

ARTICLES

Are Attorney Fees Now Easier for Patent Owners to Recover Absent Willful Infringement?

By Mark M. Supko – October 16, 2014

Through two decisions issued on April 29, 2014, the Supreme Court of the United States substantially changed the legal landscape for successful patent litigants seeking to recover their attorney fees from the losing party. In *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749 (2014), the Supreme Court overturned a prior decision of the U.S. Court of Appeals for the Federal Circuit interpreting section 285 of the Patent Statute to authorize an award of attorney fees in only very narrow circumstances, adopting instead a broad “totality of the circumstances” test for determining whether a case qualifies as “exceptional” and thus warrants an award of attorney fees to the prevailing party. The Court also rejected the Federal Circuit’s application of the “clear and convincing” evidentiary standard to “exceptional case” determinations in patent cases, holding that such a showing need only be made by a preponderance of the evidence. Similarly, in *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S. Ct. 1744 (2014), the Supreme Court held that a district court’s determinations under section 285 will be reviewed on appeal under an “abuse of discretion” standard, reflecting the discretionary nature of the new test articulated in *Octane Fitness*.

These two decisions, issued in the midst of a seemingly unprecedented degree of public attention on various perceived shortcomings of the U.S. patent system, have been widely hailed as a new and potentially powerful tool for curbing litigation abuses by so-called patent trolls (also known as “patent assertion entities” or “non-practicing entities”), many of whom are viewed as unfairly taking advantage of the high cost of patent litigation to force defendants to settle dubious patent infringement claims. Early indications from the relatively few decisions that have applied the new “exceptional case” framework suggest that district court judges may indeed be more willing to award attorney fees to defendants that are the target of ill-founded infringement claims. The reach of these decisions, however, may not be so limited: The Supreme Court’s holding and rationale extend as well to prevailing plaintiffs, who have faced a stern challenge in recent years justifying recovery of attorney fees from defendants who may rely on ill-founded defenses to meritorious infringement claims.

The Fee-Shifting Landscape Prior to *Octane Fitness* and *Highmark*

A fundamental tenet of the American judicial system is that, by default, each party in a civil case is required to pay its own attorney fees. This so-called American Rule is rooted in notions of fairness and equal access to the courts, particularly for those who might be deterred from enforcing their legal rights if the risk of loss included an obligation to pay the opposing party’s fees. Nevertheless, there are numerous fee-shifting provisions in both federal and state laws that enable successful litigants to recover their attorney fees under appropriate circumstances. One such provision is section 285 of the Patent Statute, which specifies that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. As interpreted and applied by the Federal Circuit, however, fee awards pursuant to section 285 have been relatively rare.

Nearly a decade ago, the Federal Circuit adopted a narrow interpretation of section 285 under which a case may be deemed exceptional only “when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates *Fed. R. Civ. P. 11*, or like infractions.” *Brooks Furniture Mfg., Inc. v. Dutailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). As a practical matter, *Brooks Furniture* meant that absent some otherwise sanctionable conduct on the part of the defendant, a prevailing patentee could satisfy the “exceptional case” standard only if it was able to prove willful infringement. And the Federal Circuit made proving willful infringement, never an easy task, extraordinarily difficult with its seminal *Seagate* decision, which established a new and substantially more stringent two-part standard for willful infringement. *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007).

Under *Seagate*, a patentee seeking to prove willful infringement must first show, by clear and convincing evidence, that the infringer acted “despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate*, 497 F.3d at 1371. If this threshold objective standard is satisfied, the patentee then must show that the “objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.” *Id.* The Federal Circuit thus substantially heightened the willful infringement standard as compared with the “due care” standard it had fashioned nearly 25 years earlier. *See Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389–90 (Fed. Cir. 1983) (holding that “[w]here . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing”). Indeed, under the *Seagate* standard, an infringer can often avoid a willfulness finding simply by presenting credible non-infringement or invalidity defenses at trial, even if such defenses were completely unknown to the infringer at the time it decided to undertake the infringing activity. *See, e.g., DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1337 (Fed. Cir. 2009). Thus, as a practical matter, fee awards to prevailing patent owners seem to have become exceedingly rare.

