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

BRIEF OF BSA | THE SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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BRIEF OF BSA | THE SOFTWARE ALLIANCE AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICUS CURIAE*

BSA | The Software Alliance is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members pursue patent protection for their intellectual property and as a group hold a large number of patents. They also create products that are frequently subject to unjustified patent infringement claims. Because patent policy is vitally important to promoting the innovation that has kept the United States at the forefront of software and hardware development, BSA members have a strong stake in the proper functioning of the U.S. patent system.[1]

The members of the BSA include Adobe, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, CNC/Mastercam, Dell, IBM, Intel, McAfee, Microsoft, Minitab, Oracle, Parametric Technology Corporation, Progress Software, Quest Software, Rosetta Stone, Siemens PLM, Symantec, TechSmith, and The MathWorks.

[1] Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

SUMMARY OF ARGUMENT

The Patent Act permits a prevailing party to recover its fees in "exceptional cases." 35 U.S.C. § 285. When a litigant maintains a claim or defense that is objectively unreasonable—that lacks a reasonable basis in law or fact—the case is "exceptional," and the losing party should pay the prevailing party's fees.

An appropriate fee-shifting standard under Section 285 is critical to maintaining the fundamental balance embodied in our patent law: fostering innovation by protecting patent holders while not unduly burdening those who engage in legal, productive competition. Absent fee-shifting, litigants may exploit asymmetries in litigation—such as the difference in costs between prosecuting and defending a suit or differences in resources—for tactical advantage. Properly calibrated fee-shifting eliminates the incentives to engage in these abusive practices.

Section 285 does not distinguish between prevailing plaintiffs and prevailing defendants. The same fee-shifting standard therefore should apply regardless of the party that prevails.

The "objectively unreasonable" standard—which this Court has found appropriate under other fee-shifting statutes—provides the proper framework for determining when fees should be shifted under Section 285. A losing litigant that persists in advocating a claim or defense lacking an objective basis in law or fact should pay the winning party's fees.

For example, if a plaintiff continues to press a claim even though an objective observer would conclude that there is no reasonable basis to find infringement, fees should be available to a prevailing defendant. Similarly, a defendant that presses an unreasonable non-infringement argument and loses should be liable for fees.

The Federal Circuit conditions fee-shifting under Section 285 on proof that a litigant took *both* an objectively unreasonable position *and* acted with subjective bad faith. That test is contrary to the text of the Patent Act, would render Section 285 a nullity (because fee-shifting is already available under the common law and Rule 11 upon proof of subjective bad faith), ignores the legislative background, and is at odds with the approach that this Court has taken in comparable fee-shifting provisions. A prevailing party need not demonstrate that its adversary engaged in subjective bad faith in order to recover fees under Section 285.

ARGUMENT

I. Appropriate Fee-Shifting In Patent Cases Is Essential To Stem Abusive Litigation.

The fundamental purpose of the Patent Act is to promote innovation, but this Court has repeatedly recognized that innovation can be impeded by overbroad patent protection as well as by unduly limited patent protection.

Patents provide "the promise of exclusive rights," which create "monetary incentives that lead to creation, invention, and discovery." *Mayo Collaborative Servs.* v. *Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012). At the same time, however, "that very exclusivity can impede the flow of information that might permit, indeed spur, invention, by, for example, raising the price of using the patented ideas once created, requiring potential users to conduct costly and time-consuming searches of existing patents and pending patent applications, and requiring the negotiation of complex licensing arrangements." *Ibid.* Thus, improperly balanced patent rights may "tend to impede innovation more than it would tend to promote it." *Id.* at 1293.

For this reason, the Court has long emphasized that the Patent Act is designed to protect both patent holders as well as legitimate market participants improperly accused of infringement. "From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). See also Richard A. Posner, *Antitrust in the New Economy*, 68 Antitrust L.J. 925, 927 (2001) ("The patent * * * laws try to strike the output-maximizing balance by giving the creator of intellectual property some but not complete protection from competition.").

One critical aspect of achieving that proper balance is ensuring that parties do not have financial incentives to press unreasonable claims or unreasonable defenses. Given the enormous costs involved in litigating a patent dispute, parties may improperly leverage asymmetries (such as asymmetrical costs between prosecuting and defending a case or asymmetrical resources) for strategic advantage. But those tactics—which treat patent litigation as a means of extracting value from entities regardless of the underlying merit of a claim—fundamentally upset the proper balance that is the design of the Patent Act. Fee shifting in appropriate circumstances, as Congress provided in Section 285, is an important protection against such abusive practices.

A. The Enormous Cost Of Patent Cases Opens The Door To Abusive Tactics.

Patent litigation is enormously expensive, and the costs are growing. A 2011 survey by the American Intellectual Property Law Association indicates that the median cost of a medium-sized patent litigation is approximately six million dollars per party, double the cost reported in 2009 and four times the cost reported in 2001. Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey 2011, at I-155 to I-156 (2011).

