# United States Court of Appeals for the Federal Circuit

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**EPIC TECH, LLC,**
*Plaintiff-Appellee*

**v.**

**PEN-TECH ASSOCIATES, INC.,**
*Defendant-Appellant*

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2025-1624

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Appeal from the United States District Court for the Northern District of Georgia in No. 1:20-cv-02428-VMC, Judge Victoria M. Calvert.

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Decided: September 30, 2026

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L. CLINT CROSBY, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC, Atlanta, GA, argued for plaintiff-appellee. Also represented by TYLER BISHOP.

RICHARD M. LEHRER, FisherBroyles LLP, Atlanta, GA, argued for defendant-appellant. Also represented by ALASTAIR JAMES WARR, Chicago, IL.

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Before MOORE, *Chief Judge*, CUNNINGHAM, *Circuit Judge*, and SUBRAMANIAN, *District Judge*.[1]

MOORE, *Chief Judge*.

Pen-Tech Associates, Inc. (Pen-Tech) appeals an order of the United States District Court for the Northern District of Georgia denying Pen-Tech's motion for sanctions under Federal Rule of Civil Procedure 11 and motion for attorneys' fees and costs under 35 U.S.C. § 285, 28 U.S.C. § 1927, and the court's inherent power. Because the court's order provides insufficient detail to permit meaningful review, we vacate and remand for further proceedings.

## BACKGROUND

Epic Tech, LLC (Epic Tech) owns U.S. Patent No. 8,545,317, directed to an electronic sweepstakes system and method for connecting electronic gaming terminals on a server network to facilitate an initial game with a secondary game operating in the background. '317 patent at Abstract, Figs. 1, 5. The '317 patent issued in October 2013. J.A. 67. In a December 2013 office action, the United States Patent and Trademark Office (PTO) rejected claims in a related application on nonstatutory double patenting grounds over claims of the '317 patent. J.A. 340–46. The Supreme Court decided *Alice* six months later, describing a two-step test for assessing patent subject matter eligibility under 35 U.S.C. § 101. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208, 217–18 (2014). Following *Alice*, the PTO reopened prosecution of the related application and rejected claims under § 101. J.A. 369–70. Twice more, the PTO issued office actions rejecting claims in other related applications as unpatentable under § 101. J.A. 398–401; J.A. 2226–35; *see* J.A. 1613–14.

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[1] Honorable Arun S. Subramanian, District Judge, United States District Court for the Southern District of New York, sitting by designation.

The § 101 rejections issued after *Alice* but before Epic Tech filed the suit below. Epic Tech abandoned all three related applications without overcoming the PTO's § 101 rejections. J.A. 309; J.A. 311; J.A. 2136.

In June 2020, six years after *Alice* and two years after Baker, Donelson, Bearman, Caldwell & Berkowitz, PC (Baker Donelson) began prosecuting Epic Tech's patent applications, Epic Tech sued Pen-Tech for allegedly infringing claims 1–2, 4–5, 7–10, and 18 (asserted claims) of the '317 patent. J.A. 86–103; J.A. 689. Pen-Tech counterclaimed seeking declaratory judgment that the asserted claims of the '317 patent are invalid under § 101. J.A. 128; *see* J.A. 2524–25. At that time, Epic Tech had already asserted a related patent against a different party, U.S. Patent No. 8,545,315,[2] in the United States District Court for the Southern District of Texas. First Am. Compl. at 34–37, *Epic Tech, LLC v. Fusion Skill, Inc.*, 4:19-cv-02400 (S.D. Tex. Oct. 10, 2019), ECF No. 79 ("*Fusion Skill*"). The Southern District of Texas, applying *Alice*, held the asserted claims of the '315 patent ineligible under § 101. *Epic Tech, LLC v. Fusion Skill, Inc.*, 534 F. Supp. 3d 741, 746–47 (S.D. Tex. 2021), *vacated*, No. 4:19-cv-02400, 2022 WL 22887728 (S.D. Tex. June 6, 2022).[3] Relying on that order, Pen-Tech sought summary judgment of invalidity as to the asserted claims of the '317 patent before the court below, in part, because those claims were allegedly similar to the claims of the '315 patent invalidated in *Fusion Skill*. Pen-Tech's Mot. for Summ. J. at 14–18, *Epic Tech, LLC v. Pen-Tech Assocs., Inc.*, No. 1:20-cv-02428 (N.D. Ga. Sep. 25, 2023), ECF No. 79-2; *see Fusion Skill*, 534

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[2] The '317 patent claims priority as a continuation-in-part to the application that issued as the '315 patent. J.A. 67; J.A. 1613–14.

