

No. 12-1184

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IN THE  
**Supreme Court of the United States**

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OCTANE FITNESS, LLC,

*Petitioner,*

*v.*

ICON HEALTH & FITNESS, INC.,

*Respondent.*

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

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**BRIEF FOR THE PETITIONER**

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**QUESTION PRESENTED**

Whether a district court, in exercising its discretion to award attorney fees to prevailing accused patent infringers in “exceptional cases” under Title 35, United States Code, Section 285, should use traditional equitable factors guided by the purposes of patent law to protect legitimate patent interests in reasonable ways rather than the Federal Circuit’s rigid test requiring both objective baselessness and subjective bad faith?

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

The Petitioner is Octane Fitness, LLC. Octane Fitness, LLC is wholly owned by OF Holdings, Inc.

The Respondent is Icon Health & Fitness, Inc.

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## OPINIONS BELOW

The District Court for the District of Minnesota, after granting summary judgment on Icon Health and Fitness, Inc.'s ("Icon") allegations of patent infringement in favor of Octane Fitness, LLC ("Octane"), denied Octane's motion for attorney's fees under Title 35, United States Code, Section 285. The District Court's Order, dated September 6, 2011, is available at 2011 WL 3900975, and Pet. App. 19a-28a.

Octane cross-appealed the denial of attorney's fees to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed both the grant of summary judgment of non-infringement and the denial of attorney's fees on October 24, 2012; its opinion is available at 496 Fed. Appx. 57, 2012 WL 5237021, and Pet. App. 1a-17a. The order denying the petition for rehearing and rehearing *en banc*, dated December 27, 2012, is reproduced at Pet. App. 87a-88a. On October 1, 2013, this Court granted Octane's Petition for Writ of Certiorari.

## 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. On March 27, 2013, Octane filed a petition for writ of certiorari, which was granted on October 1, 2013. This Court has jurisdiction pursuant to 28 U.S.C. § 1254.

**STATUTE INVOLVED**

At issue in this case is 35 U.S.C. § 285 (2013), which states:

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

**STATEMENT OF THE CASE**

Section 285 provides that, in “exceptional cases,” a district court “may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (2013). The terms of § 285 grant discretion to identify exceptional cases and award fees. Such discretion should include application of traditional equitable factors guided by the purposes of the Patent Act. Although not exclusive, the most important factors include the strength and reasonableness of the infringement claims, the likelihood of ultimate success, pre-litigation and litigation conduct, economic circumstances, and the need to incentivize defendants to contest allegations which extend a patent’s limited monopoly beyond the scope of its terms. Normal cases are those that use patent litigation to protect legitimate patent interests in reasonable ways. Logically, exceptional cases are those that deviate markedly from the norm. The Federal Circuit, however, so severely limits district court discretion to award fees to prevailing accused infringers that § 285 fee awards are essentially non-existent.

Defending patent infringement claims is extremely expensive. Here, it cost Octane over \$1.8 million to prevail without a trial, even though a cursory comparison of the competing linkage systems are not remotely similar, Icon’s

arguments regarding the scope of its claims stretched credulity beyond reason, Icon's patent was invalid if it covered Octane's linkage and there was little or no likelihood that Icon could prevail on a trial of infringement.

But, unlike other litigation, a patent defendant has no efficient way to obtain resolution of the merits. Pleading requirements are minimal and litigating even to summary judgment entails expensive discovery, experts and claim construction. Against even the weakest of claims, an accused infringer faces "Hobson's Choice": settle and give the plaintiff remedies to which it is not entitled, or spend a larger sum to prevail without any realistic prospect of fee recoupment.

Abusive exploitation of the leverage opportunity this presents is both real and growing. Whether practicing the technology at issue or not, some patentees assert patents in unreasonable ways as a strategy founded on economic coercion. Ordinarily, a company has a disincentive to bring a weak case because it would be forced to pay lawyers only to later lose the case. But some patent plaintiffs, especially bully-type companies with superior economic leverage, exploit the system. Some large competitors, like Icon, use the process itself to hinder smaller competitors, like Octane, either by extracting unwarranted royalties or by siphoning resources. The former raises the cost of goods sold, which gets passed on to consumers, and the latter weakens the smaller competitor via the cost of the litigation.

Some companies build business models around buying patents, rather than developing technology, and suing entire industries to amass small fortunes at the expense

of the American economy and its citizens. These entities are commonly referred to as patent assertion entities or “patent trolls,” and their tactics have garnered national attention. The “troll” business model became popular a decade ago, but abusive troll litigation steadily picked up steam during the past five years.<sup>1</sup> The result is that the “goods”, i.e., patents, are picked over and the cases asserted by trolls are increasingly weak.

This case does not involve a classic “troll”, but does involve a larger competitor asserting a non-practiced patent against a smaller competitor in a troll-like manner. Asserting unreasonably weak patent claims and using the cost of litigation as a weapon of coercion is what all abusive patent cases have in common. No matter how weak the case, abusive plaintiffs know that most accused targets will pay some amount to avoid the high cost of patent litigation. Because prevailing accused infringers have no hope of recouping fees even if they win, federal courts serve as the playing field for extortion.

The evil of such practices runs counter to the purposes of patent laws. Consequences include substantial damage to small and large companies, less money for research and development, increased prices to consumers, undue limitations on competition and a substantial burden on

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1. “[T]he estimated total number of defendants sued by PME[s] [patent monetization entities] more than tripled from 834 in 2007 to 3,401 in 2011, while the increase in the total number of defendants sued by operating companies was not statistically significant.” U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-13-465, INTELLECTUAL PROPERTY: ASSESSING FACTORS THAT AFFECT PATENT INFRINGEMENT LITIGATION COULD HELP IMPROVE PATENT QUALITY 18-19 (2013).

federal courts. Properly construed, § 285 of the Patent Act provides a viable tool to balance the interests of patentees in bringing meritorious claims against the need to protect accused infringers from grossly unjust results.

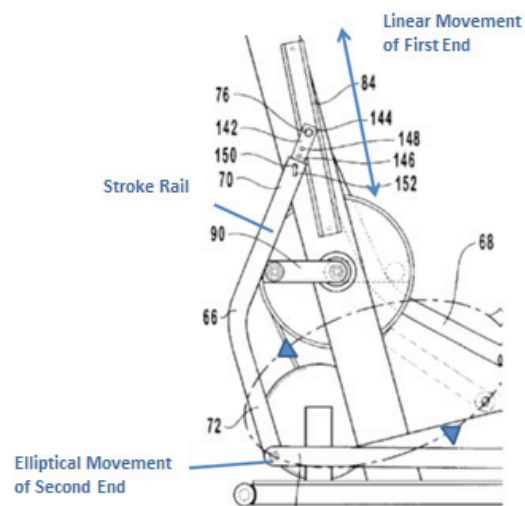
In *Brooks Mfg. v. Dutailier, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit shoehorned this Court's test for the "sham" litigation exception to *Noerr-Pennington* antitrust immunity into § 285's definition of "exceptional." Specifically, in the absence of prosecution or litigation misconduct, *Brooks* requires successful patent defendants to prove, by clear and convincing evidence, that plaintiffs' claims were *both* (1) objectively baseless, and (2) brought in subjective bad faith. *Id.* at 1381. This rigid framework places an insurmountable burden on successful accused infringers, like Octane, particularly where the injustice of the case lies predominantly in the weakness of the patent contentions. It also deprives district courts of their traditional equitable discretion to consider all relevant circumstances. This is in sharp contrast to other areas of intellectual property law, where courts have considerable discretion to award fees consistent with equitable considerations and the purposes of the particular intellectual property regime. *See* 15 U.S.C. § 1117(a); 17 U.S.C. § 505.

A correct interpretation of § 285, consistent with its terms, the canons of statutory interpretation, judicial precedent and good policy would restore balance to the patent enforcement system. The Patent Act tries to reconcile the tension between stimulating innovation through a strong patent system and stifling competition through the grant of monopoly rights. This case presents the proper vehicle to restore district courts' discretion

under § 285 to remedy abuse of the patent system through unreasonable patent litigation.

### A. Icon and Its “Shelf” Patent

In the late 1990’s, Icon invented a specific linkage system for an elliptical machine. An elliptical machine is a piece of exercise equipment having two foot pedals that travel in an elliptical path. Many elliptical machine designs existed at the time of Icon’s invention, U.S. Patent No. 6,019,710 (“the ‘710 patent”). SA-10-SA-23. The unique and simple linkage disclosed in the ‘710 patent is a “stroke rail” that moves in a straight line within a c-channel at one end while the other end moves in an elliptical path. *Id.* at SA-18 at 3:64-4:17. As shown (right), the “stroke rail” connects the foot rail to the frame. *Id.* The “c-channel” (84) constrains the first end of the stroke rail to move up-and-down in a straight line (“linear reciprocating displacement”), while the other end moves in an elliptical path. *Id.* at SA-19 at 6:3-42.



The patent examiner who granted the ‘710 patent 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 producing “linear reciprocating movement” as the point of novelty in the ‘710 patent and granted the patent on this basis. J.A. 123a, at ¶3. To claim these inventive aspects, certain elements were recited as a means for performing a specified function as permitted by 35 U.S.C. § 112, ¶6 (now codified at § 112(f)). For example, Claim 1(d) of the ‘710 patent, recited a:

(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;*<sup>2</sup>

SA-20 at 7:11–26 (emphasis added). As it must, the specification of the ‘710 patent discloses the structure which performs the recited functions, consistent with the figure above (i.e., the c-channel and related linkage structures). *Id.*

Reading the claims and specification together, essential elements of Icon’s invention are: an adjustable stride elliptical machine in which (1) a stroke rail extends

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2. It was undisputed that this element is a means-plus-function limitation under 35 U.S.C. § 112, ¶6. The legal significance is that the structure which corresponds to the recited function *must* be disclosed in the specification, else the patent is invalid due to a “failure to point out and distinctly claim the invention.” See Manual of Patent Examining Procedure, Section 2181 (II) (*citing In re Donaldson Co.*, 16 F.3d 1189, 1195 (Fed. Cir. 1994) (en banc)).