These extraordinary expenses and pressures on businesses permit parties to benefit from abusive litigation tactics. "[T]he greatest factor contributing to the existence of nuisance-value patent suits is the high cost of patent litigation." Ranganath Sudarshan, *Nuisance-Value Patent Suits: An Economic Model and Proposal*, 25 Santa Clara Computer & High Tech. L.J. 159, 172 (2009).

The tremendous litigation cost may, for example, permit a plaintiff to improperly obtain a substantial settlement of a claim regardless of the underlying merits. As members of the Court have recognized, patent litigation—particularly coupled with the threat of a possible injunction—"can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Such litigation can be "employed simply for undue leverage in negotiations." *Ibid*. Given that "the threat of discovery expense will push cost-conscious defendants to settle even anemic cases before reaching those proceedings" (*Bell Atl. Corp.* v. *Twombly*, 550 U.S. 544, 559 (2007)), there is little doubt that the larger total cost of mounting a defense will have that same effect.

In fact, economic theory demonstrates that, absent fee-shifting, *whenever* the cost to a plaintiff of filing a suit (i.e., the filing fee and cost of the plaintiff's lawyer) exceeds the cost to a defend the suit, it is in the plaintiff's interest to sue *regardless* of the merits of the claim. See David Rosenberg & Steven Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 Int'l R. of L. & Econ. 3 (1985). In these circumstances, an economically rational defendant—even one who believes that a claim is wholly meritless—will settle a suit for the cost to defend. *Ibid*. See also Sudarshan, 25 Santa Clara Computer & High Tech. L.J. at 161-169 (providing similar economic model for nuisance value suits in patent context).

A recent White House report recognized this precise danger. It concluded that patent owners may seek "to settle out of court for amounts that have not so much to do with the economic value of their patents or the probability that they have infringed;" rather, settlements are "affected more by the parties' relative opportunity costs of going to trial and attitudes towards risk." Executive Office of the President, *Patent Assertion & U.S. Innovation*, at 6 (2013), http://tinyurl.com/lvk6ajl. When parties face asymmetrical costs—such as when plaintiffs have lower costs than defendants—they may "have an incentive to drag out litigation, to increase pressure on defendants to settle the case." *Ibid*.

The impact of patent lawsuits "on smaller startups is particularly acute." *Patent Assertion &*

U.S. Innovation, supra, at 10. One survey indicates that, over an approximately six-year period, roughly 66% of unique patent defendants are firms with annual revenue of less than $100 million. Colleen V. Chien, *Startups & Patent Trolls*, Santa Clara Univ. Legal Studies Research Paper No. 09-12, at 1-2 (Sept. 28, 2012), http://tinyurl.com/pp3ap57. Forty percent of companies sued represented that the lawsuit caused a "significant operational impact," such as "delayed hiring or achievement of another milestone, change in the product, a pivot in business strategy, a shut-down business line or the entire business, and/or lost valuation." *Id.* at 2. See also James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. __ (forthcoming 2014), available at http://tinyurl.-com/lca4rga. Commentators have thus noted that "small companies—not tech giants—are the predominant targets" in certain abusive lawsuits. Brian J. Love & James C. Yoon, *Expanding Patent Law's Customer Suit Exception,* 93 B.U. L. Rev. 1605, 1611 (2013).

Because small businesses are uniquely vulnerable to these pressures (*Patent Assertion & U.S. Innovation, supra*, at 7), abusive litigation tactics may also be undertaken by defendants. A defendant with resources that vastly dwarf a plaintiff may maintain a defense that is either factually or legally unreasonable so as to drive up the plaintiff's costs. See Marie Gryphon, *Assessing the Effects of a "Loser Pays" Rule on the American Legal System: An Economic Analysis and Proposal for Reform*, 8 Rutgers J.L. & Pub. Pol'y 567, 569 (2011) ("[P]otential plaintiffs with injuries that are significant but worth less than their lawyers' fees can be denied access to justice entirely."). This, too, can be a means for forcing a settlement not justified by the merits of the case.

These abusive litigation practices are a drain on the economy, siphoning value from productive businesses. At bottom, it is consumers who bear the brunt of this abuse—either through increased prices for goods and services or through the reduction in innovation. "[L]ow-merit legal cases clog the American legal system and raise the cost of goods and services to consumers by forcing businesses that are sued to cover their legal expenses by raising prices." Gryphon, 8 Rutgers J.L. & Pub. Pol'y at 568.

