No. 12-1163

IN THE

Supreme Court of the United States

HIGHMARK INC.,

Petitioner,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Respondent.

ON 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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December 9, 2013

250598

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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 37 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 BCBSA Member Company, although BCBSA has had no involvement in the case and has no financial interest in its outcome. BCBSA has filed ten amicus briefs with the Court in the past ten years. This case interests 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 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.

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1. Respondent and Petitioner 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.

INTRODUCTION AND SUMMARY OF THE ARGUMENT

The Federal Circuit's decision to inject *de novo* review into Section 285 awards distorts the proper allocation of judicial responsibility between federal trial and appellate courts and should be overturned. *De novo* appellate review of what are inherently factual determinations invades the traditional province of the district court and impedes the orderly administration of justice in the federal court system. These concerns are particularly acute in patent cases, which are some of the most complex, time-consuming, and expensive cases district courts face.

Awarding attorney's fees has historically been part of the trial court's inherent power to manage its docket and police litigation misconduct. There is good reason for placing this authority within the district courts rather than the circuit courts. A trial court has a comparative advantage over an appellate court in deciding whether to award attorney fees, 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. The appellate court, on the other hand, has only a cold record and usually no more than twenty to thirty minutes of oral argument. This comparative advantage is particularly pronounced in patent infringement cases, to which trial courts devote a disproportionate amount of time, resources, and attention. To allow *de novo* review of such awards under these circumstances disrupts this traditional allocation of authority. Worse, it threatens to reduce the quality of attorney fee awards, because appellate courts are at a

comparative disadvantage in deciding whether to make such awards.

The case below is illustrates these points. The Northern District of Texas, 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 the district court's thorough analysis and lengthy account of Respondent's "frivolous and vexatious" conduct over the years the case was before that court, the Federal Circuit reversed, based on an argument that Respondent purportedly could have advanced—but did not— with respect to one patent claim (claim 52). The *de novo* review undertaken by the Federal Circuit impedes

the proper application of 35 U.S.C. § 285 by refusing to afford deference to a trial court's factual findings and thus inhibits the ability of trial courts to manage patent litigation.

When properly applied, Section 285 acts as a powerful tool to control the high cost of patent litigation, particularly in lawsuits filed by non-practicing entities ("NPEs") (and more specifically, lawsuits filed by patent-assertion entities ("PAEs"), or pejoratively, patent trolls—a subclass of NPEs formed for the sole purpose of acquiring and monetizing intellectual property developed by third-parties). From January 1, 2007 to December 31, 2008, NPEs filed 804 lawsuits, representing 17 percent of the 4,803 total patent infringement lawsuits filed. *See* Robin Feldman et al., *The AIA 500 Expanded: Effects of Patent Monetization Entities* app. A (UC Hastings Research Paper No. 45 Apr. 9, 2013), *available at* http://ssrn.com/abstract=2247195. In 2011 and 2012, NPEs alone filed 3,844 lawsuits, a 378% increase in filings. *Id.* In contrast, the number of patent lawsuits filed between competitors only 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 represented the majority (54.6%) of the 8,196 patent cases files in the last two years. *Id.*

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 $2.6 million. Am. Intellectual Prop. Law Ass'n, *2013 Report of the Economic Survey* 34 (2013). 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 $1.4 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 of these costs are one-sided and borne primarily by patent defendants. PAEs 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 a PAE. Due to this asymmetry, and with PAEs losing 92% of cases adjudicated on the merits, many PAE 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. Brian T. Yeh, Cong. Research Serv., R42668, *An Overview of the "Patent Trolls" Debate* 1 (2013); Merritt B. Fox, *Required Disclosure and Corporate Governance*, 62 Law & Contemp. Probs. 113, 119 (1999) (defining strike suit as a non-meritorious action brought to blackmail management into a settlement so that management can avoid the costly process of continued litigation). The best, and often only, weapon that parties sued by PAEs 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.").

However, if this new *de novo* review standard is upheld, the deterrent effect of Section 285 will be weakened, as parties will know that any award of attorney's fees by the district court will be less likely to stick. Parties will be emboldened 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, with the ability to make a *post hoc* rationalization of their positions and conduct. This is especially so given the Federal Circuit panel majority's willingness to supply its own *post hoc* rationalizations for Respondent's conduct.