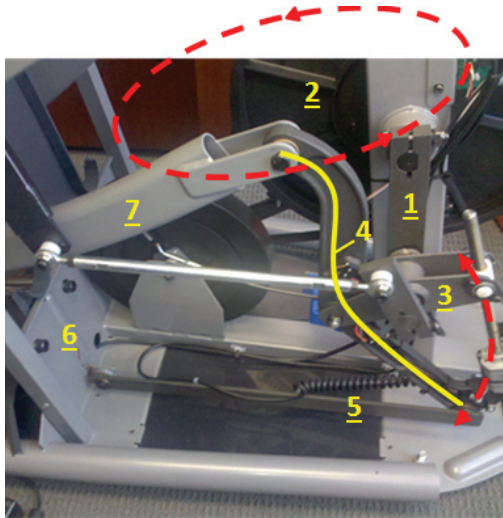
from the frame to the foot rail, (2) one end of the stroke rail is connected via a c-channel or similar structure in such a way that (3) one end of the stroke rail moves back and forth in a straight line while the other end of the stroke rail moves in an elliptical path. SA-17-SA-21. Both the District Court and the Federal Circuit agreed the ‘710 patent requires these elements.

Icon’s unique idea did not work. Icon never commercialized an elliptical machine under the ‘710 patent. J.A. 100a-108a; 117a. Instead, Icon sold a different machine it did not invent, and paid a royalty to a competitor for the linkage technology. C.A. App. A1941.

### **B. Octane and Its Award-Winning Ellipticals**

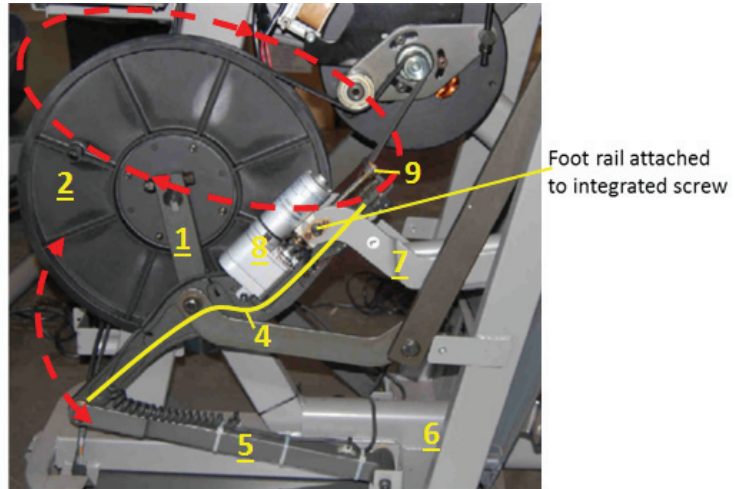
Octane was a much smaller start-up competitor experiencing success with its lines of high-end elliptical machines. J.A. 115a-116a. It did not copy the ‘710 patent technology. Instead, Octane licensed a different patented linkage technology for its successful Q45 and Q47 machines. J.A. 110a-113a; SA-25-SA-48.

Octane’s machines do not employ a linkage *remotely* similar to that disclosed in the ‘710 patent. Octane uses neither a “stroke rail” nor a part that moves in a straight line within a “c-channel,” or any similar structure. *Compare* J.A. 261a-262a with SA-10-SA-23. A visual comparison and review of the ‘710 patent claims easily confirm that the collection of parts, how they interact, and the overall principles of operation are fundamentally different.



The Q47 machine, depicted and annotated by counsel, utilizes a crank arm (1) on a flywheel (2) connected to a swing arm (3). C.A. App. A1964; J.A. 262a; SA-34. The swing arm, in turn, is connected to the actuator casting (4). J.A. 262a. On one end, the actuator casting is connected to a rocker link (5) and the rocker link is connected to the frame (6) of the elliptical machine. *Id.* On the other end, the actuator casting connects to a foot rail (7). *Id.* In operation, the fly wheel turns lifting the entire linkage such that the foot rail is moved in an elliptical path and the rocker link moves through the air, at the end opposite the frame, in an arced path (as shown by the hashed lines in the photo). J.A. video. The elliptical path is made variable by changing the angle between the actuator casting and swing arm. *Id.*

The Q45 is similar to the Q47, but instead of a swing arm the Q45 actuator casting supports a motor (8), and the foot rail (7) is attached to an integrated screw (9) on the motor, all of which operate to vary the size of the elliptical path. J.A. 261a; SA-39-SA-48.



A video demonstrating the movement of the three linkages and shown to the district court is included at the end of the Joint Appendix. It shows the obvious lack of infringement.<sup>3</sup> J.A. video.

### C. Icon's Lawsuit

After Octane's market success, Icon brought suit for patent infringement on April 23, 2008. J.A. 40a-49a. E-mails uncovered in the litigation reflected that Icon took an "old patent" it had "sitting on the shelf" and "thr[e]w" it at Octane. J.A. 274a; SA-72. As articulated by Icon's Vice President of Global Sales, Icon was "[n]ot only coming out with a great product **to go after [Octane], *but throwing a lawsuit on top of that,***" and that Icon was asserting a

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3. In the video, Icon's technology is demonstrated by a prototype because the '710 patent was never successfully commercialized. The Q45 and Q47 machines shown in the video are the actual products marketed by Octane.

defunct patent because it was “just looking for royalties.” J.A. 391a; SA-72.

Icon initially sued Octane alleging infringement of two unrelated patents: the ‘710 patent (SA-10-SA-21) and U.S. Patent No. 5,104,120, entitled “Exercise Machine Control System” (“the ‘120 patent”) (SA-1-SA-9). One year into the litigation, Icon was forced to voluntarily dismiss its ‘120 patent claims after Octane learned of an adverse claim construction ruling Icon received in an Eastern District of Texas infringement action. J.A. 60a-62a.

Icon (a Utah company) also initially brought the suit in California by joining an Octane customer located there. J.A. 40a-49a. On motion by Octane (a Minnesota company), that action was severed and the case against Octane transferred to Minnesota, while the case against the Octane distributor was dismissed. J.A. 50a-59a. Even though the complaint only mentioned Octane’s Q47 machine, Icon broadly sought discovery of *every* Octane product, ultimately asserting that Octane’s Q47 and Q45 series machines infringed the ‘710 patent. J.A. 40a-49a; 79a-91a.

#### **D. The Non-Infringement Rulings and Denial of Fees.**

In June 2010, after two years of expensive litigation and repeated efforts to resolve the case, Octane moved for summary judgment of non-infringement of the ‘710 patent. J.A. 14a-16a. At Icon’s insistence, the district court held a separate claim-construction hearing, J.A. 17a, and in December 2010, two and one-half years into the lawsuit, the court issued a Memorandum Opinion and

Order construing various terms of the ‘710 patent. Pet. App. 62a-86a. In that Opinion, the district court largely adopted Octane’s constructions, and rejected Icon’s proposed constructions. *Id.*

Undeterred, Icon continued to assert infringement and Octane renewed its motion for summary judgment of non-infringement. J.A. 22a-24a. Following another round of briefing and hearing, the district court granted the motion on June 17, 2011, finding *multiple* claim elements lacking, both literally and under the doctrine of equivalents, as a matter of law. Pet. App. 31a-61a. Icon appealed and the Federal Circuit affirmed the findings, characterizing one of Icon’s arguments as “without merit” and, like the district court, finding *multiple* claim limitations absent from the accused products. Pet. App. 1a-17a.

Meanwhile, in the district court, Octane moved for an award of attorney fees under § 285. J.A. 250a-273a. The district court applied the Federal Circuit’s narrow *Brooks* standard, and consequently disregarded facts that did not fit within that rubric. Pet. App. 19a-28a. For example, the district court deemed irrelevant the fact that Icon was a larger competitor that never commercialized the ‘710 patent. *Id.* at 27a-28a. It also disregarded the fact that Icon had intentionally brought the suit in the inconvenient venue of California. *Id.* at 19a-28a. According to the district court, “[s]imply bringing suit to gain a competitive advantage is not evidence of bad faith” as the Federal Circuit has articulated the standard. *Id.* at 28a. Under the Federal Circuit’s strict test, the district court denied Octane’s motion for fees. *Id.* Octane appealed, and in the consolidated appeal, the Federal Circuit affirmed the district court’s denial of fees. *Id.* at 17a.

The Federal Circuit summarily concluded that “the court did not err in denying Octane’s motion to find the case exceptional,” and stated “[w]e have no reason to revisit the settled standard for exceptionality.” *Id.* Consequently, Octane is left to bear the nearly \$2 million in fees it was forced to incur to fend off Icon’s meritless claims. Octane filed a Petition for Rehearing and Rehearing En Banc, which was also summarily denied. *Id.* at 87a-88a. This Court granted Octane’s Petition for a Writ of Certiorari on October 1, 2013.

### SUMMARY OF THE ARGUMENT

Section 285 of the Patent Act provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285 (2013). Properly interpreted and applied, § 285 would curb patent litigation abuse. On the books since 1946, § 285 authorizes district courts to exercise equitable discretion and award fees to remedy abusive, unjust patent litigation. But, as to prevailing accused infringers, the Federal Circuit’s *Brooks* decision largely eviscerates § 285 and allows plaintiffs to bring abusive and weak patent suits without fear of a fee award. *Brooks Mfg. v. Dutailier, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005). Viewing § 285 as penal, *Brooks* held that absent litigation misconduct or patent procurement fraud, “*sanctions* may be imposed against the patentee *only if both* (1) the litigation is brought in *subjective bad faith*, and (2) the litigation is *objectively baseless*.” *Id.* at 1381. (emphases added). This rigid two-prong test should be rejected. This Court should interpret § 285 to permit district courts in patent cases to consider traditional equitable factors, guided by the purposes of patent law, in granting fee awards.

A remedial rather than penal interpretation of § 285 is clearly supported by its text and history, interpretations of the textually identical Lanham Act fee-shifting provision, traditional equitable discretion granted to district courts in considering fee awards, decades of judicial interpretations of § 285 and the purposes of the Patent Act. *Brooks* actually contributes to the problem of patent litigation abuse.

First, the plain language of the statute implies a broad grant of equitable discretion. The statute provides that courts “may” award fees “in exceptional cases.” 35 U.S.C. § 285. In *Noxell Corp. v. Firehouse No. 1 Bar-B-Que*, 771 F.2d 521, 526-27 (D.C. Cir. 1985), the District of Columbia Circuit held the term “exceptional” in the Lanham Act’s textually identical fee-shifting provision to grant equitable discretion to district courts. Similarly, in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), this Court interpreted the word “may” in the closely related fee-shifting provision of the Copyright Act to imply a grant of equitable discretion to district courts.

By contrast, the *Brooks* test is not rooted in Congress’s language. It was inaptly transplanted from the “sham litigation” exception to *Noerr-Pennington* antitrust immunity. See *Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993) (“*PRE*”). *PRE*’s strict test is based on First Amendment values—values not implicated by fee-shifting in patent litigation.

