

No. 12-1163

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**In the Supreme Court of the United States**

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HIGHMARK INC.,

*Petitioner,*

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

*Respondent.*

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**On Writ of Certiorari to the United States  
Court of Appeals for the Federal Circuit**

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

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ANDREW J. PINCUS

*Counsel of Record*

PAUL W. HUGHES

JAMES F. TIERNEY

*Mayer Brown LLP*

*1999 K Street, NW*

*Washington, DC 20006*

*(202) 263-3000*

*apincus@mayerbrown.com*

*Counsel for Amicus Curiae*

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

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**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.<sup>1</sup>

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.

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<sup>1</sup> 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

Section 285 of the Patent Act permits a prevailing party to recover fees in “exceptional” cases. 35 U.S.C. § 285. As BSA explained in its *amicus* brief in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, a case is “exceptional” if a party—plaintiff or defendant—maintained an objectively unreasonable position. See Br. of BSA | The Software Alliance as *Amicus Curiae* in Supp. of Pet’r, *Octane Fitness LLC v. Icon Health & Fitness, Inc.*, No. 12-1184.<sup>2</sup>

A district court’s decision to shift fees under an “objectively unreasonable” standard should be subject to *de novo* review on appeal (any underlying factual findings would of course be reviewed under a deferential standard). If, contrary to our submission in *Octane*, the Court concludes that fee-shifting turns on a different standard, any subsidiary legal determinations (including the objective unreasonableness determination) should be reviewed *de novo*.

Attorneys’ fees in patent infringement cases have grown substantially in recent years and the threat of large costs fuels both abusive claims and abusive defenses. The availability of fee-shifting in appropriate cases discourages abuse, because it gives victimized parties an incentive to fight abusive claims. *De novo* review of a district court’s decision is critical, because it permits the Federal Circuit to assure uniform application of the fee-shifting statute.

Moreover, the broad discretion that patent-infringement plaintiffs have in choosing where to sue creates a significant risk of forum shopping. A *de no-*

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<sup>2</sup> We have served a copy of BSA’s *Octane amicus* brief on the parties in this case.

*vo* standard of review eliminates any advantage that a party might hope to gain by suing in what it perceives to be a plaintiff-friendly forum.

Applying the *de novo* standard to objective unreasonableness determinations accords with the text of Section 285, with the inherently legal nature of the inquiry, and with the approach the Court has taken in analogous circumstances. The two decisions on which petitioner relies—*Pierce v. Underwood*, 487 U.S. 552 (1988), and *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 402 (1990)—are plainly distinguishable given the absence in those statutes of the express congressional rejection of deference that is present with respect to Section 285 as well as other significant differences in the statutory contexts.

## ARGUMENT

### **I. Because Of Patent Litigation’s Particular Characteristics, Close Appellate Review Of Decisions Whether To Shift Fees Under Section 285 Best Effectuates The Patent Act’s Purposes.**

The Patent Act is designed to promote innovation, which it accomplishes by balancing the rights of patent holders with the interests of competitors in the marketplace. “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).

BSA’s *amicus* brief in *Octane* explained how Section 285, by deterring abusive litigation, plays a crit-

ical role in achieving the balance necessary to fulfill the purposes of the Patent Act. Fee-shifting remedies asymmetries in litigation: It motivates a defendant to abandon the defense of a losing case, and it likewise deters a plaintiff from pursuing a meritless claim. In both situations, a showing that a losing litigant maintained an objectively unreasonable position is a sufficient basis to award fees. See *BSA Octane Br.* 8-10.

Two characteristics of patent litigation favor searching appellate review of a district court's decision to shift fees: *first*, the large amount of fees typically at stake in these lawsuits; and, *second*, the extremely broad venue provision applicable to patent infringement actions that gives a plaintiff suing a business that operates nationally the option of filing its lawsuit in virtually any judicial district in the nation.

#### **A. Patent Litigation Costs Are Enormous.**

Patent lawsuits are enormously expensive, and the costs are growing. At present, a median-sized patent litigation costs \$6 million in fees, per party—a cost which has *quadrupled* over the past ten years. Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey 2011, at I-155 to I-156 (July 2011).

