Fee Award Highlights Patent Litigation In Claims Court

By **Matthew Rizzolo and Steve Meil** (April 15, 2019)

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Subject to certain exceptions, patent litigation in the United States typically adheres to the "American rule": Each party pays its own attorney fees, win or lose. But many may not be aware that assertions of patent infringement against the United States government itself are not governed by this same rule, making it easier for some successful plaintiffs to recover attorney fees at the conclusion of litigation.

A recent ruling from the U.S. Court of Federal Claims awarding a plaintiff more than $4 million in attorney fees explains the different standard in detail, and may lead to increased interest in bringing patent claims against the government.

Section 1498 Actions and Attorney Fees

Under 28 U.S.C. § 1498, the Court of Federal Claims has exclusive jurisdiction over patent infringement suits brought against the federal government. Because "infringement" by the government is generally treated as a Fifth Amendment taking of a license to use a patented invention,[1] plaintiffs in such suits cannot receive injunctive relief, but are limited only to "reasonable and entire compensation" for the use or manufacture of the patented invention by or for the government.[2]

Originally, the statute did not clarify whether "reasonable and entire compensation" included costs and attorney fees; the Court of Federal Claims has also found that Section 1498 claims are not directly analogous to other takings claims. It therefore determined that the Equal Access to Justice Act (the statute that typically provides for attorney fee awards in claims against the government) did not apply to Section 1498 claims, leaving patent owners with no avenue to obtain attorney fees even in the most egregious Section 1498 cases.[3]

Recognizing this disparity between the taking of real property and intellectual property,[4] in 1996 Congress amended Section 1498(a) to expressly provide awards of "reasonable costs, including reasonable fees for expert witnesses and attorneys."[5] The sponsors of the amendment noted that without the ability to recover fees, small businesses in particular may be unable to afford the expense of defending patents against government expropriation.[6]

Accordingly, Congress limited the awards to certain types of plaintiffs: independent inventors, nonprofit organizations, and small businesses with less than 500 employees. Congress further limited the awards to exclude cases where "the position of the United States was substantially justified" (mirroring the language of the Equal Access to Justice Act), or where "special circumstances make an award unjust."[7]

The ability to recover attorney fees as a "default" stands in sharp contrast to typical patent infringement suits, where plaintiffs — even small businesses or nonprofits — recover fees only "in exceptional cases."[8] As Congress observed, however, suits against the government "authorize the government to take a license in any patent," making such suits more analogous to takings of real property than to private infringement suits.[9]

The Fee Award in Hitkansut v. United States

Yet in the near quarter-century since Section 1498 was amended, the Court of Federal Claims has handed down only three decisions on awards of attorney fees. The previous cases, decided well over a decade ago, both resulted in the Court of Federal Claims denying fees.[10] But on March 15, 2019, the court for the first time awarded a successful plaintiff attorney fees under Section 1498.

In Hitkansut LLC et al. v. United States,[11] the court had previously found that the government used Hitkansut's patented invention, and awarded $200,000 in compensatory damages. While Hitkansut had sought nearly $6 million in compensatory damages, the court found that much of these requested damages were not appropriate under the law. The court's prior infringement and damages findings were affirmed on appeal, and Hitkansut subsequently sought to recover its attorney fees and litigation expenses: $4.51 million. In a thorough and detailed opinion, the court granted Hitkansut the vast majority of its fee request.

The court first addressed the fact that Hitkansut had engaged in a contingency fee arrangement with its attorneys. The government argued that this meant that Hitkansut had not "actually incurred" any fees, disqualifying it from any award. But the court observed that the fee arrangement was irrelevant,[12] noting that "[a]ccepting the government's argument would ... dissuade litigation by the very class of people the fee-shifting provision of 28 U.S.C. § 1498(a) exists to help."[13] Because "[t]he patent owners most likely to use contingent arrangements are those ... specifically identified by the statute," the court found that the fact of a contingent arrangement should not impact an award of costs.[14]

The court then considered whether the government's position in the suit was "substantially justified." Adopting the standard from the Equal Access to Justice Act, the court explained that a position is "substantially justified" when it is "justified to a degree that could satisfy a reasonable person, which is no different from the 'reasonable basis both in law and fact' formulation."[15] In the court's view, an award depends on whether the government can demonstrate that the positions it took "were such that a reasonable person could conclude that its position was supportable," taking into account both pre- and post-litigation conduct.[16]

Applying this standard, the court found that the government's positions on both non-infringement and invalidity lacked substantial justification. Regarding potential infringement, the court observed that the government had (1) altered its research activity in line with disclosures Hitkansut had made to the government under a confidentiality agreement; (2) represented the opposite of claims their employees had made in invention disclosures and in depositions; and (3) advanced arguments inconsistent with the court's claim construction.[17]

