

No. 12-1184

IN THE
Supreme Court of the United States

OCTANE FITNESS, LLC,

Petitioner,

v.

ICON HEALTH & FITNESS, INC.,

Respondent.

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

REPLY BRIEF

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CORPORATE DISCLOSURE STATEMENT

The Rule 29.6 statement included in Octane's opening brief remains correct.

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INTRODUCTION

The flawed premise of Icon’s position is that Congress did not intend “exceptional” in §285 to have its plain meaning—uncommon. Instead, Icon argues “exceptional” is code for the requirement that, absent misconduct, fees may be awarded *only* in cases of sham litigation, i.e., bad faith **and** objectively baseless (zero merit) cases. For this worst-of-the-worst standard, Icon refers to cases decided between 1946 and 1952 and incorrectly asserts that they permitted fee awards “*if, and only if*, the court found that the suit was vexatious *and* unjustified.” Icon Br. at 1-2 (emphasis added). Out of myriad words used in the 1946-52 cases, Icon contends Congress “codified” those particular words and then makes the further leap that those words mean bad faith and objective baselessness. Icon’s tortured logic finds no support in §285, its legislative history, or the relevant case law interpreting it.

Icon further argues that any other interpretation of §285 is *unconstitutional* in view of *Prof’l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49 (1993). Icon Br. at 21-22. This position was rejected in *BE&K Constr. Co. v. N.L.R.B.*, 536 U.S. 516 (2002), and, if correct, would mean that fee statutes must incorporate *PRE*’s sham litigation standard to pass constitutional muster. Icon’s positions are meritless.

The 1946 legislative history of §70 made clear that discretion should be exercised so that fees would not be awarded ordinarily, but would be awarded to prevent gross injustice. As the United States has explained, the cases decided between 1946 and 1952 were true to these objectives. *See* U.S. Br. at 10-14. In 1952, Congress added the word “exceptional” to align the text with the

legislative history of §70, and the cases interpreting it. Congress intended fee awards to be uncommon, the result of discretion, based on consideration of the totality of the circumstances, and to prevent gross injustice to the prevailing party consistent with the purposes of the Patent Act. *Id.*

Congress did not intend fee shifting to be the result of bright-line, *per se* tests. Octane’s position, termed the “equitable discretion” test, is supported by several score of diverse amici, the United States and Chief Judge Rader of the Federal Circuit. *See Kilopass Tech., Inc. v. Sidense Corp.*, 738 F.3d 1302, 1318-20 (Fed. Cir. 2013) (Rader, C.J., concurring) (advocating “*return* to the rule that a district court may shift fees when, based on a totality of the circumstances it is necessary to prevent gross injustice”) (emphasis added).

This case underscores why the amici are incensed and why the current strict standard fails to prevent gross injustice as Congress intended and, in fact, encourages it. *See, e.g.*, Elect. Frontier Found. Br. at 4 & 8. Icon took a worthless patent on a simple, but unviable invention, construed its claims irrationally, and instituted abusive patent litigation to extract money from Octane, a start-up competitor selling a highly successful and visibly different elliptical machine licensed under a different patent. Octane Br. at 2-3, 8, & 51. In order to assert that Icon’s worthless patent covered Octane’s machines, Icon contended “stroke rail” meant a limitless number of parts, “linear” meant curved, and “c-channel” meant virtually any part. *Id.* at 51-53. Icon’s position was nonsensical and unreasonable, and it pegged the meter for an “uncommon” case causing gross injustice to Octane.

Constrained by *Brooks*, however, the district court ignored undisputed evidence, and even explained away damning email evidence as “stray” comments, despite the lack of record evidence to support that interpretation. Pet. App. at 26a-27a. The compartmentalized, high-threshold test did not allow consideration of all circumstances in equity.

Affirming would teach that the weakest of claims are *immune* from fee awards and embolden abusive, extortionate patent suits that weaken the patent system. On this undisputed record, reversal and remand with an order to determine the appropriate *amount* of fees is appropriate. This Court’s application of the correct standard would benefit future courts.

