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Fed. Circ. OKs 'Unusual' $1.3M Fees Bill On Failed IP Suit

By **Dani Kass**

Law360 (May 1, 2019, 9:02 PM EDT) -- The Federal Circuit on Wednesday agreed that Stanford University and ThermoLife International LLC should pay two pharmaceutical companies $1.3 million in attorney fees for accusing them of infringement without a proper investigation, even though the question of infringement was never addressed by the courts.

A California federal court had invalidated the patent-in-suit as obvious or anticipated at a bench trial, without addressing whether the drugmakers infringed it. The three-judge panel admitted that it's an "unusual case" where the reason the fee is being **awarded** has "nothing to do with the only issues litigated," but said the award was still appropriate.

"This is an unusual basis for fees, and we have emphasized the wide latitude district courts have to refuse to add to the burdens of litigation by opening up issues that have not been litigated but are asserted as bases for a fee award," the panel wrote. "... But we have been given no persuasive reason for holding that such a basis for fees is a legally impermissible one."

The Federal Circuit said U.S. District Judge Janis L. Sammartino didn't abuse her discretion to grant Vital Pharmaceuticals Inc., which does business as VPX Sports, and Hi-Tech Pharmaceuticals Inc. fees by deeming the case exceptional. Judge Sammartino had called the prefiling investigation "severely lacking," adding that it resulted in "frivolous claims and the objective unreasonableness of certain infringement contentions," as quoted by the Federal Circuit.

For example, Hi-Tech and Vital said that patent owner Stanford and licensee ThermoLife would have been able to tell there was no infringement just by reading the labels on their products or conducting "simple tests" to see the composition of the allegedly infringing products. The patent covers drug ingredients resulting in improved vascular function.

The panel also agreed with the California court's decision to strike a declaration made by Stanford and ThermoLife's former lead counsel, Tyler J. Woods of Pacific Trial Attorneys, defending the prefiling investigation. The lower court claimed that the declaration provided new information that the drugmakers couldn't conduct discovery on, which should have instead been included in its initial opposition. The Federal Circuit agreed.

The appeals court then said the drugmakers weren't required to give early notice of the defects that later led to the fees, even though the court often finds that notice important.

"Recently, we have stressed that one consideration that can and often should be important to an exceptional-case determination is whether the party seeking fees 'provide[d] early, focused, and supported notice of its belief that it was being subjected to exceptional litigation behavior,'" the panel said, "but we have not held that such notice is rigidly required. And here, there is reason to avoid what would amount to a retroactive imposition of a rigid notice requirement."

The panel noted that the issue of infringement had been placed on hold while looking at validity. Stanford and ThermoLife had filed 81 infringement suits, leading to a coordinated decision among defendants to prioritize this key question, the opinion states.

"In these circumstances, we think that the district court did not abuse its discretion in not treating lack of early notice by Hi-Tech and Vital as a bar to fees if, as the court determined, plaintiffs failed to undertake an adequate prefiling investigation to support their infringement allegations against Hi-Tech and Vital," the court added.

The Federal Circuit also noted that Judge Sammartino had agreed with the drugmakers that the suits seemed to be filed just to extract settlements, noting that it settled with many other parties for small amounts.

"Hi-Tech believes the Federal Circuit, in affirming the award of attorneys' fees against ThermoLife and Stanford University, reached the right decision" Robert F. Parsley of Miller & Martin PLLC said in an email. "... We expect the Federal Circuit's well-reasoned opinion to deter the filing of patent-infringement actions without reasonable prefiling investigation."

Vital's general counsel, Marc Kesten, said the company is "extremely pleased" with the Federal Circuit's ruling. He accused ThermoLife of being a patent troll, meaning a non-practicing entity enforcing intellectual property it licenses.

"VPX doesn't negotiate with greedy patent trolls such as ThermoLife or, for that matter, anyone looking to make a quick buck or tarnish its excellent reputation in the sports nutrition and fitness-product industries," Kesten said. "We are happy the courts rewarded us for standing our ground and [standing by our principles]."

Attorneys for the ThermoLife and Stanford didn't immediately respond to requests for comment Wednesday.

The patent-in-suit is U.S. Patent Number 5,891,459.

Circuit Judges Richard G. Taranto, William Curtis Bryson and Kara Farnandez Stoll sat on the panel for the Federal Circuit.

ThermoLife is represented by Gabriel Bell and Robert Gajarsa of Latham & Watkins LLP and Gregory Blain Collins, Eric Hull and Cara Molly Louise Rogers of Kercsmar & Feltus PLLC.

Stanford is represented by William P. Atkins and Benjamin Kiersz of Pillsbury Winthrop Shaw Pittman LLP.

Hi-Tech is represented by Robert F. Parsley of Miller & Martin PLLC.

Vital is represented by Francis DiGiovanni, M. Curt Lambert and Thatcher Rahmeier of Drinker Biddle & Reath LLP.

The case is ThermoLife International LLC v. GNC Corporation, case numbers 18-1657 and 18-1666, in the U.S. Court of Appeals for the Federal Circuit.

--Additional reporting by Nicole Narea. Editing by John Campbell.
