

PUBLICATION

Supreme Court Strikes Double Blow for Patent Infringement Defendants

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Today, the U.S. Supreme Court issued two decisions that will expand the opportunity for a defendant in a patent infringement suit to be awarded attorney fees in an "exceptional case." In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, the Court rejected as "unduly rigid" a restrictive test that had been prescribed by the Federal Circuit, and held that district courts may determine whether a case is "exceptional" on a case-by-case exercise of their equitable discretion, considering the totality of the circumstances. And in the companion case of *Highmark Inc. v. Allcare Health Management System, Inc.*, the Court held that appellate review of such a determination was not *de novo*, but instead should be limited to determining whether the lower court abused its discretion.

ICON, a manufacturer of exercise equipment, sued Octane Fitness for infringement of an ICON patent covering an elliptical exercise machine. Octane Fitness won summary judgment on a finding of noninfringement, and moved for attorney fees under 35 USC Section 285, which provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." The district court denied the request for attorney fees, applying a restrictive test the Federal Circuit had adopted in 2005 in *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.* Under that standard, fees may be imposed against the patent owner only if both the litigation was brought in subjective bad faith and the litigation was objectively baseless. On appeal, the Federal Circuit upheld the judgment of noninfringement, and also affirmed the denial of attorney fees under the *Brooks Furniture* standard.

The Supreme Court reversed, rejecting the *Brooks Furniture* standard as "unduly rigid" and so demanding as to render Section 285 largely superfluous. The text of Section 285 is "patently clear", and "exceptional" simply means that the case stands out from others with respect to the unreasonable manner in which the case was litigated or the substantive strength of a party's position. The Court held that the district courts should exercise their equitable discretion on a case-by-case basis, "considering the totality of the circumstances." It specifically noted that a district court may award fees in a case where a party's unreasonable conduct was "exceptional," although not rising to the point of being independently sanctionable (such as under Fed. R. Civ. P. 11). It also observed that either subjective bad faith or exceptionally meritless claims alone could warrant a fee award and that both were not required.

The Court also held that whether fees should be awarded was subject to a preponderance of the evidence standard, which is the standard generally applicable to patent-infringement litigation. In so doing, it rejected the higher "clearing and convincing evidence" standard the Federal Circuit had prescribed in *Brooks Furniture*.

In the sister case, Highmark Inc. had sought a declaratory judgment that an Allcare Health Management System patent covering utilization review in managed health care systems was invalid, and to the extent it was valid, that Highmark did not infringe. Allcare counterclaimed for patent infringement, and the district court ultimately entered a judgment of noninfringement in favor of Highmark. Highmark moved for fees. The district court awarded over \$5 million in fees to Highmark, finding that Allcare had engaged in a pattern of vexatious and deceitful conduct in the litigation, asserted frivolous defenses, and maintained infringement claims after its own experts had shown the claims to be without merit. On appeal, the Federal Circuit reversed the exceptional-case determination for one claim, using the *de novo* standard of review (i.e., without deference to

the lower court). It also found that none of Allcare's conduct warranted an award of fees under the litigation-misconduct element of the *Brooks Furniture* test.

The Supreme Court unanimously reversed. In addition to noting that the *Brooks Furniture* test had been rejected in the *Octane Fitness* companion decision, it also rejected application of the *de novo* standard of review. Instead, it said that all aspects of the district court's Section 285 determination should be reviewed for "abuse of discretion."

These decisions make it much easier for a party in a patent-infringement lawsuit to obtain attorney fees in an "exceptional" case. While Section 285 refers to a "prevailing party," and thus applies to both sides in the litigation, the loosening of the restrictive *Brooks Furniture* standard will be of particular benefit for defendants. Plaintiffs that do not prevail in a patent infringement lawsuit should expect a motion for fees under Section 285 as a regular matter, at least until sufficient case law develops to provide some practical guidance. While a patent owner should always practice appropriate due diligence in asserting infringement, these decisions have heightened the need for conducting *and documenting* the pre-suit investigation, as well as recognizing and responding appropriately to developments during the litigation.

If you have any questions or want to discuss how this decision could impact your business, contact your Baker Donelson attorney or one of the attorneys in our Intellectual Property Group.

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