



## Intellectual Property ADVISORY ■

**MAY 1, 2014**

### Patent Cases and the Supreme Court

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The Supreme Court has recently issued opinions in two patent-related cases. Both opinions relate to the receipt of attorneys' fees in exceptional cases under 35 U.S.C. § 285. The first, *Octane*, reverses the Federal Circuit's previous standards of proof as overly rigid, granting district courts the discretion to award attorneys' fees when a case is exceptional based on the totality of the circumstances. The second, *Highmark*, establishes that the appropriate standard of appellate review for an award of attorneys' fees is abuse of discretion. These opinions have important consequences that companies should consider as they move forward in considering their intellectual property strategy.

#### ***Octane Fitness v. ICON Health and Fitness***

No. 12-1184

Decided: April 29, 2014

**Issue:** 35 U.S.C. § 285 allows the award of attorneys' fees in exceptional cases. Under prior Federal Circuit law, a case was only exceptional when (1) a party committed litigation or certain other misconduct or (2) the case was objectively baseless and was brought in subjective bad faith. *Brooks Furniture Mfg., Inc. v. Dutilier Int'l, Inc.*, 393 F.3d 1378 (2005). Additionally, because there was a presumption that infringement of a duly granted patent was made in good faith, defendants requesting an award of attorneys' fees had to prove improper conduct and exceptional characterization by clear and convincing evidence. *Id.* The prior two-part test imposed a high bar on successful defendants, making the award of attorneys' fees rare. This case held that the Federal Circuit's complex test in *Brooks Furniture* was unduly rigid and improperly appropriated the district court's discretionary authority to find cases exceptional and award such fees.

**Facts:** ICON Health and Fitness filed a complaint alleging that two of Octane Fitness' elliptical machines infringed on ICON's patent. The patent claims at issue focus on the linkage system that connects the portion of an elliptical that the user stands on to the portion that guides the elliptical rotation. The district court found that the linkage systems were sufficiently different, and granted Octane summary judgment of noninfringement. Octane further alleged that certain email evidence showed that ICON only brought

suit so as to distract Octane before ICON released a new competitive elliptical onto the market. In light of this, Octane asked the court for a finding that the case was exceptional and an award of attorneys' fees. Citing the Federal Circuit two-prong standard, the district court found that the case was neither objectively baseless nor was there clear and convincing evidence of subjective bad faith, and denied the award of attorneys' fees. The Federal Circuit affirmed. Octane then appealed the Federal Circuit's decision.

**Holding:** The Court held that "[o]ur analysis begins and ends with the text of § 285.... The statute imposes only one restriction on district courts' discretion to award attorneys' fees in patent litigation: The power is reserved for 'exceptional cases.'" The Court construed exceptional in accordance with its ordinary meaning and held that it means a case "that stands out from others with respect to the substantive strength of a party's litigation position... or the unreasonable manner in which the case was litigated." The Court noted that the Federal Circuit's first category of exceptional conduct encompassed conduct that was likely independently sanctionable, and set too high a bar. The Court held that the Federal Circuit's subjective bad faith and objective baselessness standard was too high a bar as well. The Court noted that the Federal Circuit's test made § 285 effectively superfluous. Accordingly, the Court held that district courts may determine whether a case is exceptional on a case-by-case basis considering the totality of the circumstances. Finally, the Court rejected the Federal Circuit's requirement that the elements be proven by clear and convincing evidence, holding that the preponderance of the evidence standard applicable in most areas of patent litigation should apply. The case was remanded for reconsideration consistent with the opinion.

**Implications:** This opinion makes clear that trial courts have broad discretion to award attorneys' fees to successful defendants. The threat of a successful § 285 action could function as a litigation deterrent for certain plaintiffs, thus decreasing the likelihood of going to trial and reducing the coercive pressure held by patent plaintiffs in settlement negotiations. Additionally, an increased likelihood of an award of attorneys' fees could increase the willingness of parties to maintain litigation through to trial, on the hopes that they will recoup their expenses in the form of a § 285 award.

***Highmark, Inc. v. Allcare Health Management Systems, Inc.***

No. 12-1184

Decided: April 29, 2014

**Issue:** This case also addresses § 285. Here, the district court ruled that a case was objectively baseless and brought in subjective bad faith, and therefore found the case exceptional. The Federal Circuit reviewed that judgment de novo and overturned the findings, in part, vacating the award of attorneys' fees. The issue presented to the Supreme Court was whether an appellate court should accord deference to a district court's determination that litigation is "objectively baseless." The Court held that, as an award of attorneys' fees was within a district court's discretion, the appropriate standard of review was abuse of discretion.

**Facts:** Allcare owns a patent directed to health care management. Highmark sued Allcare in a declaratory judgment action seeking a finding of noninfringement, invalidity and unenforceability of that patent. The district court granted summary judgment on the issue of noninfringement for Highmark, which Allcare appealed. While the appeal was pending, Highmark moved for an exceptional case finding under § 285.

The district court found that the case was exceptional based on the litigation of two claims within the patent, as well as other litigation issues, and awarded attorneys' fees. Allcare then appealed the § 285 award.

The Federal Circuit reviewed the district court's exceptional case finding de novo. While it agreed with the district court as to the exceptional case finding for one of the patent claims, it reversed the district court's exceptional case finding for the other patent claim and the other litigation issues, and correspondingly reduced the award of attorneys' fees awarded to Highmark. This opinion was met with a dissent that argued for a deferential review of attorneys' fees and a corresponding affirmance of the district court's award in its entirety. Highmark then petitioned for cert.

**Holding:** The Court first noted that their decision in *Octane* settled this case. The Court's rejection of the Federal Circuit's stringent standards for a finding that a case was exceptional returned discretion to the district courts. The Court noted that questions of law were reviewed de novo, questions of fact for clear error and questions within a court's discretion are reviewed for abuse of that discretion. As such, the appropriate level of review for exceptional case awards under § 285 is the deferential abuse-of-discretion standard, which was consistent with prior case law discussing exceptional case findings.

**Implications:** The Supreme Court's reversal and restriction of the Federal Circuit's review to the more deferential abuse-of-discretion standard, grants defendants and plaintiffs alike a greater level of certainty after a trial-level award of attorneys' fees. This reversal thus might improve the profitability of § 285 motions by reducing the likelihood and corresponding cost of appeal. In addition, it may cause parties to carefully consider the merits of their case prior to bringing an action for patent infringement.

Under both of these decisions, it is clear that district courts have broad discretion in awarding attorneys' fees. However, we will have to wait to see how district courts actually apply this discretion, in order to determine whether attorneys' fees will now be granted at a higher rate in patent infringement matters.

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