

12 1184
No. 12-

Supreme Court, U.S.
FILED

MAR 27 2013

OFFICE OF THE CLERK

IN THE
Supreme Court of the United States

OCTANE FITNESS, LLC,

Petitioner,

v.

ICON HEALTH & FITNESS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

RUDOLPH A. TELSCHER, JR.,
Counsel of Record
KARA R. FUSSNER
HARNES, DICKEY & PIERCE, PLC
7700 Bonhomme Avenue,
Suite 400
St. Louis, MO 63105
(314) 726-7500
rtelscher@hdp.com

*Attorneys for Petitioner,
Octane Fitness, LLC*



QUESTION PRESENTED

1. Does the Federal Circuit's promulgation of a rigid and exclusive two-part test for determining whether a case is "exceptional" under 35 U.S.C. § 285 improperly appropriate a district court's discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court's precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants?

**PARTIES TO THE PROCEEDING AND
CORPORATE DISCLOSURE STATEMENT**

The Plaintiff-below is Icon Health & Fitness, Inc.
("Icon").

The Defendant-below/Petitioner is Octane Fitness,
LLC ("Octane"). Octane is wholly owned by OF Holdings,
Inc.

TABLE OF CONTENTS

	<i>Page</i>
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDING AND CORPORATE DISCLOSURE STATEMENT	ii
TABLE OF CONTENTS.....	iii
TABLE OF APPENDICES	v
TABLE OF CITED AUTHORITIES	vi
OPINIONS BELOW.....	1
BASIS FOR THIS COURT'S JURISDICTION	1
STATUTE INVOLVED.....	2
STATEMENT OF THE CASE	2
a. Octane and Its Commercially- Successful Elliptical Machines	4
b. Icon and the Commercially Defunct Elliptical Machine Claimed in the '710 Patent	5
c. The '710 Patent	6
d. The Linkage System of Octane's Elliptical Machines	9
e. The Lawsuit.....	11

Table of Contents

	<i>Page</i>
ARGUMENT.....	17
I. The standard for awarding fees to a prevailing accused infringer has strayed from the statutory “exceptional case” mandate, resulting in a standard that is near-impossible to meet, and serves no deterrent value	20
II. There is no basis in the statute, this Court’s precedent, or policy for a standard that requires a higher showing by prevailing accused infringers versus prevailing patentees	26
III. The “exceptional case” standard for a prevailing accused infringer should allow district courts discretion to award fees in any case in which the patentee unreasonably pursues a case having an objectively low likelihood of success.....	33
A. Exceptional case status should not require proof of a Rule 11 violation.....	33
B. Exceptional case status should not require proof of bad faith.....	35
CONCLUSION	37

TABLE OF APPENDICES

	<i>Page</i>
APPENDIX A — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, FILED JANUARY 7, 2013	1a
APPENDIX B — JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, FILED JANUARY 7, 2013	18a
APPENDIX C — MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT, DISTRICT OF MINNESOTA, FILED SEPTEMBER 6, 2011...	19a
APPENDIX D — JUDGMENT OF THE UNITED STATES DISTRICT COURT, DISTRICT OF MINNESOTA, FILED JULY 15, 2011	29a
APPENDIX E — MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT, DISTRICT OF MINNESOTA, FILED JUNE 17, 2011	31a
APPENDIX F — MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT, DISTRICT OF MINNESOTA, FILED DECEMBER 22, 2010...	62a
APPENDIX G — ORDER DENYING PETITION FOR REHEARING AND REHEARING <i>EN BANC</i> OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT, DATED DECEMBER 27, 2012.....	87a

TABLE OF CITED AUTHORITIES

	Page
CASES	
<i>Amsted Indus. Inc. v. Buckeye Steel Castings Co.,</i> 24 F.3d 178 (Fed. Cir. 1994)	27
<i>Automated Bus. Cos. v. NEC America, Inc.,</i> 202 F.3d 1353 (Fed. Cir. 2000)	18
<i>Bayer Aktiengesellschaft v. Duphar Int'l Research B.V.,</i> 738 F.2d 1237 (Fed. Cir. 1984)	21
<i>Bilski v. Kappos,</i> 130 S.Ct. 3218 (2010)	31
<i>Brooks Furniture Mfg., Inc. v. Futailer Int'l, Inc.,</i> 393 F.3d 1378 (Fed. Cir. 2005)	passim
<i>Central Soya Co., Inc. v. Geo. A. Hormel & Co.,</i> 723 F.2d 1573 (Fed. Cir. 1983)	18
<i>Checkpoint Systems, Inc. v. All-Tag Security S.A.,</i> No. 2012-1085 (Fed. Cir. Mar. 25, 2013)	23
<i>Eltech Sys. Corp. v. PPG Industries, Inc.,</i> 903 F.2d 805 (Fed. Cir. 1990)	21, 27, 29, 30

Cited Authorities

	Page
<i>Eon-Net LP v. Flagstar Bancorp,</i> 653 F.3d 1314 (Fed. Cir. 2011)	23
<i>Fogerty v. Fantasy, Inc.,</i> 510 U.S. 517 (1994)	30
<i>Forest Labs., Inc. v. Abbott Labs.,</i> 339 F.3d 1324 (Fed. Circ. 2003)	20
<i>Hartman v. Hallmark Cards, Inc.,</i> 833 F.2d 117 (8th Cir. 1987)	36
<i>Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.,</i> 687 F.3d 1300 (Fed. Cir. 2012), rehearing denied with opinion and dissent, 701 F.3d 1351 (Dec. 6, 2012)	20, 21, 23, 27
<i>iLOR, LLC v. Google, Inc.,</i> 631 F.3d 1372 (Fed. Cir. 2011)	23, 29
<i>In re Ciprofloxacin Hydrochloride Antitrust Litig.,</i> 544 F.3d 1323 (Fed. Cir. 2008)	31
<i>In re Seagate Technology, LLC,</i> 497 F.3d 1360 (Fed. Cir. 2007)	27
<i>Machinery Corp. of America v. Gullfiber AB,</i> 774 F.2d 467 (Fed. Cir. 1985)	27

Cited Authorities

	Page
<i>Marcotec, LLC v. Johnson & Johnson</i> , 07-CV-825-DRH, 2010 WL 680490 (S.D. Ill. Feb. 23, 2010)	18
<i>Mathis v. Spears</i> , 857 F.2d 749 (Fed. Cir. 1988)	18, 21
<i>Multiform Desiccants, Inc. v. Medzam, Ltd.</i> , 133 F.3d 1473 (Fed. Cir. 1998)	21
<i>Phonometrics, Inc. v. Westin Hotel Co.</i> , 350 F.3d 1242 (Fed. Cir. 2003)	29
<i>Precision Instrument Mfg. Co. v.</i> <i>Auto. Maint. Mach. Co.</i> , 324 U.S. 806 (1945)	31
<i>Professional Real Estate Investors v.</i> <i>Columbia Pictures Industries</i> , 508 U.S. 49, 113 S.Ct. 1920, 123 L.Ed.2d 611 (1993)	22, 23
<i>Raylon v. Complus Data Innovations, Inc.</i> , 700 F.3d 1361 (Fed. Cir. 2012)	29, 34
<i>Rohm & Haas Co. v. Crystal Chem. Co.</i> , 736 F.2d 688 (Fed. Cir. 1984)	22
<i>S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.</i> , 781 F.2d 198 (Fed.Cir. 1986)	27

Cited Authorities

	Page
<i>Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.</i> , 929 F.2d 676 (Fed. Cir. 1991)	21
<i>Transclean Corporation v.</i> <i>Bridgewood Services, Inc.</i> , 290 F.3d 1364 (Fed. Cir. 2002)	27
<i>Zenith Radio Corp. v. Hazeltine Research, Inc.</i> , 395 U.S. 100 (1969)	31
STATUTES	
17 U.S.C. § 505	36
28 U.S.C. § 1254	1
28 U.S.C. § 1331	11
28 U.S.C. § 1338	11
35 U.S.C. § 284	35
35 U.S.C. § 285	<i>passim</i>
42 U.S.C. § 1988	36
42 U.S.C. § 3613	36