ARGUMENT

I. THE FACT-INTENSIVE NATURE OF SECTION 285 FEE AWARDS WARRANTS THE SAME SORT OF DEFERENTIAL REVIEW THIS COURT HAS ALWAYS RESERVED FOR ATTORNEY FEE AWARDS.

An award of attorney's fees is not based on a single snapshot or point in the case but arises after the conclusion of often lengthy litigation. By the time attorney's fees are awarded or denied, the trial court has lived with the case, often for a period of years, and thus has gained the type of in-depth understanding of the parties' respective claims and defenses that can result only from having had the chance to observe first-hand litigants' conduct and credibility. The district court is thus intimately familiar with the entirety of the proceedings and best positioned to determine whether or not a case is "exceptional."

A. Patent Infringement Lawsuits Tend To Be Protracted, Expensive Litigation, Which Makes Section 285 Awards Particularly Fact Bound.

Patent lawsuits are among the most expensive and time consuming civil cases to litigate. The complex nature of patent infringement lawsuits weighs in favor of granting deference to exceptional case findings by the district court.

The AIPLA estimates that a patent lawsuit involving $1 million to $25 million in claimed damages (i.e., a typical patent case) costs each party, on average, $1.4 million in attorney's fees through discovery and $2.6 million in attorney's fees through trial. Am. Intellectual Prop. Law Ass'n, *supra* at 34. Patent cases "are costly to litigate because they are very document-intensive and involve complex questions of science and technology. In addition, patent cases have a level of procedural complexity not found in ordinary civil litigation." *See* Thomas E. Willging & Emery G. Lee III, *In Their Words - Attorney Views About Costs and Procedures in Federal Civil Litigation*, Federal Judicial Center, 7 (Mar. 2010). Such procedural complexity can include, at the pretrial stage alone, evidentiary hearings conducted in connection with motions for preliminary injunctions, *Markman* hearings on claim construction, and disputes about scientific and analytical methods used by technical and damages experts. *Id.*

The result of this complexity means that district courts often spend more time with patent cases, and are thus more familiar with the underlying record, than typical civil cases. The median time to trial for patent infringement cases is 2.5 years, compared to 1.96 years

in other civil cases.[2] *See* Price Waterhouse Coopers, *2013 Patent Litigation Study: Big cases make headlines, while patent cases proliferate*, 21-22 & Chart 7d (2013); United States Courts, *Judicial Facts & Figures 2012*, Table 6.3, *available at* http://www.uscourts.gov/Statistics/JudicialFactsAndFigures/judicial-facts-figures-2012.aspx. After spending this amount of time with the case, district courts should be given deference in deciding whether the case is exceptional.[3]

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2. And the time to trial in patent cases may be skewed by the fact that 37% of all patent cases brought to trial were filed in the six districts with, nationally, the shortest average times to trial (*i.e.*, Eastern District of Virginia, Western District of Wisconsin, Middle District of Florida, District of Delaware, Southern District of Texas, and Eastern District of Texas). *See* Price Waterhouse Coopers, *2013 Patent Litigation Study: Big cases make headlines, while patent cases proliferate*, at 21-22 & Chart 7d (2013).

3. In this regard, attorney's fees awards are unique from other concepts in patent law, such as willfulness under 35 U.S.C. § 284, which focuses on discrete past actions—*i.e.*, whether upon receiving notice of alleged infringement, a defendant acted despite an objectively high likelihood of patent infringement. *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012) ("While the . . . second prong of *Seagate* may be a question of fact, *Seagate* also requires a threshold determination of objective recklessness. That determination entails an objective assessment of potential defenses based on the risk presented by the patent."); *In re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). Attorney's fees awards are also distinguishable from other litigation concepts, such as *Noerr-Pennington* antitrust immunity, which calls on the judge to determine whether a claim is objectively baseless as a matter of law at the time of filing. *Prof'l Real Estate Investors, Inc.* v. *Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993). The Federal Circuit's importation of an objective prong subject to *de novo* review into Section 285 ignores these fundamental

The underlying case illustrates the fact-intensive nature of Section 285 awards. Here, the district court that lived with the case for years 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 decision 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 Petitioner Highmark.

Rather than focusing on the totality of the case and deferring to the district court, which viewed the case up close for its entire duration, 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

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differences in attorney's fees awards, which by their very nature are fact intensive, based on the undividable totality of the record, and are uniformly committed to the sound discretion of the trial court under this Court's precedents.