A Flexible, Discretionary Standard Focused on the Totality of the Circumstances

In *Octane Fitness*, the Supreme Court rejected the fee-shifting standard espoused by the Federal Circuit in *Brooks Furniture*, characterizing it as “unduly rigid,” “impermissibly encumber[ing] the statutory grant of discretion to district courts,” and “superimpos[ing] an inflexible framework onto statutory text that is inherently flexible.” *Octane Fitness*, 134 S. Ct. at 1755–56. Focusing on the “patently clear” language of section 285, the Court explained that the statute “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.” *Id.* at 1755–56. Then, applying an “ordinary meaning” analysis, the Court held that an “exceptional case” within the meaning of section 285 “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.” *Id.* at 1756. The Supreme Court thus

empowered district court judges to make fee-shifting determinations through a “case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.*

In addition to rejecting the Federal Circuit’s analytical framework for exceptional case determinations, the Supreme Court rejected the stringent “clear and convincing” evidentiary standard that the Federal Circuit required for parties seeking to recover their attorney fees in patent cases. Observing that the Court had not interpreted comparable fee-shifting statutes to require proof by clear and convincing evidence, the Court noted that “nothing in § 285 justifies such a high standard of proof.” *Id.* at 1758. Consistent with its approach to the substantive standard, the Court noted that “[s]ection 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less a high one.” *Id.* Thus, parties seeking to support a fee award will be subject only to the “preponderance of the evidence” standard generally applicable in civil cases.

In an effort to provide at least some guidance to the district courts in exercising their discretion, the Court pointed to its prior decision in *Fogerty v. Fantasy*, which addressed fee shifting in the “comparable context” of the Copyright Act. *Octane Fitness*, 134 S. Ct. at 1785 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)). In *Fogerty*, the Supreme Court observed that “[t]here is no precise rule or formula for making these determinations,’ but instead equitable discretion should be exercised ‘in light of the considerations we have identified.’” *Fogerty*, 510 U.S. at 534.

In *Octane Fitness*, the Court then pointed to a nonexclusive list of factors articulated in *Fogerty* that are also applicable to patent cases, including “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.” 134 S. Ct. at 1756 n.6 (quoting *Fogerty*, 510 U.S. at 534 n.19). Contrasting its relaxed discretionary standard to the Federal Circuit’s now overruled approach, the Court noted that “a district court may award fees in the rare case in which a party’s unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so ‘exceptional’ as to justify an award of fees.” *Id.* at 1757.

Fee Awards Likely to Remain Rare

To date, there have been relatively few published decisions applying the less-stringent exceptional case standard articulated in *Octane Fitness*. Nearly all of those decisions have involved efforts by defendants to recover their fees after successfully defending against an infringement claim that was ill founded, inadequately investigated, or both. Indeed, *Octane Fitness* has been hailed as a potentially powerful weapon in the ongoing battle against bogus patent assertions by so-called patent trolls. Yet, there is nothing in the *Octane Fitness* decision that limits its applicability to defendants. To the contrary, the Supreme Court clearly intended its broad interpretation of section 285 to apply in all instances in which a prevailing party, whether plaintiff or defendant, seeks to establish a case as “exceptional” and recover its attorney fees. Consequently, whereas a patent owner could only reasonably expect to recover its fees under the *Brooks Furniture* standard by first proving willful infringement, such a restriction on the scope of section 285 can no longer be justified. That means there should be circumstances that

justify the imposition of a fee award against a non-willful infringer. Just what those circumstances might be—and how far district court judges may be willing to push the application of section 285 in favor of a prevailing patent owner—remains to be seen, but two recent decisions may offer some clues.

In *Cognex v. Microscan Systems*, No. 13-CV-2027, 2014 U.S. Dist. LEXIS 91203 (S.D.N.Y. June 30, 2014), one of a very small number of published decisions applying *Octane Fitness* in the context of a plaintiff's fee motion, Cognex moved for recovery of its attorney fees pursuant to section 285 after securing a jury verdict of willful infringement following a trial in the Southern District of New York. Applying the *Octane Fitness* standard, the district court granted Cognex's motion in part, despite having determined that Microscan's willful infringement was not sufficiently egregious to justify an award of enhanced damages under 35 U.S.C. § 284. Applying the Supreme Court's guidance as to what constitutes an "exceptional" case, the district court cited both the substantive strength of Microscan's litigating positions and the unreasonable manner in which the case was litigated in support of its conclusion that the case was indeed exceptional and that Cognex should therefore recover a portion of its attorney fees. More particularly, the district court noted that "the defenses that were offered at trial were particularly weak and lacked support in the evidence presented to the jury and to the Court," and further noted that the "defendants have engaged in unreasonable litigation tactics that have wasted the Court's time and have required plaintiffs to expend significant resources." *Id.* at *10–11. In an interesting comment, the district court noted that it was the weakness of Microscan's defenses that previously led to the conclusion that the objective prong of the willfulness standard was satisfied. It is therefore unclear whether the district court would have found the case "exceptional" in the absence of evidence supporting a willful infringement finding, notwithstanding the Supreme Court's rejection of willful infringement as a de facto prerequisite to a plaintiff's ability to recover its attorney fees under the *Brooks Furniture* standard.

