

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 NEW YORK INTELLECTUAL  
PROPERTY LAW ASSOCIATION AS *AMICUS  
CURIAE* IN SUPPORT OF NEITHER PARTY**

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## QUESTION PRESENTED

The Court has agreed to hear two cases this term on the appropriate standard to be applied when determining whether a case is “exceptional” under 35 U.S.C. § 285.

The question presented in *Highmark Inc. v. Allcare Management Systems* (12-1163) is:

Whether a district court’s exceptional-case finding under 35 U.S.C. § 285 (which permits the court to award attorney’s fees in exceptional cases), based on its judgment that a suit is objectively baseless, is entitled to deference.

The question presented in *Octane Fitness v. Icon Health and Fitness* (12-1184) is:

Whether the Federal Circuit’s promulgation of a rigid and exclusive two-part test for determining whether a case is “exceptional” under 35 U.S.C. § 285 improperly appropriates a district court’s discretionary authority to award attorney fees to prevailing accused infringers in contravention of statutory intent and this Court’s precedent, thereby raising the standard for accused infringers (but not patentees) to recoup fees and encouraging patent plaintiffs to bring spurious patent cases to cause competitive harm or coerce unwarranted settlements from defendants.

Although these cases were not consolidated by the Court, NYIPLA is submitting this Amicus Brief in both

cases because it respectfully submits that the answer to each question is dependent, at least in part, on the answer to the other question, with respect to whether unjustified litigation gives rise to an exceptional case.\*

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\* The questions posed do not address the jurisprudence supporting other grounds for determining a patent case exceptional, such as willful or intentional infringement, inequitable conduct before the Patent and Trademark Office or other vexatious or malfeasant behavior in the course of litigation. *See, e.g., Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1481-82 (Fed. Cir. 1998).

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**INTEREST OF *AMICUS CURIAE***

The New York Intellectual Property Law Association (“NYIPLA” or “Association”) respectfully submits this *amicus curiae* brief in support of neither party.<sup>1</sup>

The arguments set forth herein were approved on December 5, 2013 by an absolute majority of the officers and members of the Board of Directors of the NYIPLA, including any officers or directors who did not vote for any reason, including recusal, but do not necessarily reflect the views of a majority of the members of the Association, or of the law or corporate firms with which those members are associated. After reasonable investigation, the NYIPLA believes that no officer or director or member of the Committee on *Amicus* Briefs who voted in favor of filing this brief, nor any attorney associated with any such officer, director or committee member in any law or corporate firm, represents a party in this litigation. Some officers, directors, committee members or associated attorneys may represent entities, including other *amici curiae*, which have an interest in other matters which may be affected by the outcome of this litigation.

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1. Counsel for Respondent Allcare Health Management Systems, Inc. and Petitioner Highmark, Inc. consented to the filing of an *amicus curiae* brief in a communication on November 11, 2013. Blanket consent to the filing of *amicus curiae* briefs, in support of either party or of neither party, was received from counsel for Petitioner Octane Fitness and counsel for Respondent Icon Health & Fitness, Inc. in a docket entry dated October 31, 2013. Pursuant to Sup. Ct. R. 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than NYIPLA, its members, or its counsel made a monetary contribution to its preparation or submission.

The NYIPLA is a professional association of approximately 1,300 attorneys whose interests and practices lie in the area of patent, trademark, copyright, trade secret and other intellectual property law. The Association's members include a diverse array of attorneys specializing in patent law, from in-house counsel for businesses that own, enforce and challenge patents, to attorneys in private practice who represent inventors in various proceedings before the United States Patent and Trademark Office ("PTO").

A substantial percentage of the Association's member attorneys participate actively in patent litigation, representing both patent owners and accused infringers. The Association's members also frequently engage in patent licensing matters on their clients' behalf, representing both patent licensors and licensees. The entities served by the Association's members include inventors, entrepreneurs, venture capitalists, businesses, universities, and industry and trade associations.

