Bloomberg BNA

BNA's
Patent, Trademark & Copyright Journal®

PATENTS

The authors already see a trend upward in district courts' awards of attorney fees to the prevailing party since the Supreme Court's *Highmark* and *Octane* decisions on April 29, 2014.

Recent Supreme Court Decision Takes Us Back to the Future: Attorney Fees Award Rate Increases in Patent Cases



By Randy Lipsitz, Aaron Frankel and Hanna Seifert

The Supreme Court decided six patent cases this year, an unusually large number, and reversed the U.S. Court of Appeals for the Federal Circuit in five of those six cases. A theme of these reversals is the Supreme Court's rejection of special, bright-line rules established by the Federal Circuit for patent cases in favor of allowing greater district court discretion and flexibility.

The Federal Circuit's preference for rigid tests may result from its historical origins. Congress created the Federal Circuit in 1982, among other reasons, to decide all appeals in patent infringement cases from the district courts. One of the goals was to standardize the law applicable to patent cases in response to concerns over conflicting decisions issued by various circuit courts. This regional variation in national patent law led to forum shopping by litigants and engendered uncertainty, weakening the value of patents and undermining the incentives to innovate that patents were intended to promote.

In attempting to create consistency in the application of patent law concepts, the Federal Circuit tended to opt for straightforward tests over broad district court discretion, and favored pro-patent policies over more general legal principles. Yet with the new composition of the Supreme Court and a heightened interest in both intellectual property cases in general and patent cases in particular, the justices have recently scrutinized the Federal Circuit's patent exceptionalism approach.

Highmark and *Octane Fitness*

Illustrative of this trend is the issue of attorney fees, addressed in two of the Supreme Court decisions issued April 29, 2014. In *Highmark v. Allcare*, the justices unanimously decided that the Federal Circuit must review attorney fees decisions by trial judges for an abuse of discretion, rather than de novo, reducing the Federal Circuit's ability to impose uniformity in the resolution of requests for attorney fees through appellate review.[1] The other case, *Octane Fitness v. Icon*, considered the standard to be applied by district court judges in deciding whether to award attorney fees to the prevailing

[1] *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 2014 BL 118430, 110 U.S.P.Q.2d 1343 (2014) (88 PTCJ 28, 5/2/14).

 ISSN 0148-7965

party in patent infringement cases.[2] In such cases, by statute, ''the court in exceptional cases may award reasonable attorney fees to the prevailing party.''[3] The statute itself provides no further guidance concerning when attorney fees should be awarded.

Before 2005, courts applied Section 285 ''in a discretionary manner, assessing various factors to determine whether a given case was sufficiently 'exceptional' to warrant a fee award.''[4] However, in 2005, the Federal Circuit changed the standard for awarding attorney fees in deciding *Brooks Furniture. v. Dutailier*.[5] The *Brooks Furniture* standard ultimately proved rigid and difficult to apply and was finally rejected by the Supreme Court, in *Octane Fitness*, in favor of returning to the courts' previous discretionary approach.

Recent Decisions

A significant number of new attorney fees cases have been decided since the *Octane Fitness* decision was issued, once again featuring a ''totality of the circumstances'' analysis.

For example, in *Lumen View v. Findthebest.com*,[6] one of the first cases decided after *Octane Fitness*, Judge Cote of the Southern District of New York deemed the case a ''prototypical exceptional'' patent case under Section 285, and awarded fees against what she deemed a ''Non Practicing Entity.'' Applying the totality-of-the-circumstances test established by *Octane Fitness*, Judge Cote found, inter alia, that no reasonable litigant in the patent owner's shoes could have expected success on the merits, that the patent owner's sole motivation in commencing the litigation was to extract a nuisance value settlement from alleged infringers, and that the filing of a number of substantially similar lawsuits against alleged infringers was nothing more than a predatory strategy. Finding that the question of whether the case was exceptional was not even close, Judge Cote ruled that her award of attorney fees would serve as ''an instrument of justice'' against this patent owner, and hopefully as a deterrent against others. Lumen View's appeal to the Federal Circuit was dismissed on its own motion.[7]

In considering the *Octane Fitness* case itself on remand from the Supreme Court, the Federal Circuit remanded the case to the district court to reconsider its decision not to find the case exceptional.[8] In doing so, the Federal Circuit instructed the district court to consider the ''totality of the circumstances'' in determining whether the case was exceptional, and to apply its discretion in deciding whether to award attorney fees.

Likewise, the Federal Circuit remanded the *Highmark* case back to the district court to reconsider its decision to award attorney fees in light of the new Supreme Court standard.[9] Similarly, in *Checkpoint v. All-Tag*,[10] the Federal Circuit remanded the original award of attorney fees by the district court to that court for reconsideration in light of *Octane Fitness* and *Highmark*.

Appellate Review Standard Makes Difference

We now have some hint at how the Federal Circuit will review and react to a district court award of attorney fees from its recent decision in *Homeland Housewares v. Sorensen*.[11] In that case, the Federal Circuit recognized that it ''must apply 'an abuse-of-discretion standard' '' in reviewing the district court fee award. In applying what it termed ''this deferential standard,'' the Federal Circuit held that the district court did not abuse its discretion in finding the case exceptional or in calculating the amount of attorney fees to award.

