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Potential Benefits Of Adding Attorney Fee-Shifting At The ITC

By **Matt Rizzolo, Matthew Shapiro and Brendan McLaughlin** (September 12, 2022, 6:00 PM EDT)

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U.S. patent litigation generally proceeds under the American rule, where parties pay their own attorney fees, but the Patent Act does provide that in exceptional cases, district courts may award attorney fees to the prevailing party.

Some of the most impactful, high-stakes patent litigation, however, occurs not in the district courts, but the U.S. International Trade Commission — an independent, quasi-judicial executive agency.

So-called Section 337[1] investigations are fast-paced and often expensive, and litigants may wonder: If I prevail, is there any way I can recover my attorney fees?

The answer, like so many legal questions, is that it depends. The uncertainty surrounding this issue could even merit future legislation to further a particular congressional goal that has received recent attention: limiting nonpracticing entity access to the ITC.

The Patent Act's Exceptional Case Standard

District courts may award attorney fees under Title 35 of the U.S. Code, Section 285, which states in full: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

In the 2014 Octane Fitness, LLC v. ICON Health & Fitness Inc. decision, the U.S. Supreme Court held

> 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.[2]

Whether a case is exceptional is left to the discretion of a district court "considering the totality of the circumstances."[3] Relevant considerations may include

> 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.[4]

In the vast majority of cases, district courts award fees under Section 285 for work directly related to the case before the district court. But in some circumstances, fees have been awarded for work done in a parallel administrative proceeding that directly substitutes for work done at the district court, or work that has a dual use in the district court action and the parallel proceeding.

Often, this issue arises in the context of Patent Trial and Appeal Board proceedings where the accused infringer challenges the validity of patents asserted against it at district court.

For example, courts in at least the Central and Southern Districts of California, the Eastern District of Michigan, and the Eastern and Southern Districts of Texas have found that attorney fees for work performed in parallel covered business method and inter partes review proceedings are available upon a finding of an exceptional case.[5]

While beyond the scope of this article, district courts have recently diverged over whether it is appropriate to award attorney fees for work performed in a parallel administrative action,[6] and this issue is now being litigated in Dragon Intellectual Property LLC v. Dish Network LLC at the U.S. Court of Appeals for the Federal Circuit.[7] But there is no dispute that, under the plain language of the statute, it is the court — i.e., the district court — that has the sole ability to award fees under Section 285.[8]

When Section 285 Meets Section 337

The ITC is an administrative agency, not a court. While Section 337 empowers the ITC to impose monetary sanctions for discovery violations or abuse of process,[9] it does not have an analogous provision authorizing the commission to award attorney fees for exceptional cases.

Most ITC investigations are, however, accompanied by a parallel district court case, filed by the patent owner to preserve the ability to seek damages — which are unavailable at the ITC.

The accused infringer will often move to stay the district court litigation pending the outcome of the ITC proceeding,[10] and once the ITC investigation is terminated, the dispute may shift to the district court. The record before the ITC is fully admissible in the parallel district court action.[11]

And if a Section 337 investigation has reached a final decision on the merits, it typically will have covered substantially similar ground as a district court patent infringement case. For example, much of the discovery will be the same, and the ITC will have decided issues such as patent validity and infringement. Thus, while a Section 337 investigation does not concern issues that are entirely coextensive with a district court litigation, the ITC in many cases will have to decide important issues that could potentially be dispositive of the district court case.[12]

Due to this overlap, at least one district court has awarded attorney fees under Section 285 for dual use ITC-related work.[13] In the 2011 Monolithic Power Systems Inc. v. O2 Micro International Ltd. decision, the U.S. District Court for the Northern District of California granted the accused infringer's motion for attorney fees under Section 285 over the patent owner's broad objection that the costs relating to a parallel ITC proceeding "should be disallowed because they did not arise in this case."[14]

In finding attorney fees appropriate, the Northern District of California noted that it "ordered all discovery obtained through the ITC parallel investigation to pertain to this case, and vice versa," and that had the patent owner "not precipitated the ITC investigation, the ... discovery-related costs would have been incurred in this litigation."[15]

The district court ultimately ordered payment of millions of dollars in attorney fees for work performed in both the Section 337 investigation and district court case, but notably excluded ITC-specific expenses, such as those related to the domestic industry requirement.[16]

The patent owner appealed the attorneys' fee award, arguing that it was an abuse of discretion for the district court to award fees that are not traceable solely to the district court case."[17]

The Federal Circuit disagreed, holding that the "award of ITC-related expenses is ... not an abuse of discretion, especially in view of the discovery's application in the district court and the parties' agreement to its dual use."[18] In doing so, the Federal Circuit blessed the district court's approach of not including fees for work related solely to the ITC proceeding.[19]

Thus, Monolithic Power Systems has made clear that ITC-related attorney fees may be recoverable under Section 285 at least when work performed during a Section 337 investigation has a "dual use," but over the past decade, this issue has rarely been pursued.