Furthermore, an equitable discretion test for defining “exceptional” gives § 285 independent effect, whereas *Brooks* does not. District courts do not need § 285 to award fees if objectively baseless litigation is brought

in subjective bad faith, because they possess inherent authority to sanction such conduct. This Court has invoked this principle to reject narrow interpretations of similar and related fee-shifting statutes. In addition, unlike *Brooks*, the equitable discretion test does not judicially legislate specificity into Congress’s purposefully general language. Had it desired the restrictive specificity of *Brooks*, Congress knew how to do so in § 285.

The equitable discretion test is supported by judicial interpretation of trademark and copyright fee-shifting statutes. Federal courts of appeals interpret the Lanham Act’s identical fee-shifting language according to traditional equitable principles and reject rigid formulas. Similarly, in *Fogerty*, this Court ruled that a non-exclusive list of traditional equitable factors guide application of the Copyright Act’s fee-shifting provision, noting “[t]here is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised in light of the considerations we have identified.” 510 U.S. at 534 (quotation marks omitted).

The equitable discretion test also follows *Fogerty*’s dictate of even-handed application of party-neutral fee statutes. *Brooks* unfairly treats accused infringers more harshly than patentees. A patentee who proves willful infringement—defendant acted despite a high likelihood it infringed—qualifies for attorney’s fees as well as treble damages. Thus, patentees receive fee awards far more frequently than accused infringers. Section 285 provides no basis for such disparate treatment.

Section 285’s legislative history, sparse as it is, also contradicts the Federal Circuit’s interpretation. It



confirms that Congress intended a broad conferral of equitable discretion upon the district courts to grant fee awards to wrongfully accused defendants to prevent “gross injustice.” The rigid *Brooks* test also conflicts with decades of judicial interpretation of § 285 pre-dating establishment of the Federal Circuit. These cases interpreted § 285 as conferring general equitable discretion to the district courts.

The equitable discretion test compliments rather than hinders the purposes of § 285 and the Patent Act as a whole. The Patent Act cultivates a dynamic tension between encouraging innovation and impeding progress. The flexibility and discretion of traditional equity are best suited to allow the district courts to fairly strike the needed balance. *Brooks* incentivizes unbalanced protection of patent interests and its disparate treatment of parties is at odds with the purposes of fairness reflected in patent law. The timing is particularly unfortunate—the historical moment when litigation abuse by some patentees is a grave and growing national problem.

*Brooks*’s rigid test for fee awards to prevailing accused infringers is a legal anomaly. There is no good reason why the same words should mean one thing in the Lanham Act and another in the Patent Act. Similarly, there is no good reason why wrongfully accused defendants should be treated less favorably than successful patentees. The Federal Circuit imposes nearly insurmountable hurdles to fee awards even though patent litigation abuse has become a business model.

The undisputed facts here demonstrate how the interplay between equity and the purposes of patent

law provide the best workable rubric for identifying “exceptional” cases warranting fees. Viewed as a whole, the degree of weakness of Icon’s infringement claims and theories, the circumstantial evidence of an anti-competitive purpose, Icon’s conduct of the litigation, the lack of a legitimate patent interest, and the mismatched litigation resources of the parties make it exceptionally unfair for Octane to bear all or part of its fees. In fact, the circumstances of this case are so compelling that denial of fees was an abuse of discretion under any reasonable application of § 285. Accordingly, this Court should confirm that Congress intended a broad conferral of traditional equitable discretion guided by the purposes of patent law.

## ARGUMENT

### **I. Section 285 of the Patent Act Confers Broad Discretion on District Courts to Apply Traditional Equitable Factors, Guided by the Purposes of Patent Law, to Determine Whether to Award Fees to a Prevailing Accused Infringer.**

Section 285 of the Patent Act confers broad discretion on district courts to apply traditional equitable factors, guided by the purposes of patent law, to determine whether to award fees to a prevailing accused infringer. This is referred to herein as the “equitable discretion” test and it should be used by district courts to define “exceptional cases” warranting fee awards to a prevailing party.

Awards of attorney’s fees in patent cases are governed by § 285 of the Patent Act, which provides: “[t]he court in exceptional cases may award reasonable attorney fees

to the prevailing party.” 35 U.S.C. § 285 (2013). Until recently, § 285 was understood to grant district courts equitable discretion to identify “exceptional cases” by considering the totality of the relevant circumstances. But, in 2005, the Federal Circuit adopted a rigid two-pronged test to govern fee-shifting awards to accused infringers in patent cases, holding that “[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Brooks Furniture Mfg., v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

*Brooks’s* rigid formulation lacks any basis in the text of the statute, creates a double standard for plaintiffs and defendants, runs roughshod over the discretion granted to district courts by the clear terms of § 285, directly conflicts with interpretations of the textually identical Lanham Act fee statute, and departs from decades of judicial interpretation of § 285. This Court should reject the Federal Circuit’s novel two-pronged test and restore discretion to district courts.

**A. The Plain Language of § 285 Confers Discretion to District Courts to Consider Traditional Equitable Factors in Making Fee Awards.**

The starting point of all statutory interpretation is the language of the statute. *Conn. Nat’l Bank v. Germain*, 503 U.S. 249, 253-54 (1992). Section 285 provides that “[t]he court in *exceptional* cases *may* award reasonable attorney fees....” 35 U.S.C. § 285 (emphasis added). The plain import of “may” and “exceptional” is a broad grant of discretion.

**1. The words “may” and “exceptional” confer discretion to assess the case as a whole.**

The language of § 285 affords district courts broad equitable discretion when determining whether an award of fees is appropriate. This Court’s decision in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), is on point. *Fogerty* interpreted the Copyright Act’s fee-shifting provision, 17 U.S.C. § 505, which states that “the court *may* ... award a reasonable attorney’s fee to the prevailing party as part of the costs.” *Id.* at 519. Rejecting a proposed interpretation that would render fee-shifting automatic, this Court emphasized that: “[t]he word ‘may’ clearly connotes discretion. The automatic awarding of attorney’s fees to the prevailing party would pretermit the exercise of that discretion.” *Id.* at 533. This Court found the award of fees discretionary and explicitly rejected any precise formula or test to govern discretion: “There is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised ‘in light of the considerations [this Court] has identified.’” *Id.* (quoting *Hensley v. Eckerhart*, 461 U.S. 424, 436-37 (1983)). This Court further explained that in making such discretionary awards, courts should consider a wide and “nonexclusive” range of factors. *Fogerty*, 510 U.S. at 534 n. 19. Other cases support this interpretation of “may.” *See, e.g., Zadvydas v. Davis*, 533 U.S. 678, 697 (2001) (stating that “‘may’ suggests discretion”).

The term “exceptional” was added to the statute in 1952, replacing the phrase “in its discretion” in the 1946 statute. *See infra*, Part I.C. This change was understood, at the time and for several decades thereafter, to be a non-substantive change maintaining courts’ discretion to award fees. *Id.*

Apart from the legislative history, the open-ended nature of the word “exceptional” also indicates discretion. Because “exceptional” is not a legal term of art, nor defined elsewhere in the Patent Act, it should be construed in accordance with its ordinary meaning. *Sebelius v. Cloer*, 133 S. Ct. 1886, 1893 (2013); *F.D.I.C. v. Meyer*, 510 U.S. 471, 476 (1994). The ordinary meaning of “exceptional” at the time it was added to the statute was:

**exceptional**. adj. Forming an exception; uncommon; hence, superior.

Syn. **exception, exceptionable**. That is exceptional which is an exception, or out of the ordinary; that is exceptionable to which exception may be taken, and which is therefore objectionable.

Webster’s New College Dictionary 287 (2d Ed. 1949); *see also* The American College Dictionary 419 (1948) (defining “exceptional” as “forming an exception or unusual instance; unusual; extraordinary; Syn. uncommon; peculiar; singular; superior”); Funk & Wagnalls New College Standard Dictionary 408 (1947) (defining “exceptional” as “unusual or uncommon; superior”). Applying these definitions, “exceptional” denotes discretion to courts to award fees, not in the normal course, but where the exercise of discretion warrants an exception.

This is consistent with past interpretations of the well-reasoned opinions of lower courts in intellectual property cases. In 1985, a panel of the D.C. Circuit interpreted the fee-shifting provision of the Lanham Act, 15 U.S.C.

§ 1117(a), which is textually *identical* to § 285. *Noxell Corp. v. Firehouse No. 1 Bar-B-Que*, 771 F.2d 521, 526 (D.C. Cir. 1985). *Noxell* relied on the ordinary meaning of “exceptional” to reject the claim that fee-shifting awards must be supported by subjective bad faith. *Id.* at 526. The court stated, “we think ‘exceptional,’ as Congress used the word in section 35 of the Lanham Act, is most reasonably read to mean what the word is generally understood to indicate—uncommon, not run-of-the-mill.” *Id.* Relying “[o]n that familiar construction,” *Noxell* rejected a “niggardly reading” of § 1117(a) that would have required “overt bad faith” to support an award of fees in trademark cases. *Id.* Rather, *Noxell* held that “when Congress ‘limit[ed] attorney fees to ‘exceptional case’ and [placed] the award of attorney fees...‘within the discretion of the court’...the legislature did not intend to harness judges to a ‘hardly ever’ rule.” *Id.* (citations omitted). On this basis, *Noxell* found that the existence of “more than a hint of ‘economic coercion’” in the plaintiff’s selection of an inconvenient forum rendered the case “exceptional.” *Id.* at 526-527.

Under *Fogerty* and *Noxell*, the ordinary meaning of the statutory terms “may” and “exceptional”: (1) implies a broad grant of discretionary authority to the district courts to consider a non-exclusive list of equitable factors in granting fee awards; and (2) forecloses the Federal Circuit’s novel requirement that a prevailing defendant must prove that the case was “baseless” and “brought in subjective bad faith.” *Brooks*, 393 F.3d at 1381.

