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Octane and Highmark: Supreme Court Decisions Give District Courts Greater Discretion to Award Fees

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On April 29, the Supreme Court issued two landmark patent opinions – ***Octane Fitness, LLC v. Icon Health & Fitness, Inc.*** and ***Highmark Inc. v. Allcare Health Management System, Inc.***. Both cases dealt with the Federal Circuit's application of 35 U.S.C. § 285, which allows courts to award attorney's fees for patent litigation to the prevailing party in "exceptional cases." In the past, the Federal Circuit made "exceptional case" determinations under a fairly specific standard, reviewing a lower court's award de novo. However, *Octane* and *Highmark* have fundamentally altered the Section 285 analysis, expanding the discretion of district courts to award attorney's fees and raising the bar to overturn Section 285 determinations on appeal. As a result, courts have already taken steps to modify their approach when dealing with the exceptional case issue in patent law.

Octane Fitness, LLC v. Icon Health & Fitness, Inc.

In *Octane*, plaintiff ICON Health & Fitness brought a claim against Octane Fitness, alleging infringement of a patent directed to exercise machine equipment. The Minnesota District Court granted summary judgment in favor of Octane, who promptly moved for an award of attorney's fees under Section 285 of the Patent Act. However, the District Court declined to designate the case as an "exceptional case" warranting attorney's fees, despite the fact that ICON never sold any products incorporating the patented technology. On appeal, the Federal Circuit affirmed summary judgment, and also affirmed that the case was not exceptional. Both courts cited the standard set forth in *Brooks Furniture Mfg. v. Dutailier Int'l, Inc.*,[1] where the Federal Circuit held that exceptional cases must either involve material inappropriate conduct, or litigation that is both objectively baseless and brought in subjective bad faith.

The Supreme Court reversed the Federal Circuit decision, effectively overturning the *Brooks Furniture* analysis. In the majority opinion, Justice Sotomayor rejected the Federal Circuit's test as an "overly rigid" formula which "superimposes an inflexible framework onto statutory text that is inherently flexible." The opinion directed district courts to exercise their full discretion and consider the totality of the circumstances when evaluating an exceptional case. Likewise, the Court discarded the Federal Circuit's related requirement that litigants establish entitlement to fees by clear and convincing evidence, holding that Section 285 "demands a simple discretionary inquiry" which "imposes no specific evidentiary burden, much less such a high one."

Highmark Inc. v. Allcare Health Management System, Inc.

In *Highmark*, the District Court for the Northern District of Texas granted a motion for summary judgment in favor of patent infringement defendant Highmark Inc., based on a finding of non-infringement. The District Court also concluded that the case was exceptional, awarding attorney's fees under Section 285 due to plaintiff Allcare Health Management System's "pattern of vexatious and deceitful conduct throughout the litigation." However, the Federal Circuit reversed the fee award on appeal, and overturned the District Court's finding of an exceptional case. In so doing, the Federal Circuit exercised a de novo standard of review, according to its longstanding custom in patent cases.

The Supreme Court vacated the Federal Circuit's judgment, holding that appellate courts may no longer engage in de novo review of a district court's fee award under Section 285. Instead, the Court instructed the Federal Circuit to review such awards under an abuse of discretion standard. Writing again for the majority, Justice Sotomayor referred to the *Octane* decision's heavy emphasis on Section 285's statutory grant of discretion to the District Court. The opinion thus concluded that a Section 285 award is a "matter of discretion . . . to be reviewed only for abuse of discretion."

Decisions Applying *Octane* and *Highmark*

Much of the interest surrounding *Octane* and *Highmark* stems from the perceived impact that the decisions will have on so-called "patent trolls," or patent assertion entities (PAEs). Critics of PAEs often

object to their litigation and licensing tactics. Generally, PAEs do not make or sell products covered by their patents, and instead license their patents to others – perhaps under the threat of litigation. If attorney's fees are more easily awarded following *Octane* and *Highmark*, the calculus of PAEs could change in the face of higher litigation costs.

The actual effect of *Octane* and *Highmark* on the behavior of PAEs remains to be seen, and will be watched closely by commentators. However, the impact of *Octane* and *Highmark* extends beyond PAEs. Although the briefs for petition from both cases and various amicus curiae briefs mentioned "patent trolls," the *Octane* and *Highmark* opinions do not specifically target PAEs. Instead, the new standards regarding fee-shifting apply equally to all. Indeed, in the few weeks since their issuance, these decisions have already made an impact in patent jurisprudence.

Just days after deciding *Octane* and *Highmark*, the Supreme Court vacated another **decision from the Federal Circuit** dealing with fee awards under Section 285. *Kobe Props. Sarl v. Checkpoint Sys., Inc.*. Checkpoint Systems asserted its patent directed to electronic anti-shoplifting resonance tags against All-Tag Security S.A. The District Court for the Eastern District of Pennsylvania found that the case was exceptional under Section 285 and awarded $6.6 million in fees, costs, and interest. The District Court found that "Checkpoint never looked at the accused products in relation to the '555 patent" and that "[t] his alone warrants an exceptional case finding." The Federal Circuit reversed the award, ruling that Checkpoint's theory of infringement was not baseless. The Supreme Court granted Kobe's petition for writ of certiorari, vacated, and remanded in light of *Octane* and *Highmark*.

In its first application of the abuse of discretion standard following *Highmark*, the Federal Circuit affirmed a fee award of $500,000 to Toshiba America Information Systems Inc. *Innovative Biometric Tech., LLC v. Toshiba Am. Info. Sys., Inc.*. The District Court's fee award was based on four separate grounds, including Section 285. In a short, non-precedential **opinion**, the Federal Circuit affirmed "because we find no abuse of discretion to undermine the bottom-line result." While declining to endorse three of the four grounds for award cited by the district court, the Federal Circuit found that "the full fee award independently stands under 35 U.S.C. § 285."

The Federal Circuit also applied *Octane* in **a court order** from *Site Update Solutions, LLC v. Accor North America, Inc.*, No. 2013-1458 (Fed. Cir. May 14, 2014). Site Update Solutions (SUS) initially filed suit against thirty-five alleged infringers, including Newegg Inc. Following an unfavorable claim construction hearing, SUS stipulated to the dismissal of all claims to the remaining defendants.[2] Newegg, however, filed a motion for attorney's fees under Section 285. The Northern District of California denied attorney's fees and refused to declare an exceptional case, much like the lower court in *Octane*. On appeal, the Federal Circuit vacated the District Court order in light of *Octane*'s new rule for exceptional cases, giving the defendant another chance to obtain fees under a broader discretionary standard. Newegg has a well-publicized reputation for refusing to settle with "patent trolls," and the outcome of this case will be closely watched by those interested in the application of *Octane* and *Highmark* to PAEs.

While it is still too early to measure the full impact of *Octane* and *Highmark* on the lower courts, these initial responses suggest that the fall of the *Brooks Furniture* standard has significantly increased the likelihood of a Section 285 award. Similarly, the shift from de novo review to abuse of discretion in the Federal Circuit will make it much more difficult for the losing party to overturn a fee award on appeal. Given the expansive views on district court discretion expressed by these two opinions, prospective plaintiffs – including PAEs – will have to think more carefully about the financial consequences of an ill-advised patent infringement claim.

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[1] 393 F.3d 1378 (Fed. Cir. 2005).

[2] Before the claim construction hearing, SUS dismissed fourteen defendants, at least nine of which settled with SUS.