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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Supreme Court Liberalizes Standard for Attorney Fees in Patent Litigation

By
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On April 29, 2014, the U.S. Supreme Court handed down two 9-0 decisions—*Octane Fitness v. Icon Health & Fitness* and *Highmark v. Allcare Health Management System*—that reversed the U.S. Court of Appeals for the Federal Circuit and liberalized the standard for the award of attorney fees to a prevailing defendant in patent litigation. These decisions are already part of the vigorous debate about the need for "reform" of the Patent Act to curb abusive lawsuits.

Section 285 of the Patent Act, which authorizes a district court to award attorney fees in patent litigation, provides in its entirety that the "court in exceptional circumstances may award reasonable attorney fees to the prevailing party." Until 2005, the Federal Circuit, like other circuit courts, instructed trial judges to consider the totality of circumstances when making fee determinations under §285.

But in 2005 the Federal Circuit abandoned that holistic approach in favor of a more rigid formulation. *Brooks Furniture Manufacturing v. Dutailier International*, 393 F.3d 1378 (2005), held that a case is "exceptional" under §285 only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud, or inequitable conduct in procuring the patent, misconduct during the litigation, vexatious or unjustified litigation, conduct that violates Fed R. Civ. P. 11, or like infractions." Under this approach, fees may be imposed against the patentee only if there has been inappropriate conduct, or when the litigation is both brought in "subjective bad faith," and "objectively baseless."

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In *Octane*, the Supreme Court rejected this approach as unduly rigid and "so demanding that it would appear to render §285 largely superfluous." Instead, the court adopted a broad, subjective standard. It 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." Pointing to a similar standard used for fee awards under the Copyright Act, the court said that trial courts should consider the "totality of the circumstances." Under copyright law, courts considering a fee award will consider "frivolousness, motivation, objective unreasonableness" and "considerations of compensation and deterrence."

The Octane court also reversed the Federal Circuit's holding in *Brooks* that the entitlement to fees must be shown by clear and convincing evidence. To the contrary, Section 285 "demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less a high one."

In its short opinion in *Highmark*, the court underlined the discretionary nature of a trial court's fee determination—and limited the Federal Circuit's ability to intervene—by holding that the Federal Circuit should review "all aspects" of a district court fee award on an abuse of discretion standard.

Octane and *Highmark* give district courts powerful tools to police patent litigation, even when there is an objective basis to bring an infringement claim, and the opinions should be music to the ears of those who complain about abusive patent litigation. Opponents of patent reform bills under consideration in Congress have argued that the decisions make legislation to liberalize the standards for fee awards unnecessary.

The day after the decisions were issued however, dozens of proponents of legislative action, including companies such as Apple, Samsung, Verizon, Ford, Google and Microsoft, wrote to the Senate Judiciary Committee to renew their push for legislation to "stop patent abuse," including provisions liberalizing the standard for fee awards. It remains to be seen whether Congress can be convinced to tighten the discretionary standard for fee awards the Supreme Court has announced.

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Trademarks

In *Lexmark International v. Static Control Components*, 134 S.Ct. 1377 (March 25, 2014), the Supreme Court rejected each of the "competing approaches" that different circuit courts have fashioned over the years to define Lanham Act standing. Instead, the court adopted a two-part test. First, a false advertising plaintiff must come within the "zone of interests" protected by the Lanham Act, which requires allegations of "an injury to a commercial interest in reputation or sales." Second, a plaintiff's injury must be proximately caused by the violation where the inquiry is "whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits."

The false advertising claim in *Lexmark* arose when Lexmark sent letters to Static Control's customers informing them that it was illegal for them to use Static Control's microchips for use in refurbished Lexmark printer cartridges. Static Control sued under the Lanham Act, arguing that Lexmark's letters had falsely led Static Control's customers to believe that Static Control was engaging in illegal conduct.

Applying its new test, the Supreme Court concluded that Static Control had standing. Its injuries, consisting of lost sales and damage to its reputation, are "precisely the sorts of commercial interests the [Lanham] Act protects." Proximate cause was also shown—although this was not a "classic" false advertising claim between direct competitors, Lexmark had directly targeted Static Control by asserting that its business was illegal. When a plaintiff alleges "reputational injury from disparagement, competition is not required for proximate cause."

In the wake of *Lexmark, Goodman v. Does 1-10*, 2014 WL 1310310 (EDNC March 28, 2014), dismissed a Lanham Act claim in part because the plaintiff had failed to allege competitive injury. Todd Goodman, a licensed auto mechanic who owns a number of auto repair businesses "has been the target of an extraordinarily aggressive smear campaign" on localdirtbags.com, a website that is "apparently devoted to ruining Goodman's personal and business reputation." The website includes several blog posts along with user comments accusing Goodman of overcharging customers and criminality.