Further insight can be gleaned from *Lee v. Mike's Novelties*, No. 2:10-CV-02225, slip op. (C.D. Cal. July 14, 2014), ECF No. 266, a case tried in the Central District of California before *Octane Fitness* issued. There, the plaintiff secured a jury verdict of willful infringement at trial, after which the district court, applying the *Brooks Furniture* standard, awarded both enhanced damages and attorney fees based on the willful infringement finding and litigation misconduct by the defendant. On appeal, still before *Octane Fitness*, the Federal Circuit affirmed the jury's infringement finding but reversed both the willful infringement finding and the consequent award of enhanced damages. As to the attorney fee award, the appellate court remanded to the district court to determine whether the defendant's litigation misconduct, standing alone, justified the fee award. On remand, the district court found that the litigation misconduct was not "sufficiently severe or pervasive" to make the case "exceptional" under section 285, and the court therefore denied the plaintiff's fee motion. Slip op. at 1. When *Octane Fitness* and *Highmark* issued a few months later, the plaintiff moved for reconsideration of its fee motion in view of the change in the law. Taking due note of the Supreme Court's broadened standard, the district court determined that the facts still did not justify a fee award. In support of that determination, the court found the plaintiff's arguments concerning the weakness of the

defendant's substantive position unpersuasive, emphasizing the Federal Circuit's earlier finding (i.e., in reversing the willful infringement verdict) that it was reasonable for the defendant to have contested the plaintiff's infringement allegation. Likewise, in response to the plaintiff's argument that the defendant had filed numerous "meritless dispositive motions," the district court found that the defendant's litigation misconduct was only "modest." *Id.* at 4–6.

Accordingly, the district court determined that even under the *Octane Fitness* standard, there was an insufficient basis for finding the case "exceptional."

The District Court for the District of Arizona reached a different conclusion under somewhat similar circumstances in *Integrated Technology v. Rudolph Technologies*, No. CV-06-2182, slip op. (D. Ariz. Aug. 8, 2014), finding the case to be exceptional and granting an award of attorney fees to the prevailing plaintiff even though a prior willfulness verdict had been reversed on appeal. There, the court recited a litany of facts independent of the vacated willfulness verdict that supported finding the case exceptional, including that the defendant hid its infringement for years, provided false discovery responses, filed summary judgment papers even though it knew its product infringed, and played semantic games both during and after trial regarding the functionality and demand for its accused product. *Id.* at 2. Indeed, the court commented that *either* the weakness of the defendant's substantive positions *or* the unreasonable manner in which the case was litigated made the case "stand out from others," and thus supported an award of attorney fees. *Id.*

Although the sample size is far too small to draw any definitive conclusions, these three recent district court decisions suggest that, notwithstanding the somewhat sweeping language in *Octane Fitness* and *Highmark* regarding the breadth of a district court's discretion under section 285, it may still be the relatively rare case in which a judge determines that a case is sufficiently "exceptional" to warrant imposition of an attorney fee award against a non-willful infringer. Nevertheless, it does appear that at least some district court judges, faced with sufficiently unmeritorious positions or unreasonable conduct by a defendant, will be willing to award a prevailing plaintiff its attorney fees even in the absence of a willfulness finding, an outcome that seemed almost impossible before the recent Supreme Court decisions.

Conclusion

Through its decisions in *Octane Fitness* and *Highmark*, the Supreme Court confirmed that district court judges have broad discretionary authority to award attorney fees to the prevailing party in patent cases, rejecting the stringent *Brooks Furniture* standard that had held sway for nearly a decade. While the Supreme Court's rulings will surely be cited in fee petitions by prevailing plaintiffs for years to come, early indications are that fee awards will remain relatively rare, particularly in the absence of facts sufficient to establish willful infringement. Such a result would not be all that surprising, nor indeed necessarily undesirable, given the deep roots that the American Rule has in our civil justice system.

Nevertheless, it cannot be denied that the Supreme Court has significantly expanded the circumstances under which a district court judge is authorized to impose a fee award in favor of a prevailing plaintiff, specifically including cases in which willful infringement is not found. For instance, the defenses presented by an infringer at trial may be sufficiently reasonable to avoid a willful infringement finding under the *Seagate* standard, yet still be so weak substantively that a district court judge would find the case “exceptional” and impose a fee award against the infringer. The very nature of the test adopted by the Supreme Court in *Octane Fitness* eschews any bright line rules regarding when a case will be deemed “exceptional”; therefore, it remains to be seen to what extent district court judges will treat this more expansive interpretation of section 285 as a tool to be used in favor of prevailing plaintiffs and defendants alike, rather than merely treating it as a deterrent to the perceived evils of patent trolls.

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