

No. 12-1184

IN THE
Supreme Court of the United States

OCTANE FITNESS, LLC,

Petitioner,

v.

ICON HEALTH & FITNESS, INC.,

Respondent.

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

REPLY BRIEF

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PARTIES TO THE PROCEEDING

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

The Defendant-below/Petitioner is Octane Fitness,
LLC ("Octane").

CORPORATE DISCLOSURE STATEMENT

Octane is wholly owned by OF Holdings, Inc.

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INTRODUCTION

The most compelling reasons to grant *certiorari* are left, in most all respects, unaddressed by the Respondent. First, the Federal Circuit's current exceptional case standard is squarely in conflict with this Court's holding in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), *see* Pet. 30, a case which Respondent does not even cite, much less discuss. *Fogerty* mandates that plaintiffs and defendants be treated alike under an analogous fee-shifting provision in the Copyright Act. Respondent claims an even-handed approach by the Federal Circuit here, but neither the differing language used by the Federal Circuit, nor the disparate fee awards between plaintiffs and defendants, support its assertion. Second, other circuits have interpreted *identical* language in the Lanham Act in a manner that conflicts with the Federal Circuit's interpretation here. *See* Pet. 36. Respondent does not address this conflict at all, let alone contest it. Third, Respondent does not dispute that the Federal Circuit's fee-shifting standard in patent cases is essentially coterminous with the standard for Rule 11 sanctions, rendering section 285 of the Patent Act a nullity. Finally, Respondent does not dispute the ballooning cost of patent litigation, the high incidence of meritless suits designed to extort licensing fees, or the salutary effect that section 285—properly interpreted—could have on combatting these trends, a point made earlier this week in an editorial piece in the New York Times. Randall R. Rader, *et al.*, Op-Ed., *Make Patent Trolls Pay in Court*, N.Y. Times, June 4, 2013, at A25. In short, this case has all the ingredients of a successful petition for *certiorari*.

Without any substantial challenge to the cert-worthiness of this case, Respondent resorts to inaccuracies and red herrings that only distract from the real issues. Respondent tries to label the dispute “fact-bound,” when, in fact, the question presented is legal: whether the Federal Circuit’s exceptional case standard is a proper interpretation of the Patent Act. And Respondent puzzlingly claims that this issue was not raised below, when it was clearly presented to and rejected by the Federal Circuit, and then presented again in an *en banc* petition. The rest of Respondent’s arguments go to the merits, and therefore—inaccuracies and unpersuasiveness aside—have no bearing upon *certiorari*.

ARGUMENT

I. The Decision Below Conflicts with *Fogerty*.

In *Fogerty v. Fantasy, Inc.*, this Court held that “[p]revailing plaintiffs and prevailing defendants are to be treated alike” for purposes of fee awards under the Copyright Act. 510 U.S. at 534. The Court rejected a “dual standard” that had treated plaintiffs more favorably. In so holding, the Court specifically noted that “*federal fee-shifting statutes in the patent and trademark fields ... support a party-neutral approach.*” *Id.* at 525 n.12. The Federal Circuit’s decision to treat plaintiffs more favorably defies this Court’s decision in *Fogerty*, and must be reversed.

Icon counters that the Federal Circuit’s standard “is the same for patent plaintiffs and defendants” and that it is Octane’s proposed interpretation that would expand the statute for prevailing defendants if bad faith were removed. Opp. 17. That is wrong. A prevailing

plaintiff can recover attorneys’ fees if it can show willful infringement—that the defendant was or should have been aware of an ***objectively high likelihood*** that the plaintiff would prevail. *In re Seagate Tech.*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*). By contrast, a prevailing *defendant* must show that a plaintiff “actually kn[e]w” that its case had “***no objective foundation***.” *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011); *see* Pet. App. 25a. While at times the Federal Circuit has described the subjective prong consistent with that used in the context of willful infringement, *see Highmark*, 687 F.3d 1300, 1309 (Fed. Cir. 2012) (citing *Seagate* for the same subjective standard), the second prong of the test is neither articulated nor applied on an even-handed basis. A plaintiff knowing, actually or recklessly, that its case has “no objective foundation” (a situation that would invoke Rule 11), is *not* the reciprocal of a defendant knowing, actually or recklessly, that the plaintiff has a “high likelihood of success” of showing infringement. And the disparity is borne out by the statistics: prevailing plaintiffs are *twice* as likely to win attorneys’ fees as prevailing defendants. Pet. 30.