Fee awards under Section 285 reflect the growing costs of patent infringement suits. As just a few examples, over the past few years, courts have issued fee awards for \$26.9 million, \$19 million, \$16.8 million, \$8.6 million, \$8.4 million, and \$6.8 million.<sup>3</sup> In

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<sup>3</sup> Respectively: *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 2002 WL 1733681, at \*16 (S.D.N.Y. 2002); *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 670 F.3d

fact, “[i]n some cases, the attorney’s fees awarded under [Section] 285 can be equal to, or greater than, the amount of compensatory damages.” Christopher B. Seaman, *Willful Patent Infringement and Enhanced Damages After In re Segate*, 97 Iowa L. Rev. 417, 422 (2012).

These massive litigation costs can be a significant factor fueling abusive litigation tactics. 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) is less than the cost to defend the suit, it is in an opportunistic 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 Rev. L. & Econ. 3, 4 (1985). In these circumstances, an economically rational defendant—even one who believes that a claim is wholly meritless—will far too regularly settle a suit for the cost to defend. *Ibid.*

Fee-shifting in appropriate cases addresses this current disequilibrium in plaintiff incentives versus defendant costs by requiring a litigant to internalize the costs of unjustified litigation. See Marie Gryphon, *Assessing the Effects of a “Loser Pays” Rule on the American Legal System*, 8 Rutgers J.L. & Pub. Pol’y 567, 581 (2011); Rosenberg & Shavell, 5 Int’l Rev. L. & Econ. at 5.

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1171, 1178 (Fed. Cir. 2012); *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 549 F.3d 1381, 1391 (Fed. Cir. 2008); *Qualcomm Inc. v. Broadcom Corp.*, 2007 WL 4351017, at \*1 (S.D. Cal. 2007); *Monsanto Co. v. Bayer Cropscience, N.V.*, 2007 WL 1098504, at \*10 (E.D. Mo. 2007), *aff’d*, 275 Fed. App’x 992 (Fed. Cir. 2008); *Taltech Enters. Ltd. v. Esquel Ltd.*, 609 F. Supp. 2d 1195, 1211 (W.D. Wash. 2009), *aff’d* in relevant part, *rev’d* in part, 604 F.3d 1324 (Fed. Cir. 2010).

On the other hand, a party with a legitimate claim or defense should not be coerced into settling for fear that it will erroneously be subjected to fee shifting. Close appellate review of Section 285 fee-shifting determinations is important to the proper functioning of the patent litigation system.

**B. The Permissive Venue Rule For Patent Actions Enables Forum-Shopping.**

Plaintiffs in patent infringement actions have extremely broad discretion in choosing the forum where they file suit, which creates a significant potential for forum shopping. A deferential standard of review rewards forum shopping by insulating a district court's decision from searching review; a *de novo* standard, by contrast, reduces any benefit that a party might hope to obtain by steering litigation to particular courts.

The venue provision governing patent infringement actions provides that a civil action may be brought in the judicial district "where the defendant has committed acts of infringement and has a regular and established place of business." 28 U.S.C. § 1400(b).

As a result of "liberalizations of the jurisdiction and venue statutes, combined with the technological feasibility and ease of national commerce," any company with a nationwide market for its products may potentially "be sued in virtually any U.S. district court." Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 897 (2001). When the defendant is such a national business, the plaintiff of-

ten has unfettered choice in deciding where in the country it will sue.<sup>4</sup>

Patent cases are distributed unevenly around the country. More than 20% of all cases filed in 2012 were instituted in the Eastern District of Texas and more than 15% were filed in the District of Delaware. Judicial Business of the United States Courts, 2012 Annual Report, Appendix, Table C-7, <http://tinyurl.com/lfxll33>.