ARGUMENT

I. The Equitable Discretion Test Appropriately Channels Discretion Without Requiring “Objective Baselessness.”

The equitable discretion test is not “unfettered” and will not result in “a virtually automatic award” of fees in every case. *See* Icon Br. at 27.¹ As Octane explained in its opening brief, the “exceptional case” requirement prohibits courts from awarding fees “in the normal course,” while preserving their discretion to do so when equitable considerations warrant an “exception.” Octane Br. at 20. The sky will not fall if §285 means what it says. Under the Lanham Act, fee awards have never been

1. As support, Icon cites the “pre-*eBay* experience.” The logic is flawed, because the “pre-*eBay* experience” resulted from a judicially-created *presumption*, not the exercise of discretion. *See eBay, Inc. v. Mercexchange, LLC*, 547 U.S. 388 (2006)

the norm, despite the fact that not a single court has interpreted its identical fee-shifting provision to require sham litigation. *See id.* at 29-34. History teaches that district courts are both uniquely qualified and capable of applying the equitable discretion test and preventing gross injustice without precise prerequisites, similar to equitable judgment calls they make every day.

When considering a fee award under §285, district courts should be able to take into account the *degree* to which an argument is weak or unreasonable—in consideration with other factors—even if the argument is not completely frivolous. Nothing in the text, history, or purpose of §285 prohibits a court from considering the weakness of a party’s claim unless that claim is “objectively baseless.”

The district court decision here illustrates the flaws of the Federal Circuit’s restrictive approach: the court denied fees because Icon’s individual arguments on claim construction and infringement were deemed not “frivolous,” i.e., they were not as low as zero merit. Pet. App. at 19a-28a (using the word “frivolous” four times). Because Icon mustered *an* argument, the district court did not consider *how* unreasonable any argument was or the reasonableness of the case as a whole. This myopic analysis provides an excellent example that, in practice, “objective baselessness” devolves into a search for a single argument that at least gives the appearance of rising above zero merit. This approach is problematic for several reasons.

First, an “on/off” assessment of individual components in isolation misses that the whole can be greater than the sum of the parts. To prevail, Icon had to prove the accused elliptical machines met *every* element

of at least one claim of the patent.² While Octane believes that each of the infringement arguments were unreasonable, the combination of weak positions made Icon’s infringement position, as a whole, grossly unreasonable (*e.g.*, mathematically $20\% \times 20\% \times 20\% = 0.8\%$). And, Icon’s patent would have been invalid even had it prevailed on its unreasonable infringement positions because if Octane infringed, then Icon’s patent would cover virtually all variable stride elliptical machines. *See* Pet. App. at 15a-17a (discussing crowded field of art in which the ‘710 patent arose).

Second, evaluating “objectively baseless” in isolation, removes merits analysis from the broader context of the litigation, thereby preventing fee awards where merits weakness, *together with other relevant considerations*, indicate gross injustice. Reasonableness should be judged within the context of the controversy as a whole. Evidence of economic coercion is particularly relevant.³

2. Icon suggests that at least one of its positions was reasonable because early in the case, before Icon added the Q45 to its infringement contentions, Octane admitted the “stroke rail” limitation (claim 1(c)). Icon Br. at 11. “Stroke rail” was an undefined word in the patent, and Octane’s point was that even if you could call Octane’s actuator casting a “stroke rail” (as Icon contended), that part was not connected to the frame via a c-channel, and thus did not infringe in any event. Icon had the burden of showing every limitation was met. Octane did not have to establish every way in which it did *not* infringe. But, Octane ultimately challenged even that limitation and both the district court and the Federal Circuit agreed “stroke rail” was one of *several* missing limitations. Octane Br. at 51-52.

3. Even the cost of the litigation bears on this calculus. The amount of fees involved in some cases between 1946 and 1952 was about \$2,000. *National Brass Co. v. Michigan Hardware*

The cumulative weakness of Icon’s assertions coupled with undisputed facts proving (a) size disparity of the parties, (b) Icon’s failure to practice the patent, (c) the fact that Octane’s machines were award-winning and licensed under a different patent, (d) email evidence that the litigation itself was used as an unwarranted competitive weapon, and (e) other conduct in the litigation (e.g., bringing suit in California by joining a small Octane distributor), equals gross injustice if Octane has to spend \$2 million to prevail. Octane Br. at 8, 10-11, 13 & 51. The district court’s focus on “frivolous” missed the unreasonableness of the case as a whole and the injustice to Octane. In view of the undisputed record, reversal is warranted. *See, e.g., Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S.Ct. 2060, 2070-71 (2011) (applying new willful blindness standard to sufficiency of evidence in patent infringement case); *Ricci v. DeStefano*, 557 U.S. 557, 585-86 (2009) (applying new test under Title VII to summary judgment determination); *Rhode Island v. Innis*, 446 U.S. 291, 301-04 (1980) *amended by* 456 U.S. 942 (1982) (applying new “functional equivalent” test for interrogation under *Miranda* to facts).

