Supreme Court Rulings Will Make Fee Awards More Likely in IP Cases

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April 30, 2014

Yesterday, the United States Supreme Court decided *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* and *Highmark v. Allcare Health Management System, Inc.*, companion cases that will make it easier for prevailing parties to recover attorneys' fees in patent infringement litigation. Together, the cases may have far-reaching consequences for litigation strategy and case management in cases involving a range of intellectual property disputes, not just patents.

Section 285 of the Patent Act authorizes a district court to award attorneys' fees to the prevailing party "in exceptional cases." The U.S. Court of Appeals for the Federal Circuit had limited a district court's authority to make exceptional case findings to specific categories of behavior, in some cases requiring proof of the adversary's bad faith, and it had required proof by clear and convincing evidence. As a consequence, fee awards in patent cases have been exceedingly rare, occurring in about only 1% of cases.

In *Octane Fitness*, the Supreme Court unanimously rejected that standard as too rigid, holding 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 emphasized that a district court's exceptional case determination is a "case-by-case exercise of [its] discretion, considering the totality of the circumstances" for which "there is no precise rule or formula." The Court also rejected the clear and convincing burden of proof, holding that the generally-applicable preponderance standard applies.

In *Highmark*, the Court held that all aspects of a district court's fee award under Section 285 are reviewed on appeal under a deferential abuse-of-discretion standard. This increases the likelihood that district court fee awards will not be disturbed on appeal.

Taken together, *Octane Fitness* and *Highmark* expand the availability of fee awards in patent cases, give district courts considerable flexibility in awarding fees, and largely insulate the district court's exercise of discretion from reversal on appeal. Given the highly discretionary and flexible analysis, whether fees will be awarded in a particular case will be less predictable (particularly in the short term) and will vary from judge to judge and from district to district. Ultimately, whether fees will be awarded will turn on the judgment of individual district judges as applied to the facts of particular cases.

The impact of *Octane Fitness* and *Highmark* likely will extend to trademark litigation as well. The Lanham Act contains the same language as Section 285 of the Patent Act; indeed, the *Octane Fitness* Court relied on a D.C. Circuit decision (penned by then Circuit Judges Scalia and Ginsberg) construing the Lanham Act provision. *Octane Fitness* and *Highmark* may resolve longstanding disagreements among the federal courts over the exceptional case determination in trademark cases.

With these consequences in mind, counsel and their clients should plan for motion practice at the conclusion of a case and should carefully manage the risk of an adverse fee award or the likelihood of a successful one. Counsel and their clients should:

- **Be familiar with local practice, the dispositions of individual district judges, and the experience of each district court in litigating patent cases.** What may be unexceptional in the local practice in one district court might be more problematic before a different court or judge.
- **Know your litigation counsel's reputation and work closely with them.** Experienced counsel who are well regarded by the district court will not only get your case off on the right foot but will reduce your risk of an unfavorable fee decision.
- **Regularly reevaluate the strength of your case and your opponents.** Pressing an issue, claim, or theory long after it has lost

viability (as occurred in *Highmark*) increases the risk that a case will be deemed exceptional. Likewise, if you believe your adversary's claims are weak, make a written request that those claims be withdrawn so that, if your adversary refuses, you have put them on notice of their unreasonable position and set the stage for your exceptional case request.

- **Remind your sales and product teams to avoid creating "bad" documents, particularly regarding litigation or patent enforcement.** A prevailing party will seize on any comments that may suggest carelessness or an unsavory motive (as occurred in *Octane Fitness*). Remind your employees that their discussions, including electronic ones, may be discoverable and that they should think twice before hitting "Send."
- **Require implementation of customized task coding**. Detailed, task-coded diary entries by attorneys will make it easier to show a district court how your adversary's conduct impacted your expenditures with respect to unreasonable claims, defenses or motion practice. Coding by task or activity will not only help manage the case and its budget, it will make preparing and supporting fee petitions easier and less costly down the road.

This may not be the last word on fee awards in intellectual property cases in 2014. Congress is considering legislation mandating fee-shifting to prevailing parties in most patent cases, and the Senate will hold hearings on patent reform legislation in May. This prospect further counsels in favor of adopting the above practices.

* Foley Hoag LLP authored briefs for the American Intellectual Property Law Association as *amicus curiae* in *Octane Fitness* and *Highmark* advocating for positions ultimately adopted by the Court in both cases.

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