[3] The court later vacated its summary judgment ruling as part of the parties' settlement. J.A. 273–77.

F. Supp. 3d at 746. Epic Tech filed a cross-motion for summary judgment of infringement. *See* J.A. 2522. The court granted Pen-Tech's motion, denied Epic Tech's motion, and entered judgment declaring the asserted claims of the '317 patent invalid under § 101. J.A. 2524–25.

Before the court entered summary judgment, Pen-Tech moved for Rule 11 sanctions, contending Epic Tech and Baker Donelson should be held jointly and severally liable for Pen-Tech's attorneys' fees and costs incurred in Pen-Tech's defense against allegedly frivolous infringement claims. J.A. 3, 10. According to Pen-Tech, Epic Tech received notice of the asserted claims' potential invalidity before and after filing its complaint when (1) *Alice* issued, Pen-Tech's Rule 11 Mot. at 2–3, *Epic Tech v. Pen-Tech Assocs., Inc.*, No. 1:20-cv-02428 (N.D. Ga. July 18, 2024), ECF No. 120-1; (2) the PTO rejected patentably indistinct claims under § 101 in three related applications, *id.* at 14–21; and (3) the *Fusion Skill* court held similar claims of the '315 patent invalid under § 101, *id.* at 4 n.6. These notices, in Pen-Tech's view, should have prompted Epic Tech to investigate the asserted claims' validity before filing suit. Pen-Tech also moved for attorneys' fees and costs under § 285, § 1927, and the court's inherent power based on the same facts as its Rule 11 motion. J.A. 3; *see* Appellant's Br. 6.

The court recognized its summary judgment of invalidity lent Pen-Tech's allegations of frivolity "considerable credence." J.A. 11. The court nevertheless denied Pen-Tech's Rule 11 motion, determining neither "Epic Tech [nor] Baker Donelson's conduct was so unreasonable as to be frivolous." J.A. 12. The court also declined to award attorneys' fees and costs under § 285, § 1927, and the court's inherent power because it determined the case was not exceptional and Epic Tech had not unreasonably or vexatiously litigated its case. J.A. 18, 20–21. Pen-Tech appeals. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

## DISCUSSION

Pen-Tech argues we should (1) reverse the court's denial of Pen-Tech's Rule 11 motion and motion for fees under § 285, § 1927, and the court's inherent power, and (2) remand for a determination of fees owed. Because the court did not sufficiently explain its rationale for rejecting Pen-Tech's theory of unreasonable conduct based on notice of potential invalidity, we vacate and remand for further proceedings.

### I. Denial of Rule 11 Sanctions

We review denial of a motion for Rule 11 sanctions under the law of the regional circuit, here the Eleventh Circuit. *Source Vagabond Sys. Ltd. v. Hydrapak, Inc.*, 753 F.3d 1291, 1298 (Fed. Cir. 2014). The Eleventh Circuit reviews such denials for abuse of discretion. *Thompson v. RelationServe Media, Inc.*, 610 F.3d 628, 636 (11th Cir. 2010). "Rule 11 sanctions are warranted when a party files a pleading that (1) has no reasonable factual basis; (2) is based on a legal theory that has no reasonable chance of success and that cannot be advanced as a reasonable argument to change existing law; and (3) is filed in bad faith for an improper purpose." *Baker v. Alderman*, 158 F.3d 516, 524 (11th Cir. 1998). Meaningful appellate review of a court's order denying a Rule 11 sanctions motion is possible only if the court provides adequate explanation. *See Harris v. Heinrich*, 919 F.2d 1515, 1516–17 (11th Cir. 1990).

Pen-Tech argues the court abused its discretion in denying Rule 11 sanctions by discounting the notice supplied by *Alice*, the PTO's § 101 rejections in three related applications, and the *Fusion Skill* order invalidating claims in a related patent. Appellant's Br. 22–32. We hold only that the court's order does not permit meaningful review of its denial in light of Pen-Tech's validity-based notice theory.