**2. The Federal Circuit’s erroneously transplanted sham litigation test lacks basis in the text of the statute.**

*Brooks* lacks any basis in the text of the statute. The Federal Circuit directs that the determination to award fees under § 285 first requires the prevailing party to establish, by clear and convincing evidence, that the case is exceptional; if so, only then may the court exercise its discretion to determine whether to award fees. *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003). For prevailing accused infringers, though, absent patent fraud or litigation misconduct, the first step requires satisfaction of a two-prong definition of “exceptional”—namely, that the patentee’s claim is both (1) “brought in subjective bad faith”; and (2) “objectively baseless.” *Brooks*, 393 F.3d at 1381. See *iLOR, LLC, v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). If either requirement fails, fees may not be awarded. *Id.*

On the objective prong, the Federal Circuit indicated that patent litigation is “objectively baseless” *only* when a party’s assertions are “so unreasonable that no reasonable litigant could believe [they] would succeed.” *iLOR*, 631 F.3d at 1378. The subjective bad faith prong is made more difficult by *Brooks*’s recognition of a presumption that patent infringement claims are made in good faith. *Brooks*, 393 F.3d at 1382 (*citing Springs Window Fashions, LP v. Novo Indus., L.P.*, 323 F.3d 989, 999 (Fed. Cir. 2003)). This presumption is surpassed only by clear and convincing evidence that the patentee knowingly pursued a baseless case. *Id.* The district court here recognized the subjective

burden: “The Plaintiff’s case must have no objective foundation, and the plaintiff must actually know this.” Pet. App. 25a (*quoting iLOR*, 631 F.3d at 1377). In effect, *Brooks* requires a showing that the suit was frivolous and the district court here expressed it as such. *Id.* at 23a, 27a.

This elaborate apparatus of a two-step process, with one step composed of a two-part test; steep burden of proof<sup>4</sup>; and a rebuttable presumption lacks any basis in the text of the statute. Nothing in § 285 mandates (1) a two-step process with discretion applying only after the first step; (2) proof of both exceptionality and plaintiff’s bad faith state of mind by clear and convincing evidence; (3) for an accused infringer, subjective bad faith *and* objective baselessness; or (4) a presumption of good faith for an infringement suit.

*Brooks*’s genesis is the definition of the “sham” exception to the *Noerr-Pennington* doctrine of antitrust immunity. *See Brooks*, 393 F.3d at 1381 (*citing PRE*, 508 U.S. at 60-61). In the fifty-plus years since the enactment of § 285, no previous opinion articulated such a test; it was lifted wholesale from *PRE*.

The stringent two-prong *PRE* test is inappropriate in this context. The *Noerr-Pennington* doctrine provides

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4. The requirement that the quantum of proof be “clear and convincing” dates back to *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582 (Fed. Cir. 1985), wherein the Federal Circuit, citing one of its own cases addressing the burden for proving *invalidity and inequitable conduct*, imported the clear and convincing standard of proof into its § 285 analysis.



that antitrust liability normally does not apply to those petitioning the government. *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). However, *Noerr* recognized a narrow exception for “sham” activities that are mere “attempt[s] to interfere directly with the business relationships of a competitor.” *PRE*, 508 U.S. at 56 (quoting *Noerr*, 365 U.S. at 144). Because exceptions to *Noerr* immunity directly implicate First Amendment freedoms, the “sham” exception is narrowly construed. For example, even activity that is subjectively motivated by an improper anticompetitive purpose remains protected as long as there is an “objectively reasonable” basis for the action. *Id.* at 57. Thus, to preserve these critical constitutional values, *PRE* adopted a stringent test that limited trial court discretion. *Id.* at 60.

The First Amendment concerns underlying *PRE*’s stringent test have no application in the context of objectionably weak patent suits or fee-shifting statutes in general. Further, the consequences are not remotely comparable. In an “exceptional” patent case, one party must pay another’s reasonable attorney’s fees. A “sham” litigant in the *Noerr* context is exposed to an independent cause of action under the antitrust statutes, with exposure to treble damages, injunctive relief, and an independent fee-shifting statute.

To Petitioner’s knowledge, no other court has ever sought to transplant the extremely stringent *PRE* test to a garden-variety fee-shifting statute like § 285. The *PRE* test is particularly ill-adapted to govern fee awards in patent cases, because satisfaction is essentially unattainable. Given that the Federal Circuit itself admits that its high reversal rate creates a legal environment of

unpredictability in which courts and parties are “simply unable to forecast what [the Federal Circuit] will decide”, how can even the weakest of infringement claims be deemed objectively baseless? *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 701 F.3d 1351, 1356 (Fed. Cir. 2012). Given the relative rarity of evidence of a party’s state of mind in filing suit, how can the subjective bad faith prong be reasonably satisfied in abusive patent cases? In relying on *PRE* to define “exceptional,” the Federal Circuit departed substantially from a common sense reading of § 285.

**3. The *Brooks* test deprives § 285 of independent effect and Congress was capable of codifying such restrictions if intended.**

The Federal Circuit’s elaborate structure also violates the well-established canon of statutory construction that courts should not render statutory provisions to be without effect. *See Sprietsma v. Mercury Marine*, 537 U.S. 51, 63 (2002). As noted above, *Brooks* limits an award of fees to prevailing accused infringers to three egregious instances: fraud by the patentee in procuring the patent, litigation misconduct<sup>5</sup> or sham litigation. This narrow interpretation deprives § 285 of independent effect, because district courts already possess inherent authority to award fees in such cases. Courts have long recognized

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5. The Federal Circuit defines “litigation misconduct” narrowly, requiring independently sanctionable conduct by a party or his counsel during the course of the litigation. *See Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539, 549 (Fed. Cir. 2011) (rejecting notion that failure to engage in settlement negotiations constituted litigation misconduct and vacating fee award).

an exception to the general rule against fee-shifting for cases of litigation misconduct or bad faith. *Hall v. Cole*, 412 U.S. 1, 5 (1973). *See also Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 419 (1978).

This Court has repeatedly invoked this principle to reject narrow interpretations of fee-shifting statutes. For example, in *Newman v. Piggie Park Enterprises*, 390 U.S. 400, 402 (1968), this Court rejected an interpretation of the attorney fee-shifting provision of Title II of the Civil Rights Act that would have limited its application to cases where defendants acted in subjective bad faith. It noted that, under such a narrow interpretation, “no new statutory provision would have been necessary, for it has long been held that a federal court may award counsel fees to a successful plaintiff where a defense has been maintained ‘in bad faith, vexatiously, wantonly, or for oppressive reasons.’” *Id.* at 402 n. 4 (citation omitted). Similarly, in *Christiansburg*, this Court rejected the argument that a fee award under Title VII was limited to cases of subjective bad faith by a plaintiff, because “no statutory provision would have been necessary.” *Christiansburg*, 434 U.S. at 419.

This principle was also endorsed in *Noxell*, which addressed the textually identical fee-shifting provision of the Lanham Act, 15 U.S.C. § 1117(a). 771 F.2d at 521. *Noxell* rejected the notion that Congress intended “exceptional” cases to be limited to cases of bad faith, because “that exception to the ‘American rule’...is always available...” *Id.* at 526 (quoting *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 258-59 (1975)). To avoid a narrow reading of § 1117(a) that would render its terms superfluous, the court held that “[s]omething less than ‘bad faith’...suffices to mark a case as ‘exceptional.’” *Id.*

By imposing elaborate specificity upon general statutory language, the Federal Circuit's interpretation also violates the well-settled rule of statutory construction that courts should not presume to impose statutory restrictions that Congress was capable of enacting, but did not. This Court "do[es] not lightly assume that Congress has omitted from its adopted text requirements that it nonetheless intends to apply." *Jama v. Immigration and Customs Enforcement*, 543 U.S. 335, 341 (2005). See also *Kimbrough v. United States*, 552 U.S. 85, 103 (2007). This Court has recently applied this canon to fee-shifting statutes. See *Sebelius*, 133 S. Ct. at 1893 ("If Congress had intended to limit fee awards to timely petitions, it could easily have done so."); *Astrue v. Ratliff*, 130 S. Ct. 2521, 2527 (2010) ("Congress knows how to make fee awards payable directly to attorneys where it desires to do so."). Here, Congress knew how to define the terms of the statute specifically and limit its application to particular cases, but it chose not to do so. This Court should not "lightly assume that Congress has omitted from its adopted text," but "nonetheless intends to apply," the judicially constructed apparatus of the Federal Circuit. *Jama*, 543 U.S. at 341.

**4. *Brooks* contravenes the *Fogerty* principle by treating prevailing parties disparately under a party-neutral statute.**

A further problem with the Federal Circuit's *Brooks* test is that it imposes disparate treatment on patent plaintiffs and defendants. This implicates this Court's directive in *Fogerty*, interpreting the parallel fee-shifting provision of the Copyright Act, 17 U.S.C. § 505, that "[p]revailing plaintiffs and prevailing defendants are to be treated alike" for purposes of fee awards in copyright

cases. 510 U.S. at 534. In so holding, this Court cited § 285 and “note[d] that the federal fee-shifting statutes in the patent and trademark fields, which are more closely related to that of copyright, support a party-neutral approach.” *Id.* at 525 n. 12.

The *Brooks* test contravenes *Fogerty*’s principle by creating a more difficult fee award standard for prevailing accused infringers than for patentees. While accused infringers must show the plaintiff’s claims were objectively baseless, or in other words, that “no reasonable litigant could realistically expect success on the merits,” *iLOR*, 631 F.3d at 1376 (*quoting PRE*, 508 U.S. at 60), the Federal Circuit allows a prevailing *patentee* to recover fees if it can show “willful infringement” by establishing “that the infringer acted despite an *objectively high likelihood* that its actions constituted infringement of a valid patent.” *In re Seagate Tech.*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc) (emphasis added). Likewise, under *Seagate*’s subjective prong, the patent holder may recoup fees from an accused infringer who was “reckless” and “should have...known” of the objectively likely infringement, *id.*; while under *Brooks*’s subjective prong, the accused infringer can only recoup fees if it shows that the patent holder “actually kn[e]w” that the accusation of infringement was baseless. *iLOR*, 631 F.3d at 1377.<sup>6</sup> These are not equal standards.

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6. In *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300 (Fed. Cir. 2012), *reh’g and reh’g en banc denied*, 701 F.3d 1351 (Fed Cir. 2012), *cert. granted*, 82 U.S.L.W. 3177 (U.S. Oct. 1, 2013) (No. 12-1163), the Federal Circuit altered the subjective prong articulating a recklessness standard analogous to *Seagate*, but this was *after* the instant case was decided.

While the Federal Circuit denies any disparity, the conflicting formulations above cannot be squared. High likelihood of infringement and reckless conduct are not congruent with objectively baseless and subjective bad faith. The Federal Circuit even requires, in the case of willful infringement, that district courts articulate reasons for *not* awarding fees to plaintiffs if those reasons are not apparent from the record. *See Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990), as modified by *Wicker v. Standard Register Co.*, 82 F.3d 434 (Fed. Cir. 1996). Disparate standards produce disparate results—patent plaintiffs are far more likely to be granted fee awards than defendants. Writ Pet. at 25.

