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PATENT AND TRADEMARK LAW

Expert Analysis

Courts Rule on Attorney Fee Awards In Patent Cases

By **Robert L. Maier**

Just before the holidays, the Supreme Court and Federal Circuit issued three opinions related to the award of attorney fees in patent cases. The decisions confirm that the "American Rule"—under which each side in a case pays its own attorney fees—remains the norm, unless a statutory or contractual exception applies. These opinions also confirm that appellate courts will continue to carefully scrutinize these fee awards, but will also uphold them when appropriate.

Background

Litigation in the United States traditionally operates under the "American Rule," under which each party to a case typically—win, lose, or draw—pays its own attorney fees, unless a statutory or contractual exception applies. See, e.g., *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242 (2010). This approach is in contrast to the "English Rule," under which the losing party by default pays the other party's legal fees.

Three Supreme Court and Federal Circuit opinions issued in December address certain exceptions to the American Rule appearing in the Patent Act: 35 U.S.C. §145 and 35 U.S.C. §285. In *Peter v. NantKwest*, the Supreme Court addressed 35 U.S.C. §145, which provides that patent applicants who are dissatisfied with a decision of the Patent Trial and Appeal Board (PTAB) to reject a patent application may challenge that decision in a federal district court, and "[a]ll the expenses of the proceedings shall be paid by the applicant." Here, the United States Patent and Trademark Office (USPTO) prevailed in a case brought under this section, and for the first time since the provision was enacted 170 years ago, sought to recover its attorney fees. See 589 U.S. __, 140 S. Ct. 365 (2019).

> The courts have recognized that "participation in arbitration" occurs when a party engages in discovery demands and proceedings … or otherwise takes affirmative steps to further the arbitration process.

Separately, two Federal Circuit decisions in December addressed another statutory exception to the American Rule, 35 U.S.C. §285, which provides that a "court in exceptional cases may award reasonable attorney fees to the prevailing party." See *Blackbird Tech LLC v. Health In Motion LLC*, 944

ROB MAIER *is an intellectual property partner in the New York office of Baker Botts, and the head of its intellectual property group in New York. Kyle Xu, an intellectual property law clerk at Baker Botts, assisted with the preparation of this article.*

F.3d 910 (Fed. Cir. 2019); see also *Intellectual Ventures I LLC v. Trend Micro Inc.*, 944 F.3d 1380 (Fed. Cir. 2019).

These decisions provide guidance on district court awards of fees in patent cases, and also on appellate court treatment of such awards.

The American Rule In 'NantKwest'

On Dec. 11, 2019, the Supreme Court decided *NantKwest*, 140 S. Ct. 365, and reaffirmed the American Rule. In *NantKwest*, an application for patent was rejected by the USPTO, and the rejection was subsequently affirmed by the PTAB. In response, NantKwest filed a district court case against the USPTO under §145 to challenge the decision. The USPTO prevailed on a motion for summary judgment, and the Federal Circuit affirmed.

The USPTO then requested its attorney fees under §145—the very first time it had made such a request in the 170-year history of this provision—seeking reimbursement for the pro rata salaries of USPTO attorneys who worked on the case.

The district court denied the request for fees, and a panel of the Federal Circuit reversed. See id. at 370. The en banc Federal Circuit then reheard the case sua sponte and rejected the USPTO's request for attorney fees, holding that the American Rule presumption applied to §145, and that the provision in the statute which directed "[a]ll the expenses of the proceedings shall be paid by the applicant" was not a sufficiently "specific and explicit" directive from Congress to also warrant shifting attorney fees (as opposed to other items typically described as "expenses," such as out-of-pocket costs like copying costs and expert witness fees). Id.

The Supreme Court unanimously affirmed the denial of fees. The court first concluded the American Rule applies to all statutes, even those like §145 that do not explicitly award attorney fees to prevailing parties. See id. at 371. The court then looked to the statutory language and concluded that the reference to "expenses" in the statute did not provide a sufficiently "specific and explicit" congressional directive to overcome the presumption. Id. at 372.