With these new Supreme Court decisions, which the Federal Circuit must follow and accept, the Federal Circuit has lost some of its unfettered ability to alter the course and outcome of relevant issues in a patent case on appeal from the district court. There has always been in the Federal Circuit a tension between those judges who believe they need robust oversight and control of district court rulings (e.g., through de novo review of various issues and the imposition of non-discretionary standards and tests), and those judges, some of whom are themselves former district court judges, who believe that district court determinations are entitled to substantial deference, favoring greater district court discretion and abuse of discretion review.

In another case now pending before the Supreme Court, *Teva v. Sandoz*,[12] the Court in the upcoming term will decide whether to change the Federal Circuit's current ability to review on a de novo basis district court patent claim construction determinations. Those patent claim construction decisions cannot be reviewed on appeal until after trial, even though they are usually made early in the case.

Pendulum Swings Back

Given the foregoing, with the more flexible attorney fees standards back in place, we hypothesized that the rate of awarding attorney fees in patent cases should return to the pre-*Brooks Furniture* rate. To evaluate the

---

[2] *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1753, 2014 BL 118431, 110 U.S.P.Q.2d 1337 (2014) (88 PTCJ 28, 5/2/14).

[3] 35 U.S.C. § 285.

[4] *Octane Fitness*, 134 S. Ct. at 1754.

[5] *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 73 U.S.P.Q.2d 1457 (Fed. Cir. 2005) (69 PTCJ 251, 1/14/05).

[6] *Lumen View Technology LLC v. Findthebest.com, Inc.*, No. 13 CIV 3599 DLC, (S.D.N.Y. May 30, 2014).

[7] No. 2014-1156 (Fed. Cir. Sept. 16, 2014). Other district courts have declined to find a case exceptional under similar circumstances. For example, Judge Davis of the Eastern District of Texas found irrelevant to an exceptional case determination the facts that a plaintiff was a non-practicing entity, had filed multiple lawsuits and had settled many of its suits for nuisance value. *SFA Sys., LLC v. 1-800-Flowers.com, Inc.*, No. 6:09-cv-00340-LED (E.D. Tex. July 8, 2014). The authors expect that the greater discretion given to district courts will lead to divergent approaches to requests for attorney fees. Savvy litigants will consider these tendencies in their venue selection and transfer analyses.

[8] *ICON Health & Fitness, Inc. v. Octane Fitness, LLC*, No. 2011-1521, -1636, 2014 BL 235906 (Fed. Cir. Aug. 26, 2014) (88 PTCJ 1107, 8/29/14).

[9] *Highmark, Inc. v. Allcare Health Mgmt. Sys.* No. 2011-1219, 2014 BL 246560 (Fed. Cir. Sept. 5, 2014) (88 PTCJ 1166, 9/12/14).

[10] *Checkpoint Sys. v. All-Tag Sec. S.A.*, No. 2012-1085, 2014 BL 245056 (Fed. Cir. Sept. 4, 2014) (88 PTCJ 1165, 9/12/14).

[11] *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, No. 2013-1537, 2014 BL 247805 (Fed. Cir. Sept. 8, 2014) (88 PTCJ 1174, 9/12/14).

[12] *Teva Pharmaceutical USA, Inc. v. Sandoz, Inc.*, 723 F.3d 1363, 107 U.S.P.Q.2d 1655 (Fed. Cir. 2013) (86 PTCJ 683, 8/2/13), *cert. granted*, 134 S. Ct. 1761 (2014) (87 PTCJ 1296, 4/4/14).

   ISSN 0148-7965

impact of these changing standards on attorney fees grant rates in patent cases, we compared district court decisions on requests for attorney fees in patent cases under Section 285 during these three periods of time:

(1) a sampling of 100 cases from 2004 and earlier, in which district courts considered the pre-*Brooks Furniture* totality-of-the-circumstances test in a discretionary manner;

(2) a sampling of 100 cases from 2011-2013, which applied the more rigid *Brooks Furniture* test; and

(3) all 40 post-*Octane* published district court decisions issued through Sept. 18, 2014, which once again applied the totality-of-the-circumstances test.[13]

In the 60 years prior to the Federal Circuit's decision in *Brooks Furniture*, attorney fees were awarded by district court judges based on consideration of the ''totality of the circumstances,'' allowing courts considerable freedom to determine when an award of fees was appropriate.[14] As shown in the tables below, our review of 100 decisions issued before *Brooks Furniture*, in 2004 or earlier, found that district courts granted attorney fees approximately 42 percent of the time.

