

KIRKLAND ALERT

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The U.S. Supreme Court Clarifies “Exceptional” Cases under 35 U.S.C. § 285 and the Appellate Standard of Review

Octane Fitness, LLC v. ICON Health & Fitness, Inc., Case No. 12–1184 (Apr. 29, 2014); and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, Case No. 12–1163 (Apr. 29, 2014)

The Patent Act permits a district court to award reasonable attorney’s fees — in an exceptional case — to the prevailing party in a patent infringement lawsuit. 35 U.S.C. § 285. On April 29, 2014, the U.S. Supreme Court issued decisions in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.* Taken together, the Court clarified what constitutes an “exceptional case” and the appropriate standard that the U.S. Court of Appeals for the Federal Circuit (Federal Circuit) is to apply when reviewing a district court’s award of attorney’s fees under Section 285. Justice Sotomayor, speaking for a unanimous Court in both cases,¹ stated 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.”² The determination is to be made on a case-by-case basis, based on a preponderance of the evidence standard that considers the totality of the circumstances. The Court further held that the question of whether Section 285 attorney’s fees are appropriate is a question rooted in fact, to be reviewed for “abuse of discretion,” not a question of law reviewed *de novo*.³

I. PROCEDURAL BACKGROUND

A. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*

ICON Health & Fitness (ICON) sued Octane Fitness (Octane) for alleged infringement of U.S. Patent No. 6,019,710, which discloses a particular type of elliptical exercise machine. The District of Minnesota granted Octane’s motion for summary judgment of non-infringement.⁴ Octane then moved for attorney’s fees under Section 285. The district court — applying *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*⁵ — denied Octane’s motion after determining that Octane did not show ICON’s claims were objectively baseless or that the suit was brought in bad faith. ICON appealed the judgment of non-infringement and Octane cross-appealed the denial of attorney’s fees. The Federal Circuit affirmed the district court’s holding on both counts. The Supreme Court granted *certiorari*.⁶

B. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*

Highmark Inc. (Highmark) sued Allcare Health Mgmt. Sys. (Allcare) seeking declaratory judgment of non-infringement, invalidity, and unenforceability of U.S. Patent No. 5,301,105, which discloses “utilization review” in managed health care systems. Allcare counter-claimed for infringement. Both parties moved for summary judgment. The Northern District of Texas entered final judgment of non-infringement in favor of Highmark. Highmark then moved for attorney’s fees under Section 285. The district court granted Highmark’s motion, finding Allcare had engaged in a pattern of “vexatious” and “deceitful” conduct throughout the litigation. The Federal Circuit, applying the *de novo* standard of review to the fee decision, affirmed in part and reversed in part. The Federal Circuit further held that the question of whether litigation was objectively baseless, as required under the Federal Circuit’s *Brooks Furniture* framework, was a question of law, reviewed *de novo*, without deference. The Supreme Court granted *certiorari*.⁷

II. SUPREME COURT'S DECISIONS

To fully appreciate the Court's guidance in *Octane* and *Highmark*, it is helpful to read the decisions in order: *Octane* first, *Highmark*, second. In *Octane*, the Court first stated that Section 285 imposes only one constraint on a district court's discretion to award attorney's fees: "The power is reserved for 'exceptional' cases."⁸ The Patent Act does not define "exceptional," so the Court held that an "exceptional" case is:

[S]implify 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.⁹

The Court arrived at this meaning in view of the ordinary meaning of the term in 1952, when Section 285 was codified, as well as its meaning today.

Whether a case is "exceptional" is to be decided on a case-by-case basis and should consider the totality of the circumstances.¹⁰ In so defining an "exceptional" case, the Court rejected the Federal Circuit's *Brooks Furniture* framework as overly rigid. It stated when a case may be "exceptional:"

1. A district court may award fees where "a party's unreasonable conduct— while not necessarily independently sanctionable — is nonetheless so 'exceptional' as to justify an award of fees."¹¹
2. A case "presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award."¹²

There was no need to import concepts from antitrust law into Section 285, as the Federal Circuit had done in *Brooks Furniture*.¹³

The Court also disagreed with the Federal Circuit's imposition of a "clear and convincing evidence" standard on a party seeking to establish entitlement to attorney's fees. Section 285 "demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one." Instead, entitlement to attorney's fees should be made by preponderance of the evidence.¹⁴ The Court thus reversed the Federal Circuit's judgment and remanded the case for further proceedings.¹⁵

In *Highmark*, the Court further clarified its *Octane* decision. The Court started with its holding in *Octane* that whether a case is "exceptional" is within the discretion of the district court.¹⁶ Consequently, the Court held that the Federal Circuit should apply an "abuse-of-discretion standard," not a *de novo* standard of review, "in reviewing all aspects of a district court's § 285 determination." Though questions of law may be relevant to a Section 285 inquiry, the decision is, "at heart, 'rooted in factual determinations. . .'"¹⁷ The Court vacated the Federal Circuit's decision and remanded the case for further proceedings consistent with the Court's opinion.¹⁸

The Court's unanimous decisions provide guidance for seeking Section 285 attorney's fees by the prevailing party in a patent infringement lawsuit. The prevailing party now needs to show, by a preponderance of the evidence, that the case is exceptional to be entitled to attorney's fees. If a district court awards reasonable attorney's fees, the Federal Circuit must review such decisions for abuse of discretion.

¹ Justices Roberts, Kennedy, Thomas, Ginsburg, Breyer, Alito and Kagan joined the *Octane* decision, with Justice Scalia also joining except as to footnotes 1–3. All Justices joined the *Highmark* decision in its entirety.

² *Octane*, slip op. at 7–8.

³ *Highmark*, slip op. at 5.

⁴ *Octane*, slip op. at 5.

⁵ 393 F.3d 1378 (Fed. Cir. 2005).

⁶ *Octane*, slip op. at 5–6.

⁷ *Highmark*, slip op. at 2–3.

⁸ *Octane*, slip op. at 7.

⁹ *Id.* at 7–8.

¹⁰ *Id.* at 8.

¹¹ *Id.* at 9.

¹² *Id.* at 9–10.

¹³ *Id.*

¹⁴ *Id.* at 11.

¹⁵ *Id.* at 12.

¹⁶ *Highmark*, slip op. at 4.

¹⁷ *Id.* at 5.

¹⁸ *Id.*

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