

Keywords: attorney fees, 35 U.S.C. § 285, “exceptional cases”

General: The U.S. Supreme Court finds that the District Court may make the exceptional-case determination under 35 U.S.C. § 285 in the exercise of their discretion. The exceptional-case determination may be reviewed by an appellate court only for abuse of discretion.

Highmark Inc. v Allcare Health Management System, Inc.

Decided April 29, 2014

I. Facts

Allcare Health Management System, Inc. (hereinafter “Allcare”), owns U. S. Patent No. 5,301,105 (hereinafter “the ’105 patent”), which is directed toward managed health care systems. Highmark Inc. (hereinafter “Highmark”) sued Allcare seeking a declaratory judgment that the ’105 patent was both invalid and unenforceable and that, to the extent it was valid, Highmark’s actions were non-infringing. Allcare counterclaimed for patent infringement, and both parties filed motions for summary judgment. The District Court entered a final judgment of noninfringement in favor of Highmark.

Highmark subsequently moved for attorney’s fees under 35 U.S.C. § 285 claiming that the case was “exceptional,” and the District Court granted Highmark’s motion. In doing so, the court considered that Allcare had engaged in a pattern of “vexatious” and “deceitful” conduct throughout the litigation. In particular, the court determined that Allcare had engaged in the litigation as part of a larger strategy to identify potential infringers under the pretense of an informational survey, and then to threaten litigation to force those potential infringers into licensing the ’105 patent. The court found that Allcare had maintained infringement claims against Highmark long after its own experts had shown that these claims lacked merit. Further, the court found that Allcare asserted defenses that it knew to be frivolous. The court fixed the amount of the award at about \$4.7 million in attorney’s fees, about \$200k in expenses, and about \$400k in expert fees.

On appeal, the Federal Circuit affirmed the District Court’s exceptional-case determination with respect to the allegations that Highmark’s system infringed one claim of the ’105 patent. However, the court reversed the exceptional-case determination with respect to another claim of the patent and reviewed the exceptional-case determination *de novo*. The court held that, under *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, the question whether litigation is “objectively baseless” is based on underlying questions of both law and fact, and, therefore, should be reviewed *de novo* on appeal, without deference to the District Court’s findings. The Federal Circuit determined that Allcare’s positions were sufficiently reasonable that a sensible litigant might believe they would have succeeded, and further found that, under the litigation-misconduct prong of *Brooks Furniture*, none of Allcare’s conduct warranted an award of attorney fees.

II. Issues

- 1) Did the Federal Circuit err in performing a *de novo* review of the exceptional-case determination of the District Court?

III. Discussion

1) Yes. The U.S. Supreme Court relied on the opinion set forth in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, which rejects the *Brooks Furniture* framework applied by the Federal Circuit as “unduly rigid and inconsistent with the text of §285.” As set forth in *Octane Fitness*, the court found that an exceptional case, “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.” In *Octane Fitness*, the court found that district courts may determine whether a case is exceptional in an exercise of their discretion, on a case-by-case basis, considering the totality of the circumstances. Further, the court reasoned that the district court is in a better position to determine whether a case is exceptional “because it lives with the case over a prolonged period of time.” Traditionally, as set forth in *Pierce v. Underwood*, decisions on “questions of law” are “reviewable *de novo*,” decisions on “questions of fact” are “reviewable for clear error,” and decisions on “matters of discretion” are “reviewable for ‘abuse of discretion.’” Accordingly, the court held that, since 35 U.S.C. § 285 commits the determination of whether a case is exceptional to the discretion of the district court, that determination is to be reviewed on appeal only for abuse of discretion.

IV. Conclusion

The U.S. Supreme Court finds that a district court may exercise its discretion in making the exceptional-case determination under 35 U.S.C. § 285 to award attorney fees, and that the exceptional-case determination may be reviewed by an appellate court only for abuse of discretion. It may be noted that the abuse-of-discretion standard does not preclude an appellate court from correcting a legal or factual error of a district court. For example, “[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.” *Cooter & Gell v. Hartmarx Corp.*