

Intellectual Property and Technology Law Update

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The Flexible, Discretionary Standard: United States Supreme Court Lowers Threshold for the Recovery of Attorneys' Fees in Patent Cases

Patent cases are risky and expensive — often extremely expensive. The U.S. Supreme Court's recent decisions in *Octane Fitness LLC* and *Highmark, Inc.* enhance litigation risks in patent infringement suits where high stakes are already at play.¹ Those litigation risks are increased by granting the trial judge broader discretion to make an attorney's fee award in favor of the prevailing party and by granting more deference to the discretionary award when appealed. The broader discretion/lower threshold imposes a disincentive against bringing a meritless suit. But the broader discretion also requires an ongoing risk-reward analysis for both plaintiffs and defendants. That analysis starts before the case is filed and continues throughout the case. The analysis requires more scrutiny after a party learns of material information affecting the merits of its litigation position and after the judge makes material decisions, intimating that the case is exceptional and may warrant a fee award "considering the totality of the circumstances."

Background

A recent industry survey on the costs of taking a patent infringement lawsuit all the way through trial pegs the price tag anywhere between \$1.5 to \$2 million for simple cases, and \$5 million or more for complicated cases. Confronted with these litigations costs, companies have a tremendous incentive to settle the case rather than pay to litigate the claim, even when faced with marginal claims for patent infringement.

A court may award attorneys' fees to a prevailing party in a patent lawsuit if the court determines that the case was "exceptional." See 35 U.S.C. § 285. In 2005, the United States Court of Appeals for the Federal Circuit (the court to which all patent cases are appealed) said that a case is "exceptional" in two circumstances: (1) when there had been some material misconduct, or (2) when the case was brought in subjective bad faith and the case was objectively without any merit.² Needless to say, this standard made it extremely difficult for a prevailing party to receive an attorney's fee award. However, the recent decisions change that.

¹ *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, 572 U.S., 134 S. Ct. 1749, 188 L. Ed. 2d 816 (2014); *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 572 U.S., 134 S. Ct. 1744, 188 L. Ed. 2d 829 (2014).

² *Brooks Furniture Mfg., Inc., v. Duatlier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005).

The Flexible, Discretionary Standard

In April 2014, the Supreme Court handed down two cases that significantly lowered the threshold for a prevailing party to recover attorneys' fees in a patent infringement suit.³ The Court determined that the old standard was too rigid and impinged on the trial court's inherent discretion to ensure justice was served on a case-by-case basis, considering the totality of the circumstances.

The Supreme Court's two recent decisions shift the focus from the specialized experience of the Federal Circuit to the general experience of the trial court that lives with a case over a prolonged period of time. The Court held that the trial court should consider each case on its own merits. No precise rule or formula determines when the winning party should be awarded its attorneys' fees. If the trial court finds that the case "stands out" from other cases, then the trial court is free to award fees as it sees fit. The case must "stand out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner it was litigated." The evidence required for the discretionary ruling is reduced from "clear and convincing" evidence to "a preponderance" of evidence — the standard is generally applied in civil cases, allowing "both parties to share the risk of error in roughly equal fashion."

The new flexible discretion governing a trial court's fee decision provides more certainty in one respect — the appellate scrutiny of the fee decision will be reduced. After a trial court makes the discretionary decision on fees, it is more likely that the decision will be affirmed on appeal because of the new discretion authorized to the trial court. The appellate court will review the decision under the more deferential abuse-of-discretion standard. In short, the Supreme Court's rejection of the test adopted in 2005 likely will shift the focus from the frequent review of fee awards by the Federal Circuit to the original determination of award of fees by the trial court.

Generally, the new flexible and discretionary exceptional-case standard allows more variations in decisions changing the landscape for the parties. If a party brings a very weak case, or presents a very weak defense and then loses, that party may face the possibility of paying the winner's attorneys' fees. The new standard may also encourage more "forum shopping" as particular district courts or particular judges develop reputations for granting or denying a discretionary fee award.

Regardless of how the trial courts and Federal Circuit implement these decisions, the decisions reframe the ongoing discussions about litigation risk and patent reform litigation.

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³ *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, 134 S. Ct. 1749, 188 L. Ed. 2d 816; *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744, 188 L. Ed. 2d 829.

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