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SUMMARY

U.S. Supreme Court rulings may discourage abusive patent suits by making it easier for prevailing parties to recover attorneys' fees from losing parties.

If you have any questions regarding the issues raised by the *Octane* or *Highmark* decisions, please contact:

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U.S. SUPREME COURT RULINGS MAY DISCOURAGE ABUSIVE PATENT SUITS

On April 29, 2014, the U.S. Supreme Court issued two unanimous rulings — *Octane Fitness v. ICON Health & Fitness* ("*Octane*"); and *Highmark Inc. v. Allcare Health Management System, Inc*. ("*Highmark*") — that may discourage abusive patent suits by making it easier for a prevailing party in a patent suit to recover attorney's fees from the losing party.

Background

In *Octane*, ICON sued Octane, alleging that Octane's machines infringed ICON's patent. After the district court concluded that Octane's machines did not infringe ICON's patent, Octane requested that the court award attorney's fees under 35 U.S.C. §285. This patent statute permits "fee-shifting," *i.e.*, awarding attorney's fees to the prevailing party in "exceptional" cases (known as "loser-pays"), at the court's discretion, in contrast with the normal American Rule whereby each party is responsible for its own attorney's fees. The district court determined that the case was not "exceptional" and denied Octane's request. Octane appealed that ruling, but it was upheld by the Court of Appeals for the Federal Circuit. Octane then appealed to the U.S. Supreme Court.

The Supreme Court unanimously reversed the Federal Circuit, noting that the district court had applied an overly rigid standard in determining whether the case was "exceptional" enough to qualify for fee-shifting under §285. The Court held that "[d]istrict courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." The Court indicated that an "exceptional" case is "simply one that stands out" regarding the losing party's weak substantive position (considering the law and the facts) or that party's unreasonable litigation conduct.

In *Highmark*, the Court held that a district court's determination that a case is "exceptional" and warrants a fee-shifting award under §285 is entitled to significant deference and should only be reversed on appeal if the district court abused its discretion.

Anticipated Impact of these Rulings

Post-*Octane* and *Highmark,* obtaining a fee-shifting ruling under 35 U.S.C. §285 may be easier (albeit still uncommon), and such decisions should be harder to overturn on appeal.

While it is hoped that these Supreme Court rulings will not chill meritorious patent infringement suits, patent owners with limited resources may hesitate to bring such actions because of the increased risk of being ordered to pay the opponent's attorney's fees – which could be in the million-dollar range – if they do not prevail and the court determines that the case was "exceptional."

Notably, fee-shifting under §285 is not only available in patent infringement suits but also in declaratory judgment suits filed against a patent owner. If a patent owner prevails in such an action (*e.g.*, by establishing that the patent is valid and infringed) and can demonstrate that the losing party's position or conduct was "exceptional," the patent owner may be able to recover its defense costs.

Finally, these fee-shifting refinements by the Supreme Court appear to be less aggressive than fee-shifting provisions pending in Congress (in patent reform bills targeting perceived "patent troll" abuses). Some of these bills would *mandate* fee-shifting, as opposed to just permitting fee-shifting at the court's discretion in "exceptional" cases. Depending on lower court implementation, these two new rulings may discourage abusive patent suits and possibly alleviate the need for patent reform legislation regarding fee-shifting.