Supreme Court of the United States

OCTANE FITNESS, LLC v. ICON HEALTH & FITNESS, INC.

Argued February 26, 2014
Decided April 29, 2014

JUSTICE SOTOMAYOR delivered the opinion of the Court.

Section 285 of the Patent Act authorizes a district court to award attorney's fees in patent litigation. It provides, in its entirety, that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U. S. C. §285. In *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.,* 393 F. 3d 1378 (2005), the United States Court of Appeals for the Federal Circuit held that "[a] case may be deemed exceptional" under §285 only in two limited circumstances: "when there has been some material inappropriate conduct," or when the litigation is both "brought in subjective bad faith" and "objectively baseless." The question before us is whether the *Brooks Furniture* framework is consistent with the statutory text. We hold that it is not.

I

A

Prior to 1946, the Patent Act did not authorize the awarding of attorney's fees to the prevailing party in patent litigation. Rather, the "American Rule" governed: "'[E]ach litigant pa[id] his own attorney's fees, win or lose . . . .'" In 1946, Congress amended the Patent Act to add a discretionary fee-shifting provision, then codified in §70, which stated that a court "may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case."

Courts did not award fees under §70 as a matter of course. They viewed the award of fees not "as a penalty for failure to win a patent infringement suit," but as appropriate "only in extraordinary circumstances." The provision enabled them to address "unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force," which made a case so unusual as to warrant fee-shifting.

Six years later, Congress amended the fee-shifting provision and recodified it as §285. Whereas §70 had specified that a district court could "in its discretion award reasonable attorney's fees to the prevailing party," the revised language of §285 (which remains in force today) provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." We have observed, in interpreting the damages provision of the Patent Act, that the addition of the phrase "exceptional cases" to §285

was "for purposes of clarification only." And the parties agree that the recodification did not substantively alter the meaning of the statute.

For three decades after the enactment of §285, courts applied it—as they had applied §70—in a discretionary manner, assessing various factors to determine whether a given case was sufficiently "exceptional" to warrant a fee award.

In 1982, Congress created the Federal Circuit and vested it with exclusive appellate jurisdiction in patent cases. In the two decades that followed, the Federal Circuit, like the regional circuits before it, instructed district courts to consider the totality of the circumstances when making fee determinations under §285.

In 2005, however, the Federal Circuit abandoned that holistic, equitable approach in favor of a more rigid and mechanical formulation. In *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.,* 393 F. 3d 1378 (2005), the court held that a case is "exceptional" under §285 only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Id.,* at 1381. "Absent misconduct in conduct of the litigation or in securing the patent," the Federal Circuit continued, fees "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." *Ibid.* The Federal Circuit subsequently clarified that litigation is objectively baseless only if it is "so unreasonable that no reasonable litigant could believe it would succeed," and that litigation is brought in subjective bad faith only if the plaintiff "actually know[s]" that it is objectively baseless.

Finally, *Brooks Furniture* held that because "[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith[,] . . . the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence."

B

The parties to this litigation are manufacturers of exercise equipment. The respondent, ICON Health & Fitness, Inc., owns U. S. Patent No. 6,019,710 ('710 patent), which discloses an elliptical exercise machine that allows for adjustments to fit the individual stride paths of users. ICON is a major manufacturer of exercise equipment, but it has never commercially sold the machine disclosed in the '710 patent. The petitioner, Octane Fitness, LLC, also manufactures exercise equipment, including elliptical machines known as the Q45 and Q47.

ICON sued Octane, alleging that the Q45 and Q47 infringed several claims of the '710 patent. The District Court granted Octane's motion for summary judgment, concluding that Octane's machines did not infringe ICON's patent. Octane then moved for attorney's fees under §285. Applying the *Brooks Furniture* standard, the District Court denied Octane's motion. It determined that Octane could show neither that ICON's claim was objectively baseless nor that ICON had brought it in subjective bad faith. As to objective baselessness, the District Court rejected Octane's argument that the judgment of noninfringement "should have been a foregone conclusion to anyone who visually inspected" Octane's machines. The court explained that although it had rejected ICON's infringement arguments, they were neither "frivolous" nor "objectively baseless." The court also found no subjective bad faith on ICON's part, dismissing as insufficient both "the fact that [ICON] is a bigger company which never commercialized the '710 patent" and an e-mail exchange between two ICON sales executives, which Octane had offered as evidence that ICON had brought the infringement action "as a matter of commercial strategy."

ICON appealed the judgment of noninfringement, and Octane cross-appealed the denial of attorney's fees. The Federal Circuit affirmed both orders. In upholding the denial of attorney's fees, it rejected Octane's argument that the District Court had "applied an overly restrictive standard in refusing to find the case exceptional under §285." The Federal Circuit declined to "revisit the settled standard for exceptionality."

We granted certiorari and now reverse.

II

The framework established by the Federal Circuit in Brooks Furniture is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.

A

Our analysis begins and ends with the text of §285: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for "exceptional" cases.

The Patent Act does not define "exceptional," so we construe it " 'in accordance with [its] ordinary meaning.' " In 1952, when Congress used the word in §285 (and today, for that matter), "[e]xceptional" meant "uncommon," "rare," or "not ordinary." Webster's New International Dictionary 889 (2d ed. 1934); see also 3 Oxford English Dictionary 374 (1933) (defining "exceptional" as "out of the ordinary course," "unusual," or "special"); Merriam-Webster's Collegiate Dictionary 435 (11th ed. 2008) (defining "exceptional" as "rare").

We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is "exceptional" in the case-by-case exercise of their discretion, considering the totality of the circumstances. As in the comparable context of the Copyright Act, " '[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.' "

B

1

The Federal Circuit's formulation is overly rigid. Under the standard crafted in *Brooks Furniture,* a case is "exceptional" only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both "brought in subjective bad faith" and "objectively baseless." This formulation superimposes an inflexible framework onto statutory text that is inherently flexible.

For one thing, the first category of cases in which the Federal Circuit allows fee awards—those involving litigation misconduct or certain other misconduct—appears to extend largely to independently sanctionable conduct. But sanctionable conduct is not the appropriate benchmark. Under the standard announced today, a district court may award fees in the rare case in which a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so "exceptional" as to justify an award of fees.

The second category of cases in which the Federal Circuit allows fee awards is also too restrictive. In order for a case to fall within this second category, a district court must determine both that the litigation is objectively baseless and that the plaintiff brought it in subjective bad faith. But a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award. * * *

2

We reject Brooks Furniture for another reason: It is so demanding that it would appear to render §285 largely superfluous. We have long recognized a common-law exception to the general "American rule" against fee-shifting—an exception, "inherent" in the "power [of] the courts" that applies for " 'willful disobedience of a court order' " or "when the losing party has 'acted in bad faith, vexatiously, wantonly, or for oppressive reasons . . . .' " We have twice declined to construe fee-shifting provisions narrowly on the basis that

doing so would render them superfluous, given the background exception to the American rule, and we again decline to do so here.

3

Finally, we reject the Federal Circuit's requirement that patent litigants establish their entitlement to fees under §285 by "clear and convincing evidence," *Brooks Furniture,* 393 F. 3d, at 1382. We have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence. And nothing in §285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard, and that is the "standard generally applicable in civil actions," because it "allows both parties to 'share the risk of error in roughly equal fashion.'"

* * *

For the foregoing reasons, the judgment of the United States Court of Appeals for the Federal Circuit is reversed, and the case is remanded for further proceedings consistent with this opinion.