A number of studies of patent litigation have found that “the jurisdiction in which a case is litigated has a significant impact on its outcome.” Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 401, 410-411 (2010). See also *id.* at 410 (“The variation in win rates ranges from a high of 55% in the Northern District of Texas to a low of 11.5% in the Northern District of Georgia.”); PricewaterhouseCoopers, *2013 Patent Litigation Study: Big cases make headlines, while patent cases proliferate* 23 (2013), <http://tinyurl.com/lsnjawf> (national success rate for plaintiffs between 1995 and 2012 of 32.4%;

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<sup>4</sup> The Federal Circuit has properly issued mandamus to compel magnet jurisdictions to transfer venue in particularly egregious instances of venue shopping. See, e.g., *In re Acer Am. Corp.*, 626 F.3d 1252 (Fed. Cir. 2010) (granting mandamus to transfer case out of the Eastern District of Texas); *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009) (same); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) (same). But many mandamus petitions are denied. See, e.g., *In re Apple Inc.*, 456 F. App’x 907 (Fed. Cir. 2012) (denying mandamus petition seeking transfer out of the Eastern District of Texas); *In re Simpson Strong-Tie Co.*, 417 F. App’x 941 (Fed. Cir. 2011) (same); *In re Vistaprint Ltd.*, 628 F.3d 1342 (Fed. Cir. 2010) (same); *In re Echostar Corp.*, 388 F. App’x 994 (Fed. Cir. 2010) (same); *In re Apple Inc.*, 374 F. App’x 997 (Fed. Cir. 2010) (same).

comparable rate in Eastern District of Texas was 57.5% and in the District of Delaware was 42.2%).

This sort of forum shopping is not, of course, entirely one sided. If a patent holder sends a demand letter accusing an entity of infringement, the letter's recipient may file an action seeking a declaratory judgment of patent invalidity or non-infringement. Just as a plaintiff may steer its suit to a forum friendly to patentees, an accused infringer will likely choose a venue that is perceived as favorable. Lemley, *supra*, at 410. “[A]ccused infringers prefer forums with a slower average time to trial and a larger pool of technologically sophisticated jurors, such as the Northern District of California.” Seaman, 97 Iowa L. Rev. at 450.

Forum shopping, as now-Judge Moore explained, “thwarts the ideal of neutrality in a system whose objective is to create a level playing field for resolution of disputes.” Moore, 79 N.C. L. Rev. at 924. “The ultimate result is unpredictability and inconsistency in the application of the law among the district courts.” *Ibid.* At bottom, “[t]his instability erodes public confidence in the law and its enforcement and creates doubt about the fairness of the system.” *Ibid.*

Close appellate review of Section 285 fee-shifting decisions diminishes the benefit of forum shopping, because outlier decisions are more likely to be corrected on appeal. That is especially true in the patent context, because all appeals are heard by a single court—the Federal Circuit. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (“It was just for the sake of such desirable uniformity that Congress created the Court of Appeals for the

Federal Circuit as an exclusive appellate court for patent cases.”).<sup>5</sup>

The *de novo* standard thus combats forum disparities and, as a result, eliminates an incentive for forum shopping. Because the abuse-of-discretion standard places a heavy thumb on the scale in favor of the district court, adopting that standard of review here would reward forum shopping.

Petitioner and its *amici* advance the counter-intuitive proposition that deferential appellate review would somehow deter these litigation abuses. See Pet. Br. 48-50; Br. of Am. Intellectual Prop. Law Assoc. 28-30; Br. of Blue Cross 18-20. Petitioner suggests that a *de novo* standard works as a “one-way ratchet” on appeal: the Federal Circuit is likely to affirm the denial of fees, and it is likely to reverse an award of fees. Pet. Br. 48.

