



US Supreme Court Relaxes Standards for Awarding Attorney Fees Under 35 USC 285 In Patent Suits

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Octane Fitness, LLC v ICON Health & Fitness, Inc, 134 S Ct 1749 (US 2014) and *Highmark Inc v Allcare Health Mgmt Sys*, 134 S Ct 1744 (US 2014)

Abstract

On 29 April 2014 the US Supreme Court issued two companion decisions which overturned the long-standing jurisprudence of the US Court of Appeals for the Federal Circuit ('Federal Circuit') regarding the standard for awarding attorney fees under 35 USC 285 and the deference given to the district court judge in making such a determination for patent cases.

Legal context

Section 285 provides that the district court 'may' award attorney fees in 'exceptional' patent cases.

Prior to the Supreme Court's decisions in *Octane* and *Highmark*, the Federal Circuit set forth the standards for awarding section 285 attorney fees in *Brooks Furniture Mfg, Inc v Dutailier Int'l, Inc*, 393 F3d 1378 (Fed Cir 2005).

Brooks Furniture held, at 1381, that '[a] case may be deemed exceptional where there has been some material inappropriate conduct related to the matter in litigation' and '[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (i) the litigation is brought in subjective bad faith, and (ii) the litigation is objectively baseless'. *Brooks Furniture* applied the Supreme Court standard from *Professional Real Estate Investors, Inc v Columbia Pictures Industries, Inc*, 508 US 49 (1993) ('PRE'), to section 285. The Supreme Court in *PRE* held, at 60–61, that to qualify as a 'sham' litigation in the context of antitrust liability, 'the lawsuit must be objectively baseless' and must 'conceal ... an attempt to interfere directly with the business relationships of a competitor'.

Additionally, the Federal Circuit in *Brooks Furniture* held that the question of whether section 285 attorney fees are appropriate is one to be reviewed *de novo*.



Facts

In 2003 Highmark filed suit against Allcare in the US District Court for the Northern District of Texas. Highmark sought a declaratory judgment that Allcare's patent was invalid and not infringed. Allcare counterclaimed, alleging infringement. The district court found that the patent had not been infringed, and the Federal Circuit affirmed. The district court also granted attorney fees under section 285. The Federal Circuit affirmed in part and reversed in part, and, in doing so, applied a *de novo* standard of review.

In April 2008, ICON filed suit against Octane in the US District Court for the Central District of California, alleging patent infringement. The case was transferred to the US District Court for the District of Minnesota. Octane moved for summary judgment for non-infringement. The district court found that the patent had not been infringed but refused to award attorney fees under section 285, reasoning that Octane did not meet the standard set forth in *Brooks Furniture*. The Federal Circuit affirmed.

The Supreme Court granted certiorari in both cases.

Analysis

Justice Sotomayor delivered the unanimous opinions of the Court for both *Octane* and *Highmark*. Justice Scalia did not join for footnotes 1–3 in *Octane*.

The Octane decision

In *Octane* the Supreme Court rejected the standard established by the Federal Circuit in *Brooks Furniture*, determining the *Brooks Furniture* standard to be 'overly rigid'. The Supreme Court reasoned, at 1758, that *Brooks Furniture* 'appear[s] to render § 285 largely superfluous' because of its high standard, and rejected the requirement that entitlement to fees under § 285 be demonstrated by 'clear and convincing evidence'.

To determine the circumstances where attorney fees should be awarded, the Supreme Court simply turned to the text of section 285, which reads as follows:

The court in exceptional cases may award reasonable attorney fees to the prevailing party. The Supreme Court reasoned, at 1756, that the ordinary meaning of 'exceptional', both when Congress first enacted the statute and today, is 'uncommon', 'rare' or 'not ordinary'. Accordingly '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 matter in which the case was litigated'. The '[d]istrict courts may determine whether a case is "exceptional" in the case-by-case exercise



of their discretion, considering the totality of the circumstances’.

The Supreme Court reversed the Federal Circuit's application of a two-part test to determine whether a case was ‘exceptional’ under section 285, in favour of a factor analysis. The factors to consider, at 1756 n 6, include ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance compensation and deterrence’.

The *Highmark* decision

In *Highmark*, the Supreme Court relied on and built upon its decision in *Octane* to find ‘that an appellate court should review all aspects of a district court's §285 determination for abuse of discretion’, which gives greater deference to the district court, instead of conducting a *de novo* review.

Both cases were sent back to the lower court for reconsideration.

Subsequent decision

A week after *Octane* and *Highmark*, the Supreme Court, in light of the two decisions, granted certiorari, vacated and remanded a Federal Circuit decision which had overturned a \$6,6 million attorney fee award: *Kobe Props Sarl v Checkpoint Sys, Inc*, 2014 US LEXIS 3286 (US 5 May 2014).

Practical significance

We submitted two identical amicus submissions for each case to the Supreme Court on behalf of the New York Intellectual Property Law Association in *Octane* and *Highmark*. In the amicus submissions, we raised numerous concerns regarding the collapse of the two-part test applied by the Federal Circuit into a single ‘exceptional’ case test as the court has now adopted. In particular, we raised concerns about increased satellite litigation over fee motions, forum shopping and lack of predictability of the award of fees. In fact, the same day these companion decisions were issued, defendants with a pending motion for attorney fees before the Southern District of New York informed the court of the new, broader standard for determining an ‘exceptional’ case: see *Realtime Data, LLC v CME Group Inc*, Case Nos 1:11-cv-6697 (KBF), 1:11-CV-6699 (KBF) and 1:11-cv-6702 (KBF) (SDNY).

The *Octane* and *Highmark* decisions by the Supreme Court may make it easier for prevailing parties (both successful patentees and wrongfully accused infringers alike) to obtain attorney fees in ‘exceptional’ patent cases. By removing yet another ‘bright-line’ rule set forth by the Federal Circuit, the Supreme Court, by way of its decisions in *Octane* and *Highmark*, has removed certainty in favour of what it deems a ‘fairer’ rule.



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Mr Macedo is also the author of The Corporate Insider's Guide to US Patent Practice, and, as Co-Chair of Amicus Briefs Committee and Counsel of Record, submitted amicus briefs on behalf of the New York Intellectual Property Law Association in support of neither party in both cases.