Co., 75 F.Supp. 140, 141 (W.D. Mi. 1948) (\$1,960); *Hall v. Keller*, 81 F.Supp. 835, 836 (W.D. La. 1949) *modified by* 180 F.2d 753 (5th Cir. 1950) (\$2,500). Where the costs to defend are low, the system is predominantly self-regulating in that the accused infringer can afford to, and likely will, defend weak cases. The equation changes when the average cost to defend an infringement claim is, as it is now, approximately \$2,000,000, **a 99,900% increase** from the early period. Litigants asserting worthless patents can leverage that cost to extract monies to which they are not entitled because when the prospect of a fee award is slim-to-none there is no incentive to defend the suit.

Third, the “objectively baseless” prong asks courts to do something counterintuitive: declare that a case that required significant time and resources to learn the invention in the context of its field, decipher the claim scope and understand the parties’ respective positions as to both infringement and invalidity was, after all, frivolous and baseless. Holding courts to a frivolous standard also essentially implicates the attorneys under Rule 11, something courts are loath to do.

Excluding all but the most facially absurd and frivolous contentions collapses §285 with Rule 11 and the court’s inherent authority to sanction misconduct. *Octane Br.* at 25-27. *Icon* parses perceived distinctions between Rule 11, inherent authority of courts and §285, but both Rule 11 and/or inherent authority substantially reach the range of bad faith misconduct to which *Icon* would limit §285. Sham litigation is the most extreme form of litigation misconduct. Inherent authority always reached it for the purpose of merely awarding attorneys’ fees and if §285 reaches no further it serves no purpose.

Precise formulas, like *Icon*’s sham test, are the antithesis of discretion.⁴ *Octane Br.* at 19 (citing *Fogerty*,

4. *Icon* argues that “may” in §285 is superfluous if “exceptional” indicates discretion. *Icon Br.* at 24-26. *Icon* misunderstands the connection between discretion and “exceptional cases.” In his testimony before the House, the chamber that authored §285, Chief Patent Examiner P.J. Federico could not have been clearer: “[w]hat [the phrase ‘exceptional cases’] constitutes is left, and stays left to the discretion of the court.” *Patent Law Codifications and Revisions: Hearings Before Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82nd Cong. 109 (1951). Thus, reading §285 as a whole, “may” is not superfluous, because discretion permeates the inquiry as to whether the case is exceptional such that a fee award is warranted.

under the Copyright Act “*no precise rule or formula for making fee determinations*”). This Court explained why bright line, per se rules do not work in fee-shifting:

“One of the ‘good’ reasons for conferring discretion on the trial judge is the *sheer impracticability of formulating a rule* of decision for the matter in issue. Many questions that arise in litigation are not amenable to regulation by rule because they involve *multifarious*, fleeting, special, narrow facts that utterly resist generalization—at least, for the time being. The non-amenable of the problem to rule, because of the *diffuseness* of circumstances, novelty, vagueness, or similar reasons that argue for allowing experience to develop, appears to be a sound reason for conferring discretion on the [courts].”

Pierce v. Underwood, 487 U.S. 552, 561-62 (1988) (citation omitted) (quoting Professor Rosenberg); *see also Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 658 (1983) (Stevens, J., concurring) (wisdom of not precisely defining standard for §284). Courts recognize the relevance of other factors in a justice calculus. Octane Br. at 33. Nothing in the text or history of passage of §285 *prevents* consideration of *any* relevant circumstance that bears on fairness and justice

