Litigation Alert: Supreme Court Relaxes Standard for Fee Shifting in Patent Cases

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Octane Fitness, LLC v. Icon Health & Fitness, Inc., No. 12-1184, Slip Op. Apr. 29, 2014

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc., No. 12-1163, Slip Op. Apr. 29, 2014

In a pair of decisions issued yesterday, the United States Supreme Court unanimously[1] lowered the threshold for obtaining attorneys' fees in patent cases pursuant to 35 U.S.C. § 285 and increased the level of deference owed to a district court's fee-shifting determination. Specifically, in *Octane Fitness*, the Court held that a case is exceptional under § 285 if it "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." The Court also rejected the requirement that such a showing must be established by clear and convincing evidence, and instead adopted a preponderance of the evidence standard. In *Highmark*, the Court established that exceptional case determinations will be reviewed for abuse of discretion.

35 U.S.C. § 285 authorizes courts to "award reasonable attorney fees to the prevailing party" in "exceptional cases." Historically, courts evaluated the "totality of the circumstances" in determining whether a case was exceptional under § 285 and its predecessor, § 70. A 2005 Federal Circuit decision, however, announced a rule for determining whether a case is exceptional, requiring "material inappropriate conduct" by a party or that the claim was both "objectively baseless" and "brought in subjective bad faith." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). The Federal Circuit also required a party seeking attorneys' fees to establish that the case is "exceptional" by clear and convincing evidence. *Id.* at 1382.

In *Octane Fitness*, the Supreme Court characterized the *Brooks Furniture* test as "unduly rigid" and "so demanding that it would appear to render § 285 largely superfluous" in view of the inherent power of courts to make exceptions to the general American rule against fee-shifting. *Octane Fitness,* Slip Op. at 7, 11. The Court observed that traditional fee-shifting jurisprudence took a "holistic, equitable approach," whereas the Federal Circuit's *Brooks Furniture* decision applied a "rigid and mechanical formulation" that "superimpose[d] an inflexible framework onto statutory text that is inherently flexible." *Id.*

The Court reached the proper standard by looking to the plain meaning of the statute, and specifically "exceptional," which means "uncommon," "rare," or "not ordinary." Given that meaning, the Supreme Court held that an "exceptional case" is "one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Id.* This formulation extends beyond the narrow set of cases for which the *Brooks Furniture* test allowed fee-shifting, which the Supreme Court viewed as including conduct that is *independently* sanctionable. *Id.* at 8.

The Court also rejected the *Brooks Furniture* standard of proof as "clear and convincing evidence" in favor of a "preponderance of the evidence" standard, which is "the standard generally applicable in civil actions" including patent infringement litigation. *Id.* (internal quotation omitted).

The *Highmark* decision took *Octane Fitness* one step further, establishing that "all aspects" of a district court's "exceptional case" determination are to be reviewed for abuse of discretion, rather than the *de novo* standard applied by the Federal Circuit below. *Highmark*, Slip Op. at 4. The Federal Circuit previously held that the exceptional case inquiry is "a question of law based on underlying mixed questions of law and fact and is subject to *de novo* review." *Highmark,*

1 Although the judgments in both cases were unanimous, Justice Scalia did not join three footnotes in the *Octane Fitness* opinion that referred to portions of legislative history. No justice filed a separate opinion in either case.

Inc. v. Allcare Health Mgmt. Sys., Inc., 687 F.3d 1300, 1309 (Fed. Cir. 2012) (internal quotation omitted). The Supreme Court disagreed with the Federal Circuit's conclusion, holding instead that under its *Octane Fitness* framework, the "exceptional case" determination is within the discretion of the district court and reviewed on appeal for abuse of discretion. *Highmark*, Slip Op. at 5.

This pair of decisions can be seen as an attempt by the Court to address the well-publicized problems with meritless patent lawsuits, particularly by so-called "patent trolls."[2] On the one hand, a lower standard for fee shifting could reduce the number of clearly meritless lawsuits filed as fears of fee awards begin to predominate over hopes of quick settlement payouts. On the other, the increased flexibility of the *Octane Fitness* approach, together with additional deference to district courts granted by *Highmark*, invites variability among district courts. In turn, that could increase the appeal of forum shopping as different district courts develop reputations for their willingness to award fees.

Current litigants facing clearly meritless claims should consider the options offered by the Supreme Court's decisions. Given the increased likelihood of recovering fees, settlement of meritless claims may be less attractive. Alternatively, patentees asserting such claims may be willing to entertain significantly lower or walkaway settlements to avoid liability for attorneys' fees. Likewise, patentees asserting claims should take caution to evaluate their claims at each stage of a case, particularly after material adverse rulings, to ensure continued prosecution of an action does not render it exceptional.

2 Although there is no discussion in the opinions, the subject of patent trolls was heavily emphasized during oral argument.

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