But petitioner offers no evidence to support this supposition. Under a *de novo* standard, the Federal Circuit would review the fee-shifting decision like any other question of law. If the district court reached the correct legal conclusion, the Federal Circuit will affirm; if it erred, the Federal Circuit will reverse. It is impossible to understand why that approach would benefit litigants pressing abusive claims. Certainly petitioner’s survey of just three

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<sup>5</sup> There is some indication that the Federal Circuit is performing this role in its review of district courts’ judgments in patent cases: the judicial districts with the highest rate of plaintiff success also have high reversal rates. Teresa Lii, *Shopping for Reversals: How Accuracy Differs Across Patent Litigation Forums*, 12 Chi.-Kent J. Intell. Prop. 31, 43-44 (2013).

cases (Pet. Br. 49) provides no basis for concluding otherwise.<sup>6</sup>

To the contrary, deferential review would tend to benefit—indeed benefit substantially—litigants that engage in forum shopping by insulating trial court against more searching review. The *de novo* standard, by contrast, places all litigants on an equal footing before the Federal Circuit, eliminating any benefit that a particular forum might bestow.

## **II. A District Court’s Determination Whether Fees Should Be Shifted Under Section 285 Is Subject To *De Novo* Review.**

The basic standard of review applied by an appellate court is straightforward: “Questions of law are reviewed *de novo* and questions of fact for clear error.” *AT&T Mobility LLC v. Concepcion*, 131 S. Ct. 1740, 1752 (2011). See also *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 948 (1995) (in reviewing district courts, appellate courts “accept[] findings of fact that are not ‘clearly erroneous’ but decid[e] questions of law *de novo*”).

Frequently, application of a legal standard—for example, “is the patent claim valid”—will require subsidiary determinations of both fact and law. Those subsidiary determinations are reviewed defer-

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<sup>6</sup> Nor do petitioner’s *amici* provide any reason to think that abuse-of-discretion review would tend to encourage fee awards in a manner that deters abusive litigation. One *amicus*, for example, baldly asserts that review of “Section 285 awards *de novo* will mean that more exceptional case findings will be overturned and that fewer cases will ultimately result in the award of attorney’s fees under Section 285.” Br. of Blue Cross 19. But it provides neither citation nor argument to justify that fear.

entially and *de novo*, respectively. Uncertainty can arise, however, regarding the standard of review applicable to the overarching determination.

The question here involves the district court's determination whether a case is "exceptional" within the meaning of Section 285, entitling the prevailing party to an award of attorney's fees. The separate question regarding the *amount* of fees to be awarded is not at issue. *Pierce*, 487 U.S. at 571 (explaining "it is well established that the abuse-of-discretion standard applies" to the "amount of the attorney's fees award").

We explain in our *amicus* brief in *Octane* that the standard for determining when a case is "exceptional" is whether the losing party's position was "objectively unreasonable." BSA *Octane* Br. 10-27. A district court's determination of objective unreasonableness is subject to *de novo* review.<sup>7</sup>

There can be no serious dispute that any issues of fact subsidiary to the "objective unreasonableness" determination are subject to clearly erroneous review and subsidiary determinations of law are subject to *de novo* review. *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 713-714 (1986); *Pullman-Standard v. Swint*, 456 U.S. 273, 287 (1982) ("[I]f a district court's findings rest on an erroneous view of the law, they may be set aside on that basis.>").

This case requires the Court to decide whether the "exceptional" determination itself is a "matter[]

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<sup>7</sup> If the Court concludes in *Octane*, contrary to our submission, that the "exceptional" standard in addition requires proof of subjective bad faith, *de novo* review would at a minimum apply to the objective element of the standard.

of discretion” that is “reviewable for ‘abuse of discretion.’” *Pierce*, 487 U.S. at 558. It is not.

**A. “Objective Unreasonableness” Is A Legal Determination Subject To *De Novo* Review.**

There are three reasons why a district court’s ultimate conclusion that a case is “exceptional” should be subject to *de novo* review: Congress’s decision to delete the reference to “discretion” in the statutory text; the overwhelmingly legal nature of the determination; and this Court’s conclusions in analogous contexts that *de novo* review is appropriate.

**1. *The statutory text.***

The “first” consideration—“the language and structure of the governing statute” (*Pierce*, 487 U.S. at 559)—weighs heavily in favor of *de novo* review.

When initially enacted, Section 285 stated that 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.” Act of August 1, 1946, ch. 726, § 1, 60 Stat. 778 (emphasis added).

