



THINK FORWARD

U.S. Supreme Court Empowers District Courts to Award Attorneys Fees, Lowers the Burden of Proof and Standard of Review

May 05, 2014

This morning, the U.S. Supreme Court changed the legal test for awarding attorney fees, issuing decisions in [Octane Fitness, LLC v. ICON Health & Fitness, Inc.](#) and [Highmark Inc. v. Allcare Health Management System, Inc.](#)

In *Octane Fitness*, the Court evaluated an award of attorney fees under the current attorney fee shifting provision of the Patent Statute, 35 U.S.C. § 285. This section expressly provides: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” The Court noted the statute’s only restriction is whether the case is exceptional, and relied on its plain and ordinary meaning. **The Court held “that an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of the 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. District 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 provided some guidance on this new exceptional case test in a footnote, noting that it had ruled in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994) (addressing a similar provision found in the Copyright Act) that district courts may evaluate a “‘nonexclusive’ list of ‘factors,’ 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.’”

The Court explained the Federal Circuit’s past law on entitlement to attorney fees incorrectly required that the litigation be “brought in subjective bad faith” and was “objectively baseless.” This legal test was not anchored by the statutory text, and was contrary to the statute’s inherently flexible language, and the Court further noted that “sanctionable conduct is not the appropriate benchmark.” Also, the law established by the Federal Circuit was so narrow “that it would appear to render § 285 largely superfluous.” Now, under the Court’s current holding, “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.”

The Court also rejected that patent litigants must have “clear and convincing evidence” to show an entitlement to attorney fees. According to the Court, patent infringement litigation and civil actions are generally governed by the “preponderance of the evidence” standard. The Court recognized that § 285 simply requires a discretionary inquiry and does not impose a specific burden. Thus, the Court found no justification for a higher evidentiary standard.

In *Highmark*, the Court applied the revised test for attorney fees of *Octane Fitness* and clarified the Federal Circuit’s standard of review: **“Because § 285 commits the determination whether a case is ‘exceptional’ to the discretion of the district court, that decision is to be reviewed on appeal for abuse of discretion.”** Quoting *Pierce v. Underwood*, 487 U.S. 552 (1988), the Court noted the statutory emphasis on district courts’ factual determinations suggests some deference, and “the district

court is 'better positioned' to decide whether the case is exceptional, because it lives with the case over a prolonged period of time."

Potential Implications from the Court's Rulings:

As a practical matter, the Court empowered district courts to award fees, and the results will likely vary between districts and individual judges. The evaluation of the "substantive strength of a party's litigating position" or whether there was an "unreasonable manner in which the case was litigated" is somewhat subjective and may vary depending on a particular judge's tolerances. In jurisdictions that commonly have non-practicing entity ("NPE") litigations, such as the District Court of Delaware or the Eastern District of Texas, the baseline of what is "exceptional" may differ from other jurisdictions. In other words, a court that has a docket with hundreds of NPE litigations may be more lenient with their litigation tactics, while other trial courts may find NPE litigation practices objectionable. Likewise, courts with serial competitor cases may become more critical of a particular company's litigation tactics. And with the standard of review changed to abuse of discretion, district court determinations may be more difficult to reverse on appeal. Depending on the facts, a prevailing party's request for attorney fees may be a more viable litigation investment before the case proceeds to appeal.

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