

V&E

# Attorneys' Fee Awards in Patent Litigation

August 9, 2010

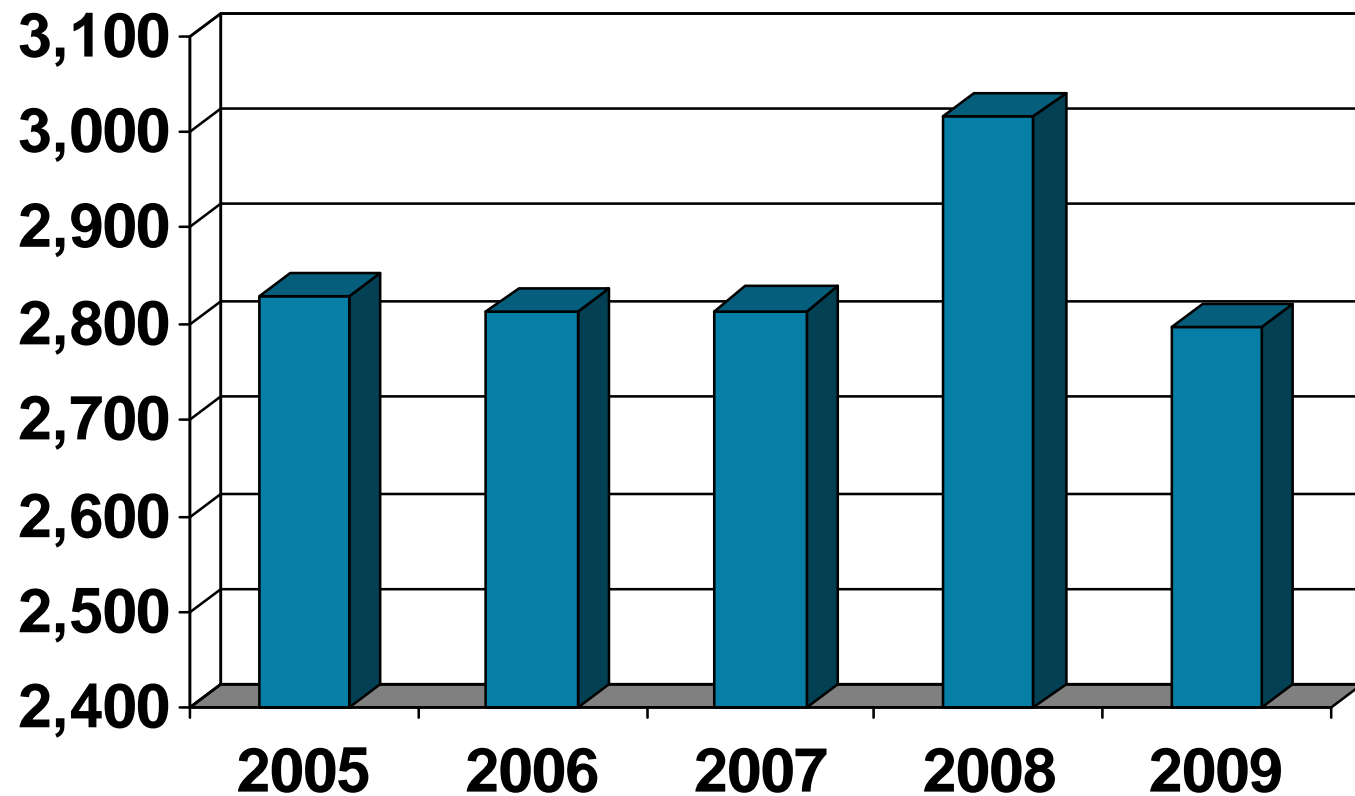
# Why Fee Awards Matter

- “The average patent litigation lasts about two years and costs about **\$3 million**. An appeal can add another **\$2 million** and one year to that estimate. (*Managing Intellectual Property*, Feb. 2009)
- “An average patent case will cost between **\$3 million and \$10 million**, and take two to three years to litigate.” (Sylvia Hsieh, “More patent cases are being taken on contingency fee basis,” *Lawyers USA*, Aug. 14, 2006)
- “[According] to the 2003 Report of Economic Survey published by the American Intellectual Property Lawyers Association, **the average cost of patent litigation is \$2M**, trademark litigation is \$600K, and other types of IP litigation average between \$500K and \$800K.” (William J. Robinson, “IP Litigation Strategies: Patents: Markman Hearings - Part 2,” Sept. 30, 2003)
- “Patent lawsuits **typically cost each party \$1 million**, and suits costing **\$4 million to \$10 million** are not unheard of.” (Megan Barnett, “Patents pending”, *U.S. News & World Report*, June 10, 2002)
- “For small business owners . . . patent infringement can be ruinous, but so can defending against it. Court fees can add up to **between \$1 million and \$2 million** — an amount few entrepreneurs can afford.” (Erika Rasmusson, “Pen inventor won’t be written off by imitators,” *Crain’s New York Business*, Apr. 22, 2002)
- “If you go all the way through a trial. **It will cost at least a million dollars. You can get a settlement for about a half-million.** About 70% to 90% of these [knock-off] companies will settle with you, but you have to have the money to pursue them, and they know it.” (Rusty Cawley, “Patent Protection,” *Dallas Business Journal*, June 12, 1998)

[http://www.inventionstatistics.com/Patent\\_Litigation\\_Costs.html](http://www.inventionstatistics.com/Patent_Litigation_Costs.html)

