, or bad faith conduct in support of its decision that the case was not exceptional. *Id.* at 1377. Thus, *Frank's Casing* is instructive and provides support for a finding that this case is not exceptional. Here, as was the case in *Frank's Casing*, despite the inventor’s inequitable conduct in withholding information from the Patent Office, HOTF’s conduct was not frivolous, vexatious, or in bad faith. Moreover, given the finding of “deliberate[] misrepresent[ation]” in *Frank's Casing*, the party’s conduct in that case was arguably more culpable than the conduct at issue in this case and, accordingly, offers further support for a finding that this case is not exceptional.

Thus, the magistrate's application of the law, and the district court's adoption of the Report and Recommendation without any substantive analysis, was erroneous. This Court should thus vacate the finding of inequitable conduct and remand for reconsideration.

CONCLUSION AND RELIEF SOUGHT

For the reasons stated above, the Court should vacate the district court's finding that this case is exceptional and remand for reconsideration.

Respectfully submitted,

Dated: October 22, 2020

PADMANABHAN & DAWSON, P.L.L.C.

/s/ Devan V. Padmanabhan

Devan V. Padmanabhan

Paul J. Robbennolt

45 South 7th Street

Suite 2315

Minneapolis, MN 55402

Telephone: (612) 444-3601

Facsimile: (612) 444-3195

devan@paddalawgroup.com

paul@paddalawgroup.com

*Attorneys for Defendants-Appellants Heat
On-the-Fly, LLC and Super Heaters North
Dakota, LLC*

Local AO 450 (rev. 5/10)

United States District Court

District of North Dakota

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.

Heat On-The-Fly, LLC, a Louisiana limited liability company,
Third-Party Plaintiff/Counterclaim Defendant,

vs.

Marathon Oil Corporation,

Third-Party Defendant/ Counterclaimant.

THIRD AMENDED JUDGMENT IN A CIVIL CASE

Case No. 4:13-cv-10



Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.



Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.



Decision on Motion. This action came before the Court on motion. The issues have been considered and a decision rendered.



Stipulation. This action came before the court on motion of the parties. The issues have been resolved.



Dismissal. This action was voluntarily dismissed by Plaintiff pursuant to Fed. R. Civ. P. 41(a)(1)(ii).

IT IS ORDERED AND ADJUDGED:

Pursuant to the Order filed at Docket # 616:

1. The trademark for "Heat On-The-Fly" is INVALID and unenforceable as it is a generic term.
2. The claim for the tort of Deceit is DISMISSED WITH PREJUDICE.
3. DAMAGES in the amount of \$750,000 are AWARDED for the intentional tortious conduct of HOTF.
4. The court DECLINES to order prejudgment interest.

Pursuant to the Order filed at Docket # 619:

HOTF's inequitable conduct renders the '993 Patent unenforceable. Energy Heating and Marathon's claims for Declaratory Judgment on the issue of Inequitable Conduct are GRANTED.

Pursuant to the Order filed at Docket #677:

Plaintiffs motion for exemplary damages is DENIED. Plaintiff's motion for an award of attorney fees and non-taxable costs is DENIED. Plaintiff's motion for taxable costs is GRANTED in the amount of \$67,085.77. Marathon's motion for costs is GRANTED in the amount of \$47,563.48. Marathon's motion to fins this case exceptional and to award attorneys' fees and non-taxable costs is DENIED.

Pursuant to the Order filed at Docket #789:

Marathon's motions for attorneys' fees is GRANTED. Marathon is awarded attorneys' fees in the amount of \$1,769,126.76 and non-taxable costs in the amount of \$73,309.36. Energy Heating's motion for attorneys' fees and costs is GRANTED IN PART. Energy Heating is awarded attorneys' fees in the amount of \$3,355,455.45 and non-taxable costs in the amount of \$134,415.68.

Date: June 17, 2020

ROBERT J. ANSLEY, CLERK OF COURT

by: /s/ Ashley Sanders, Deputy Clerk

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

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.

Marathon Oil Corporation and Marathon
Oil Company,

Third-Party Defendants.

Case No. 4:13-cv-10

**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 judge¹ 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).

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

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.

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.

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 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

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.

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 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:

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 of 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.
- (6) The inequitable conduct renders the patent unenforceable.

Id. at *4.

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.

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 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

⁶ Under the Lanham Act, 15 U.S.C. § 1117(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).

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

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 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).

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, 1989) (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.

Ranieri 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).

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.

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 reexamination 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.

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." 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

NOTICE OF RIGHT TO OBJECT⁹

Any party may object to this Report and Recommendation by filing with the Clerk of Court no later than **July 16, 2019**, a pleading specifically identifying those portions of the Report and Recommendation to which objection is made and the basis of any objection. Any responses to objections are due by **July 23, 2019**. Failure to object or to comply with this procedure may forfeit the right to seek review in the Court of Appeals.

⁹ See Fed. R. Civ. P. 72(b); D.N.D. Civ. L.R. 72.1.

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

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.

Heat On-The-Fly, LLC, a Louisiana limited liability company,

Third-Party Plaintiff/Counterclaim Defendant,

vs.

Marathon Oil Corporation,

Third-Party Defendant/
Counterclaimant.

Civil Case No. 4:13-cv-10

**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.

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 arguments⁵ in deciding whether or not to adopt the magistrate judge’s Report and Recommendation.

¹ Doc. #750.

² Doc. #751.

³ Docs. #753 & #754.

⁴ Doc. #755.

⁵ Doc. #755-1.

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 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.

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

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.

Marathon Oil Corporation and Marathon
Oil Company,

Third-Party Defendants.

Case No. 4:13-cv-10

**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 defendants for awards of fees and non-taxable costs pursuant to 35 U.S.C. § 285. On

remand, the presiding judge¹ found the case exceptional, resulting in eligibility for awards of fees and non-taxable costs.

The order finding the case exceptional also granted the joint motion of 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) to compel disclosure of fees that defendants Heat On-The-Fly, LLC, and Super Heaters North Dakota (collectively HOTF) incurred in the litigation. (Doc. 756). After HOTF disclosed its fees, the parties filed additional briefing, and the undersigned heard oral argument on January 28, 2020.² Energy Heating now requests an award of \$3,947,594.65³ in fees and \$134,415.68 in non-taxable costs, plus a 5% upward adjustment to account for the time value of money. (Doc. 759, p. 22; Doc. 772, p. 10). Marathon now requests an award of \$1,769,126.76 in fees and \$73,309.36 in non-taxable costs.⁴ (Doc. 763, p. 2; Doc. 773, p. 8).

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.

² An audio recording of the oral argument is available on the court's network.

³ Energy Heating's November 19, 2019 brief requested \$3,956,030.15 in fees, but its reply brief acknowledged certain entries totaling \$8,435.50 should have been excluded as not relating to its patent claims. (Doc. 772, pp. 7-8).

