Keywords: **fee shifting; awarding attorney fees; exceptional cases; 35 U.S.C. § 285**

General: **The Supreme Court rejects the *Brooks Furniture* framework and standard of review established by the Federal Circuit for determining exceptionality under 35 U.S.C. § 285, and holds that fee shifting only requires a discretionary inquiry by the District Court.**

Octane Fitness, LLC v. ICON Health & Fitness, Inc.
572 U.S. _____ (Supreme Court 2014)
Decided April 29, 2014

I. Facts

The Patent Act as amended in 1952 includes a fee shifting provision that is still in force today. "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285.

Octane and ICON both manufacture and sell exercise equipment. Octane specifically manufactures and sells self-proclaimed "high-end" elliptical machines. ICON owns U.S. Patent No. 6,019,710, of which ICON alleged infringement by two models of Octane's elliptical machines.

Octane discovered e-mails from the Vice President of Global Sales for ICON that, according to Octane, portrayed ICON's litigating position in a negative light. After a *Markman* hearing, the District Court granted summary judgment in favor of Octane - concluding that Octane's machines did not infringe the '710 patent. Octane then moved for attorney's fees under 35 U.S.C. § 285.[1] The District Court denied this motion after applying the framework for determining exceptionality established by the Federal Circuit in *Brooks Furniture,*[2] which requires clear and convincing evidence that the case involves (1) "material inappropriate conduct," or (2) is both "objectively baseless" and "brought in subjective bad faith."

Both parties appealed their respective adverse decisions, and the Federal Circuit Court affirmed both orders. Though Octane argued that the *Brooks Furniture* framework was overly restrictive, the Federal Circuit Court declined to revisit what it referred to as a "settled standard."[3] After the Federal Circuit refused (multiple times) to revisit the standard for determining exceptionality under § 285, Octane petitioned the Supreme Court for a Writ of Certiorari. The Supreme Court granted the petition and opened briefing on the issue set forth below.

II. Issue

Did the Federal Circuit's interpretation of the term "exceptional" in 35 U.S.C. § 285 improperly raise the standard for prevailing accused patent infringers to recoup attorney's fees?

III. Discussion

Yes. In a 9-0 decision, the Supreme Court held that the framework established in *Brooks Furniture* is unduly rigid and impermissibly encumbers district courts to exercise their discretion in determining the exceptionality of a case. The Court also rejected the evidentiary standard in *Brooks Furniture* (clear and convincing evidence); rather, § 285 "demands a simple discretionary inquiry."

[1] Octane would later assert that its attorney's fees totaled nearly $2 million.
[2] *Brooks Furniture, Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F. 3d 1378, 1381, 1382 (2005).
[3] 496 Fed. Appx. 57, 65 (2012).

The Supreme Court noted that its analysis "begins and ends with the text of § 285," and that § 285 includes only one requirement: that the discretionary power given to district courts be limited to "exceptional cases." The Court noted that since the term "exceptional" is not defined in the Patent Act, the term is to be construed based on its ordinary meaning. Based on this, the Court held that an exceptional case is one that "stands out from others" with respect to the substantive strength of a party's litigating position (based on the governing law and facts of the case), or the unreasonable manner in which the case was litigated.

In their analysis, the Court pointed to their decision relating to exceptional cases in the context of the Copyright Act, which includes a similar fee-shifting provision. In *Fogerty*,[4] the Supreme Court held that in determining exceptionality, district courts may consider a "nonexclusive" list of factors, which can include, among other things, a need in certain circumstances to advance considerations of compensation and deterrence (e.g., of frivolous lawsuits). To be sure, rather than a rigid test in which specific standards are to be met, the Court advocated a consideration of the totality of the circumstances (i.e., a more holistic and equitable approach). Other courts have also construed the meaning of "exceptional cases" in the context of the fee-shifting provision of the Lanham (Trademark) Act to be cases that are "uncommon" or "not run-of-the-mill."[5] Indeed, the Court further noted that the holistic approach had been applied for over five decades; including nearly three decades between the time § 285 as currently written was codified and the establishment of the Federal Circuit with exclusive appellate jurisdiction in patent cases in 1982, and over two decades after. Not until 2005 was this approach abandoned by the Federal Circuit for the *Brooks Furniture* standard.

The Court contrasted the inherently flexible nature of the text in § 285 and holdings in the similar fee shifting provisions in the Copyright and Trademark Acts against the rigid requirements of *Brooks Furniture*. The Court noted that among other shortcomings, the framework of *Brooks Furniture* rendered § 285 superfluous in that the first category (involving "material inappropriate conduct") extends largely to conduct that is independently sanctionable (e.g., under Rule 11), which is not the appropriate standard. *Brooks Furniture* also renders §285 superfluous in that the Supreme Court has long recognized a common-law exception to the so-called "American rule" (each party bears its own expenses, win or lose) against fee shifting as an exception inherent in the power of the courts – one that applies for "willful disobedience of a court order" or when the losing party acted in bad faith, vexatiously, wantonly, and so forth.[6] The Court further noted that the requirement to prove a case as "objectively baseless" *and* "brought in subjective bad faith" is also too restrictive. Rather, in some circumstances, a case presenting only one of these may sufficiently set itself apart from ordinary cases, thereby establishing its exceptionality.

The Supreme Court also rejected the *Brooks Furniture* notion that, because litigation is presumed to have been brought in good faith, evidence in support of the prevailing party's entitlement to fees must be clear and convincing. Rather, the Supreme Court held that the text of § 285 does not support this standard, and noted that preponderance of the evidence is the proper standard because patent infringement lawsuits are generally governed by this standard, as are most civil actions. This standard allows both parties to share a generally equal risk of error.

IV. Conclusion

The *Brooks Furniture* framework established by the Federal Circuit in 2005 is impermissibly rigid. Rather, as held in this case, a district court may award attorney's fees to the prevailing party under 35 U.S.C. § 285 if the court finds the case to be exceptional based on a consideration of the totality of the circumstances, specifically with respect to the substantive strength of a party's litigating position and the manner in which the case was litigated. In addition, there need only be a preponderance of the evidence to establish the exceptional nature of the case.

[4] *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994).
[5] *Noxell Corp v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F. 2d 521, 526 (CADC 1985).
[6] *Alyeska Pipleline Service Co. v. Wilderness Society*, 421 U.S. 240, 258-259 (1975).