## Why Fee Awards Matter *(cont'd.)*

### ■ Patent Cases Filed



*Caseload Statistics from the Administrative Office of the United States Courts*

## 35 U.S.C. § 285

- “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

## The American Rule

- Since at least the 1600s, English courts have been authorized to award counsel fees to prevailing plaintiffs.
- In contrast, since at least 1796, the default rule in American courts has been that a prevailing party is typically not awarded counsel fees.

*See generally Alyeska Pipeline Serv. Co. v. Wilderness Soc'y,*  
421 U.S. 240 (1975).

## The American Rule *(cont'd.)*

- “The same rule is applied . . . however unjust the litigation on the other side, and however large the *expensa litis* to which he may have been subjected. **The parties in this respect are upon a footing of equality.** . . . We think the principle of disallowance rests on a solid foundation, and that the opposite rule is forbidden by the analogies of the law and sound public policy.”

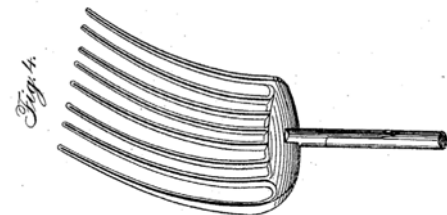
*Oelrichs v. Spain*, 82 U.S. (15 Wall.) 211 (1872)

- Practical and Public Policy Rationale For American Rule
  - Some counsel charge more than others
  - Some clients are willing to pay more
  - Too many lawyers may have been hired
  - Determining the right fee may require collateral litigation
  - Danger of abuse or gamesmanship
  - A tendency “to lower the standard of professional honor”

## The American Rule *(cont'd.)*

- Patent cases were no exception.
- “Counsel fees are not a proper element for the consideration of the jury in the estimation of damages in actions for the infringement of a patent right. This point has been directly ruled by this court, and is no longer an open question.”

*Teese v. Huntingdon*, 64 U.S. (23 How.) 2 (1859)



"Improvement in Forks for Gold-Diggers"  
U.S. Pat No. 12,453 (to Teese and Teese, Jr.)

