

**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 judge<sup>1</sup> 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.<sup>2</sup> (Doc. 748).<sup>3</sup>

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

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<sup>1</sup> 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.

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

<sup>3</sup> 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.<sup>4</sup> (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

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<sup>4</sup> 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.<sup>5</sup>
- (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.

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<sup>5</sup> 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)<sup>6</sup> as to both the trademark and patent disputes.<sup>7</sup> (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.<sup>8</sup>

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<sup>6</sup> Under the Lanham Act, 15 U.S.C. § 1117(a), the court may award attorney fees in exceptional cases involving trademark disputes.

<sup>7</sup> 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).

<sup>8</sup> 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 OBJECT<sup>9</sup>**

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.

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