



COMPUTER LAW

BY RICHARD RAYSMAN AND PETER BROWN

Recovering Attorney's Fees in Patent Litigation

Patent litigation often can be bitter, with the parties engaging in aggressive, or overly aggressive strategies. Parties should be cautioned that in exceptional cases, this can result in an award of attorney's fees.

Earlier this year, the U.S. Court of Appeals for the Federal Circuit affirmed the U.S. District Court for the District of Delaware's decision in *nCube Corporation v. SeaChange International*, 313 FSupp2d 361 (D. Del. 2004), *aff'd*, 436 F3d 1317 (Fed. Cir. 2006), in which the trial court awarded partial attorney's fees to nCube, a multiservice computer communications network company. This occurred after a jury found that SeaChange had willfully infringed nCube's computer network data patent.¹

The Federal Circuit found that the district court had not abused its discretion and was correct in concluding that the case was "exceptional" and warranted an award of attorney's fees to the plaintiff.

This article will discuss the relevant statute governing an award of attorney's fees in patent litigation, the Federal Circuit's interpretations of the relevant statutory provisions, and explain some possible implications that these interpretations may have upon parties involved in patent disputes.

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Threshold Issues

On its face, 35 USC §285 of the Patent Act is short and seemingly to-the-point. The statute reads, "The court in exceptional cases may award reasonable attorney fees to the prevailing party." However, a litigant's successful recovery of attorney's fees depends on an interpretation of the term "exceptional," as well as the discretionary language of the statute. As a result, two important questions arise: what constitutes an "exceptional" case prompting a court to consider an award of attorney's fees, and when is a court likely to award attorney's fees to a prevailing party?

But before even reaching these questions, §285 also requires that the party seeking attorney's fees be the "prevailing" party. *Beckman Instruments, Inc. v. LKB Produkter*, 892 F2d 1547 (Fed. Cir. 1989), is one case that is helpful to this analysis. *Beckman* involved a dispute between LKB Produkter, a manufacturer of liquid scintillation counters,² and Beckman Instruments, a manufacturer of biomedical testing instrument systems.

Beckman alleged that LKB infringed five of its patents. However, the jury found only two of plaintiff's five claims to be valid and infringed; the jury also found that the infringement was not willful. Consequently, there was a question as to whether Beckman could be considered a "prevailing party" under §285.

The Federal Circuit determined that, where the sole basis of awarding fees is "gross injustice" (i.e., vexatious litigation strategy and other misconduct) and not willful infringement, the court will consider a mixed verdict and when one party prevails on some claims in issue while another party prevails on other claims, this fact is relevant when determining the amount of fees under §285. *Beckman*, 892 F2d at 1553-54. Thus, the court indicated that a party need not be successful on all claims to recover its fees (or at least a portion of its fees).

Although attorney's fees, if awarded, are almost always awarded at the conclusion of a case, there appears to be at least one slight departure from this general practice. In an unpublished Memorandum and Order issued this past May in *Color Kinetics, Inc. v. Super Vision International, Inc.*, No. 02-CV-11137-MEL (D. Mass., May 11, 2006), the U.S. District Court for the District of Massachusetts awarded attorney's fees before the litigation had concluded.³ The case involved a dispute between Color Kinetics, an LED technology company, and Super Vision, a manufacturer of fiber-optic lighting systems. Color Kinetics accused Super Vision of infringing Color Kinetics' patents. The court granted summary judgment in favor of the plaintiff, finding that: (a) the patents were

valid; (b) the accused products infringed upon the five patents at issue; and (c) Color Kinetics did not engage in inequitable conduct before the U.S. Patent and Trademark Office. *Color Kinetics*, Mem. and Ord. at 2. Color Kinetics moved for attorney's fees before the conclusion of litigation on the "unusual condition that it waive its claims as to damages and willful infringement." Id. at 1.

The court determined that Super Vision's behavior during the discovery phase and motion practice had "already rendered the case 'exceptional,'" and that Color Kinetics' "desire to avoid further costly litigation was not unreasonable." It also noted that if the case continued forward, it would only cause attorney's fees to rise even higher, and that, as a result, it was "in the best interest of both parties to award attorney's fees [immediately] once Color Kinetics waives its damages and willfulness claims." Id. at 13.

'Exceptional Case'

Generally speaking, situations involving inequitable conduct, willful infringement, bad faith, or vexatious litigation strategy, such as repetitive, frivolous motion practice or abuse of the discovery process, may give rise to a finding of an exceptional case, and, possibly, an award of attorney's fees.⁵ A finding of willful infringement, for example, reflects sufficient aggravation of the wrong so as to meet the "exceptional case" criterion of §285, as was the case in *nCube Corporation v. SeaChange International, Inc.*, supra.⁶

In *nCube*, willful infringement was completely dependent on when the defendants had actual knowledge of plaintiff's patent rights, and their actions after that time, both of which indicated willful infringement according to the court. In the end, the Federal Circuit upheld the award of attorney's fees, stating that a determination of willful infringement may lead to a finding of an exceptional case. *nCube*, 313 F3d at 1325.

