UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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CASE NO.: 2:16-cv-07749 SJO (PJWx) **DATE:** June 22, 2018

TITLE: Akeso Health Sciences, LLC v. Designs for Health, Inc.

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PRESENT: THE HONORABLE S. JAMES OTERO, UNITED STATES DISTRICT JUDGE

Victor Paul Cruz	Not Present
Courtroom Clerk	Court Reporter

COUNSEL PRESENT FOR PETITIONER:	**COUNSEL PRESENT FOR RESPONDENT:**
Not Present	Not Present

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PROCEEDINGS (in chambers): ORDER DENYING DEFENDANTS' MOTION FOR EXCEPTIONAL CASE DETERMINATION AND AWARD OF ATTORNEYS' FEES [Docket No. 92]

This matter is before the Court on Defendant Designs for Health, Inc.'s ("DFH" or "Defendant") Motion for Exceptional Case Determination and Award of Attorneys' Fees ("Motion"), filed May 16, 2018. Plaintiff Akeso Health Sciences, LLC ("Akeso" or "Plaintiff") filed an opposition to the Motion ("Opposition") on June 4, 2018. Defendant filed a reply ("Reply") on June 11, 2018. The Court found this matter suitable for disposition without oral argument and vacated the hearing set for June 25, 2018. *See* Fed. R. Civ. P. 78(b). For the following reasons, the Court **DENIES** Defendants' Motion.

I. FACTUAL AND PROCEDURAL BACKGROUND

Akeso filed its complaint for patent infringement ("Complaint") against DFH on October 18, 2016, alleging that DFH's Migranol™ product infringes claims of U.S. patent No. 6,500,450 (the "'450 Patent"). (*See* Compl. ¶¶ 1, 6, 8, ECF No. 1.) The '450 Patent, titled "Composition for Treating Migraine Headaches," relates to a dietary supplement for the treatment of migraine headache. (FAC Ex. A ("'450 Patent") at Abstract, ECF No. 23-1.) Akeso's founder, Curt Hendrix ("Hendrix"), is the sole inventor of the '450 Patent. (FAC ¶¶ 9-10, ECF No. 23.)

On April 26, 2018, the Court granted summary judgment in favor of DFH, finding that Akeso was equitably estopped from asserting the '450 Patent based on a ten-year delay in filing suit from the issuance of a cease-and-desist letter to DFH by Hendrix. (*See* Order Granting Def's Mot. for Summary Judgment ("Order"), ECF No. 88.) The Court found that the adversarial stance of the letter, followed by the significant length of delay in enforcement, qualified as misleading conduct for the purpose of an equitable estoppel analysis. (Order 4-5.) The Court did not address DFH's remaining arguments that the '450 Patent was invalid or that Akeso was not a valid owner of the '450 Patent. (*See* Order 2.)

II. LEGAL STANDARDS

Under 35 U.S.C. section 285 ("Section 285"), the court, in "exceptional circumstances," may award reasonable attorneys' fees to the prevailing party. 35 U.S.C. § 285. Recently, the United States Supreme Court clarified that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, — U.S. —, 134 S. Ct. 1749, 1756 (2014). Accordingly, the Supreme Court held that "[d]istrict 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 1758.

In so ruling, the Supreme Court expressly overturned the Federal Circuit's "overly rigid" standard articulated in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). *See Octane*, 134 S. Ct. at 1756-57 (overruling *Brooks Furniture* and finding that its standard "superimposes an inflexible framework onto statutory text that is inherently flexible"). In *Brooks Furniture*, the Federal Circuit created "a standard under which a case is 'exceptional' only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both 'brought in subjective bad faith' and 'objectively baseless.'" 393 F.3d at 1381.

Although courts in the wake of *Octane* have had more latitude to award prevailing parties attorneys' fees pursuant to Section 285, it is nevertheless clear that "fee awards are not to be used 'as a penalty for failure to win a patent infringement suit.'" *Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc.*, 790 F.3d 1369, 1373 (Fed. Cir. 2015) (rejecting the "fact that Gaymar lost at the PTO" as a basis for awarding attorneys' fees pursuant to Section 285) (quoting *Octane Fitness*, 134 S. Ct. at 1753). "In other words, fees are not awarded solely because one party's position did not prevail." *Id.* Such a rule would run afoul of the Supreme Court's mandate that Section 285 requires a case to "stand[] out from others" and "would have negative implications for access to justice." *Cambrian Sci. Corp. v. Cox Commc'ns, Inc.*, 79 F. Supp. 3d 1111, 1114-15 (C.D. Cal. 2015).

III. DISCUSSION

Defendant argues that this case should be deemed "exceptional" within the meaning of Section 285 for three reasons. First, Defendant argues that Plaintiff failed to conduct a reasonable pre-suit investigation, as evidenced by Plaintiff's failure to consider or conduct discovery into Defendant's affirmative defense of equitable estoppel. (Mot. 5-10, ECF No. 92.) According to Defendant, Plaintiff rejected Defendant's defense on the basis of an inapplicable Supreme Court holding in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), and refused to consider the issue further despite repeated reminders from Defendant that it would be pursuing this defense. (Mot.

