



# Supreme Court lowers the bar for attorneys' fees in patent litigations

**The US Supreme Court has rejected the existing standard set by the Court of Appeals for the Federal Circuit for attorneys' fees under 35 USC §285 and mandated a more deferential standard of review for district court fee determinations. As a result, courts will likely see an increase in claims for attorneys' fees under the US Patent Act**

On April 29 2014 the US Supreme Court issued two decisions dealing with the award of attorneys' fees to prevailing parties in patent litigations – *Octane Fitness, LLC v ICON Health & Fitness, LLC* (572 US \_\_\_, No 12-1184) and *Highmark, Inc v Allcare Health Management System, Inc* (572 US \_\_\_, No 12-1163). The court's unanimous rulings, authored by Justice Sonia Sotomayor, provide district courts with more discretion to award fees to prevailing parties and mandate that such decisions be reviewed under the 'abuse of discretion' standard of review.

Litigants in the United States are generally responsible for their own attorneys' fees, regardless of whether they win or lose. However, the patent statute provides a limited exception to this so-called 'American rule'. Under 35 USC §285, a "court in exceptional cases [may] award reasonable attorney fees to the prevailing party". Over time, the Federal Circuit has developed specific and increasingly rigid requirements for exceptionality. In particular, in *Brooks Furniture Mfg, Inc v Dutaillier Int'l, Inc* it held that for fees to be awarded under Section 285, movants must show either that "there has been some material inappropriate conduct" or that the litigation was both "brought in subjective bad faith" and "objectively baseless". The Supreme Court's recent decisions reject this framework.

### Exceptional cases

In *Octane Fitness* ICON Health & Fitness sued Octane Fitness for infringement of US Patent 6,019,710. After the district court granted its motion for summary judgment of non-infringement, Octane Fitness moved for fees under Section

285. Despite evidence suggesting that ICON had brought suit as part of a larger commercial strategy, the court found that Octane Fitness could not meet the *Brooks Mfg* standard for attorneys' fees. The Federal Circuit affirmed, declining to revisit the settled standard for exceptionality.

The Supreme Court held that the *Brooks Mfg* standard is so demanding that it "render[s] §285 largely superfluous". Accordingly, the court made clear that exceptional cases are any "which [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".

The court also rejected the Federal Circuit's requirement that a movant prove entitlement to fees by clear and convincing evidence, noting that "nothing in §285 justifies such a high standard of proof". Instead, the court held that "Section 285 demands a simple discretionary inquiry", and thus that the 'preponderance of the evidence' standard of proof should apply.

### Abuse of discretion

The court's second attorneys' fee decision, *Highmark*, involved a declaratory judgment action seeking a determination that US Patent 5,301,105 was invalid and not infringed. After finding for the plaintiff, the district court granted attorneys' fees under Section 285, noting that the defendant 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.

In a companion decision to *Octane Fitness* the Supreme Court held that since a Section 285 determination involves a discretionary assessment by a district court, such rulings should be reviewed on appeal under the abuse of discretion standard, as opposed to the *de novo* standard that had previously been applied.

### Effect on patent reform proposals

The Supreme Court's decisions in *Octane Fitness* and *Highmark* signal a sea change in attorneys' fees jurisprudence. The

demanding *Brooks Mfg* standard, which requires showings of subjective bad faith and objective baselessness for an award of attorneys' fees, has now been rejected. In its place is a discretionary, totality of the circumstances standard, which provides the district court with leeway to award sanctions in any case it deems exceptional. As a result, courts will likely see an increase in claims for fees under Section 285 alleging a wide range of improprieties. In addition, replacing the *de novo* review with an abuse of discretion standard means that the Federal Circuit is now 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". While these rulings should deter parties from making or maintaining spurious claims or engaging in litigation misconduct, it remains to be seen whether they will have a chilling effect on patent litigation overall.

Certainly, these two decisions are likely to affect the current patent reform bills being considered by Congress. By striking a middle ground between the high bar of the *Brooks Mfg* standard and awarding fees to prevailing parties as a matter of course, the Supreme Court's rulings will likely either temper the drive for fees reform or, alternatively, galvanise those seeking more extreme changes on fee-shifting to push for further legislative action.

**Stacey L Cohen** is counsel and **Devin A Kothari** is an associate at Skadden Arps Slate Meagher & Flom LLP, New York