NYIPLA's interest in this case stems from the influence this case may have on the potential for recovering attorney fees in exceptional cases and the influence that it might have on the litigation activities of patent right holders and owners including but not limited to patent assertion entities (PAEs). In particular, this case may be used as a vehicle for addressing the recent concerns arising in the patent law community and among policymakers and the popular media over litigation initiated by PAEs. However, NYIPLA has an equal concern that this case should not discourage patent rights holders and owners from legitimate assertions of their patent rights, whether the patent rights holders or owners are PAEs or practicing entities.

The activities of NYIPLA members and practitioners depend on the evenly-applied and predictably-construed rights granted under the Patent Act. Thus, NYIPLA sets forth guiding principles and proposed rules to encourage and balance these competing interests.

### **SUMMARY OF ARGUMENT**

I. The NYIPLA appreciates the need for clarification regarding the discretion granted to trial courts in awarding attorney fees to prevailing parties in “exceptional” patent cases. Patents have long been a significant element of the U.S. economy, and there has been a great deal of press recently regarding the practices of enforcing them through litigation. The clear intent behind Section 285 is to provide a fee shifting remedy to prevailing parties when it would be unjust for them to bear the entire burden of their own attorney fees. Section 285 is intended to be impartial and available to any prevailing party as an appropriate remedy in such unwarranted cases. Section 285 should be equally available and applied evenly to both accused infringers and patentees who are an unjustly burdened prevailing party.

The NYIPLA respectfully submits that in order to address the situations in which an exceptional case under Section 285 should be found, and what level of deference to give the district court in making such a finding, the Court should consider the following guiding principles:

A. Patent holders and accused infringers should be treated evenly under Section 285.

B. The award of attorney fees under Section 285 should not lead to or require extensive and burdensome proceedings beyond the resolution of the dispute on the merits.

C. As the statute is currently written, attorney fees are only available in “exceptional” cases and thus should not be awarded in every case.

D. Section 285 provides a fee shifting remedy under the Patent Act that is distinct from sanctions awarded under Rule 11 and costs awarded under 28 U.S.C. § 1927, and thus does not need to apply the same standard.

II. With these guiding principles in mind, NYIPLA respectfully submits that the form of the present test for determining whether a case is “exceptional” under Section 285—a two-part test with an objective and subjective evaluation of the case, followed by a discretionary award by the district court—is an appropriate structure for the analysis, but that the current tests create too high of a bar to meet in order to adequately protect unjustly burdened prevailing parties from misconduct.

The NYIPLA respectfully advocates maintaining the current structure of a two-part test to provide a level playing field for prevailing patent owners and accused infringers—with an objective and subjective prong, after which an award *may* be awarded at the district court’s discretion—but lowering the threshold required to meet each prong slightly. Once it is determined that both prongs are met, the ultimate decision—whether to award attorney fees and what the appropriate amount should

be—is, as is presently the case, left to the district court based on the court’s observations throughout the course of the trial.

Specifically, the NYIPLA proposes that, in a Section 285 assessment of whether a case is exceptional, the district court consider:

- 1) Were the asserted claims or defenses *objectively* meritless (absent, *e.g.*, advocacy for a change in the law) such that any reasonable litigant would expect a low likelihood of success on the merits?

and

- 2) Was the litigant *subjectively* advancing such claims or defenses in the litigation for an improper purpose (*e.g.*, extorting money, prolonging the litigation, or increasing litigation costs)?

Assuming *both* parts of this test are met, the case would then be considered an “exceptional” case and the district court may exercise its discretion to award (or not award) some or all of the prevailing party’s reasonable attorney fees.

Under this structure, the NYIPLA proposes that the objective prong be subject to *de novo* review, the subjective test be reviewed for clear error, and the ultimate award of the district court be reviewed for an abuse of discretion. Attorney fees awarded under the proposed test should continue to be available only to prevailing parties (whether alleged infringers or patentees).

