Will a Minnesota Patent Lawsuit Lead to Meaningful Reform?

By Dan Hall

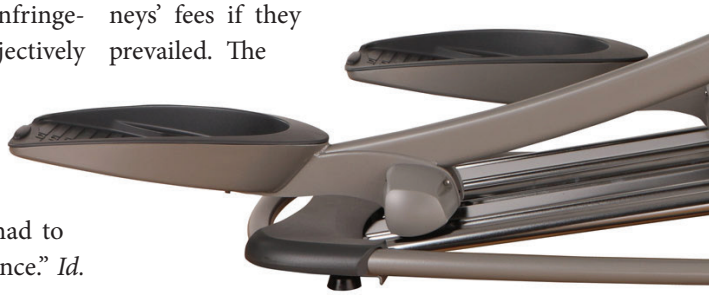
A recent Minnesota lawsuit between competing manufacturers of fitness equipment may have far-reaching implications on patent lawsuits for years to come. In 2009, Icon Health & Fitness, Inc. sued Octane Fitness, LLC in federal court in Minnesota. After the district court granted Octane Fitness's motion for summary judgment of non-infringement, Octane Fitness moved for an award of its attorneys' fees. The district court, applying the existing standard for awarding fees, denied the motion. Eventually, the dispute reached the U.S. Supreme Court. Earlier this year, the Supreme Court issued its decision in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.,* 134 S. Ct. 1749 (2014), overturning existing case law and establishing a new standard for awarding fees in patent disputes.

The *Octane Fitness* decision was issued at a time of renewed interest in the appropriate balance necessary for an effective patent system. There is an inherent tension between encouraging innovation by granting a monopoly to inventors and ensuring that the general public can use and benefit from the resulting knowledge and technology. Too little protection removes the incentive to invest in research and development because others can simply copy technology without paying to develop it. Too much protection deprives the public of the benefits of innovation by discouraging competition and removing technology from the public domain. Recently, calls for reform have focused on certain non-practicing patent owners, often called patent trolls, who have upset this balance by asserting suspect patent claims and relying on the high costs of defending infringement lawsuits to coerce defendants to settle rather than face a lengthy and expensive court battle.

The legal issue in *Octane Fitness* concerned the interpretation of a federal statute that provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. Under the prevailing standard articulated by the U.S. Court of Appeals for the Federal Circuit, a case was exceptional and attorneys' fees were available only where there was "material inappropriate conduct" such as willful infringement or where the litigation was both subjectively brought in bad faith and objectively baseless. *Brooks Furniture Mfg., Inc. v. Dutalier Int'l, Inc.,* 393 F.3d 1378, 1381 (Fed. Cir. 2005). Proof of the exceptional circumstances justifying attorneys' fees had to be shown by "clear and convincing evidence." *Id.* at 1382.

The federal circuit's standard did little to discourage the abuses perpetrated by some unscrupulous patent owners. These patent owners, who often did not make or sell products incorporating their patented technologies, had little reason to fear that they would have to pay anything more than their own costs for bringing a patent lawsuit even if the lawsuit lacked merit. To obtain attorneys' fees, a defendant generally had to establish both that the plaintiff had asserted a patent in a manner that was so frivolous that "no reasonable litigant" could have believed that the litigation would succeed and the plaintiff actually knew that the claims were baseless. *iLOR, LLC v. Google, Inc.,* 631 F. 3d 1372, 1378 (Fed. Cir. 2011). In practice, few cases met this standard.

Although the disincentives for asserting a claim were low, there were strong incentives for a defendant to settle even if the defendant doubted the merits of the lawsuit. Patent litigation is complex and expensive. According to the 2013 economic survey by the American Intellectual Property Law Association, patent cases with less than $1 million at stake cost an average of nearly $1 million to litigate. Cases with more at stake can cost many times more. Beyond the costs of litigating, a defendant could also face a substantial damages award, including the possibility of being ordered to pay enhanced damages up to three times the actual damages award. 35 U.S.C. § 284. Moreover, in contrast to the relatively high standard for obtaining fees from a patent owner for bringing a baseless patent lawsuit, a patent plaintiff could show that a case was exceptional for the purpose of obtaining attorneys' fees by establishing, by clear and convincing evidence, that the defendant had willfully infringed a valid patent. As a result, plaintiffs could coerce settlements, even in weak cases, based on the high cost of litigating patent cases combined with the threat of obtaining extensive damages awards and attorneys' fees if they prevailed. The



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imbalance in the incentives to pursue cases encouraged abusive litigation.

Octane Fitness provided an opportunity for the Supreme Court to adjust the balance between these incentives. In the underlying case, the district court denied the motion for fees by applying the existing standard requiring both objective baselessness and subjective knowledge that the case was meritless and the federal circuit affirmed. The Supreme Court reversed. The Supreme Court held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated." *Octane Fitness, LLC,* 134 S. Ct. at 1756. In contrast to the rigid framework applied by the federal circuit, the Supreme Court emphasized that this is a discretionary inquiry that is decided based on the lower preponderance of the evidence standard based on the circumstances of each case. *Id.* at 1758.

The Supreme Court's decision in *Octane Fitness* may lead to meaningful reform. Lowering the barrier to show that a case is exceptional for the purpose of obtaining attorneys' fees may discourage plaintiffs from bringing doubtful cases to avoid being forced to pay their opponents' legal fees. Although the Supreme Court emphasized that fees should only be awarded in *exceptional* cases, it remains to be seen whether the lower barrier to obtaining fees will discourage plaintiffs with legitimate claims from pursuing them in court. Regardless of how the district court ultimately decides Octane Fitness LLC's claim, patent trolls now have reason to pause before filing suit.