**B. *Brooks* Contravenes Interpretations of the Lanham Act’s Textually Identical Fee Statute.**

It is well established that related provisions governing fee awards should be construed in harmony with one another. The fee-shifting provision of the Lanham Act is textually *identical* to the language of § 285. *See* 15 U.S.C. § 1117(a) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”). In enacting § 1117(a), Congress explicitly referenced § 285. *See* S. Rep. No. 93-1400, at 7133, 7135 (1974). But, the Federal Circuit’s interpretation of § 285 is at odds with judicial interpretations of the identical words used in § 1117(a).<sup>7</sup> None requires satisfaction of *PRE*’s sham litigation test—both objective baselessness and subjective bad faith.

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7. It also conflicts with this Court’s interpretation of the similar Copyright Act fee shifting statute. 17 U.S.C. § 505, in *Fogerty*, *see supra* I.A.4.

Though the federal courts of appeals take multiple approaches to § 1117(a), the variances are minor, especially as compared to the *Brooks* rule. A plurality of circuits—the First, Third, Seventh, Eighth, and Ninth Circuits—permits district courts to consider the totality of the circumstances and expressly holds that subjective bad faith is not required.<sup>8</sup> The First Circuit explains that because “the purpose of the attorney’s fees amendment to the Lanham Act was to provide for an award in exceptional cases in which equity called for an award in the sound discretion of the district judge,” a “case-specific multi-factored analysis” is required, which does not require any showing of bad faith. *Tamko Roofing Prods. v. Ideal Roofing Co.*, 282 F.3d 23, 32-33 (1st Cir. 2002); *see also Securacomm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 280-81 (3d Cir. 2000) (rejecting a requirement of bad faith because “culpable conduct comes in a variety of forms and may vary depending on the circumstances of a particular case” and requires “consideration of the equities in full.”); *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 961, 965 (7th Cir. 2010) (holding that a prevailing defendant must show that the plaintiff’s suit was “oppressive,” which determination may be based solely on whether a claim is objectively reasonable).

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8. Most courts assessing fees under the Lanham Act also do not (1) treat the relevant inquiry as a two-step process, wherein the courts have discretion only after exceptionality is determined; or (2) require proof of exceptionality by clear and convincing evidence. Moreover, no court of appeals has held that there is a presumption that a trademark infringement action was brought in good faith.

Similarly, the Eighth Circuit holds “[b]ad faith is not a prerequisite to a Lanham Act fee award,” and district courts should assess the “character” of the plaintiff’s case to determine whether it was “groundless, unreasonable, vexatious, *or* was pursued in bad faith.” *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987) (emphasis added). The Eighth Circuit’s approach thus permits an award of fees to a prevailing defendant based solely on the unreasonableness of the plaintiff’s claims and positions. Similarly, in *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997), the Ninth Circuit held that the mere absence of bad faith did not render a party ineligible for attorney fees if “other exceptional circumstances may warrant a fee award,” including whether the plaintiff’s claims were “groundless, unreasonable, [or] vexatious.” These circuits, therefore, view “unreasonable” as a circumstance both distinct from “groundless” and of sufficient weight to alone justify a fee award. Where a statute is designed to make mere partial restitution to a party, as opposed to a punitive award, it makes perfect sense to shift fees based solely on the maintenance of an unreasonable cause of action.

A smaller group of circuits—the Fourth, Sixth, Tenth, and D.C. Circuits—take a party-double-standard approach to the subjective bad faith requirement, but the disparity is the reverse of *Brooks*. Relying on legislative history, these circuits note that “in discussing fee awards to plaintiffs, [Senate Report No. 1400] speaks of acts characterized as ‘malicious, fraudulent, deliberate and willful,’” yet “[n]otably absent in the discussion relating to fee awards to prevailing defendants is language suggesting a requirement of bad faith.” *Scotch Whiskey Ass’n v. Majestic Distilling Co.*, 958 F.2d 594, 600 (4th Cir. 1992)



(quoting S. Rep. No. 93-1400 (2d Sess. 1974), reprinted in 1974 U.S.C.C.A.N. 7132, 7136-37). The Fourth Circuit reasons that a dual approach is proper because while “a prevailing plaintiff may receive, in addition to an award of attorney fees, compensatory damages, an accounting, and treble damages,” a “prevailing defendant who has been wrongfully charged of falsely designating origin has only one source of restitution, recovery of attorney fees.” *Id.* Thus, in stark contrast to the *Brooks* test, nearly all circuits reject a requirement of “bad faith” as a prerequisite for a fee award for prevailing *defendants* in trademark cases and some require it for plaintiffs.

Even those circuits that use a party-double-standard in trademark cases define “exceptional” in non-mandatory element terms; they permit flexible, open-ended inquiry into the totality of the circumstances. For example, the Fourth and D.C. Circuits require defendants to show “something less than bad faith.” *Schwartz v. Rent-A-Wreck Am. Inc.*, 468 Fed.Appx. 238, 255 (4th Cir. 2012) (“We must determine, in light of the entire case, whether defendants’ claims and assertions were so lacking in merit that the action as a whole was ‘exceptional.’”); *Noxell*, 771 F.2d at 526 (“Congress did not intend rigidly to limit recovery of fees by a defendant to the rare case in which a court finds that the plaintiff ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons’”); see also *Eagles, Ltd. v. Am. Eagle Found.*, 356 F.3d 724, 727-729 (6th Cir. 2004) (holding that an “exceptional” case was one that was “oppressive,” and that a variety of factors may be considered); *King v. PA Consulting Group*, 485 F.3d 577, 592 (10th Cir. 2007) (listing factors to be considered, including a catch-all “for other reasons as well,” and stating that “no one factor is dispositive”).

The Second, Fifth, and Eleventh Circuits adopt the minority view, requiring a showing of “bad faith,” but treating bad faith as a broad concept that encompasses the totality of the suit, rather than rigid satisfaction of anything akin to the subjective bad faith element of *PRE*’s “sham” litigation test. The Fifth Circuit, for example, affirmed the denial of fees where plaintiff’s infringement contentions were not so “implausible” as to infer bad faith. *Scott Fetzer Co. v. House of Vacuums*, 381 F.3d 477, 490-91 (5th Cir. 2004); *see also Tire Kingdom, Inc. v. Morgan Tire & Auto, Inc.*, 253 F.3d 1332, 1336 (11th Cir. 2001); *Universal City Studios, Inc. v. Nintendo Co.*, 797 F.2d 70, 77 (2d Cir. 1986).

Thus, the majority of circuit courts of appeals guide district courts’ equitable discretion in trademark cases according to a variety of non-restrictive factors. As aptly stated by the Third Circuit, “[b]y using the term ‘equitable considerations,’ we think it clear that Congress intended to invoke the tradition of equity, a hallmark of which is the ability to assess the totality of the circumstances in each case.” *Securacomm*, 224 F.3d at 281. Examples of the factors considered by district courts include: “groundless arguments, failure to cite controlling law, and generally oppressive nature of the case,” *Ji v. Bose Corp.*, 626 F.3d 116, 129 (1st Cir. 2010); the equities of visiting an award on a small business, whether the areas of law were unclear or there was a close legal question, or the extent of damages, *Tamko*, 282 F.3d at 32-33; economic coercion and the merits of the claims and assertions as a whole, *Schwartz*, 468 Fed.Appx. at 255; the foundation for the case, the extent of plaintiff’s bad faith in bringing the suit, the unusually vexatious and oppressive manner in which it was prosecuted, or “perhaps for other reasons as well,” *King*, 485 F.3d at 592.

The Federal Circuit’s interpretation of § 285 cannot stand next to the consensus among circuit courts of appeals’ interpretations of identical text in § 1117(a). The Lanham Act fee-shifting statute permits discretionary consideration of all relevant equitable circumstances in awarding fees. The same words cannot mean one thing in the trademark arena and another in the patent arena without specific statutory direction.

**C. The Legislative History of Section 285 Confirms Congress’s Intent to Confer Broad Discretion upon District Courts.**

The legislative history of § 285, though sparse, also supports Octane’s position. Prior to 1946, attorney’s fees could not be recovered by a prevailing party in a patent action. *Philp v. Nock*, 84 U.S. (17 Wall.) 460 (1873); *Teese v. Huntingdon*, 64 U.S. (23 How.) 2, 8-9 (1859). In 1946, Congress enacted 35 U.S.C. § 70, adding a discretionary fee provision to other remedies available in a patent case: “The court may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case.”<sup>9</sup> The Senate Report that accompanied the 1946 version of the statute described Congress’s understanding of a district court’s authority to award fees in patent cases as follows:

It is not contemplated that the recovery of attorney’s fees will become an ordinary thing in patent suits, but the discretion given the court in this respect, in addition to the present discretion to award triple damages, will

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9. This section was later re-codified at 35 U.S.C. § 285.

discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty. The provision is also made general so as to enable the court to prevent a gross injustice to an alleged infringer.

S. Rep. No. 79-1503, at 2 (2d Sess. 1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387.

In 1952, Congress re-codified and amended § 285 to read as follows: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 258. As explained by Congress, this amendment was not intended to create a stricter standard for fee awards, but instead was intended to clarify and endorse the already-existing statutory standard:

This section is substantially the same as corresponding provision in R.S. 4921, “in exceptional cases” has been added as expressing the intention of the present statute as shown by its legislative history and as interpreted by the courts.

S. Rep. No. 82-1979 (2d Sess. 1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2423. Subsequent case law confirmed that the 1952 amendment was not meant to work a substantive change. *See, e.g., Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688, 691 (Fed.Cir.), *cert. denied*, 469 U.S. 851 (1984) (“Cases decided under § 285 have noted that the substitution of the phrase ‘in exceptional cases’ has not done away with the discretionary feature.” (citations omitted)).

Between 1946 and 1952, there were several dozen lower court decisions interpreting and applying the former version of the statute, 35 U.S.C. § 70. These cases did not adopt a hard, specific test like the *Brooks* two-prong formula; rather, they treated the statute as granting the district courts discretion to consider a non-exhaustive and non-mandatory list of factors. One of the leading cases was *Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951):

The *exercise of discretion* in favor of such an allowance should be bottomed upon a finding of *unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust* that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear.

(emphases added) (citations omitted). In these cases, “gross injustice,” and hence fairness, was the hallmark, and restrictive two-prong tests were wholly unknown. *See, e.g., Laufenberg v. Goldblatt Bros., Inc.*, 187 F.2d 823 (7th Cir. 1951); *Lincoln Elec. Co. v. Linde Air Prods. Co.*, 74 F.Supp. 293 (N.D. Ohio 1947).