## ARGUMENT

### I. GUIDING PRINCIPLES IN FORMULATING AN “EXCEPTIONAL” CASE ANALYSIS

Patents play a vital role in the economy, in part, by fulfilling their constitutionally-granted purpose of providing an incentive for innovation.<sup>2</sup> Enforcement of this granted “exclusive right” to patented subject matter is an important aspect of the incentive that patents provide. Thus, rules that encourage the enforcement of rightfully granted patents and the elimination of improper ones are useful in achieving the benefits of a functioning patent system. Over the past few years, there has been an increase in press coverage on patent enforcement practices that suggest a need to reconsider the application of Section 285 to address abusive litigation practices.

In evaluating the proper application of Section 285, while balancing the competing goals of compensating unjustly wronged parties and staying within the intent and language of the statute, the NYIPLA sets forth the following guiding principles:

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2. See *Intellectual Property and the U.S. Economy: Industries in Focus*, Econ. & Statistics Admin. and USPTO (Mar. 2012), [www.uspto.gov/news/publications/IP\\_Report\\_March\\_2012.pdf](http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf). (“The granting and protection of intellectual property rights is vital to promoting innovation and creativity and is an essential element of our free-enterprise, market-based system.”).

**A. The standard for declaring a case exceptional should be on parity for both patent holders and accused infringers**

The patent statute is intended to be a carefully crafted system that both encourages invention and disclosure, but does not unreasonably foreclose access to such inventions. “The patent system . . . [adds] the fuel of interest to the fire of genius”<sup>3</sup> but that blaze might be smothered if the enforcement of granted patent rights is skewed by the judiciary. Just as a line must be drawn “between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not,”<sup>4</sup> a balance between patent enforcement and defense against accused infringement must be made in the judicial system. In order to induce inventors “to bring forth new knowledge,”<sup>5</sup> patentees must be assured that they can enforce their patent rights without fear of exorbitant fees in the event of mere failure. Moreover, the economy, competition, and the advance of science may be stifled if businesses fear unwarranted and costly patent litigation.

In order to maintain the balance of the patent system, the standard for awarding attorney fees in an exceptional case should be equally available to prevailing patent holders and accused infringers. *See, e.g.*, S. Rep. No. 79-

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3. Abraham Lincoln, *Lecture on “Discoveries, Inventions and Improvements,”* delivered before the Library Association of Springfield, Illinois, Feb. 22, 1860, *reprinted in* Charles R. Macedo, *The Corporate Insider’s Guide to U.S. Patent Practice* 4 (2010).

4. *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 9 (1966) (quoting Thomas Jefferson, Letter to Isaac McPherson (Aug. 1813))

5. *Id.*



1503 (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387 (explaining that the predecessor statute of Section 285 “will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty” but that “[t]he provision is also *made general* so as to enable the court to prevent a gross injustice to an alleged infringer.” (emphasis added)). In other words, there should be parity; the same level of burdens and tests should be applied even-handedly, with no bias either way.

**B. The standard used for Section 285 should not make patent litigation more costly or burdensome**

One of the biggest problems associated with patent litigation is that it costs so much to resolve disputes in court.<sup>6</sup> Over the years, patent litigations have resulted in various satellite litigations on issues such as willful infringement and inequitable conduct, which are independent grounds for finding a patent case exceptional under Section 285. These proceedings have led to increased costs by increasing discovery demands, and requiring additional factual and legal findings outside of the resolution of the primary disputes on the merits of the infringement claim. Such diversions from the real issue are harmful to the patent system as a whole by raising the costs and burdens of patent litigation even higher.

One way to limit costs associated with litigating ancillary disputes, such as whether unwarranted patent

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6. According to one study, even patent infringement suits with less than one million dollars at risk have a median litigation cost of \$700,000. Report of the Economic Survey 2013, AIPLA 34 (Jul. 2013).

litigation rises to an exceptional case, is to make those issues subject to more predictably applied tests, rather than requiring exhaustive investigation into subjective details. For example, after *In re Seagate*, in which the Federal Circuit required a showing of *objective* recklessness for a finding of willful infringement, the widespread sideshow litigation on willful infringement was curtailed to only the more egregious cases. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1369-71 (Fed. Cir. 2007) (explaining that “[s]ince *Underwater Devices*, we have recognized the practical concerns stemming from our willfulness doctrine,” such as the “onerous” bifurcation of trials to avoid prejudice from the waiver of the attorney client privilege (citing to *Quantum Corp. v. Tandon Corp.*, 940 F.2d 642, 643-44 (Fed. Cir. 1991)). While a departure from the current two-part test for evaluating an “exceptional” case may be well intentioned, adopting a rule that spawns more satellite litigation in patent disputes is likely to be more harmful than helpful, by encouraging more baseless and costly litigation.