Successful ITC litigants that have a parallel district court case should keep all of this in mind — especially given the Supreme Court's statement in Octane Fitness that Section 285's exceptionality requirement is the "one and only one constraint" on fee shifting to the prevailing party.

Section 337 investigations can be notoriously expensive, and the prospect of recovering even some attorney fees could be beneficial and provide leverage in a dispute. But can the status quo be improved?

Could, or Should, Congress Act?

The ITC has been the topic of legislation over the past several years,[20] with much of the attention focused on domestic industry and the issue of nonpracticing entities.

But amending the domestic industry requirement or other ITC-specific issues to address alleged nonpracticing entity abuse could lead to unintended consequences, and these ITC-related pieces of legislation have not gotten traction on Capitol Hill.

Might Congress seek to harmonize the district courts and the ITC when it comes to the awarding of attorney fees by adding a Section 285-like provision to Section 337, authorizing the commission to award attorney fees to the prevailing party in exceptional cases?

Such a provision would have multiple potential benefits. First, it would obviate the need for a successful ITC litigant to go to a different forum — a parallel district court litigation — to seek its attorney fees. The ITC is already equipped and experienced with awarding fees,[21] and switching from one forum to another may waste party time and resources.

Second, allowing the ITC to find cases exceptional puts the adjudicative body most familiar with the conduct at issue in a position to make the exceptional case finding.

It makes little sense for the commission in most cases to transfer a record that it has presided over in most cases for approximately two years to a district court that then needs to catch up on the record and issues.

Finally, such a provision would allow for fees to be recoverable for ITC-specific issues. Perhaps this last aspect is most important, as parties typically spend significant sums of money — hundreds of thousands of dollars, and more commonly millions — litigating ITC-specific issues.

The addition of an exceptional case fee-shifting provision to Section 337 might also help deter entities from filing or maintaining meritless Section 337 proceedings.

Some members of Congress have recognized the deterrent effect of fee-shifting provisions — for example, the proposed Innovation Act of 2015, designed to deter abusive patent litigation, would have authorized district courts to award attorney fees to the prevailing party unless the losing party's positions were reasonably justified.[22]

The potential deterrent effect from a fee-shifting provision — even one applying only in exceptional cases — also may align with many of the same concerns that prompted the introduction of some of the various ITC-related legislation over the years, including reducing the number nonpracticing entity complaints and helping the commission achieve its goal of expeditiously resolving Section 337 investigations.

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[1] 19 U.S.C. § 1337.

[2] Octane Fitness, LLC v. ICON Health & Fitness, Inc., 572 U.S. 545, 554 (2014).

[3] Id.

[4] Id. n.6; see also In re Rembrandt Techs. LP Patent Litig., 899 F.3d 1254, 1277 (Fed. Cir. 2018).

[5] Ameranth, Inc. v. Domino's Pizza, Inc., 2021 WL 2550057, at *1 (S.D. Cal. June 21, 2021) (rejecting plaintiff's "argument that the fees and costs incurred ... in the CBM proceedings should not be awarded to" the defendants); Game and Tech. Co. v. Wargaming Grp., Ca. No. 2:16-cv-06554-JAK-SK, Dkt. No. 65 at 4-5 (C.D. Cal. Oct. 20, 2020) ("finding that Defendant may seek fees pursuant to § 285 incurred during IPR proceedings"); Am. Vehicular Scis. LLC v. Autoliv, Inc., 405 F. Supp. 3d 728, 738 (E.D. Mich. 2019) ("[I]f Defendants could establish that these are 'exceptional' cases, they would be allowed to seek fees attributable to the work before the PTO [during IPRs] here."); My Health, Inc. v. ALR Techs., Inc., 2017 WL 6512221, at *6 (E.D. Tex. Dec. 19, 2017) (granting IPR fee request, finding "the defendants never would have sought IPR if they had not been sued for" patent infringement); Chaffin v. Braden, 2016 WL 5372540, at *2 (S.D. Tex. Sept. 26, 2016) (denying fees, but with qualification that "[t]he Court agrees that there may be circumstances in which fees incurred in an unsuccessful IPR proceeding are recoverable under § 285").

