No. 12-1163

IN THE

Supreme Court of the United States

HIGHMARK INC.,

Petitioner,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF BLUE CROSS BLUE SHIELD ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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INTEREST OF *AMICUS CURIAE*[1]

The Blue Cross Blue Shield Association ("BCBSA") is the trade association that coordinates the national interests of the independent, locally operated Blue Cross and Blue Shield companies ("BCBSA Member Companies"). Together, the 38 independent, community-based, and locally operated BCBSA Member Companies provide health insurance benefits to nearly 100 million people – almost one-third of all Americans – in all 50 states, the District of Columbia, and Puerto Rico. The BCBSA Member Companies offer a variety of insurance products to all segments of the population, including large public and private employer groups, small businesses, and individuals.

Petitioner Highmark, Inc. ("Highmark") is a Member Company of BCBSA, although BCBSA has had no involvement in the case and has no financial interest in its outcome. BCBSA has filed nine amicus briefs with the Court in the past ten years. The issues set forth in Highmark's *certiorari* petition interest BCBSA because of the high costs that patent litigations have imposed on a wide range of businesses in all sectors, from Member Companies, such as Highmark, to the entrepreneurs, small businesses, and large companies that purchase health insurance products from Member Companies. One

1. Respondent and Petitioner have been given timely notice and have both consented to the filing of this *amicus* brief under Supreme Court Rule 37. *Amicus* and its counsel represent that no party to this case nor its counsel authored this brief in whole or in part, and that no person other than *amicus* paid for or made a monetary contribution toward the preparation and submission of this brief.

way patent litigation costs can be held in check is through the proper application and review of attorney's fees awards under 35 U.S.C. § 285, thus giving the issues set forth Highmark's *certiorari* petition particular relevance and urgency.

INTRODUCTION AND SUMMARY OF THE ARGUMENT

In the decision below, the Federal Circuit reviewed an exceptional case finding of the Northern District of Texas. The District Court, after carefully reviewing the six-year history of the case, was "firmly convince[d]" that this case was "exceptional" under 35 U.S.C. § 285 because Respondent Allcare "had not done its homework when it began trolling for dollars and threatening litigation," Pet. App. 69a; continued to assert "meritless allegations after the lack of merit became apparent" and after they were proven to be "without support by its own expert's report and deposition testimony," apparently "as insurance or leverage," Pet. App. 77a-78a; "use[d] frivolous and vexatious tactics" in litigating the case, including the assertion of a frivolous *res judicata* defense, misrepresentations to another district court in support of its transfer motion, and flip-flopping its position on claim construction "without reasonable explanation" and after court ordered deadlines, "thus complicating Highmark's ability to advance its own claim construction and to defend against Allcare's elusive allegations," Pet. App. 82a-83a, 91a. The District Court's exhaustive analysis of the six-year record culminated with an exceptional case finding and an award of "reasonable attorney fees" to Petitioner as "the prevailing party." 35 U.S.C. § 285.

Despite having only appellate briefing, a limited record, and a brief oral argument, a split panel of the Federal Circuit reversed the district court's exceptional case finding with respect to Respondent's litigation of one patent claim (claim 52). The panel majority broke with long-standing circuit precedent by granting itself the authority to make a *de novo* determination of whether the "objectively baseless" prong of the two-part test for an "exceptional case" was satisfied, Pet. App. 9a, and then compounded its error by overturning the trial court's judgment that Respondent's construction of claim 52 was objectiveless baseless, based in part on an argument Respondent never advanced.

Because of the Federal Circuit's exclusive patent jurisdiction, this rule of *de novo* review will apply to all patent cases nationwide. And given that rehearing *en banc* was denied and the active members of the Federal Circuit are evenly divided on the issue, the Federal Circuit's newly established authority to engage in *de novo* review of fee awards under Section 285 will remain the law of the land unless and until this Court acts.

BCBSA agrees with Petitioner Highmark that *certiorari* review is warranted because the decision below is incompatible with the precedent of this Court and regional appellate courts and creates a deep division within the Federal Circuit itself. *See* Pet. 14-26. BCBSA writes separately here primarily to underscore the reasons why this case presents a question of national importance. *See id.* at 26-31.

