



RECALCULATING THE RISK OF INTELLECTUAL PROPERTY LITIGATION

THE U.S. SUPREME COURT LOWERS THE THRESHOLD FOR AWARDING ATTORNEYS' FEES IN PATENT LITIGATION

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On April 29, 2014, the U.S. Supreme Court issued two opinions that substantially relaxed the standard for awarding attorneys' fees in patent infringement litigation. The opinions likely will relax the standard for awarding attorneys' fees in trademark and copyright cases, too. Take note, because the benchmarks for assessing the risk of intellectual property litigation just moved.

THE COST OF INTELLECTUAL PROPERTY LITIGATION

Intellectual property litigation is a costly endeavor. The American Intellectual Property Law Association's 2013 Report of the Economic Survey provided the median cost of litigating a patent infringement, trademark infringement, and copyright infringement suit through trial based on the

amount at risk. The findings are reflected in the chart below.¹

On average, a litigant incurs between fifty and sixty percent of these fees through the end of discovery.² The cost of litigation can be a substantial fraction of, or in some cases exceed, the potential monetary award. Consequently, the standard governing the award of attorneys' fees is critically important to both plaintiffs and defendants.

Federal law authorizes the court in intellectual property cases to grant attorneys' fees to the prevailing party if the court finds the case "exceptional." Prior to April 29, 2014, the U.S. Courts of Appeals had developed standards for determining when a case was "exceptional" and warranted attorneys' fees. For patent litigation, the U.S. Court of Appeals for the Federal Circuit,

which hears all patent-related appeals, held that a prevailing party could recover its attorneys' fees if it showed by *clear and convincing evidence* that the losing party committed some "material inappropriate conduct" or brought the litigation "in subjective bad faith" and the litigation was "objectively baseless."³ This was a very difficult burden of proof. Thus, awards of attorneys' fees were the exception, not the rule.

"EXCEPTIONAL" NOW MEANS EXCEPTIONAL

In *Octane Fitness v. Icon Health & Fitness, Inc.*, the U.S. Supreme Court called "[t]he framework established by the Federal Circuit...unduly rigid." The Supreme Court observed that the statute on attorneys' fees states a court "may award reason-

| AMOUNT AT RISK | PATENT INFRINGEMENT | TRADEMARK | COPYRIGHT |
|------------------------|---------------------|------------|--------------|
| Less than \$1 mil. | \$700,000 | \$300,000 | \$300,000 |
| \$1 mil. to \$10 mil. | \$2 mil. | \$550,000 | \$563,000 |
| \$10 mil. to \$25 mil. | \$3.325 mil. | \$1 mil. | \$1 mil. |
| More than \$25 mil. | \$5.5 mil. | \$1.5 mil. | \$1.625 mil. |

able fees to the prevailing party” in “exceptional cases,” and held, “This text is patently clear. It imposes one and only one constraint on district courts’ discretion to award attorneys’ fees in patent litigation: The power is reserved for ‘exceptional’ cases.”⁴ An exceptional case, the Court stated, “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.” The Court observed that trial courts may consider “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence” when determining whether to award attorneys’ fees.⁵

The holding of *Octane Fitness* tends to level the field in litigation by making it more likely that the prevailing party may recover its fees and expenses. This potential cost shifting will force both plaintiffs and defendants early in the case to assess the strength of their case more carefully. In a patent case, a plaintiff seeking \$1 million in actual damages will have the potential upside of recovering that plus its \$700,000 in attorneys’ fees if it wins, but the downside risk of having to pay the defendant’s \$700,000 in attorneys’ fees if it loses. Likewise, the prevailing defendant under *Octane Fitness* more likely could recover its attorneys’ fees but, in the event of a loss, more likely would face judgment of \$1 million plus plaintiffs’ \$700,000 in attorneys’ fees. *Octane Fitness*, therefore, dramatically changes the risk assessment for litigation.