⁴ In its November 19, 2019 motion, Marathon requested \$277,284.82 in expert witness fees and \$6,300.00 in associated expert costs, (Doc. 763, p. 2; Doc. 765-9, p. 2), but withdrew those requests in its reply brief, acknowledging that § 285 does not provide for awards of expert fees or associated costs. (Doc. 773, p. 8).

Summary of Recommendation

HOTF argues no fees or costs should be awarded despite the finding of exceptionality. The cases HOTF cites in support of that position are unlike this one, and its arguments provide insufficient reason to award no fees to Energy Heating and Marathon.

HOTF argues the hourly rates charged by Energy Heating's attorneys for district court work are unreasonable and the attorneys for both Energy Heating and Marathon expended unnecessary hours on the litigation. In this court's opinion, the hourly rates are reasonable in light of the nature of the litigation and the experience of counsel. But this court recommends Energy Heating's request for fees be reduced to account for time expended on non-patent claims. Marathon should be awarded the full amount of fees it requests, and both Energy Heating and Marathon should be awarded all requested non-taxable costs.

Background

A July 2, 2019 Report and Recommendation summarized history of the litigation:

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. (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 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:

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 [of] 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.
- (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.
- (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) as to both the trademark and patent disputes. (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 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.

(Doc. 750, pp. 3-8) (footnotes omitted).

Following remand, the presiding judge referred the § 285 motions to the undersigned magistrate judge for hearing and preparation of a Report and Recommendation. The undersigned recommended the presiding judge find the case exceptional and find Energy Heating and Marathon might be entitled to fees. Further, the undersigned recommended HOTF be required to disclose information regarding fees it had incurred to date. Id. at 3, 33. The presiding judge adopted the Report and Recommendation in its entirety. (Doc. 756).

Subsequent to the presiding judge's finding of exceptionality, Energy Heating and Marathon revised their fee requests to include fees and costs incurred since filing their original motions and submitted additional briefing. (Doc. 759; Doc. 763; Doc. 764; Doc. 772; Doc. 773).

Energy Heating's Fee Request

Energy Heating's February 3, 2016 motion requested \$3,458,231.14 in fees and \$197,930.87 in costs. (Doc. 633, pp. 5, 18). That motion included fees and costs incurred from the January 2013 inception of the litigation through December 31, 2015. With its 2016 motion, Energy Heating filed extensive supporting documentation, including

detailed billing invoices. (Doc. 634-11 to -12; Docs. 634-22 to -26; Doc. 635-2; Doc. 636-3). Energy Heating has now included fees and costs incurred from January 1, 2016, through October 4, 2019, in its request for an award under § 285 and now requests a total fee award of \$3,947,594.65, a total non-taxable costs award of \$134,415.68, plus a 5% upward adjustment to those fees and costs to account for the time value of money.

Energy Heating supports its updated fee request with additional documentation, summarized in a declaration of its lead trial and appellate counsel, F. Ross Boundy of Davis Wright Tremaine LLP (DWT) of Seattle, Washington. (Doc. 760). Energy Heating seeks fees for 7,152.1 hours expended⁵ at hourly rates ranging from \$315 to \$765, with lead counsel Boundy's hourly rates increasing from \$630 in 2013 to \$765 in 2018. (Doc. 633, pp. 8-9; Doc. 760, p. 9).

According to Boundy's declaration, DWT billed Energy Heating at the firm's standard hourly rates from early 2013 until August 2016, when DWT entered into a contingent fee agreement with Energy Heating. (Doc. 634-11; Doc. 760, pp. 3-4). While Energy Heating was paying an hourly rate, Boundy describes DWT making "necessary adjustments" before invoicing Energy Heating, reducing the number of hours for which Energy Heating was charged. (Doc. 760, p. 3). Boundy's declaration states Energy Heating paid all invoices that were billed while the hourly fee agreement was in place. Id. at 2. After the contingency fee agreement became effective, DWT continued to record its time and expenses in the same manner it had previously but did not send invoices to

⁵ Post-remand, Energy Heating originally claimed 7,168.6 hours, (Doc. 760, p. 6), but acknowledged in its reply brief that 16.5 of those hours should have been excluded, (Doc. 772, pp. 7-8).

Energy Heating. Boundy states he reviewed the billing statements for work done under the contingent fee agreement and adjusted the number of hours expended downward “whenever [he] felt the work reflected in the timekeeper entries was either inefficient or excessive.” Id. at 4. Thus, the 7,152.1 hours for which Energy Heating now requests an award of fees reflect a downward adjustment from the total hours DWT personnel actually expended. Boundy’s declaration states DWT’s “write-downs” reduced its invoices by 17.1% for work in the district court and 30.8% for work on the appeal. Id. at 3.

Energy Heating’s 2016 motion included documentation allocating fees and costs into three categories: “Patent/State,” “State Only,” and “Trademark Only.” (Doc. 634-1, p. 2). The 2016 motion allocated \$3,059,392.65 in fees and \$178,848.27 in costs to the “Patent/State” category, \$158,020.88 in fees and \$7,391.41 in costs to the “State Only” category, and \$241,990.28 in fees and \$4,806.19 in costs to the “Trademark Only” category. Id. The current motion excludes the fees and costs that had been allocated to the Patent/State and State Only categories. Since HOTF has paid taxable costs, Energy Heating also reduced its request for costs incurred prior to January 1, 2016, to \$111,762.50. (Doc. 760, p. 6 n.1).

Boundy’s declaration describes other downward adjustments from DWT’s billing statements: (1) deducting fees for post-2015 work attributable to its trademark claim and state law claims, (2) omitting time entries reflecting work on “unrelated” matters, (3) accounting for “staffing discontinuity” by deducting \$68,346.50 attributable to time entries of two lawyers who worked on the appeal for only a short time, (4) excluding \$58,058.00 in post-2015 fees of co-counsel Steve Gibbons, and (5) excluding \$7,497.00

in fees of six DWT attorneys and paralegals who billed for “discrete assistance.” Id. at 13. Boundy’s declaration also points to exclusion of expert fees totaling \$277,910.90, acknowledging expert fees are not recoverable under § 285. Id. Apart from work done by Steve Gibbons, who practices with Steve Gibbons & Associates in Seattle, and local counsel in this district, all legal services on behalf of Energy Heating were performed by DWT attorneys and staff. In addition to documentation of DWT’s time and expenses, Energy Heating supports its request with a declaration of a purported patent law expert, (Doc. 638), and with surveys of rates charged by other attorneys for similar work.

