IP Alert: Patent Case Attorneys' Fee Awards: The Supreme Court Characterizes Cases As "A Search for Adjectives"

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Patent Case Attorneys' Fee Awards:

The Supreme Court Characterizes Cases Argued Wednesday As “A Search for Adjectives;” Standards Likely To Change, Fees To Be Awarded More Readily

By Charles W. Shifley

The U.S. Supreme Court heard oral argument yesterday in its two cases on attorneys’ fees awards in patent infringement cases. The issues in Octane Fitness v. Icon Health & Fitness and Highmark v. Allcare Health Management Systems are the standards for the district courts and the courts of appeals to use in deciding whether there are to be such awards.

In Octane, the petitioner, an accused infringer who defeated a patent claim and was denied an award of fees at the district court, sought to lower the standard for awards and gain another chance for an award. In Highmark, the petitioner was also an accused infringer who defeated a patent claim and was denied an award of fees, but in this case was denied only in part, by reversal of the fee award in part by the Federal Circuit. The petitioner sought to raise the standard for the courts of appeals to use in deciding whether district courts were correct in fee awards and gain reinstatement of the part of the fee award lost on appeal.

Reading the tea leaves of oral argument, the standard the district courts should use to decide whether to award fees will be whether the result of not shifting fees is a “serious injustice” or is “unusually unjust.” It will not include a requirement of subjective bad faith. Also reading leaves, the standard the courts of appeals should use in reviewing fee awards will be deferential abuse of discretion. It will not be the lower and more full review de novo standard. The upshot may be success by both petitioners, more fee awards in district courts in future patent cases and less review of awards in the Federal Circuit.

Arguments in Octane

The petitioner's argument in Octane, on standards for district courts, began that "frivolous and bad faith cases are not prerequisites." In an early question, Justice Kennedy characterized the issue as "a search for adjectives, in part." Chief Justice Roberts asserted the statutory standard of an "exceptional" case could mean one a hundred, or ten in a hundred. Justice Scalia pressed that "every time you win a summary judgment motion, that's a determination that the claim is meritless," so what should be added to set a standard, to the petitioner's word and standard for cases getting fee awards, i.e., the word and standard of "meritless" cases?

Mr. Teschler, for petitioner, responded that a claim that was "unreasonably weak" was exceptional and deserved a responsive award of fees. Countering questions about the differences between his position and Federal Circuit decision that a claim must be "objectiveless baseless," he argued that the Federal Circuit test required zero merit, or frivolousness, and resulted in too few awards.

Justice Alito pressed further, asking how a district judge hearing few patent cases would have any cases for comparison, to conclude a case was exceptional. Chief Justice Roberts returned, getting affirmation that a test of gross injustice would be proper, and then expressing that a test of gross injustice would result in fee awards in a portion of cases that was tiny, lower than a test of meritlessness.

The United States next argued. It asserted that baselessness and bad faith did not both have to be present for fees, that an objectively unreasonable argument could trigger fees even if not frivolous, and clear and convincing evidence is not required. Chief Justice Roberts asked why "gross injustice" was the government test, and Justice Breyer contributed that the source of the term was the Senate report on the law's bill. After discussion, Justice Scalia asked why the government-proposed standard was not "exceptional injustice."

Respondent, the potential loser of fees on a reversal, argued early that awarding fees was a First Amendment concern, because patent owners should have free access to the courts. Chief Justice Roberts quipped, "what, to bring a patent case?" Asked whether Congress could not provide a "loser pays" system, Mr. Phillips conceded it could, and Justice Scalia stated he could not perceive it to be unconstitutional to adopt a loser pays system. To a response of laughter, Justice Kennedy told counsel the First Amendment was not his best argument. Justice Breyer soon posed the problem of non-practicing entities who sue defendants in quantities, seeking numerous small settlements. He questioned why an accused who won against the NPE claim, at a multi-million dollar cost, should not get fees, even where the claim was not objectively baseless, but was "barely over the line," and in his words, a "serious injustice," or in another phrasing "unusually unjust," "no" [requirement of] clear and convincing [evidence]." Justice Ginsburg asserted that the Lanham Act had the same "exceptional" language, required only a case "not run of the mine," and was compelling for an identical interpretation. Justice Scalia also asserted that patent owners' lawyers might give different advice to their clients about bringing suits with a different standard for fees, because the current standard was one of "nothing to lose."

Arguments in Highmark

In Highmark, where the issue is the standard of review of fee awards by courts of appeals, the bench was more quiet. Petitioner's argument began by saying that a district court's award of fees should not be reviewed in a court of appeals without deference to the district court. Justice Kagan questioned that given that claim interpretation is an issue of law, why is the reasonableness of a litigant's claim construction not also an issue of law?

Mr. Katyal, for petitioner, responded with a case, Pierce, in which the Supreme Court set a standard of abuse of discretion for review of attorneys' fees in a different area of law. Justice Ginsburg questioned why an abuse of discretion standard would not result in different results in similar cases by different district courts. Counsel again responded with a case, one in criminal law in which the Supreme Court allowed disparities.

Next came a question how a reversal in Octane might affect Highmark, by Justice Sotomayor. Counsel expressed that his case would get stronger, if any test of objective baselessness remained. He concluded with a point that in the Pierce case, the Supreme Court stated that retrospective collateral questions, such as how reasonable an argument was, should not receive court of appeals resources.

The federal government argued for an abuse of discretion standard of review.

For respondent, Mr. Dunner began to argue that case law favored his client. Justice Sotomayor responded with his facts, that the district court found abusive litigation in too little pre-filing investigation, switching of assertions due to the too little investigation, and pursuing a theory with disagreement by the patent owner’s own expert. Counsel replied with an explanation that the facts as stated were incorrect. Arguing further, counsel asserted that the Federal Circuit deserved breadth to its appellate review to bring about uniformity, as was its purpose.

Chief Justice Roberts shot back that the Federal Circuit judges had a great deal of disagreement among themselves and were “going back and forth” among themselves in the area of attorneys’ fee awards. Pinned, counsel admitted disagreement, but returned to the view that while imperfect, the Federal Circuit was the best tribunal as it gets “tons of patent cases.” Chief Justice Roberts again countered, asserting that district courts actually have more experience with the reasonableness of litigation positions and are more expert than the Federal Circuit. Counsel asserted that in reasonableness in a patent context, the district courts are not better situated than the Federal Circuit. He also asserted that a fee award was typically reviewed in the same appeal with the underlying case decisions of infringement and validity, and fee award review did not place an enormous burden on the court of appeals.

Having heard the argument, Justice Scalia next questioned with the point that the attorneys’ fees statute “quite clearly doesn’t” envision uniformity of decision. Listening further, Justice Breyer expressed that the heart of the issue was to say to the court of appeal, “start distinguishing between which of two categories” of decision, fact and law, were under review, which would lead to work to distinguish issues, while leaving discretion in the district courts was simpler. Justice Sotomayor returned to the specific facts of the case, saying the matter of fees was not about “right or wrong and legal answer; it’s about behavior during litigation.”

Standards Could Change

Overall, the impressions left by the arguments are impressions for change. For the Octane petitioner, change will mean a looser, more discretionary standard in the district courts than currently allowed by the Federal Circuit. For the Highmark petitioner, change will mean a tighter, less discretionary standard of review by awards in the Federal Circuit. In short, awards may go up in number, and survive more easily on appeal.

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