Section 285 serves a higher purpose than simple restitution to a wrongfully accused infringer—the larger objectives of the patent system. In *Sec. and Exchange Comm. v. C.M. Joiner Leasing Corp.*, 320 U.S. 344, 350-51 (1943), this Court stated that statutory construction rules are “subordinated to the doctrine that courts will construe

the details of an act in conformity with its dominating general purpose, will read text in the light of context and will interpret the text so far as the meaning of the words fairly permits so as to carry out in particular cases *the generally expressed legislative policy.*” (emphasis added). This is particularly true in fee statutes: “When applying fee-shifting statutes, ‘we have found limits in ‘the large objectives’ of the relevant Act, which embrace certain ‘equitable considerations.’” *Martin v. Franklin Cap. Corp.*, 546 U.S. 132, 139-40 (2005) (*quoting also Indep. Fed. of Flight Attendants v. Zipes*, 491 U.S. 754, 759 (1989)).

The goals of the Patent Act are furthered when (1) patent holders think twice before bringing weak patent claims; and (2) accused infringers have incentive to challenge the bounds of patents. Not even a month ago, the purposes of the patent system explained the result in *Medtronic v. Mirowski Family Ventures, LLC*, 134 S.Ct. 843, 851-52 (2014). This Court again noted the public’s “paramount interest” in striking the balance between monopoly power and patent scope, the impropriety of overreaching a patent’s boundaries to exact royalties and the importance of *incentivizing* the challenge of a patent’s scope. *Id.*; *see also GMC*, 461 U.S. at 655-56 (Stevens, J., concurring) (valuable, not worthless, patents deserve protection (citing *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892))). As noted in *Pope Manufacturing*, it is a public priority to provide economic incentive to challenge patents. 144 U.S. at 234; *see also* S. Rep. No. 79-1503, at 2 (2d Sess. 1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387 (“the discretion given the court . . . will 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” and it applies to accused infringers “to prevent a gross injustice.”)

II. Neither The First Amendment Nor The Purposes of §285 Require Sham Litigation.

Icon argues that Octane suffers from a “fiction” that *all* §285 awards must meet the sham test. Icon Br. at 23. What is “non-fiction” is that litigation misconduct and inequitable conduct—the only other two boxes of conduct warranting fee awards per the Federal Circuit—are very *narrow* and, in any event, both involve bad faith, which Icon misses. The catch-all category, the category in which this and by far most fee award issues arise, is governed by the sham litigation test and is therefore encouraging weak suits and allowing gross injustice to proliferate directly contrary to the intent of Congress. Litigants destroying documents or inventors committing fraud in patent applications is wrong but is not the primary source of abuse and injustice. What is left unaddressed and unremedied is the harm caused by overbroad assertion of weak patents often *coupled with* economic coercion and/or acts that raise defense costs without fitting neatly in the “litigation misconduct” slot. Neither the Constitution nor §285 require this result.

A. The First Amendment Is Not Offended By Fee Shifting In the Absence Of Sham Litigation

Absent specific “misconduct,” Icon claims the First Amendment requires sham litigation for an award of fees under §285. Icon Br. at 20 n. 9 and 22.⁵ If correct, no fee-

5. Inexplicably, Icon exempts the litigation misconduct and inequitable conduct boxes of the *Brooks* rule from the First Amendment. This makes no sense—neither renders the litigation itself unlawful and the burden on the right to petition is no less than in *Brooks*’s catch-all category.

shifting statute is constitutional. Fortunately, this Court already strongly indicated in *BE&K*, that fee statutes do *not* implicate the same First Amendment concerns as statutes which make it *unlawful* to bring an underlying action:

[N]othing in our holding today should be read to question the validity of common litigation sanctions imposed by courts themselves—such as those authorized under Rule 11 of the Federal Rules of Civil Procedure—***or the validity of statutory provisions that merely authorize the imposition of attorney’s fees on a losing plaintiff.***

536 U.S. at 537 (emphasis added); *see also Premier Elec. Constr. Co. v. Nat’l Elec. Contractors Ass’n, Inc.*, 814 F.2d 358, 373 (7th Cir. 1987) (holding First Amendment does not apply to fee-shifting statutes and rejecting argument that “sham” litigation is required to shift fees). Icon cites *BE&K* but ignores the above statement. This Court has already held that many fee-shifting provisions applicable to prevailing defendants do not require bad faith. *See Octane Br.* at 26; *see also Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 532–33 (1994). There is no reason to have a different rule in patent cases.

