

High Court May Provide New Approach To 'Patent Trolls'

Law360, New York (December 03, 2013, 8:07 PM ET) -- In recent years, the number of patent infringement suits by entities that do not develop or make products has exploded. These companies, variously referred to as nonpracticing entities, patent assertion entities or “patent trolls,” often have the incentive to bring lawsuits of questionable merit to induce defendants to pay licensing fees in order to avoid the high cost of patent litigation. The issue has prompted President Obama to offer proposals to address it, and a host of bills have been introduced in Congress offering a diverse array of proposals. The likelihood that these proposals will be passed or will be effective in addressing concerns with patent trolls, however, is uncertain.

In a [New York Times](#) op-ed earlier this year, Chief Judge Randall Rader of the Federal Circuit proposed a different approach for dealing with abusive “troll” lawsuits. See *New York Times*, “Make Patent Trolls Pay in Court,” June 4, 2013. Rather than focusing on legislation, Judge Rader argued that judges could play an important role in deterring such lawsuits by requiring the troll to pay the accused infringer’s attorneys fees in appropriate cases. He pointed to Section 285 of the Patent Act, which gives judges the authority to shift attorneys’ fees to a troll in “exceptional cases.” He noted, however, that courts rarely used Section 285 to shift attorneys’ fees, doing so in only about 20 of nearly 3,000 patent cases filed in 2011.

Judge Rader’s focus on Section 285 was prescient. A few months later, on Oct. 1, 2013, the [U.S. Supreme Court](#) granted certiorari in two patent cases addressing the award of attorneys’ fees under the “exceptional case” standard of Section 285. See [Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.](#), 687 F.3d 1300, 1308 (Fed. Cir. 2012), petition for cert. granted, No. 12-1163 (U.S. Oct. 1, 2013); [Icon Health & Fitness Inc. v. Octane Fitness LLC](#), 496 Fed. App’x. 57 (Fed. Cir. 2012), petition for cert. granted, No. 12-1184 (U.S. Oct. 1, 2013). These cases address two important issues: first, the deference that is due to the district judge’s exceptional case finding and, second, the standard to apply in making that finding.

Since certiorari was only recently granted, we will learn much more as the briefing and arguments unfold. During this process, however, it is important for practitioners to understand the complex background of the issues involved, including the basic “exceptional case” framework, as well as the history and posture of the cases themselves.

Overview of Section 285

An award of attorneys’ fees in patent cases is governed by 35 U.S.C. § 285, which provides that a “court in exceptional cases may award reasonable attorney fees to the prevailing party.” The Federal Circuit has established a two-step process for determining whether to award attorneys fees in such cases. *Highmark*, 687 F.3d at 1308. First, the party “must establish by clear and convincing evidence that the case is exceptional.” *Id.* Second, if the case is deemed exceptional, the court “must determine whether an award of attorneys’ fees is appropriate and, if so, the amount of the award.” *Id.*

An accused infringer may establish that a case is “exceptional” by showing that a claim is “frivolous,” that there has been inequitable conduct before the [U.S. Patent and Trademark Office](#), or that misconduct during litigation has occurred. *Id.* To show that a case is exceptional

in the absence of litigation misconduct or inequitable conduct before the USPTO, the Federal Circuit has set forth two separate criteria that must be satisfied. *Id.* First, the accused infringer must show that the litigation was “brought in subjective bad faith” and, second, it must show that “the litigation is objectively baseless.” *Id.*

The Federal Circuit has explained that objective baselessness “does not depend on the state of mind” of the patentee, but rather “requires an objective assessment of the merits.” *Id.* at 1309. To be objectively baseless, the infringement allegations “must be such that no reasonable litigant could reasonably expect success on the merits.” *Id.* The “subjective bad faith” prong of the inquiry requires that the “lack of objective foundation for the claim was either known or so obvious that it should have been known” by the party asserting the claim. *Id.*

The Federal Circuit has stated that the “same objective/subjective standard applies for both patentees asserting claims of infringement and alleged infringers defending against claims of infringement.” *Id.* In other words, the Federal Circuit has essentially equated the objective and subjective prongs of the “exceptional case” test for patent owners with the objective and subjective prongs of the test for willful infringement.

Highmark v. Allcare — What Deference Is the District Judge Due?

The key issue raised by Highmark is: What is the standard for appellate review of the “objective” prong of the exceptional case standard when attorneys' fees are sought from a patent owner. In Highmark, the majority opinion held that the objective prong “is a question of law based on underlying mixed questions of law and fact and is subject to de novo review.” Highmark at 1309. Thus, the court explained, it reviews “the court’s determination of objective reasonableness without deference since it is a question of law.” *Id.* at 1310. The court contrasted this de novo review with the clear error review applied to factual findings regarding subjective bad faith. *Id.*

In order to understand how the Highmark de novo standard of review came about, it is important to look at the Federal Circuit’s decision regarding the willfulness standard just one year earlier, in *Bard Peripheral Vascular Inc. v. [W.L. Gore & Assoc. Inc.](#)* 682 F.3d 1003, 1004-06 (Fed. Cir. 2012)).

