The Supreme Court "Changes the Playing Field"
Regarding Awards of Attorneys' Fees in Patent Cases

By Jonathan Hudis

In a pair of decisions issued today, April 29, 2014, the Supreme Court twice reversed the Federal Circuit Court of Appeals, making it fairly easier for the prevailing party in patent litigation to obtain an award of attorneys' fees – and for such an award to be upheld on appeal.

Octane Fitness, LLC v. ICON Health & Fitness, Inc., Appeal No. 12-1184 (April 29, 2014) involved competitors in the elliptical exercise machine market. ICON sued Octane for infringement of certain claims of its adjustable elliptical exercise machine patent. The district court granted Octane's motion for summary judgment of non-infringement, after which Octane moved for an award of attorneys' fees. The district court declined to award attorneys' fees, finding neither that ICON's suit was objectively baseless nor that it was brought in subjective bad faith. ICON appealed the district court's judgment of non-infringement, and Octane cross-appealed the denial of attorneys' fees. The Federal Circuit affirmed the district court on both issues.

The Patent Act, 35 U.S.C. § 285, provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party", Relying on its opinion in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit declined to disturb the district court's denial of attorneys' fees, or "revisit the settled standard for exceptionality."

The quoted provision of the Patent Act does not define the term "exceptional," which is thus left to judicial interpretation. Under the *Brooks Furniture* standard, a case is exceptional only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both brought in subjective bad faith and is objectively baseless. In dispersed portions of its opinion, written by Justice Sotomayor, the Supreme Court described the *Brooks Furniture* standard as "overly rigid," "inflexible," "too restrictive," and serving to render § 285 "largely superfluous."

Rather, said Justice Sotomayor speaking for a largely unanimous Court (with Justice Scalia departing from the Court only regarding three legislative history footnotes), "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 manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances."

Continuing, the Court's opinion states, "there is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised in light of the considerations we have identified." The non-exclusive "considerations" (or factors) identified by the Court, citing to its copyright opinion in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994), are "frivolousness, motivation, objective unreasonableness (both in the factual and legal

components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence."

Finally, the Court emphasized that the standard of proof required to establish the entitlement to attorneys' fees under § 285 is not the more difficult "clear and convincing evidence" standard, but rather by the less burdensome "preponderance of the evidence" standard. The Court concluded by reversing the judgment of the Federal Circuit and remanding for further proceedings.

In *Highmark Inc. v. Allcare Health Mgt. Sys., Inc.*, Appeal No. 12-1163 (April 29, 2014), the district court found that the patent owner, Allcare, pursued enforcement of its managed health care system patent under the guise of a patent survey / forcible licensing program. Highmark, a health insurance company, sued Allcare for a declaration of patent invalidity and non-infringement. Allcare counterclaimed for patent infringement.

On the parties' cross-motions for summary judgment, the district court entered a final judgment of non-infringement in Highmark's favor. Highmark then moved for attorneys' fees under § 285. The district court granted Highmark's request for attorneys' fees, finding that Allcare had engaged in a pattern of vexatious and deceitful litigation conduct, maintaining infringement claims that it knew were baseless and frivolous.

The Federal Circuit affirmed the district court's exceptional-case determination as to one claim of Allcare's patent, but reversed the district court's exceptional-case determination as to the other patent claim. Again relying upon its earlier opinion in *Brooks Furniture*, the Federal Circuit reviewed the district court's judgment on the attorneys' fees issue *de novo*, giving the district court's findings no deference.

Again reversing the Federal Circuit and remanding for further proceedings, Justice Sotomayor delivered the opinion for a unanimous Court. The Court stated that a district court's decisions on legal questions are reviewed on appeal *de novo*, without deference; factual determinations are reviewed for clear error; and decisions on "matters of discretion" are reviewed for abuse of discretion. Thus, "[b]ecause § 285 commits the determination whether a case is 'exceptional' to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion." The Court also emphasized that the abuse-of-discretion standard applies to "*all aspects* of a district court's § 285 determination" [emphasis added].

Continuing in a footnote, the Court indicated that the abuse-of discretion standard does not preclude an appellate court's correction of a district court's legal or factual error. Rather, "[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.

Section 35(a) of the Trademark Act, 15 U.S.C. § 1117(a), contains the identical "exceptional case" wording to § 285 of the Patent Act regarding attorneys' fees. Leading trademark cases in this area impose attorneys' fees against unsuccessful litigants whose behavior, while not fraudulent or in bad faith, under the totality of the circumstances can be characterized as "malicious, fraudulent, deliberate or willful." *See*, *e.g.*, *Community of Christ*

Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ's Church, 634 F.3d 1005, 1013 (8th Cir. 2011); *Earthquake Sound Corp. v. Bumper Indus.*, 352 F.3d 1210, 1216 (9th Cir. 2003); and *Tamko Roofing Prods., Inc. v. Ideal Roofing Co., Ltd.*, 282 F.3d 23, 31-32 (1st Cir. 2002). Today's pair of patent decisions by the Supreme Court will certainly have a bearing on awards of attorneys' fees in trademark cases. It remains to be seen how the intermediate appellate courts will modify their future attorneys' fees decisions in trademark cases under the "malicious, fraudulent, deliberate or willful" standard in light of these two decisions issued by the Supreme Court.

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