WILMERHALE

U.S. Supreme Court Relaxes Standard and Confers Discretion to District Courts Over Awarding Attorney's Fees in Patent Suits

MAY 1, 2014

In two unanimous decisions by Justice Sotomayor, the Supreme Court recently overturned the Federal Circuit's decade-old framework for awarding attorney's fees in patent cases, seemingly rendering the prospect of recovering such fees going forward far more likely. *See Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* No. 12-1184 (U.S. April 29, 2014); *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 12-1163 (U.S. April 29, 2014). Collectively, the cases reject the former standard strictly limiting "exceptional cases" to those implicating either "material inappropriate conduct" or both subjective and objective baselessness, along with the *de novo* standard of review the Federal Circuit had applied. The Court rejected the Federal Circuit's "unduly rigid" framework in favor of a more flexible definition of "exceptional"—now defined as cases that "stand out from others," and in the process conferred substantial deference to the district courts. The Court further rejected the Federal Circuit's requirement for a showing of entitlement to fees by "clear and convincing evidence," holding instead that the preponderance of the evidence standard applies.

Octane Fitness, LLC v. ICON Health & Fitness, Inc.

The fee-shifting provisions of the Patent Act authorize courts to award attorney's fees to the prevailing party in "exceptional cases." 35 U.S.C. § 285. In 2005, the Federal Circuit in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l* expressly limited the definition of an "exceptional case" to two scenarios: cases that implicate "material inappropriate conduct" or those that are both objectively baseless and "brought in subjective bad faith." *See* 393 F.3d 1378, 1381 (Fed. Cir. 2005).

Deferring to the plain language of the statute and its legislative history, the Supreme Court in *Octane* rejected this long-standing "exceptional case" standard from *Brooks*, noting that the "formulation superimposes an inflexible framework onto statutory text that is inherently flexible." Op. at 8. Specifically, the Court noted that the first category in which the Federal Circuit framework allows for fee awards—litigation misconduct—extends largely to independently sanctionable conduct, thus rendering § 285 superfluous. Op. at 9. Further, with regard to the second category, the Court noted that a case presenting *either* subjective bad faith *or* meritless claims could independently render a case "exceptional," and that there is no basis in the statute or otherwise to require both elements.

Finally, the Court criticized the Federal Circuit's decision in *Brooks* to import a fee standard from antitrust law, noting that the borrowed standard bore no relation to the text of the Patent Act. Op. at 10.

Applying the ordinary meaning of the word "exceptional," the Court thus rejected the "mechanical" approach of *Brooks* and held that an "exceptional case" is "simply one that stands out from others with respect to the substantive strength of the litigating position . . . or the unreasonable manner in which the case was litigated." Op. at 7-8. The Court thus held that the decision to award fees should be deferred to the equitable discretion of the district court on consideration of the totality of the circumstances. Op. at 8. Finally, the Court in *Octane* adopted a "preponderance of evidence" standard as the appropriate standard to apply in a request for fees, noting that "nothing in § 285 justifies" the previously applied "clear and convincing evidence" standard.

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.

In the second case, *Highmark*, the Court followed its decision in Octane (issued just minutes earlier) to strike down the Federal Circuit's long-standing practice of reviewing fee-award decisions de novo. In *Highmark*, the district court granted the plaintiff's motion for fees based on what it determined to be a "pattern of 'vexatious' and 'deceitful' conduct throughout the litigation." Op. at 2. Reviewing the decision *de novo* (without deference), the Federal Circuit affirmed in part and reversed in part. The Supreme Court reversed the *de novo* standard of review applied by the Federal Circuit, noting that, because Octane commits the "exceptional case" determination to the discretion of the district court, "that decision is to be reviewed on appeal for abuse of discretion." Op. at 4. In that regard, the Court noted that both the text of the statute and the "sound administration of justice" dictate that the district court is best suited to decide whether a case is "exceptional." Op. at 5.