The court granted the motion of Linda Lagoy, the website operator and author of many of the blog posts, to dismiss Goodman's Lanham Act claims, reasoning that he had not alleged injury by "commercial advertisement." Goodman had failed to allege that any of the posts came from actual competitors as opposed to mere consumers without any commercial self-interest. Moreover, the posts, while possibly defamatory, did not propose a commercial transaction in any traditional sense of that phrase.

Dardenne v. MoveOn.org, 2014 WL 1364854 (M.D. La. April 7, 2014), denied Louisiana Lieutenant Governor Jay Dardenne's request for a preliminary injunction to compel MoveOn, a political advocacy group, to take down a billboard criticizing state health care policy on the ground that it infringed a service mark owned by the state. MoveOn's billboard mimics Louisiana's service mark—the word "Louisiana" with the letter i presented as an exclamation mark and the slogan "pick your passion"—then adds the words: "But hope you don't love your health. Gov. Jindal's denying Medicaid to 242,000 people."

Concluding that MoveOn was employing the State's service mark as part of a parody, the court found the use to be constitutionally protected and that the state had not demonstrated a "compelling reason" to curtail political speech. The court rejected the state's argument that viewers of the billboard may be confused into believing that the lieutenant governor (whose office sponsors the service mark) is criticizing the governor, describing that as a "strained" argument that underestimates "the intelligence and reasonableness of people viewing the billboard."

Copyright

May a singing telegram performer in a banana costume claim a copyright in her performance? The U.S. Court of Appeals for the Seventh Circuit said no in *Conrad v. AM Community Credit Union*, 2014 WL 1408635 (7th Cir. April 14, 2014). The court found that the performance was not eligible for copyright protection because it was not fixed in any tangible medium of expression, as it was not recorded or described in a written "dance notation."

> 'Peter Mayer Publishers v. Shilovskaya' held that the conversion of a printed book to electronic book does not result in a derivative work within the meaning of the Copyright Act.

Copyright protection was available for a different performance in *Teller v. Dogge*, 2014 WL 1153459 (D. Nev. March 20, 2014), which held that a magic performance is protected by the Copyright Act from imitation, even though a magic trick itself is not copyrightable. The magic performance at issue is called "Shadows," and was registered as a dramatic work. Copyright law protects dramatic works as well as pantomimes. The district court held that the mere fact that a dramatic work or pantomime includes a magic trick, or even that a particular illusion is its central feature, does not disqualify it from copyright protection.

Peter Mayer Publishers v. Shilovskaya, 2014 WL 1325744 (SDNY March 31, 2014) held that the conversion of a printed book to electronic book does not result in a derivative work within the meaning of the Copyright Act. The disputed work is a translation of a Russian novel that had fallen into the public domain for failure to comply with the formalities of the Copyright Act. The plaintiff had been publishing the translation since that time, and sought a declaratory judgment establishing its right to publish the translation in eBook form. The defendants, descendants of the author, held a restored copyright to the work under the Uruguay Round Agreements Act; the Act also offered safeguards to those who, like the plaintiff, had relied on the public domain status of those works.

The trial court found that conversion to eBook form involves little more than pure transcription, and does not recast, or transform or adapt the original work. The court rejected defendants' assertion that an eBook version constitutes a new derivative work because preparation of an eBook from a printed book requires the creation of the software necessary to manipulate the data and allow the reader to view it electronically. That software, which is itself a separate, copyrightable work, does not alter the content of the book. Because the eBook was not a new, derivative work, plaintiff could publish the electronic version in continued reliance on the fact that the work had fallen into the public domain.

Patents

Apple v. Motorola, 2014 WL 1646435 (Fed. Cir. April 25, 2014) is the latest chapter in the smartphone wars. The lower court decision attracted national attention when Circuit Judge Richard Posner (sitting by designation in the Northern District of Illinois) excluded both parties' damages experts and granted summary judgment dismissing the case, finding that neither side was entitled to any damages or an injunction. A panel of the Federal Circuit reversed, issuing separate opinions by each of the panel members.

First, the Federal Circuit faulted Judge Posner for overstepping the court's gatekeeping role under *Daubert v. Merrell Dow Pharmaceuticals*, 509 U.S. 579 (1993), by "substituting its own opinion, rather than focusing on the reliability of the principles and methods used or the sufficiency of the facts and data relied upon." Second, the Federal Circuit held that when infringement is assumed, the statute requires "no less than a reasonable royalty." Even "[i]f a patentee's evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record." "Thus, a fact finder may award no damages only when the record supports a zero royalty award," and "simply because a patentee fails to show that its royalty estimate is correct does not, by itself, justify awarding a royalty of zero at summary judgment."

Third, the Federal Circuit held that Motorola's agreement to license the asserted patent on fair, reasonable, and non-discriminatory (FRAND) licensing terms did not mean injunctive relief was per se unavailable. Noting, however, that Motorola had entered into many license agreements, including with competitors, the panel majority found it had not made the showing of irreparable injury necessary to support an injunction.