Cited Authorities

	<i>Page</i>
OTHER AUTHORITIES	
Fed. R. Civ. P. 11	33, 34, 35
P.J. Federico, Commentary on the New Patent Act, Title 35, United States Code Annotated.....	22
F. Scott Kieff, <i>The Case for Preferring Patent- Validity Litigation Over Second-Window Review and Gold-Plated Patents: When One Size Doesn't Fit All, How Could Two Do the Trick?</i> , 157 U. Pa. L. Rev. 1937 (2009).....	32
Michael J. Meurer, <i>Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation</i> , 44 B.C. L. Rev. 509, 512 (2003).....	25
S.Rep. 93-1400, 1974 U.S.C.C.A.N. 7134, 7135.....	36
S.Rep. No. 1503, 79th Cong., 2d Sess. (1946), <i>reprinted in</i> 1946 U.S.Code Congressional Service 1386, 13871	22
S.Rep. No. 1979, 82nd Cong., 2d Sess. (1952), <i>reprinted in</i> 1952 U.S.Code Cong. & Ad. News 2394, 2423.	22

OPINIONS BELOW

The below-action was a patent infringement case in the District of Minnesota. The District Court for the District of Minnesota construed the asserted claims of the patent in a *Markman* decision that issued on December 22, 2010, is reported at 2010 WL 5376209, and is reproduced in the appendix to the Petition ("App.") at App. 62a-86a. The District Court for the District of Minnesota then granted summary judgment of non-infringement, in a decision that issued on June 17, 2011, is reported at 2011 WL 2457914, and is reproduced at App. 31a-61a. Octane then moved for attorney fees under 35 U.S.C. §285 (the subject of the current petition), and the District Court denied that motion in a decision that issued on September 6, 2011, is reported at 2011 WL 3900975, and is reproduced at App. 19a-28a.

Both decisions (the underlying summary judgment decision and the fee decision) were appealed to the Federal Circuit Court of Appeals. The opinion of the United States Court of Appeals for the Federal Circuit issued on October 24, 2012, and can be found at 2012 WL 5237021. App. 1a-17a. The order denying the petition for rehearing and rehearing en banc, dated December 27, 2012, is reproduced at App. 87a-88a.

BASIS FOR THIS COURT'S JURISDICTION

The opinion and judgment of the court of appeals issued on October 24, 2012. A timely petition for rehearing and rehearing en banc was denied on December 27, 2012. This Court has jurisdiction pursuant to 28 U.S.C. § 1254.

STATUTE INVOLVED

At issue in this case is 35 U.S.C. § 285, which states:

"The court in exceptional cases may award reasonable attorney fees to the prevailing party."

STATEMENT OF THE CASE

The plaintiff in the underlying action was Icon Health and Fitness, Inc. ("Icon"), a larger manufacturer/seller of exercise equipment. In February 2000, Icon obtained U.S. Patent No. 6,019,710, entitled "Exercising Device with Elliptical Movement" ("the '710 patent"). The patent is directed to the linkage system of an elliptical machine. Though it sells elliptical machines, it was undisputed in the case below that Icon never sold a commercial product covered by the '710 patent and that the design disclosed in that patent was not commercially viable.

The defendant in the case below was Octane Health & Fitness ("Octane"), a much smaller start-up company. In 2001, Octane took a license from two prolific elliptical machine inventors, and designed two commercially successful lines of elliptical machines which were at issue below. These elliptical machines, which employ technology covered by patents that *pre-date* the '710 patent, employ a linkage which is nothing like that shown in the '710 patent.

Years after Octane introduced its elliptical machines to the market, Icon, in internal emails, recognized Octane's success and hatched a plan to extort royalties out of Octane with a weak patent case. As reflect in the

examples below, Icon took an "old patent . . . that was sitting on the shelf", and asserted it for competitive gain:

From: Pat McGinnis
Sent: Sunday, August 24, 2008 7:53 PM
To: Jeff Kazan; Adam Wilk
Subject: FW: SNEWS News Update for August 22

We are suing Octane. Not only are we coming out with a great product to go after them, but throwing a lawsuit on top of that.

Pat McGinnis
Vice President of Global Sales
FreeMotion Fitness
direct 800.811.0549
cell 425.830.7957
fax 066.844.8288

From: Pat McGinnis
Sent: Wednesday, September 16, 2009 2:53 PM
To: Adam Wilk
Subject: RE: I heard we are suing Octane!

Yes - old patent we had for a long time that was sitting on the shelf. They are just looking for royalties.

Pat McGinnis
Vice President of Global Sales

As found by the courts below, the '710 patent is directed to a linkage system having a "stroke rail" and one end of the rail must move in a linear path (the patent calls for "linear reciprocating displacement"). This limitation is recited by the Patent Office as a reason for allowance. Octane's machine, in addition to many stark differences, has no part that moves in a straight line, much less something that could be construed as a "stroke rail."

After Octane had spent over \$1,300,000 defending itself through *Markman* and ultimately prevailing at summary judgment, the district court denied fees, finding that under the Federal Circuit's two-part test, the case was not "objectively baseless" or brought in "subjective

bad faith," even though no hearing was ever held to assess witness credibility. The Federal Circuit affirmed the grant of summary judgment (multiple claim limitations were lacking, as a matter of law, both literally and equivalently), but summarily affirmed the district court's fee decision, declining to reassess its fee standard. Further details of this case are set forth below.

a. Octane and Its Commercially-Successful Elliptical Machines

Octane is a Minneapolis company that was founded in 2004 by Tim Porth and Dennis Lee, two former executives from a large exercise company. (CTA App. A1665 at 10:6-21; A1670 at 6:15-20, 8:1-3). Sensing a void in the marketplace, both Mr. Porth and Mr. Lee had a vision of a company that focused solely on high-end elliptical exercise machines that are sold to fitness clubs, specialty fitness stores, and the like. (CTA App. A1668, 53:2-54:1).

At the outset of their business endeavor, Mr. Lee and Mr. Porth identified a specific linkage system that would form the basis of their elliptical machines and licensed that system, shown in U.S. Patent No. 6,248,044 ("the '044 patent"), from two prolific elliptical inventors, Ken Stearns and Joe Maresh. (CTA App. A1666, 34:9-36:14). Octane engineers then took that patented linkage system and developed Octane's lines of elliptical machines, including the Q45 and Q47 series machines that were ultimately at issue in the lower court case. (CTA App. A1667, 37:6-14). Notably, that technology largely *predates* the Icon patent asserted in the below case, which is discussed in more detail below.

Octane's Q45 and Q47 machines enjoyed great success in the marketplace. (CTA App. A1685, 69:18-A1686, 70:1). In addition to significant coverage in industry publications (CTA App. A1680-A1683), Octane enjoyed strong sales. (CTA App. A1687-A1688). For three years in a row, Octane was rated as the best elliptical supplier in the industry by a third party industry publication. (CTA App. A1678, 166:25-167:3; A1680-A1683).

b. Icon and the Commercially Defunct Elliptical Machine Claimed in the '710 Patent

Icon is the self-proclaimed "world's largest developer, manufacturer and marketer of fitness equipment." See www.iconfitness.com. However, with regard to elliptical machines, Icon primarily sells lower to mid-range elliptical machines, having had less success in the high-end elliptical machine market. (CTA App. A1674, 30:11-A1675, 35:17; A1676, 80:13-22; A1679, 187:16-188:11). The '710 patent-in-suit relates to one of Icon's commercially unsuccessful elliptical machine designs.

