

Are Octane Fitness and Highmark This Year's Real Patent Reform?

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Fee shifting has been one of the focal points of patent reform legislation before the 113th Congress. Proponents argue that fee shifting is needed to curb litigation abuses, especially in cases filed by non-practicing entities. Congress may still pass such legislation this year, but the Supreme Court's twin April 29, 2014 rulings in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.* and *Highmark Inc. v. Allcare Health Management System, Inc.* may have a bigger impact, at least in the short term, on patent litigation than any proposed patent reform legislation by providing for more robust fee shifting "in exceptional cases" under 35 U.S.C. § 285.

The statutory text of Section 285 provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." Under the Federal Circuit's now-rejected implementation of this statute, however, a prevailing party was required to establish, by clear and convinc-

ing evidence, first that a claim was objectively baseless and then that the claim was litigated in subjective bad faith. See *Brooks Furniture Mfg., Inc. v. Dutalier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). The only exceptions were findings of inequitable conduct, willful infringement, and (perhaps) independently sanctionable litigation misconduct.

The difficulty of meeting this two-part test meant that few cases could ever result in an award of attorney's fees. Even weak cases may have had an objective basis. For example, in *Highmark*, the objective basis was a claim construction position that could have been advanced that would have made the infringement claims more plausible though still unsuccessful. Even if a case was objectively baseless, the prevailing party was still required to present evidence that the claim was brought in subjective bad faith, such as evidence that the lawsuit was brought for some improper purpose.

Further, even if the prevailing party established these two elements by clear and convincing evidence and was awarded attorney's fees by the trial court, that award was subject to *de novo* review on appeal as to at least the objective prong. This gave the losing party the chance to dodge a fee award by making a *post hoc* rationalization of its unsuccessful claims. As such, Section 285 previously had little deterrent effect.

Under the new standards announced in *Octane Fitness* and *Highmark*, although exceptional cases will, by definition, remain the exception rather than the norm, more cases may be deemed exceptional because the district court will no longer be constrained by the Federal Circuit's *Brooks Furniture* test. Trial courts will be permitted to look at the totality of the case when deciding whether to award fees. Factors that the trial court can now freely consider include the candor and credibility of litigants and their counsel, the consistency of positions taken, efforts to block discovery or otherwise delay development of the factual

record, continued advocacy of positions after facts no longer support the position, and ever-shifting or obfuscatory arguments designed to draw out the litigation. What's more, if fees are awarded, they will now be reviewed only for an abuse of discretion, thus placing greater pressure on litigants with weak claims to cut their losses after they have had their day in court, rather than treating continued litigation as a roll of the dice and therefore imposing additional costs on opposing parties and the court.

Taken together, *Octane Fitness* and *Highmark* should revitalize the existing but until now infrequently invoked fee-shifting provisions of Section 285 and empower trial court judges to award attorney's fees when appropriate.

OCTANE FITNESS OPENS THE DOOR FOR MORE SECTION 285 FEE AWARDS

The first of the two Section 285 cases argued on February 26, 2014 and decided on April 29, 2014 was *Octane Fitness*. By way of background, Octane Fitness and ICON are two manufacturers of exercise equipment. ICON brought suit against Octane Fitness in the District of Minnesota on a patent dealing with elliptical exercise machines. Octane Fitness obtained summary judgment of non-infringement, but its request for attorney's fees was denied. Octane Fitness argued "that the judgment of non-infringement 'should have been a foregone conclusion to anyone who visually inspected' Octane's machines," but the district court concluded the claims were not objectively baseless or frivolous. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749, 1755 (2014). At the Federal Circuit, the summary judgment of non-infringement was affirmed, but Octane's argument that the *Brooks Furniture* standard was "overly restrictive" was rejected. *Id.*

A near-unanimous Court (with only Justice Scalia declining to join three footnotes discussing the legislative history of Section 285) rejected the more restrictive *Brooks Furniture* standard, citing the plain and ordinary meaning of the term "exceptional" as meaning "uncommon," "rare," or "not ordinary." *Id.* at 1756. Under *Octane Fitness*, it is left to the discretion of the trial court to consider "the totality of the circum-

stances” and determine whether a case is “exceptional” on a case-by-case basis. *Id.*

In expanding the scope of cases in which fee shifting may be appropriate, the Supreme Court concluded that there is no requirement that the losing party’s conduct be “independently sanctionable” to be found “exceptional.” *Id.* It can be sufficient that a case be brought in “subjective bad faith” or present “exceptionally meritless claims.” *Id.* at 1757. Nor is there any particular evidentiary burden that the prevailing party must carry in order to receive an award of attorney’s fees.