The Federal Circuit's decision to review Section 285 attorney fee awards *de novo*—as opposed to

deferentially—distorts the proper allocation of judicial responsibility between federal trial and appellate courts. *De novo* appellate review of what are, in large part, factual determinations invades the traditional province of the district court and impedes the orderly administration of justice in the federal court system. Moreover, awarding attorney's fees has historically been part of the trial court's inherent power, as the trial court has a front seat view to the whole course of the litigation and the opportunity to view the entirety of the case firsthand, including the claims asserted and positions taken by the parties and the conduct and candor of the parties. Thus, the Federal Circuit's sharply divided decision to vest itself with the power to review such fee awards *de novo* is a significant development. *Certiorari* review is warranted to ensure the proper division of labor between the federal trial and appellate courts.

This is not simply an academic issue but also an issue of great *practical* importance. By refusing to afford deference to a trial court's factual findings and instead deciding for itself what is or is not an "exceptional case" based on only "thirty minutes with the attorneys and . . . [a] limited record and knowledge of the events taking place in the proceedings below," Pet. App. 201a (Moore, J., dissenting from denial of rehearing *en banc*), *de novo* review impedes the proper application of 35 U.S.C. § 285.

This is because Section 285 plays a critical role in regulating the quality of patent infringement lawsuits. Section 285 incentivizes patent holders and accused infringers to litigate only legitimate, good-faith disputes over patent infringement and validity. The prospect of a prevailing party recovering its attorney's fees in an

"exceptional case" both: (a) deters patent holders from filing dubious cases with the main purpose of extracting settlements based on threatened litigation costs rather than the merits of the asserted infringement; and (b) encourages willful infringers to settle cases and enter into license agreements where the infringement is clear cut and in bad faith. The decision below, however, will only embolden parties with dubious positions to litigate, knowing that they will have not one, but two *de novo* opportunities to avoid an exceptional case finding. It thus threatens to clog busy district courts with both meritless cases and meritorious cases opposed only by futile defenses.

Because of the Federal Circuit's exclusive jurisdiction over patent appeals, this is a national problem. And it is a problem that will only grow in magnitude because of the increasing amount and expense of patent infringement litigation. Between January 1, 2007 and December 31, 2008, 4,803 patent infringement lawsuits were filed.[2] For the equivalent period between January 1, 2011 and December 31, 2012, the number of patent lawsuits nearly doubled, to 8,196. This increase was largely attributable to lawsuits filed by non-practicing entities ("NPEs") (also commonly called patent assertion entities ("PAEs")). *Id.*

Patent lawsuits are among the most expensive cases to litigate. The American Intellectual Property Law Association ("AIPLA") estimates that a patent lawsuit

2. *See* Sara Jeruss, Robin Feldman & Thomas Ewing, *The AIA 500 Expanded: The Effects of Patent Monetization Entities* app. A (Apr. 9, 2013), *available at* http://ssrn.com/abstract=2247195.

involving $1 million to $25 million in claimed damages (*i.e.,* a typical patent case) costs each party, on average, $1.5 million in attorney's fees through discovery and $2.5 million in attorney's fees through trial.[3] As the claimed damages increase, the expected fees will also escalate.

The rise of NPE lawsuits has, according to some studies, inflicted billions of dollars of costs on the U.S. economy.[4] Some industry leaders characterize NPE settlements as an "innovation tax" on high-tech companies.[5] And, with NPEs losing 92% of cases adjudicated on the merits, many NPE lawsuits are the patent litigation equivalent to a "strike suit" in securities litigation – *i.e.*, the plaintiff makes a dubious claim for the purpose of gaining a settlement, before reaching litigation on the merits, for an amount equal to or lesser than the defendant's anticipated legal costs.[6]

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3. Am. Intellectual Prop. Law Ass'n, *2011 Report of the Economic Survey* 35 (2012).

4. *See* James Beesen & Michael Meurer, *The Direct Costs from NPE Disputes* 18-19 (Bos. Univ. Sch. of Law, Law & Economics Research Paper No. 12-34, 2012).