Icon filed the application resulting in the '710 patent on January 6, 1998. (CTA App. A87-A100). The '710 patent, entitled "Exercising Device with Elliptical Movement," describes and claims an elliptical exercise machine with a specific linkage system. (CTA App. A94, 2:22-58). Because of the specificity of the disclosed invention and narrowness of the claims contained in the application, Icon received a first office action allowance of the claims. (CTA App. A1695-A1697).

Icon never commercialized an elliptical machine under the '710 patent. (CTA App. A1607, 82:10-16; A1677, 148:17-

19; A1694, 54:13-15). After developing the machine and showing it to Icon's customers, no customers expressed sufficient interest in purchasing that type of elliptical. (CTA App. A1603, 26:20-A1604, 31:4; A1607, 84:9-12). Instead, Icon sold a different front drive elliptical machine that it did not invent, paying a royalty to a competitor on those sales. (CTA App. A1691, 185:11-A1692, 186:11).

c. The '710 Patent

In addition to a frame and foot rails (which all elliptical machines have), Claim 1 of the '710 patent, which is representative of the claims asserted by Icon, claims a linkage system comprising:

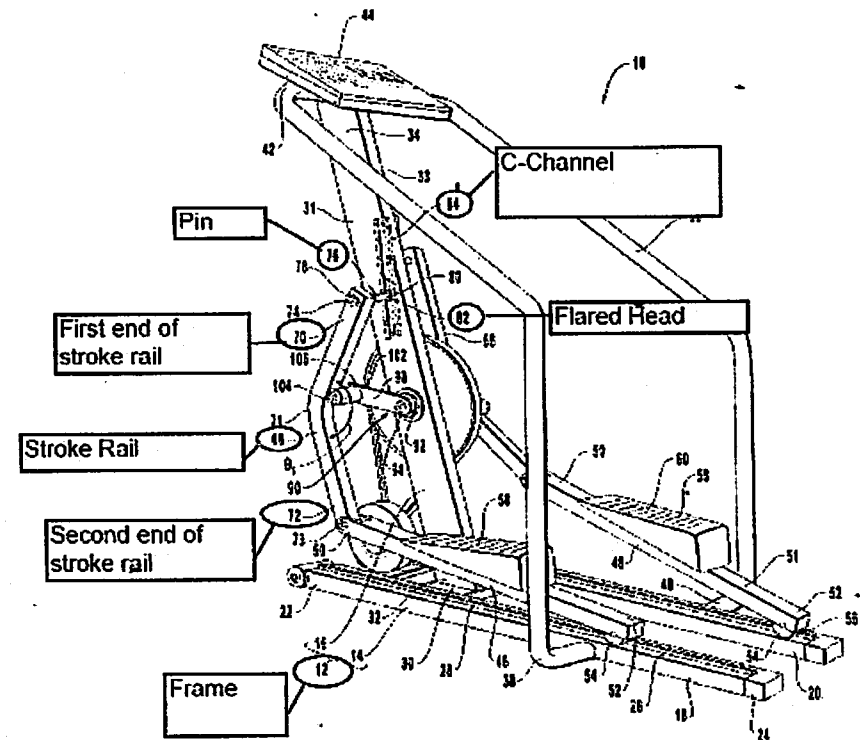
(c) a pair of *stroke rails* each having a first end and an opposing second end, *the second end of each stroke rail being hingedly attached to the first end of a corresponding foot rail*;

(d) *means for connecting each stroke rail to the frame such that linear reciprocating displacement of the first end of each stroke rail results in displacement of the second end of each stroke rail in a substantially elliptical path*; and

(e) means for selectively varying the size of the substantially elliptical path that the second end of each stroke rail travels.

'710 patent col. 7 ll. 11-26 (emphases added).

Figure 1 (below) from the '710 patent (labeled for ease of this Court's reference) illustrates the core features of the linkage system described and claimed in the '710 patent. (CTA App. A88).



(Id.)

As shown, Icon's linkage system connects a "second end" 72 of a stroke rail 66 to a foot rail 50. The stroke rail extends to a "first end" 70 and the first end is

connected to the frame of the elliptical machine by, *inter alia*, a c-channel and pin/flared head arrangement (84 and 76 respectively). The pin 76 slides up and down in a straight path within the c-channel (*i.e.*, causing "linear reciprocating displacement").

Ultimately, the Patent Office granted the patent for the '710 linkage system, but was specific about what the patent covered:

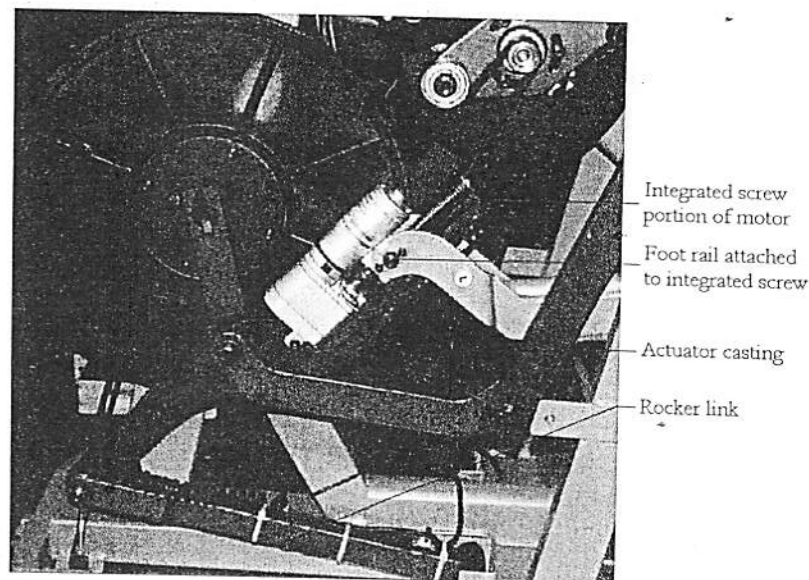
The prior art fails to show or teach applicant's claimed exercise apparatus comprising a frame; a pair of foot rails having foot supports; *a pair of stroke rails* each having one end hingedly connected to a respective foot rail and having the opposite end connected to the frame *for linear reciprocating movement* and for producing an elliptical path.

(CTA App. A1697, ¶3 (emphasis added)). Because all elliptical machines have a frame and foot rails that have foot supports, the patent examiner clearly regarded the "stroke rails each having one end hingedly connected to a respective foot rail and having the opposite end connected to the frame" and for producing "linear reciprocating movement" as the points of novelty in the '710 patent.

d. The Linkage System of Octane's Elliptical Machines

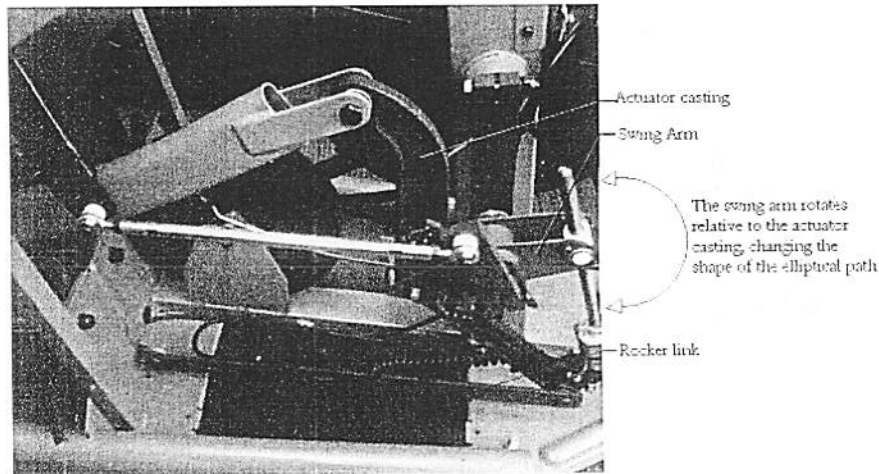
As can be seen below, Octane's commercially successful elliptical machines are nothing like the commercially unsuccessful elliptical machine shown and claimed in the '710 patent (compare above). The similarity begins and ends with the fact that they are elliptical machines.