Thus, the test guiding the analysis of whether a case qualifies as “exceptional” should remain a two-part test, including both an objective and subjective prong, to allow for a predictable application of fees while limiting any additional discovery that might be involved in evaluating the subjective injustice alleged in the case. Because both parts of the test must be met for a case to be “exceptional,” the objective test can be used as a threshold test before reaching any subjective issue that might require additional limited discovery.

**C. The award of attorney fees should be limited to “exceptional” cases**

The role of attorney fees in patent cases to act as a deterrent to baseless or dilatory arguments by the patent holders and infringers alike is important and should be encouraged, but attorney fees should not become run-of-the-mill and ordered against the loser in every case.

As is clear from the statutory language of Section 285, and the legislative history, the award of attorney fees was intended to be limited to cases fitting the definition of “exceptional.” Section 285 replaced its predecessor statute on attorney fees, R.S. § 4921, to codify the prevailing practice in the courts and the original statutory intent. *See, e.g.*, Testimony of P.J. Federico Before the House Subcommittee at 108-109 (June 14, 1951)(explaining that the term “exceptional cases” “was picked up from the reports in passing [R.S. § 4921] and the decisions of the courts that have followed that”); *Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951) (“The Reports of House and Senate Committees . . . provided . . . that ‘It is not contemplated that the recovery of attorney’s fees will become an ordinary thing in patent suits.’” (quoting 1946 U.S. Code Cong. Serv. 1386, 1387)).

In awarding attorney fees under R.S. § 4921, the district courts had been required to state the basis for the award clearly. *See, e.g., Dubil v. Rayford Camp & Co.*, 184 F.2d 899, 903 (9th Cir. 1950). Acceptable grounds for the award included “unfairness or bad faith in the conduct of the losing party . . . which [made] it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants

normally bear.” *Park-In-Theatres*, 190 F.2d at 142; accord *Jacquard Knitting Mach. Co. v. Ordnance Gauge Co.*, 213 F.2d 503, 508-509 (3d Cir. 1954).

Thus, with the addition of the “exceptional” case limitation to Section 285, Congress, in response to the interpretation of its predecessor statute on attorney fees, intended the statute to be used to compensate prevailing parties for that level of injustice amounting to an “exceptional” case. Only after a case is determined “exceptional” is the discretion left to the district court as to whether to award attorney fees and in what amount.

**D. The award of attorney fees under Section 285 should not be dictated by the standards for fee awards under other statutes**

Although Section 285 may overlap with other legal authorities which provide for the grant of attorney fees or monetary penalties for improper conduct in litigation provisions—such as Rule 11 and 28 U.S.C. § 1927—it is a distinct remedy and need not apply the same standard as those provisions. Cf. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1303-04 (2012) (explaining that although two statutes might overlap, applying complementary sections instead of another statute “assum[es] that those sections can do work that they are not equipped to do”). Section 285 allows for the award of attorney fees in “exceptional” patent cases, which is not an equivalent to the sanctions specified in Rule 11 for an attorney’s failure to conduct a “reasonable inquiry” and verify that specifically identified (and challenged) court filings “are well-grounded in fact, legally tenable, and ‘not interposed for any improper purpose.’” *Cooter & Gell v.*

*Hartmarx Corp.*, 496 U.S. 384, 393 (1990) (“*Cooter*”). Nor is Section 285 identical to the penalty under Section 1927 directed to an attorney who “multiplies the proceedings in any case unreasonably and vexatiously.” *See Chambers v. NASCO, Inc.*, 501 U.S. 32, 48 (1991) (explaining that “the amendment to § 1927 allowing an assessment of fees against an attorney says nothing about a court’s power to assess fees against a party”). While these provisions may cover similar conduct, or the same conduct may run afoul of the different provisions, each was implemented for a different purpose and may not be conflated.