In revising the fee-shifting statute in the Patent Act of 1952, Congress eliminated the language conferring discretion and added the “exceptional” standard, so that the provision now reads “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. By revising the statute to delete the prior language conferring discretion on the district court, Congress made clear its intent *not* to create an exception from

the general rule that legal determinations are subject to *de novo* review.<sup>8</sup>

**2. *The inherently legal nature of the inquiry.***

The Court also has looked to the character of the determination made by the district court in identifying the appropriate standard of review. *E.g.*, *Miller v. Fenton*, 474 U.S. 104, 114 (1985) (whether “as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question”). Unless the “mix weighs heavily” on the “fact’ side,” *de novo* review is appropriate. *Lilly v. Virginia*, 527 U.S. 116, 148 (1999) (Rehnquist, J., concurring).

Here, the “mix” tips overwhelmingly toward the “legal” side.

Whether a party’s position in litigation is “objectively reasonable” is, on its face, a legal determination. A court must view a case through the lens of a disinterested person to decide whether continued maintenance of the position was reasonable.

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<sup>8</sup> Petitioner seizes on the word “may,” arguing that it suggests deference. Pet. Br. 15. But that ignores the history of the provision, which demonstrates Congress’s clear contrary intent. And even standing alone, “may” is much less suggestive of deference than the phrase “unless the court finds,” which the Court found ambiguous in *Pierce*. 487 U.S. at 559 (emphasis omitted). Petitioner’s reliance on the legislative history of the Patent Act of 1952 is misplaced, because nothing in that history indicates that Congress intended to codify a deferential standard of review—a conclusion that would be directly contrary to Congress’s elimination of the reference to deference in the statutory text.

Moreover, questions of law will often predominate in the underlying aspects of the litigation that a court must consider. Review of fee awards under Section 285 confirms that, with substantial frequency, those awards turn on underlying questions of law. For example:

- Claim construction: *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011) (awarding the defendant fees because the plaintiff “pursued objectively baseless infringement claims” given that “the written description clearly refutes [its] claim construction”); *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 918-919 (Fed. Cir. 2012) (“the record supports the district court’s finding that [the patentee] pursued objectively baseless infringement claims” because, among other things, “the specification and prosecution history clearly refute [its] proposed claim construction”).
- Failure to state a claim: *Mobile Shelter Sys. USA, Inc. v. Grate Pallet Solutions, LLC*, 2013 WL 3815595, at \*8 (M.D. Fla. 2013) (awarding fees where the plaintiff pursued “objectively baseless” infringement claims with respect to “a patent that had previously been surrendered in a reissue proceeding,” which thereby became “void and unenforceable”).
- Claim preclusion: *Sparks v. Eastman Kodak Co.*, 49 F. App’x 900, 901 (Fed. Cir. 2002) (summary affirmance of district court’s award of fees where the plaintiff’s claims were barred by *res judicata*).

- Willful infringement: *Univ. of Pittsburgh of Com. Sys. of Higher Educ. v. Varian Med. Sys., Inc.*, 2012 WL 1436569, at \*8 (W.D. Pa. 2012) (granting attorney’s fees to a prevailing plaintiff in light of willful infringement finding).
- On sale bar: *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1386 (Fed. Cir. 2001) (affirming award of fees to a prevailing defendant for all costs of defense, where the plaintiff’s patent was found invalid by the on-sale bar).
- Obviousness: *Auto. Techs. Int’l, Inc. v. Siemens VDO Auto. Corp.*, 744 F. Supp. 2d 646, 653 (E.D. Mich. 2010) (granting fee award to defendants where “there was clear and convincing evidence that Plaintiff should have known that [another] [p]atent rendered [its] [p]atents obvious”).

In each of these cases, the considerations underlying the “exceptional” decision involved legal questions.

