Greenblum & Bernstein, P.L.C.
CLIENT ADVISORY
Recent Changes in Rules and Procedures

May 6, 2014

U.S. Supreme Court Eases Standards for Granting and Reviewing Fee Awards

Dear Clients:

The U.S. Supreme Court issued two opinions on April 29, 2014, relating to the award of attorney's fees in patent cases. An award of attorney fees is governed by 35 U. S. C. §285, which provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

In *Octane Fitness LLC v. Icon Health & Fitness Inc.* (No. 12–1184), the Supreme Court found that the text of §285 "is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for 'exceptional' cases." The Court noted that the Patent Act does not define "exceptional," so the Court construed it in accordance with its ordinary meaning. The Court found that "exceptional" meant "uncommon," "rare," or "not ordinary." The Court then held that an "exceptional" case is simply one that stands 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 in which the case was litigated. The Court further held that district courts may determine whether a case is "exceptional" in the case-by-case exercise of their discretion, considering the totality of the circumstances.

Prior to this decision, the Federal Circuit had defined an "exceptional case" as one which either involves "material inappropriate conduct" or is both "objectively baseless" and "brought in subjective bad faith." Also, a party was required to establish the "exceptional" nature of a case by "clear and convincing evidence." The Federal Circuit had also held that an objective-baselessness determination is reviewed on appeal "'*de novo*'" and "without deference."

In *Highmark Inc v. Allcare Health Management System Inc.* (No. 12–1163), the Court rejected the Federal Circuit's *de novo* review standard, and instead held that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's §285 determination. Although questions of law may in some cases be relevant to the §285 inquiry, that inquiry generally is, at heart, "rooted in factual determinations."

Therefore, going forward, since an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating or the unreasonable manner in which the case was litigated, attorneys' fees will likely be awarded more often, and when awarded, more likely to be affirmed on appeal.

The implications of these two decisions will likely have an impact on the institution and maintenance of patent litigations which do not have strong bases in law and fact, e.g., cases which have been brought merely to extract a settlement (for example, by NPE's), and cases brought by competitors in which claims are being "stretched" for the purpose of a competitive advantage. In summary, patent owners will likely become more careful in initiating patent litigations of questionable value. This will, in turn, affect the way discussions involving settlement of patent assertions are conducted. It is one more in a series of recent developments which increases the risk to parties asserting patents of questionable value.

It will be interesting to see how these decisions are considered by the Senate Judiciary Committee as it continues its hearings on patent litigation reform and possible new fee shifting provisions.

Should you have any question regarding these decisions and/or their impact, feel free to contact us.

Best regards,

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