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U.S. Supreme Court Liberalizes the Award of Attorney Fees in Patent Cases

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Intellectual Property Update

Octane Fitness, LLC v. Icon Health and Fitness, Inc., 572 U.S. _, 2014 WL 1672251 (2014)
Highmark Inc. v. Allcare Health Management Sys., 572 U.S. _, 2014 WL 1672043 (2014)

Brief Summary

The Supreme Court in two unanimous[i] opinions liberalized the award of attorney fees in patent cases under 35 U.S.C. § 285. The Court did so by:

- defining an exceptional case in which reasonable attorney fees may be awarded to the prevailing party as "one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated;"
- reducing the evidence required from clear and convincing to a preponderance of evidence; and
- increasing the deferentiality of appellate review of such awards from *de novo* to abuse of discretion.

Complete Summary of *Octane Fitness*

Octane, the alleged infringer, appealed from a Federal Circuit decision partially overturning a district court award of reasonable attorney fees.

Patent owner ICON, a manufacturer of fitness equipment, sued Octane, also a manufacturer of fitness equipment, for infringement. The district court found on summary judgment that the patent in question was not infringed, and Octane moved for an award of attorney fees under § 285. The district court denied the motion, because it found that ICON's infringement suit was not objectively baseless and was not brought subjectively in bad faith, applying the Federal Circuit's *Brooks Furniture* test for exceptionality. The Federal Circuit affirmed.

The Supreme Court first described the history of § 285 and its interpretation. It noted that for much of its history, courts including the Federal Circuit awarded fees under § 285 in a discretionary manner when the totality of circumstances indicated that a case was sufficiently exceptional to merit such an award.

Attorneys

Roger M. Masson

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It was not until 2005 in *Brooks Furniture Mfg., Inc. v. Dutailier, Int'l, Inc*. that the Federal Circuit changed course. It held that exceptional cases are limited to those having "some material inappropriate conduct related to the matter in 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." It also held "absent misconduct in conduct of the litigation or in securing the patent" reasonable attorney fees "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 Supreme Court began its analysis by looking at the text of § 285. Since "exceptional" was not defined in the Patent Act, the Supreme Court looked to dictionaries for definitions. Based on those dictionary definitions, it held that an exceptional case is "one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." It further held that district courts should determine if a case is exceptional in the "case-by-case exercise of their discretion, considering the totality of circumstances."

The Supreme Court then compared its test for exceptionality to that of *Brooks Furniture*. It found that *Brooks Furniture* unnecessarily limited exceptional cases to ones that had conduct that was independently sanctionable, such as willful infringement, inequitable conduct or conduct violative of Fed. R. Civ. P. 11. It also found that the dual requirement of both subjective bad faith and objective baselessness to be too narrow, as either subjective bad faith or objective baselessness alone may be sufficiently exceptional to justify an award of fees.

The Supreme Court dismissed arguments that the *Brooks Furniture* test for baseless litigation is required by *Professional Real Estate Investors v. Columbia Pictures Industries,* 508 U.S. 49 (1993) (*PRE*) because *PRE* is limited to a sham litigation exception to the *Noerr-Pennington* antitrust doctrine.

The Supreme Court also rejected *Brooks Furniture* as making § 285 essentially superfluous, as courts already had the inherent power to grant fees for bad faith and vexatious or oppressive litigation.

It then rejected the requirement for clear and convincing evidence in *Brooks Furniture* as being contrary to the normal preponderance-of-evidence standard of civil and patent-infringement litigation.

Finally, it reversed the Federal Circuit's decision to uphold the denial of attorney fees and remanded for further proceedings.

Complete Summary of *Highmark*

Highmark, the alleged infringer, appealed a Federal Circuit decision, which partially overturned a district court award of reasonable attorney fees.

Highmark, a health insurance company, brought a declaratory judgment suit against patent owner Allcare, an alleged patent troll. Allcare counterclaimed for patent infringement. The district court found on summary judgment that the patent in question was not infringed, and Highmark moved for an award of attorney fees under § 285. The district court granted fees in view of (1) Allcare's prelitigation commissioning of a survey that Allcare used to identify potentially infringing companies and then to force them to obtain a license under the threat of suit; (2) Allcare's failure to conduct an adequate pre-filing investigation despite the survey and "maintain[ing] infringement claims well after such claims had been shown by its own experts to be without merit;" and (3) three other acts of litigation misconduct.

The Federal Circuit reviewed the district court's decision *de novo* and affirmed the award of fees with respect to the alleged infringement of one claim of the patent at issue, but reversed as to another claim. It also scrutinized each of the three findings of other litigation misconduct individually and reversed all of them.

The Supreme Court began its analysis by stating that in its opinion in *Octane Fitness* it found the award of fees under § 285 for an exceptional case to be discretionary. For statutory and jurisprudential reasons, it found that review of an exceptional case award should be for abuse of discretion, not *de novo*.

It then vacated the Federal Circuit decision and remanded for further proceedings.

Significance of Opinions

Despite the Supreme Court not identifying Allcare as a patent troll or patent licensing company or even referring to a patent troll problem, these two cases put patent owners generally and patent trolls, in particular, on notice that they need to do proper due diligence before bringing a patent infringement suit or counterclaim. No longer will patent owners be protected from awards of reasonable attorney fees for bringing or continuing a meritless infringement suit by the objectively-baseless-and-subjective-bad-faith and clear-and-convincing-evidence standards of *Brooks Furniture* and by *de novo* review of such awards by the Federal Circuit, which is often perceived as being patent-owner friendly. The extent to which baseless litigation is reduced may be limited by the practice of creating patent assertion entities (PAEs) specifically for patent-infringement litigation because they may not have sufficient funds to cover an award.

The effect of these two cases is not limited, however, to patent owners who aggressively bring or prolong suits. These two cases reach any patent infringement case that was unreasonably litigated. Consequently, alleged infringers should also be on notice to not unreasonably draw out litigation in the hopes of exhausting patent owners, for example. Together, the two cases should reduce abusive patent litigation in the future.

As to currently pending patent-infringement cases that are weak, alleged infringers may be emboldened to not settle in the hope of an award of attorney fees and patent owners may lower their settlement demands to avoid such an award.

For further information, please contact Roger M. Masson, Eric H. Weimers, or your regular Hinshaw attorney.

[i] Justice Scalia joined the opinion in *Octane Fitness* except as to footnotes 1-3.