*De novo* review of legal questions is a centerpiece of the federal judicial system. By “necessity,” district courts, which “preside alone over fast-paced trials,” “devote much of their energy and resources to hearing witnesses and reviewing evidence.” *Salve Regina Coll. v. Russell*, 499 U.S. 225, 231 (1991). Moreover, “the logistical burdens of trial advocacy limit the extent to which trial counsel is able to supplement the district judge’s legal research with memoranda and briefs.” *Ibid.* Accordingly, “trial judges often must resolve complicated legal questions without benefit of extended reflection or extensive information.” *Id.* at 232 (quotation omitted).

Appellate courts, by contrast, “are structurally suited to the collaborative juridical process that promotes decisional accuracy.” *Salve Regina Coll.*, 499 U.S. at 232. Appellate courts “are able to devote their primary attention to legal issues” and the “parties’ briefs will be refined to bring to bear on the legal issues more information and more comprehensive analysis than was provided for the district judge.” *Ibid.* And the appellate panel of judges brings particular weight to bear on the resolution of legal issues through the “fruitful interchange of minds which is indispensable to thoughtful, unhurried decision and its formulation in learned and impressive opinions.” *Ibid.* (quoting *Dick v. New York Life Ins. Co.*, 359 U.S. 437, 458-459 (1959) (Frankfurter, J., dissenting)).

At bottom, *de novo* review of legal issues serves “the dual goals of doctrinal coherence and economy of judicial administration.” *Salve Regina Coll.*, 499 U.S. at 231. Because “objective reasonableness” is such a legal question, *de novo* review is required.

Petitioner suggests that an abuse-of-discretion standard is preferable because subjecting all aspects of the district court’s decision to the same standard would be easier to administer. Pet. Br. 23. But even if the ultimate determination of objective unreasonableness were subject to deferential review, all subsidiary legal determinations would be reviewed *de novo*. See page 11, *supra*. Petitioner’s ease-of-administration argument makes no sense, especially given the prevalence of legal issues in this context.

Moreover, the *de novo* standard that we advocate is, in fact, the generally-applicable approach; deferring to district court’s decisions applying a legal standard is the exception. See, e.g., *Ornelas v. United*

*States*, 517 U.S. 690, 697 (1996). *De novo* review applies here.

### **3. *This Court's decisions on similar questions.***

The approach that the Court has taken with respect to review of “objective reasonableness” determinations in other contexts confirms that the *de novo* standard is appropriate here.

In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49, 62 (1993) (“*PRE*”), the court held that litigation is a “sham”—and therefore may be the basis for an anti-trust claim—only if it is “so baseless that no reasonable litigant could realistically expect to secure favorable relief.” This standard turns on whether there was “[p]robable cause to institute civil proceedings.” *Ibid.*

*PRE* recognized that this question of objective reasonableness, i.e., “probable cause,” may be decided as “a matter of law.” 508 U.S. at 63. To be sure, the Court indicated that this is so where “there is no dispute over the predicate facts of the underlying legal proceeding.” *Ibid.* But that caveat *always* applies with respect to questions of law subject to *de novo* review; material factual disputes necessarily must be resolved (and their determination subject to deferential review) prior to *de novo* application of the legal standard.

In *Ornelas*, 517 U.S. at 697, the Court held that there is “independent appellate review,” i.e. *de novo* review, of determinations whether “probable cause” exists. It rejected deferential review, because that would mean that, “in the absence of any significant difference in the facts, the Fourth Amendment’s in-

cidence to turn on whether different trial judges draw general conclusions that the facts are sufficient or insufficient to constitute probable cause.” *Ibid.* (quotation omitted). Moreover, *de novo* review “tends to unify precedent” and provides the appellate courts “control” over “the legal principles.” *Ibid.* The Court cautioned that a “reviewing court should take care \* \* \* to review findings of historical fact only for clear error.” *Id.* at 699.

The objective reasonableness inquiry underlying Section 285 is precisely the same as the legal rule at issue in these cases. The determination whether a party’s litigating position is objectively unreasonable—triggering an award of fees under Section 285’s “exceptional” standard—is properly subject to *de novo* review. Deferential review is appropriate only for any findings of historical fact that are relevant to the objective unreasonableness.