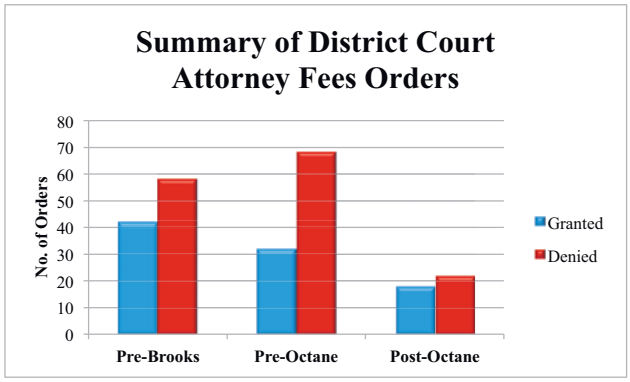
The district courts' wide discretion to award attorney fees was considerably reduced by the Federal Circuit in the 2005 *Brooks Furniture* decision. In attempting to create a bright-line standard for application of Section 285 by trial judges, the Federal Circuit held that a case may be deemed exceptional only in two limited circumstances: (1) when there has been some ''material inappropriate conduct'' during patent prosecution or litigation, or (2) when patent litigation is both ''brought in subjective bad faith, and . . . is objectively baseless.''[15] The Federal Circuit went even further and also ruled that these conditions must be established by no less than clear and convincing evidence.[16]

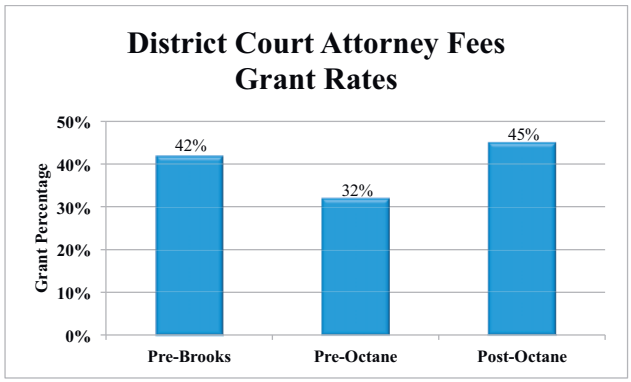
Our review of 100 decisions found that the grant rate for attorney fees dropped to about 32 percent during the *Brooks Furniture* era. This 25 percent drop is presumably attributable to the more stringent and possibly confusing standard imposed by *Brooks Furniture*, and perhaps to a reluctance by district court judges to award fees except in extreme cases, lest they be reversed on de novo review by the Federal Circuit.

In *Octane Fitness*, the pendulum swung back towards flexibility in awarding attorney fees, when the Supreme Court rejected the *Brooks Furniture* test as overly rigid and too demanding. The opinion restored the district's court discretion to decide attorney fee awards on a case-by-case basis, under the totality-of-the-circumstances test, and also reinstated the less-stringent preponderance of the evidence standard of proof.

The Supreme Court, looking to the text of Section 285, determined that it was ''patently clear,'' finding that ''[i]t imposes one and only one constraint on district courts' discretion to award attorney fees in patent litigation: The power is reserved for 'exceptional' cases.''[17] According to the Supreme Court, there was no need for the *Brooks Furniture* gloss on the statutory remedy. ''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.''[18]

As expected and noted above, based on our sample, the grant rate dropped significantly (from 42 to 32 percent) after the Federal Circuit raised the bar to a grant request for attorney fees in *Brooks Furniture*. Under our hypothesis, we were not surprised to confirm that since the Supreme Court's *Octane Fitness* decision in April 2014, the district court grant rate for attorney fees has returned to its pre-*Brooks Furniture* level (in fact, it slightly higher at 45 percent).[19]





Given the significant amount of attorney fees incurred by plaintiffs and defendants in litigating or defending even a routine patent case,[20] the renewed

[13] Opinions were not considered if Section 285 was not used as a basis for determining eligibility for attorney fees, or if the focus of the analysis was on calculating a reasonable fee award amount, rather than whether a fee award was warranted.

[14] *Octane Fitness*, 134 S. Ct. at 1753.

[15] *Brooks Furniture*, 393 F. 3d at 1381.

[16] *Id.* at 1382.

[17] *Octane Fitness*, 134 S. Ct. at 1755-1756.

[18] *Id.*

[19] Interestingly, there was a sharp initial spike in grant rates after the issuance of the *Octane Fitness* decision. Seven of the first 10 post-*Octane Fitness* attorney fees (70 percent) were granted. While this may simply be a result of a small sample size, the authors speculate that this initial spike may be attributable to a sampling bias created by a decision by certain district courts that were inclined to grant a pending motion for an award of attorney fees to wait for the *Octane Fitness* decision before issuing their orders.

[20] *See, e.g.*, American Intellectual Property Law Association's 2013 Report of the Economic Survey, summarized at http://www.patentinsurance.com/custdocs/2013aipla%

higher grant rate of attorney fees to prevailing parties in patent cases (be they patent owners or alleged infringers) will no doubt impact the litigation and settlement strategy of the parties going forward, an immediately tangible result of the Supreme Court's reversal of the Federal Circuit's rigid approach.[21]

20survey.pdf, showing an average $2.8M cost through trial for a patent infringement suit with more than $1M in controversy.

[21] The single patent case affirmed by the Supreme Court this term, *Alice Corp. Pty Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014) (88 PTCJ 513, 6/20/14), has had an even greater impact, leading to the immediate invalidation of a slew of business method and software patents.

  PTCJ ISSN 0148-7965