Octane's Q45 Linkage System



(CTA App. A1944).

Octane's Q47 Linkage System



(*Id.*)

Most obviously, and as found by the lower court in the summary judgment ruling (discussed below), the '710 patent requires that one end of a stroke rail slide within a c-channel in a straight or "linear" line while the other end of the stroke rail moves the foot rails in an elliptical path. (CTA App. A36-A41). Octane's elliptical machines do not employ a c-channel linkage structure (or anything close—requiring Icon to argue that Octane's linkage system, including a "rocker link", is somehow "analogous"), and no part of the linkage moves along a straight or "linear" path (forcing Icon to ignore the main thrust of its invention and argue that curved paths are covered by its patent). (CTA App. A1046-A1062; A1090-A1094). Icon also had to assert that a "stroke rail" could include limitless parts – even though the patent only shows a single stroke rail component. (*Id.*) In short, Octane's linkage, (which in any

event was based on a pre-dating patented linkage system), bears no rational resemblance to anything that Icon could reasonably claim it invented.

e. The Lawsuit

By joining a small Octane distributor located in California, Icon (a Utah-based company) filed a complaint against Octane (a Minnesota-based company) in the United States District Court for the Central District of California on April 23, 2008. Upon motion by Octane, the action was subsequently severed and the case against Octane was transferred to the District of Minnesota, while the case against the California distributor was predictably dismissed. (CTA App. A2; A61; A101-A106; A320-A324; A329; A2610-A2613).¹

The complaint as initially filed by Icon alleged infringement of two unrelated patents: the '710 patent and U.S. Patent No. 5,104,120, entitled "Exercise Machine Control System" ("the '120 patent"). (CTA App. A101-A106; 339-341). That complaint specifically identified only Octane's Q47 series of elliptical machines of allegedly infringing each of the two patents, but Icon broadly sought discovery on all of Octane's products, claiming that its infringement allegations were not only limited to the Q47 series. (CTA App. A104; A438-A441; A2453-A2454).

Neither patent-in-suit—each of which utilize means-plus-function claim terms extensively—disclosed or claimed an elliptical machine linkage system (the subject

1. The District Court had subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338.

matter of the '710 patent) or an exercise machine control system (the subject matter of the '120 patent) similar to the setup of Octane's commercial exercise machine products. For this reason, and from the start of the case, Octane's counsel tried, unsuccessfully, to convince Icon to drop its claims (*e.g.*, CTA App. A478-A479). Ultimately, but over one year into the litigation, the claims relating to the '120 patent were dismissed after Icon received an adverse claim construction ruling in an Eastern District of Texas infringement action against another Icon competitor.

As detailed more fully below, Icon's assertions relating to the '710 patent were equally baseless and in June 2010, after repeated efforts to resolve the dispute failed, (*e.g.*, CTA App. A478-A479; A2453-A2454), Octane moved for summary judgment of non-infringement. (CTA App. A75). At Icon's insistence, however, the district court decided that a separate *Markman* hearing was needed before reaching summary judgment, and on June 21, 2010, the district court held that Octane's then pending Motion for Summary Judgment "must be rescheduled after th[e] Court rules on issues to be presented at the scheduled *Markman* hearing." (CTA App. A76).

In October 2010, following claim construction briefing by the parties, the district court held a *Markman* hearing and, in December 2010, issued a Memorandum Opinion and Order construing various terms of the '710 patent. (CTA App. 62a-86a). In that Opinion, the district court largely adopted Octane's constructions, which properly construed the means-plus-function limitations in the claims consistent with the structure recited in the specification for performing the claimed functions, and rejected Icon's overly-broad and baseless constructions which had little to no support in the specification. *Id.*

Despite a *Markman* ruling largely rejecting its assertions, and which made Icon's infringement contentions even more unreasonable, Icon continued to prosecute its claims undeterred. Octane renewed its motion for summary judgment of non-infringement of the '710 patent, noting that multiple claim limitations were lacking as a matter of law both literally and equivalently.

Constrained by the district court's adverse *Markman* ruling, in order to oppose the motion, Icon simply reargued its unreasonably-broad and previously-rejected claim constructions and advanced expert testimony removed from the disclosures of the patent and unrelated to anything Icon actually invented. For example, in order to oppose summary judgment, Icon speciously argued that a "stroke rail" as used in the patent could include any combination of parts and linkages—so long as some linkage connects the foot rail of an elliptical machine to the frame, the limitation is supposedly met. Of course, this is true of every elliptical machine.

Further, because Octane's machines did not utilize a c-channel linkage configuration that moved in a linear path, Icon repeatedly tried to read the limitation for "linear reciprocating displacement" out of the claims. When this strategy failed, Icon relied on the doctrine of equivalents, putting up an expert who generally discussed similarities of elliptical machines without regard to the functional purposes recited in the patent. For example, to support his unreasonable position that Octane's rocker link was equivalent to a c-channel, Icon's expert contended that both constrain lateral movement. Yet, the '710 patent does not recite constraining lateral movement as a function of the claimed means; the patent only discusses a structure that causes the stroke rail to move up and down in a *linear*

path. Herein lies the problem: where competitive products are involved, there is always some similarity of operation, but the question is whether the similarity resides in the patentable invention, not ancillary functions that are common to all competitive devices. Litigants, like Icon here, use experts to exploit the situation in an effort to create fact issues and disguise the case as meritorious.

On June 17, 2011, the court issued a Memorandum Opinion and Order granting Octane's motion for summary judgment. App. 31a-61a. The district court found several elements missing both literally and equivalently, including the "stroke rail" and "means for connecting" limitations noted above. A complete copy of the district court's opinion is included in the Appendix. *Id.* Icon and Octane then stipulated to the dismissal of Octane's counterclaim for a declaratory judgment of invalidity of the '710 patent, and the district court entered final judgment on July 15, 2011. App. 29a-30a. Icon appealed that decision to the Federal Circuit. (CTA App. A2614-A2615).

Meanwhile, in the district court, Octane, which had by that point incurred attorney's fees and costs of over \$1.3 million, moved the district court to declare the case exceptional and award it fees pursuant to 35 U.S.C. § 285. (CTA App. A2619-A2641). The unreasonable and baseless positions taken and maintained by Icon throughout the litigation, in addition to damning emails and deposition testimony, showed the litigation to be vexatious and unjustified in nature, warranting a finding of exceptional case status and fees. (*See e.g.*, CTA App. A2645; A1608; A1233, 87:24-88:10).

More specifically, documents uncovered in the litigation reflected that Icon decided to sue Octane

with an "*old patent*" it had "*sitting on the shelf*" as a way of hampering the upstart competitor. In email correspondence sent soon after the start of the litigation, Pat McGinnis, Icon's Vice President of Global Sales, wrote to other Icon employees suggesting that the lawsuit was a tool against a competitor: "*We are suing Octane. Not only are we coming out with a great product to go after them, but throwing a lawsuit on top of that*". (CTA App. A2645). The August 2008 email by Mr. McGinnis was forwarded on to a potential customer/retailer with a message from another Icon employee stating "*just clearing the way and making sure you guys have all your guns loaded!*". (CTA App. A2645). Then, in an email dated September 16, 2009, another Icon sales associate wrote to Mr. McGinnis stating, "I heard we are suing Octane!" (CTA App. A1608). In response, Mr. McGinnis wrote back, "*Yes – old patent we had for a long time that was sitting on the shelf. They are just looking for royalties.*" (*Id.*) Further, when asked in deposition if Icon sought to gain a competitive advantage over the smaller Octane with the lawsuit, Icon's corporate designee indicated that this is implied in every litigation. (CTA App. A1233, 87:24-88:10). In other words, Icon filed suit as a way to hamper a smaller competitor and potentially extract a royalty from Octane's successful high-end elliptical machine sales.