### **B. Petitioner’s Reliance On *Cooter* And *Pierce* Is Misplaced.**

Petitioner’s argument for abuse-of-discretion review relies principally on this Court’s decisions in *Pierce* and *Cooter*. Pet. Br. 13-24. But the key factors on which those rulings rest are not present in the Section 285 context.

**Statutory text.** *Pierce* emphasized that the statutory text, by using the active voice—“unless *the court finds* that the position of the United States was substantially justified”—could be read to confer discretion on the district court. 487 U.S. at 559 (quotation omitted). It also pointed to the express abuse-of-discretion standard for an agency’s “substantially justified” determinations, observing that Congress likely would not intend to “accord more deference to

an agency's determination that [the agency's] own position was substantially justified than to such a determination by a federal district court." *Ibid.*

Here, by contrast, Congress's decision to eliminate from the statute discretion-conferring language points in the opposite direction. See pages 12-13, *supra*.

**Value of the claim.** *Pierce* involved an attorney's fee award of \$1,129,450 that had been reduced by the appellate court to \$322,700. 487 U.S. at 557. The Court emphasized that "the substantial amount of the liability produced by the District Judge's decision" "militat[ed] against the use" of the abuse of discretion standard. *Id.* at 563. If a decision under the EAJA "ordinarily ha[d] such substantial consequences, one might expect it to be reviewed more intensively." *Ibid.* Observing that the "median [fee] award [under the statute] has been less than \$3,000," the Court determined that "the generality rather than the exception must form the basis for our rule"—and found deferential review appropriate. *Ibid.*

The facts are precisely the opposite in fee litigation under Section 285. The *median* cost of an infringement case exceeds \$6 million per side, and recent fee awards are much larger—\$26.9 million, \$19 million, \$16.8 million, \$8.6 million, \$8.4 million, and \$6.8 million, as just a few examples. See page 4 & n.3, *supra*. For that reason, the amount at stake weighs strongly in favor of *de novo* review.

**Best-positioned decision maker.** *Pierce* next observed that trial courts were best positioned to determine whether a position advanced by the government was "substantially justified," observing that the inquiry would "[n]ot infrequently" involve questions

of fact. 487 U.S. at 560. See also *Cooter*, 496 U.S. at 403-404. Here, however, Section 285 most frequently turns on questions of law. See pages 13-15, *supra*.

*Pierce* also considered whether appellate review of a fee award would cause the reviewing court to “invest substantial additional time” (487 U.S. at 560), as well as whether the legal ruling is likely to be of “useful generalization” (*id.* at 562). In the context of the EAJA, because most cases pose “a multifarious and novel question,” the cost of appellate court review was high, and the precedential value low. *Ibid.* See also *Cooter*, 496 U.S. at 404.

In the context of Section 285 decisions, by contrast, the fee-award determination is reviewed in tandem with the underlying merits—which involve the very same legal issues. There accordingly is no efficiency gain. See pages 13-15, *supra*.<sup>9</sup> And there is significant precedential value to these determinations.

The factors identified in *Pierce* and *Gell* thus favor *de novo* review here.

### **III. Whatever The Court Decides With Respect To Section 285, The *De Novo* Standard Applies To Objective Reasonableness Determinations Relating To Willful Infringement.**

If the Court adopts petitioner’s abuse-of-discretion standard in this case, it should not inadvertently suggest that the same rule applies to the “objective unreasonableness” element of willful infringement determinations.

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<sup>9</sup> To the extent factual issues are relevant, they will be reviewed deferentially. See page 11, *supra*.

The Patent Act provides that in infringement actions “the court may increase the damages up to three times the amount found or assessed.” 35 U.S.C. § 284. This Court has interpreted the provision to require proof of “willful or bad-faith infringement.” *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964).