The White House report also recognized the "[s]ocial costs of reduced innovation," as "the losses caused by excessive litigation exceed even the large stock market losses." *Patent Assertion & U.S. Innovation*, *supra*, at 10. This "include[es] lost value to consumers who are not able to buy innovative products, and reduced income for workers whose pay is lower because they are unable to work with more productive new processes." *Ibid.*

B. An Appropriate Fee-Shifting Standard Will Reduce Abusive Tactics.

Fee-shifting in appropriate cases can reduce these abusive tactics. By addressing in part the cost and resource asymmetries inherent in this type of litigation, fee-shifting plays a significant role in removing the financial incentive for abusive claims or defenses. In order to maintain the balance that lies at the heart of the Patent Act, therefore, this Court should interpret the statute to provide fee shifting in appropriate cases—*i.e.*, when a plaintiff maintains a factually or legally unreasonable claim, or a defendant persists in pressing a similarly unreasonable defense.

Fee-shifting's effect stems from basic economics: "there is broad consensus that a loser pays rule would reduce the number of nuisance suits." *Gryphon*, 8 Rutgers J.L. & Pub. Pol'y at 581. Forced to include in its litigation strategy the risk of fee-shifting, a party's expected costs turns heavily on its likelihood of prevailing. Rosenberg & Shavell, 5 Int'l R. of L. & Econ. at 5. By forcing parties to assess the reasonableness of their asserted claims and defenses, fee-shifting creates a significant motivation for parties to self-police their arguments.

Such self-imposed restraint is increasingly important as the numbers of parties embroiled in patent lawsuits balloons, inundating courts across the country. *See*, *e.g.*, United States Courts, *Judicial Business 2012* at tbl. C-2A, page 3 (Sept. 2012), http://tinyurl.com/pwxdtan (noting that the number of patent lawsuits commenced rose from 2,909 in 2008 to 5,189 in 2012). In 2012 alone, 12,647 defendants were sued in those patent infringement cases. See James C. Pistorino, *2012 Trends in Patent Case Filings and Venue*, at 3 tbl.1 (Feb. 2013), http://tinyurl.com/lpfbzyp.

At bottom, the fee-shifting mechanism of Section 285 should ensure that parties have a financial incentive not to assert objectively meritless positions. This result would accord with the fundamental purpose of the Patent Act—to ensure that *legitimate* patent rights are protected, without unduly impeding the lawful and productive economic activity of competitors.

The Federal Circuit's current Section 285 standard, which conditions fee-shifting on proof of subjective bad faith, prevents proper operation of the statute. Requiring the prevailing party to adduce "smoking gun" evidence of subjective intent effectively bars fee-shifting. It licenses litigants to engage in illegitimate practices that are "extortionate in character if not necessarily in provable intention." *Nightingale Home Healthcare, Inc.* v. *Anodyne Therapy, LLC*, 626 F.3d 958, 965 (7th Cir. 2010) (Posner, J.).

II. A Losing Party—Plaintiff Or Defendant—Should Be Liable For The Winner's Fees Under Section 285 If The Loser's Position Was Objectively Unreasonable.

This case brings before the Court two questions regarding the fee-shifting provision of the Patent Act, 35 U.S.C. § 285. First, whether the same standard should apply with respect to prevailing plaintiffs and prevailing defendants, and, second, what that standard should be. Relevant precedent, history, and common sense dictate a clear answer to these questions: a losing party should be liable for the winner's fees when the losing party's position was objectively unreasonable.

A. The Same Fee-Shifting Standard Applies To Prevailing Plaintiffs And Prevailing Defendants.

Section 285 does not differentiate between prevailing plaintiffs and prevailing defendants. It holds that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. This language compels the conclusion that the standard for awarding fees to a prevailing plaintiff is the same as that for awarding fees to a prevailing defendant.

The Court's analysis in *Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517 (1994), which addressed this question in the context of the fee-shifting provision of the Copyright Act, is dispositive of the issue. The *Fogerty* Court held that "[p]revailing plaintiffs and prevailing defendants are to be treated alike" for purposes of the Copyright Act's fee-shifting provision. *Id.* at 534.

In reaching that conclusion, the Court looked to "fee-shifting statutes in the patent and trademark fields, which are * * * closely related to that of copyright." *Fogerty,* 510 U.S. at 525 n.12. Section 285, the Court explained, "support[s] a party-neutral approach." *Ibid.*

Moreover, the considerations that motivated *Fogerty* apply with full force here. The Court first determined that the statutory language gave "no hint that successful plaintiffs are to be treated differently from successful defendants." *Fogerty,* 510 U.S. at 522. So too here; Section 285 is neutral on its face.

Next, the Court noted that the legislative history of the Copyright Act was effectively silent (in sharp contrast to the history regarding fee-shifting provisions in certain civil rights acts). *Fogerty*, 510 U.S. 523-525. Here, far from being silent, the relevant legislative history shows that Congress intended to provide fee-shifting for both prevailing plaintiffs and defendants. The Senate Report issued in conjunction with the fee-shifting provision of the Patent Act of 1946 (the precursor to Section 285, see, *infra*, 18-20) indicates that fee-shifting was established to "discourage infringement" *as well as* to "prevent a gross injustice to an alleged infringer." S. Rep. No. 1503, at

3 (1946), reprinted in Vincent P. Tassinari, *Compiled Legislative History of 35 U.S.C. § 284: The Patent Compensation Statute*, 31 UWLA L. Rev. 45, 89 (2000).