5. *E.g.*, *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing before the Subcomm. on Intellectual Property of the S. Judiciary Comm.*, 109th Cong. 40-52 (2006) (statement of Mark Chandler, General Counsel, Cisco Systems).

6. Brian T. Yeh, Cong. Research Serv., R42668, *An Overview of the "Patent Trolls" Debate* 1 (2012); Merritt B. Fox, *Required Disclosure And Corporate Governance*, 62 Law & Contemp. Probs. 113, 119 (1999) (defining strike suit).

NPEs are able to impose this "tax" because of the asymmetric financial risks inherent in NPE lawsuits. NPEs, which typically have no operations, face little threat of counterclaims and have fewer documents to produce and depositions to defend than practicing entities. In contrast, a large company accused of patent infringement can incur millions of dollars simply responding to discovery requests propounded by an NPE. The one weapon that parties sued by NPEs have to level the playing field and deter abusive litigation tactics is the threat of shifting attorney's fees "in exceptional cases." 35 U.S.C. § 285 ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

Of course, NPEs are not the only parties that can assert baseless positions or use litigation as a tool to vex and harass. One can readily imagine a company suing its competitor to interfere with a new product launch or attempts to obtain investor financing. Generic drug companies have long alleged that branded drug companies initiate litigation under the Hatch-Waxman Act to delay the launch of generic drugs. Likewise, accused infringers may assert baseless defenses, and engage in scorched-earth litigation tactics, to exhaust the resources of the party asserting patent infringement. In all of these instances, the threat of fee shifting serves as an important deterrent. More broadly, due to their complexity, patent lawsuits stretch the increasingly limited resources of the federal judiciary. Because Section 285 applies to both plaintiffs and defendants, it focuses the parties on matters of legitimate dispute and increases the quality of patent cases that are litigated in the federal courts.

As evidenced by the decision here, where the district court determined that the case was exceptional but a split panel of the Federal Circuit held otherwise, the result of *de novo* review of attorney's fees awards is that the Federal Circuit will simply substitute its own judgment for the judgment of the district court when determining whether a party's litigation positions and conduct were sufficiently meritless (or otherwise exceptional) to warrant fee shifting. Appellate review, however, is based only on excerpts of the trial court record; key facts and observations available to the district court are likely to be invisible in the appellate record. Such facts may include the candor and credibility of litigants and their counsel, the consistency of positions taken, efforts to block discovery or otherwise delay development of the factual record, continued advocation of positions after facts no longer support the position, and ever-shifting or obfuscatory arguments designed to draw out the litigation.

If this new *de novo* review standard is upheld, the deterrent effect of Section 285 will be weakened, and parties will be more likely to roll the dice on bad claims or defenses, knowing that if the claim fails and attorney's fees are awarded by the district court, they will get a clean slate at the Federal Circuit and will have the ability to make a *post hoc* rationalization of their positions and conduct. This is especially so given the panel majority's willingness to supply its own *post hoc* rationalizations for Respondent's conduct. A grant of *certiorari* is warranted.

ARGUMENT

I. THE RAPIDLY INCREASING AMOUNT AND EXPENSE OF PATENT LITIGATION HIGHLIGHTS THE IMPORTANCE OF SECTION 285'S ROLE IN REGULATING THE QUALITY OF PATENT SUITS

The question presented is important because of the increase in the number of patent cases filed and the high cost of litigating those cases. To manage this increase in filings and mitigate the high costs of litigation, district courts discretion to award attorney's fees in exceptional cases should not be unduly circumscribed. The Federal Circuit moved in the wrong direction when it decided to allow itself to reexamine *de novo* whether a case is objectively baseless and thus potentially exceptional. This important and unprecedented change in the law warrants review by this Court.

A. Patent Lawsuits, Which Routinely Cost Millions Of Dollars To Litigate, Have Nearly Doubled In The Last Five Years

As noted above, the number of patent infringement lawsuits filed in the last five years has nearly doubled. The vast majority of this increase has been fueled by NPE filings. From January 1, 2007 to December 31, 2008, NPEs filed 804 lawsuits, representing 17 percent of all patent infringement lawsuits.[7] Over 2011 and 2012, NPEs filed 3,844 lawsuits, a 378% increase in filings. *Id.* In contrast, the number of patent lawsuits filed between competitors

7. *See* Jeruss, *supra*, at app. 1.

increased by 6.7% during that same timespan. *Id*. As a result of skyrocketing NPE filings and the relatively flat increase in non-NPE filings, NPE suits now represent a majority (54.6%) of all patent cases.