B. Section 285 Does Not Require Bad Faith.

Icon argues that the Federal Circuit’s use of *PRE*’s strict sham litigation test is appropriate, because “‘exceptional cases’ for purposes of §285 are cases involving . . . culpable conduct by a litigant.” Icon Br. at 21–22. While “culpable conduct” may be involved, Congress’s

focus was on preventing gross injustice *to the prevailing party*, not *penalizing wrongdoers*. Recently, the Federal Circuit reiterated that §285 “is *remedial* and for the purpose of compensating the prevailing party for the costs it incurred in the prosecution or defense of a case where it would be grossly unjust . . . to require it to bear its own costs.” *Kilopass*, 738 F.3d at 1313 (emphasis added). Hence, the totality of relevant circumstances includes culpable conduct, *if* it bears a causal nexus to the harm done to the prevailing party (often the case), but it is not the exclusive focus.

For this reason, focusing on subjective bad faith is the wrong inquiry and it should not be a condition precedent to fees. Icon gives this issue short shrift, even though it is half of the sham test. Icon arbitrarily equates “bad faith” with “vexatious,” one of the two terms Icon lifts from the many terms used by courts. But, even Icon admits “vexatious” means annoying or harassing (Icon Br. at 20); it is not a synonym for “subjective bad faith.” *See also*, *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412, 422 (1978) (“‘vexatious’ in no way implies that . . . bad faith is a necessary prerequisite to a fee award”).⁶ Harassment focuses on the impact on the victim, whereas bad faith focuses on the *mens rea* of the accuser. It would also allow a patent owner to readily shield itself from fees by finding a lawyer to issue a subjective opinion pre-suit—a tactic that Icon attempted in this case without even producing the opinion. The mindset of a patentee bears little relevance to prevention of a grossly unjust result to the wrongfully

6. Icon also misconstrues the other half of its equation: “unjustified.” *Pierce*, 487 U.S. at 564-66 (equating “justified” with reasonableness).

accused. This also explains why the majority of Circuits interpreting the same language in the Lanham Act do *not* require bad faith. Icon concedes those cases, but offers no explanation why patent cases deserve a different rule. Icon Br. at 36-39.

Icon relies on *Fogerty* to support a bad faith requirement in §285. Icon Br. at 35. On the contrary, *Fogerty* merely noted §285 for party-neutrality. 510 U.S. at 525 n.12. It did not, and had no reason to, prescribe conditions precedent to an award of fees under §285. *Id.*

The public policy interests at stake in defending patent suits also undermines Icon's insistence that §285 requires sham litigation to award fees. These interests were noted in Octane's Opening Brief, at 41-42, and herein, *supra* at I-B. This Court has interpreted other fee-shifting statutes in terms of whether the public policy of the overarching statutory scheme included a bias for or against fee awards. *Martin*, 546 U.S. at 136-40. The "private attorney general" doctrine was a critical factor in determining the standard for awarding fees to a plaintiff in a civil rights case, *Newman v. Piggie Park Enters.*, 390 U.S. 400, 402 (1968) ("vindicating a policy that Congress considered of the highest priority").

Although not equivalent to a civil rights violation, the benefit to the public resulting from encouraging accused infringers to challenge weak patents makes such a challenger a quasi-private attorney general. Congress struck the right balance in articulating a standard that makes fee awards uncommon, but not so rare that unscrupulous patent owners can unfairly stretch the boundaries of their rights by bringing weak patent cases without any risk of paying fees.

C. Section 273(f) Does Not Mandate A Strict Test

Responding to the United States' position, Icon argues that 35 U.S.C. §273(f) was unnecessary if §285 authorizes a fee award for anything less than sham litigation. Icon Br. at 28. That is incorrect. Section 273(f) reflects Congress's concern for abuse of a limited defense (secret prior commercial use), but it does *not* establish that reasonableness of a claim or defense could not be part of the §285 equation in other contexts. To the contrary, §273(f) reflects Congress's underlying understanding that a case *need not be* frivolous or brought in subjective bad faith in order to qualify as exceptional or justify a fee award. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3228 (2010) (relying on §273(f) to clarify the meaning of a prior-enacted provision of the Patent Act). Reasonableness of the claim or defense is *always* an important consideration in determining whether a case is exceptional; Congress made it dispositive in this one instance.