In another recent decision, however, the court failed to deem the case "exceptional" and did not award any attorney's fees to the prevailing party. In *Sun Coast Merchandise Corp. v. CCL Products Enterprises, Inc.*, 2006 U.S. App. LEXIS 10105 (Fed. Cir., April 21, 2006), CCL appealed the lower court's granting of summary judgment of noninfringement in favor of Sun Coast, and Sun Coast cross-appealed the denial of

attorney's fees. The district court found that the case was not exceptional because Sun Coast had not established by "convincing clarity the egregiousness of CCL's counsel's conduct or a bad faith and vexatious multiplication of proceedings." *Sun Coast* at *35. Even though the district court acknowledged that "CCL committed numerous violations of the local rules, and [made] an unjustified number of ex parte applications," the court concluded that its conduct did not rise to the level of gross negligence or bad faith and vexatious litigation. Id. at *35.

Court's Discretion

Despite the varying interpretations among trial courts as to what constitutes an exceptional case, the Federal Circuit has made clear that even if a case is found to be exceptional, it is ultimately left to the district court to determine if attorney's fees are warranted. As the Federal Circuit held in *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F2d 198 (Fed. Cir. 1986), an award of attorney's fees is not automatic, even in an exceptional case. *S.C. Johnson & Son, Inc.*, 781 F2d at 201. Support for this result is seemingly found in 35 USC §285 itself by the use of the word "may" instead of "shall." Once a determination of "exceptional" is made, it is then within the sole discretion of the district court to award or deny attorney's fees to the prevailing party. That decision will not be disturbed by the Federal Circuit, unless it determines that the trial court abused its discretion. *nCube*, 436 F3d at 1318. In short, a finding of an exceptional case is a fact-specific inquiry left to the trial court's discretion.⁷

Conclusion

The district courts, with guidance from the Federal Circuit, have developed certain criteria as to what will constitute an exceptional case, which often include fraud, bad faith, and a finding of willful infringement as determinative factors. Once a trial judge has determined that a case is exceptional, an award of attorney's fees may be warranted. Still, the mere determination of an exceptional case alone will not guarantee an award of attorney's fees.

1. In *nCube*, the patent offered a "better means and method for providing multimedia data in a net-

worked system." *nCube*, 436 F3d at 1320. The critical issue in this case was how the term "upstream manager" was defined. The trial court defined it as: "a computer system component that (a) accepts messages from a client bound for services on a server; (b) routes messages from a client to services on a server; and (c) is distinct from the downstream manager." Id. at 1321. The defendant SeaChange sought a further limitation, claiming that the upstream manager (d) receive and route all messages from clients that are "bound for" services, and (e) do so using only logical addresses of both the sender and receiver of a message. The Federal Circuit, however, determined that the upstream manager need not receive and route all messages.

2. Liquid scintillation counters are "used in biomedical and pharmacological research to measure the amount of a radioactive tracer isotope present in a liquid biological sample. They detect light flashes caused by radioactive emissions within the sample and convert those light flashes into electronic pulses." *Beckman*, 892 F2d at 1549.

3. A copy of the Memorandum and Order can be viewed at www.colorkinetics.com/corp/news/pr/releases/Order_Granteeing_Motion_for_Fees.pdf (last visited July 19, 2006).

4. Color Kinetics has estimated that its costs and attorney's fees since the start of the four-year litigation have totaled \$1.4 million. See "Color Kinetics Awarded Costs and Attorney Fees in Super Vision Case," *CompoundSemi News* (May 19, 2006), available at <http://www.compoundsemi.com/documents/articles/news/6759.html> (last visited July 19, 2006).

5. The standard of proof used by a trial court in determining if a case is exceptional is clear and convincing evidence. *Evident Corp. v. Church & Dwight Co.*, 399 F3d 1310, 1315 (Fed. Cir. 2005). In *nCube*, the court stated that "there must be a finding of clear and convincing evidence in view of the totality of the circumstances that [the defendant] acted in disregard of the patent and lacked a reasonable basis for believing it had a right to do what it did." 436 F3d at 1319. Even more recently, in *Color Kinetics*, the district court reiterated this clear and convincing standard. *Color Kinetics*, supra, Mem. and Ord. at 2. This is a higher standard than just simply a preponderance of the evidence, and, therefore, can be more difficult to establish.

6. In reviewing the exceptional case finding in that matter, the Federal Circuit looked to its own precedent, see e.g., *Sensonics, Inc. v. Aerosonic Corp.*, 81 F3d 1566, 1574 (Fed. Cir. 1996), which outlined certain behaviors that could warrant an award of attorney's fees, including, among others, willful infringement, litigation misconduct, and unprofessional behavior.

7. *Beckman Instruments*, 892 F2d at 1551. As the Federal Circuit has noted: "The trial judge is in the best position to weigh considerations such as the closeness of the case, the tactics of counsel, the conduct of the parties, and any other factors that may contribute to a fair allocation of the burdens of litigation as between winner and loser." *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F2d 198, 201 (Fed. Cir. 1986).

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