Practice Areas

Patent Litigation

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Does Section 285 Permit an Award of Attorney's Fees for Patent Office Proceedings?

Back in 1988, the Federal Circuit reversed a district court decision that refused to award a party its reasonable attorney's fees incurred in successfully litigating a patent's validity before the Patent Office. *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565 (Fed. Cir. 1988). The Office determined that the patent asserted in litigation—stayed pending the Office's review—was invalid and obtained through inequitable conduct. Nobody contested the district court's conclusion that the case was exceptional. The panel, which included Judge Rich, held that the requester was entitled, under 35 U.S.C. § 285, to recover those fees *because* the Patent Office proceedings substituted for the district court litigation on all issues the Office considered. *Id.* at 1569. The court thus sanctioned a common-sense solution to a then-rare instance where the Patent Office resolved an inter partes dispute over patent validity. But what was once rare is now routine. Yet it remains remarkably difficult to obtain attorney's fees. Why?

In the American legal system "each party in a lawsuit ordinarily shall bear its own attorney's fees unless there is express statutory authorization to the contrary." *Hensley v. Eckerhart*, 461 U.S. 424, 429 (1983). That's the "American Rule." But patent law is special because Congress carved an exception out of the American Rule, broadly stating that: "The court in exceptional cases may award reasonable attorney's fees to the prevailing party." 35 U.S.C. § 285. In 2014, the Supreme Court resolved competing interpretations of "exceptional" to "hold … 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.*, 134 S. Ct. 1749, 1756 (2014). *Octane* made it easier to recover attorney's fees.

But despite *Octane*, a handful of Federal Circuit decisions this spring reveal some difficulties in obtaining an award of attorney fees. With a few exceptions, these cases share a basic set of facts. First, the patent owner files a district court action alleging infringement. Next, the accused infringer successfully asks the Patent Office to review the patent, and the district court action pauses. The Patent Office cancels the patent though an inter partes proceeding costing each party at least a few hundred thousand dollars in attorney's fees. The accused infringer then asks the court to award it the attorney's fees it incurred. As summarized below, even if the case is "exceptional," the court might not award fees.

In mid-April, the Federal Circuit affirmed a district court's refusal to award attorney's fees based on both courts' interpretation of "prevailing party" in Section 285. *O.F. Mossberg & Sons, Inc. v. Timney Triggers, LLC*, 955 F.3d 990 (Fed. Cir. 2020). The case presented the same story told above. After its patent was cancelled, the patent owner voluntarily dismissed its infringement action under Rule 41 of the Federal Rules of Civil Procedure. Under that rule, the formality over *how* the case substantively concluded doomed the prevailing patent challenger's request for fees. Both courts said that the patent challenger was not a "prevailing party" because the *dismissal* was not a judicial declaration altering the legal relationship between the parties. *Cf. B.E. Technology, L.L.C. v. Facebook, Inc.*, 940 F.3d 675, 678–79 (Fed. Cir. 2019) (holding that "a defendant can be deemed a prevailing party even if the case is dismissed on procedural grounds rather than on the merits."). The courts' reasoning makes too little practical sense. The patent owner no longer has a patent to assert. Logically, it lost, and its opponent prevailed. Yet the Federal Circuit said that without a final *court* decision the successful patent challenger was not a prevailing party.

Days later, a different Federal Circuit panel vacated a district court's refusal to award attorney's fees based on another interpretation of "prevailing party" in Section 285. *Dragon Intellectual Prop., LLC v. Dish Network LLC*, 956 F.3d 1358 (Fed. Cir. 2020). The case presented the same story told above. In what should have been a meaningless complication, the district court also was dealing with other defendants accused of infringing

the same patent. The court construed the claims such that the patent owner (Dragon) ultimately stipulated to non-infringement with respect to those defendants and the two defendants (DISH/SXM) that successfully pursued inter partes review (IPR). Dragon lost both appeals—the Federal Circuit affirmed the Patent Office's decision, *Dragon Intellectual Prop., LLC v. Dish Network LLC*, 711 F. App'x 993, 998 (Fed. Cir. 2017), and accordingly dismissed as moot Dragon's appeal of the district court case. *Dragon Intellectual Prop., LLC v. Apple Inc.*, 700 F. App'x 1005, 1006 (Fed. Cir. 2017). After all, there remained no patent left to infringe. On remand, the district court vacated its judgment of non-infringement but refused to dismiss the case as moot, maintaining jurisdiction to decide the DISH/SXM request for attorney's fees. In eventually denying that request, the district court said that DISH/SXM were not prevailing parties because the court did not award them any actual relief on the merits. The Federal Circuit disagreed, however, and, consistent with *B.E. Technology*, "h[e]ld that DISH and SXM are prevailing parties," in part because of the stipulated judgment of non-infringement, even though that judgment later became moot.