The court further found that the term "expenses of the proceedings" in §145, similar to the term "expenses of the litigation," would not have been commonly understood to include attorney fees. Id. Finally, the court concluded that when Congress intends to shift fees, for example in 35 U.S.C. §285, it has stated so explicitly in the provision. See id. at 373. Ultimately, the court held fast to the American Rule presumption, and confirmed that exceptions apply only where Congress manifests a clear intent to deviate from that presumption. See id. at 374.

'Blackbird'

On Dec. 16, the Federal Circuit issued its opinion in *Blackbird*, 944 F.3d 910, which provides a detailed analysis of the application of §285.

Patent holder Blackbird Tech LLC filed a suit for patent infringement and, after more than nineteen months of litigation, voluntarily dismissed its suit with prejudice and executed a covenant not to sue, just before the defendants' motion for summary judgment was to be decided, and without notifying the defendants beforehand. The defendants then sought attorney fees under §285, and the district court granted the motion. Blackbird appealed.

The Federal Circuit affirmed the award of attorney fees because it found the case to be exceptional. Citing the Supreme Court's recent take on the law in *Octane Fitness, LLC v. ICON Health & Fitness*, 572 U.S. 545, 554 (2014), the court repeated that an exceptional case "is simply 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." *Blackbird*, 944 F.3d at 914. The court also noted this is a case-specific analysis that considers the totality of the circumstances. See id.

The Federal Circuit found the case exceptional based both on

Blackbird's weak litigation position and the unreasonable manner in which it litigated the case. The court found that Blackbird's litigation positions lacked substantive strength, because Blackbird raised flawed claim construction and infringement positions. See id. Furthermore, the Federal Circuit found Blackbird's conduct in litigation to be unreasonable, because it made a series of nuisance value settlement offers, unreasonably delayed producing documents, and failed to notify the defendants of its intention to dismiss the case. See id. at 916-17. Finally, the Federal Circuit found it within the district court's discretion to also consider "the need to deter future abusive litigation," particularly given that Blackbird had filed over one hundred patent infringement lawsuits, and not one had been decided on the merits. Id. at 917.

'Intellectual Ventures'

Three days later, the Federal Circuit decided *Intellectual Ventures*, 944 F.3d 1380, in which the court again weighed in on the application of §285. Intellectual Ventures (IV) filed a series of patent infringement suits, including one against Trend Micro Inc. A first trial proceeded against another defendant, during which trial IV's expert witness changed his testimony; the trial court found the changed expert opinion to be "a surprise inconsistent with the representations from [IV]." Id. at 1382. Based on this changed position, Trend Micro moved for clarification of the district court's claim construction, and then for invalidity of the asserted patents under 35 U.S.C. §101, which motion was granted in part.

Trend Micro then sought its attorney fees under §285, arguing that the case was exceptional because IV's expert changed his opinion in the middle of trial in the prior proceeding. The district court concluded that the case was exceptional "solely with respect to this collection of circumstances regarding [IV's expert's] changed testimony." Id. at 1382. However, the court further determined that the "case overall" was not exceptional. See id. at 1383.

Ultimately, the American Rule still rules the day in patent cases—appellate courts will continue to ensure that awards of fees properly fall within a statutory exception to the presumption against fee awards, and that such awards follow the law of Octane Fitness.

On appeal, the Federal Circuit determined that the district court did not apply the correct legal standard because, rather than assessing whether the case "overall" stood out from other cases, the court instead focused on whether this one particular part of the case—the changed testimony of IV's expert—stood out from other cases. See id. As a result, the Federal Circuit vacated the fee award and remanded the case to the district court to consider whether the case as a whole was exceptional. See id. In so doing, the Federal Circuit made clear that, in some cases, a "single, isolated act" may be enough to find a case exceptional, but that a court must still consider the totality of the circumstances. Id. at 1384.

Conclusion

Ultimately, the American Rule still rules the day in patent cases—appellate courts will continue to ensure that awards of fees properly fall within a statutory exception to the presumption against fee awards, and that such awards follow the law of *Octane Fitness*. But such awards continue to remain available, and will be upheld when warranted by the totality of the circumstances.