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U.S. SUPREME COURT RELAXES STANDARD FOR PREVAILING PARTIES TO RECOVER ATTORNEYS' FEES IN PATENT INFRINGEMENT LITIGATION

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On April 29, 2014, the U.S. Supreme Court handed down two decisions that make it easier for prevailing parties to recover their attorneys' fees in patent infringement cases. In *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, the Supreme Court clarified that a prevailing party's request to recover its attorneys' fees in patent infringement litigation should be evaluated by a district court "in the case-by-case exercise of its discretion, considering the totality of the circumstances," free of rigid formulations developed under prior case law.

Background

The general rule in the United States is that each party to a lawsuit is responsible for payment of its own costs and attorneys' fees. In 1946, Congress fashioned an exception for patent cases, providing in 35 U.S.C. § 285 that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." However, since 2005, following a decision by the U.S. Court of Appeals for the Federal Circuit in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, district courts could declare a case "exceptional" only in very limited circumstances.

Under *Brooks Furniture*, a case could be declared "exceptional" "when there ha[d] been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." "Absent misconduct in conduct of the litigation or in securing the patent," *Brooks Furniture* permitted attorneys' fees to be assessed under § 285 "only if both (1) the litigation [was] brought in subjective bad faith, and (2) the litigation [was] objectively baseless." Litigation was considered "objectively baseless" only if it was "so unreasonable that no reasonable litigant could believe it would succeed," and "subjective bad faith" could be found only where the party had actual knowledge that the litigation was objectively baseless. Making recovery of attorneys' fees under § 285 more difficult still was the *Brooks Furniture* requirement that a case could be found "exceptional" only upon a showing of "clear and convincing evidence."

The Relaxed Standard Under *Octane Fitness* and *Highmark*

In *Octane Fitness*, the Supreme Court firmly rejected the *Brooks Furniture* framework, finding that it is "unduly rigid" and "impermissibly encumbers the statutory grant of discretion to district courts" in § 285. Writing for a unanimous Court, Justice Sotomayor pointed out that the "patently clear" text of § 285 "imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases." Observing that the ordinary meaning of "exceptional" means "uncommon," "rare," or "not ordinary," the Court held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case)

or the unreasonable manner in which the case was litigated.” The Court instructed that “[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.”

Octane Fitness also rejected the *Brooks Furniture* requirement that a prevailing party must establish its entitlement to an award of attorneys’ fees under § 285 by “clear and convincing evidence.” Noting that “clear and convincing evidence” is not required by the straightforward text of § 285 and that comparable fee-shifting statutes have not been interpreted to require such a heightened showing, the Court held that “Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one.”

In *Highmark*, the companion case to *Octane Fitness*, the Court disapproved the Federal Circuit’s exercise of *de novo* review over district court fee determinations under § 285. Consistent with its holding in *Octane Fitness* that the question of whether a case is “exceptional” under § 285 lies within the district court’s discretion, the Court held in *Highmark* that all aspects of a district court’s fee determination under § 285 should be reviewed on appeal for abuse of discretion.

Significance

Octane Fitness is important because it jettisons the restrictive *Brooks Furniture* standard and makes it easier for a prevailing party in a patent infringement case to recover its attorneys’ fees. *Highmark* is equally important because it means that district court fee determinations, reviewed under an abuse of discretion standard, will be less likely to be reversed on appeal. By expanding the range of cases in which recovery of attorneys’ fees is potentially available, these decisions should provide greater disincentive against the filing or maintenance of marginal cases and may elevate the potential recovery of attorneys’ fees to greater prominence in settlement discussions. The decisions also give district courts greater freedom to address much-discussed problems associated with unfounded infringement claims asserted by non-practicing entities.

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