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ALERT MEMORANDUM

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Supreme Court Eases Requirements For Recovering Attorney's Fees In Patent Suits

In a pair of unanimous decisions issued last week, the U.S. Supreme Court made attorney's fee awards in patent suits easier to obtain, but also less predictable and less subject to scrutiny on appeal. In its decisions in Octane Fitness, LLC v. ICON Health & Fitness, Inc.[1] and Highmark Inc. v. Allcare Health Management System, Inc.,[2] the Court loosened the standard for such fee awards, lowered the evidentiary burden from "clear and convincing" evidence to a preponderance of the evidence, and changed the level of appellate review from de novo to the deferential "abuse of discretion" standard. Though some commentators have heralded the decisions as striking a blow against "patent trolls" because they will now face a greater risk of an adverse fee award when they bring weak claims and lose, the new framework will raise the stakes for patent infringement defendants with weak defenses as well.

The Statutory Basis for Fee Awards

Section 285 of the Patent Act authorizes district courts to award attorney's fees to the prevailing party in "exceptional cases," but does not define "exceptional" or provide any guidance for applying the term.[3] The Federal Circuit previously had established a high bar: a case qualified as "exceptional" only when either (a) a party had engaged in "material inappropriate conduct" such as willful infringement, fraud or inequitable conduct in securing the patent, or misconduct during litigation; or (b) a patentee's suit was both objectively baseless and brought in subjective bad faith.[4] As noted, when an accused infringer prevailed against a patentee and sought fees under Section 285, it would need to satisfy the "objectively baseless" and "subjective bad faith" tests with clear and convincing evidence.[5] Further, the district court's "objectively baseless" determination was subject to de novo review on appeal, making it easier for the Federal Circuit to reverse.[6]

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[1] Octane Fitness, LLC v. ICON Health & Fitness, Inc., 2014 WL 1672251 (U.S. Apr. 29, 2014).
[2] Highmark Inc. v. Allcare Health Management System, Inc., 2014 WL 1672043 (U.S. Apr. 29, 2014).
[3] 35 U.S.C. § 285.
[4] Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378 (Fed. Cir. 2005).
[5] Brooks Furniture, 393 F.3d at 1381-82.
[6] Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc., 687 F.3d 1300, 1309 (Fed. Cir. 2012) (citing Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc., 682 F.3d 1003, 1007 (Fed. Cir. 2012), cert. denied, 133 S. Ct. 932 (2013)).

The Supreme Court's New Framework

The Supreme Court's decisions in Octane Fitness and Highmark changed all three features of the Section 285 framework. First, the Supreme Court criticized the Federal Circuit for imposing stiff requirements not found in the statute. The Court ruled that "exceptional" should be given its ordinary, dictionary meaning, so 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 the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."[7] Thus, district courts "may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."[8] The Court emphasized that this is intended to be a highly flexible, case-specific assessment: "'[t]here is no precise rule or formula for making these determinations,' but instead equitable discretion should be exercised 'in light of the considerations we have identified.'"[9]

Second, the Supreme Court rejected the Federal Circuit's requirement that patent litigants establish their entitlement to fees under Section 285 by "clear and convincing evidence."[10] Explaining that "[w]e have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence" and that "nothing in § 285 justifies such a high standard," the Court held instead that a preponderance of evidence would suffice.[11]

Third, the Supreme Court held that because its new Section 285 framework involves district courts "determin[ing] whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances," the exceptional-case determination is to be reviewed on appeal only for abuse of discretion.[12]

Implications of the Court's Decisions

The Court's two rulings will make it easier to obtain fee awards against patentees. And indeed these decisions have been widely portrayed in the press and amicus briefs as an opportunity to rein in non-practicing entities – i.e., "patent trolls" – by increasing the risk that patentees who bring weak claims and lose will have to pay the accused infringer's attorney's fees. In this respect, the Court's decisions are in line with current efforts by the House and Senate, with White House support, to pass legislative reforms to curb abusive patent litigation. And some may argue that the Court's rulings represent the preferred mode of addressing such challenges, through judicial decision-making within the existing statutory framework rather than statutory amendments.

[7] Octane Fitness, 2014 WL 1672251 at *5.
[8] Id.
[9] Id., quoting Fogerty v. Fantasy, Inc., 510 U. S. 517, 534 (1994).
[10] Id. at 11 (quoting Brooks Furniture, 393 F.3d at 1382).
[11] Id. (citations omitted).
[12] Highmark, 2014 WL 1672043 at *3, quoting Octane Fitness, 2014 WL 1672251 at *5.

But it bears emphasis that the new Section 285 framework will apply to all patentees, not just non-practicing entities – and in fact the patentee in Octane Fitness was a maker of exercise equipment that sued one of its competitors, though it did not practice the patent at issue in the suit.[13]

And the Supreme Court's new standards presumably will apply in the other direction too – when patentees succeed on infringement claims and seek an award of fees against the accused infringer. Accused infringers ordinarily are subject to needing to pay the patentee's legal fees under Section 285, as well as enhanced damages under Section 284 when they are found to have willfully infringed, both of which are a staple of patent infringement complaints. Under the Federal Circuit's current willfulness standard, a patentee must establish, by clear and convincing evidence, that the defendant engaged in allegedly infringing activity "despite an objectively high likelihood that its actions constituted infringement" of the patentee's valid patent.[14] If the patentee can satisfy this test, it must also prove that the defendant either knew, or should have known, about the high risk of infringement.[15] As for appellate review, at least one Federal Circuit decision has ruled that the "objectively high likelihood of infringement" prong of the willfulness test is subject to de novo review.[16]

Now, for attorney's fees to be awarded under Section 285, a successful patentee will need to satisfy only the Octane Fitness test: that the case is simply 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. And the patentee must make this showing only by a preponderance of evidence. When district courts award fees against accused infringers, the award now will be reviewed under Highmark's deferential abuse of discretion standard.

Further, the reasoning behind the Supreme Court's decisions raises at least a question of whether the Federal Circuit's current framework for identifying willful infringement – with its objective and subjective prongs, clear and convincing evidence requirement, and de novo review of the objective prong on appeal – will also need to be revisited. If that were to occur, it would of course be a shift against accused infringers and in favor of patentees, including so-called patent trolls.

In sum, the Octane Fitness and Highmark decisions have given defense-oriented patent litigants what they wanted, by leveling the playing field and making it easier to punish patentees who bring baseless claims by imposing fee awards. But the new framework also makes it easier for the winning party, on either side, to win a fee award,

[13] Octane Fitness, 2014 WL 1672251 at *4.
[14] *In Re* Seagate Tech., 497 F.3d 1360, 1371 (Fed. Cir. 2007).
[15] Id.
[16] Bard, 682 F.3d at 1007.

and harder for the losing party to overturn an award on appeal. In that respect, the Supreme Court's new framework ups the ante for litigants on both sides of the equation.

If you have any questions, please feel free to contact any of your regular contacts at the firm or any of our partners and counsel listed under "Intellectual Property" in the "Practices" section of our website at http://www.clearygottlieb.com.

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