Marathon’s Fee Request

Marathon’s request for \$1,769,126.76 in fees includes 4,529 hours of attorney time and 1,086 hours of paralegal time. Marathon’s lead counsel—Shane Coleman, of Holland & Hart, Billings, Montana—billed Marathon \$384.75 per hour throughout this litigation. (Doc. 765, p. 3). Coleman’s hourly charge, as well as hourly charges of all others in his firm who worked on the case, was discounted 5% from the firm’s standard rates throughout the litigation. Id. Hourly rates of other attorneys at Holland & Hart ranged from \$195 to \$315 per hour. (Doc. 765-6). Attorneys from firms other than Holland & Hart who represented Marathon worked minimal hours on the case and billed \$325 to \$350 per hour. Id.

HOTF’s Fees

Pursuant to the post-remand order of the presiding judge, HOTF disclosed summaries of hours its attorneys worked and their hourly rates. HOTF’s attorneys and support staff expended 15,997.1 hours for work in the trial and appellate courts, for which HOTF’s law firms charged a total of \$5,447,115.72. (Doc. 760-11, p. 8; 760-12, pp.

6, 9, 11). HOTF's lead counsel in the district court proceedings, Devan Padmanabhan, charged \$470 to \$575 per hour, and other attorneys charged from \$150 to \$608 per hour for services in connection with pre-appeal proceedings. (Doc. 760-12, pp. 2-6).⁶ On appeal, HOTF's attorneys charged from \$210 to \$1,325 per hour. *Id.* at 7-9. In post-appeal district court proceedings, hourly rates of HOTF's counsel ranged from \$450 to \$650. *Id.* at 11. Seven different law firms represented HOTF, though one firm was involved only as local counsel, and one firm was involved only because Padmanabhan and another attorney changed law firms in 2018.

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. In Octane Fitness, LLC v. ICON Health & Fitness, Inc., the Supreme Court 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." 572 U.S. 545, 554 (2014). A finding of exceptionality is made on a preponderance of the evidence, with the court exercising its discretion based on the totality of the circumstances. *Id.* at 1758. Also relevant to the determination of exceptionality is Therasense, Inc. v. Becton, Dickinson & Co., which requires clear and convincing evidence that specific intent to deceive is the single most reasonable inference to be drawn from the evidence in order to find inequitable conduct. 649 F.3d 1276, 1290 (Fed. Cir. 2011). Even if a case is determined

⁶ HOTF identified a "worked rate" for each of the attorneys involved in the case, which appears to account for a percentage discount from standard hourly rates.

exceptional under the 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., 572 U.S. 559, 561 (2014).

In remanding the fee issue, the Federal Circuit reiterated the standards of Octane Fitness and Therasense, emphasizing the district court's discretion in awarding fees:

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.

Energy Heating, 889 F.3d at 1307 (internal citations omitted).

"The starting point for determining reasonable attorney's fees is the 'lodestar' calculation, which multiplies the number of hours reasonably expended on the litigation

by a reasonable hourly rate.” ICON Health & Fitness, Inc. v. Octane Fitness, LLC, 127 F. Supp. 3d 1004, 1007 (D. Minn. 2015) (citing Hensley v. Eckerhart, 461 U.S. 424, 433 (1983)). The lodestar calculation “holds sway in federal-court adjudication of disputes over the amount of fees properly shifted to the loser in the litigation.” Gisbrecht v. Barnhart, 535 U.S. 789, 902 (2002).

Discussion

HOTF argues that, even though the case was found exceptional, the court should exercise its discretion to deny any fee award to either Energy Heating or Marathon. HOTF argues the focus at trial was on state law and trademark claims—for which no fee award is at issue—rather than on patent claims. In HOTF’s view, the only claim presented to the jury that was related to inequitable conduct was a tort claim for deceit; since the jury decided in HOTF’s favor on the deceit claim, HOTF argues the jury verdict supports its position that no fees or costs should be awarded.

Alternatively to its request that no fees be awarded, HOTF contends the requested fees of both Energy Heating and Marathon should be reduced by 50%. At oral argument, HOTF acknowledged its suggested percentage reductions are not based on any objective calculation. As to Energy Heating’s fee request, HOTF would allocate its requested 50% reduction to: (1) “unreasonably high billing rates for proceedings in district court” (suggested 15% reduction); (2) work performed on trademark and state law claims for which there is no entitlement to fees (suggested 15% reduction); and (3) asserted inefficiencies, including “using two lead law firms, filing serial motions for summary judgment, and using the highest billers to do the vast majority of the work” (suggested 20% reduction). (Doc. 767, p. 2).

As to Marathon, HOTF requests (1) a 30% reduction to account for certain of Marathon's billing practices, including block billing, billing for tasks asserted to be administrative in nature, billing travel time at standard hourly rates, billing for time attributed to an indemnification issue involving a third party, and billing for "extracting electronic documents," (Doc. 766, p. 16); (2) a reduction of at least 10% "to reflect Plaintiffs' [sic] failure to properly exclude attorneys' fees" on the non-patent claims, id. at 18; and (3) a 10% reduction because of the number of summary judgment motions filed. HOTF objects to Marathon's inclusion of fees incurred for "attending proceedings involving the trademark and state law claims." Id. at 2.

HOTF contends Energy Heating's claim for non-taxable costs should be reduced by two-thirds because only one of the three causes of action involves a possible award of non-taxable costs. (Doc. 767, p. 20). Further, HOTF argues Marathon's costs should be reduced by an unspecified amount because "Marathon seeks costs incurred during the jury trial in this case, but the jury decided only causes of action for which fees and costs are not recoverable." (Doc. 766, p. 19).

1. HOTF's Request That No Fees or Costs Be Awarded

In arguing no fees should be awarded, HOTF states, "Although the Federal Circuit's remand required this Court to reevaluate its decision of whether the case should be declared exceptional, it does not require this Court to deviate from its findings regarding the equities of whether to award fees." (Doc. 766, p. 6; Doc. 767, p. 8). HOTF points to several factors the presiding judge identified in the March 16, 2016 order denying fees: (1) HOTF did not initiate the litigation; (2) HOTF had not taken any court action to enforce the '993 patent prior to this litigation; (3) HOTF's proffered defenses

and counterclaim assertions were not unreasonable; (4) HOTF's arguments at trial were neither specious nor without merit; (5) HOTF presented colorable good faith arguments; (6) HOTF did not deliberately misrepresent the law; (7) HOTF did not rely on expert testimony not meeting minimal standards of reliability; (8) there was some record evidence supporting a finding of infringement, which HOTF did not present at trial because summary judgment was granted on invalidity; (9) HOTF's trial evidence was neither specious nor without merit; (10) HOTF did not engage in vexatious litigation tactics or a pattern of litigation misconduct; (11) HOTF did not use the high cost of litigation to attempt to obtain a nuisance-value settlement; and (12) HOTF did not unreasonably delay the case. (Doc. 766, pp. 2-4; Doc. 767, pp. 2-4). Though HOTF recites portions of the March 16, 2016 order accurately, that order is overshadowed by the presiding judge's later finding of exceptionality.