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."). 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 distorted the administration of justice and exemplifies why Section 285 awards should be reviewed deferentially.

B. Recognizing That Attorney Fee Awards Are Inherently Fact-Bound, This Court Has Consistently Held That Fee Awards Must Be Reviewed Deferentially.

The Federal Circuit's decision to grant itself *de novo* review of exceptional case determinations conflicts with the broad discretion that district courts have historically been afforded by this Court when it comes to awarding attorney's fees. This Court's precedents have long confirmed 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 deferentially.

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 similar 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).[4]

The standard of review for Section 285 should be placed in line with this Court's precedents, which have stated that mixed questions of law and fact are reviewed deferentially "when it appears that the district court is 'better positioned' than the appellate court to decide the

4. Curiously, just two years ago, the Federal Circuit 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). *See also Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998) (stating that attorney's fees awards are mixed questions of law and fact subject to clear error review). Thus, until the present case, the Federal Circuit applied a correct standard of appellate review. Its decision to change the standard of review to *de novo* review for an admitted mixed question of law and fact should be reversed.

issue in question or that probing appellate scrutiny will not contribute to the clarity of legal doctrine." *Salve Regina Coll. v. Russell*, 499 U.S. 225, 233 (1991) (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)).

District courts are "better positioned" to determine when a case is "exceptional" within the meaning of Section 285 because any legal issues involved are inextricably intertwined with the district court's supervision of the entire course of litigation and accompanying factual findings. And because fee awards are "backwards-looking" and undertaken "in the light of the full record," Pet. App. 12a-13a, *de novo* review of a fee award determination will not contribute to the clarity of legal doctrine.

C. The 1952 Amendment To Section 285 Did Nothing To Disturb The Discretionary Nature Of Attorney Fee Awards And Thus Is No Reason To Depart From The Court's Traditional Approach Of Reviewing Fee Awards Deferentially

In the decision below, the Federal Circuit misinterpreted the meaning of "exceptional cases," and

the significance of the addition of that phrase 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) ([T]he new Section 285 "is substantially the same as the corresponding sentence of the old statute.").[5]

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 the addition of the phrase "exceptional case" to the statute only imposed a substantive standard for determining when attorney's fees are 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*

5. Additionally, this Court has acknowledged that similar 1952 amendments to the 1946 Patent Act were "merely reorganization in language to clarify the statement of the statutes" and were not substantive revisions to the statute. *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 651 n. 6, (1983) (discussing the consolidation in 1952 of §§ 67 and 70 of the 1946 Code into present day § 284) (quoting H.R. Rep. No. 82-1923, at 10, 29 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2403).

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 standard of review appears to be a whole-cloth creation.

If this Court allows the Federal Circuit's decision to stand, Section 285 will also have a different standard of review than analogous attorney's fees provisions in other areas of intellectual property law. The phrase "exceptional case" appears in the counterparts to Section 285, including the Lanham (Trademark) Act, 15 U.S.C. § 1117 (awarding attorney's fees in "exceptional cases"), and the Plant Variety Protection Act, 7 U.S.C. § 2565 (same). And the Copyright Act, 17 U.S.C. § 505, gives the court discretion in awarding full costs or reasonable attorney's fees. *See Fogerty v. Fantasy*, 510 U.S. 517 (1994). Although this Court has not considered the issue, all of the circuits, save for one, have determined that "exceptional case" determinations under the Lanham Act are committed to the discretion of the trial court and that these determinations 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); *Johnson v. Jones*, 149 F.3d 494, 503 (6th Cir. 1998); *TE-TA-MA Truth Found.-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248, 257 (7th Cir. 2004); *First Nat'l Bank in Sioux Falls*, 679 F.3d at 771; *Nat'l Ass'n of Prof'l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1146 (10th Cir. 2000); *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1320-21 (11th Cir. 2001). The only circuit to hold differently is the Ninth Circuit, which applies *de novo* review to the exceptional-case determination but still applies abuse of discretion review to the ultimate decision to award fees if the case is, in fact, exceptional. *See Secalt S.A. v. Wuxi Shenxi Constr. Mach. Co.*, 668 F.3d 677, 687 (9th Cir. 2012). There is no reason that appellate review under Section 285 should be subject to a different standard from equivalent provisions in analogous areas of intellectual property law. 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.

