

## Alerts

### Federal Circuit Reverses \$4.4 Million Sanctions Award Against Patent Infringement Plaintiffs and Law Firm

May 20, 2010

*Lawyers for the Profession® Alert*

*Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GMBH*,  
\_\_\_ F.3d \_\_\_, 2010 WL 1644062 (Fed. Cir. 2010)

#### Brief Summary

The Federal Circuit reversed an award of attorney fees against patent infringement plaintiffs and their law firm, concluding that the trial court had committed clear error in determining that plaintiffs were obliged to have abandoned certain claims notwithstanding that they had prevailed on more than one dispositive motion on the claims. The appellate court further held that the trial court had mischaracterized as litigation misconduct statements and positions of the lawyers and expert witnesses that were in fact permissible and correct.

#### Complete Summary

Plaintiffs (collectively, “Medtronic”) brought a patent infringement action against defendants (collectively, “BrainLAB”). Medtronic alleged that BrainLAB’s VectorVision products infringed four of Medtronic’s patents. Medtronic prevailed against BrainLAB’s motions for summary judgement and BrainLAB’s first motion for judgment as a matter of law (JMOL). The jury then returned a verdict for Medtronic on all four patents. BrainLAB ultimately prevailed on its second JMOL, and the Federal Circuit affirmed.

BrainLAB then petitioned the district court for attorney fees and expenses. The trial court awarded fees under 35 U.S.C. § 285, which states: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” The district court also relied on 28 U.S.C. § 1927 to hold Medtronic’s law firm (McDermott, Will & Emery LLP) jointly responsible for the fees because the firm assertedly had proceeded “cavalierly” and “with full awareness that their case was without merit.” In the alternative, the district court justified the award of fees as within the court’s inherent authority to sanction litigation misconduct.

Notwithstanding the extremely deferential standards of review on appeal, the Federal Circuit reversed the award of attorney fees and expenses. The court squarely rejected and repudiated the district court’s underlying findings and its conclusions as constituting clear error and well outside the scope of the trial court’s inherent authority. In so holding, the appellate court noted the important economic and reputational interests at stake.

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The district court had concluded that because it had construed Medtronic's patent claims so narrowly during the pretrial *Markman* hearing, Medtronic should have either abandoned its case at the summary judgment stage or sought to immediately appeal the district court's claim construction. The Federal Circuit flatly rejected the district court's suggestion that Medtronic had a duty to abandon its claims at the summary judgment stage, when the district court denied BrainLAB's motions for summary judgment and its first JMOL. The court further noted that Medtronic's persistence was not improper because after the *Markman* hearing Medtronic dropped its claims of literal infringement for two of the patents because they had been undermined by the district court's claim construction, and instead relied on the doctrine of equivalents. The Federal Circuit held, "[a]bsent misrepresentation to the court, a party is entitled to rely on a court's denial of summary judgment and JMOL, as well as the jury's favorable verdict, as an indication that the party's claims were objectively reasonable and suitable for resolution at trial."

Regarding the issue of litigation misconduct, the district court had found a number of statements made by Medtronic's counsel and expert witnesses to be misleading and improper. Notwithstanding the deferential factual and legal standards of review on appeal, the Federal Circuit, by contrast, variously found the statements to be "[not] unfair or confusing," "not misleading," "clearly correct," "innocuous" in context, "unobjectionable," and "permissible argument," that "served [a] legitimate purpose."

In one instance, the court of appeals deferred to the district court's conclusion that a statement contained an improper suggestion about whether Medtronic could make certain product-to-product comparisons to prove infringement, notwithstanding that there was an alternative plausible and proper interpretation of the same statement. The appeals court nonetheless concluded that this single incident was not sufficient to support the district court's finding that this case was so "exceptional" as to warrant an award of attorney fees.

Finally, the appellate court held that this one occurrence did not warrant sanctions against Medtronic's counsel under 28 U.S.C. § 1927 because the incident did not improperly prolong or otherwise unduly prejudice the proceeding; nor did it warrant sanctions under the district court's inherent authority because the actions of Medtronic's counsel were not "sufficiently egregious." Consistent with the holdings in other cases, the court noted that inherent authority as a basis for sanctions is to be used extremely rarely and only when there is palpable bad faith. By contrast for example, there is a presumption of good faith that attaches to an assertion of infringement of a duly-granted patent, which can only be overcome by clear and convincing evidence.

### **Significance of Opinion**

This opinion is important for the close attention that the appellate court gives to the details of a district court's attorney fee and sanctions ruling, making it clear that a highly deferential standard of review is not a license for a trial court to issue such awards with impunity. The decision reaffirms the importance of recognizing the right of a party and its counsel to pursue nonfrivolous claims through the pretrial and trial process without fear that they will be sanctioned for having done so without more. In particular, the Federal Circuit makes clear that it is not necessarily frivolous to pursue an infringement action in the face of narrow claim construction by the district court, especially if counsel has taken affirmative steps to address the ruling in fashioning the contours of the claim going forward.

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