Octane Fitness, LLC v. ICON Health & Fitness, Inc.
134 S. Ct. 1749 (2014)

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BACKGROUND

The respondent, ICON Health & Fitness, Inc. (ICON), owns a patent covering "an elliptical exercise machine that allows for adjustments to fit the individual stride paths of users."[1] The petitioner, Octane Fitness, LLC (Octane), manufactures exercise equipment including elliptical machines. ICON, sued Octane, claiming that Octane's elliptical machines infringed on its patent.

The district court granted Octane's motion for summary judgment, finding that the machines did not infringe on ICON's patent.[2] Octane then moved to recover attorney's fees under the fee-shifting provision of the Patent Act, which states that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."[3]

Historically, courts did not award attorneys' fees as stated in the "American rule." The American rule makes litigants each responsible for their own legal costs, regardless of which party triumphs.[4] In 1946, Congress amended the Patent Act, and gave the courts discretion to award attorneys' fees in patent litigation cases where the losing party exhibited egregiously willful or bad faith misconduct.[5] In 1952, Congress subsumed 35 U.S.C. § 70 into § 285 for clarification purposes, and formally included the fee-shifting provision for "exceptional cases." Thus, the recodified provision in § 285 was "'substantially the same as' § 70"[6] with its emphasis on the courts' discretionary powers to award fees.

Since 2005, the Federal Circuit[7] has veered away from its previous standard of reviewing the "totality of the circumstances"

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1. Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 1754 (2014).

2. ICON Health & Fitness, Inc. v. Octane Fitness, LLC, No. 09-319 ADM/SER, 2011 WL 2457914, at *1 (D. Minn. June 17, 2011).

3. 35 U.S.C. § 285 (2012).

4. *See* Marx v. General Revenue Corp., 133 S. Ct. 1166, 1175 (2013).

5. 35 U.S.C. § 70 (1946).

6. *Octane Fitness, LLC*, 134 S. Ct. at 1753 n.2.

7. Congress created the Federal Circuit in 1982 to have exclusive appellate jurisdiction in patent cases.

when making fee-shifting determinations and has relied instead on the more standardized and fixed formulation established in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*[8] In *Brooks Furniture*, the Federal Circuit held that a case may be considered exceptional if (1) there is litigation related misconduct of an independently sanctionable magnitude, or (2) it determines that the litigation was both brought in subjective bad faith and was objectively baseless.[9] A court could find that a case is objectively baseless "only if it is 'so unreasonable that no reasonable litigant could believe it would succeed,'" and subjective bad faith is exhibited "only if the plaintiff 'actually know[s]' that it is objectively baseless."[10] The court in *Brooks Furniture* ultimately held that the patentee did not exhibit subjective bad faith. Because neither "exceptional" situation was present, the Federal Circuit invalidated *Brooks Furniture*'s fee-shifting claim.

PROCEDURAL HISTORY

Originally, ICON sued Octane claiming Octane's elliptical exercise equipment infringed on its patents. Octane then filed a summary judgment motion asking for dismissal of the claim. After the district court granted Octane's motion for summary judgment, Octane moved for attorney's fees under 35 U.S.C. § 285. The the district court rejected the motion for attorney's fees, finding that the court could not justify fee-shifting under the *Brooks Furniture* standard. ICON appealed the summary judgment ruling, and Octane cross-appealed the fee-shifting denial. The Federal Circuit affirmed both decisions.

ISSUE

Whether the *Brooks Furniture* standard is consistent with the justification for allowing fee-shifting in exceptional cases under 35 U.S.C. § 285.

DECISION

The U.S. Supreme Court reversed the Federal Circuit's decision and remanded the case for further proceedings, holding that the *Brooks Furniture* standard is overly rigid and handicaps the district courts' fee-shifting power expressly granted in § 285.

REASONING

The Supreme Court began its analysis by reviewing the text of §

8. 393 F.3d 1378 (Fed. Cir. 2005).
9. *Id.* at 1381.
10. *Octane Fitness, LLC*, 134 S. Ct. at 1754.

285. Section 285 only imposes one constraint on district courts' discretion to award attorney's fees—courts can only grant attorney's fees in "exceptional" cases.

Since the Patent Act failed to define "exceptional," the Supreme Court settled on the ordinary, dictionary meaning—"unusual" or "rare." According to the Court's interpretation, an "exceptional case" is one distinguished by the "substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated."[11] The Court also felt that it is the district courts' prerogative to determine exceptional cases in the "case-by-case exercise of their discretion, considering the totality of the circumstances,"[12] without having to adhere to a strict, arbitrary rule.

The Court found the *Brooks Furniture* formulation too restrictive when taken together with § 285, which specifically allows for flexibility and court discretion in awarding attorney's fees. The stringent formula imposed by the Federal Circuit has no support in the statutory text of § 285, and removes the district courts' power to assign fees on a case-by-case basis.

The Court broke down its analysis into three factors that highlighted the incongruity of applying the *Brooks Furniture* paradigm to an inherently elastic statute that allows for greater judicial leeway.

I. SANCTIONABLE CONDUCT IS NOT THE APPROPRIATE BENCHMARK

If a court were to conform to the restrictive *Brooks Furniture* standard, it would be precluded from awarding fees in the rare case of a party's "exceptional" conduct, which—while not independently sanctionable—could still warrant fee-shifting as a disciplinary measure.

II. THE *BROOKS FURNITURE* TEST IS TOO DEMANDING

The Court found that the *Brooks Furniture* test was so demanding that it appears to make § 285 superfluous. The Court was reluctant to usurp the district courts' legislatively established responsibility to award fees in instances of misconduct or bad faith, and declined to construe the fee-shifting provision narrowly.

III. "CLEAR AND CONVINCING EVIDENCE" IS NOT THE APPROPRIATE STANDARD OF REVIEW

Brooks Furniture's exacting requirement for "clear and convincing evidence"[13] to obtain a favorable fee-shifting decision is

11. *Id.* at 1756.
12. *Id.*
13. *Id.* at 1758.

not affirmed by § 285. Section 285 does not articulate a specific burden of proof, and nothing in the statute justifies applying such a high burden. The Court noted that it has not found specific instances of this evidentiary burden imposed by other fee-shifting statutes. Patent-infringement litigation has always been governed by a "preponderance of the evidence" standard, and not by the high evidentiary standard imposed by *Brooks Furniture*.

In sum, the Court relied on the inherent integrity of § 285 and rejected any efforts to contradict or overreach a simple and straightforward interpretation of the statutory language. Knowing that the statute intended to give district courts the ability exercise discretion in granting attorney's fees based on a careful deliberation of all the facts, the Court chose to re-establish the right of district courts to allow fee-shifting instead of forcing them to mechanically follow a formula created through a prior case.