II. DEFERENTIAL REVIEW OF SECTION 285 AWARDS IS NECESSARY FOR THE ORDERLY ADMINISTRATION OF JUSTICE BECAUSE IT PRESERVES THE DISTRICT COURTS' ABILITY TO POLICE LITIGATION CONDUCT.

Appellate courts are poorly situated to review attorney's fees awards *de novo*, as appellate review is based only on a limited opportunity to view excerpts of the trial court record. Key facts and observations available

to the district court are likely to be invisible in a cold 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 advocacy of positions after facts no longer support the position, and ever-shifting or obfuscatory arguments designed to draw out the litigation. And these facts are precisely what the district court observed in this case, leading it to award fees.

Submitting Section 285 awards to *de novo* review will cause the Federal Circuit to simply substitute its own judgment, as it did in the case below, 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. *De novo* review under these circumstances misallocates trial and appellate court resources and responsibilities, and it leaves district judges with less ability to police their cases.

A. The Purpose Of Section 285 Fee Awards Is To Deter Frivolous Litigation and Abusive Litigation Tactics.

At its most basic level, Section 285 is aimed at patrolling litigation—a task best left to the discretion of the trial court. Courts have long recognized that Section 285, by creating an exception to the American rule that each party bears its litigation costs, seeks "to discourage conduct which fell within the scope of 'exceptional' by requiring the party acting exceptionally to bear the expenses of the opposing party." *See Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir.

1983) ("The purpose of § 285 is, in a proper case and in the discretion of the trial judge, to compensate the prevailing party for its monetary outlays in the prosecution or defense of the suit."); *see also DuBuit*, 540 F.2d at 694 (Section 285 "represents a departure from the usual rule in this country that counsel fees are not awardable to the prevailing party in an action at law" and its invocation "should be based upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of equal force, which makes it grossly unjust that the prevailing party be left to bear the burden of his own counsel fees.") (quotation marks and citation omitted).

Section 285 thus regulates both the quality of cases filed and the conduct of such cases, all of which are traditionally provinces of the district court. *See Mathis v. Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988) ("No award under Section 285 can fully compensate a defendant subjected to bad faith litigation, *e.g.,* for loss of executives' time and missed business opportunities," but "when confronted with litigation brought in bad faith, a court's exercise of its inherent power to rectify, at least in part, the injustice done the defendant serves . . . to defend the court and the judicial process against abuse."); *see also Automated Bus. Cos. v. NEC Am., Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000) ("[Section] 285 serves as a deterrent to improper bringing of clearly unwarranted suits for patent infringement") (quotation marks and citation omitted); *Pa. Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d 445, 450-51 (3d Cir. 1951) ("[E]ven though the trial judge is given discretion [to award fees] . . . . [t]he provision was designed to prevent a gross injustice to an alleged infringer," for example, through "vexatious or unjustified litigation.").

B. Subjecting Attorney Fees Awards To *De Novo* Review Will Weaken District Courts' Ability To Police Litigation Conduct And Thus Embolden Those Who Are Prone To File Frivolous Patent Suits And Employ Abusive Litigation Tactics

With the average patent case costing millions of dollars to litigate, the threat of a district court's awarding attorney's fees to the prevailing party 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 by making it less likely that such an award will stand up on appellate review.

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 maxim 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 required to undertake *de novo* review, the Federal Circuit—even if it desired to employ judicial restraint or defer to the trial judge—will be *required,* because of the standard of review, to 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 the Federal Circuit to reach a different conclusion because it has only the sterile record before it. 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 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."). Perhaps worse, *de novo* review is likely to impair the quality of attorney's fee awards given the appellate court's comparative disadvantage in evaluating the respective positions and course of conduct of the parties throughout the entire proceedings before the trial court.

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. The decision below has thus 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.

C. Preserving District Courts' Ability To Police Litigation Conduct Is Especially Important Given That Litigation By Non-Practicing Entities Has Doubled The Number Of Patent Lawsuits.