As for validity, the court found the government's arguments to be "unsupported by the facts": the government failed to demonstrate either part of the Alice test, and its own witnesses' testimony undermined its obviousness and enablement arguments.[18] Finally, the court found that the government's success in arguing matters secondary to the "primary issue" of infringement did not alter whether its overall position was supportable. It concluded that, "the government's position may not be substantially justified even though it may have taken certain reasonable stances during the dispute."[19]

Having decided that fees should be awarded, the court then turned to what constitutes "reasonable" fees under Section 1498(a). The court first denied the portion of fees expended in pursuing other similar suits as "not reasonably related" to the case, and reduced fees where they exceeded prevailing local rates. The court then considered whether

to increase or decrease the total fee, where "the most critical factor is the degree of success obtained."[20]

The government argued that (1) because damages were reduced to 5% of those sought, fees should be reduced proportionately; and (2) the requested fees should be capped at the amount of damages. But the court rejected both of these arguments, finding the reduction in damages was unrelated to the primary issue of infringement, and that the remaining award — even where Hitkansut proved infringement of only some of the claims — indicated a sufficient degree of success.[21]

Notably, the court found that the purpose of the fee-shifting portion of the statute is "to accommodate suits where the cost to bring the suit could not be recovered from the damages awarded."[22] As a result, there was no reason that fees could not greatly exceed actual damages — even where, as here, the fees exceeded compensatory damages by a factor of 20.

Possible Implications

While the court's decision in Hitkansut is likely to be appealed, it may lead to increased consideration from patent owners in bringing Section 1498 patent actions against the government (currently, only a handful of such suits are filed each year). A common refrain among patent owners in recent years has been that it is too expensive to enforce patents.[23] Indeed, the high cost of litigation leads many patentees, especially those with a relative lack of resources, to outsource enforcement to patent assertion entities, or rely on contingency arrangements and/or litigation funders to assist with litigation.[24]

For those patent owners who believe that their patents may be used by the U.S. government and/or government contractors, the court may be an avenue to seek compensation for infringement, with the knowledge that they may have a substantial chance at recovering their attorney fees and other expenses — in sharp contrast to suits against private entities.

Additionally, the prospect of a substantial fee award may lead to the government entering into settlements in these cases at higher levels than it may have previously. And the increased attention for Section 1498 actions may come from more than just independent inventors or nonprofit organizations — given that many nonpracticing entities, even publicly traded ones, likely fall below the 500-employee threshold, they may also increase their activity at the Court of Federal Claims.

Finally, the Hitkansut court's decision to award fees in the face of the plaintiff's contingency arrangement may also attract firms who work on alternative fee and contingency arrangements, as well as litigation funding entities, to explore becoming involved in Section 1498(a) actions.

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[1] Judge Mary Ellen Coster Williams and Diane E. Ghrist, "Intellectual Property Suits in the

United States Court of Federal Claims," available at https://www.uscfc.uscourts.gov/node/2927 (Oct. 4, 2017).

[2] 28 U.S.C. § 1498(a).

[3] See De Graffenried v. United States, 29 Fed. Cl. 384, 386–87 (1993).

[4] See H.R. REP. 104-373, 1, 1996 U.S.C.C.A.N. 4173, 4173–74.

[5] 28 U.S.C. § 1498(a).

[6] See 141 Cong. Rec. H14318-02, H14319, 1995 WL 735493.

[7] 28 U.S.C. § 1498(a).

[8] 35 U.S.C. § 285.

[9] See H.R. REP. 104-373, 1, 1996 U.S.C.C.A.N. 4173, 4174–75.

[10] The other two cases, denying awards of fees under § 1498, were Gargoyles, Inc. v. United States, 45 Fed. Cl. 139, 148 (1999) and Wright v. United States, 56 Fed. Cl. 350, 352–54 (2003).

[11] No. 12-303C, 2019 WL 1233416 (Fed. Cl. Mar. 15, 2019).

[12] Hitkansut LLC v. United States, No. 12-303C, 2019 WL 1233416, at *10 (Fed. Cl. Mar. 15, 2019).

[13] Id. at *11.

[14] Id. at *12.

[15] Id. at *13.

[16] Id. at *13-15.

[17] Id.

[18] Id.

[19] Id. at *16.

[20] Id. at *18.

[21] Id. at *20.

[22] Id. at *24.

[23] See, e.g., Greg Reilly, Linking Patent Reform and Civil Litigation Reform, 47 Loy. U. Chi. L.J. 179, 196 (2015).

[24] Eric Evain, Contingency Fees Make Patent Enforcement Accessible, Law360 (2018); https://www.law360.com/articles/1007582/contingency-fees-make-patent-enforcement-accessible.