Further, patentees must prove at least objective recklessness for a finding of *willful infringement*, but willful infringement is only one way to make a case “exceptional.” Courts should be able to look to the “totality of the circumstances” in the case of a prevailing patentee, just like Octane proposes for a prevailing defendant. Of course, if a prevailing patentee can also prove an infringer’s subjective bad faith, it may then be entitled to treble damages under 35 U.S.C. § 284, *in addition* to an award of attorneys’ fees under 35 U.S.C. § 285, as a punitive remedy. But an award of attorneys’ fees is separate.

II. The Exceptional Case Standard Conflicts with the Standard Adopted by other Circuits Interpreting an Identical Provision of the Lanham Act.

Just like the Patent Act, the Lanham Act provides that a “court in exceptional cases may award reasonable attorney fees to the prevailing party.” 15 U.S.C. § 1117. Several circuits have interpreted this provision in a manner that is *inconsistent* with the Federal Circuit’s interpretation of identical language in the Patent Act. For example, the Seventh Circuit has held that “bad faith is not the correct standard for determining whether to award attorneys’ fees to the defendant in a Lanham Act case.” *Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 126 F.3d 1028, 1031 (7th Cir. 1997). “[A] suit can be oppressive because of lack of merit and cost of defending even though the plaintiff honestly though mistakenly believes that he has a good case and is not trying merely to extract a settlement based on the suit’s nuisance value.” *Id.* at 1032. The Eighth Circuit has similarly held that “[b]ad faith is not a prerequisite to a Lanham Act fee award.” *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987) (citation omitted), and a number of other circuits agree, *Tamko Roofing Products, Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 32 (1st Cir. 2002); *Securacomm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 280 (3d Cir. 2000); *National Ass’n of Professional Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1147 (10th Cir. 2000); *Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F.3d 821, 827 (9th Cir. 1997); *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521, 526 (D.C. Cir. 1985). Thus, there is a clear circuit split on the proper standard for fee awards under the Patent Act and Lanham Act, a split neither intended by the Legislature nor practical in its application, (particularly in cases where both causes of

action are presented in the Federal Circuit). *Certiorari* is appropriately granted to resolve this conflict.

III. The Issue Was Properly Raised Below.

Respondent contends that this Court should deny the petition because Octane's arguments were not presented to the lower courts. That is demonstrably untrue. In the Federal Circuit, Octane specifically advocated for reconsideration of the Federal Circuit's interpretation of the exceptional case standard. It dedicated an entire section of its opening appeal brief to the argument that "Abuses in Patent Litigation Counsel for Reconsideration of the Judicially Created Standards for Determining Exceptional Case Status for Prevailing Alleged Infringers." *See* Octane Br., 2012 WL 481412, at 67-80 (Fed. Cir. Jan 27, 2012). In that 12-page section, Octane asked for reconsideration of the Federal Circuit's two-part objectively baseless/subjective bad faith test, in favor of an interpretation that would allow discretion to award fees where patentees proceeded unreasonably, without the need for a separate showing of subjective bad faith. Octane then petitioned for *en banc* review of that same issue. That was more than enough to preserve the argument for review. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 125 (2007).

Icon's assertion that the argument was not raised below, appears to center on Octane's specific use of the words "low likelihood of success" in its briefing to this Court versus its prior use of words like "objectively unreasonable" to describe what should qualify as an "exceptional case." But the basic point—made both below and in the petition—is that the "exceptional case" statute, while certainly not entitling every prevailing defendant

to fees, should not require a showing of baselessness on par with a Rule 11 violation (the Federal Circuit’s current articulation), and it should not require proof of subjective bad faith (the second prong of the Federal Circuit’s test derived from this Court’s ruling in the *PRE* case). *See, e.g.,* Octane Fed Cir. Br., 2012 WL 481412, at 74-76, 77-80. Instead, and consistent with the legislative intent and this Court’s precedent, district courts should have discretion to award fees to prevailing accused infringers on par with prevailing patentees: when the defendant shows that the patentee proceeded with a case unreasonably or in the face of a “low likelihood of success,” that should be sufficient to deem a case exceptional.