In *Bard*, the Federal Circuit was concerned with the trial court’s failure to address the objective prong as a separate legal test from the subjective one. *Id.* at 1005. In such cases, both could be decided by a jury. *Bard* sought to separate these two tests out, holding that the objective prong is a threshold test that is a question of law, must be decided by the trial judge, and is subject to de novo review. *Id.* Thus, meritless willfulness claims could be decided by the trial judge without the need to submit them to a jury. In Highmark, the majority applied the same analysis to the objective prong of the test applied to a patent owner’s conduct.

From the start, the Highmark majority opinion created controversy. Judge Mayer vigorously dissented, arguing that the majority continued the Federal Circuit’s unfortunate tendency to invade the fact-finding province of the trial courts, so that “litigation before the district court has become a mere dress rehearsal for the command performance” on appeal. 687 F.3d at 1320. Judge Haldane Robert Mayer argued that both Highmark and *Bard* departed from the court’s

settled precedent, and was contrary to decisions of the Supreme Court and regional circuits that “reasonableness” determinations involve fact questions subject to deferential review, including those presented in Rule 11 cases. *Id.* at 1320-23.

Following the panel opinion, the Federal Circuit on Dec. 6, 2012, issued a fractured set of opinions in denying rehearing of the case en banc. *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*, 701 F.3d 1351 (Fed. Cir. 2012). Judge Kimberly Moore (joined by Judges Rader, Kathleen O’Malley, Jimmie Reyna and Evan Wallach) issued an opinion dissenting from the denial, arguing that there was no basis for de novo review of the objective prong, either in *Highmark* or *Bard*.

Judge Reyna (joined by Judges Moore, O’Malley and Wallach) issued a separate opinion arguing that, even if *Bard* was correctly decided, it did not require a change to the standard in nonwillfulness cases. *Highmark*, 701 F.3d at 1362-67. Both dissenting opinions, however, did not appear to take issue with the proposition that the objective prong should be determined by the judge, not the jury.

Icon v. Octane — A Different Standard for Awarding Attorneys Fees to Patent Owners Versus Accused Infringers?

In *Icon Health & Fitness, Octane*, the accused infringer, argued that the Federal Circuit should change the standard for finding a case exceptional under § 285. It argued that the standard for exceptionality should simply be whether the patentee’s actions are “objectively unreasonable.” *Id.* In a brief, one paragraph discussion, in an unpublished opinion, the Federal Circuit found “no reason to revisit the settled standard for exceptionality.” *Id.*

Octane filed a petition for certiorari, arguing that the Federal Circuit had improperly set a higher standard for accused infringers than for patent owners. *Octane Br.* at 18-19, 26-28. According to *Octane*, accused infringers have to show that the litigation is “objectively baseless,” which requires that “the infringement allegations must be such that no reasonable litigant could reasonably expect success on the merits.” *Id.* at 20-21. On the other hand, *Octane* argued, a showing of willful infringement (which can make a case exceptional), merely requires that “that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.*

Octane acknowledged that the Federal Circuit has held that these standards are the same, but argued that this is not actually the case in practice. It pointed to a study by LegalMetric stating that patentees prevail on contested fee motions almost twice as often as accused infringers. *Octane Br.* at 24, 29-30. According to *Octane*, a comparable standard for an accused infringer would be that “the patentee brought and maintained the claims of infringement despite an objectively low likelihood that it would prevail on its infringement cause of action.” *Id.* at 28. *Octane* argued that such cases would still be “‘exceptional,’ and not the norm,” so they would be consistent with the statutory requirement that fees only be awarded in “exceptional” cases. *Octane Br.* at 33.

Octane also argued that the subjective prong of the test varied as between patent owners and

accused infringers. The subjective prong for willful infringement requires that the objectively defined risk “was either known or so obvious that it should have been known to the accused infringer.” *In re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc). For an accused infringer, the test requires that the patent owner’s “lack of objective foundation for the claim was either known or so obvious that it should have been known” by the patent owner. *Highmark*, 687 F.3d at 1309. Both formulations use the language “known or so obvious that it should have been known,” so it appears that the distinction, if any, lies in the objective fact that must be known or obvious.

Finally, Octane argued that subjective bad faith should not be required for a case to be found exceptional, pointing to any lack of mention of subjective intent or bad faith in the statute. *Octane Br.* at 35-36. Accordingly, Octane states that “a patentee that asserts a cause of action having an objectively low likelihood of success” should bear the risk of paying attorneys fees. *Id.* at 36-37.

Potential Impact

In both *Highmark* and *Icon Health*, the Supreme Court has the opportunity to reshape how attorneys’ fees are awarded and how they are reviewed on appeal. Although *Highmark* does not seek to alter the standard itself, a decision by the Supreme Court providing greater deference to a district judge’s findings could result in fewer awards being reversed on appeal, thereby increasing the number of awards and their deterrent effect against baseless lawsuits.

Icon Health provides a greater potential to reshape the landscape for awarding attorneys' fees by seeking what appears to be a lower standard, but it is unclear whether the Supreme Court will adopt the standard proposed by the petitioner, leave the Federal Circuit standard intact, or come up with a new standard. We can look forward to an interesting and vigorous debate as the briefing, commentary and argument play out over the coming months.

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