



# CRA Insights: Intellectual Property

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## Federal Circuit Reduces Award of Attorney Fees that Included Expert Fees and Enhancement

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In a December 22, 2009, decision, the US Court of Appeals for the Federal Circuit vacated a district court's award of attorney fees that included expert witness fees and enhanced damages.<sup>1</sup> The Federal Circuit explained that 35 USC §285 allows for the award of "reasonable attorney fees" to a prevailing party in exceptional cases. It does not provide for the award of expert witness fees, nor does it allow for enhancement of reasonable attorney fees.

Universal Support Systems, LLC ("Universal") filed a complaint against Electro-Mechanical Industries, Inc. ("EMI") in May 2006 alleging infringement of claims on a foot design for metal racks that hold telecommunications equipment.<sup>2</sup> Sixteen months later, EMI filed for Chapter 11 bankruptcy protection.<sup>3</sup> The Bankruptcy Court referred the matter to the US District Court for the Southern District of Texas to determine liability and damages in the patent infringement matter.

In a claim estimation hearing, the District Court held that Universal's patent was not invalid as obvious and found that EMI infringed the claims of the patent.<sup>4</sup> The Court estimated the value of the claim and awarded reasonable royalty damages, which were doubled after the Court found the infringement to be willful.<sup>5</sup>

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<sup>1</sup> In Re Electro-Mechanical Industries, Case Number 2008-1530, 2009-1137. Decided December 22, 2009. This case has been designated "nonprecedential."

<sup>2</sup> Universal Support Systems, LLC v. Electro-Mechanical Industries, Inc., Civil Action No. 2:06-cv-00189. The complaint was filed in the District Court for the Eastern District of Texas. The patent-in-suit was US Patent No. 6,669,163.

<sup>3</sup> Bankruptcy No. 07-36393-H1-11. EMI filed for bankruptcy in the United States Bankruptcy Court for the Southern District of Texas. The filing of EMI's bankruptcy action resulted in a stay of the infringement action in the Eastern District of Texas.

<sup>4</sup> In Re Electro-Mechanical Industries, Civil Action No. 4:08-cv-00646. Order, dated July 8, 2008, pp. 18 & 20.

<sup>5</sup> Ibid at 22-25. The Federal Circuit held that the District Court erred in awarding reasonable royalty damages on certain sales that were found to be non-infringing, but affirmed the reasonable royalty damages award in other respects, including the District Court's finding of willfulness and doubling of the award. In Re Electro-Mechanical Industries, Case Number 2008-1530, 2009-1137, pp. 5-7.

In determining whether to award attorney fees, the District Court explained that 35 USC §285 allows a court to award reasonable attorney fees to prevailing parties if it finds that the case is “exceptional.” The Court further explained that the criteria for declaring a case exceptional “include willful infringement, bad faith, litigation misconduct, and unprofessional behavior.”<sup>6</sup>

The District Court noted that it had already found EMI’s infringement to be willful. Further, the District Court described EMI’s conduct during the pendency of the litigation as “dubious,” noting:<sup>7</sup>

- EMI attempted to conceal information regarding certain measurements in its product design.<sup>8</sup>
- EMI produced inaccurate information regarding sales and profits, failed to notify the Bankruptcy Court after learning it was incorrect, and provided the same false information to the District Court.<sup>9</sup>

The Court stated, “This misleading conduct by EMI justifies a finding that this case is exceptional and is grounds for an award of [attorney] fees.”<sup>10</sup>

Universal presented evidence that the reasonable attorney fees in this matter were \$700,000. However, the District Court awarded Universal \$1 million in attorney fees, explaining, “the Court finds that an enhancement is justified because, among other reasons, this case required immediate and exclusive attention by [Universal] attorneys, is more complex than a standard patent case because it is a bankruptcy matter, and the opposing party provided inaccurate and unreliable information during the pendency of the litigation.”<sup>11</sup>

The Federal Circuit held that the District Court erred in its award of attorney fees in two respects. First, the award included expert witness fees. The Federal Circuit explained that the only evidence in the record relating to reasonable attorney fees indicated that attorney fees would be \$500,000 through the conclusion of the case. Additional expert fees and other expenses would total another \$200,000.<sup>12</sup> The Federal Circuit stated, “While we cannot conclude that the district court clearly erred in the assessment of \$500,000 for [attorney] fees, the award of \$200,000 for expert fees and other expenses is not permitted under the law.”<sup>13</sup>

The Federal Circuit acknowledged that expert witness fees may be awarded under 28 USC §1821, which provides for attendance fees of \$40 per day plus certain travel reimbursements. To award expert witness fees in excess of the fees allowed by §1821, the Federal Circuit explained that, “a court must make a finding of fraud or abuse of the judicial process and invoke its inherent power to sanction.”<sup>14</sup> Furthermore, a district court “may also grant sanctions for egregious conduct under

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<sup>6</sup> In Re Electro-Mechanical Industries, Civil Action No. 4:08-cv-00646. Order, dated July 8, 2008, p. 25.

<sup>7</sup> Ibid at 25.

<sup>8</sup> EMI’s noninfringement arguments were based on these inaccurate measurements. Ibid at 17, 23-24.

<sup>9</sup> The Court pointed to documents showing that actual sales were nearly double the amount disclosed by EMI. Ibid at 24.

<sup>10</sup> Ibid at 25.

<sup>11</sup> Ibid at 26.

<sup>12</sup> In Re Electro-Mechanical Industries, Case Number 2008-1530, 2009-1137, pp. 8-9.

<sup>13</sup> Ibid at 9.

<sup>14</sup> Ibid.

alternative grounds..., even if the district court feels that attorney fees are unwarranted under the circumstances.”<sup>15</sup> But, no such sanctions were sought in this case.

Second, the Federal Circuit found that the District Court’s enhancement of attorney fees was erroneous.<sup>16</sup> The Federal Circuit explained that the award of attorney fees pursuant to 35 USC §285 allows “only for the award of ‘reasonable attorney fees’ to the prevailing party, it does not allow for enhancement of those reasonable fees.”<sup>17</sup> The Federal Circuit noted that even if it construed the \$1 million not as enhancement, but as a determination of reasonable fees, Universal bore the burden of proving its entitlement to attorney fees and the amount of a reasonable fee award. Universal did not offer evidence to support an award greater than \$700,000. Thus, the District Court’s decision to enhance attorney fees amounted to an abuse of discretion.

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<sup>15</sup> Ibid. The Federal Circuit gave as an example Fed. R. Civ. P. 11 which addresses sanctions for representations made to the court that are not supported or are presented for improper purposes.

<sup>16</sup> Ibid at 10.

<sup>17</sup> Ibid.