Litigating these lawsuits is costly. The American Intellectual Property Law Association's ("AIPLA") most recent annual survey of patent litigation reported that the average attorney's fees to defend a typical patent case through trial totaled $2.5 million.[8] Most of those fees are discovery costs incurred on the front end of the case – the average attorney's fees from filing to the completion of discovery are $1.5 million. *Id*. Thus, the majority of patent litigation costs are incurred prior to the summary judgment phase of the case, which is usually the earliest opportunity to defeat a non-meritorious claim.

Many patent litigation costs are fixed costs and not tied to the amount in controversy. For example, parties routinely spend hundreds of thousands of dollars, if not millions of dollars, collecting and reviewing electronically stored information. Depositions and expert witnesses can quickly total several hundred thousand dollars. Although litigants typically spend more litigating a case when tens or hundreds of millions of dollars in damages are claimed, the cost of defending a case with only one million dollars in claimed damages remains substantial, as set forth below:

8. Am. Intellectual Prop. Law Ass'n, *supra*.

The cost of fighting a patent lawsuit

Planning to file a patent lawsuit or have to defend against one? Your legal bills are going to add up fast.

How much could you lose?	2005	2011
Less than $1 million at risk		
- End of discovery	$350,000	$350,000
- All costs	$650,000	$650,000
$1 million to $25 million at risk		
-End of discovery	$1.25 million	$1.5 million
-All costs	$2 million	$2.5 million
More than $25 million at risk		
-End of discovery	$3 million	$3 million
-All costs	$4.5 million	$5 million

Source: Report of the Economic Survey 2011, American Intellectual Property Law Association

Fig. 1. Jim Kerstetter, *How much is that patent lawsuit going to cost you?*, CNET (Apr. 5, 2012), http://news.cnet.com/8301-32973_3-57409792-296/how-much-is-that-patent-lawsuit-going-to-cost-you/ (citing Am. Intellectual Prop. Law Ass'n, *supra*).

It should come as no surprise then that many companies accused of patent infringement choose to settle cases, irrespective of their merits, to avoid incurring these costs. Quite simply, a party can "win" a patent case but lose millions of dollars in the process. The collective impact of these cases is substantial. One study estimated that companies spent $29 billion defending NPE lawsuits

in 2011.[9] Section 285 is the principal mechanism under which some of these costs can potentially be recouped.

To be sure, a patent owner is not required under the Patent Act to practice a patented invention. And there are many examples of what most individuals would consider "good" NPEs – universities, garage inventors, and perhaps small businessmen trying to monetize inventions remaining from failed business ventures. There are also examples of NPEs bringing lawsuits on patents that were adjudged valid, infringed, and highly valuable. *See, e.g.*, *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238 (2011) (patentee awarded approximately $300 million in damages). Although the strike suit nature of some NPE cases is used to illustrate the problem of rising patent litigation costs, the importance of Section 285 is not confined to lawsuits filed by NPEs. High legal costs can impact any patent litigant, thus the proper standard of review for Section 285 awards is not a pro-plaintiff or pro-defendant issue. For example, a manufacturer could file a frivolous patent lawsuit to interfere with its competitor's business relationships or to simply force the competitor to incur litigation costs. And, in some cases, defendants may attempt to exhaust the patent holder by fighting infringement claims to the bitter end based on specious defenses and endless discovery, thereby forcing both parties to incur substantial costs and consuming judicial resources. Section 285 is the best tool to deter conduct like this that harms the judicial system and the overall economy.

9. *See* Beesen, *supra*, at 18-19.