The Federal Circuit has now remanded the case so that the district court can determine whether the case is exceptional and, if so, whether Section 285 permits recovery of fees incurred in the IPR. The Federal Circuit declined the DISH/SXM request to resolve the latter issue, leaving it for the district court, but noted that it "see[s] no basis in the Patent Act for awarding fees under § 285 for work incurred in inter partes review proceedings that [DISH and SXM] voluntarily undertook." *Id.* Recall that the panel in *PPG Industries* saw sufficient bases in Section 285 to award fees where the Office's work substituted for the court's.

Weeks later, the Federal Circuit reversed a magistrate judge's determination that a case was "exceptional" under § 285 and vacated the attorney's fees he awarded the patent challenger for the district court and Patent Office proceedings. *Munchkin, Inc. v. Luv n' Care, Ltd.*, 960 F.3d 1373 (Fed. Cir. 2020). The case presented a story similar to the one told above, except for two notable differences. *First*, the district court does not appear to have stayed the case pending resolution of the IPR. *Second*, the district court construed the patent claims, contrary to the accused infringer's (Luv n' Care's) advocacy, more narrowly than the Patent Office. The notable differences end there. The Patent Office canceled the claims and the patent owner (Munchkin) thereafter dropped its infringement allegations. In seeking fees, Luv n' Care successfully persuaded the magistrate judge that "Munchkin should have realized its patent infringement claim was substantively weak after receiving [Luv n' Care's] invalidity contentions and … IPR petition." *Id.* at 1377. The invalidity contentions were based, however, on a claim construction that the magistrate judge *denied*. And the Federal Circuit noted the judge failed to "'provide a concise but clear explanation of its reasons for the fee award.'" *Id.* at 1378. (quoting *Hensley*, 461 U.S. at 437). Neither the judge nor Luv n' Care, noted the Federal Circuit, explained why "Munchkin's [invalidity] defense was so meritless as to stand out from the norm." That's a fair and constructive criticism. But buried in a *Munchkin* footnote, the Federal Circuit also said it "do[es] not reach this issue of whether in the circumstances of this case § 285 permits recovery of attorney's fees for parallel [Patent Office] proceedings," citing another recent decision, *Amneal Pharmaceuticals LLC v. Almirall, LLC*, 960 F.3d 1368 (Fed. Cir. 2020). (Order).

In *Amneal*, the Federal Circuit denied a successful IPR-petitioner's request for an award of attorney's fees it incurred in canceling a patent via IPR. The court said that Section 285 fee-awards are permissible in the context of work done in district court infringement actions. *Amneal*, *Id.* at 1371. The text of the statute is not so limiting. So, the court pointed to its predecessor court's decision that refused to read Section 285 as pertaining to its disposition of a petition for a writ of mandamus from an interlocutory interference decision. *Id.* (citing *Reddy v. Dann*, 529 F.2d 1347, 1349 (CCPA 1976)). According to the Federal Circuit, the CCPA's reasoning relied on *where* within the Patent Act Section 285 sits: "in the chapter of Title 35 concerning infringement actions." *Id.* The Federal Circuit next relied on an old Supreme Court decision—long pre-dating Section 285 and even pre-dating its predecessor, 35 U.S.C. § 70 (1946 ed.)—to reason that Section 285's reference to "[t]he court" means awardable fees must be incurred in close relation to or as a direct result of *judicial* proceedings. *Amneal*, 960 F.3d at 1371. (citing *Blyew v. United States*, 80 U.S. 581, 595 (1872)). Despite *Amneal*, there is no debate that the majority of IPRs are closely related to a court action concerning the same patent. Even back in 1988, the Federal Circuit awarded a district court litigant its attorney's fees incurred with the Patent Office's reissue of the patent-in-suit that substituted for the district court having to address validity. *PPG Indus.,* 840 F.2d at 1569. In distinguishing that case, the *Amneal* court noted that the recovery of fees the *PPG Industries* court permitted were incurred *after* Article III court proceedings began, whereas in *Amneal*, the fees were incurred *before* any such

proceedings (*i.e.*, before the related ANDA litigation). Continuing, the *Amneal* court said that "section 285 does not authorize this court [i.e., the Federal Circuit] to award fees for work that was done before the agency on appeal from an IPR." *Amneal*, 960 F.3d at 1371.