These early cases also repeatedly emphasized that the statute conferred authority over fee awards to the sound discretion of the trial court. *See, e.g., Blanc v. Spartan Tool Co.*, 168 F.2d 296, 300 (7th Cir. 1948) (the district court’s exercise of discretion “ends the matter”); *Orrison v. C. Hoffberger Co.*, 190 F.2d 787, 791 (4th Cir. 1951) (award of fees “lies in the sound discretion of the trial

court”); *Lincoln Elec.*, 74 F.Supp. at 294 (“discretionary power where it is necessary to prevent gross injustice”). Pre-1952 decisions were consistent as to discretion, but not in articulating the standard to channel discretion. Thus, they provide little guidance to what Congress intended by the phrase “as interpreted by the courts.” Faced with similarly inconclusive history, this Court in *Fogerty* stated:

Our review of the prior case law itself leads us to conclude that there was no settled “dual standard” interpretation of [the previous Copyright fee statute] about which Congress would have been aware.... This is hardly the sort of uniform construction that Congress might have endorsed.

510 U.S. at 532. *See also Kappos v. Hyatt*, 132 S. Ct. 1690, 1699 n.3 (2012) (cases before § 145 of Patent Act “too diverse’ to support clear inference of Congress’s intent); *Christiansburg*, 434 U.S. at 420 (same as to Title VII fee provision); *Noxell*, 771 F.3d at 526 (legislative history of Lanham Act fee provision not adequate to support requirement of subjective bad faith). This Court cautions against drawing definitive conclusions from such “sparse” legislative history. *Circuit City Stores v. Adams*, 532 U.S. 105, 120 (2001).

The only principle the cases and history confirm is intent to confer broad discretion to district courts. The 1946 Senate Report emphasized that the purpose of the statute was to confer “discretion” upon the district courts “to prevent a gross injustice to an alleged infringer.” S. Rep. No. 79-1503, at 2 (2d Sess. 1946), *reprinted in* 1946

U.S. Code Cong. Serv. 1386, 1387. To this purpose, the provision was “made general,” thus allowing district courts liberal discretion to identify “gross injustice to an alleged infringer.” *Id.*

**D. Decades of Prior Judicial Interpretation of § 285 Validates Use of Traditional Equitable Factors Rather than Strict Requirements.**

*Brooks* also departed from decades of judicial interpretation of § 285, stretching from the statute’s enactment to the creation of the Federal Circuit in 1982. The various circuits interpreted § 285 to permit a flexible inquiry into the merits of the claims, litigation misconduct, fraud before the Patent Office, and other circumstances evidencing unfairness, *or* bad faith. Some reasoned that the public has an interest in preventing abuse of patent monopolies, and that both accused infringers and the federal courts should be protected from “repetitive and burdensome assertion of patent claims.” *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 597 (7th Cir. 1971); *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002, 1007 (2d Cir. 1966). The Third Circuit opined that Congress enacted § 285 to award fees “[w]here it has been thought that the cost of instituting a lawsuit is not a sufficient deterrent against vexatious or oppressive litigation.” *Byram Concretanks, Inc. v. Warren Concrete Prods. Co. of N.J.*, 374 F.2d 649, 651 (3d Cir. 1967). Today, of course, that cost is *de minimus* for some patentees and hardly deters abusive patent litigation, whereas using the cost of defense to secure settlements to which plaintiffs are not entitled is a lure to bring such suits.

While the circuits articulated various standards for “exceptional” cases, ubiquitous was the use of flexible, open-ended inquiries that weighed the totality of circumstances, with some describing their analysis as such. *See, e.g., True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 509 (10th Cir. 1979) (reviewing the “totality of the evidence” to determine whether the misconduct was “so unfair and reckless as to make it unconscionable for the prevailing party to sustain the expense of counsel”); *Siebring v. Hansen*, 346 F.2d 474, 480 (8th Cir. 1965) (holding that fee awards should be “bottomed on a finding of unfairness *or* bad faith” and that the determination “*depends upon the facts and circumstances of each case*” (emphases added)).

Further, as with the Lanham Act, most circuits before 1982 considered bad faith to be merely one relevant factor among many, and not a prerequisite to a fee award. *See, e.g., Skil Corp. v. Lucerne Prods. Inc.*, 503 F.2d 745, 750 (7th Cir. 1974) (rejecting a requirement of fraud or bad faith to make a case exceptional, instead inquiring into whether the conduct was “unreasonable, without legal justification and caused gross injustice”); *Gen. Instrument Corp. v. Hughes Aircraft Co.*, 399 F.2d 373, 381 (1st Cir. 1968) (“[l]eaving bad faith aside,” and awarding prevailing defendant attorney fees when the evidence showed plaintiff committed an “exceptional oversight” and displayed serious “ineptitude”).

Again, like interpretations of § 1117(a) of the Lanham Act, the circuits that did search for bad faith nevertheless evaluated the totality of the circumstances, even permitting “bad faith” to be *inferred* from the lack of objective merit of the claims and litigation arguments. *See, e.g., Hughes*



*Aircraft Co. v. Messerschmitt-Boelkow-Blohm, GmbH*, 625 F.2d 580, 585 (5th Cir. 1980) (considering whether plaintiff's position was "arguable" enough to find bad faith); *Kahn v. Dynamics Corp. of Am.*, 508 F.2d 939, 945 (2d Cir. 1974) (plaintiff's "conduct [before the PTO] short of fraud and in excess of simple negligence", in addition to dilatory tactics and failure to address defendants' arguments of non-infringement, warranted fees). *Cf. Larchmont Eng'g, Inc. v. Toggenburg Ski Ctr.*, 444 F.2d 490, 491 (2d Cir. 1971) (insufficient showing of bad faith when plaintiff voluntarily dismissed its claims after discovery revealed their weaknesses).

Before the Federal Circuit existed, no appellate court used anything close to *PRE*'s "sham" litigation test in reviewing applications of § 285 to prevailing accused infringers. Before *Brooks*, even the Federal Circuit described the analysis more flexibly, using the word "or" rather than "and" to describe cases that could be deemed exceptional warranting fees, and listing exemplary factors rather than exclusionary elements. *See, e.g., Yamanouchi Pharm. Co. v. Danbury Pharm., Inc.*, 231 F.3d 1339, 1347 (Fed Cir. 2000) (in assessing exceptionality the "district court must look at the totality of the circumstances").

Pre-*Brooks* authority indicated a case was "exceptional" under § 285 if the district court determined that the totality of the circumstances made it exceptional. The courts were describing a traditional equitable inquiry, in which "[t]here [wa]s no precise rule or formula for making these determinations," and in which district courts were free to consider "several nonexclusive factors." *Fogerty*, 510 U.S. at 534 & n. 19. The Federal Circuit's stringent test, requiring both objectively baseless claims and subjective bad faith intent, is the antithesis of discretion and is nearly impossible to meet.

## II. Defining “Exceptional” in § 285 According to an Equitable Discretion Test Best Serves the Policies and Purposes of Section 285 and the Patent Act.

*Brooks* does violence to the policies and purposes for which § 285 was adopted. Congress enacted the Patent Act, 35 U.S.C. § 1, *et seq.*, including § 285’s fee-shifting provision, “[t]o promote the progress of...useful arts, by securing for limited times to...inventors the exclusive right to their...discoveries.” U.S. Const. art. I, § 8, cl. 8. Patents promote progress and innovation, but as this Court has also noted, “too much patent protection can impede rather than ‘promote the Progress of...useful Arts.’” *Bilski v. Kappos*, 130 S. Ct. 3218, 3255 (2010). There is a “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.” *Id.* at 3229. “It is as important to the public that competition should not be repressed by *worthless* patents as that the patentee of a really valuable invention should be protected in his monopoly.” *Lear, Inc. v. Adkins*, 395 U.S. 653, 663-64 (1969) (emphasis added). The guiding principle of the Patent Act is to strike “a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Equitable discretion in awarding fees is essential to strike the right balance “between stimulating innovation... and impeding progress.” *Bilski*, 130 S. Ct. at 3229. This Court recognized the need for such flexibility by repeatedly stressing the importance of avoiding rigid formulations in other areas of patent law. In the context of adjudicating patent disputes, this Court stated that

“[h]elpful insights...need not become rigid and mandatory formulas.” *KSR Int’l. Co. v. Teleflex Inc.*, 550 U.S. 398, 419 (2007) (rejecting “rigid approach” for obviousness determinations under § 103). Similarly, in rejecting the Federal Circuit’s presumption of irreparable harm for injunctions, this Court observed that “traditional equitable principles do not permit such broad classifications.” *eBay Inc. v. Mercexchange, LLC*, 547 U.S. 388, 393 (2006). The “obviousness analysis cannot be confined to a formalistic conception of the words teaching, suggestion and motivation,” *KSR*, 550 U.S. at 419, and “traditional equitable principles do not permit” rigid classifications, *eBay*, 547 U.S. at 393. Likewise, what constitutes an “exceptional” case warranting fees cannot be rigidly defined. *See also Fogerty*, 510 U.S. at 534 (“equitable discretion should be exercised” in light of the purposes of the Copyright Act).

Only the equitable discretion test can serve the goal of balancing the rights of patentees to protect their monopolies and the rights of accused infringers to be free from defending against claims that unreasonably stretch the boundaries of patents. The equitable discretion test serves the purpose of patent law—it dis-incentivizes assertion of unreasonably weak patent claims and adds risk to patentees who assert patent infringement litigation as a business model for coercing undue settlements.

**A. Eliminating Higher Fee Thresholds for Prevailing Accused Infringers Furthers the Goals of Patent Law.**

The overall good of granting a monopoly to a patentee, encouragement of innovation and promoting disclosure, outweighs the anticompetitive effects of a time-limited

monopoly. But “too much patent protection can impede rather than ‘promote the Progress of...useful Arts.’” *See Bilski*, 130 S. Ct. at 3255 (2010). For this reason, the ways in which a patentee may secure, 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). A construction of § 285 that permits or even encourages patentees to unreasonably stretch patent infringement claims results in undermining, not furthering, the goals of patent law. That is what occurred here—Icon claimed, without risk, that Octane’s dramatically different linkage infringed its valueless ‘710 linkage system. This amounts to over-reaching with its patent rights and results in anti-competitive effects.

In addition, by giving accused infringers an incentive to defend weak patent claims, holding out even the possibility of a fee award strengthens and bolsters the goals of patent protection. In *Fogerty*, this Court made the same observation with regard to copyright cases:

**[A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.**

*Fogerty*, 510 U.S. at 527 (emphasis added).