Despite the above evidence, and without conducting a hearing on the fee motion, on September 6, 2011, the district court denied Octane's motion for attorney's fees. App. 19a-28a. The district court, citing the line of Federal Circuit cases holding that in the absence of litigation misconduct, fees may *only* be awarded if the allegations are both objectively baseless and there is clear and convincing evidence of subjective bad faith, found that neither prong was met. According to this standard,

the district court stated that in order to be exceptional “the plaintiff’s case must have no objective foundation, and the plaintiff must actually know this.” Applying that standard, the district court reasoned that the case was not objectively baseless, finding that Icon’s proposed claim constructions were not frivolous because they were not necessarily precluded by the broad language of the claim or the disclosures in the specification, and that Icon’s reassertion of its previously-rejected claim construction in its summary judgment argument was “confused and repetitive,” but not objectively baseless. Further, the district court “had no reason to doubt” Icon’s mere representations that it had actually purchased and inspected a Q47 machine and had secured opinions from experts and counsel, despite the fact that Icon did not raise this assertion until Octane moved for attorney fees, and never produced any documentation supporting this assertion.

With respect to the subjective bad faith element, the district court disregarded Icon’s incriminating emails as “stray remarks by employees with no demonstrated connection to the lawsuit” (even though the emails were from Icon’s Vice President of Global Sales) and that “[s] imply bringing suit to gain a competitive advantage is not evidence of bad faith.” The full text of this decision is included in the Appendix. *Id.*

Octane timely appealed the denial of fees to the Federal Circuit and the two appeals (Icon’s appeal of the decision granting summary judgment and Octane’s appeal of the decision denying fees) were consolidated on January 10, 2012. On October 24, 2012, the Federal Circuit affirmed both rulings. App. 1a-17a. First, the Federal Circuit

found that the district court properly granted summary judgment, agreeing that the “stroke rail” and “means for connecting” limitations were not present literally or under the doctrine of equivalents as a matter of law. *Id.* at App. 8a-17a.

As to the denial of fees, the Federal Circuit devoted only *one* paragraph to the issue, summarily concluding that “we have reviewed the record and conclude that the court did not err in denying Octane’s motion to find the case exceptional,” and stating “[w]e have no reason to revisit the settled standard for exceptionality.” *Id.* at 17a. Octane filed a Petition for Rehearing and Rehearing En Banc, which was summarily denied on December 27, 2012. App. 87a-88a.

ARGUMENT

The proliferation of weak patent cases by those who did not invent, or bring to fruition, the subject of the alleged infringement is an issue that has garnered national attention. Just recently, the President of the United States publicly espoused the view that the America Invents Act did not go far enough in reforming the patent system to prevent abuse, and a bill targeting non-practicing entities is presently in debate in Congress.² The statutory means to restrain abusive patent litigation practices, however, already exists. The Patent Act already includes a provision

2. For a transcript of the President’s comments see <http://www.patentlyo.com/patent/2013/02/obama-on-patent-reform.html>. For a discussion of the pending bill, introduced by Congressman Peter DeFazio and known as the SHIELD Act, see http://defazio.house.gov/index.php?option=com_content&view=article&id=792:defazio-introduces-shield-act-to.

that permits the award of attorney fees to the prevailing party in “exceptional cases.” 35 U.S.C. § 285. The purpose of this statute is “to compensate the prevailing party for its monetary outlays in the prosecution or defense of the suit.” *Automated Bus. Cos. v. NEC America, Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000) (quoting *Central Soya Co., Inc. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983)); see also *Mathis v. Spears*, 857 F.2d 749, 753 (Fed. Cir. 1988). “In addition, § 285 serves as a deterrent to ‘improper bringing of clearly unwarranted suits’ for patent infringement.” *Automated Bus. Cos.*, 202 F.3d at 1355 (quoting *Mathis*, 857 F.2d at 754); see also *Marctec, LLC v. Johnson & Johnson*, 07-CV-825-DRH, 2010 WL 680490 (S.D. Ill. Feb. 23, 2010).

The problem is that this statutory provision, as interpreted by the courts over time—and most significantly as articulated by the Federal Circuit Court of Appeals in a line of cases beginning in 2005—has strayed from the original intent of preventing “gross injustice” to an accused infringer (the result of a defendant having to spend \$1 million plus to defend itself against overreaching and unfounded contentions), to a standard that is near-impossible for an accused infringer to meet no matter the unreasonableness of the litigation, and that consequently serves as no deterrent to the assertion of spurious claims.

Moreover, and despite sharing the same statutory “exceptional case” mandate, the high standard for prevailing accused infringers (a showing that the litigation is objectively baseless and brought in subjective bad faith) conflicts with the lower bar set for prevailing patent owners (a showing “that the infringer acted despite an objectively high likelihood that its actions constituted

infringement of a valid patent.”). It only makes sense that a patent owner can recoup its attorney fees if the patent owner proves that its case is so strong that it had a high likelihood of success and the defendant proceeded with its actions despite this, *i.e.*, willful infringement. In contrast, though, that same patent-litigant should be subjected to a fee award *against* it, if the accused infringer demonstrates that the plaintiff’s case had an objectively low likelihood of success, and yet the patentee proceeded to maintain and prosecute the case. If anything, the patent holder, who has been granted a limited-term legal monopoly by society, should have *more* of an obligation to exercise that power responsibly, not less.

Neither the statute, this Court’s precedent, nor public policy supports the inexplicably and unfairly higher (bordering on impossible) standard that has evolved for finding a case exceptional and awarding fees to a prevailing accused infringer. The proliferation of patent troll cases over the last five years is well known and problematic for commerce in this country. There are legislative efforts to redress this problem, but even these proposals may not adequately protect smaller competitors, like Octane, from the costs of defending spurious patent cases. The discretion of courts to award fees – under a standard that is in accord with the statute, fair to both patentees and accused infringers and does not discriminate between practicing and non-practicing entities – is the deterrent needed.

Octane respectfully requests, for the reasons explained more fully below, that this Court grant *certiorari* review to bring the common law precedent back into line with the Congressional intent behind the “exceptional case”

statute; namely to provide district courts with reasonable discretion to award fees to prevailing accused infringers where patent owners bring and maintain patent cases having an objectively low likelihood of success.

- I. **The standard for awarding fees to a prevailing accused infringer has strayed from the statutory “exceptional case” mandate, resulting in a standard that is near-impossible to meet, and serves no deterrent value.**

The current standard articulated by the Federal Circuit holds that the award of attorney fees under Section 285 is a two-step process. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1308 (Fed. Cir. 2012), *rehearing denied* with opinion and dissent, 701 F.3d 1351 (Dec. 6, 2012); *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327-28 (Fed. Cir. 2003). First, the court must determine whether the prevailing party has established by clear and convincing evidence that the case is exceptional. *Forest Labs.*, 339 F.3d at 1328. Second, for those cases that are exceptional, the court must decide if fees are warranted under the circumstances and the amount of any fees to be awarded. *Id.*

According to the Federal Circuit, in the absence of litigation misconduct or fraud in securing the patent, *for a prevailing accused infringer* a case is exceptional **only if** it is both “objectively baseless” and “brought in subjective bad faith” by the patentee. *Brooks Furniture Mfg., Inc. v. Futailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005); *Highmark*, 687 F.3d at 1308. To be objectively baseless, “the infringement allegations must be such that no reasonable litigant could reasonably expect success

on the merits.” *Highmark*, 687 F.3d at 1308-09. With respect to the subjective element, the Federal Circuit holds that “there is a presumption that an assertion of infringement of a duly granted patent is made in good faith,” and thus, “the subjective prong of *Brooks Furniture* must be established with clear and convincing evidence.” *Highmark*, 687 F.3d at 1309. To establish this element, the Federal Circuit directs that “even if the claim is objectively baseless, it must be shown that 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.* (citing *Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)).

