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ALERTS

Intellectual Property Law Alert - Supreme Court Lowers Threshold For Grant Of Attorneys' Fees In Patent Cases

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On April 29, 2014, the Supreme Court issued two decisions considering the determination of whether a patent case is "exceptional" such that a grant of attorneys' fees to a prevailing party under 35 U.S.C. § 285 is proper. See *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark, Inc v. Allcare Health Management System, Inc.*

Over the course of the last decade, the Federal Circuit Court outlined several guiding principles for determining whether a case is "exceptional" such that fees might be awarded to the prevailing party. As a general matter, the Federal Circuit had imposed a high bar to the grant of fees. In *Brooks Furniture Mfg, Inc. v. Dutailer Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005), for example, the Federal Circuit concluded that a case could be exceptional only where there was "material inappropriate conduct" such as fraud or inequitable conduct in procuring the patent, or misconduct during litigation, or unjustified litigation that would violate Fed. R. Civ. P. 11. Absent such conduct, moreover, fees could be imposed only if both "(1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." Id. In *Octane Fitness*, the Supreme Court rejected this standard, concluding that the Federal Circuit's framework was "unduly rigid" and "impermissibly encumbers the statutory grant of discretion to the district courts." Slip opinion at 7. The court also held that Section 285 imposes "no specific evidentiary proof," but rather entails a "simple discretionary inquiry" by the district court. Id. at 11.

Writing for a unanimous court, Justice Sonia Sotomayor traced the history of the statute back to the prior statute, which provided that a court "may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case." 35 U. S. C. §70; slip opinion at 2-3. Although the newly-enacted Section 285 added the word "exceptional," that change was for purposes of clarification and did not impose a higher threshold for recovering fees. Thus, the court concluded that an exceptional case (with exceptional carrying its ordinary meaning), "is simply one that stands out from the others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Slip opinion at 7. This determination is to be made in the discretion of the district court "considering the totality of the circumstances." Id. at 8. Under this standard, "a district court may award fees where a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so "exceptional" as to justify an award of fees." Id. at 9.

In *Highmark*, writing again for a unanimous court, Justice Sotomayor addressed whether a district court's fees determination is to be reviewed

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by an appellate court under an abuse of discretion standard or de novo. Relying on Pierce v. Underwood, 487 U.S. 552, 558 (1988), the court noted that questions of fact are “reviewable for clear error” and “matters of discretion” are reviewable for abuse of discretion. Having determined in Octane Fitness, that a determination under Section 285 is entrusted to the district court in its discretion, the Federal Circuit erred in applying de novo review. In short, “an appellate court should review all aspects of a district court’s §285 determination for abuse of discretion.” Slip opinion at 1.

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