Thus the exact issue presented here was raised below. And even if the specific formulation of the standard now advocated here was not proposed below (though its substance was), that does not make review now improper: The “traditional rule is that once a federal claim is properly presented, a party can make any argument in support of that claim; parties are not limited to the precise arguments they made below.” *Lebron v. National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) (*quoting Yee v. Escondido*, 503 U.S. 519, 534 (1992) (internal quotations omitted)). The principle that an issue must be raised in the lower court in order to be preserved as potential grounds of decision in higher courts “does not demand the incantation of particular words; rather, it requires that the lower court be fairly put on notice as to the substance of the issue.” *Nelson v. Adams USC, Inc.* 529 U.S. 460, 469 (2000).

The sole case Icon cites does not hold otherwise. In *United States v. United Foods, Inc.*, 533 U.S. 405 (2001),

the Government, for the first time in its brief on the merits to this Court, argued that the advertisements at issue constituted “government speech” immune from the level of scrutiny that would otherwise apply. Its failure to make this argument in the lower court deprived the respondent and the lower court of the ability to address factual matters about the program which would bear on its categorization as “government speech.” *Id.* at 416-17.

Here, Octane is not raising new issues. It is asking this Court to consider whether or not the Federal Circuit’s rigid two-part test for labeling a case “exceptional” for a prevailing accused infringer is in accord with the statute, legislative intent and case precedent. This was the issue presented to the Federal Circuit, and the Federal Circuit decided “[w]e have no reason to revisit the settled standard for exceptionality.” Pet. App. 17a. While Octane may have refined the *wording* of the proposed standard for when a case is “exceptional” under section 285 to harmonize it with legislative intent and this Court’s precedent (i.e., “objectively unreasonable” or “low likelihood of success”), the issue has remained the same—the standard for an award of attorneys’ fees under section 285. That issue is properly presented here.

IV. Respondent’s Remaining Arguments, Though Incorrect, Are Irrelevant.

A. The Question Presented Is Legal, Not Fact-Bound.

Much of Icon’s brief is devoted to arguing about how the facts of this case allegedly fail to establish Icon’s subjective bad faith. This misses the point. The relevant

question is not whether Icon engaged in bad faith, but, instead, whether clear and convincing evidence of subjective bad faith should be a *requirement* for proving an exceptional case for an award of fees. As set forth above and in Octane’s opening brief, it should not.

Both the district court and the Federal Circuit found that Octane’s accused elliptical machines do not infringe the claims of the ‘710 patent as a matter of law. Octane provided some background facts merely to highlight the rigid nature of the Federal Circuit’s test and the difficulty of securing fees for a prevailing accused infringer, even when, as here, a party enforces a patent that it had sitting on the shelf, that was not commercially viable, and against a competitor with award-winning products utilizing a design licensed under different and pre-dating technology.

Although Icon calls these facts “extraneous” and argues the claim language controls, Icon does not, in its entire brief in opposition, reference the ‘710 patent’s claim language or discuss how the accused products could reasonably have been said to infringe those claims (because the allegation was groundless from the get-go).¹ Indeed, because Icon does not even dispute that its claim had an objectively low likelihood of success, this Court can regard that point as conceded for purposes of the petition. *See* S. Ct. R. 15.2. In any event, if this Court grants the petition, it need only clarify the proper standard for an

1. Instead, Icon argues that damning emails in the record were allegedly written by a Vice President of “Free Motion Fitness”, not “Icon.” While irrelevant to the *certiorari* petition, this assertion is also incorrect. The record below reflecting this executive’s status as an *Icon* witness is found at Octane Br., 2012 WL 1943711, at 21-22 (Fed. Cir. May 3, 2012).

exceptional case finding. If it feels there are factual issues relating to the application of that standard best left to the trial court in the first instance, it can remand for reconsideration in light of the corrected standard. That does not make the dispute “fact-bound.”