[6] In view of the Federal Circuit's recent decision in Amneal Pharms. LLC v. Almirall, LLC, 960 F.3d 1368, 1371-72 (Fed. Cir. 2020) finding that § 285 does not apply to pure Patent Office proceedings without a parallel district court case, some district courts have extended this holding to find that attorney fees are not recoverable as a matter of law under § 285 when incurred during IPR. See e.g., Dragon Intellectual Property, LLC v. DISH Network L.L.C., 2021 WL 5177680, at *3-4 (D. Del. Nov. 8, 2021) ("There is no persuasive legal analysis that would authorize this Court to award attorney fees under § 285 for IPR proceedings that Defendants voluntarily undertook."); ESIP Series 1 v. Doterra Int'l, LLC, 2022 WL 656777, at *11-12 (D. Utah Mar. 4, 2022) (declining to award attorneys' fees related to proceedings before the PTAB); Sherwood Sensing Sols. LLC v. Henny Penny Corp., --- F. Supp. 3d. ---, 2022 WL 1605856, at *4 (S.D. Ohio May 20, 2022) ("Patent infringement is about testing the reach of a patent. Why would a patent holder seek to reduce the scope of their monopolistic grip on an invention? For this reason, IPR cannot be considered as part of the same patent infringement 'case' for § 285 purposes.").

[7] See Dragon Intellectual Property, LLC v. Dish Network L.L.C., Ca. No. 22-1621, Dkt. No. 27-1, Appellants' Opening Br. (Fed. Cir. Aug. 9, 2022) (arguing "[t]he district court erred in reasoning that IPRs can never be part of the 'case' under § 285").

[8] Octane Fitness, 572 U.S. at 553 (Section 285 "imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases.").

[9] 19 U.S.C. § 1337(h) ("The Commission may by rule prescribe sanctions for abuse of discovery and abuse of process to the extent authorized by Rule 11 and Rule 37 of the Federal Rules of Civil Procedure."); 19 C.F.R. § 210.33(c); id. § 210.4(d).

[10] By statute, the district court "shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission." 28 U.S.C. § 1659.

[11] Id.

[12] The Federal Circuit has held that the Commission's decisions on patent-related issues do not have preclusive effect in district court. See Texas Instruments, Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996).

[13] Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd., 2011 WL 13154032 (N.D. Cal. Mar. 3, 2011); but see Pathway Innovations & Techs., Inc. v. IPEVO, 2020 WL 1983485 (S.D. Cal. Apr. 24, 2020) (denying motion for attorneys' fees where plaintiff "merely filed a complaint, sought a stay, and then sought dismissal based on the outcome of the proceedings before the ITC and PTAB, which

were the forums where the case was truly litigated.").

[14] Monolithic Power Sys., 2011 WL 13154032, at *7.

[15] Id.

[16] Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd., 2012 WL 161212, at *6-7 (N.D. Cal. Jan. 17, 2012) (denying patent owner's objections to certain ITC-related categories of expenses); Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd., 2012 WL 1577365, at *4 (N.D. Cal. May 3, 2012) (awarding $8,419,429 in attorneys' fees).

[17] Monolithic Power Sys., Inc. v. O2 Micro Int'l Ltd., 726 F.3d 1359, 1368 (Fed. Cir. 2013).

[18] Id. at 1369.

[19] Id. at 1368 n.3.

[20] See, e.g., Advancing America's Interests Act, H.R. 5184, 117th Cong. (2022); Advancing America's Interests Act, H.R. 8037, 116th Cong. (2020); Trade Protection Not Troll Protection Act, H.R. 2189, 115th Cong. (1st Sess. 2017); H.R. 4829, 114th Cong. (2016); H.R. 4763, 113th Cong. (2014); see also SECRETS Act of 2021, S. 2067, 117th Cong. (2021).

[21] See supra, n.9.

[22] Innovation Act, H.R. 9, 114th Cong. (2015).