B. The Panel Majority's Decision Ignores That Section 285 Awards Are Inherently Fact Intensive And Thus Properly Left To District Courts

Notwithstanding the Federal Circuit's decision to engage in *de novo* review, the underlying case illustrates the fact-intensive nature of Section 285. Here, the district court awarded attorney's fees only after finding that: Respondent Allcare's assertions that two patent claims were infringed "were frivolous" and that "Allcare engaged in litigation misconduct" by (a) "asserting a frivolous position based on *res judicata* and collateral estoppel," (b) "shifting its claim construction position through the course of the proceedings before the district court," and (c) "making misrepresentations to the [transferor court] in connection with a motion to transfer venue." Pet. App. 6a-7a. Thus, the district court's decisions to award attorney's fees was based upon the trial court's view of the entire conduct of the case, taking into consideration the claims asserted, the positions taken, how long a position was taken, the frivolity of claims or positions in light of facts known or readily available, and a party's lack of candor, delay, and scorched-earth tactics – all of which taken together imposed unreasonable, unnecessary, and unjust attorney's fees and costs on Highmark.

Rather than focusing on the totality of the case and deferring to the district court, which viewed the case up close, the Federal Circuit's review of the exceptional case determination—already narrowed by a limited appellate record—focused on a discrete claim construction issue in concluding that Allcare's infringement claim was not objectively baseless. Despite affirming the district court's

rejection of Allcare's claim construction position, the Federal Circuit explained that Allcare hypothetically *could* have made a claim construction argument that *could* have supported its infringement position. Pet. App. 21a ("While Allcare may not have pointed to the specification as an argument in support of its theory, this theory as to the scope of claim 52 was argued repeatedly by Allcare.").

That Allcare did not make that argument and that both the district court and Federal Circuit adopted different claim construction positions was apparently of no moment, as the Federal Circuit concluded that Highmark was not entitled to attorney's fees because it failed "to establish that under this alternative claim construction, the allegations of infringement were objectively unreasonable." Pet. App. 22a.

This *sua sponte* endeavor to justify Allcare's otherwise baseless claim construction position underscores the degree to which the panel majority's decision to grant itself the authority to engage in *de novo* review distorts the administration of justice. Rather than review the district court's objectively baseless determination deferentially, the panel actually attacked and overcame that determination on its own.

This decision to apply *de novo* review to the objective prong of Section 285 triggered sharp divisions within the Federal Circuit. Judge Mayer dissented from the underlying opinion (authored by Judge Dyk and joined by Judge Newman), asserting that "the question of what constitutes [objectively] reasonable conduct under varying circumstances is a quintessentially factual inquiry." Pet. App. 35a.

In the Federal Circuit's denial of *en banc* review, Judge Moore filed a dissenting opinion (joined by Chief Judge Rader and Judges O'Malley, Reyna, and Wallach) that argued that "[o]ur court system has well-defined roles: the trial court makes factual findings and the appellate court reviews those findings with deference to the expertise of the trial court. An exceptional case determination under 35 U.S.C. § 285 has traditionally been one of the questions of fact determined by the trial court that is reviewable only for clear error." Pet. App. 190a. Judge Reyna also filed a dissenting opinion (joined in full by Judges Moore, O'Malley, and Wallach, and joined in part by Chief Judge Rader) that argued that although the Federal Circuit "may be tempted to view ourselves as best-positioned to weigh whether a given party's claim construction or infringement positions are objectively reasonable, in doing so, we fallaciously presume that we can neatly separate intertwined issues of law and fact." Pet. App. 208a. These sharp divisions within the Federal Circuit itself underscore the need for this Court to intervene to clarify the role of the trial court in applying Section 285.

C. Taking Discretion Away From District Courts Weakens Section 285's Deterrent Effects

With the average patent case costing millions of dollars to litigate, the threat of paying the prevailing party's attorney's fees is a powerful deterrent to frivolous claims and litigation mischief. When invoked, Section 285 deters both patent holders and accused infringers from engaging in non-meritorious litigation that is motivated by a desire to consume or exhaust the resources of the other party rather than adjudicate legitimate claims. The Federal Circuit's new *de novo* review standard, however, weakens these deterrent effects.