## The American Rule *(cont'd.)*

- Over time, Congress began to statutorily authorize the award of attorneys' fees to prevailing parties for specific types of actions.
- Amendments to Freedom of Information Act, Pub. L. No. 93-502, § 1(b)(2), 88 Stat. 1561 (amending 5 U.S.C. § 552(a)); Packers & Stockyards Act, 42 Stat. 166, 7 U.S.C. § 210(f); Perishable Agricultural Commodities Act, 46 Stat. 535, 7 U.S.C. § 499g(b); Bankruptcy Act, 11 U.S.C. §§ 104(a)(1), 641–644; Clayton Act, § 4, 38 Stat. 731, 15 U.S.C. § 15; Unfair Competition Act, 39 Stat. 798, 15 U.S.C. § 72; Securities Act of 1933, 48 Stat. 82, as amended, 48 Stat. 907, 15 U.S.C. § 77k(e); Trust Indenture Act, 53 Stat. 1176, 15 U.S.C. § 77www(a); Securities Exchange Act of 1934, 84 Stat. 890, 897, as amended, 15 U.S.C. §§ 78i(e), 78r(a); Truth in Lending Act, 82 Stat. 157, 15 U.S.C. § 1640(a); Motor Vehicle Information & Cost Savings Act, Tit. IV, § 409(a)(2), 86 Stat. 963, 15 U.S.C. § 1989(a)(2) (1970 ed., Supp. II); 17 U.S.C. § 116 (copyrights); Organized Crime Control Act of 1970, 18 U.S.C. § 1964(c); Education Amendments of 1972, § 718, 86 Stat. 369, 20 U.S.C. § 1617 (1970 ed., Supp. II); Norris-LaGuardia Act, § 7(e), 47 Stat. 71, 29 U.S.C. § 107(e); Fair Labor Standards Act, § 16(b), 52 Stat. 1069, as amended, 29 U.S.C. § 216(b); Longshoremen's & Harbor Workers' Compensation Act, § 28, 44 Stat. 1438, as amended, 86 Stat. 1259, 33 U.S.C. § 928 (1970 ed., Supp. II); Federal Water Pollution Control Act, § 505(d), as added, 86 Stat. 888, 33 U.S.C. § 1365(d) (1970 ed., Supp. II); Marine Protection, Research & Sanctuaries Act of 1972, § 105(g)(4), 33 U.S.C. § 1415(g)(4) (1970 ed., Supp. II); **35 U.S.C. § 285** (patent infringement); Servicemen's Readjustment Act, 38 U.S.C. § 1822(b); Clean Air Act, § 304(d), as added, 84 Stat. 1706, 42 U.S.C. § 1857h-2(d); Civil Rights Act of 1964, Tit. II, § 204(b), 78 Stat. 244, 42 U.S.C. § 2000a-3(b), and Tit. VII, § 706(k), 78 Stat. 261, 42 U.S.C. § 2000e-5(k); Fair Housing Act of 1968, § 812(c), 82 Stat. 88, 42 U.S.C. § 3612(c); Noise Control Act of 1972, § 12(d), 86 Stat. 1244, 42 U.S.C. § 4911(d) (1970 ed., Supp. II); Railway Labor Act, § 3, 44 Stat. 578, as amended, 48 Stat. 1192, as amended, 45 U.S.C. § 153(p); Merchant Marine Act of 1936, § 810, 49 Stat. 2015, 46 U.S.C. § 1227; Communications Act of 1934, § 206, 48 Stat. 1072, 47 U.S.C. § 206; Interstate Commerce Act, §§ 8, 16(2), 24 Stat. 382, 384, 49 U.S.C. §§ 8, 16(2), and 308(b), as added, 54 Stat. 940, as amended, 49 U.S.C. § 908(b); Fed. R. Civ. P. 37(a) and (c).

## 35 U.S.C. 285 – Predecessor

- In 1946, Congress created a discretionary exception to the American Rule in patent cases:
  - “The court may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case....”

Act of August 1, 1946, § 1, 60 Stat. 778, 35 U.S.C. § 70 (1946 ed.)

- **“It is not contemplated that the recovery of attorney’s fees will become an ordinary thing in patent suits**, but the discretion given the court in this respect, in addition to the present discretion to award triple damages, will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.