Fees can be denied even if a case is found exceptional. ICON Health & Fitness, Inc. v. Octane Fitness, LLC, 576 F. App'x 1002, 1005 (Fed. Cir. 2014). Citing J.P. Stevens Co., Inc. v. Lex Tex Ltd., Inc., 822 F.2d 1047, 1052 (Fed. Cir. 1987), HOTF argues fees should be awarded only when it would be "grossly unjust" to not do so. J.P. Stevens, however, preceded Octane Fitness and Therasense, which together significantly changed the law governing exceptionality and thus changed the law regarding fees awarded under § 285.

HOTF argues AAT Bioquest, Inc. v. Texas Fluorescence Labs, Inc., where the court found exceptionality but did not award fees, is analogous to this case. No. 14-cv-03903-DMR, 2015 WL 7708332 (N.D. Cal. Nov. 30, 2015). But that case is quite different from this one. In AAT Bioquest, the court found two aspects of the case

exceptional: (1) the defendant failing to cite supporting law and failing to raise evidence on the elements of its defenses, and (2) the defendant continuing to sell a “modest amount of its infringing product” after it was permanently enjoined from doing so. Id. at *15. In declining to award fees, the court explained its award of trebled lost profits damages to the plaintiff resulted in the defendant paying “more than five times the actual revenue it made from its sales of [the infringing product],” which the court concluded was “sufficient compensation, punishment, and deterrence.” Id. at *16.

HOTF also cites Intellect Wireless, Inc. v. Sharp Corp., asserting a decision to award fees should include consideration of the closeness of the case, counsel’s tactics, the parties’ conduct, and other factors contributing to a fair allocation of the burdens of litigation. 45 F. Supp. 3d 839, 853-54 (N.D. Ill. 2014). In Intellect Wireless, the court considered those factors in awarding fees:

Finally, Plaintiff argues that even if the court finds that the case is exceptional, it should not award attorneys’ fees because, now that the patents have been declared unenforceable, such an award would “not serve the interests of ju[stice].” . . . After a court has found a case to be exceptional under Section 285, it must then determine whether to award attorneys’ fees, and not all exceptional cases require such an award. S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 201 (Fed. Cir. 1986). In determining whether to award attorneys’ fees, the trial judge considers “the closeness of the case, the tactics of counsel, the conduct of the parties, and any other factors that may contribute to a fair allocation of the burdens of litigation as between winner and loser.” 781 F.2d at 201. Citing McKesson Information Solutions Inc. v. Bridge Medical, Inc., No. S-02-2669 FCD KJM, 2006 WL 2583025, at *1 (E.D. Cal. Sept. 6, 2006), Plaintiff urges the court not to award attorneys’ fees despite Plaintiff’s inequitable conduct. . . . In McKesson, after finding that the case was exceptional, the district court declined to award attorneys’ fees, in part because the patent holder-plaintiff did not participate in the inequitable conduct, which had occurred twenty years earlier, and also because the plaintiff’s claims and defenses were not frivolous, it did not use “vexatious litigation tactics” or any other litigation misconduct, and the parties were fairly matched. 2006 WL 2583025, at *1, *6-9. Unlike the plaintiff in McKesson, Plaintiff here knew that the statements contained in

the declarations were false, and directly participated in inequitable conduct by signing the declarations, filed with the PTO, that contained the false statements. Requiring Plaintiff to bear the costs of Defendants' attorneys' fees in defending this infringement action will "serve the interests of ju[stice]" because it addresses "unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force." See Octane Fitness, 134 S. Ct. at 1753 (internal citation and quotations omitted). Plaintiff offers no other reason why its inequitable conduct does not warrant attorneys' fees in this suit, and the court concludes that such an award is warranted.

Id. at 853-54.

At oral argument, HOTF asserted the Intellect Wireless factors all weigh against an award of fees. As to closeness of the case, HOTF points to its infringement claims having survived summary judgment and there having been no motion for summary judgment on the inequitable conduct claims. But, as HOTF acknowledged at oral argument, a summary judgment finding of inequitable conduct is rare. Because a determination of inequitable conduct requires a finding that specific intent to deceive is the single most reasonable inference to be drawn from the evidence, it is difficult to envision circumstances under which inequitable conduct could be found without a trial. The absence of a summary judgment motion on the inequitable conduct claims should not be considered evidence of the closeness of the case. Moreover, the conduct of HOTF's principal, Hefley, in not making required disclosures to the PTO and in then asserting to third parties that HOTF held a valid patent weighs against HOTF.

As an additional factor supporting its position that no fees should be awarded, HOTF states it has obtained other patents relating to the same invention and, in prosecuting those patents, it disclosed "the very prior art that this Court found rendered the '993 patent unenforceable, and the USPTO issued those patents anyway." (Doc. 766,

p. 9; Doc. 767, p. 11). It would seem consideration of the follow-on patents HOTF describes would require reconsideration of the order finding the '993 patent unenforceable.⁷ The finding of unenforceability was affirmed on appeal and cannot be disturbed. Analyzed under the factors outlined in Intellect Wireless, an award of fees is warranted.

HOTF also cites Outside the Box Innovations, LLC v. Travel Caddy, Inc., where the court found exceptionality based on inequitable conduct in failing to disclose material litigation in a PTO application. No. 1:05-CV-2482-ODE, 2009 WL 10670874 (N.D. Ga. Aug. 3, 2009). The court declined to award fees, stating it would not be “grossly unjust” to require the plaintiff to bear its own fees because, “[a]s a result of the conduct of both parties, this litigation has been protracted and contentious.” Id. at *8. HOTF argues its conduct was not worse than that of Energy Heating and an award of no fees would therefore not be “grossly unjust.” Outside the Box, like J.P. Stevens, preceded Octane Fitness and Therasense. But, even if the “not grossly unjust” standard were applied, in light of the jury finding Hefley’s conduct both objectively and subjectively baseless, to award no fees to Energy Heating and Marathon would be grossly unjust.

⁷ 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, 889 F.3d at 1300.

As discussed in the July 2, 2019 Report and Recommendation, subsequent to the Octane Fitness and Therasense decisions, fees have almost always been awarded when a case has been determined exceptional under § 285. In this court’s opinion, HOTF has not advanced arguments sufficient to support its position that no fees or costs should be awarded. But courts have sometimes limited fee awards to those 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 (D. Del. May 31, 2016). HOTF argues any fee or cost award should be limited to those incurred after September 4, 2015—the date the jury returned its verdict—which HOTF characterizes as the first date of “any finding that HOTF’s assertions that it had a valid patent were baseless.” (Doc. 766, p. 20; Doc. 767, p. 20). But, as Energy Heating and Marathon respond, the jury concluded HOTF should have recognized the invalidity of the ’993 patent before asserting rights to it and seeking licensure agreements based on a patent it should have known was invalid.