Rather, the Court stated that fees may be awarded in any case that, in the eyes of the district court judge, “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.” *Id.* at 1756. Awarding attorney’s fees is thus a “case-by-case exercise of [district court] discretion, considering the totality of the circumstances.” *Id.*

HIGHMARK GIVES FEE AWARDS TEETH

The Court’s *Octane Fitness* decision paved the way for the unanimous result in *Highmark*, the second Section 285 case argued on February 26 and decided on April 29. Unlike the prevailing party in *Octane Fitness*, *Highmark* was awarded attorney’s fees by the district court (the Northern District of Texas). However, the Federal Circuit partly overturned that fee award by determining that the objectively baseless prong of *Brooks Furniture* warranted *de novo* review and concluding that “Allcare’s argument as to claim construction was not so unreasonable that no reasonable litigant could believe it would succeed.” *Octane Fitness*, 134 S.Ct. at 1754. *Highmark* sought en banc review. The en banc petition fell one vote short but generated two sharply dissenting opinions authored by Judge Moore and Judge Reyna arguing that fee awards are traditionally left to the discretion of the trial court. The Supreme Court agreed, holding that because *Octane Fitness* committed the entire exceptional case determination to the district court’s discretion and eliminated the two-pronged *Brooks Furniture* standard, Section 285 awards should be reviewed for abuse of discretion.



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Changing the standard of review of attorney’s fees award is significant. A trial court generally has a comparative advantage over an appellate court in deciding whether to award attorney’s fees because the trial court has a front row seat to the whole course of the litigation and the opportunity to view the entirety of the case firsthand, including the claims asserted, the positions taken, how long a position was taken, the frivolity of claims or positions in light of facts known or readily available, and a party’s lack of candor, delay, and scorched-earth tactics. This comparative advantage can be particularly pronounced in patent infringement cases, which are notoriously complex, expensive, and time consuming and to which the trial courts devote extensive resources and attention. The appellate court, on the other hand, has before it only a cold record and usually no more than twenty to thirty minutes of oral argument. This posture could encourage parties to roll the dice below and hope to make a *post hoc* rationalization on appeal. By restoring discretion to the district court to award attorney’s fees, this change in law should have a salutary effect on the filing and conduct of lawsuits.

THE REINVIGORATED SECTION 285 MAY HAVE THE SAME IMPACT AS THE PROPOSED PATENT REFORM LEGISLATION

Several of the patent reform bills circulated or introduced in Congress include some fee shifting provisions. Generally, those bills permit the district court to award fees if a claim was not objectively reasonable in law and fact, or when the conduct of the non-prevailing party was objectively unreasonable. It remains unclear whether

any such provisions will actually pass into law, but in light of *Octane Fitness* and *Highmark*, district courts will have greater flexibility to apply Section 285 in a way that achieves many of the same objectives as the proposed patent reform legislation. With the average patent case costing millions of dollars to litigate, the enhanced possibility of a district court awarding attorney’s fees to the prevailing party is a powerful deterrent to frivolous claims and litigation mischief.

Because Section 285 applies to both plaintiffs and defendants, it focuses the parties on matters of legitimate dispute and increases the quality of patent cases that are litigated in the federal courts. When invoked, Section 285 deters both patent holders and accused infringers from engaging in non-meritorious litigation that is motivated by a desire to consume or exhaust the resources of the other party rather than to adjudicate legitimate claims. Specifically, Section 285 incentivizes patent holders and accused infringers to litigate only legitimate, good-faith disputes over patent infringement and validity. The prospect of a prevailing party recovering its attorney’s fees in an “exceptional case” both: (a) deters patent holders from filing dubious cases with the main purpose of extracting settlements based on threatened litigation costs rather than the merits of the asserted infringement; and (b) encourages willful infringers to settle cases and enter into license agreements where the infringement is clear cut and in bad faith. The revitalized Section 285 should therefore positively impact litigation going forward. **IPT**

Editor’s Note: Mr. Pandya was counsel of record for *amicus curiae* Blue Cross Blue Shield Association in the *Highmark* case.