“The provision is also made general so as to enable the court **to prevent a gross injustice to an alleged infringer.**”

S. Rep. No. 1503, 79th Cong., 2d Sess. (1946)

## 35 U.S.C. 285 – Predecessor

- Patent Act of 1952 recodified the section with the modern text, adding “exceptional”:
  - “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

# Sources of Attorneys Fees Awards in Patent Litigation

- **F.R.C.P. Rule 11**
- F.R.C.P. Rule 37
- 28 U.S.C. § 1927
- F.R.A.P. 38
- Inherent Power of the Court
- 35 U.S.C. § 285

# Federal Rule of Civil Procedure 11

- By signing or later advocating a paper an attorney certifies:
  - 1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation;
  - 2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
  - 3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and
  - 4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information.

# Federal Rule of Civil Procedure 11

(cont'd.)

- General Rule 11 principles apply.
- “In the context of patent infringement actions, we have interpreted Rule 11 to require, at a minimum, that an attorney **interpret the asserted patent claims and compare the accused device with those claims** before filing a claim alleging infringement.”

*Q-Pharma, Inc. v. Andrew Jergens, Co.*,  
360 F.3d 1295, 1300-01 (Fed. Cir. 2004)

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## Federal Rule of Civil Procedure 37

- Authorizes a district court to impose sanctions (including fees) for discovery misconduct, *e.g.*,
  - Failure to disclose
  - Failure to admit
  - Failure to answer interrogatories
  - Failure to participate in framing a discovery plan
  - Violation of protective order
- “A decision to sanction a litigant pursuant to [Rule] 37 is one that is not unique to patent law... and we therefore apply regional circuit law to that issue....”

*ClearValue, Inc. v. Pearl River Polymers, Inc.*,  
560 F.3d 1291, 1304 (Fed. Cir. 2009)

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## 28 U.S.C. § 1927

- “**Any attorney** or other person admitted to conduct cases in any court of the United States or any Territory thereof who so **multiplies the proceedings** in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys’ fees reasonably incurred because of such conduct.”

# Sources of Attorneys Fees Awards in Patent Litigation

- F.R.C.P. Rule 11
- F.R.C.P. Rule 37
- 28 U.S.C. § 1927
- **F.R.A.P. 38**
- Inherent Power of the Court
- 35 U.S.C. § 285

## Fed. Rule of Appellate Procedure 38

- “If a court of appeals determines that an appeal is frivolous, it may, after a separately filed motion or notice from the court and reasonable opportunity to respond, **award just damages** and single or double costs to the appellee.”
- An appeal can be “frivolous as filed” and/or “frivolous as argued”
  - Frivolous as filed where argument is “beyond the reasonable contemplation of fair-minded people” and no basis in law for appeal can even arguably be shown.
  - Frivolous as argued where “when an appellant has not dealt fairly with the court, [or] has significantly misrepresented the law or facts.”

*E-Pass Techs., Inc. v. 3Com Corp.*,  
559 F.3d 1374, 1377 (Fed. Cir. 2009)

# Sources of Attorneys Fees Awards in Patent Litigation

- F.R.C.P. Rule 11
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- 28 U.S.C. § 1927
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- **Inherent Power of the Court**
- 35 U.S.C. § 285

## Inherent Power of the Court

- A court has inherent authority to award of fees, costs, and expenses when a party has committed **fraud** upon the court or acted “**in bad faith, vexatiously, wantonly, or for oppressive reasons.**”

*Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991)

- Requires “a finding of fraud or abuse of the judicial process before a trial court can invoke its inherent sanctioning power,” and “**a case must be sufficiently beyond ‘exceptional’** within the meaning of section 285 to justify ... a sanction under the court’s inherent power.”

*Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*,  
603 F.3d 943, 966 (Fed. Cir. 2010)

# Sources of Attorneys Fees Awards in Patent Litigation

- F.R.C.P. Rule 11
- F.R.C.P. Rule 37
- 28 U.S.C. § 1927
- F.R.A.P. 38
- Inherent Power of the Court
- **35 U.S.C. § 285**

## Section 285 – Standard

- “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”
- “Prevailing party”
  - Requires success on some significant issue related to the purpose of the litigation / alteration in the legal relationship of the parties
  - Can include partial victory (*e.g.*, defendant receiving judgment of noninfringement can be prevailing party even if invalidity theory fails)