Even if Section 285 does not authorize the *Federal Circuit* to award fees for attorney work in Patent Office proceedings, district courts have carefully considered Section 285 and, in appropriate circumstances that include closely related Patent Office proceedings, awarded such fees. *See Deep Sky Software, Inc. v. Southwest Airlines Co.*, No. 10-cv-1234, Slip Op. at 2 (S.D. Cal. Aug. 19, 2015) (awarding nearly $400,000 in Section 285 fees, noting that "the reexamination proceedings essentially substituted for work that would otherwise have been done before this court"); *see also*, *Chamberlain, Inc. v. Techtronic Indus. Co.*, 315 F. Supp.3d 977, 1019–20 (N.D. Ill. 2018) (denying Section 285 fees for IPR proceedings that *did not* replace, but rather ran concurrently with, the litigation), *aff'd in part, vacated in part and remanded in part on other grounds*, 935 F.3d 1341 (Fed. Cir. 2019).

Not long ago, the Federal Circuit affirmed a district court judgment awarding two venerable patent litigants, Britney Spears and Justin Timberlake, over $730,000 in attorney's fees for their successful defense to an infringement allegation that included Patent Office proceedings. How did that happen? *First*, Spears/Timberlake received their fee award in 2018, before the recent run of Federal Circuit decisions discussed above. *Second*, they argued, consistent with *PPG Industries*, that the attorney's fees incurred at the Patent Office "were 'ordinarily necessary' to the district court litigation, and therefore are recoverable under § 285." *Large Audience Display Sys., LLC v. Tennman Prods., LLC,* 745 F. App'x 153, 159 (Fed. Cir. 2018) (citing *PPG Indus.*, 840 F.2d at 1568). *Third*, their opponent "waived any challenge to the inclusion of those fees … by failing to make such an argument either to the district court or in its initial briefing to [the Federal Circuit]." *Id.* (cases omitted). *Fourth*, their ultimate success followed their earlier failure, where the Federal Circuit vacated the district court's initial award of attorney's fees because the district court did not properly determine the case to be "exceptional" under Section 285. *Large Audience Display Sys., LLC v. Tennman Prods.*, *LLC*, 660 F. App'x 966 (Fed. Cir. 2016). Given the second chance, the district court adequately explained why the case was exceptional.

Obtaining an award of attorney's fees expended in closely related Patent Office proceedings is difficult, but not impossible. Demonstrate the case is exceptional. To withstand an appeal, ensure the district judge adequately explains as much in his/her decision awarding the fees. Ensure also the prevailing party before the Patent Office is also the prevailing party before the court—form may matter on appeal! Demonstrate that the Patent Office proceedings served as a substitute for the district court's work and was ordinarily necessary to the court's disposition. It helps also if the opponent does not even challenge the request.

In the Spears/Timberlake case, the Federal Circuit did not question whether Section 285 permits an award of fees for work done before the Patent Office. But in *Dragon*, *Amneal*, and *Munchkin*, the court is expressing some doubts. The court awaits an appeal where it may more directly address whether Section 285 permits recovery of attorney's fees for closely-related Patent Office proceedings, and perhaps revisit, en banc, its 1988 decision in *PPG Industries*. When that appeal arrives, the court should remember that the Supreme Court has thrice "declined to construe fee-shifting provisions narrowly on the basis that doing so would render them superfluous." *Octane Fitness*, 134 S. Ct. at 1758 (citing cases). Because patent validity today is so often determined by the Patent Office (rather than a district court), a categorical rule that Section 285 fee-awards are not available to recover attorney's fees incurred in closely-related Patent Office proceedings may fare poorly at the Supreme Court.

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