2. Relationship of Patent, Trademark, and State Law Claims

The same order denying a finding of exceptionality denied Energy Heating’s motion for fees on its trademark claim and its state law claims, and Energy Heating did not appeal those decisions. Thus, it is undisputed there is no entitlement to fees or costs related to the trademark claim or state law claims.

At oral argument, HOTF insisted the patent claim itself was “over” as of March 31, 2015, when the presiding judge found the ’993 patent invalid due to obviousness. The March 31, 2015 order also denied HOTF’s motion to dismiss the inequitable conduct claims, stating, “In the event that the court’s order finding the patent invalid is

reversed, the court finds that Energy Heating and Marathon Oil have raised a plausible claim for inequitable conduct.” (Doc. 358, p. 2).⁸ A July 7, 2015 letter from HOTF’s counsel requested clarification of whether the inequitable conduct claims would be tried prior to an appeal. (Doc. 454). That same day, the presiding judge issued an order stating an August 2015 trial would address “[a]ny issue including but not limited to inequitable conduct, that has not been dismissed as a result of pretrial motions.” (Doc. 455, p. 2).

In HOTF’s view, the “entire” fourteen-day trial was about the state law and trademark claims; at oral argument, HOTF stated that a bench trial of only the inequitable conduct claims would have consumed only three to four days. Energy Heating and Marathon counter that, but for HOTF’s inequitable conduct and assertion of the ’993 patent, there would have been no litigation at all. See Brassler v. U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1386 (Fed Cir. 2001). Further, they argue the patent issues were inextricably intertwined with the claims decided by the jury.

3. Reasonableness of Hours Expended by Energy Heating’s Attorneys

Determination of a reasonable fee award requires examination of the number of hours billed in order to exclude hours that are excessive, redundant, or otherwise unnecessary. Fraternal Order of Police v. Stenehjem, Civil No. A3-03-74, 2004 WL 583210, at *2 (D.N.D. Jan. 27, 2004), rev’d on other grounds, 431 F.3d 591 (8th Cir. 2005).

⁸ In light of finding invalidity due to obviousness, the March 31, 2015 order did not address motions raising issues of non-infringement and invalidity for indefiniteness.

HOTF argues Energy Heating has not adequately reduced its claim to account for work on state law and trademark claims. (Doc. 767, p. 16). In documentation supporting its February 2016 motion, Energy Heating categorized its 2013-2015 time entries: 88.5% to the “Patent/State” category, 4.5% to the “State Only” category, and less than 1% to the “Trademark Only” category. (Doc. 634-17; Doc. 634-18). In documentation of its post-2015 work, Energy Heating highlighted time entries it attributes to the state law and trademark claims, and made what Boundy describes as “liberal deductions for the fees attributable to each such entry.” (Doc. 760, p. 4). HOTF’s brief describes its word search of Energy Heating’s post-2015 billings, which revealed ten entries mentioning state law or trademark claims. (Doc. 767, p. 5). In its reply brief, Energy Heating conceded error in including those ten entries and accordingly reduced its requested fees by \$8,435.50 (16.5 hours). (Doc. 772, pp. 7-8). This court has not analyzed each of the thousands of time entries in the DWT billing invoices to confirm whether all entries specifically referencing the trademark claim or the state law claims have now been excluded, but there is no reason to believe HOTF’s word search was not complete.

HOTF argues Energy Heating should not be awarded all of its fees on appeal because two of seven issues on appeal related to the state law claims. (Doc. 767, p. 16). Energy Heating did not directly respond to HOTF’s argument concerning time spent on patent issues during the course of the appeal. Generally, Energy Heating argues the patent claims were necessarily intertwined with the trademark claim and the state law claims. Review of the opening merits briefs on appeal shows that HOTF and Energy Heating each devoted less than 20% of their arguments to the trademark claim and state law claims, (Doc. 740-1; Doc. 740-2), and the appellate court devoted a comparable

percentage of its opinion to those non-patent claims. The briefing and opinion on the non-patent claims focused largely on evidentiary issues and issues of agency not unique to patent law, though HOTF also raised a question of the state law claims being preempted by patent law.

Though evidence on the inequitable conduct claims was interrelated with that on the non-patent claims, there is no question the parties would have expended less time on trial preparation, the trial itself, and the appeal had the trial addressed only the inequitable conduct claims. In this court's opinion, a reduction in Energy Heating's attorney fees to account for the trial and appeal encompassing the non-patent claims is appropriate. HOTF proposes a 15% reduction to account for work done on the state law claims and the trademark claim. This court considers a 15% reduction reasonable to account for the trial and appeal including matters for which a § 285 award is not at issue.

In addition to its arguments concerning non-patent claims, HOTF alleges Energy Heating seeks reimbursement for time that was excessive, redundant, or otherwise unnecessary: (1) use of two lead law firms, with attorneys from both firms attending at least five depositions; (2) attorneys with higher billing rates doing more work than those with lower billing rates; (3) filing multiple summary judgment motions; (4) use of alleged "improper tactics" in contacting a former employee of a third party and presenting that individual's statements to the court in a misleading way; and (5) filing a motion for fees prior to a decision on the inequitable conduct claims and prior to entry of judgment. (Doc. 766, pp. 16-17; Doc. 767, pp. 13-15).

HOTF argues Energy Heating's attorneys did not follow a typical pattern where attorneys whose hourly rates are higher work fewer hours and more work is assigned to attorneys whose hourly rates are lower. In HOTF's view, DWT's allocation of work unreasonably inflated Energy Heating's fees. (Doc. 767, p. 14). Energy Heating counters that its use of more experienced attorneys was more efficient, comparing its total hours to those of HOTF. Energy Heating documented a total of 8,712.3 hours prior to appeal—and seeks an award of fees for 5,884.3 of those hours⁹—and 921.6 hours on appeal. HOTF disclosed 13,873.5 hours prior to appeal and 1,928.9 on the appeal. (Doc. 760, p. 10).

Energy Heating points to its use of two law firms (though it used a third firm as local counsel) as opposed to HOTF using six different law firms (including its local counsel).¹⁰ Energy Heating states nineteen different timekeepers worked on its behalf and calculates HOTF was billed for time of seventy-eight different timekeepers. Id. at 11. As HOTF identifies, not all of its law firms were involved throughout the litigation. (Doc. 767, p. 19). For work on the appeal, HOTF's attorneys recorded more than twice the number of hours as Energy Heating's attorneys; the difference is likely attributed, at least in part, to Energy Heating's lawyers having served as trial counsel and therefore knowing the evidence and issues on appeal.