*Brooks Furniture Mfg., Inc. v. Dutalier Int'l, Inc.*,  
393 F.3d 1378, 1381 (Fed. Cir. 2005);

*Hwy. Equip. Co. v. FECO, Ltd.*,  
469 F.3d 1027, 1032 (Fed. Cir. 2006)

## Section 285 – Standard (cont'd.)

- “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”
- Determining exceptionality is a two step process
  - First, determine whether the case is exceptional (“clear and convincing”)
  - Second, determine whether fees should be awarded (discretionary determination)

*Wedgetail Ltd. v. Huddleston Deluxe, Inc.*,  
576 F.3d 1302 (Fed. Cir. 2009)

## Section 285 – Standard *(cont'd.)*

- What makes a case exceptional . . .
  - Willful infringement.
  - Inequitable conduct.
  - Litigation misconduct.
  - Bad-faith litigation / frivolous suit.
- . . . and what does not.
  - Losing.
  - Prevailing at summary judgment and then losing.
  - Advancing incorrect arguments.
  - Filing an ANDA that is ultimately unsuccessful.
  - Arguing infringement under doctrine of equivalents when a claim construction makes literal infringement untenable.
  - Dropping a suit after an unfavorable claim construction.

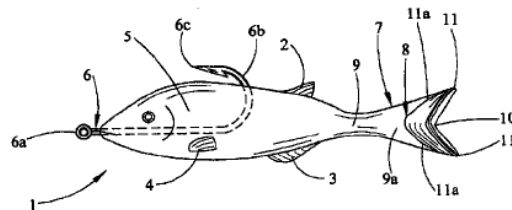
## Exceptional case determination – willful infringement

- Willful infringement, standing alone, will support a determination that a case is “exceptional.”
  - To establish willfulness, patentee must demonstrate
    - o Infringer acted despite objectively high likelihood that actions constituted infringement of a valid patent and
    - o The objectively-defined risk was either known or so obvious that it should have been known.

*In re Seagate*,  
497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*)

- Federal Circuit has suggested that a district court must explain why the case is *not* exceptional when willful infringement is found.

*Wedgetail*, 576 F.3d at 1305;  
*Superior Fireplace Co. v. Majestic Prods. Co.*,  
270 F.3d 1358,1377 (Fed. Cir. 2002)

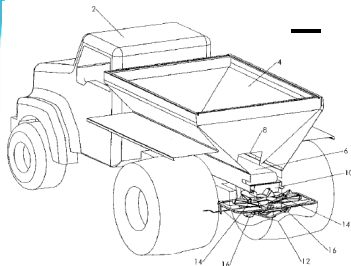


## Exceptional case determination – inequitable conduct

- Inequitable conduct before the PTO will also support a determination that a case is “exceptional.”
  - Accused infringer must show clear and convincing evidence of materiality and intent to deceive.
  - Includes false claims of inventorship.
- Termination of the suit by plaintiff may moot inequitable conduct counterclaims, but will not necessarily moot inequitable conduct as grounds for an exceptional-case determination under § 285.

## Exceptional case determination – inequitable conduct *(cont'd.)*

- *Highway Equip. Co. v. FECO, Ltd.*,  
469 F.3d 1027 (Fed. Cir. 2006)
  - Highway Equip. Corp. sued FECO for patent infringement. FECO asserted, *inter alia*, an inequitable conduct affirmative defense.
  - On the eve of trial, Highway Equip. Corp. sought dismissal and filed a *Super Sack* covenant not to sue.
  - FECO then sought fees under § 285 on the grounds that the case was exceptional due to Highway Equip. Corp.'s inequitable conduct.
  - Although the underlying controversy was eliminated by the covenant, the district court held proceedings and ultimately found no inequitable conduct. Defendant FECO appealed.