Moreover, a district court’s award of attorneys’ fees is unlikely to be reversed on appeal. In *Highmark Inc. v. Allcare Health Management System, Inc.*, also issued on April 29, 2014, the Supreme Court held that, because the statutes authorize a trial court to use its discretion when awarding attorneys’ fees in exceptional cases, an appeals court should reverse the trial court’s decision only when the trial court abused its discretion. An appeals court will reverse an award of attorneys’ fees only if the trial court based its ruling “on an erroneous view of the law or on a clearly erroneous assessment of the evidence.”⁶

RECALCULATING THE RISK

The Supreme Court’s ruling on attorneys’ fees should cause intellectual property litigants to consider the following:

Know your case. Review claims and defenses with a dispassionate and critical eye. Being able to survive a motion to dismiss or a sanctions motion does not preclude the court from awarding attorneys’ fees to the other party. A weak claim or defense that requires the opposing party to expend substantial attorneys’ fees more likely will result in an award of attorneys’ fees against the proponent of the claim or defense. Courts will have more authority to shift costs if there is evidence of willful infringement or of fraud or inequitable conduct in obtaining the patent, trademark, or copyright. Be the first to know if the court may have justification to award the opposing party fees.

Venue matters. The law is uniform, but application of the law to your case will depend on whether the judge finds the case “exceptional.” In the next few years, before the U.S. Courts of Appeals have an opportunity to construe the Supreme Court’s definition of “exceptional,” judges will rely on their experience with past or concurrent cases to determine if attorneys’ fees should be awarded.

For patent infringement suits, be aware that since 2011 fourteen federal district courts have been participating in a ten-year pilot program: the Eastern and Southern Districts of New York, the Western District of Pennsylvania, the District of New Jersey, the District of Maryland, the Northern District of Illinois, the Southern District of Florida, the District of Nevada, the Eastern and Northern Districts of Texas, the Western District of Tennessee, and the Central, Northern, and Southern Districts of California. In these districts, patent cases are assigned to judges who requested to hear patent cases and who, in all likelihood, have a depth of experience in the area. These districts also have adopted local rules for patent cases. These jurisdictions are venues where a litigant can expect an experienced hand at the till of the patent case.⁷

Local counsel matters. If the lead attorney is out-of-state or unfamiliar with the judge who will be presiding over the lawsuit, obtain local counsel who knows the judge and the court’s tendencies. The factors the court considers are subjective.

Frivolousness, for example, may be in the eye of the beholder (the judge), as can whether particular circumstances exist in which a judge feels the need to deter others from similar actions. Experienced local counsel should act in concert with lead counsel and assist the litigant in accurately evaluating the risks throughout the case.

Keep the case unexceptional. The Rules of Civil Procedure, Rules of Evidence, and Local Rules of Practice establish a script a court expects all cases to follow; follow them. Do not play fast and loose with discovery. File motions only when a good basis exists for the court to grant the motion, and oppose motions only when no good basis exists for the relief requested. Be courteous to the opposing party in all communications. Intellectual property disputes often are fought against a business competitor for whom no love is lost, and forcing a competitor to expend attorneys’ fees now may be useful business strategy. But trial courts likely will award attorneys’ fees to a prevailing party when pursuit of the case appears unrelated to the goal of vindicating intellectual property rights. Know that, cumulatively, petty trial disputes may have substantial monetary ramifications.

Employee emails can become exhibits. A few emails indicating litigation is for an improper purpose or has an improper effect could serve as a basis for the court to award attorneys’ fees. In *Octane Fitness*, for example, an executive responded to the comment, “I heard we are suing Octane!” by emailing “Yes – old patent we had for a long time that was sitting on the shelf. They are just looking for royalties.”⁸ Remind employees to communicate about the litigation as though the court is reading their correspondence; it may be.



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¹ American Intellectual Property Law Association, Report of the Economic Survey, pp.34-36 (July 2013).

² *Id.*

³ *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (2005).

⁴ *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. ___, 134 S.Ct. 1749, 1755-56 (2014).

⁵ *Id.*, 134 S.Ct. at 1756 & n.6.

⁶ *Highmark Inc. v. Allcare Health Management System, Inc.*, 572 U.S. ___, 134 S.Ct. 1744, 1748-49 & n.2 (2014).

⁷ The Third Branch News, *District Courts Selected for Patent Pilot Program* (June 7, 2011), available at http://www.uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx, last visited July 3, 2014.

⁸ *Octane Fitness*, 134 S.Ct. at 1755 n.5.