⁹ Energy Heating's most recent motion requested fees for a total of 5,900.8 hours expended in the district court proceedings, but its reply brief reduced that request by 16.5 hours.

¹⁰ Because Padmanabhan and another attorney changed law firms in 2018, a total of seven firms were actually involved in representing HOTF.

While it is significant that Energy Heating used the same firms on appeal as it had in the district court proceedings, comparison of the number of law firms involved is otherwise given little consideration. As to counsel from both of Energy Heating's lead law firms attending at least five depositions, Energy Heating asserts HOTF was also represented by two attorneys at those depositions. (Doc. 772, pp. 5-6). The court notes Boundy's declaration describes a total of thirty-five fact witness depositions and seven expert witness depositions, consuming fifty-eight days of depositions. (Doc. 760, p. 2). Since the five depositions at issue are not specified in the briefing, the court cannot confirm double-coverage was done because the depositions involved key witnesses, though the double coverage suggests key witnesses were involved.

HOTF asserts Energy Heating expended unreasonable hours in filing multiple summary judgment motions and filing a motion requesting fees before there had been a decision on the inequitable conduct claims. Energy Heating responds that two of its six summary judgment motions¹¹ concerned trademark issues and time spent on those motions is therefore not included in its request for fees. Energy Heating points to two patent-related summary judgment motions being successful, resulting in two other motions being found moot. (See Doc. 358). Energy Heating also joined in a summary

¹¹ Two of Energy Heating's summary judgment motions concerned HOTF's counterclaim of infringement, (Doc. 32; Doc. 189), two concerned the trademark issue, (Doc. 59; Doc. 384), and two concerned invalidity of the '993 patent, (Doc. 121; Doc. 275; Doc. 351). Energy Heating also joined Marathon's summary judgment motion concerning invalidity of the '993 patent. Energy Heating's first summary judgment motion concerning HOTF's counterclaim was granted in part and denied in part after HOTF filed an amended counterclaim curing deficiencies. And each of the three motions regarding invalidity was based on different grounds. The first alleged obviousness based on prior art, the second alleged indefiniteness, and the third alleged the on-sale or public-use bar.

judgment motion filed by Marathon. (Doc. 275). Further, Energy Heating states its later summary judgment motions were based on facts developed in discovery conducted while its early motion was pending. (Doc. 773, p. 6). Notably, HOTF filed three summary judgment motions. (Doc. 138; Doc. 376; Doc. 381). No pretrial order or local rule limited the number of summary judgment motions. While HOTF cites various cases in which courts did not permit multiple summary judgment motions, it has not cited any cases in which a fee award was reduced because multiple summary judgment motions were filed.

HOTF also complains of Energy Heating filing a motion seeking fees before the question of inequitable conduct had been decided and before judgment had been entered. In a December 4, 2015 motion addressing various other matters, Energy Heating asked for a finding of entitlement to fees and asked that a briefing schedule be established to address the amount of a fee award. (Doc. 593). On January 14, 2016, the presiding judge issued findings of fact and conclusions of law, granting the motions of Energy Heating and Marathon for declaratory relief on the issue of inequitable conduct. (Doc. 619). The Clerk entered an amended judgment in accordance with the January 14, 2016 order on January 20, 2016. (Doc. 620). On February 3, 2016, Energy Heating filed a detailed motion for fees, accompanied by extensive supporting documentation. (Docs. 632 to 639). The December 4, 2015 motion addressed entitlement to fees only briefly. If that request was made prematurely, as HOTF suggests, it had very minimal impact on total time expended.

HOTF's allegation of "improper tactics" relates to an Energy Heating attorney contacting a former employee of an oil and gas exploration company and asking that individual whether Hefley had run experiments when HOTF heated water at his former

employer's job sites. (See Doc. 278-1; Doc. 291; Doc. 293). The individual's statements were later presented to the court in the context of a motion to extend a discovery deadline, and HOTF alleged they were presented in a misleading way. Energy Heating alleged HOTF's attorneys acted improperly with regard to the same witness. (Doc. 683, p. 4). Review of the docket reveals no finding that Energy Heating's attorneys, or HOTF's attorneys, acted improperly in their contact with the witness. This court has given the matter no weight in reaching its recommendations.

HOTF characterizes DWT's time entries as too numerous for its thorough review but asserts the DWT invoices include "numerous examples of unnecessary and vague entries," such as reexaminations, interoffice and intraoffice conferences, file review, and redacted entries. (Doc. 767, p. 17). This court does not consider the billing entries vague; those referencing conferences or reviews generally include descriptions of the topics discussed or reviewed. HOTF has cited no authority suggesting a fee award should exclude time expended in discussions among colleagues, and this court considers such discussions an efficient use of attorney time.

In a footnote, HOTF alleges a declaration and a brief filed in support of Energy Heating's 2016 motion claimed fees substantially higher than what was documented in DWT billing invoices. Id. at p. 17 n.4. But the fees stated in that declaration and brief (\$3,458,231.14) include those of Gibbons & Associates and local counsel as well as those of DWT. (Doc. 633, pp. 5-6; Doc. 634, p. 7).

After reduction to account for work on non-patent claims as discussed above, in this court's opinion Energy Heating's attorneys and their staff expended a reasonable number of hours related to the patent claims.

4. Reasonableness of Hours Expended by Marathon's Attorneys

HOTF criticizes Marathon's practice of block billing, contending it "makes it impossible to know how much time was spent on each individual task, and therefore, hinders meaningful review of the reasonableness of the fees incurred." (Doc. 766, p. 11). HOTF, however, was able to review the Holland & Hart invoices sufficiently to identify a number of specific entries it alleges show unreasonable time expenditures. The court has reviewed the Holland & Hart invoices and considers them quite detailed. (See Doc. 765-2). HOTF's assertions otherwise are unwarranted.

HOTF characterizes ten Holland & Hart entries as describing administrative tasks for which fees should not be awarded. (Doc. 766, p. 12). Marathon replies that one of the ten entries was for time of an attorney who worked on an initial draft of a claim construction brief and that the other nine entries were for time of paralegals who worked on document production and deposition scheduling. In total, the ten entries HOTF criticizes totaled 5.2 hours of time, for which Marathon was charged \$881.60. (Doc. 773, pp. 4-5).

As HOTF asserts, courts have sometimes disallowed travel time billed at standard hourly rates. At oral argument, Marathon's counsel asserted some work was done while on travel status. Additionally, in justifying its travel time billing, Marathon points to Holland & Hart having reduced all of its fees by 5% from its standard rates and having not increased its hourly fees during the more than six years it has represented Marathon in this litigation.

