

# Octane Fitness: The Importance of IP Insurance to Afford Litigation

After six long years of litigation, the United States (“U.S.”) Supreme Court unanimously found in favor of IPISC’s insured, Octane Fitness, LLC (“Octane”), and reversed the judgment of the U.S. Court of Appeals for the Federal Circuit, which had denied Octane’s motion for Attorney’s fees. The U.S. Supreme Court rejected the previous rigid standard for awarding Attorney’s fees, and remanded the case back to the District Court to determine if the case was “exceptional” considering the totality of the circumstances.

Icon Health & Fitness (“Icon”), the adversary, is the largest manufacturer of exercise equipment in the world, with a stable of related patents. For over six years, Octane sold a very successful line of high-end, elliptical machines for use in commercial fitness centers. Icon filed a complaint alleging patent infringement against Octane. In internal emails uncovered during litigation, Icon discussed Octane’s success, and bantered that it was pulling an old patent off the shelf to sue the smaller, successful Octane to extract royalties out of them.

The nature of Icon’s patent was directed to an elliptical machine that had an important part that moved in a straight line– a “linear path.” Octane’s successful machines had no such part. In fact, a quick review of Octane’s elliptical machines, as compared to the embodiment shown in the patents, revealed that Octane’s machines were nothing like Icon’s patented machines. Yet Icon hired clever lawyers that argued that a linear path simply means an imaginary straight line between a starting point and an end point, and that the actual path through which the part moved could be curved, and did not have to be linear. Needless to say, the District Court disagreed, and dismissed the case by summary judgment, thus denying Octane’s motion for attorney’s fees. The District Court initially denied Octane’s motion for Attorney’s fees, which was upheld by the U.S. Court of Appeals for the Federal Circuit.

The total cost of this patent litigation is now close to \$2 million. Octane will tell you that without insurance it could not have afforded to defend this lawsuit. As Dennis Lee, President of Octane, openly admits, “Without patent insurance we would have been dead in the water. We did not have \$2 million to pay to lawyers to defend us. We would

have had to have paid Icon, even though they had no real patent claim against our company. Further, IPISC helped us pick one of the best litigation teams in the country to help us win this. We had no idea where to even start to find a first-rate patent litigator.”

Octane fell victim to a much larger competitor who pulled out a late 1990’s patent of questionable value and asserted it against Octane. This is a typical scenario- the bigger company preying upon the successful, smaller competitor in order to extract royalties and protect market share. Icon may have wrongly assumed that Octane would be unable to afford the litigation costs to stay in the game for the long-haul and fight the case on the merits.

Rudy Telscher, part of Octane’s litigation team from Harness Dickey in St. Louis, MO lamented, “Icon asserted this patent against a much smaller, yet successful competitor. It was undisputed that the invention disclosed in Icon’s patent did not work and was never commercialized. If not for the insurance, Octane would have likely been forced to pay a 7% - 8% royalty, which is what Icon sought. Even though Octane proved the victor, the courts did not award attorney’s fees to the defendant, Octane. Without insurance, Octane would have had to have endured this long battle, and bear \$2 million in [litigation] fees, assuming that it had that money to spend in the first instance. Without insurance, this would have been a disaster. This is really a poster child case illustrating why intellectual property (IP) insurance is essential.”

IP infringement lawsuits can be a significant risk to companies. Almost every company that is making, using, selling, importing or offering for sale goods or services in commerce has the potential to become involved in an IP lawsuit. Most often IP lawsuits such as this, the big guy going after the small guy, are implemented to put the smaller guy out of business and allow the bigger company to continue to gain or maintain a bigger slice of the market. Most small companies are defenseless against these types of unwarranted, aggressive tactics.

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