

U.S. Supreme Court Changes Standards for Attorney Fee Awards in
Patent Cases
by David R. Todd

On April 29, 2014, the Supreme Court issued decisions in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* and in *Highmark Inc. v. Allcare Health Management System, Inc.* Both cases involve parties who successfully defended against an action for patent infringement and who then sought an award of attorney fees. Whereas *Octane* was a case in which the district court declined to award fees under the Federal Circuit's analytical framework for such requests, *Highmark* was a case in which the district court had granted an award of attorney fees but was reversed by the Federal Circuit on appeal. The Supreme Court used these two cases to hold that the Federal Circuit's framework has been incorrect, both for assessing when attorney fees should be awarded and how attorney fee awards should be reviewed on appeal.

Up until 1946, the "American Rule" governed in patent litigation, *i.e.*, each party was obligated to pay his own attorney's fees. However, in 1946, Congress authorized fee-shifting, allowing a court "in its discretion" to "award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case." Under this provision, the courts did not award fees as a matter of course to a prevailing party, but only in extraordinary circumstances. In 1952, Congress amended the fee-shifting provision consistent with that practice to provide that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." This is the provision that is still in effect today.

In 2005, the Federal Circuit decided *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). In resolving that case, the Federal Circuit identified two categories of cases in which attorney fees were permissible. First, it stated that a case "may be deemed exceptional when there has been some material inappropriate conduct related to the matter in the litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions." Second, the Federal Circuit instructed: "Absent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." The *Brooks* court concluded that the accused infringer

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had not proven that the litigation was brought in subjective bad faith; it therefore reversed the finding that the case was “exceptional” and vacated the district court’s award of attorney fees. *Brooks* further held that exceptionality must be proven by clear and convincing evidence.

Octane v. Icon

The Supreme Court’s decision in *Octane* arose out of a suit by Icon Health & Fitness, Inc. against Octane Fitness, LLC alleging patent infringement. The district court granted summary judgment of noninfringement, and Octane moved for an award of attorney fees. Applying the framework set out by the Federal Circuit in *Brooks*, the district court found that although Icon’s arguments were “not ultimately persuasive” and “ultimately unsuccessful,” they were “not frivolous” and “not objectively baseless.” The district court further concluded that Octane had not demonstrated subjective bad faith. As a result, the district court held that the case was not exceptional and that an award of attorney fees was not warranted. On appeal, the Federal Circuit affirmed the grant of summary judgment of noninfringement and also affirmed the district court’s decision declining to award attorney fees.

The Supreme Court granted certiorari to review the Federal Circuit’s standard for awarding attorney fees. In its decision, the Court concluded that the framework established by the Federal Circuit in *Brooks* “is unduly rigid” and “impermissibly encumbers the statutory grant of discretion to district courts.”

Pointing to the plain language of 35 U.S.C. § 285 and dictionary definitions of the word “exceptional,” the Court explained that when Congress used that word, it meant “uncommon,” “rare,” or “not ordinary.” As a result, the Court held that an “exceptional” case “is simply one that stands out from others with respect to the substantive strength of a party’s litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” The Court explained that district courts may determine whether a case is “exceptional” “in the case-by-case exercise of their discretion, considering the totality of the circumstances.”

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The Court then offered several reasons to reject the *Brooks* framework. First, the Court explained that the first category of cases in which *Brooks* allowed attorney fees (“when there has been some material inappropriate conduct related to the matter in the litigation”) was comprised “largely” of “independently sanctionable conduct,” but then reasoned that “sanctionable conduct is not the appropriate benchmark.” It explained that a district court may award fees in the “rare case” in which a party’s conduct is “unreasonable” but not “independently sanctionable.” Second, the Court explained that the second category of cases in which *Brooks* allowed attorney fees (when “(1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless”) is too restrictive, because a case with “either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.” The Court rejected the argument that these two requirements should be imposed to avoid chilling the exercise of the First Amendment right to petition the government for the redress of grievances. Third, the Court explained that the *Brooks* framework “would appear to render § 285 largely superfluous,” since bad faith is already a “common-law exception to the general ‘American Rule’ against fee-shifting...‘inherent’ in the power of the courts.”

The *Octane* Court also rejected the Federal Circuit’s requirement that litigants establish their entitlement to attorney fees by “clear and convincing evidence.” The Court observed that the “preponderance of the evidence” standard is the standard “generally applicable in civil actions” and that nothing in section 285 requires any higher standard of proof.

It now remains to be seen whether attorney fees will be awarded in the *Octane* case under the new standards established by the Supreme Court.

Highmark v. Allcare

At the same time that the Court issued its decision in *Octane*, it issued its decision in the companion case of *Highmark Inc. v. Allcare Health Management System, Inc.* In that case, Highmark sued Allcare seeking a declaratory judgment that Allcare’s patent was either invalid or not infringed. The district court granted summary judgment of noninfringement in

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favor of Highmark, and the Federal Circuit affirmed. Highmark then filed a motion for an award of attorney fees, which the district court granted. The district court found that Allcare had engaged in a pattern of “vexatious” and “deceitful” conduct in the case. Specifically, the court found that Allcare had identified potentially infringing companies using “the guise of an informational survey.” In addition, the district court found that Allcare had “maintained infringement claims...well after such claims had been shown by its own experts to be without merit” and had “asserted defenses it and its attorneys knew to be frivolous.” On appeal, the Federal Circuit affirmed the award of fees with respect to one claim of the patent but reversed the award of fees with respect to another claim of the patent. In particular, the Federal Circuit concluded that Allcare’s infringement case with respect to one claim was “objectively baseless” but that Allcare’s infringement case with respect to the other claim was not. In doing so, the Federal Circuit concluded that the proper standard for reviewing the district court’s findings of “objective baselessness” was *de novo*.

The Supreme Court granted certiorari to review the Federal Circuit’s standard of review. In its decision, the Court made short work of this issue. It explained that “[o]ur holding in *Octane* settles this case: Because § 285 commits the determination whether a case is ‘exceptional’ to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion.” This is the same standard of review that the Court had adopted for purposes of reviewing fee-shifting decisions under the Equal Access to Justice Act and for purposes of reviewing sanctions under Rule 11 of the Federal Rules of Civil Procedure. The Court further reasoned that, as it had observed in those cases, the district court is better positioned to decide whether a case is exceptional because “it lives with the case over a prolonged period of time,” because “the question is ‘multifarious and novel,’” and because the inquiry is “‘rooted in factual determinations.’”

It now remains to be seen whether the district court’s award of attorney fees in the *Highmark* case survives Federal Circuit review under the abuse of discretion standard.

For the full text of the *Octane* opinion:

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http://www.supremecourt.gov/opinions/13pdf/12-1184_gdhl.pdf

For the full text of the *Highmark* opinion:

http://www.supremecourt.gov/opinions/13pdf/12-1163_8o6g.pdf