The Eighth Circuit has stated fees for travel time should generally be awarded at a standard hourly rate, unless the district court determines, in its discretion, that doing so

would be unreasonable. McDonald v. Armontrout, 860 F.2d 1456, 1463 (8th Cir. 1988) citing Craik v. Minn. State Univ. Board, 925 F.2d 1069, 1074 (8th Cir. 1991). This litigation required substantial attorney travel because of the nature of the oilfield industry; deponents were in many different locations, some of which were remote. (Doc. 773, p. 5). Considering Coleman's statement that work on the case was sometimes done while traveling, and Holland & Hart's hourly rates being considerably lower than those of HOTF's attorneys, it is reasonable that Marathon's fee award include travel time at standard hourly rates.

Marathon's fee request includes time its attorneys spent communicating with a third party, Missouri Basin, Inc., which was one of Marathon's contractors. HOTF objects, contending that work concerned an indemnification issue unrelated to the patent litigation. (Doc. 766, p. 15). Marathon counters that MBI had relevant factual information, participated in discovery, and produced two employees for depositions. (Doc. 773, p. 5). It appears the 7.5 hours Marathon claims in connection with communicating with MBI was reasonably related to the patent litigation.

HOTF identified a number of time entries related to "extracting electronic documents" and alleges Holland & Hart's hourly charge for that task was unreasonable. (Doc. 766, p. 15). Marathon calculates the identified entries totaled 22.7 hours and charges for those tasks totaled \$1,996.43. (Doc. 773, p. 5). Marathon describes its production of 348,623 pages of electronically stored documents and contends expenditure of paralegal time "to obtain, review, and produce such documents in a format that could be accessed by all parties" was necessary. Id. The charges related to Marathon's extensive document production were reasonable.

As in its objections to Energy Heating's time expenditures, HOTF criticizes the number of Marathon's summary judgment motions as an unreasonable time expenditure. (Doc. 766, p. 16). Review of the docket shows Marathon filed one summary judgment motion alleging patent invalidity, (Doc. 272), and joined in three of Energy Heating's summary judgment motions, (Doc. 129; Doc. 215; Doc. 356). Marathon's joinder filings were very brief and required little time expenditure.

HOTF argues Marathon's fees should be reduced to reflect trial time involving non-patent claims and for attending depositions dealing "almost exclusively" with non-patent claims. Given the interrelationship of the evidence on the inequitable conduct claims and the claims tried to the jury, it was reasonable for Marathon to participate in all proceedings after HOTF brought Marathon into the litigation. Since it was not involved in the non-patent claims, Marathon cannot be seen as contributing to the length and complexity of the trial or trial preparation. HOTF makes no assertion that Marathon expended hours on appeal not related to the patent claim.

5. Hourly Rates of Energy Heating's Attorneys for District Court Proceedings¹²

HOTF asserts the hourly rates Energy Heating's counsel charged for district court work were not reasonable. (Doc. 767, p. 12).¹³ During the course of the litigation, the hourly rates of Boundy, Energy Heating's lead attorney, increased from \$630 in 2013 to \$765 in 2018. Energy Heating asserts the hourly rates of its attorneys were reasonable

¹² HOTF does not challenge reasonableness of the hourly rates charged by Marathon's attorneys.

¹³ HOTF does not question hourly rates for services provided to Energy Heating on appeal, where HOTF's counsel charged considerably higher rates than Energy Heating's counsel.

and supports that assertion with a survey conducted by the American Intellectual Property Law Association (AIPLA), showing hourly rates charged by attorneys in various regions of the country for patent litigation. (Doc. 760-10). Because the AIPLA survey shows average hourly rates vary considerably among the localities surveyed, HOTF further contends there exists no national market for patent litigation services. (Doc. 767, p. 12). The AIPLA survey shows the hourly rates charged for services of the DWT attorneys to be within the range of hourly rates of attorneys with comparable experience.

HOTF argues reasonableness of hourly rates should be based on fees in the North Dakota market rather than in the national market since Energy Heating chose to file the case in North Dakota. HOTF asserts Energy Heating could have retained a North Dakota law firm rather than a Seattle law firm. HOTF submitted a February 2016 declaration of a North Dakota patent attorney, with eighteen years' experience, who stated his hourly rate was \$450. HOTF also searched this district's filing system and identified ten patent cases filed over a ten-year period, with North Dakota lawyers acting as lead counsel in seven of the ten cases. (Doc. 661, p. 2). Energy Heating counters with its own analysis of the same ten cases, concluding "over the last ten years, no patent case in this district has been adjudicated substantively without both parties using experienced out-of-district patent counsel." (Doc. 669, pp. 8-9).

Generally, determination of a reasonable hourly rate is based on fees charged for similar work by attorneys of like skill in the community where the court sits. But an exception to that general rule applies where there is a need for special expertise. Fraternal Order of Police, 2004 WL 583210, at *1. There is no question patent litigation

is highly specialized, so hourly rates should not be limited to those charged by attorneys practicing in North Dakota.

HOTF itself was not represented by North Dakota counsel; its primary trial counsel, Padmanabhan, practices in Minneapolis, Minnesota. During the course of the district court and appellate proceedings, in addition to Padmanabhan, HOTF engaged law firms located in Houston, Texas; New Orleans, Louisiana; and the District of Columbia. (Doc. 760, p. 10). HOTF offers no explanation of its decision to retain law firms from outside North Dakota, other than as local counsel. Given HOTF's decision to retain various out-of-state law firms, its contention that Energy Heating should not have done so is entitled to little credibility. Considering the various factors asserted, the hourly rates of Energy Heating's counsel, though high, should be considered reasonable.

6. Comparison of HOTF's Fees to Those of Energy Heating and Marathon

Energy Heating and Marathon contend their fees are reasonable when compared to those of HOTF. Combined, Energy Heating and Marathon request a total of \$5,716,721.41 in fees. HOTF disclosed its total fees of \$5,447,115.12. HOTF contends the comparison is misleading because its total attorney fees include those for the state law and trademark claims as well as those for the patent claims, while Energy Heating and Marathon represent their respective fee requests as including only matters related to the patent claims. Further, Energy Heating described hours excluded from its fee request for various other reasons, whereas HOTF's disclosures included all hours expended on the litigation. And HOTF litigated against two separately represented parties. While the

parties' approaches to staffing the case differed significantly, this court considers the fees of Energy Heating and Marathon reasonable in comparison to those of HOTF.

7. Non-taxable Costs

Energy Heating now seeks \$111,762.50 for costs incurred from 2013 to 2015 and an additional \$22,653.18 in non-taxable costs incurred subsequent to 2015. (Doc. 760-1).¹⁴ HOTF argues Energy Heating includes items not properly attributed to the patent claims and contends Energy Heating's costs should be reduced to one-third of the claimed amount because there were three types of claims tried and Energy Heating is entitled to costs on only one of the three claims. (Doc. 767, p. 20). But HOTF has not identified any specific requested cost as unrelated to patent claims. HOTF describes Energy Heating's cost itemization as "too vague to evaluate" and contends it double counts fees of local counsel as both fees and costs. *Id.* at 19.