The *en banc* Federal Circuit has held that the requisite willfulness is established when (1) “a patentee \* \* \* show[s] by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” and (2) “the patentee \* \* \* demonstrate[s] that this objectively-defined risk \* \* \* was either known or so obvious that it should have been known to the accused infringer.” *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

Willful infringement therefore requires proof of both objective and subjective elements. The objective prong of that analysis—which effectively considers whether the accused infringer’s acts were objectively unreasonable—is “decided by the judge as a question of law subject to *de novo* review.” *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012).

Accordingly, “[w]hen a defense or noninfringement theory asserted by an infringer is purely legal (e.g., claim construction), the objective recklessness of such a theory is a purely legal question to be determined by the judge.” *Bard*, 682 F.3d at 1007. And “[w]hen the objective prong turns on fact questions, as related, for example, to anticipation, or on legal questions dependent on the underlying facts, as related, for example, to questions of obviousness, the judge remains the final arbiter of whether the de-

fense was reasonable, even when the underlying fact question is sent to a jury.” *Ibid.* “[T]he ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a valid patent should always be decided as a matter of law by the judge.” *Id.* at 1008.

A holding that the fee-shifting determination is subject to abuse-of-discretion review would not apply to the objective prong of a willfulness determination for three reasons.

*First*, petitioner’s argument for deferential review relies substantially on the claim that district courts deserve unusual deference with respect to issues involving “supervision of litigation.” Pet. Br. 11 (quoting *Pierce*, 487 U.S. at 558 n.1). See also *id.* at 41 (distinguishing cases adopting *de novo* review because “[t]hey do not implicate the kind of fact intensive, ‘supervision of litigation’ issues which district courts are best positioned to decide”); *Cooter*, 496 U.S. at 404 (“Deference to the determination of courts on the front lines of litigation will enhance these courts’ ability to control the litigants before them.”).

If the Court were to rule in petitioner’s favor on that basis, the Court’s rationale would not extend to willful infringement, which relates to the defendant’s primary conduct and has nothing to do with the supervision of litigation.

*Second*, the considerations supporting *de novo* review in the context of willful infringement are stronger than the comparable factors with respect to attorney’s fees. To begin with, while the amounts awarded as attorney’s fees are themselves quite large, they pale in comparison to the hundreds of

millions that may be awarded for willful infringement. *Seaman*, 97 Iowa L. Rev. at 422.

*Bard* itself is a textbook example: after the jury awarded more than \$185 million in compensatory damages, the district court *doubled* that amount as enhanced damages—demonstrating the very large amounts that can turn on the correctness of a willfulness determination. See *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 670 F.3d 1171, 1191 (Fed. Cir. 2012).

Given that willful infringement in patent damages is responsible, quite literally, for some of the largest verdicts in history, the “substantial consequences” of such a decision would lead one to “expect it to be reviewed more intensively.” *Pierce*, 487 U.S. at 563.

Moreover, willful infringement determinations have enormous precedential value, as they set the parameters for such awards in future cases. There are, accordingly, significant “law-clarifying benefits” for *de novo* review. *Pierce*, 487 U.S. at 561.

*Third*, the “punitive” nature of enhanced damages for willful infringement also weighs in favor of *de novo* review. *In re Seagate Tech.*, 497 F.3d at 1371. Because punitive damages are, at bottom, “quasi-criminal,” the Court has held that review of punitive damages, at least with respect to whether they comport with constitutional limitations, is “*de novo*.” *Cooper Indus., Inc. v. Leatherman Tool Grp., Inc.*, 532 U.S. 424, 432-436 (2001). For the same reasons, *de novo* review should attach to willful infringement.

At bottom, whatever the Court may decide in this case, it should not inadvertently undermine the Federal Circuit’s holding in *Bard*. The objective element

of willful infringement determinations are appropriately subject to *de novo* review.

**CONCLUSION**

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

ANDREW J. PINCUS  
*Counsel of Record*  
PAUL W. HUGHES  
JAMES F. TIERNEY  
*Mayer Brown LLP*  
*1999 K Street, NW*  
*Washington, DC 20006*  
*(202) 263-3000*  
*apincus@mayerbrown.com*

*Counsel for Amicus Curiae*

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