Finally, the Court concluded that, because the fundamental policy of the Copyright Act is to "enrich[] the general public through access to creative works"—which the statute accomplishes by providing appropriately balanced incentives for creators of copyrighted works—"a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim." *Fogerty*, 510 U.S. at 527. The Patent Act is no different; improper assertion of a patent claim "might stifle, rather than promote, the progress of useful arts." *KSR Int'l Co.* v. *Teleflex Inc.*, 550 U.S. 398, 427 (2007).

Because of the significant similarities between the Copyright Act and the Patent Act (see *eBay Inc.,* 547 U.S. at 392), *Fogerty* controls the question here. The same standard for fee-shifting applies to both prevailing plaintiffs and prevailing defendants.

B. A Case Is "Exceptional" If The Losing Party Maintained An Objectively Unreasonable Position.

Unlike the Copyright Act, the Patent Act prescribes a standard for determining when fee-shifting is appropriate: a court may award attorney's fees in "exceptional cases." 35 U.S.C. § 285. The text of the Patent Act, the backdrop of the common law, the legislative history, and the Court's interpretation of similar statutes all compel the same result—a showing that the losing party maintained a material, objectively unreasonable position is a *sufficient* basis to render a case "exceptional."

The Federal Circuit, by contrast, requires a showing of *both* objective unreasonableness *and* subjective bad faith. That is, a case is "exceptional" only if it involves "misconduct" or if "both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Brooks Furniture Mfg., Inc.* v. *Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). See also *Highmark, Inc.* v. *Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1308-09 (Fed. Cir. 2012) (To qualify as "exceptional," a claim must be both "objectively baseless" and asserted in "subjective bad faith."), cert. granted, 134 S. Ct. 48 (2013). The Federal Circuit's inclusion of a bad faith element finds no support in the relevant authorities.

1. The text of the Patent Act supports the "objectively unreasonable" standard.

Although Section 285 does not itself provide a definition of the term "exceptional," another provision of the Patent Act, Section 273, bears heavily on this question. It is fundamental that "[a] court must * * * interpret the statute as a symmetrical and coherent regulatory scheme, and fit, if possible, all parts into an harmonious whole." *FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 133 (2000) (quotations & citations omitted). The Court "do[es] not construe statutory phrases in isolation; [it] read[s] statutes as a whole." *Samantar* v. *Yousuf*, 560 U.S. 305, 319 (2010) (quotations omitted).

Section 273 provides a defense to infringement in the event of certain prior commercial uses. 35 U.S.C. § 273. If a defendant invokes this defense but loses, Section 273(f) directs that a court shall "find the case exceptional for the purpose of awarding attorney fees under section 285," unless the defendant demonstrates a "*reasonable* basis for asserting the defense." *Id.* § 273(f) (emphasis added). An "[u]nreasonable assertion of [the] defense" is thus a sufficient basis to render a case "exceptional" under Section 285. *Ibid.* Accordingly, Section 273(f) thus makes clear that a case may qualify as "exceptional" for purposes of Section 285 *without* a showing of subjective bad faith. Reading the statute as a whole, this provision thus provides strong support for a similar definition of Section 285. See *Samantar*, 560 U.S. at 319.

The Federal Circuit's interpretation of Section 285, by contrast, has no basis in the statutory language. Indeed, the court did not even attempt to justify its bad faith requirement based on the provision's text. See, *e.g.*, *Brooks Furniture*, 393 F.3d 1378.

2. The Federal Circuit's subjective bad faith requirement should be rejected because it renders Section 285 meaningless.

The Federal Circuit's subjective bad faith requirement violates another, equally fundamental principle of statutory construction—it would make Section 285 completely unnecessary. A statute should not be given a "construction which makes it wholly redundant." *Singer* v. *United States*, 323 U.S. 338, 344 (1945).

Litigating in bad faith is a *sufficient* basis to award attorney's fees *as a matter of common law*. This is just as true today as it was in 1952, when Congress wrote Section 285. Thus, if the Federal Circuit's view were correct and Section 285 requires a subjective bad faith showing, Congress's enactment of the provision would have had no effect: fee-shifting would be limited to the same category of cases in which it was available before the statue was enacted.

a. *The common law already authorizes fee-shifting when the loser litigates in bad faith.*

Under the "American Rule," "the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys' fee from the loser." *Alyeska Pipeline Serv. Co.* v. *Wilderness Soc'y*, 421 U.S. 240, 247 (1975). But that common law rule is subject to exceptions; relevant here, "a court may assess attorneys' fees" where "the losing party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons." *Id.* at 259-260 (quotations omitted). See also *Chambers* v. *NASCO, Inc.*, 501 U.S. 32, 45-46 (1991) ("[A] court may assess attorney's fees when a party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons." (quotations omitted)).

