



## Intellectual Property Alert:

### *Octane Fitness v. Icon* and *Highmark v. Allcare* — Pivotal Changes to Court Awarded Attorney’s Fees in Patent Litigations

By [Aaron P. Bowling](#)

April 30, 2014 – On Tuesday, in two unanimous decisions, the Supreme Court laid down a pair of pivotal changes to the rules governing court awarded attorney’s fees in patent litigations. The two cases, *Octane Fitness v. Icon* and *Highmark v. Allcare*, centered on 35 U.S.C. § 285, which provides that district courts “in exceptional cases may award reasonable attorney’s fees to the prevailing party.”

Together, Tuesday’s decisions provide district courts with significantly more discretion in awarding attorney’s fees to successful patent litigants and also considerably limit the ability of appellate courts to overturn those awards. As a likely result, motions for attorney fee awards will be more frequently filed, granted, and upheld; and defendants facing baseless lawsuits from non-practicing entities and others will have an additional arrow in their quiver.

#### **35 U.S.C. § 285 and the Federal Circuit’s *Brooks Furniture* Standard**

The Supreme Court has long held that district courts determining the award of attorney fees should undergo a holistic, equitable analysis that accounts for the totality of circumstances. The “exceptional cases” language in § 285, the Court has emphasized, should not be interpreted as negating the discretionary nature of the district court’s analysis. In 2005, however, the Federal Circuit in *Brooks Furniture* set forth a rule that limited “exceptional” cases to two categories of extreme circumstances.

First, under *Brooks Furniture*, a case could be deemed “exceptional” when a party engaged in “material inappropriate conduct,” *i.e.* “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.” Second, absent any such material misconduct, attorney’s fees could be imposed against the patentee only if *both* (1) the litigation was brought in subjective bad faith (“so unreasonable that no reasonable litigant could believe it would succeed”), and (2) the litigation was objectively baseless (the plaintiff “actually knows that it is objectively baseless”).

#### ***Octane v. Icon Health & Fitness***

In *Octane*, patentee Icon Health & Fitness sued Octane for infringement of Icon’s U.S. Patent No. 6,019,710. The district court granted Octane’s motion for summary judgment of non-infringement but, under *Brooks Furniture*, denied Octane’s motion for

attorney's fees under § 285. The district court found Icon's claims neither objectively baseless nor brought in bad faith. After the Federal Circuit affirmed and declined to "revisit the settled standard for exceptionality," the Supreme Court granted certiorari and heard oral arguments in February.

In a concise, textually-based opinion authored by Justice Sotomayor, the Supreme Court cited the plain language of "exceptional" to unanimously strike down the Federal Circuit's "rigid formulation." The *Brooks Furniture* test, the Justices opined, "superimposed an inflexible framework onto statutory text that is inherently flexible." The high court found both prongs of the Federal Circuit's test problematic: the misconduct category as unnecessarily requiring independently sanctionable conduct, and the second category as improperly requiring *both* objectively baseless litigation *and* bad faith.

With respect to the former, the Court held that unreasonable activity not rising to the level of sanctionable conduct may nonetheless be sufficiently "exceptional" to render an award of attorney's fees appropriate. Similarly, with respect to the latter, the Court held that "a case presenting *either* subjective bad faith *or* exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award."

In addition to finding the *Brooks Furniture* formulation "so demanding that it would appear to render § 285 largely superfluous," the Supreme Court also loosened the burden of proof placed on parties seeking attorney fee awards. In place of the *Brooks Furniture* "clear and convincing evidence" standard, the Court imposed a lesser "preponderance of the evidence" standard. "Section 285," the Court explained, "demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less a high one." Accordingly, the Court furthered, the preponderance of the evidence standard is appropriate because it "allows both parties to share in the risk of error in roughly equal fashion."

### ***Highmark v. Allcare Health Management***

In *Highmark*, the district court granted summary judgment of non-infringement in favor of alleged infringer Highmark and subsequently awarded attorney's fees in light of patentee Allcare's "vexatious" and "deceitful" conduct. On appeal, the Federal Circuit reversed the district court's "exceptional case" determination as to one claim using a three-tiered standard of review. The Federal Circuit applied *de novo* review to the "objectively baseless" prong, applied a clearly erroneous standard to the "subjective bad-faith" prong, and held that if the case is deemed "exceptional," the resultant award of fees should be reviewed for an abuse of discretion.

On Tuesday, the Supreme Court issued a brief five-page opinion holding that "an appellate court should apply an abuse of discretion standard in reviewing *all* aspects of a district court's § 285 determination." Citing its concurrently-issued *Octane* opinion, the Court noted that "[b]ecause § 285 commits the determination of whether a case is

‘exceptional’ to the discretion of the district court, that decision is to be reviewed on appeal for an abuse of discretion.”

In sum, under *Octane* and *Highmark*, a case may now be “exceptional” if it simply “stands out from others with respect to the substantive strength of the 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.” District courts may determine whether a case is exceptional by a preponderance of the evidence in the case-by-case exercise of their discretion, considering the totality of the circumstances; and appellate courts may overturn those awards only for an abuse of discretion.

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