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April 30, 2014

Supreme Court Relaxes Standards for Attorneys' Fees in Highly Anticipated Decisions

In companion decisions issued on April 29, 2014, the U.S. Supreme Court significantly relaxed the standard for an award of attorneys' fees under 35 U.S.C. § 285. *Octane Fitness, LLC v. ICON Health & Fitness, LLC*, ___ U.S. ___ (2014) (*Octane Fitness*); *Highmark Inc. v. Allcare Health Management System, Inc.*, ___ U.S. ___ (2014) (*Highmark*). Both decisions, authored by Justice Sonia Sotomayor for a unanimous Court[1], reject the U.S. Court of Appeals for the Federal Circuit's holding in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.* (*Brooks Mfg.*) requiring "objectively baseless" litigation "brought in subjective bad faith" to award fees under Section 285. The decisions are particularly significant both because they provide district courts with substantially more discretion to award fees to prevailing parties in patent litigations and because the Federal Circuit now reviews such determinations for an "abuse of discretion" as opposed to providing *de novo* review. Although Section 285 remains a high bar for obtaining attorneys' fees in patent litigation, these decisions may help deter parties from making or maintaining spurious claims and will likely impact the currently pending patent reform legislation.

Summary of the *Highmark* and *Octane Fitness* Cases

Highmark, Inc. (Highmark) filed suit against Allcare Health Management System, Inc. (Allcare) in the U.S. District Court for the Northern District of Texas in 2003 seeking a declaratory judgment that Allcare's U.S. Patent No. 5,301,105 ('105 patent) was invalid and not infringed. The district court ultimately found that the patent-in-suit was not infringed and granted attorneys' fees under Section 285, noting that Allcare had engaged in "vexatious" and "deceitful" conduct and that it had maintained the action long after it became meritless. The Federal Circuit, applying a *de novo* standard of review, reversed in part. After the Federal Circuit denied *en banc* rehearing, the Supreme Court granted *certiorari*.

In 2008, ICON Health & Fitness, Inc. (ICON) sued Octane Fitness, LLC (Octane) in the U.S. District Court for the Central District of California alleging infringement of U.S. Patent No. 6,019,710 ('710). After transferring the case to the U.S. District Court for the District of Minnesota, Octane moved for summary judgment of non-infringement. The district court granted Octane's non-infringement motion but declined to award attorneys' fees under Section 285 despite the existence of emails suggesting that the suit was brought "as a matter of commercial strategy," noting that Octane could not meet the Federal Circuit's *Brooks Mfg.* standard. On appeal, the Federal Circuit affirmed, declining to "revisit the settled standard for exceptionality." The Supreme Court again granted *certiorari*.

Summary of the Supreme Court's Decisions

In the *Octane Fitness* decision, Justice Sotomayor looked to the text of Section 285, noting that the only statutory constraint on imposing fees in patent cases is the word

1 Justice Antonin Scalia did not join Footnotes 1-3 in the *Octane Fitness* opinion, which discuss the purpose and legislative history underlying various patent fee-shifting statutes.

If you have any questions regarding the matters discussed in this memorandum, please contact any of the attorneys listed on Page 3 or call your regular Skadden contact.

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"exceptional." The Court then defined "exceptional" as cases "that stand[] out .... from others with respect to the substantive strength of the party's litigation position ... or the unreasonable manner in which the case was litigated."

Deeming the Federal Circuit's existing standard "overly rigid," the Court rejected the rule set forth in *Brooks Mfg.* In particular, the Court made clear that Section 285 should not be construed so narrowly as to "render [it] superfluous." As a result, a district court may now "award fees in the rare case in which a party's unreasonable conduct — while not necessarily independently sanctionable — is nonetheless so 'exceptional' as to justify an award of fees." Similarly, "a case presenting *either* subjective bad faith *or* exceptionally meritless claims may ... warrant a fee award."

The Supreme Court also rejected the Federal Circuit's requirement that a party prove its entitlement to fees by "clear and convincing" evidence, holding instead that "Section 285 demands a simple discretionary inquiry."

The notion of a "discretionary inquiry" was further emphasized in the *Highmark* decision, where the Court held that Section 285 determinations are reviewable for an "abuse of discretion" as opposed to the *de novo* standard previously applied.

Implications for Patent Litigants

Although it remains to be seen how district courts and the Federal Circuit will apply the holdings in these decisions, these rulings indicate a sea change in attorneys' fee jurisprudence likely to have at least the following implications for patent litigants:

- Parties are increasingly likely to have to defend against a Section 285 motion after receiving an unfavorable result, and the chances of success for such motions are in flux, particularly in the near term.
- The requisite showing for attorneys' fees under Section 285 has been substantially lowered. A Section 285 movant is no longer required to demonstrate that a case was both objectively baseless and brought in bad faith. In addition, litigation misconduct need not be otherwise sanctionable to be deemed exceptional.
- In light of the Supreme Court's espousal of a "totality of the circumstances" approach to exceptionality determinations, litigants can expect Section 285 motions to include a wide array of claims, ranging from allegations concerning particular conduct or patterns of conduct during the litigation to arguments surrounding the alleged weakness of a party's claims at the outset of the litigation, over the course of the case or both.
- With the replacement of the *de novo* review with an "abuse-of-discretion" standard, the Federal Circuit is less likely to reverse determinations of exceptionality under Section 285 absent "erroneous view[s] of the law" or "clearly erroneous assessment[s] of the evidence."
- Several changes to the attorneys' fees provisions are currently being considered by Congress as part of a larger patent reform initiative and these decisions will undoubtedly impact this legislation. By striking a middle ground between the *Brooks Mfg.* standard and awarding fees to prevailing parties as a matter of course, the decisions may temper the drive for such reform or, alternatively, may galvanize those seeking more extreme changes on fee-shifting to push for further legislative action.

Attorney contacts appear on the next page.

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