## Exceptional case determination – inequitable conduct *(cont'd.)*

- *Highway Equip. Co. v. FECO, Ltd.*,  
469 F.3d 1027 (Fed. Cir. 2006)
  - On appeal, Highway Equip. Co. argued that the district court lacked jurisdiction to hear FECO's claim for fees under § 285 since the underlying case or controversy had been resolved through the covenant not to sue.
  - The Federal Circuit rejected this argument.
    - o “The covenant does not deprive the district court of jurisdiction to determine the disposition of the patent infringement claims raised in the Complaint under Rule 41 **or the request for attorney fees under 35 U.S.C. § 285.**”

# Exceptional case determination – litigation misconduct

- “Litigation misconduct and unprofessional behavior are relevant to the award of attorney fees, and may suffice, by themselves, to make a case exceptional.”

*Epcon Gas Sys., Inc. v. Bauer Compressors, Inc.*,  
279 F.3d 1022, 1034 (Fed. Cir. 2002)

- Wide range of conduct encompassed
  - Includes misconduct that often would satisfy another ground for fees or sanctions (Rule 11, Rule 37, etc.)
- Examples
  - Submitting altered patent drawings to the court that deceptively suggest infringement
  - Rearguing claim construction in district court after warning from Court of Appeals not to do so
  - Falsifying lab notebooks, submitting them to the court, and then destroying the originals when ordered to produce them

## Exceptional case determination – litigation misconduct *(cont'd.)*

- Multiplicity of “minor” problems can add up to misconduct sufficient to warrant exceptional case determination.
- *E-Pass Techs., Inc. v. 3Com Corp.*,  
559 F.3d 1374, 1378-79 (Fed. Cir. 2009)
  - Excess of tactics aimed at “dragging it out”—shifting legal theories, failure to present evidence supporting infringement at summary judgment; refusal to supplement infringement contentions; failure to take discovery after opposing summary judgment on the grounds of inadequate discovery
  - But inadequate pre-suit investigation and misrepresentations to the court also present
- *Nilssen v. Osram Sylvania, Inc.*,  
528 F.3d 1352, 1359 (Fed. Cir. 2008)
  - Excess of “rough litigation tactics”—incorrect responses to interrogatories never formally corrected; attempt to exclude the interrogatories because they were not signed; withdrawal of sixteen of the originally-filed patents from the suit, but did not do so formally until a few months before trial; production of documents near the end of trial that had been requested earlier
  - But inequitable conduct also present

## Exceptional case determination – bad faith litigation / frivolous suit

- High standard for finding that a patentee has brought a frivolous suit.
- Absent litigation misconduct or inequitable conduct, a finding of exceptionality against a plaintiff is permissible **only** if both
  - (1) the litigation is objectively baseless, and
  - (2) the suit is brought in subjective bad faith.

*Wedgetail*, 576 F.3d at 1305

## Exceptional case determination – bad faith litigation / frivolous suit (cont'd.)

- *ICU Med., Inc. v. Alaris Med. Sys., Inc.*,  
558 F.3d 1368, 1381 (Fed. Cir. 2009).

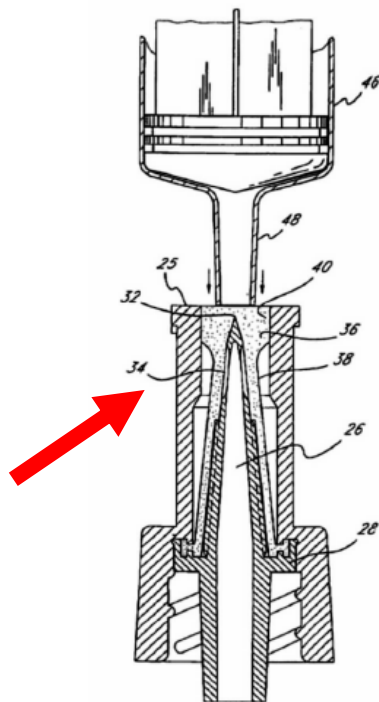
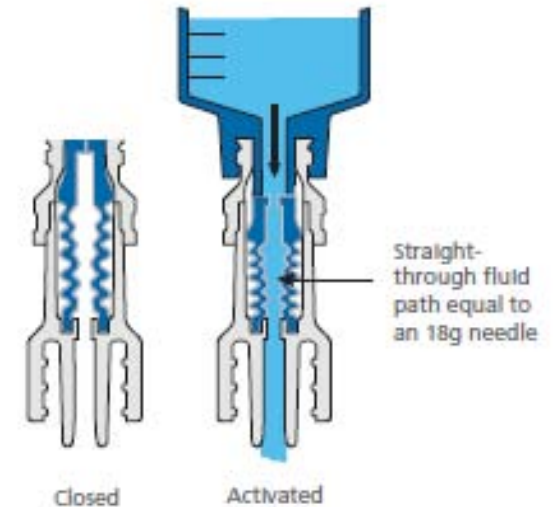