## **II. SLIGHTLY LOWER TWO-PART TEST WITH ULTIMATE DISCRETION LEFT TO THE TRIAL COURT**

A two-part test with objective and subjective prongs is an appropriate approach to guide the district courts in evaluating whether a case is “exceptional.” However, the current two-part test is too high of a standard to cover many exceptional cases. Thus, the objective and subjective prongs of the current test should be relaxed while still providing sufficient guidance such that attorney fees will not be available as a rule in every case. The ultimate discretion allowed to the judge to apply such a remedy provides flexibility to ensure that attorney fees in a given case are granted based on unjust litigation claims or defenses that were observably “exceptional” over the course of the litigation.

**A. The analysis for an “exceptional” case should remain a two-part test**

The two-part test applied below for analyzing whether a case is “exceptional” was adopted by the Federal Circuit in *Brooks Furniture Mfg. v. Dutailier Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) and extracted from this Court’s two-part definition of a “sham” litigation in *Prof’l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60 (1993) (“*PRE*”). In *PRE*, this Court outlined a two-part definition of “sham” litigation in the context of an antitrust violation as (1) an objectively baseless lawsuit “in the sense that no reasonable litigant could realistically expect success on the merits” brought in (2) subjectively bad faith such that it attempts to “interfere *directly* with the business relationships of a competitor.” *Id.* (emphasis in original).

In *Brooks Furniture*, the Federal Circuit applied that antitrust standard from *PRE* to help define “exceptional” cases in patent law, such that a case is only considered “exceptional” for a prevailing accused infringer “if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” 393 F.3d at 1381. However, as this two-part test was originally developed to determine whether to grant immunity from an antitrust claim, it is too rigorous a standard to effectively include the numerous situations under which an “exceptional” patent case might arise.

Thus, the proposed test adopts the rationale of *PRE* to have a two-part test including both subjective and objective prongs, but lowers the threshold of each prong to account for the different standards in an antitrust

action—which impose treble damages in civil cases and can have criminal consequences—and a civil tort action under the patent laws. These lower bars are intended to more appropriately address the differences in the effects and the pertinent evidentiary support for an award of fees for an “exceptional” case under Section 285 as compared to a “sham litigation” that may deprive a party of antitrust immunity. For example, the assertion of exclusionary rights under copyright in just one lawsuit against one party, without more, may provide objectively little proof of anticompetitive behavior. Thus, a high standard for “sham litigation” before removing antitrust immunity corresponds with a possible severe penalty once that immunity is removed. In contrast, meritless arguments made for an improper purpose in one patent lawsuit is a fitting guideline for awarding fees under Section 285 in that particular lawsuit.

**B. The objective prong should be slightly easier to meet, but still subject to *de novo* review**

**1. Arguments asserted with a low likelihood of success may contribute to an “exceptional” case**

NYIPLA’s proposed test slightly lowers the bars for finding a case “exceptional.” For the objective prong, the proposed test changes the required “baselessness” of the merits from:

“[O]bjectively baseless . . . such that *no* reasonable litigant could reasonably *expect success* on the merits.”

*Highmark, Inc. v. Allcare Health Mgmt. Sys.*, 687 F.3d 1300, 1309 (Fed. Cir. 2012) (quoting *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008)) (emphasis added).

to:

Objectively meritless (absent, *e.g.*, advocacy for a change in the law) such that any reasonable litigant would expect a ***low likelihood*** of success on the merits.