Prior to *Brooks Furniture*, Federal Circuit precedent generally held that “exceptional case” status is warranted in a variety of contexts depending upon the “totality of the circumstances,” to prevent “gross injustice.” See, e.g., *Mathis v. Spears*, 857 F.2d 749 (Fed. Cir. 1988); *Eltech Systems Corp. v. PPG Industries, Inc.*, 903 F.2d 805, 810 (Fed. Cir. 1990); *Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.*, 929 F.2d 676, 679 (Fed. Cir. 1991). These cases provide **examples** of conduct that may constitute an “exceptional case,” such as vexatious or unjustified litigation or pursuing frivolous suits. See e.g., *Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1481-82 (Fed. Cir. 1998) (“Findings of exceptional case have been based on a variety of factors; for example, willful or intentional infringement, inequitable conduct before the Patent and Trademark Office, vexatious or unjustified litigation, or other misfeasant behavior.”); *Bayer Aktiengesellschaft v. Duphar Int’l Research B.V.*, 738 F.2d 1237, 1242 (Fed. Cir. 1984) (“In awarding attorney fees to a prevailing accused infringer, such exceptional circumstances include, *inter*

alia, inequitable conduct during prosecution of a patent, misconduct during litigation, vexatious or unjustified litigation, or a frivolous suit.”)

The “gross injustice” language of these pre-*Brooks Furniture* cases originated from the legislative history of the statute itself. The 1946 Act, which first adopted the discretionary fee shifting provision, explained that “[t]he provision is also made general as to enable the court to prevent a *gross injustice* to the alleged infringer.” See S.Rep. No. 1503, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S.Code Congressional Service 1386, 1387 (emphasis added).³ The pre-*Brooks Furniture* cases deferred to the legislative intent of Section 285 by employing a general “totality of the circumstances” test, rather than the rigid and virtually insurmountable test set forth by *Brooks Furniture*.

With the *Brooks Furniture* decision in 2005, the Federal Circuit – citing this Court’s decision in *Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49, 60-61, 113 S.Ct. 1920, 123 L.Ed.2d 611 (1993) (hereafter “PRE”) – held that “[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee

3. In 1952, the statute was amended to add the “exceptional case” language. S.Rep. No. 1979, 82nd Cong., 2d Sess. (1952), reprinted in 1952 U.S.Code Cong. & Ad. News 2394, 2423. However, according to a Revision Note to this section, the amendment was not meant to alter the legislative intent of the original statute (i.e. to afford discretion to award fees to prevent gross injustice). See *Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688 (Fed. Cir. 1984) (citing P.J. Federico, Commentary on the New Patent Act, Title 35, United States Code Annotated, page 1, at 56).

only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Brooks Furniture*, 393 F.3d at 1381 (emphasis added) (citing *Professional Real Estate Investors*, 508 U.S. at 60-61; see also *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011); *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011).

In PRE this Court addressed the “sham” exception to the Noerr-Pennington antitrust immunity doctrine in the context of an asserted copyright infringement action. See *Prof Real Estate Investors, Inc.*, 508 U.S. 49. In *Brooks Furniture*, the Federal Circuit, though citing to PRE, provides no analysis as to why the same two-part test for sham litigation and assertion of an antitrust cause of action (with the potential for not only attorney fees, but treble damages) should necessarily apply to the discretionary fee shifting of 35 U.S.C. § 285. However, subsequent Federal Circuit authority confirms that the Federal Circuit’s Section 285 standard as stated in the 2005 *Brooks Furniture* decision is based on its interpretation of this Court’s holdings in PRE. See *Highmark*, 687 F.3d at 1309 n.1. And as recently as August 2012, the Federal Circuit called its two-part objective/subjective test for fee shifting “established law under section 285.” *Id.*, at 1308.

4. In an opinion released just two days before the filing of this Petition, the Federal Circuit, applying its two-part “exceptional case” test, once again reversed an award of attorneys’ fees to prevailing accused infringers (due to the patentee’s failure to inspect the accused product) in a case before the United States District Court for the Eastern District of Pennsylvania wherein the court entered judgment on a jury verdict finding that the asserted patent was not infringed, invalid and unenforceable. *Checkpoint Systems, Inc. v. All-Tag Security S.A.*, No. 2012-1085 (Fed. Cir. Mar. 25, 2013).

The threshold for fee shifting has always been high, but the Federal Circuit's articulation of the "exceptional case" standard in this manner has made it near-impossible for prevailing accused infringers to recoup attorney fees, and it has gutted the otherwise deterring-effect of the statute on the assertion of spurious patent claims. According to LegalMetric, a company providing statistical analyses of federal court cases, attorney fees are granted in only about 1% of all patent cases that are filed, with plaintiffs (typically the patent owners) being almost twice as likely as defendants (typically the accused infringers) to win a contested fee motion. As the instant case aptly illustrates, given the nature of patent cases, even in thin-beyond-reason cases with documented evidence of bad faith motivations, there is virtually no chance for accused infringers to recoup fees, even in the rare case where a defendant makes it to the fee consideration stage.

By setting the standard too high, it encourages overly aggressive and unscrupulous patent owners to assert weak patent claims to coerce patent settlements or otherwise gain unfair competitive advantage in the United States marketplace. Patent litigation is expensive. According to a survey published in 2011 by the American Intellectual Property Law Association ("AIPPLA") the median cost for a patent litigation in which the amount in controversy is from \$1-25 million, through the end of discovery, is \$2.5 million (inclusive of all costs). (See A2649 for 2009 data which is unchanged in 2011 for this category). Large companies know this, as do patent trolls, and, unfortunately, can use patent litigation as a weapon against competitors, especially smaller competitors. Many smaller competitors simply do not have the financial resources or wherewithal to defend a patent infringement case,

no matter how spurious the contentions. See Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. Rev. 509, 512 (2003) (Characterizing weak patent infringement lawsuits as either (1) "anti-competitive lawsuit[s] seeking to impair the defendant's performance in their shared market or even to exclude the defendant from the market completely"; or (2) "opportunistic lawsuit[s] seeking a settlement payment").

Complicating matters, there is almost no economical or expeditious way for an accused infringer to extract itself from baseless litigation. Unlike certain forms of litigation (e.g., securities litigation or antitrust litigation), rarely is a patent infringement action dismissed at the pleading stage. Rather, before a defendant accused of infringement has any hope of extricating itself from a litigation, often-times (as here) substantial discovery (both fact and expert), *Markman* briefing and hearing, and summary judgment briefing and hearing, must occur. By the time summary judgment is granted, substantial time is invested in the case not only by the parties, but by the district court, as well.

For their part, district court judges—who, in many instances, have no technical background and little familiarity with the patent system—are often faced with complex technology, difficult-to-read patent language and a body of case law that is both robust and nuanced. (The case law surrounding Section 112 ¶6 means-plus-function claim construction, as was at issue here, is a good example of this). No matter how preposterous the merits of the infringement case may be, in order to reach a resolution on the merits, the district court judge must

invest significant time and energy to decipher the claim scope and understand the defendant's position.

For these reasons, no matter how unreasonable the patentee's contentions, it is a rare district court judge who will have the courage to call a patentee's claims "baseless" after the investment of time and effort necessitated by these cases. Combined with the necessity of showing clear and convincing evidence of "subjective bad faith" (evidence that is virtually impossible to come by absent a corporate representative's confession), the standard is all but unreachable and not in accord with the legislative goals of providing discretion to courts to prevent gross injustice to accused infringers.