B. Decision in Octane’s Favor Would Not “Supplant” Congress’ Legislative Role.

Respondent urges that a decision in Octane’s favor would be a “legislative” act. It would not: Octane merely asks the Court to interpret the meaning of a phrase in the Patent Act. The Federal Circuit has misconstrued the meaning of an “exceptional case”; if this Court intervenes to correct that misconception, it will restore the law that Congress actually passed. That is at the heart of the judicial function. *See Armstrong Paint & Varnish Works v. Nu-Enamel Corp.*, 305 U.S. 315, 332-33 (1938).

The pendency of the SHIELD Act (I or II) also has no bearing on the cert-worthiness of this case. For starters, the bill is at a very preliminary stage: it has been referred to a House committee, which has not even voted on it. Further, the bills under consideration do not contemplate revision of the statute at issue here. Instead, they seek to address the perceived problems of “non-practicing entities” (“NPEs”), also known as patent trolls, and overly-broad computer-related patents. But NPEs are not the only entities to unscrupulously assert patents (as aptly illustrated here), and proper interpretation of the existing fee standard remains an important part of the equation for curbing abuse.

In any event, the proposed SHIELD Act II goes much further than anything Octane has advocated here. The proposed SHIELD Act II provides for the award of attorney fees, in a lawsuit brought by an NPE (with some exceptions), to the prevailing party ***unless*** the non-prevailing party’s “position and conduct ... were objectively reasonable and substantially justified” or where the exceptional circumstances make the award unjust.² SHIELD Act II, S.1013.

A presumption of an award of fees to the prevailing party is *not* the standard advocated by Octane here. Octane does not propose a presumption for fees. Rather, Octane contends that the standard articulated by the Federal Circuit, beginning with *Brooks Furniture*, has strayed from the statutory language and intent of Congress for an award of fees in “exceptional cases”; it is not consistent with this and other courts’ interpretation of the same statutory language in analogous fields (*i.e.*, Copyright and trademark law); and, contrary to Icon’s assertions, it does not treat prevailing plaintiffs and prevailing defendants the same.

2. Contrary to Respondent’s suggestion, *see* Opp. 20-22, amendments to SHIELD Act I’s fee provision in no way constitutes a rejection of Octane’s proposal here for interpretation of section 285. Congress *expanded* the availability of fees in a party-neutral way and, if anything, reflects Congress’ endorsement of an interpretation that prevents abuse in patent litigation. In any event, to the extent relevant at all, this is a merits argument, which the Court can address if it decides to grant *certiorari*; it is not a reason for denying review.

CONCLUSION

The Federal Circuit's present exceptional case standard is inconsistent with this Court's precedents, inconsistent with cases from other circuits, and wrong as a matter of statutory construction. It is also hugely important: the cost of patent litigation is skyrocketing. Pet. 24-25. According to the New York Times, Apple and Google, two of the world's top innovators, now spend more on patents and patent litigation than research and development.³ While part of this increase stems from the rise in meritless NPE litigation,⁴ patent abuse extends beyond the realm of NPEs. As exemplified here, because the Federal Circuit has made it virtually impossible for successful defendants to recover attorneys' fees both NPE's and others can assert weak patent claims to extract royalties and/or harm smaller competitors, without fear of having to pay fees to compensate the defendant in any way. This Court's intervention is sorely needed.

3. <http://www.nytimes.com/2012/10/08/technology/patent-wars-among-tech-giants-can-stifle-competition.html>.

4. Litigation by NPEs has increased from 19% in 2006, to over 60% today. C. Chien, *Patent Trolls by the Numbers*, Patently-O, Mar. 14, 2013. And suits filed by NPEs have a startlingly low success rate: Such entities win only 8% of the time when the suit is actually litigated to judgment (a rare occurrence), compared with a 40% success rate for companies that actually practice their patents. J. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L. J. 677, 693-694 (2011).

For the foregoing reasons, and the reasons stated in the petition, Octane Fitness, LLC respectfully requests that the Court grant the petition.

Respectfully submitted,

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