There is particular reason in patent cases to treat prevailing accused infringers and prevailing patentees fairly. A patentee can recover compensatory damages, treble damages and attorney fees, but an accused infringer can, at most, recoup reasonable attorney fees.

Setting the bar at objectively baseless or frivolous provides too much opportunity and incentive for plaintiffs to abuse the system. A fee award can never be a complete remedy, because it fails to compensate for the defendant's time or the competitive harm in the market caused by weak patent claims, but it can provide partial restitution. Subjective bad faith is not a pre-requisite to an award of reasonable attorney fees in most statutory schemes. *See, e.g.*, 17 U.S.C. § 505 (copyright); 42 U.S.C. § 1988 (civil rights actions); 42 U.S.C. § 3613 (fair housing actions); 15 U.S.C. § 1117(a) (trademark). Why should such a requirement be differentially imposed on patent defendants alone?

Legal scholars agree that fair application of § 285 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, e.g.*, 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, 1953 (2009) (fee shifting would help accused infringers of "junk patents" challenge validity, and would "align the parties' incentives to communicate with each other about the evidence that each has about the weaknesses in the other's case").

**B. More, Not Less, Discretion May Curb the Burgeoning Problem of Abusive Patent Litigation.**

According to a survey published in 2011 by the American Intellectual Property Law Association

(“AIPLA”), the median cost for a patent litigation in which the amount in controversy is from \$1-25 million, through just the *end of discovery*, is \$2.5 million. C.A. App. A2649. Some large companies know this, and, unfortunately, use patent litigation as a weapon against competitors, especially smaller competitors. Many smaller competitors do not have the financial resources or wherewithal to defend a patent infringement case, no matter how unreasonable the contentions. *See* Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. Rev. 509, 512 (2003) (weak patent cases are 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”). This Court, in *Bilski*, recognized the harm that results, as follows: “[P]atent holders may be able to...threaten litigation and to *bully* competitors, especially those that cannot bear the costs of a drawn out, fact-intensive patent litigation. That can take a particular toll on small and upstart businesses.” *Bilski*, 130 S. Ct. at 3256-57 (Stevens, J. concurring) (emphasis added).

Worse yet, there is almost no efficient way for an accused infringer to extract itself from unreasonably weak patent litigation. Patent infringement actions are rarely dismissed at the pleading stage. Often, before a defendant accused of infringement has any hope of extricating itself from litigation, substantial discovery (both fact and expert), *Markman* briefing and hearing, and summary judgment briefing and hearing, must occur. Here, that process took two years.

District courts are also burdened by meritless patent litigation. District court judges—who, in many instances, have no technical background and modest 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. No matter how preposterous the merits of the infringement case, to reach a resolution on the merits, the district court must expend significant scarce resources to decipher the claim scope and its impact on the merits. *See Eon-Net LP v. Flagstar Bancorp.*, 653 F.3d 1314, 1327 (Fed. Cir. 2011) (even meritless cases “require the district court to engage in excessive claim construction analysis before it is able to see the lack of merit of the patentee’s infringement allegations”). This very case illustrates this problem as it took years of litigation before the district court had the information that it needed to realize what was always true—Icon’s claims were so weak they did not warrant a trial. For these reasons, no matter how unreasonable the patentee’s contentions, it will be a rare district court judge who will be motivated to call a patentee’s claims “baseless” or “frivolous.” To do so would be understandably counterintuitive, especially when heading to an appellate court that routinely reverses district courts on fee awards as well as ordinary merits-based rulings.

This is reflected in case outcomes. In the last twenty years, the Federal Circuit almost never reversed the lower court’s *denial* of fees under § 285 to a prevailing *accused infringer*. It has never done so on the grounds that the district court *erred* in determining the case was not objectively baseless and/or brought in subjective bad faith.



On the other hand, trial courts finding the matter exceptional and awarding fees to prevailing accused infringers are few and far between, and reversals of such fee awards by the Federal Circuit notably common. *See, e.g., Checkpoint Sys., Inc. v. All-Tag Security S.A.*, 711 F.3d 1341 (Fed. Cir. 2013) (reversing fee award to prevailing accused infringer following a jury verdict of non-infringement, invalidity *and* unenforceability); *iLOR*, 631 F.3d at 1376-78 (reversing finding of exceptionality and award of fees to prevailing accused infringer); *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 966 (Fed. Cir. 2010) (same); *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1337–39 (Fed. Cir. 2009) (same); *FieldTurf Int’l, Inc. v. Sprinturf, Inc.*, 433 F.3d 1366, 1373 (Fed. Cir. 2006) (same); *Brooks*, 393 F.3d at 1381 (same); *Forest Labs.*, 339 F.3d at 1327-28 (same). Against this backdrop, it is not surprising district courts are reluctant to award fees.

Excluding cases involving patent procurement fraud, the few cases that affirmed a fee award since *Brooks* generally found some other misconduct which independently violated Rule 11, in addition to objective baselessness and subjective bad faith. *See* Fed. R. Civ. P. 11. For example, in *Eon-Net*, in addition to baseless litigation brought in subjective bad faith, the patentee engaged in Rule 11 misconduct, and the fee award was based on both § 285 and Rule 11. 653 F.3d at 1324. *See also MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 917-22 (Fed. Cir. 2012). Therein lies the problem. Fee awards in patent cases under § 285 essentially require a Rule 11 showing. Indeed, since *Brooks*, the Federal Circuit has affirmed a fee award premised solely on “sham



litigation” in only two cases, both decided *after* the case at bar. In *Highmark*, 687 F.3d at 1300, the Federal Circuit affirmed an award in part. *See also Taurus IP, LLC v. DaimlerChrysler Corp.*, 726 F.3d 1306, 1327 (Fed. Cir. 2013) (sham test satisfied).

In short, the Federal Circuit’s current interpretation of § 285 does not provide the appropriate level of deterrence to patent litigation abuse nor does it incentivize accused infringers to contest inappropriately weak patent infringement allegations. Congress enacted a broad grant of discretion to the district courts to curb abusive patent litigation by granting fee awards in the interest of justice. The Federal Circuit has all but abolished this discretion. Adoption of the equitable discretion test re-balances patent litigation as Congress intended.

**III. This Court Should Hold That Section 285 Requires District Courts to Exercise Discretion in Determining Fee Awards by Applying Traditional Equitable Factors, Guided by the Purposes of Patent Law, to Protect Legitimate Patent Rights in Reasonable Ways.**

The *Brooks* test is erroneous and should be rejected. This Court should adopt the equitable discretion test.

Requiring an objectively “baseless” or “sham” suit is a non-starter. Rare is the patent attorney who cannot craft *some* facially rational arguments and pay experts, as here, to support those arguments. This is especially true, because most cases involve directly related technologies where similarities at some level exist. Similarly, proving bad faith by clear and convincing evidence

is an insurmountable burden.<sup>10</sup> A patentee asserting unreasonably weak claims, but falling short of Rule 11 violations, should not be exempt from potentially paying the prevailing accused infringer's fees. The injustice that Congress intended to prevent occurs short of such extreme boundaries. District court judges are loath to hold that a lawyer violated Rule 11, filed a frivolous case, or acted in "bad faith." This Court should hold that a prevailing defendant need not prove the plaintiff pursued meritless, frivolous or objectively baseless claims, nor that the plaintiff acted in bad faith, to qualify for a fee award under § 285. In assessing whether a case is "exceptional," this Court should require district courts to exercise discretion by considering traditional equitable factors, guided by the purposes of patent law. A fee award is appropriate here, because viewing the circumstances as a whole through the prism of traditional equity demonstrates that Icon was not protecting legitimate patent rights in reasonable ways.

Section 285 is not restrictive. Instead, it enables district courts, in their discretion, to award fees in "exceptional" cases. The Federal Circuit's rigid, formulaic definition of "exceptional" should not be replaced with another equally inflexible judicial creation. Such an approach would neither effectuate the general, commonly understood language of the statute, nor comport with traditional equitable principles. Each patent case is uniquely complex. Flexibility is needed so district courts can evaluate the circumstances of each case and award

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10. Here, even rare email communications drafted by a high level executive and evidencing a motive inconsistent with asserting legitimate patent interests were not enough. J.A. 274a, 391a; SA-72.

fees in exceptional cases as equity directs. *See, e.g., Tamko*, 282 F.3d at 32 (holding a “case-specific multi-factored analysis” should be applied to award fees under the Lanham Act’s textually identical language). This asks of district courts nothing different than what they do every day in other areas of the law.

Guiding the determination should be the goals of the Patent Act, and the role of patent litigation in accomplishing those goals. *See* Section II, *supra*. The law expects patentees to resort to the courts to protect legitimate patent interests in reasonable ways. Section 271 of the Patent Act, in fact, guarantees patentees a remedy “by civil action” for infringement of patents. 35 U.S.C. § 271. But this remedy cannot be divorced from the substantive rights it is meant to protect. Patent protection embodies a “carefully crafted bargain” in which the inventor, in a patent, discloses “new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.” *Bonito Boats*, 489 U.S. at 150-51. If patent litigation is used, not to protect a legitimate patent interest, but to assert unreasonably weak patent claims as a tool to obtain money to which a patentee is not entitled, district courts must have the discretion provided by § 285 to award fees.

The circumstances of this case, particularly the very low likelihood of Icon’s success, are illustrative. Viewed through well-recognized principles of equity, Icon is a patentee who was not protecting legitimate patent interests in reasonable ways. Typically, the holder of a valuable patent brings to market, or licenses others to bring to market, a new technology or innovation; a

competitor recognizes the advantages and closely copies it or designs around it; litigation ensues. Patent litigation is meant for such normative circumstances.

That is not what occurred here. Icon developed a linkage technology that was unique but never commercially viable. J.A. 100a-108a; 117a. Rather than practice the ‘710 technology, Icon abandoned the patent to a “shelf.” *Id.*; J.A. 274a. There is not a shred of evidence that it had any value. Octane did not copy Icon’s patent in any way, because there was never a commercial product to copy and the technology did not work. Instead, Octane licensed visibly and dramatically different patented technology, some of which *pre-dated* the ‘710 patent. J.A. 109a-113a; SA-53-SA-71. Octane then made and sold award-winning elliptical machines. Octane’s success cut into Icon’s market share. Adding to the exceptional nature of this case, Icon noticed Octane’s success and used the worthless ‘710 patent to hit Octane with an exceptionally weak, but expensive to overcome, infringement lawsuit. It attempted to reap where it did not sow, epitomizing what is wrong with a restrictive interpretation of § 285—it incentivizes such conduct.