II. There is no basis in the statute, this Court's precedent, or policy for a standard that requires a higher showing by prevailing accused infringers versus prevailing patentees.

The fee shifting provision of Section 285 (discretion to award fees to the prevailing party in an "exceptional case") should apply equally to prevailing accused infringers and prevailing patentees; yet it does not. As reflected in the district court's decision to deny fees in this case and as described more fully below, the Federal Circuit's precedent sets the bar higher for prevailing accused infringers, than it does for prevailing patentees.

Since 1990 and continuing up to today, the Federal Circuit has maintained that the standard for the award of fees under 35 U.S.C. § 285 is the same for patentees

and accused infringers.⁵ Yet in the case of prevailing patentees, the Federal Circuit holds that a case may be deemed exceptional based on a finding of willful patent infringement. *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178 (Fed. Cir. 1994) (willful infringement alone is a sufficient basis for classifying a case "exceptional"). Indeed, when a trial court denies attorney fees in spite of a finding of willful infringement, the court must explain why the case is *not* "exceptional" within the meaning of the statute. *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986); *see also Transclean Corporation v. Bridgewood Services, Inc.*, 290 F.3d 1364, 1379 (Fed. Cir. 2002). To prove willful patent infringement, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*). If this threshold objective standard is satisfied, the patentee must then also demonstrate that "this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.*

5. In *Machinery Corp. of America v. Gullfiber AB*, 774 F.2d 467 (Fed. Cir. 1985), the Federal Circuit reserved judgment as to whether there is a higher standard for receipt of fees by an alleged infringer. In *Elitech Sys. Corp. v. PPG Industries, Inc.*, 903 F.2d 805, 810-11 (Fed. Cir. 1990), the Federal Circuit resolved that question stating that the standard for receipt of fees under Section 285 is the same for patentees and accused infringers. The Federal Circuit maintains in a recent precedent that the "same objective/subjective standard applies for both patentees asserting claims of infringement and alleged infringers defending against claims of infringement." *See Highmark*, 687 F.3d at 1309.

Contrary to the Federal Circuit's assertion, this is not the same fee shifting standard for prevailing accused infringers. The corollary for an accused infringer in the first instance would be to show 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. Instead, the accused infringer must show that the case was "objectively baseless", *i.e.*, that "no reasonable litigant could reasonably expect success." As made clear by the analysis of the district court in the case below (which the Federal Circuit affirmed), this is a much higher standard to meet. According to the district court, "[a] proposed claim construction is not frivolous if not precluded by the language of the claim or the disclosures in the specification." Because Icon was able to conceive of claim construction arguments whereby a means-plus-function claim requiring "linear reciprocating displacement" could somehow not require straight-line movement like that shown in the specification of the '710 patent (the point of novelty of the '710 patent), the district court concluded the suit could be not "objectively baseless." This reasoning, however, makes any argument about a means-plus-function limitation non-frivolous, no matter how outrageous – as here – the proposed construction. Means-plus-function limitations, by definition, do not recite the claimed structure in the claim, and, instead require resort to the specification to discern the claimed structure. But this does not make any argument about the scope of the claim reasonable.

In order to secure the possibility of fees, the accused infringer must also prove, by clear and convincing evidence, that the action was brought in "subjective bad

faith." In a recent concurring opinion, Judge Reyna of the Federal Circuit Court of Appeals noted that "[o]ur cases have not established a precise definition for 'bad faith' in the exceptional case context." *Raylon v. Complus Data Innovations, Inc.*, 700 F.3d 1361, 1373-74 (Fed. Cir. 2012) (concurring). Judge Reyna, in that concurring opinion, goes on to suggest it involves pursuit of litigation based on "wrongful intent, recklessness, or gross negligence," a standard admittedly more in line with the recklessness standard of willful infringement, and pre-*Brooks Furniture* cases.⁶ Yet, as demonstrated by the district court's decision in this case – which, again, the Federal Circuit summarily affirmed – this is not the standard of the Federal Circuit majority. Citing *iLOR* and *Brooks Furniture*, the district court stated that to meet the subjective bad faith element, "the plaintiff's case must have no objective foundation, and the plaintiff must actually know this." Slip Op. at 6 (quoting *iLOR*, 631 F.3d at 1377). Applying this standard and looking at the evidence in isolation, the district court went on to conclude that the email evidence that Icon had pulled an "old patent" from off "the shelf" was not shown to be Icon's "official position," and, in any event according to the court, "[e]ven if the emails suggest Icon commenced this lawsuit to gain a competitive advantage against a smaller company, that fact does not make the lawsuit frivolous." Slip Op. at 8. This is a far different standard than the known or should have known of a high likelihood of infringement of a valid

6. "Where, as here, the patentee is manifestly unreasonable in assessing infringement, while continuing to assert infringement in court, an inference is proper of bad faith, whether grounded in or denominated wrongful intent, recklessness, or gross negligence." *Eltech Systems*, 903 F.2d at 811; See also *Phonometrics, Inc. v. Westin Hotel Co.*, 350 F.3d 1242, 1246 (Fed. Cir. 2003).

patent that is the standard for prevailing patentees, which explains why patentees prevail on contested fee motions almost twice as often as accused infringers. (Statistical data provided by LegalMetric).

Neither the statutory framework, nor this Court's precedent, nor public policy supports this result. First, nothing in the statute distinguishes between the prevailing parties. Rather, fees may be awarded to either plaintiff or defendant prevailing parties in exceptional cases. 35 U.S.C. § 285.

Second, in the analogous context of Copyright law, this Court has directed that prevailing plaintiffs and prevailing defendants must be treated alike for purposes of awarding attorney fees. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994). The fee shifting provision of the Copyright Act is similar to the Patent Act and to the Lanham [Trademark] Act, except that the Copyright Act excludes the "exceptional case" language, merely permitting an award of fees to the prevailing party. Because of this, in *Fogerty*, this Court called the fee-shifting statutes in the patent and trademark fields "closely related" to that of Copyright, and cited to these provisions as supporting a party-neutral approach in the Copyright Act. *Id.* at n.12.⁷ Further, in *Fogerty*, this Court rejected a rigid formulation of the fee-shifting standard, instead directing fees to be awarded on a discretionary basis in light of considerations identified. *Id.* at 534 (stating "[t]here is no precise rule or formula

7. The proposition that the Patent Act employed a party-neutral fee approach was based on the Federal Circuit's pre-*Brooks Furniture* pronouncement in *Eltech* that the standards should be the same. *Id.* (citing *Eltech Sys. Corp. v. PPG Industries, Inc.*, 903 F.2d 805, 811 (Fed. Cir. 1990)).

for making these [equitable] determinations). There is no reason to believe that Congress intended any different approach in the patent context.

From a policy perspective, a patent grants to its holder a legalized monopoly. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) ("The heart of [the patentee's] legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without consent"); see also *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945) ("a patent is an exception to the general rule against monopolies and to the right of access to a free and open market"). This is permitted because the overall good of encouraging innovation and promoting disclosure is thought to outweigh the anticompetitive effects of a time-limited monopoly. See generally *Bilski v. Kappos*, 130 S.Ct. 3218, 3255 (2010) ("even when patents encourage innovation and disclosure, 'too much patent protection can impede rather than 'promote the Progress of ... useful Arts'"). But a patent is, nevertheless, by its nature anticompetitive, and for this reason, the ways in which a patentee may grant, utilize and leverage a patent are not without limit and are often carefully scrutinized. See *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 544 F.3d 1323, 1333 (Fed. Cir. 2008) (noting that patents are by nature anticompetitive and examining whether agreements improperly restricted competition beyond the exclusionary zone of the patent); see also *Bilski*, 130 S.Ct. at 3229 (noting "the tension, ever present in patent law, between stimulating innovation by protecting inventors and impeding progress by granting patents when not justified by the statutory design.")

