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Alert

Supreme Court Sets Standards for Attorneys Fees Under The Patent Act

On April 29, 2014, the Supreme Court issued its decisions in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark Inc. v. Allcare Health Management Systems, Inc.* regarding the governing standards for awarding attorney's fees under the Patent Act. Petitioners in the *Octane Fitness* and *Highmark* cases were successful defendants in patent infringement actions who were nonetheless denied an award of fees. The Supreme Court's decisions expand the circumstances under which fees may be awarded to prevailing parties, and provide that the district court should be accorded deference on appellate review.

The Federal Circuit's Previous Standard for Awarding Attorney's Fees

35 U.S.C. § 285 governs the award of attorney's fees in patent cases and provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." The determination of whether a case is "exceptional" was previously governed by the Federal Circuit's decision in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, which provided that attorney's fees could be awarded in one of two circumstances: (1) where there had been "misconduct in conduct of the litigation or in securing the patent"—which included conduct "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"; or (2) by showing that the litigation was both "brought in subjective bad faith" and "objectively baseless."[1]

Under the Federal Circuit's previous standard, "the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence."[2] Moreover, whether a litigation was objectively baseless "is a question of law based on underlying mixed questions of law and fact," and therefore was subject to *de novo* review, with no deference being accorded to the district court's findings.[3]

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[1] 393 F.3d 1378, 1381 (Fed. Cir. 2005).
[2] *Brooks Furniture*, 393 F.3d at 1382.
[3] *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d at 1300, 1309 (Fed. Cir.2012).

The *Octane Fitness* and *Highmark* Decisions

In an effectively unanimous opinion[4] in *Octane Fitness*, the Supreme Court discarded the *Brooks Furniture* standard as "unduly rigid." The Supreme Court held that an "exceptional" case is "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both governing law and the facts of the case) or the unreasonable manner in which the case was litigated," and that a district court "may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." For instance, the Court held, litigation misconduct may be grounds for a fee award even if it is not "independently sanctionable," and a successful litigant need not prove both objective baselessness and subjective bad faith to show exceptionality – rather, attorney's fees may be appropriate if either element is met. Finally, the Court held that a litigant may show its entitlement to fees under a preponderance of the evidence standard, rather than the clear and convincing evidence requirement of *Brooks Furniture*.

In *Highmark*, another unanimous decision, the Court applied the new standard it articulated in *Octane Fitness*. As a district court is now able to exercise discretion on a case-by-case basis, the Court held that "an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's §285 determination."[5]

Potential Impact on Patent Litigation and Legislation

The *Octane Fitness* and *Highmark* cases did not involve plaintiffs that were non-practicing entities, or patent trolls. However, the Supreme Court's rulings should give some comfort to targets of patent infringement lawsuits brought by those types of entities. Under the *Brooks Furniture* standard, such a plaintiff could have confidence that an unsuccessful suit would not be likely to cost any more than its own, out-of-pocket expenses. The Federal Circuit's standard therefore encouraged dubious claims of infringement in the hopes that a patent owner could extract a settlement amount based on a defendant's desire to avoid the cost of litigation, rather than on the perceived merits. Now, patent trolls filing suits for this purpose will have to consider in their calculus the increased possibility that, should they lose, they will be liable for the successful defendant's attorney's fees under 35 U.S.C. § 285 and the new "exceptional case" standards articulated in *Octane Fitness* and *Highmark*.

What remains to be seen is the effect that these decisions will have on pending patent reform legislation making its way through Congress. The Innovation Act, which passed the House of Representatives last year, includes a provision that mandated an award of attorney's fees, unless the court finds that the nonprevailing party was "reasonably justified" or if "special circumstances … make an award unjust."[6] Inclusion of a similar provision is reportedly a point of disagreement in passing a related bill, the Patent Transparency and Improvements Act,[7] in the Senate. If legislators are of the view that the *Octane Fitness* and *Highmark* cases do enough to deter frivolous patent litigation, the issue of fee-shifting may be seen as resolved, paving the way for meaningful patent reform in the near future.

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[4] Justice Scalia did not join in footnotes 1-3 of the decision, which dealt with the legislative history of the Patent Act and its predecessor statute.

[5] Accordingly, the Court reversed the Federal Circuit, which itself had reversed the district court's award of fees to Highmark as to one set of infringement claims because it gave the district court no deference in its findings of objective baselessness. See *Highmark*, 687 F.3d at 1313-1315.

[6] H.R. 3309, § 3(b)(1) (2013).

[7] S. 1720 (2013).

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