The number and cost of patent infringement lawsuits has recently drawn national attention from scholars, Congress, and the White House.[6] And as noted above, the number of patent lawsuits has nearly doubled in the past five years, with much of that increase driven by lawsuits filed by NPEs. In 2007-08, NPEs filed 804

6. *See e.g.*, John R. Allison et al., Professors' Letter In Support of Patent Reform Legislation (Nov. 25, 2013) *available at* http://www.patentlyo.com/files/professorsletterontrolls.pdf ("The magnitude and front-loaded nature of patent litigation expenses creates an opportunity for abuse. Patent holders can file suit and quickly impose large discovery costs on their opponents regardless of the validity of their patent rights and the merits of their infringement allegations. Companies accused of infringement, thus, have a strong incentive to fold and settle patent suits early, even when they believe the claims against them are meritless."); Press Release, Rep. Bob Goodlatte, House Judiciary Committee Approves Patent Reform Bill (Nov. 20, 2013), ("Abusive patent litigation is having a significant impact on American innovation, needlessly costing small and large businesses alike tens of billions of dollars every year—resources that could have been used to create innovative new products and services."); Press Release, The White House, White House Task Force on High-Tech Patent Issues (June 4, 2013), (*available at* http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues) ("[I]nnovators continue to face challenges from Patent Assertion Entities (PAEs), companies that, in the President's words 'don't actually produce anything themselves,' and instead develop a business model 'to essentially leverage and hijack somebody else's idea and see if they can extort some money out of them.'").

lawsuits, representing 17 percent of the 4,803 total patent infringement lawsuits filed. *See* Feldman, *supra*, at app. A. In 2011-12, NPEs alone filed 3,844 lawsuits, representing 54.6% of the 8,196 patent cases filed. *Id.*

The collective impact of all these cases is substantial. One study estimated that corporations spent $29 billion defending NPE lawsuits in 2011. *See* James Beesen & Michael Meurer, *The Direct Costs from NPE Disputes,* 18-19 (Bos. Univ. Sch. of Law, Law & Econ. Research Paper No. 12-34, 2012). This number is extraordinarily high because 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 be equally expensive. 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:

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. For this reason, nine pieces of legislation aimed at curbing NPE lawsuits (and more specifically, the PAE breed of NPE lawsuits) and associated patent litigation costs have been introduced in the current term of the 113th Congress.[7] At least five bills have specifically included provisions aimed at attorney's fees shifting.[8] However, many of these perceived programs can be fixed by simply ensuring that Section 285 is properly applied and deferentially reviewed. *See* Randall R. Rader, C.J. Fed. Cir., Colleen V. Chien, and David Hricik, Op-Ed., *Make Patent Trolls Pay in Court*, N.Y. Times, June 4, 2013, at A25 ("Section 285 is

7. *See* Innovation Act, H.R. 3309, 113th Cong. (2013); Patent Transparency and Improvements Act, S. 1720, 113th Cong. (2013); Patent Quality Improvement Act, S. 866, 113th Cong. (2013); Patent Abuse Reduction Act, S. 1013, 113th Cong. (2013); Patent Litigation Integrity Act, S. 1612, 113th Cong. (2013); Demand Letter Transparency Act, H.R. 3540, 113th Cong. (2013); Patent Litigation and Innovation Act, H.R. 2639, 113th Cong. (2013); Saving High-Tech Innovators from Egregious Legal Disputes Act, H.R. 845, 113th Cong. (2013); Stopping the Offensive Use of Patents Act, H.R. 2766, 113th Cong. (2013); End Anonymous Patents Act, H.R. 2024, 113th Cong. (2013).

8. *See* H.R. 3309; H.R. 845; H.R. 2639; S. 1013; S. 1612.

flexible enough to help defend against trolls. And even though many cases settle, the prospect of paying fees will discourage aggressive suits and frivolous demands.").

Section 285 can play a critical role in regulating the quality of patent infringement lawsuits. 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. Specifically, 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. If left to stand, however, the decision below 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 – all while clogging busy district courts with both meritless cases and meritorious cases opposed only by futile defenses. This Court thus should reverse the decision below in order to preserve the traditional allocation of power as between federal district and circuit courts and ensure that the district courts remain fully able to police litigation conduct and maintain the orderly administration of justice in patent cases.

CONCLUSION

For the foregoing reasons as well as those set forth by Petitioner, BCBSA requests that this Court overturn the Federal Circuit and hold that Section 285 awards are again deferentially reviewed.

Respectfully submitted,

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December 9, 2013