Patentees (including both practicing and non-practicing patentees) asserting their legal monopolies should at least have to assert objectively reasonable causes of action, or else the risk of paying for the litigation should shift to the patentee, regardless of counsel's conduct. This is fair and consistent with the overarching goals of the patent system. Notably, the prevailing defendant is not receiving a punitive award. It merely secures return of its attorney fees and is in no way compensated for the time it spent on the litigation or disruptions to its business that result from a patent plaintiff using the lawsuit as a competitive weapon. The alternative – leaving patentees unchecked to assert thin-beyond-reason causes of action – has a huge anticompetitive impact on society and constitutes a gross injustice to innocent defendants. Indeed, if attorney fee shifting was more symmetrical, it would incentivize accused infringers to challenge bad patents, thereby protecting future accused infringers and the public from the anti-competitive effects of spurious lawsuits based on patents that should have never issued in the first place. See F. Scott Kieff, *The Case for Preferring Patent-Validity Litigation Over Second-Window Review and Gold-Plated Patents: When One Size Doesn't Fit All, How Could Two Do the Trick?*, 157 U. Pa. L. Rev. 1937 (2009) (fee shifting would help accused infringers of “junk patents” raise the funds needed to challenge validity, and would “help align the parties’ incentives to communicate with each other about the evidence that each has about the weaknesses in the other’s case.”)

III. The “exceptional case” standard for a prevailing accused infringer should allow district courts discretion to award fees in any case in which the patentee unreasonably pursues a case having an objectively low likelihood of success.

As indicated above, the statutory goal of fee shifting is the prevention of gross injustice to accused infringers. As any defendant accused of patent infringement could attest, the mere existence of litigation typically has a detrimental impact on business, as customers become nervous about buying a product accused of infringement. When the allegations are unfounded, and yet a defendant must invest one to three *years*, and one to three *million* dollars to establish the fallacy of the patentee’s claims, the result is grossly unjust.

To be clear, Octane is not proposing that “exceptional case” means any case in which an alleged infringer prevails. But cases that have an objectively low likelihood of success should be “exceptional”, and not the norm. The cost of weak infringement claims should be borne by the patentee, not the alleged infringer trying to compete fairly in the marketplace. In those instances (instances which would be even less frequent under this standard than at present), fee shifting is appropriate.

A. Exceptional case status should not require proof of a Rule 11 violation.

By calling for a standard that allows for the award of fees in cases having an objectively low likelihood of success, Octane is not necessarily arguing for a departure from the line of cases that would allow an award of fees

in "frivolous" or "baseless" cases, unless those terms are synonymous with Rule 11-type conduct. Octane is proposing that the "exceptional" case standard of 35 U.S.C. § 285 should *not* be commensurate with a Rule 11 violation, contrary to the most recent Federal Circuit case addressing Section 285. In *Raylon*, the Federal Circuit took no issue with the district court merging its Rule 11 and Section 285 analyses, stating that "[s]imilar to the evaluation under Rule 11, for litigation to be objectively baseless, the allegations must be such that no reasonable litigant could reasonably expect success on the merits." *Raylon*, 700 F.3d at 1370.

To begin, Rule 11 already includes provisions for sanctions, which would render Section 285 unnecessary if they require proof of the same conduct. Fed. R. Civ. P. 11. Beyond this, labeling a case "frivolous" such that it constitutes a violation of Rule 11 is not a step that most courts take lightly, not only because of the time and money investment in these cases, but also because labeling a case "frivolous" such that it constitutes a violation of Rule 11 requires condemnation of *litigation counsel's* conduct. Rule 11 provides, among other things, that by signing all materials submitted to the Court an attorney is representing that "the claims, defenses, and other legal contentions are warranted by existing law or by a non-frivolous argument for extending, modifying, or reversing existing law or for establishing new law. . ." If a case is "frivolous" under Rule 11, then a patentee's counsel must have acted inappropriately, a conclusion that most courts are loathe to reach.

A case should not have to rise to the level of a Rule 11 violation before it is deemed "exceptional" for fee shifting

purposes. Pursuing cases having a low likelihood of success (though perhaps not rising to the level of a Rule 11 violation), should not be the norm for patentees, and when it does occur and the patentee is unsuccessful, the case should bear the moniker of an "exceptional case," with the District Court having discretion in those cases to award fees.

B. Exceptional case status should not require proof of bad faith.

In a patent case, the most an accused infringer can ever hope for is recoupment of reasonable attorney fees and costs. Even in the rare cases where this is awarded, however, the accused infringer is not made whole. That party is still out the hundreds of hours dedicated by company personnel to the defense of the case (hours that could have been spent on research and development, sales efforts and other endeavors), not to mention the often-significant cost that the suit may have had on the accused infringer in the marketplace. Unlike on the patentee side, where the plaintiff may get treble damages against a willful infringer under 35 U.S.C. § 284, the wrongfully-accused infringer has no such remedy against a patentee.⁸ The accused infringer is entitled to, at most, recoupment of reasonable fees.

Why is this significant? It is significant because under the law, subjective bad faith (*i.e.*, the willful, wonton or

8. Though this would be a matter for Congress by amendment to the statute, if bad faith were established a fair result would be an award of treble the amount of reasonable attorney fees to the alleged infringer as a punitive measure against a patentee acting in bad faith.

reprehensible nature of a party's conduct), while often the critical factor in an award of *punitive or treble damages* (which an alleged infringer cannot recover), is not a pre-requisite, in most statutory schemes, to an award of *reasonable attorney fees*. See, e.g., 17 U.S.C. § 505 (authorizing the court to award fees to the prevailing party in copyright cases); 42 U.S.C. § 1988 (allowing court, in its discretion, to award attorney fees to the prevailing party in civil rights actions); 42 U.S.C. § 3613 (allowing court, in its discretion, to award attorney fees to the prevailing party in fair housing actions). Indeed, trademark law has the *exact same* fee provision as the Patent Act,⁹ and yet the Eighth Circuit – where this case originated – has held that the “absence of bad faith is not alone determinative on the Lanham Act fee issue.” *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987). In this instance, the statute merely requires that the court find the case “exceptional” before awarding fees. It says nothing about requiring a showing of subjective bad faith, and the Federal Circuit should not impose its own requirements.

Octane submits that in view of the differences between punitive damages and reasonable attorney fees and the ways in which these are typically dealt with in statutes and by the courts, an alleged infringer should not have to make a showing of subjective bad faith in order to show a case is “exceptional.” Regardless of intent (which is inevitably almost impossible to prove), a patentee that asserts a cause of action having an objectively low likelihood of success

9. In passing the Lanham Act attorney fee provision, Congress expressly noted that fees were available under the patent and copyright laws, but not, up until that point, under trademark law. See S.Rep. 93-1400, 1974 U.S.C.A.N. 7134, 7135.

against its competitor should bear the risk of paying that competitor's fees if it is unsuccessful.

At the very least, the standard should clarify the meaning of “subjective bad faith” as merely a gross negligence or recklessness standard on par with the willful infringement standard, *i.e.*, district court should have discretion to deem a case exceptional and award reasonable attorney fees where a patentee institutes and maintains a patent infringement case having an objectively low likelihood of success and the patentee knew *or should have* known it.

CONCLUSION

For the foregoing reasons, Octane Fitness, LLC respectfully requests that the Court grant this Petition for Writ of Certiorari.

Dated: March 27, 2013

Respectfully submitted,

RUDOLPH A. TELSCHER, JR.,

Counsel of Record

KARA R. FUSSNER

HARNES, DICKEY & PIERCE, PLC

7700 Bonhomme Avenue,

Suite 400

St. Louis, MO 63105

(314) 726-7500

rtelscher@hdp.com

*Attorneys for Petitioner,
Octane Fitness, LLC*