There were a number of strong indicators prior to the filing of the suit at issue that the asserted claims were invalid under § 101. First, the Supreme Court decided *Alice*, which not only affected patent subject matter eligibility under § 101 after the '317 patent issued, but also involved a software patent. Second, the PTO determined claims in two of the three related applications were patentably indistinct from independent claims of the '317 patent, J.A. 342–46; J.A. 390–94, and rejected claims in all three related applications under § 101 post-*Alice*. J.A. 369–70; J.A. 398–401; J.A. 2226–35. Third, and again post-*Alice*, the court in *Fusion Skill* held claims of the related '315 patent ineligible under § 101.[4] *Fusion Skill*, 534 F. Supp. 3d at 746–47. These facts, taken together, created a compelling concern over the validity of the claims before this litigation was brought. In such circumstances, it does not suffice for Epic Tech or its counsel to rely only on the presumption of validity when faced with multiple indicators that these claims were unpatentable under § 101.

The court failed to address whether *Alice* put Epic Tech on notice of its asserted claims' potential invalidity. At best, the court indirectly gestured toward *Alice* by referencing its earlier summary judgment ruling predicated on § 101. J.A. 11–12 ("In light of this Court's [summary judgment] Order, . . . Pen-Tech's allegations have considerable credence . . . ."). Despite acknowledging Pen-Tech's assertion that *Alice* should have prompted a pre-suit validity analysis, J.A. 10, the court relied on testimony from Epic Tech's Rule 30(b)(6) witness regarding his "good faith, pre-

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[4] Pen-Tech alleges these claims are substantively similar to those of the '317 patent, Appellant's Br. 6 n.2, but neither the court nor the PTO appears to have determined that. *See* J.A. 13 (court recognizing only that the invalidity *holdings* below and in *Fusion Skill* were "similar"). We do not address the issue of substantive similarity in the first instance.

suit [infringement] investigation" to determine Epic Tech met its pre-suit obligations. J.A. 12 (quoting Epic Tech's Resp. to Pen-Tech's Rule 11 Mot. at 7, *Epic Tech v. Pen-Tech Assocs., Inc.*, No. 1:20-cv-02428 (N.D. Ga. Aug. 15, 2024), ECF No. 127). The court also determined Baker Donelson met its pre-suit obligations by "creating a claim chart and a cease and desist letter using images from Epic Tech's pre-suit [infringement] investigation." J.A. 12. The court's reliance on Epic Tech's and Baker Donelson's pre-suit *infringement* investigation, however, does not explain why sanctions were unjustified under Pen-Tech's notice theory centered on *validity*. Those facts may bear on whether Epic Tech reasonably investigated infringement before filing suit, but they do not address the distinct question of whether Epic Tech should have investigated validity given the notice of potential invalidity *Alice* provided, whether alone or in conjunction with the *Fusion Skill* holding and the PTO's office actions.

The court also failed to adequately address whether the PTO's office actions served as notice of potential invalidity. The court declined to view them as a form of notice because "no court has found that the prosecution history of a later patent can reach back and limit a claim using the same element in an earlier related patent." J.A. 14. Yet Pen-Tech did not invoke the office actions as claim-limiting prosecution history. Pen-Tech's Rule 11 Mot. at 14–21, *Epic Tech v. Pen-Tech Assocs., Inc.*, No. 1:20-cv-02428 (N.D. Ga. July 18, 2024), ECF No. 120-1. Instead, it argued the office actions put Epic Tech on notice that claims in related applications, including claims the PTO determined were patentably indistinct from claims of the '317 patent, had been rejected under § 101 post-*Alice*. *Id.*; *see* J.A. 342–46 (rejecting claims in a related application for nonstatutory double patenting); J.A. 369–70 (rejecting claims of the same application under § 101 post-*Alice*); J.A. 390–401 (rejecting claims of another related application for nonstatutory double patenting and unpatentability under § 101 post-*Alice*);

J.A. 2226–35 (rejecting claims under § 101 post-*Alice* in another related application). The court's rationale does not squarely confront Pen-Tech's notice theory. It fails to explain why those office actions, whether considered individually or collectively, were insufficient to serve as notice of potential invalidity despite their substantive relevance to the asserted claims. Given the absence of reasoning, we are unable to meaningfully review the court's decision.

