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IP CASE OF THE WEEK

Got Fees? You've got some explaining to do.

***Amneal Pharm., LLC v. Almirall, LLC*, No. 2020-1106, 2020 WL 2961939 (Fed. Cir. June 4, 2020)**
***Munchkin, Inc. v. Luv N' Care, Ltd.*, No. 2019-1454 (Fed. Cir. June 8, 2020)**

By: Reid Huefner & Peggy Herrmann | June 12, 2020

The Federal Circuit recently issued two opinions regarding fee awards in patent cases, both of which show the Court's reticence to award fees in contravention of the "American Rule" where each party bears its own costs. As such, if patent litigants seek fees as an exception to this rule (e.g., under 35 U.S.C. § 285), they should tie those fees to judicial proceedings and provide fact-specific arguments that demonstrate the reasonableness of their positions.

First, in *Amneal Pharm., LLC v. Almirall*, LLC, the Federal Circuit held that 35 U.S.C. § 285, which permits "[t]he court in exceptional cases [to] award reasonable attorney fees to the prevailing party," does not authorize the Federal Circuit to award fees for work completed during an *inter partes* review (IPR). Amneal moved to voluntarily dismiss its appeal to the Patent Trial and Appeal Board's final written decision in an IPR. Although Almirall agreed with the dismissal, it, nonetheless, sought attorney fees for the IPR proceeding pursuant to § 285. In denying Almirall's request, the Federal Circuit relied on the plain meaning of the statute language, as well as binding precedent from the Court of Customs and Patent Appeals ("CCPA"). As predecessor to the Federal Circuit, the CCPA heard appeals from the Patent Office (but not from the district courts) and refused to interpret § 285 to apply to proceedings before administrative agencies. Indeed, § 285 refers to "the court" which "speaks only to awarding fees that were incurred during, in close relation to, or as a direct result of, judicial proceedings."[1]

Second, for fees requests properly associated with judicial proceedings, the prevailing party's request must establish the exceptional nature of the losing party's case with ample fact-specific support. In *Munchkin, Inc. v. Luv N' Care, Ltd.*, Munchkin sued Luv N' Care ("LNC") for trademark infringement and unfair competition claims. A year later, with the court's approval, Munchkin amended its complaint to include patent infringement claims, among others. Later in the litigation, Munchkin dismissed its non-patent claims with prejudice; subsequently, the patent-at-issue was invalidated through an IPR. The district court affirmed the Board's decision, and Munchkin dismissed its patent infringement claims. Based on LNC's arguments that Munchkin should have been aware of the substantive weakness of the patent's validity,[2] the district court found the case exceptional and granted LNC's motion for fees.[3]

The Federal Circuit held that the district court had abused its discretion and reversed the grant of attorney's fees because the issues that determine an exceptional case were not litigated (the case was dismissed), so a fuller explanation of the court's assessment of LNC's position was needed. "The merits … were all freshly considered issues for the district court … but LNC failed to make the detailed, fact-based analysis of Munchkin's litigating position to establish they were wholly lacking in merit."[4] The Federal Circuit pointed out that IPR institution and invalidation did not in make Munchkin's case unreasonable. Nor did Munchkin's later dismissal of the case and LNC's superficial assertion of Munchkin's purported awareness of the weakness of the patent's validity—without a clear invalidity or inequitable conduct theory—make Munchkin's position unreasonable.

The takeaway: Litigants seeking fees and a finding that a case was exceptional—especially when the case has not been fully litigated by the court—must provide a fact-intensive, substantive analysis and explanation of the weakness and unreasonableness of the losing party's position through which the court can support such a finding.

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[1] *Amneal Pharm. LLC*, No. 2020-1106, 2020 WL 2961939, at *5.
[2] Notably, the Board adopted LNC's broader claim construction, which was the lynchpin for the invalidating prior art, and the district court adopted Munchkin's narrower claim construction in the *Markman* hearing.
[3] LNC's fee request included the fees for litigating the IPR. However, the Federal Circuit did not address the issue of whether 35 U.S.C. § 285 allows for the recovery of attorney fees in the IPR proceeding.
[4] *Munchkin*, No. 2019-1454, at *9.