Thus, courts routinely recognize the power to award attorney's fees to a prevailing party when the loser litigated in bad faith. See, *e.g.*, *Castillo Grand, LLC* v. *Sheraton Operating Corp.*, 719 F.3d 120, 124 (2d Cir. 2013); *Stalley* v. *Methodist Healthcare*, 517 F.3d 911, 920 (6th Cir. 2008).

This rule was equally well-established in 1952 when Congress enacted Section 285. See Act of July 19, 1952, Pub. L. No. 82-593, ch. 950, § 285, 66 Stat. 792, 813. In fact, just a few years prior to the Patent Act of 1952, this Court applied exactly this principle in a patent case. In *Universal Oil Products Co.* v. *Root Refining Co.*, 328 U.S. 575, 580 (1946), the Court explained that a federal court has "inherent power" to award attorney's fees in certain circumstances. A party's bad faith—i.e., committing a fraud on the court—was "precisely a situation where 'for dominating reasons of justice' a court may assess counsel fees as part of the taxable costs." *Ibid*.

The lower courts had likewise held that a litigant's bad faith was a sufficient basis for fee-shifting as a matter of common law. See, *e.g.*, *Rolax* v. *Atl. Coast Line R.R.*, 186 F.2d 473, 481 (4th Cir. 1951) (holding fees are appropriate where a litigant engages in "discriminatory and oppressive conduct"); *Guardian Trust Co.* v. *Kansas City S. Ry.*, 28 F.2d 233, 241 (8th Cir. 1928) (holding fees appropriate "[w]here the main ground of the suit is false, unjust, vexatious, wanton, or oppressive, and so shown to be"), aff'd, 281 U.S. 1 (1930); *Gazan* v. *Vadsco Sales Corp.*, 6 F. Supp. 568, 568 (E.D.N.Y. 1934) (holding fees appropriate where a suit is "brought solely for the purpose of annoying and harassing the defendant corporation").

The Federal Circuit's requirement of bad faith thus limits Section 285 to the set of cases in which fee-shifting already was available.

b. *The Court has repeatedly rejected constructions of fee-shifting statutes that would merely duplicate pre-existing common-law standards.*

In construing other fee-shifting provisions, the Court has repeatedly rejected interpretations that would render the statutory enactment duplicative of the common law. That framework applies equally here and precludes an interpretation of Section 285 requiring a showing of subjective bad faith.

In *Newman* v. *Piggie Park Enterprises, Inc.*, 390 U.S. 400, 402 n.4 (1968) (per curiam), for example, the Court rejected the argument that the fee-shifting provision of Title II of the Civil Rights Act of 1964 was limited to "defendants who make completely groundless contentions for purposes of delay." If this had been "Congress' objective," "no new statutory provision would have been necessary, for it has long been held that a federal court may award counsel fees to a successful plaintiff where a defense has been maintained 'in bad faith, vexatiously, wantonly, or for oppressive reasons.'" *Ibid*. The fact that Congress enacted the statute was decisive evidence that it intended to expand fee-shifting beyond the common law. *Ibid*.

The Court applied this same approach in *Christiansburg Garment Co.* v. *EEOC*, 434 U.S. 412, 419 (1978). Interpreting Title VII of the Civil Rights Act, the Court rejected the argument that an "award of attorney's fees to a prevailing defendant" was limited to the plaintiff's subjective bad faith. Just as in *Piggie Park*, "if that had been the intent of Congress, no statutory provision would have been necessary, for it has long been established that even under the American common-law rule attorney's fees may be awarded against a party who has proceeded in bad faith." *Ibid*.

Piggie Park and *Christiansburg Garment*, coupled with the backdrop of the common law, thus foreclose the argument that Section 285 requires a showing of subjective bad faith. The Court should not interpret the statute in a way that would render it meaningless.

3. The legislative background supports the "objectively unreasonable" standard.

The background against which Congress legislated also demonstrates that Congress embraced the "objectively unreasonable" standard.

Congress adopted the term "exceptional" to codify the approaches that courts had taken with respect to the fee-shifting provision contained in the Patent Act of 1946 (the 1946 Act). Because several courts interpreted the 1946 Act as establishing an "objectively unreasonable" standard, Congress is best understood as having endorsed that view in its adoption of Section 285.

The legislative history underlying Section 285 of the Patent Act of 1952 indicates that Congress intended to codify the judicial constructions of the fee-shifting provision contained in the 1946 Act.

Prior to 1946, the Court had long held that "counsel fees were not recoverable as damages" in ordinary patent infringement suits. *Teese* v. *Huntingdon*, 64 U.S. (23 How.) 2, 8 (1860). See also *Day* v. *Woodworth*, 54 U.S. (13 How.) 363, 372 (1852).