7.) Defendant argues that Plaintiff had initially focused on its affirmative defense of laches, which is explicitly foreclosed by current law, and that in any case its litigation position that equitable estoppel would not apply was not objectively unreasonable. (Opp'n 2, ECF No. 95.)

In *Petrella*, the Supreme Court held that the doctrine of laches cannot be used to bar a suit for copyright infringement that was properly brought within the Copyright Act's three-year statute of limitations. 134 S. Ct. at 1968. The Supreme Court noted that an alleged infringer who detrimentally relies on a copyright owner's deception would still have a remedy in the doctrine of equitable estoppel, which applies "when a copyright owner engages in intentionally misleading representations concerning his abstention from suit." *Id.* at 1977. The Supreme Court extended its holding in *Petrella* to actions for patent infringement on March 21, 2017, several months after this suit was filed. *SCA Hygiene Prod. Aktiebolag v. First Quality Baby Prod.*, LLC, 137 S. Ct. 954 (2017). Like *Petrella*, the Supreme Court noted in *SCA* that the doctrine of equitable estoppel was still available to provide protection against the more problematic practices of unscrupulous patentees. *Id.* at 967.

According to Defendant, Plaintiff unreasonably relied on the Supreme Court's dicta in *Petrella* for the proposition that equitable estoppel **only** applies when a patent owner "engages in intentionally misleading representations" despite consistent Federal Circuit precedent that held that a period of silence in some circumstances can qualify as misleading conduct. (Mot. 7-8.) While Defendant's reliance on *Petrella* may have been misplaced, its position that the conduct described in this instance does not qualify as misleading was not objectively unreasonable. While several Federal Circuit cases have addressed the issue, there is no clear holding on when silence, without affirmative misrepresentations, can be sufficiently misleading as to provide a basis for equitable estoppel. In reaching its decision, the Court had to analyze several Federal Circuit decisions on the question and analogize the facts at issue to these cases. (*See* Order 4-5.) Reasonable minds could have differed on the outcome.

Second, Defendant argues that Plaintiff's filing of nine separate successive actions for patent infringement within two years of the expiration of the '450 Patent demonstrates subjective bad faith and oppressive litigation tactics. (Mot. 10-12.) Defendant points as further proof to Plaintiff's filing of the case in California pursuant to a now-discredited interpretation of the venue law, when DFH's headquarters and state of incorporation are both on the East Coast. (Mot. 11.) Defendant also notes the portion of the Court's ruling that states that the "facts indicate more strongly that Akeso saw a market opportunity to resuscitate its previously abandoned claims in order to capitalize on DFH's stronger revenues." (Mot. 11; Order 6.)

None of these things, however, necessarily demonstrate bad faith. A patent owner is entitled to enforcement of his patent whether the patent is twenty or two years away from expiry. Absent conduct that would warrant equitable estoppel, which, as noted above, Plaintiff reasonably could have believed did not apply, a patent owner may choose to monetize his intellectual property at any time that he believes in his best interest. Defendant has not adequately demonstrated that

any of the nine lawsuits filed by Defendant were objectively baseless, and a tendency towards quick settlement does not necessarily make it so. Finally, as the Court previously noted, the interpretation of the venue statute that Plaintiff relied on to file its case in California was controlling law for nearly three decades. (Order Denying Def's Mot. to Dismiss 3, ECF No. 55.) Filing a lawsuit in a forum where venue was appropriate under the law at the time of filing does not indicate bad faith.

Defendant lastly argues that Plaintiff used artificially inflated calculations of "lost profits" damages to coerce Defendant into a quick settlement, despite having no basis for these calculations. (Mot. 11- 18.) Defendant spends several pages of its Motion detailing the ways in which the evidence provided to support Plaintiff's claim for lost profits damages were deficient. (Mot. 11-18.) While the Court never addressed the issue of damages in this case as summary judgment was awarded to Defendant, the Court notes that plaintiffs generally have an incentive to overestimate the amount of damages they are entitled to if judgment is awarded in their favor. There are many mechanisms by which the Court can exclude improper damages calculations if infringement has occurred, and the amount of damages awarded to a plaintiff is almost always less than the requested amount, if not drastically so. Defendant has not pointed to any case that was found exceptional on the basis of an inflated damages calculation alone, and Defendant was free at all times in the litigation to do its own assessment of the amount of damages for which it could be reasonably held liable. Without other evidence of improper behavior, the Court declines to award attorneys' fees for this reason.

Having considered each of Defendant's arguments, the Court finds that Defendants have not met their burden of proving that this case is "exceptional" within the meaning of Section 285.

III. RULING

For the foregoing reasons, the Court **DENIES** Motion for Exceptional Case Determination and Award of Attorneys' Fees.

IT IS SO ORDERED.