Unlike a district court, the Federal Circuit does not live with a case for years. Despite its expertise in patent law, the Federal Circuit is no different from any other appellate court in that it has less familiarity than the trial court with the contours and nuances of a case. As was apparently the case here, exceptional case determinations are often influenced by the live conduct of the parties during the litigation, but such facts are often invisible in the cold appellate record. In essence, turning Section 285 into a *de novo* determination means that a party that engages in vexatious litigation at the trial court gets a clean slate at the appellate court to excuse its conduct. Such a standard conflicts with the truism that "trial on the merits . . . is the main event and not simply a tryout on the road to appellate review." *E.g.*, *Freytag v. Comm'r*, 501 U.S. 868, 895 (1991) (quotation marks omitted).

If permitted to make a *de novo* determination, the Federal Circuit – in spite of its best intentions and desire to employ judicial restraint – will simply substitute its own judgment for the judgment of the trial court when reviewing exceptional case findings and attorney's fees awards. Doing so will often lead to the Federal Circuit reaching a different conclusion because it only has the sterile record before it. Moreover, because exceptional case determinations are inherently fact-intensive and turn on the candor, conduct, and credibility of the parties, this approach overrides the fact-finding role of the district courts. *See Anderson v. City of Bessemer City*, 470 U.S. 564, 575 (1985) ("[T]he parties to a case on appeal have already been forced to concentrate their energies and resources on persuading the trial judge that their account of the facts is the correct one; requiring them to persuade three more judges at the appellate level is requiring too much.").

Reviewing 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. Before this case, and as Judge Reyna's dissent noted, the Federal Circuit had a long history of leaving attorney's fees awards undisturbed.[10] Now, in addition to this case, less than one month ago the Federal Circuit exercised its self-conferred *de novo* review authority and overturned another district court award of attorney's fees. *See Checkpoint Sys., Inc. v. All-Tag Sec. S.A.*, 2012-1085 (Fed. Cir. Mar. 25, 2013). This trend is likely to continue unless this Court confirms that the Federal Circuit must defer to the district court's determination absent an abuse of discretion.[11]

The decision below has diminished the predictability of fee awards and lessened the likelihood that such awards will survive on appeal. As a result, litigants necessarily will be less likely to see Section 285 as a deterrent to questionable filings and conduct. Review is thus warranted to ensure the proper administration of Section 285.

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10. Pet. App. 205a-206a (collecting cases).

11. Indeed, in the decade after gaining *de novo* review of claim construction, the Federal Circuit found in 38.2% of claim construction appeals that at least one claim term was wrongly construed by the lower court, and reversed, vacated and/or remanded 29.7% of all cases that it heard due to a claim construction error. *See* David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 Mich. L. Rev. 223, 249 (2008)

II. THE PANEL MAJORITY'S DECISION TO REVIEW SECTION 285 AWARDS *DE NOVO* USURPS DISCRETION THIS COURT HAS TRADITIONALLY GIVEN TRIAL COURTS

A. Under This Court's Precedents, Attorney's Fees Awards Are Reviewed For Abuse Of Discretion

The Federal Circuit's decision to grant itself *de novo* review of exceptional case determinations also conflicts with the broad discretion that district courts have long been afforded by this Court in the area of awarding attorney's fees. This Court's precedents confirm the inherent authority of trial courts to assess attorney's fees for abusive litigation conduct, which includes the filing and maintenance of frivolous cases. *See, e.g.*, *F.D. Rich Co. v. United States ex rel. Indus. Lumber Co.*, 417 U.S. 116, 129 (1974); *Newman v. Piggie Park Enters., Inc.*, 390 U.S. 400, 402 n.4 (1968). Such matters of inherent authority are reviewed for an abuse of discretion.

The fact that attorney's fees awards under section 285 arise from statute rather than the trial court's common law inherent powers does not support the Federal Circuit's decision to review such awards *de novo*. Other statute or rule-based awards are reviewed for an abuse of discretion. *E.g.*, *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 385 (1990) ("A court of appeals should apply an abuse-of-discretion standard in reviewing all aspects of a district court's decision in a Rule 11 proceeding."); *Pierce v. Underwood*, 487 U.S. 552, 571 (1988) (EAJA attorney fee awards are reviewed for abuse of discretion); *Berkla v. Corel Corp.*, 302 F.3d 909, 917 (9th Cir. 2002) (attorney fees awarded under the Copyright Act are reviewed for

an abuse of discretion); *First Nat'l Bank in Sioux Falls v. First Nat'l Bank S.D.*, 679 F.3d 763, 771 (8th Cir. 2012) (attorney fees awarded under the Lanham Act are reviewed for an abuse of discretion).