FIG. 4

needle-free valve



## Exceptional case determination – bad faith litigation / frivolous suit *(cont'd.)*

- Fees awarded against ICU on multiple grounds.
- Court found that ICU's TRO/PI request and "spike" claims were objectively baseless and brought in subjective bad faith.
  - Admission by plaintiff that it did not originally sue on "spike" claims because defendant's products were "spikeless"
  - Inventor of patents-in-suit had stated that defendant's valves had no spike
  - Plaintiff's personnel had indicated that defendant's valves had no spike
  - The record of plaintiff's preliminary investigation stated that "there is no spike inside the device."

## Exceptional case determination – bad faith litigation / frivolous suit *(cont'd.)*

- *Takeda Chem. Ind. v. Mylan Labs., Inc.*,  
549 F.3d 1381 (Fed. Cir. 2008)
- Court focused on a comparison of accused infringer's Paragraph IV certification with its conduct in litigation
  - “Shifting theory of obviousness” – dramatic and unexplained changes from Paragraph IV letter to trial argument
  - Arguments in Paragraph IV letter dropped because they were unsupportable
  - Material scientific errors in Paragraph IV letter undercut argument of good faith
  - Evidence that Paragraph IV letter filed in bad faith was “overwhelming”
- Court affirmed a \$16,800,000 fee award to patentee.

## Section 285 – Different standards for plaintiffs and defendants

- To establish willfulness, *patentee* must demonstrate
  - Infringer acted despite objectively high likelihood that actions constituted infringement of a valid patent, and
  - The objectively-defined risk was either known or so obvious that it should have been known.

**Objective Recklessness**
- *Accused infringer* seeking fees for frivolous suit must demonstrate
  - The litigation is objectively baseless, and
  - The suit is brought in subjective bad faith.