D. Neither the Presumption of Good Faith Nor the Clear and Convincing Standard of Proof Are Valid Appendages to §285.

Two corollary concepts are part and parcel of the sham litigation test articulated by the Federal Circuit in *Brooks*: “[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith,” and to overcome the presumption, sham litigation must be proven by “clear and convincing evidence.” *Brooks Furniture Mfg. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1382 (Fed. Cir. 2005); *see also* Octane Br. at 22-23. A panel of the Federal Circuit recently recognized the error of both the presumption *and* the requirement for clear and

convincing evidence. *Kilopass*, 738 F.3d at 1314-15 (tracing the origins of each and concluding both were erroneously imported into the §285 analysis).

Icon ignores the presumption entirely—the phrase “good faith” does not appear even once in its brief—and argues the clear and convincing standard of proof is not before this Court. Rule 14 provides “[t]he statement of any question presented is deemed to comprise **every subsidiary question fairly included therein.**” SUP. CT. R. 14 (emphasis added); *see also* SUP. CT. R. 24 (alternatively, the Court may consider any instance of plain error). Because the standard of proof is integral to the Federal Circuit’s sham test, it is a “subsidiary question fairly included therein.” SUP. CT. R. 14(1)(a); *see also* *Gross v. FBL Fin. Serv.*, 557 U.S. 167, 173 n.1 (2009) (holding that whether the burden of persuasion shifted was “threshold question” under Rule 14.1(a), even though the question was not expressly raised in the Question Presented section of the Petition).⁷ In any event, the Court retains discretion to address “questions outside the scope” of an order of certiorari “when resolution of those questions is necessary for the proper disposition of the case.” *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 246 n.12 (1981). The exercise of such discretion is appropriate here.

Icon claims that the clear and convincing standard is “rooted in the historical interpretation of §285 predating the formation of the Federal Circuit.” *See* Icon Br. at 42.

7. Octane’s Petition referenced the clear and convincing standard of proof as part of what makes fees unattainable for prevailing defendants under the Federal Circuit’s interpretation of §285. *See* Pet. at 26.

Octane has not unearthed a *single* pre-1982 decision that addressed the burden of proof applicable to §285. The three cases Icon cites used the word “clearly” in discussing §285. But, these cases did not reflect a reasoned rejection of the preponderance of the evidence standard in favor of the clear and convincing standard. They did not even definitively indicate that a heightened standard applied, as the word “clearly” was used ubiquitously in cases of the time period.

In civil cases the preponderance of the evidence standard is generally presumed absent Congressional direction otherwise. *See Grogan v. Garner*, 498 U.S. 279, 286 (1991) (in civil cases preponderance of the evidence standard is presumed absent Congressional direction otherwise). Here, Section 285 is silent on the issue of the applicable standard of proof. *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2240 (2011) (clear and convincing applicable to invalidity because of statutory presumption of validity embodied in §282). There are also no “particularly important individual interests or rights” at stake that would warrant a departure from the generally applicable preponderance standard. *Herman & MacLean v. Huddleston*, 459 U.S. 375, 390 (1983) (rejecting clear and convincing in securities fraud case; higher standard appropriate for important individual interests, like terminating parental rights).

III. Congress Used “Exceptional” To Clarify The Intention of §70 That Discretion Be Exercised To Prevent Gross Injustice Such That Fee Awards Not Be Common.

Icon ignores the plain meaning of “exceptional.” Instead, Icon attempts to sell the notion that “exceptional” was added to “overhaul” §70 and “codify” the “vexatious and unjustified” standard that it incorrectly asserts was embraced by the cases interpreting the 1946 fee-shifting provision between 1946 and 1952.⁸ Icon then draws a correlation to *Brooks*’s requirement of bad faith and objectively baseless, even though *Brooks*, itself, did not purport to be explaining the phrase “vexatious or unjustified.” The capstone flaw of Icon’s logic is its assertion that the *PRE* sham test is merely a concise restatement of a standard faithfully derived from decisions interpreting §70. There can be no serious question that rather than fidelity to the past, *Brooks* was a radical change of course for the Federal Circuit compelled, in its view, by