While there might be reasonable debate about whether Icon’s claims had *zero* merit, i.e., frivolous (Octane believes that is the case), there can be no reasonable debate that its claims were extremely weak. Visually and technologically, *see* Statement of the Case, *supra*, Octane’s machines lacked *multiple* elements, including (1) a stroke rail, (2) the parts needed to produce linear reciprocating motion (the c-channel and related linkage), *and* (3) linear reciprocating motion by *any* means, all of which comprised the patentable aspects of Icon’s ‘710

patent. Pet. App. 48a-61a; J.A. 123a. Octane’s linkage was not using any inventive concept of the ‘710 patent and Icon’s disavowal of the reasons the ‘710 patent issued and its use of abstract word games could not make it otherwise. For these reasons, both the district court and the Federal Circuit had *no difficulty* awarding and affirming summary judgment of non-infringement, both literal and under the doctrine of equivalents. Pet. App. 31a-61a; 1a-17a. And even if Icon had won the linguistic contests, it would have still failed—its claims would have been so broad as to render the patent invalid.<sup>11</sup>

Patent law does not require checking common sense at the courthouse steps. It is axiomatic that infringement must be judged against the claims of the patent, but claims cannot encompass what was not invented and disclosed in the patent. 35 U.S.C. § 112. Here, what was disclosed in the patent—the bargained for basis of a patent monopoly—was nothing like Octane’s linkage technology. Therefore, Icon resorted to a series of outlandish contentions regarding the *scope* of its claims. J.A. 81a-90a.

For example, Icon asserted that “linear reciprocating displacement” did not require straight line movement on the theory that a straight line can always be drawn between two points, no matter the shape of movement between two points. J.A. 93a-98a; SA-49-SA-52. Icon also took the position that arcuate motion is equivalent to “linear” motion, even though the ‘710 patent showed the

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11. Oddly, the district court and the Federal Circuit limited the fee issue to the strength of each discrete contention on which Icon lost. Under the equitable discretion test, a district court should also be able to consider the likelihood of *ultimate* success.

top of the stroke rail moving in a straight line and would not work otherwise. J.A. 215a-223a. Both the district court and Federal Circuit summarily rejected the argument, because it required reading “linear” out of the claim. Pet. App. 49a-53a; 6a-17a. The equitable discretion test would permit the district court to call this what it is—attempting to stretch the bounds of the ‘710 patent monopoly in ways that render its claim limitations meaningless. If a straight line is a curved line, there is no point to patent claims.

Because Octane’s linkage indisputably lacked a c-channel, Icon also argued that a c-channel was not required by its patent, Pet. App. 75a-76a; J.A. 223a-228a; C.A. App. A1050-A1056, even though its patent disclosed no other structure to constrain the top of the stroke rail to linear movement and its expert admitted the disclosed structure was necessary to performing the recited function. C.A. App. A1257-A1258. Icon attempted to overcome this hurdle by arguing that the mention of the c-channel in the specification as the “attaching means” ruled out its inclusion in the Claim 1(d) “means for connecting.” Pet. App. 10a. The Federal Circuit characterized this argument as “without merit,” in light of the patent disclosures and well-established law. *Id.* Again such linguistic deconstructions depart from protecting legitimate patent interests in reasonable ways. They represent *circumventing* the invention that the ‘710 patent actually disclosed. Camouflaging such tactics as inherent in the “complexity” of patent law defies common sense. Permitting district courts to define “exceptional” in § 285 according to the equitable discretion test would both discourage and remedy such abuse.

The equitable discretion test also would have permitted the district court to consider the exceptionality of a key fact—by not practicing the ‘710 technology for nearly 10 years before suing Octane, Icon had little to risk in the absence of a meaningful risk of a fee award. Non-practicing entities are “generally immune to counterclaims for patent infringement, antitrust, or unfair competition because [they do] not engage in activities.” *Eon-Net*, 653 F.3d at 1327-28. Thus, Icon risked nothing to subject its smaller competitor, Octane, to exorbitant litigation costs, even if the ‘710 patent were found invalid. Patent litigation abuse is on the rise, because the absence of risk, including the risk of a fee award, incentivizes the assertion of unreasonable claims and discourages defendants from litigating such claims to victory. These realities do violence to the goals of patent protection. The equitable discretion test would strengthen the patent system by making it fair.

Icon repeatedly told the lower courts that the fact that it did not practice the ‘710 technology was irrelevant, because every patent grants the right to exclude others. This misses the point. It is unreasonable to assert that Octane’s successful elliptical machines, licensed under a different patent disclosing a different linkage system, infringed technology that did not work and had no value. The fact that Icon’s patented technology did not work, had no value and was shelved begs the question—why did Icon go to the trouble to sue? The e-mails were direct evidence revealing that the lawsuit was using the huge cost of patent litigation as a weapon to obtain royalties to which it was not entitled and/or weaken a competitor who was cutting into Icon’s elliptical market share. The equitable discretion test allows consideration of these circumstances to the inevitable conclusion that Icon was not protecting legitimate patent interests in reasonable ways.

On top of this, Icon (1) initiated suit in an inconvenient forum by joining an Octane customer; (2) asserted a second patent, the asserted scope of which even the Eastern District of Texas rejected; (3) took broad discovery regarding *every* Octane product; (4) forestalled the district court's review of Octane's summary judgment motion; (5) recast arguments to effectively reargue rejected claim construction positions; and (6) represented that before suit it secured opinions from experts and counsel that the Q47 machine infringed its patent, without ever disclosing those opinions or even providing declaratory support. Documents that *were* produced included e-mail communications sent by the V.P. of Sales of Icon's Free Motion division. J.A. 274a, 391a; SA-72. That division competed with Octane and the e-mails attest to the fact that this suit was premised on a "shelf" patent, i.e., one not being commercialized, and represented "*throwing a lawsuit on top*" of a campaign against Octane. J.A. 274a; SA-72. The brazen tone of the emails is unmistakable.

The district court here assessed Octane's fee motion through the restrictive lens of the nearly impossible-to-satisfy "sham" litigation test. In effect, the district court held Octane to a "frivolous" standard. For example, the district court described Icon's individual claim construction arguments as "not objectively baseless" and not "frivolous." As to the size disparity and indicia of competitive motivation evidence, the district court, quoting *Brooks*, stated "[a] duly granted patent is a grant of the right to exclude all infringers, not just those of comparable size." Pet. App. 27a. According to the district court, the emails constituted "stray remarks," but "[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.” *Id.* “Neither is it relevant”, according to the district court, “that Icon never commercialized the ‘710 patent. Simply bringing suit to gain a competitive advantage is not evidence of bad faith.” *Id.* at 27a-28a. The equitable discretion test would have permitted the district to evaluate this evidence according to traditional equitable principles guided by the purposes of patent law and hold that this case *was* exceptional and fairness dictated fee shifting.

The outcome in this case exemplifies the injustice that burdens patent litigation and that has received considerable national attention. Section 285 should be interpreted to provide defendants, like Octane, with partial<sup>12</sup> restitution. The benefit to the patent system and the public is discouraging a much larger competitor, like Icon, from asserting a valueless patent against a much smaller competitor in an effort to use the high cost of patent litigation to get royalties to which it was not entitled. Had there been any evidence that Octane used Icon’s patented technology in some way, the result could be different. But, no evidence to this effect exists.

The *Brooks* test, coupled with the high mortality rate of fee awards to prevailing defendants in the Federal Circuit, prevented the district court from applying equitable considerations or probing deeper. The result was predictable and Icon knew this when it instituted suit. Viewed through well-recognized principles of equity, however, the facts indicate a patentee that was *not* protecting legitimate patent rights in a reasonable manner. This case fits the ordinary meaning of “exceptional” and a

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12. An award of fees can never fully compensate Octane for what it has lost.

fee award promotes the purposes of the Patent Act without unnecessarily discouraging patentees who would assert legitimate patent interests in reasonable ways. Patentees that invent, patent, and successfully bring technology to market will not be dis-incentivized in the least from bringing patent litigation against competitors that too closely copy their patented technology.

In *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 596-97 (1993), this Court viewed district courts as “gatekeepers” of admissible scientific evidence. Section 285’s grant of discretion is broad enough to permit a similar role for courts in identifying exceptional patent cases warranting fees. This case illustrates factors a court should consider in performing a gatekeeping role to dis-incentivize assertion of unreasonably stretched claims based on valueless patents. Other factors not present here but which might be relevant in other cases include, but are not limited to: (1) whether the case turned on an unsettled area of the law; (2) the closeness of the question whether a “design-around” infringed; (3) whether prior art invalidated a patent; (4) whether economic disparity counsels *against* fee shifting, or militates towards only partial fee shifting; (5) unreasonable procedural conduct<sup>13</sup>; and (6) whether the plaintiff engages in a pattern or practice of abusive patent litigation against others.<sup>14</sup> Regardless of the factors present in a case, there is no reason to believe that using traditional principles of equity and fairness to measure exceptional against

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13. There is evidence of this here. *See* Statement of Case, *supra*.

14. On this last factor, at a hearing on remand, Octane would offer evidence that Icon engages in such a pattern or practice.

the norm—legitimate patent interests being asserted in reasonable ways as intended by the patent law—will produce anything other than the just results intended by Congress in passing § 285.

Here, the bottom line is that anyone with a minimal understanding of patent law looking at the claims and disclosure of the ‘710 patent would recognize that Octane’s linkage is not related to or covered by the ‘710 patent. The patent infringement claims were so ridiculous as to alone warrant fees, but certainly the broader context shows this was not a patentee protecting legitimate patent interests in reasonable ways. Under the appropriate equitable discretion test, a *denial* of fees to Octane would have been an abuse of discretion.

Therefore, this Court should not only reverse the judgment below, but enter an order awarding fees to Octane and remanding to the district court for a determination of the amount. Normally, these decisions should be made first by district courts, but on the undisputed record here a fee award is appropriate. All patent appeals are heard by a single court that has a record of strongly discouraging fee awards to prevailing accused infringers. This Court is uniquely qualified to provide needed guidance to lower courts regarding § 285.

Alternatively, this Court should enter an opinion clarifying that the equitable discretion test is the appropriate tool to define exceptional in § 285, providing guidance to the district court on consideration of relevant factors, and remanding to the district court for further proceedings consistent therewith.

**CONCLUSION**

For the foregoing reasons, Octane Fitness, LLC respectfully requests that the Court REVERSE and enter an ORDER granting fees to Octane and REMAND for a determination of the amount or, in the alternative, REMAND to the District Court for consideration of Octane's entitlement to a fee award using traditional equitable factors and guided by the purposes of patent law to protect legitimate patent rights in reasonable ways.

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