Notably, a case that has a low level of merit such that it satisfies the objective prong is not automatically “exceptional.” Because both the objective and subjective prongs must be met under this two-part test, a run-of-the-mill case that would allow a patent holder or accused infringer to fairly test the strength of their respective claims or defenses will continue to be ineligible to be named an “exceptional” case. Further, by advocating this test, the NYIPLA does not mean to suggest that any case with less than a 50% chance of success on the merits automatically meets the objective prong. Rather, the likelihood of success on the merits must be sufficiently low objectively, to any reasonable litigant who is not, for example, advocating for a change in the law or not reasonably advocating that the existing law should not apply to the particular facts of the case.

## **2. The objective test should be reviewed *de novo***

Although NYIPLA proposes using a lower standard for each of the prongs of the two-part objective/subjective



test, because the structure of the proposed test is unchanged from *PRE*, the standards of review for each of the prongs should be maintained. Therefore, the objective prong of the proposed two-part test should be subject to *de novo* review.

As discussed in *PRE*, the objective question of baselessness, or meritlessness in this case, is one of law. *PRE*, 508 U.S. at 63 (using “probable cause” as a proxy for the objective prong, and explaining that where “there is no dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law”). Two other cases that have been cited in the proceeding to argue that the objective prong should be reviewed under an “abuse of discretion”—*Pierce v. Underwood*, 487 U.S. 552 (1988) (“*Pierce*”) (analyzing whether the government’s litigation position was “substantially justified” under the Equal Access to Justice Act (“EAJA”)) and *Cooter* (analyzing sanctions imposed under Rule 11)—are distinguishable from *PRE* and the present cases. Both cases involved the award of fees under different legal authorities and relied heavily on the underlying factual determinations regarding the subjective *judgment* exercised in advancing litigation positions rather than the objective *merit* of those positions themselves.

In *Pierce*, this Court explained that the “substantially justified” analysis relied on facts that might not be conveyed by the record, such as the diligence of the government in forming its argument, leaving the trial court “better positioned” to decide the issue. *Pierce*, 487 U.S. at 559-60. Furthermore, this Court explained that allowing *de novo* review of the government’s

interpretation of the law *at the time* it formed its litigation position, might distort the appellate process for EAJA cases because a reversal on the fee decision could read on the underlying merits of the case and effectively uphold the lower merits decision without a formal appeal on the merits. *Id.* at 560-61. Neither of these concerns applies to the objective prong of an “exceptional” case analysis under Section 285. First, determining the objective merit of an asserted claim or defense does not depend on the litigant’s diligence or other facts not in the record. Second, because in an “exceptional” case determination the appellate court is reviewing whether a rejected argument had a sufficiently “*low likelihood*” of success—instead of reviewing whether the government’s losing position was nonetheless “substantially justified” as in an EAJA award—there is no risk of undermining any unappealed merits decision.

In *Cooter*, this Court explained that it is especially difficult to distinguish between legal and factual issues in a Rule 11 context because the appeal court cannot examine “purely legal questions, such as whether the attorney’s legal argument was correct” but instead must consider “whether a pleading is ‘warranted by existing law or a good faith argument’ for changing the law *and* whether the attorney’s conduct violated Rule 11.” *Cooter*, 496 U.S. at 399, 401 (emphasis added). Thus, a court reviewing a Rule 11 determination must “consider issues rooted in factual determinations,” such as any extenuating circumstances of the case and the competence of the signing attorney. *Id.* at 401-02. Again, the proposed objective prong of an “exceptional” case analysis does not involve such close factual questions, as it is concerned with the objective merits of the asserted claim or defense and not the reasonableness of the litigant’s judgment in asserting it.