The argument that attorney's fees in patent cases "frequently involve extraordinarily large awards, often amounting to millions of dollars" also does not support *de novo* review. Pet. App. 187a (denying *en banc* review). The Federal Circuit panel majority stated "that large fee awards militated against an abuse of discretion standard" and should instead "be reviewed more intensively." Pet. App. 187a-188a. *See also* Pet. App. 10a n.1 ("Under section 285 . . . the award of fees is routinely in the millions of dollars . . . , thus supporting *de novo* review."). However, this rationale for reviewing *de novo* attorney's fees awards ignores the circumstances in which most such awards arise.

Typically, attorney's fees are awarded after extensive litigation at the district court. Reviewing such awards *de novo* is more likely to cause the Federal Circuit to use appellate hindsight to second guess and improperly overturn awards rather than prevent large, unwarranted fee assessments. Curiously, just two years ago, the Federal Circuit recognized this danger when it affirmed that section 285 determinations are reviewed for clear error, stating that "the district court has lived with the case and the lawyers for an extended period. Having only the briefs and the cold record, and with counsel appearing before [the appellate court] for only a short period of time, [the appellate court is] not in the position to second-guess the trial court's judgment." *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011). Thus, until the present

case, the Federal Circuit applied the correct standard of appellate review. Its decision to change that standard of review to *de novo* review should be reversed.

B. Section 285 Awards Are Mixed Questions Of Law And Fact, Which This Court Has Held In Similar Circumstances Are Subject To Review For Clear Error

The Federal Circuit panel majority attempted to justify *de novo* review of Section 285 awards on the basis of its assertion that Section 285, unlike other fee shifting statutes, can be cleanly divided into objective and subjective components:

> [W]hile both Rule 11 and section 285 have both subjective and objective components, Rule 11 review is not easily separated into these separate components as is the standard under section 285. Because deferential review is particularly appropriate as to the subjective determination, a deferential standard for the whole of Rule 11 is required. Under the *Brooks Furniture* standard, the section 285 inquiry is easily divided into objective and subjective components, only the subjective prong is reviewed under a deferential standard.

Pet. App. 10a n.1 (citations omitted) (citing *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005)). Although the Federal Circuit panel majority claims the Section 285 inquiry can "easily" be divided into objective and subjective components with each subject to different standards of review, it offers no explanation of why that would be true of Section 285

as opposed to other fee statutes. Indeed, this divided standard of appellate review appears to be a whole cloth creation.

Before the present case, Section 285 awards were treated as mixed questions of law and fact, subject to review for clear error. *See, e.g.*, *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998). The decision below changes that standard of review and conflicts with this Court's recognition that mixed questions of law and fact are reviewed for clear error because legal issues are inextricably intertwined with factual determinations. *Salve Regina Coll. v. Russell*, 499 U.S. 225, 233 (1991) ("[D]eferential review of mixed questions of law and fact is warranted when it appears that the district court is 'better positioned' than the appellate court to decide the issue in question or that probing appellate scrutiny will not contribute to the clarity of legal doctrine." (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985))). *See also Brown v. Plata*, 131 S. Ct. 1910, 1932 (2011) ("Because the 'district court is 'better positioned' . . . to decide the issue,' our review of the three-judge court's primary cause determination is deferential." (alteration in original) (citation omitted)); *Lilly v. Virginia*, 527 U.S. 116, 148-49 (1999) (Rehnquist, C.J., concurring) ("We have said that 'deferential review of mixed questions of law and fact is warranted when it appears that the district court is 'better positioned' than the appellate court to decide the issue in question or that probing appellate scrutiny will not contribute to the clarity of legal doctrine.'" (citation omitted)). For this additional reason, the Federal Circuit decision in this case is in conflict with this Court's precedent, warranting the granting of Highmark's *certiorari* petition.