This court has reviewed Energy Heating's 2013-2015 cost itemization, (Doc. 634-19), and its post-2015 cost itemization, (Doc. 760-4). Neither itemization is vague. The 2013-2015 itemization allocates costs among the same three categories as fees were allocated. As to fees of local counsel, the documentation is in two separate billing statements and is therefore confusing. (Doc. 634-18; Doc. 634-19). Despite the confusion, this court finds no evidence of double counting.

In concluding its responsive brief, HOTF asserted \$47,563.48 should be deducted from Marathon's requested costs "to account for Marathon's double counting of costs."

¹⁴ From its 2016 request for costs, Energy Heating deducted the taxable costs of \$67,085.77, which HOTF has paid. In the current motion, Energy Heating has deducted \$800 in taxable costs associated with the appeal, which HOTF has also paid.

(Doc. 766, p. 20). Other than a possible reference to Marathon having originally included expert costs in its request, this court cannot discern the basis for that requested deduction and has therefore not considered it.

Both Energy Heating and Marathon should be awarded all requested non-taxable costs.

8. Adjustment to Account for Time Value of Money

Energy Heating requests a 5% upward adjustment to an award of fees to account for the time value of money, asserting 5% as an average prime rate in 2019. (Doc. 772, p. 10 n.5). In its reply brief, Energy Heating specifically requests a 5% increase to fees incurred since August 2016 because its counsel has not received payment since that date. Id. at 10. But DWT entered into a contingent fee agreement with Energy Heating in August 2016, the terms of which have not been disclosed to the court. Thus, DWT accepted the risk of receiving no payment for its time and accepted that it would not receive any payment until after resolution of the case. This court does not recommend the upward adjustment Energy Heating requests.

Recommendation

For the reasons discussed herein, this court recommends that the presiding judge award Energy Heating 85% of its requested fees, or \$3,355,455.45, and all of its requested non-taxable costs of \$134,415.68. Marathon should be awarded its total requested fees, \$1,769,126.76, and its total requested costs, \$73,309.36.

Dated this 4th day of March, 2020.

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

NOTICE OF RIGHT TO OBJECT¹⁵

Any party may object to this Report and Recommendation by filing with the Clerk of Court no later than **March 18, 2020**, a pleading specifically identifying those portions of the Report and Recommendation to which objection is made and the basis of any objection. Any responses to objections are due by **March 24, 2020**. Failure to object or to comply with this procedure may forfeit the right to seek review in the Court of Appeals.

¹⁵ See Fed. R. Civ. P. 72(b); D.N.D. Civ. L.R. 72.1.

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

Energy Heating, LLC, an Idaho limited liability company; Rocky Mountain Oilfield Services, LLC, an Idaho limited liability company,

Plaintiffs,

vs.

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,

vs.

Marathon Oil Corporation and Marathon Oil Company,

Third-Party Defendants.

Civil Case No. 4:13-cv-10

**ORDER ADOPTING REPORT AND
RECOMMENDATION ON
ATTORNEYS' FEES AND COSTS**

These proceedings on the plaintiffs' and third-party defendants' motions for awards of attorneys' fees and non-taxable costs pursuant to 35 U.S.C. § 285 is before the court following remand from the Court of Appeals for the Federal Circuit. The undersigned has received and reviewed a Report and Recommendation from the Honorable Alice R. Senechal, recommending that the undersigned enter judgment as follows: (1) Energy Heating, LLC and Rocky Mountain Oilfield Services, LLC (collectively "Energy Heating")

be awarded attorneys' fees in the amount of \$3,355,455.45 and non-taxable costs in the amount of \$134,415.68; and (2) Marathon Oil Corporation and Marathon Oil Company (collectively "Marathon") be awarded attorneys' fees in the amount of \$1,769,126.76 and costs in the amount of \$73,309.36.¹ Defendants Heat On-The-Fly, LLC and Super Heaters North Dakota (collectively "HOTF") have objected to the Report and Recommendation, asserting that the magistrate judge erred by awarding any amount of attorneys' fees and costs and, alternatively, erred by not further reducing the requested attorneys' fees and costs to account for "unreasonably high billing rates" and "inefficiencies."² Both Energy Heating and Marathon have filed responses to HOTF's objections.³

The undersigned has conducted a *de novo* review of the magistrate judge's proposed disposition and HOTF's objections. Upon careful review of the record as well as the decisions of the Federal Circuit, the court agrees with the magistrate judge's analyses and recommended dispositions on the pending motions. The court specifically finds no error in the magistrate judge's findings that Energy Heating and Marathon are entitled to an award of attorneys' fees and costs, no error in the magistrate judge's findings regarding the appropriate amount of the award, and no error in rejecting HOTF's arguments in light of the magistrate judge's consideration of the extensive record as a whole and her thorough analysis of the relevant factors. The court further finds that HOTF's supplemental materials⁴ have not presented a basis to disturb the magistrate judge's findings.

¹Doc. #777

²Doc. #784

³Docs. #787 & 788.

⁴Doc. #785

For the foregoing reasons, the undersigned hereby **ADOPTS** the magistrate judge's Report and Recommendation in its entirety. Marathon's motions for attorneys' fees and costs⁵ are **GRANTED**. Marathon is hereby awarded attorneys' fees in the amount of \$1,769,126.76 and non-taxable costs in the amount of \$73,309.36. Energy Heating's motion for attorneys' fees and costs⁶ is **GRANTED, in part**. Energy Heating is hereby awarded attorneys' fees in the amount of \$3,355,455.45 and non-taxable costs in the amount of \$134,415.68.

IT IS SO ORDERED.

LET JUDGMENT BE ENTERED ACCORDINGLY.

Dated this 15th day of June, 2020.

Sitting by designation:

/s/ Ralph R. Erickson
Ralph R. Erickson, Circuit Judge
Eighth Circuit Court of Appeals

⁵Docs. #736 & 763

⁶Doc. #738

FORM 19. Certificate of Compliance with Type-Volume Limitations

Form 19
July 2020

**UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

CERTIFICATE OF COMPLIANCE WITH TYPE-VOLUME LIMITATIONS

Case Number: 2020-2038

Short Case Caption: Energy Heating, LLC v. Heat On-The-Fly, LLC

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The foregoing filing complies with the relevant type-volume limitation of the Federal Rules of Appellate Procedure and Federal Circuit Rules because it meets one of the following:

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Date: 10/22/2020

Signature: /s/ Devan V. Padmanabhan

Name: Devan V. Padmanabhan