8. The only circuit case Icon cites in support of its “vexatious **and** unjustified” theory is *Am. Chain & Cable Co. v. Rochester Ropes, Inc.*, 199 F.2d 325 (4th Cir. 1952). See Icon Br. at 4-5, 18, 21, 38 n.14 & 40 (citing *Am. Chain* six times). But *Am. Chain* was decided in October 1952, three months **after** President Truman signed the revised Patent Act into law. A far more common formulation in the 1946-1952 cases was “vexatious **or** unjustified.” See Icon Br. at 4-6, 15-16, 18-19, 26, 38 n.14 & 40 (recognizing the far more common “or” formulation). The Federal Circuit itself has recognized that *Am. Chain* imposes an overly restrictive standard that does not comport with its own understanding of § 285. See *Pharmacia & Upjohn Co. v. Mylan Pharm., Inc.*, 182 F.3d 1356, 1359-60 (Fed. Cir. 1999) (reversing denial of fee award in part because district court applied an improper legal standard drawn from *Am. Chain*).”

PRE . Kilopass, 738 F.3d at 1319 (Radar, C.J., concurring) (*Brooks* “drastically altered this court’s jurisprudence regarding 35 U.S.C. § 285”).

The legislative history of §285 references the 1946-1952 decisions, but those cases contained diverse articulations of the standards used to guide discretion. What those decisions had in common was their recognition that (1) fees should be awarded only in unusual cases, and (2) that district courts should have broad, equitable discretion to award fees when necessary to prevent gross injustice to the prevailing party. *See generally* U.S. Br. at 10-14. As the Ninth Circuit explained in its influential and oft-cited decision in *Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951), §285 gave courts authority to address cases marked by “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 should be left to bear the burden of his own counsel fees.” None of the cases Congress referenced required *both* frivolousness and subjective bad faith as a requirement.⁹

9. Strangely, Icon repeatedly cites *Park-In-Theatres*—along with *Laufenberg v. Goldblatt*, 187 F.2d 823 (7th Cir. 1951)—in support of its “vexatious and unjustified” interpretation of the 1946-1952 cases. *See* Icon Br. at 4-5, 18, 20 38 n.14. But both cases could not be clearer that bad faith is *not* a standalone requirement for a fee award. *See Park-In-Theatres*, 190 F.2d at 142 (“unfairness *or* bad faith in the conduct of the losing party, *or* some other equitable consideration of similar force” (emphasis added)); *Laufenberg*, 187 F.2d at 825 (“vexatious *or* unjustified” (emphasis added)); *see also* U.S. Br. at 31 n.20 (citing other cases from 1946-1952 also making clear that bad faith is not independently required).

Several of the cases made it clear that equitable considerations, unreasonableness of the merits and the degree of justification for the overall suit were factors a court could consider. For example, the district court in *Park-In-Theaters* awarded fees because the case was brought on surmise and there were delay tactics, but the Court of Appeals reversed because there was no bad faith *in the sense that* there was “ample ground for a belief that the claim here in suit was sufficiently substantial to merit litigation.” 190 F.2d at 142-43. Absent from the analysis was a requirement of finding both “vexatious and unjustified,” much less “subjective bad faith” and “objectively baseless.” Also absent was an analysis of various factors in isolation rather than as a whole.

This Court does not need to ignore the plain meaning of “exceptional,” as Icon does, to conclude that Congress’s use of the term was meant to sharpen focus on the dual purposes of §70—uncommon and prevent gross injustice—expressed in §70’s 1946 legislative history. Specifically, the court decisions between 1946 and 1952 captured the spirit of §70. This spirit is found not in a particular term, but in the common teachings of the cases. First, gross injustice and fairness were the benchmarks and anything which bore on fairness could be considered. *See, e.g., Laufenberg*, 187 F.2d at 824-25; *Union Nat. Bank Of Youngstown, Ohio v. Superior Steel Corp.*, 9 F.R.D. 117, 119-20 (W.D. Pa. 1949) (considering pattern of coercive use of litigation to extract settlements and avoid adjudication of patents; looked at plaintiff’s history of litigation); *Nat’l Brass*, 75 F.Supp. at 141-42 (considerations of equity and good conscience). Second, the fee decision was a singular exercise of discretion. *See, e.g., 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”); *Blanc v. Spartan Tool Co.*, 168 F.2d 296, 300 (7th Cir. 1948) (exercise of discretion “ends the matter unless . . . there was a clear abuse of discretion”); *Phillips Petroleum Co. v. Esso Standard Oil Co.*, 91 F.Supp. 215, 217-18 (D. Md.) *aff’d* by 185 F.2d 672 (4th Cir. 1950). Third and most important, the quality of the merits was highly relevant. *See, e.g., Park-In Theatres*, 190 F.2d at 142-43 (“sufficiently substantial to merit litigation”); *Aeration Processes, Inc. v. Walter Kidde & Co.*, 177 F.2d 772, 773 (2nd Cir. 1949) (claim was “quite persuasive”); *Blanc v. Spartan Tool Co.*, 178 F.2d 104, 105 (7th Cir. 1949) (award of fees to prevailing accused infringer based on totality of circumstances and where patent invalid because consisted of a combination of known elements); *Hall*, 81 F.Supp. at 836 (W.D. La. 1949) (probable cause). *See also* U.S. Br. at 10-14.