In the Patent Act of 1946, Congress first crafted an express fee-shifting provision for patent cases. See Act of August 1, 1946, ch. 726, § 1, 60 Stat. 778. The statute provided that a "court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case." *Ibid.*, codified at 35 U.S.C. § 70 (1946).

In 1952, Congress substantially overhauled the Patent Act. 66 Stat. 813. The Senate Report discussing Section 285 explained that "[t]his section is substantially the same as the corresponding provision in" the 1946 Act, except that the language "'in exceptional cases' has been added as expressing the intention of the present statute as shown by its legislative history and as interpreted by the courts." S. Rep. No. 82-1979, reprinted at 1952 U.S.C.C.A.N. 2394, 2423. Congress, accordingly, intended to codify the judicial interpretations of the fee-shifting provision in the 1946 Act.

The prevailing interpretation in 1952 was that fee-shifting was available when the position of either the plaintiff or the defendant was objectively unreasonable.

In *Blanc* v. *Spartan Tool Co.*, 178 F.2d 104, 105 (7th Cir. 1949), for example, the Seventh Circuit affirmed an award of fees given "the character" of the patents, "the construction of defendant's devices charged herein to be infringed, and the decisions of other courts in relation to said patents prior to the institution of the present suit." There was no finding of bad faith. *Ibid.*

Likewise, a district court applied the "unreasonable" test; it denied fees only because it found the position advocated by the litigant to be reasonable. *Lincoln Elec. Co.* v. *Linde Air Prods. Co.*, 74 F. Supp. 293, 294 (N.D. Ohio 1947). Once again, there was no consideration of bad faith.

Beyond *Spartan Tool* and *Lincoln Electric*, several other cases held that the standard for fee-shifting under the 1946 Act turned on whether the losing party had urged a position that was objectively unreasonable. See, *e.g.*, *Orrison* v. *C. Hoffberger Co.*, 190 F.2d 787, 791 (4th Cir. 1951) (affirming fee-shifting where "there was no reasonable ground for the prosecution of the motion"); *Hall* v. *Keller*, 81 F.

Supp. 835, 836 (W.D. La. 1949) (declining to award fees where there "was mutual probable cause for the suit," and "either side could well and reasonably have filed the suit"); *Union Nat'l Bank* v. *Superior Steel Corp.*, 9 F.R.D. 117, 121 (W.D. Pa. 1949) (denying attorney's fees where there was no showing "that plaintiff was not justified in bringing defendant into court").

Several other decisions recognized that a party's maintenance of an objectively unreasonable position was a sufficient basis to shift fees—while also recognizing that bad faith was an *independent* basis for fee-shifting.[2] See, *e.g.*, *Pa. Crusher Co.* v. *Bethlehem Steel Co.*, 193 F.2d 445, 451 (3d Cir. 1951) (noting that "[d]ecisions construing" the fee-award statute have "indicated that fraud practiced on the Patent Office or vexatious *or unjustified litigation* are adequate justification for awarding attorneys' fees" (emphasis added)); *Laufenberg, Inc.* v. *Goldblatt Bros., Inc.*, 187 F.2d 823, 825 (7th Cir. 1951) (noting that "the statute should be invoked only where vexatious *or unjustified litigation* is shown" (emphasis added)); *Vischer Prods. Co.* v. *Nat'l Pressure Cooker Co.*, 92 F. Supp. 138, 139 (W.D. Wis. 1950) (concluding that fees should be limited to a "penalty or fine imposed on the losing party because of his conduct in instituting and maintaining the action *without justification* or in bad faith" (emphasis added)); *Scott & Williams, Inc.* v. *Lasticnit Co.,* 1949 WL 4784, at *1 (D. Mass.

[2] Our position is not to the contrary; insofar as the common law permits fee-shifting in cases of bad faith or other misconduct (see, *supra*, 15-16), that *is* an appropriate basis to award fees. The question at issue here is whether objective unreasonable is, by itself, a *sufficient* basis to shift fees.

1949) (denying fees where the "suit was not *groundless* nor vexatious" (emphasis added)).

In sum, in codifying the judicial interpretations of the 1946 Act by enacting Section 285, Congress adopted the "objectively unreasonable" test.

4. The construction of other fee-shifting provisions confirms the correctness of the "objectively unreasonable" standard.

Finally, the "objectively unreasonable" standard accords with the approach this Court has taken to comparable fee-shifting regimes. It also is in line with the construction that several courts have given to identical language in the Lanham Act.

a. In other contexts in which Congress has authorized a prevailing party to recover fees in some but not all cases, this Court has interpreted the statute to adopt the objectively unreasonable standard. Section 285 should be read in the same manner.