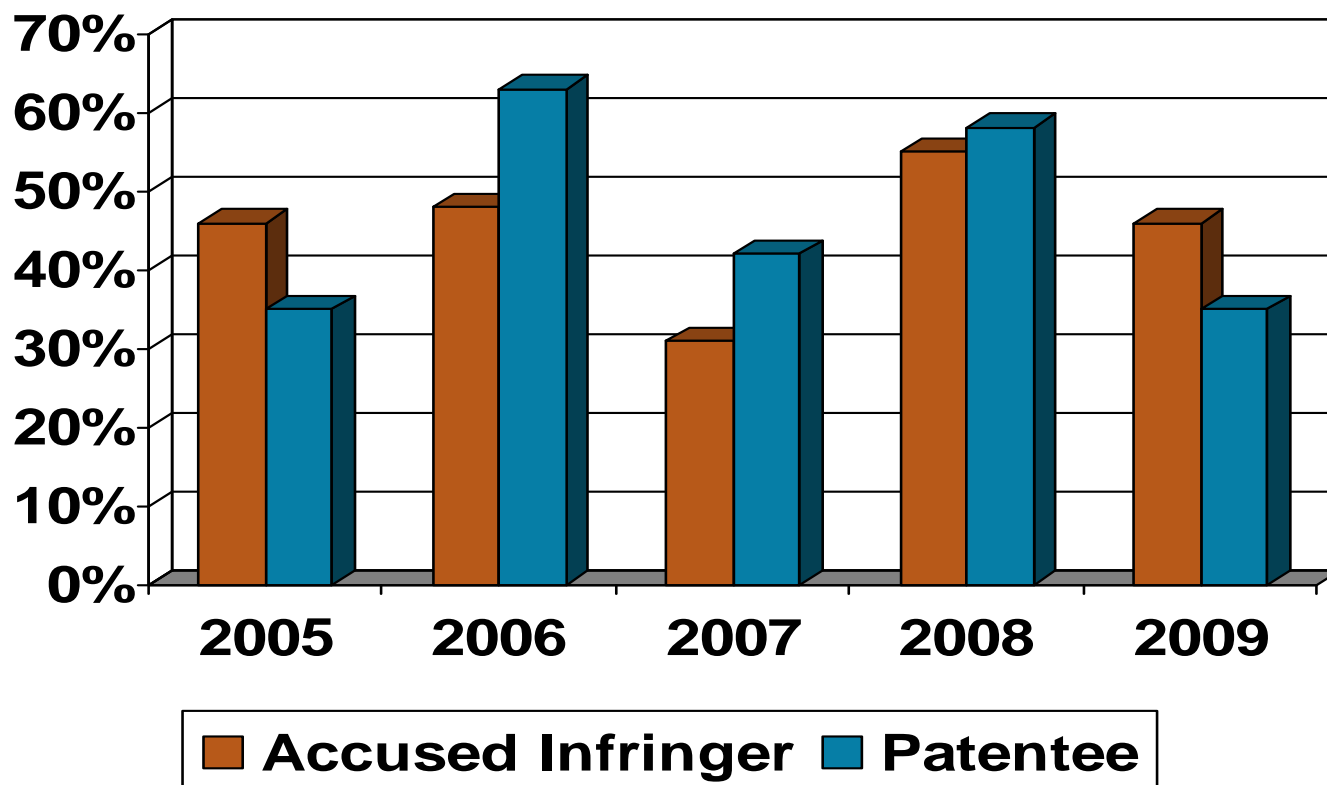
**Subjective Bad Faith**

## Section 285 – Different standards for plaintiffs and defendants *(cont'd.)*

- *MediaQueue, LLC v. Netflix et al.*, No. 2010-1199, -1344 (Federal Circuit)
  - Netflix is seeking initial *en banc* rehearing to clarify the standard for frivolous/baseless suits
- Two *amicus* briefs filed by “serial defendants”
  - Amazon.com, Crutchfield, Facebook, J.C. Penny, L.L. Bean, Microsoft, Newegg, Oracle, Overstock.com, Samsung, Toyota, and Yahoo
- Focus on conflict with precedent and public policy
  - *e.g. Eltech Sys. v. PPG Indus., Inc.*, 903 F.3d 805 (Fed. Cir. 1990)
  - Under-deterrence in current regime of poor-quality infringement allegations

# How often do defendants succeed in obtaining attorney fees?

## Success Rate



**Average Success:**  
**Accused Infringer = 45%**  
**Patentee = 46%**

University of Houston – patstats.org  
Reported district court decisions where issue was litigated

## How often do defendants succeed in obtaining attorney fees? *(cont'd.)*

- From 1995-2004, fees issue litigated in 172 reported cases
- Patentee sought fees in 96 cases
  - Prevailed in 48 cases (50%)
  - Typically due to willful infringement
- Defendants sought fees in 76 cases
  - Prevailed in only 24 cases (32%)
  - Typically due to inequitable conduct, but at least 9 vexatious litigation cases, and in one case due to “defiling the temple of justice”

Data source:

Bessen and Meurer, *Patent Failure* (Princeton University Press 2008)

## Practice Pointers

- Cover all grounds for fees.
  - *Digeo, Inc. v. Audible, Inc.*, 505 F.3d 1362, 1368 (Fed. Cir. 2007) (suggesting that Rule 11 motion on same facts might have justified fee award denied under general 285 bad-faith suit principles)
- Cover all bases for appeal.
  - *Adv. Magnetic Closures, Inc. v. Rome Fastener Corp.*, 607 F.3d 817, 883 (Fed. Cir. 2009) (noting that litigation misconduct provided independent ground for affirming § 285 fee award)
- Build your record early, simply, and clearly.
- File the fee request on time.
- Retain the moral high ground (awards are discretionary!).

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**Questions?**

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