The Fee-Shifting Climate After Octane And Highmark

Law360, New York (August 28, 2014, 7:46 AM ET) -- Since 1952, the Patent Act has provided that courts "in exceptional cases may award reasonable attorney fees to the prevailing party."[1] Such diversions from the "American Rule," which requires each party to pay its own legal fees, are intended to discourage frivolous or abusive lawsuits. For most of the last decade, however, this fee-shifting provision was applied relatively infrequently. Under the previous Federal Circuit standard, awards of attorneys' fees were only granted to parties that could prove that litigation brought against them was both "objectively baseless" and "in subjective bad faith."[2]

Recently, two U.S. Supreme Court cases, Octane Fitness LLC v. Icon Health & Fitness Inc. and Highmark Inc. v. Allcare Health Management Systems Inc., both decided April 29 of this year, have loosened the requirements for fee-shifting awards.[3] District courts have applied these decisions to make fee awards to both plaintiffs and defendants, including in cases where fees might not have been awarded under earlier cases.

The Supreme Court's Octane and Highmark Decisions

In Octane, the Supreme Court held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."[4] The Supreme Court explained 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."[5] The court further held that the "clear and convincing evidence" standard is too stringent for establishing the appropriateness of fee shifting. Rather, parties must only meet the less demanding "preponderance of the evidence" standard.[6]

In Highmark, the court considered the standard of review for attorneys' fee awards. The Federal Circuit had previously found that the objective prong of the test should be reviewed de novo and the subjective prong should be reviewed for clear error.[7] The Supreme Court rejected this framework, and made the determination of whether a case is "exceptional" under Section 285 a matter of discretion.

Specifically, the court held "that an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's § 285 determination."[8] The Supreme Court was unanimous in Highmark and nearly unanimous in Octane (Justice Antonin Scalia did not join in footnotes 1-3).

Now that several months have passed since Octane and Highmark were handed down, it is possible to assess how district courts have applied these cases in determining attorneys' fees awards. During that time, district courts have applied the Octane and Highmark rulings to award attorneys' fees to both patent holders and defendants.

Post-Octane and Post-Highmark District Court Cases

Since the Supreme Court decisions in Octane and Highmark, a number of district courts have considered awards of attorneys' fees based on these decisions. These cases can provide a sense

of how district judges are reacting to the Supreme Court's decisions, and may provide guidance for predicting how other courts may react in the future. Some of these cases are discussed below.

Cases Granting Attorneys' Fees to Defendants

Since Octane and Highmark, a number of district courts have applied those decisions to support a grant of attorneys' fees to a defendant accused of patent infringement. For example, in Intellect Wireless Inc. v. Sharp Corp., patent holder Intellect brought an action against two competitors for allegedly infringing patents directed to wireless caller identification.[9] The court found inequitable conduct on the part of the patent holder and, based on this inequitable conduct, considered whether to award attorneys' fees.

In making this decision, the court applied the Supreme Court's Octane and Highmark decisions, finding that they required a "case-by-case exercise" of the court's discretion, and that the purpose of Section 285 was "not to punish the losing party, but rather to compensate the prevailing party for the costs incurred due to the losing party's unreasonable conduct."[10]

The court explained that a finding of inequitable conduct could support an award of attorneys' fees in some circumstances, but that "all cases that involve inequitable conduct" are not "necessarily exceptional." After weighing the circumstances in the case before it, the court found that the inequitable conduct at issue justified an award of attorneys' fees, and made a fee award to the defendants.

In Precision Links Inc. v. USA Products Group Inc., the district court had awarded attorneys' fees to the defendant prior to Octane, and plaintiff appealed the fee award to the Federal Circuit.[11] The Federal Circuit vacated the fee award and remanded to the district court. In the interim, Octane was decided. Upon rehearing, the district court determined that, despite the Federal Circuit's vacating the fee award, the subsequent Octane decision rendered attorneys' fees newly appropriate. The Precision decision thus highlights Highmark's emphasis on deference to the district court.

In Classen Immunotherapies Inc. v. Biogen Idec, the District of Maryland determined that plaintiff Classen's case was objectively baseless.[12] The court held that under the new Octane standard, a finding of baselessness alone was sufficient to merit an award of attorneys' fees, and awarded fees to the defendant. In Home Gambling Network Inc. v. Piche, the court determined that plaintiffs were attempting to assert a patent they did not own, and engaged in patent misuse by doing so.[13]

The court found that, based on the totality of the circumstances, this was an exceptional case and awarded recovery of attorneys' fees to the defendants. In Lumen View Techology LLC v. Findthebest.com Inc., the Southern District of New York determined that plaintiff-patentee Lumen's case was both frivolous and objectively unreasonable, and granted an award of attorneys' fees to defendant Findthebest.com.[14] And, in Kilopass Technology Inc. v. Sidense Corp., the district court reconsidered its earlier decision not to award attorneys' fees in light of Octane, and awarded fees after finding that "the present action is 'one that stands out from others' with respect to both the substantive strength of Kilopass' litigating position and the

unreasonable manner in which the case was litigated."[15]

Cases Granting Attorneys' Fees to Plaintiffs

Although many of the post-Octane and post-Highmark cases have involved fee awards to defendants, there have been cases involving fee awards to plaintiffs as well. For example, in AGSouth Genetics LLC v. Georgia Farm Services, the Middle District of Georgia awarded attorneys' fees to the plaintiff based on the defendant's willful infringement.[16] In making this award, the AGSouth court pointed to the new post-Octane "preponderance of the evidence" standard. In Cognex Corp. v. Microscan Systems Inc., the Southern District of New York determined that the defendants had engaged in unreasonable and frivolous litigation tactics that wasted the court's time, and awarded attorneys' fees to plaintiffs.[17]

Cases Denying Attorneys' Fees

Octane and Highmark have facilitated the grant of attorneys' fees awards by some district courts. However, courts applying the rulings have exercised discretion and not universally awarded attorneys' fees in response to motions by prevailing parties.