Martin v. *Franklin Capital Corp.*, 546 U.S. 132 (2005), involved 28 U.S.C. § 1447(c), which states that fees "may" be awarded when a litigant improperly removes a lawsuit to federal court. Although the statute contained no "express legislative restrictions," the Court determined that Congress intended to strike a balance: it did not mean to "discourage[e]" removal "in all but obvious cases," but it did seek "to deter removals sought for the purpose of prolonging litigation and imposing costs on the opposing party." *Martin,* 546 U.S. at 140. In light of these considerations, the Court concluded that, "[a]bsent unusual circumstances, courts may award attorney's fees * * * only where the removing party lacked an objectively reasonable basis for seeking removal." *Id.* at 141.

Like Section 1447(c), Section 285 indicates that a district court "*may*" award attorney's fees, connoting judicial discretion. And, as with Section 1447(c), Congress surely did not mean to discourage assertion of all but "obvious" patent claims or defenses. At the same time, Congress certainly did seek to deter claims or defenses that prolong litigation and impose needless cost. The approach taken in *Martin*, accordingly, applies with equal force here.

Similarly, the Court in *Christiansburg Garment* considered the standard governing when a prevailing defendant may recover fees under the Civil Rights Act of 1964. The Court again adopted the objectively unreasonable standard: a defendant may recover if a plaintiff's case is "groundless or without foundation." *Christiansburg Garment,* 434 U.S. at 421. This "in no way implies that the plaintiff's subjective bad faith is a necessary prerequisite to a fee award against him." *Ibid*. Rather, "a district court may in its discretion award attorney's fees to a prevailing defendant in a Title VII case upon a finding that the plaintiff's action was frivolous, unreasonable, or without foundation, *even though not brought in subjective bad faith*." *Ibid*. (emphasis added). See also *Indep. Fed'n of Flight Attendants* v. *Zipes*, 491 U.S. 754, 761 (1989) (permitting fees under Title VII against a losing intervenor whose action is "frivolous, unreasonable, or without foundation").

Finally, this Court took a similar approach with respect to the Equal Access to Justice Act. That statute provides fee-shifting against the government where its position is not "substantially justified." 28 U.S.C. § 2412(d)(1)(B). The Court concluded that a case is "substantially justified" under the statute when it is "justified to a degree that could satisfy a reasonable person," or, in other words, has a "'reasonable basis both in law and fact.'" *Pierce* v. *Underwood*, 487 U.S. 552, 565 (1988).

These decisions demonstrate that discretionary fee-shifting provisions often turn on a showing of objective unreasonableness, and that this standard is both workable in practice and properly calibrates the relevant interests.

b. Like Section 285, the Lanham Act also provides fee-shifting to a "prevailing party" in "exceptional cases." 15 U.S.C. § 1117. The same standard, therefore, should control both provisions. *Erlenbaugh* v. *United States*, 409 U.S. 239, 243 (1972) ("[A] legislative body generally uses a particular word with a consistent meaning in a given context.").

Several courts have correctly held that an "objectively unreasonable" claim or defense renders a trademark case "exceptional."

The Seventh Circuit, for example, holds that a case may be "exceptional * * * because of lack of merit * * * *even though* the plaintiff honestly though mistakenly believes that he has a good case and is not merely trying to extract a settlement based on the suit's nuisance value." *Door Sys., Inc.* v. *Pro-Line Door Sys., Inc.,* 126 F.3d 1028, 1032 (7th Cir. 1997) (emphasis added).

Other courts have taken the same approach, finding that an unreasonable position is a *sufficient* basis to render a case exceptional under the Lanham Act. See, *e.g.*, *B & B Hardware, Inc.* v. *Hargis Indus., Inc.*, 716 F.3d 1020, 1027 (8th Cir. 2013) ("When a plaintiff's case is groundless, unreasonable, vexatious, or pursued in bad faith, it is exceptional" (quotations omitted)); *Secalt S.A.* v. *Wuxi Shenxi Constr.*

Mach. Co., 668 F.3d 677, 687-88 (9th Cir. 2012) ("[E]xceptional cases include instances where plaintiff's case is frivolous or completely lacking in merit."); *Classic Media, Inc.* v. *Mewborn*, 532 F.3d 978, 990 (9th Cir. 2008) (a case is "exceptional" where "'the non-prevailing party's case is groundless, unreasonable, vexatious, or pursued in bad faith'").[3]

As one treatise explains, the Lanham Act's fee-shifting provision "creates the possibility of an award of attorney's fees to a prevailing defendant because of the *objective lack of merit* of the lawsuit even though the plaintiff subjectively and honestly, but mistakenly, believed it to be a meritorious case." 5 *McCarthy on Trademarks and Unfair Competition* § 30:101 (4th ed. 2009) (emphasis added).

Although the approaches taken by the lower courts with respect to the Lanham Act are not uniform,[4] the significant body of law adopting the objective unreasonableness provides additional support for construing the term "exceptional cases" to embody that standard.

