



Federal Circuit Vacates and Remands District Court's Fee Award Due to Consideration of Irrelevant 'Red Flags'

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The Federal Circuit vacated a district court's fee award because the district court considered certain information that was not relevant to the question of whether plaintiff's case was exceptional. Specifically, the Federal Circuit held that only those "red flags" that related to the successful Section 101 defense, which served as the basis for the district court's grant of summary judgment, could be used to show the case was fatally flawed.

Plaintiff sued several defendants, including DISH, for infringement of patents generally related to digital data compression. Defendants moved to dismiss, arguing that the asserted claims were not directed to patentable subject matter under 35 U.S.C. § 101. The district court denied that motion, explaining it would consider invalidity arguments after claim construction. In so doing, the court noted that other district courts upheld similar claims in the face of similar Section 101 arguments. By the time the district court returned to invalidity arguments, only one patent remained in dispute against DISH.

On summary judgment, the district court found the asserted claims of that patent ineligible, a decision affirmed by the Federal Circuit. While that appeal was pending, the district court granted DISH's motion for attorneys' fees. The district court found the case against DISH exceptional due to six "red flags" that it believed should have signaled to plaintiff that its case was fatally flawed. Those red flags included (1) a district court decision holding similar claims of a related patent ineligible, (2) a Federal Circuit decision holding unrelated claims ineligible, (3) a PTAB decision invalidating similar claims of a related patent for obviousness (4) a

reexamination finding claims of the patent at issue invalid as obvious and anticipated, (5) a notice letter sent by DISH to plaintiff, and (6) DISH's expert's opinions.

On appeal, the Federal Circuit explained that the district court failed to properly weigh each "red flag," including because some of the so-called "red flags" were irrelevant. Regarding the first red flag, the Section 101 decision holding similar, related claims ineligible, the Federal Circuit agreed with the district court that it should have been a significant red flag to plaintiff to reconsider the eligibility of its asserted claims. The Federal Circuit disagreed, however, with the district court's reliance on decisions from the Federal Circuit and PTAB regarding unrelated claims or other areas of the patent statute. Indeed, the Federal Circuit's prior decision was related to different technology. Absent further explanation, such as a chart comparing the claims of the patents side by side, such a case did not necessarily inform the plaintiff that its case was meritless. According to the court, those decisions should not have been considered red flags. Similarly, the Board's decisions applied different legal standards and did not include sufficient information to determine whether the claims of the patent at issue failed under Section 101. That is, the Board's finding that an element existed in the prior art in the course of an obviousness analysis is not the same as a finding that an element was conventional in the art—or that the invention is a non-conventional arrangement of conventional pieces—as required under Section 101. Similarly, related *ex-parte* reexaminations used a different claim construction that was determined under a different claim construction standard, and the district court failed to explain how the reexamination decisions supported a finding of exceptionality.

Finally, the last two "red flags," without more, did not show that this was an exceptional case. DISH's "notice letter" included only two short paragraphs addressing the ineligibility of the relevant claims, and these paragraphs were filled with conclusory statements. It did not provide sufficient analysis to put plaintiff on notice that its arguments were so meritless as to amount to an exceptional case. The Federal Circuit also cautioned that if such notice letters were sufficient to trigger an exceptional case finding, then every party would send such letters early in litigation to ensure entitlement to attorneys' fees.

Similarly, DISH's expert witness provided ordinary, typical expert opinions with which plaintiff's expert disagreed. While DISH's expert may have been more persuasive, his opinions were not sufficient to put plaintiff on notice that its claims were meritless.

Practice Tip: Although subject to an abuse of discretion standard, attorneys' fees awards may be reversed on appeal where the basis for the award is disconnected from the merits of the relevant issue or not adequately explained by the district court. Thus, to support a motion for fees based on an exceptional case finding, a party should connect its grounds for the award directly to decisions in its favor in the case. And a party opposing a fee motion should identify any grounds cited by the moving party that were irrelevant to the outcome or that were insufficiently explained by the other party or the district court.

Realtime Adaptive Streaming L.L.C. v. Sling TV, L.L.C. et al., C.A. No. 2023-1035 (Fed. Cir. Aug. 23, 2024).

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