For example, in CreAgri Inc. v. Pinnaclife Inc., the Northern District of California found both patents in suit invalid and granted summary judgment in favor of defendant Pinnaclife.[18] Pinnaclife moved for attorneys' fees, and the court addressed how Octane and Highmark had lowered the bar for awarding attorneys' fees under § 285. However, the court ultimately determined that the totality of the circumstances in CreAgri did not necessitate fee shifting.

Similarly, in Bianco v. Globus Medical Inc., the jury found in part for the plaintiff.[19] Therefore, the court determined, attorneys' fees for the defendant were not appropriate even under the Octane standard. In Stragent LLC v. Intel Corp., Judge Timothy Dyk, sitting in the Eastern District of Texas, denied the defendant's motion for attorneys' fees, stating that plaintiff's "argument was certainly a weak one, but despite the alleged implausibility of [its] position, [defendant] never sought summary judgment of noninfringement on the basis of the limitation at issue."[20]

And, in Eon Corp. IP Holdings LLC v. Flo TV Inc., Eon, a nonpracticing patent assertion entity, filed an infringement suit against Flo TV and 15 other defendants.[21] While the District of Delaware did find in defendant Flo TV's favor, the court did not grant its motion for attorneys' fees. The Eon court indicated that the case had proceeded in a typical manner, and was not exceptional even under the Octane standard. In another recent matter involving a different patent asserted by Eon, the Northern District of California determined that Eon's case was meritless.[22] The court decided, however, that Eon's success in litigating the same patent previously barred recovery of attorneys' fees by defendants.

These cases show that the Supreme Court's Octane and Highmark opinions have figured prominently in district court decisions to award attorneys' fees following those decisions. This is true for fee awards to both plaintiffs and defendants. Nonetheless, as certain of these decisions show, an award of attorneys' fees is far from automatic, and courts have considerable discretion

to grant or deny attorneys' fees based on the particular circumstances of the case.

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[1] 35 U.S.C. § 285

[2] Brooks Furniture Mfg. Inc. v. Dutailier Int'l Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005)

[3] Octane Fitness LLC v. ICON Health & Fitness Inc., 134 S. Ct. 1749 (2014); Highmark Inc. v. Allcare Health Mgmt. Sys. Inc., 134 S. Ct. 1744 (2014)

[4] Octane Fitness, 134 S. S. Ct. At 1756.

[5] Id.

[6] Id. at 1758.

[7] Highmark Inc. v. Allcare Health Mgmt. Sys. Inc., 687 F.3d 1300, 1309-10 (Fed. Cir. 2012).

[8] Id., 134 S. Ct. at 1749.

[9] Intellect Wireless Inc. v. Sharp Corp., 10 C 6763, 2014 WL 2443871 (N.D. Ill. May 30, 2014)

[10] Id. at *5.

[11] Precision Links Inc. v. USA Products Grp. Inc., 3:08-CV-00576-MR, 2014 WL 2861759 (W.D.N.C. June 24, 2014)

[12] Classen Immunotherapies Inc. v. Biogen Idec, CIV. WDQ-04-2607, 2014 WL 2069653 (D. Md. May 14, 2014)

[13] Home Gambling Network Inc. v. Piche, 2:05-CV-610-DAE, 2014 WL 2170600 (D. Nev. May 22, 2014)

[14] Lumen View Tech. LLC v. Findthebest.com Inc., 13 CIV. 3599 DLC, 2014 WL 2440867 (S.D.N.Y. May 30, 2014)

[15] Kilopass Tech. Inc. v. Sidense Corp., 10-cv-020566 SI (N. D. Cal., Aug. 12, 2014) at 14

[16] AGSouth Genetics LLC v. Georgia Farm Servs. LLC, 1:09-CV-186 WLS, 2014 WL 2117451 (M.D. Ga. May 21, 2014)

[17] Cognex Corp. v. Microscan Sys. Inc., 13-CV-2027 JSR, 2014 WL 2989975 (S.D.N.Y. June 30, 2014)

[18] CreAgri Inc. v. Pinnaclife Inc., 11-CV-6635-LHK, 2014 WL 2508386 (N.D. Cal. June 3, 2014)

[19] Bianco v. Globus Med. Inc., 2:12-CV-00147-WCB, 2014 WL 1904228 (E.D. Tex. May 12, 2014)

[20] Stragent LLC et al. v. Intel Corp., 6-11-cv-00421 (E.D. Tex., Aug. 6, 2014) (Dyk, C. J.)

[21] Eon Corp. IP Holdings LLC v. Flo TV Inc., CV 10-812-RGA, 2014 WL 2196418 (D. Del. May 27, 2014)

[22] Eon Corp. IP Holdings LLC v. Sensus USA Inc., et. al., 3-12-cv-01011-JST (N.D. Cal. July 25, 2014, Order) (Tigar, J.)