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[3] The Fourth and D.C. Circuits permit fee-shifting upon "a showing of 'something less than bad faith,'" including "'groundless argument[s],' and failure to cite controlling law." *Ale House Mgmt., Inc.* v. *Raleigh Ale House, Inc.*, 205 F.3d 137, 144 (4th Cir. 2000) (quoting *Noxell Corp.* v. *Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 526-527 (D.C. Cir. 1985)).

[4] See, *e.g.*, *Securacomm Consulting, Inc.* v. *Securacom Inc.*, 224 F.3d 273, 280 (3d Cir. 2000) (requiring proof of bad faith).

5. Decisions construing the "objectively unreasonable" standard under other fee-shifting statutes provide clear guidance for applying Section 285.

Construing Section 285 to incorporate the objectively unreasonable standard will enable courts to utilize the well-developed body of case law applying that standard in the context of other fee-shifting statutes—and thereby promote certainty and uniformity in decisions under Section 285.

A litigant's position is objectively unreasonable when it lacks a reasonable basis either in fact or in law. *Cf. Pierce*, 487 U.S. at 565 (a case is "substantially justified" if it has a "'reasonable basis both in law and fact'").

When a claim or defense lacks any legitimate ***factual*** support, it is objectively unreasonable.

In *Secalt*, for example, the Ninth Circuit affirmed an award of attorney's fees where "the plaintiffs were unable to provide the court with any evidence to support" the critical issue in the case—whether certain trade dress was non-functional. 668 F.3d at 687 (quotations omitted). If the plaintiff had offered "*some* legitimate evidence of nonfunctionality, this case would likely fall on the unexceptional side of the dividing line." *Id.* at 688 (emphasis added). But the plaintiffs' "'utter failure' of proof" meant that the case lacked a reasonable basis in fact, rendering it exceptional for purposes of fee-shifting. *Ibid.*

Similarly, a district court recently granted fees where the plaintiff had "no reasonable basis to believe" it would "succe[ed] at establishing any of the three elements" of its trade dress claims. *Scentsy, Inc.* v. *B.R. Chase, LLC*, 2013 WL 4525400, at *1-2

(D. Idaho 2013). Given a lack of "evidence," maintenance of claims was "groundless and unreasonable." *Id.* at *3. See also *Am. Optometric Soc'y, Inc.* v. *Am. Bd. of Optometry, Inc.*, 2012 WL 6012861, at *3 (C.D. Cal. 2012) (holding a case exceptional where a plaintiff had "failed to present evidence that would sustain its claim under the Lanham Act"); *Home Show Tours, Inc.* v. *Quad City Virtual, Inc.*, 840 F. Supp. 2d 1150, 1154 (S.D. Iowa 2012) (holding a case exceptional where there was "an obvious inability to provide any evidence of a violation of the Lanham Act").

That approach is easily transferable to Section 285. For example, if a plaintiff persists in advancing a patent infringement claim despite lacking any legitimate evidentiary basis for the claim, maintenance of that suit is objectively unreasonable. Likewise, if a defendant maintains a non-infringement defense notwithstanding a lack of legitimate supporting evidence, fees should be awarded to the prevailing plaintiff under Section 285.

A case is also objectively unreasonable when a litigant presses a claim or defense that lacks a reasonable basis in ***law***.

For example, in *Cairns* v. *Franklin Mint Co.*, 292 F.3d 1139, 1156 (9th Cir. 2002), the Ninth Circuit affirmed a fee award because the plaintiff's dilution of trademark theory "had no legal basis." Although the claim was "short of frivolous" (a finding of frivolousness would have independently justified a fee award under Rule 11), it nonetheless was "unreasonable." *Ibid.*

Another court awarded fees because of a counterclaim maintained by a defendant. *AirFX.com* v. *AirFX, LLC*, 2013 WL 857976 (D. Ariz. 2013). Although the court declined to find that the counterclaim was pursued "in bad faith," the court nonetheless concluded that the counterclaim was "unreasonable" in light of law that was "squarely on point." *Id.* at *2. See also *Ale House Mgmt., Inc.* v. *Raleigh Ale House, Inc.*, 205 F.3d 137, 144 (4th Cir. 2000) (awarding fees, in part, because a plaintiff asserted a claim that was "inapplicab[le]").

In just the same way, maintenance of a legal position that is objectively unreasonable renders a case "exceptional" for purposes of Section 285. For example, if a plaintiff asserts a patent infringement suit, despite controlling law establishing that the asserted patent claims are invalid, a court should shift fees. Likewise, if a defendant asserts a defense that lacks a reasonable basis in law, fee-shifting is warranted.

* * *

In sum, the text of the Patent Act, the principle that a congressional enactment should not be construed in a manner that renders the provision meaningless, the legal background against which Congress legislated, this Court's interpretation of other fee-shifting statutes, and the lower courts' interpretations of the same language in other statutes all weigh heavily in favor of construing Section 285 to permit fee-shifting upon a showing that the losing party's litigation position was objectively unreasonable.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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DECEMBER 2013