Supreme Court Relaxes Standard For Determining Whether A Case Is Exceptional In Patent Litigation While Raising The Standard Of Review

On April 29, 2014, the Supreme Court issued two decisions relating to the determination of whether a case is exceptional and award of attorneys' fees in patent litigation. The cases are *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014) and *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014).

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

In the first case, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184 (April 29, 2014), the Court unanimously rejected the rigid standard that previously governed the determination of whether a case is exceptional and an award of attorneys' fees under 35 U.S.C. § 285 in favor of an approach granting discretion to the district court judge and reducing the associated evidentiary burden.

Both Octane and Icon are manufacturers of exercise equipment. The dispute arose when Icon sued Octane, alleging that several Octane products infringed an Icon patent that Icon had never commercialized. Octane Fitness prevailed on its motion for summary judgment of non-infringement, and then moved for an award of attorneys' fees, which the district court judge denied.

On appeal, the Federal Circuit affirmed the denial of attorneys' fees to the prevailing party. *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, 496 Fed. Appx. 57, 65 (Fed. Cir. 2012). In so doing, the Federal Circuit declined to reevaluate the test it had established in a previous case, wherein it held that "[a]bsent misconduct in conduct of the litigation or in securing the patents," a case is "exceptional" under 35 U.S.C. § 285 and allows for an award of attorneys' fees "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

On appeal to the Supreme Court, Icon argued for affirmance of the test applied by the Federal Circuit, while Octane argued that the proper standard would be to allow district court judges to determine whether a case is exceptional at their discretion based on the totality of the circumstances.

In its decision, the Court rejected the Federal Circuit's standard as "overly rigid," because it "superimposes an inflexible framework onto statutory text that is inherently flexible." *Octane Fitness,* No. 12-1184, slip op. at 8. Moreover, the Court found that the standard applied by the Federal Circuit would render 35 U.S.C. § 285 superfluous in light of generally accepted common law rules on fee shifting.

The Court held that district court judges can find a case exceptional under 35 U.S.C. § 285 when the case "stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Id.* at 7-8. In so holding, the Court made clear that the decision is to be made in "a case-by-case exercise of [the district court judge's] discretion, considering the totality of the circumstances." *Id.* at 8. The Court also rejected the Federal Circuit's requirement that entitlement to attorneys' fees needed to be proven by "clear and convincing evidence," because the statute itself did not require any deviation from the "preponderance of the evidence" standard generally applied to questions of patent infringement. *Id.* at 11.

Applying this new standard, the Court reversed and remanded the case for further proceedings consistent with the opinion.

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

In the second decision relating to the award of attorneys' fees in patent litigation, the Supreme Court addressed the related issue of the standard for appellate review with respect to a determination of whether a case is exceptional. In *Highmark Inc. v. Allcare Health Management System, Inc.*, No. 12-1163 (April 29, 2014), the Court held that appellate review of such a ruling should be under the "abuse of discretion" standard—a standard that is highly deferential to the district court judge's determination.

Highmark runs a Blue Cross Blue Shield entity. Allcare is a non-practicing entity that owns a patent covering a health care management system. Highmark sought declaratory judgment of non-infringement, invalidity, and unenforceability, and Allcare counterclaimed for infringement. After the district court entered a final judgment of non-infringement, Highmark moved for fees under 35 U.S.C. § 285, which the district court granted.

On appeal, the Federal Circuit affirmed the exceptional case determination as to one claim of the patent-in-suit, but reversed as to another. *Highmark Inc. v. Allcare Health Management System, Inc.*, 687 F.3d 1300, 1311-1315 (Fed. Cir. 2012). In so doing, the Federal Circuit undertook a *de novo* review of the district court's decision.

In a unanimous decision, the Supreme Court noted that it had concurrently rejected the Federal Circuit's test for determining whether a case is exceptional as "unduly rigid and inconsistent with the text of § 285." *Highmark,* No. 12-1163, slip op. at 4. Because the Court in *Octane* committed the determination of whether a case is "exceptional" to the district court's discretion, the Court in *Highmark* ruled that such a determination must be reviewed under the "abuse of discretion" standard.

In the Court's view, the "abuse of discretion" standard is proper because the determination of whether a case is exceptional under 35 U.S.C. § 285 is left to the discretion of the district court judge. According to the Court, the statute therefore implies that deference to the district court should be afforded on appeal.

Applying this appellate standard, the Court remanded the case to the Federal Circuit for further proceedings consistent with the "abuse of discretion" standard of review.

To find out how the Supreme Court's decisions in *Octane* and *Highmark* affect your interests, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed below.

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