Thus, to the extent the 1946-1952 cases evaluated the justification of the claims, they never equated “unjustified” with the extreme “objectively baseless” rubric crafted decades later. In a fee-shifting statute, “unjustified” signifies an inquiry into the unreasonableness of the contentions as a whole, not a rigid requirement of frivolousness or zero merit for individual claims. *Pierce*, 487 U.S. at 564-66 (equating “justified” with reasonableness, and making clear that to be reasonable, an argument must be more than “merely undeserving of sanctions for frivolousness”).

If nothing else, Icon’s argument must be rejected because Congress did not clearly indicate that it intended to codify the “vexatious and unjustified” standard advocated by Icon. *See, e.g., Fogerty*, 510 U.S. at 531 (“no settled [standard] interpretation”); *Pierce*, 487 U.S. at 567 (no consistent judicial interpretation). The general thrust

and wording of the 1946-1952 cases is consistent with the meaning of “exceptional,” i.e., uncommon. To the extent that Icon is suggesting that Congress had the specific intention to ratify particular words from those cases, to the exclusion of many other words used therein, this Court has rejected such attempts. *See, e.g., Pierce*, 487 U.S. at 566-67 (authoritative expression required); *compare Lorillard v. Pons*, 434 U.S. 575, 581 (1978) (Congress exhibited detailed knowledge of judicial interpretations), *with Fogerty*, 510 U.S. at 530-31 (passing reference to prior case law lacked sufficient clarity).

Finally, in *GMC*, this Court stated that §285 “was merely ‘reorganization in language [in §70] to clarify’” §70 and “exceptional cases” was added “for purposes of clarification only.” 461 U.S. at 653 n.6 & 8 (emphasis added) (quoting, 1952 legislative history). This is, of course, supported by the legislative history statement that §285 was “substantially the same” as §70. S.Rep. No. 82-1979, at 30 (2d Sess. 1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2423. Codification of the sham litigation test is not mere “clarification” and is certainly not the “same” as the 1946 fee statute. *GMC*’s *dicta* is supported by the testimony of Chief Patent Examiner P.J. Federico that “exceptional cases” did not change any aspect of the discretion courts enjoyed under §70. P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc’y 161, 216 (1993).

In sum, there is no basis for concluding that when Congress used “exceptional,” it intended to codify the strictest of tests that requires the establishment of two elements as the outer limits of a court’s discretion to award fees under §285. If that is what Congress had in mind it would have said so, and the Federal Circuit erred

in rewriting the statute to impose rigid and restrictive requirements unsupported by its text or purpose. *See Bilski*, 130 S. Ct. at 3226 (“This Court has more than once cautioned that courts should not read into the patent laws limitations and conditions which the legislature has not expressed.”) (quotation marks and citations omitted). Icon’s view of §285’s use of “exceptional” makes no sense in a remedial statute designed to prevent gross injustice and further the purposes of the patent system. It is counterintuitive to the plain meaning of the term, and it should be rejected.

CONCLUSION

For the foregoing reasons, Octane asks that this Court reverse and remand with an order to determine the *amount* of fees. Alternatively, Octane requests that this Court reverse and remand with an order to determine whether fees are warranted under Section 285, consistent with this Court’s opinion.

Respectfully submitted,

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