The court's analysis regarding the *Fusion Skill* holding likewise fails to provide reviewable reasoning for the court's decision. Pen-Tech argues that Epic Tech should have known it was unreasonable to pursue this litigation when *Fusion Skill* invalidated claims in the related '315 patent under § 101. Appellant's Br. 34–35; *see id.* at 13. The court's only explanation for why that holding would not have put Epic Tech on notice of the serious concern over the validity of the related patent claims was that "the issues were not the exact same." J.A. 13. But the issues need not be identical to provide notice of potential invalidity. That is true taking *Fusion Skill* not only in isolation, but also together with *Alice* and the PTO's § 101 rejections in related applications. The court's reasoning did not suffice under these circumstances to permit meaningful review by this court.[5]

We vacate the court's denial of Rule 11 sanctions. We do not decide whether Epic Tech or Baker Donelson violated Rule 11. Nor do we decide when notice of potential invalidity renders continued assertion of a presumptively valid patent unreasonable. We hold only that the court

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[5] At oral argument, Epic Tech was unable to identify anything in the court's analysis assessing the reasonableness of Epic Tech's validity position given the notice of potential invalidity Pen-Tech alleged Epic Tech had received. Oral Arg. at 17:56–20:00.

failed to provide a sufficiently reasoned explanation for rejecting Pen-Tech's validity-based Rule 11 theory given *Alice*, the PTO's § 101 rejections of similar claims, and the *Fusion Skill* order. In light of the unusually strong factors pointing to the invalidity of the patent-in-suit, the court needed to address—in some fashion—why Epic Tech's claim nevertheless had a "reasonable chance of success" or could "be advanced as a reasonable argument to change existing law," and was not brought "in bad faith for an improper purpose." *See Baker*, 158 F.3d at 524.

## II. Denial of Motion for Attorneys' Fees

Federal Circuit law applies to review of a § 285 analysis. *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1362 (Fed. Cir. 2003). Under § 285, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. An exceptional case is "one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014). We review a court's exceptionality determination for abuse of discretion. *Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc.*, 790 F.3d 1369, 1372 (Fed. Cir. 2015). A court assessing exceptionality should indicate "the reasoning underlying its decision to provide a basis for meaningful appellate review." *AGI SureTrack LLC v. Farmers Edge Inc.*, 176 F.4th 1373, 1380 (Fed. Cir. 2026) (quoting *Superior Fireplace Co. v. Majestic Prods. Co.*, 270 F.3d 1358, 1377 (Fed. Cir. 2001)).

We apply the law of the regional circuit when reviewing the denial of fees and sanctions under § 1927 and the court's inherent power. *Waymark*, 334 F.3d at 1362 (discussing fees under § 1927); *PS Prods. Inc. v. Panther Trading Co. Inc.*, 122 F.4th 893, 898 (Fed. Cir. 2024) (discussing fees under the court's inherent power). The Eleventh Circuit reviews such denials for abuse of discretion. *Peterson v. BMI Refractories*, 124 F.3d 1386, 1390 (11th Cir.

1997) (reviewing denial under § 1927); *Sahyers v. Prugh, Holliday & Karatinos, P.L.*, 560 F.3d 1241, 1244 (11th Cir. 2009) (reviewing denial under court's inherent power). A court "must articulate the reasoning behind its . . . denial of attorney's fees in order to permit meaningful review." *See United Steel, Paper & Forestry, Rubber, Mfg., Energy, Allied Indus. & Serv. Workers Int'l Union AFL-CIO-CLC v. Wise Alloys, LLC*, 807 F.3d 1258, 1275 (11th Cir. 2015).

Pen-Tech argues the court abused its discretion by denying attorneys' fees and costs under § 285, § 1927, and the court's inherent power based on the same facts presented in its Rule 11 motion. Appellant's Br. 6, 32–37. We hold only that the court's order does not permit meaningful review of its denial in light of Pen-Tech's validity-based notice theory.

## CONCLUSION

We vacate the court's denial of Pen-Tech's Rule 11 motion and motion for attorneys' fees and costs under § 285, § 1927, and the court's inherent power.[6] We do not decide whether Pen-Tech is entitled to those fees and costs. We hold only that the court's decision did not afford this court the opportunity for meaningful review in light of the facts of this case. We therefore vacate and remand for further proceedings.

**VACATED AND REMANDED**

## COSTS

Costs to Pen-Tech.

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[6] The court's inherent-power ruling contains no independent analysis. J.A. 21.