III. THE PANEL MAJORITY'S INTERPRETATION OF "EXCEPTIONAL CASE" IN SECTION 285 CONFLICTS WITH OTHER CIRCUITS THAT HAVE INTERPRETED THE PHRASE IN SIMILAR STATUTES

The Federal Circuit misinterpreted the meaning of "exceptional case," and the significance of the addition of that language to the Patent Act in 1952, in concluding that the "exceptional case" requirement of Section 285 permits *de novo* review of awards under that section. Specifically, in denying *en banc* review of the underlying case, the Federal Circuit stated that "Section 285, as originally enacted [in 1946], provided that the district court 'may in its discretion award reasonable attorneys' fees.' The 1952 Patent Act deleted the 'in its discretion' language and replaced it with the 'exceptional case' standard that exists today." Pet. App. 186a (citation omitted). However, this revision did not alter the meaning of the statute. *See* P.J. Federico, Commentary on the New Patent Act, 35 U.S.C.A. 1, 56 (1954) (the new Section 285 "is substantially the same as the corresponding sentence of the old statute").

Cases from shortly after the enactment of Section 285 in 1952 (and from well before the creation of the Federal Circuit in 1982) confirm that adding the phrase "exceptional case" to the statute only imposed a substantive standard for determining when attorney's fees are to be awarded but did not alter the standard of appellate review. *See, e.g.*, *Hoge Warren Zimmerman Co. v. Nourse & Co.*, 293 F.2d 779, 783 (6th Cir. 1961) ("[T]he substitution of the phrase 'in exceptional cases' has not done away with the discretionary feature."); *Talon, Inc.*

v. Union Slide Fastener, Inc., 266 F.2d 731, 738-39 (9th Cir. 1959) ("Both before and after the change in wording, this Court has interpreted this section as making the trial court's determination of attorney's fees final where it has clearly stated the basis for the award, except where there is an abuse of discretion amounting to caprice or an erroneous conception of the law on the part of the trial judge." (internal quotation marks omitted)). *See also DuBuit v. Harwell Enters., Inc.*, 540 F.2d 690, 693-94 (4th Cir. 1976) (discussing "[t]he legislative history of Section 285 as well as the predecessor statute" and finding that the 1952 revisions to the statute did not change the standard of appellate review).

The Federal Circuit's decision in the context of Section 285 also conflicts with other circuit courts that have interpreted similar fee shifting statutes. Attorney's fees awards are reviewed for an abuse of discretion under the counterparts to section 285 in other areas of intellectual property law, such as the Lanham Act, *i.e.*, the Trademark Act, (15 U.S.C. § 1117, awarding attorney's fees in "exceptional cases"), the Plant Variety Protection Act (7 U.S.C. § 2565, also awarding attorney's fees in "exceptional cases"), and the Copyright Act (17 U.S.C. § 505, giving the court discretion in awarding full costs or reasonable attorney's fees). Although this Court has not considered the issue, eight circuit courts have heard cases regarding the standard of appellate review for "exceptional case" determinations under the Lanham Act, and all eight have held that the awarding of fees is in the discretion of the trial court and that these awards are deferentially reviewed at the appellate level. *See e.g.*, *Ji v. Bose Corp.*, 626 F.3d 116, 129 (1st Cir. 2010); *Goodheart*

Clothing Co. v. Laura Goodman Enters., Inc., 962 F.2d 268, 272 (2d Cir. 1992); *Securacomm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 279 (3d Cir. 2000); *Newport News Holdings Corp. v. Virtual City Vision, Inc.*, 650 F.3d 423, 441 (4th Cir. 2011); *Nat'l Bus. Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526, 537 (5th Cir. 2012); *First Nat'l Bank in Sioux Falls*, 679 F.3d at 771; *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 990 (9th Cir. 2008); *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1320-21 (11th Cir. 2001). There is no reason that appellate review under Section 285 should be subject to a different standard. To the contrary, in order to maintain the necessary deterrent effect of section 285, deference to the district court's informed decision is particularly important.

CONCLUSION

For the foregoing reasons as well as those set forth by Petitioner, the petition for *certiorari* should be granted.

Respectfully submitted,

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