Additionally, the policy goals of Section 285 lean toward *de novo* review of the objective prong rather than an “abuse-of-discretion.” Unlike in *Cooter*, in which the policy goals of Rule 11 were furthered by an “abuse of discretion” standard because “[t]he district court is best acquainted with the local bar’s litigation practices,” the Federal Circuit, and not the district court, is best positioned to evaluate the merits of a claim or defense asserted in patent litigation. *Cooter*, 496 U.S. at 404. Permitting the Federal Circuit to review the objective prong of the test for an “exceptional” case would encourage a more predictable application of Section 285 for prevailing parties and the uniformity of result for patent cases desired by Congress in creating the Federal Circuit. See *Markman v. Westview Instruments*, 517 U.S. 370, 390 (1996); *Holmes Grp., Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 840 (2002) (Ginsburg, J., concurring) (explaining that, in creating the Federal Circuit, “Congress sought to eliminate forum shopping and to advance uniformity in the interpretation and application of federal patent law”). Although Section 285 is an exception to the “American Rule,” it is a limited exception. Leaving room for review by the one specialized patent court fulfills the policy goals of restricting the grant of attorney fees to “exceptional” cases while maintaining consistency such that parties are not “unjustly discouraged” from participation in the action. *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718, 720 n.16 (1967) (“In support of the American rule, it has been argued that since litigation is at best uncertain one should not be penalized for merely defending or prosecuting a lawsuit, and that the poor might be unjustly discouraged from instituting actions to vindicate their rights if the penalty for losing included the fees of their opponents’ counsel.”)

Moreover, *de novo* review allows the appellate court to benefit from the trial judge’s reasoned determination of the objective test in the context of the given case, but does so from the perspective of placing that case in the landscape of what is objectively ordinary or exceptional patent litigation.

**C. The subjective prong should focus on the purpose of the arguments made and be subject to review for clear error**

**1. The subjective test should assess the purpose of the objectively meritless assertions**

NYIPLA’s proposed test also lowers the bar for the subjective prong of the “exceptional” case analysis. The current subjective test is:

Was the litigation brought in *subjective bad faith* due to the “lack of objective foundation [being] ‘either *known or so obvious that it should have been known*’ by the party asserting the claim”?

*Highmark, Inc.*, 687 F.3d at 1308-09 (quoting *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007)) (emphasis added).

The NYIPLA respectfully recommends that this test be changed to:

Was the litigant subjectively advancing such claims or defenses in the litigation for an

*improper purpose* (e.g., extorting money, prolonging the litigation, or increasing litigation costs)?

This change refocuses the analysis from the bad faith of the non-prevailing party to the broader purpose of its behavior in the course of litigation. By focusing on the entire course of the litigation, any presumptions concerning why the litigation was initiated are moot and the parties are on an even playing field. The more comprehensive characterization of bad faith corresponds to the lower standard of the objective prong and allows for a wider range of “bad behavior” to qualify as bad faith, whether proven by direct evidence or inference from the parties’ conduct of record in the case.

## **2. The subjective test should be reviewed for clear error**

The subjective prong of the test, as a question of fact determined based on the intent of the non-prevailing party, should be reviewed for clear error. Fed. R. Civ. P. 52(a)(6).

Although the subjective test is inherently a question of fact, it should not be subject to a high evidentiary standard, in order to limit burdensome ancillary discovery and satellite litigation. Because direct evidence of subjective intent may be difficult or impossible to find, district courts should be permitted to infer subjective intent from indirect and circumstantial evidence to lower the cost and burden for this prong. Still, the subjective improper purpose should be the single most reasonable inference able to be drawn from that evidence.

Even though the subjective prong of the proposed two-part test might be related to the assessment of the objective prong, this subjective test is still a necessary and distinct part of an “exceptional” case analysis. For one, it might be an unacceptable outcome for an equitable remedy such as Section 285 to be applied against an actor who acted in good faith, but was merely unaware that its asserted arguments were meritless. Furthermore, unlike, for example, the EAJA, where the United States can be presumed to be advocating in good faith for the public interest, is no such presumption for a private actor. Instead, Section 285 was enacted to “codify in patent cases the ‘bad faith’ equitable exception to the American Rule. . . . Recognizing the good faith / bad faith distinction, Congress expressly limited such awards to ‘exceptional cases.’” *Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.*, 929 F.2d 676, 678 (Fed. Cir. 1991) (quoting *Mathis v. Spears*, 857 F.2d 749, 758 (Fed. Cir.1988)). Accordingly, the subjective intent of the non-prevailing party must be included in the analysis of an “exceptional” case, but should be evaluated in a way that does not become so burdensome and costly as to override the underlying policy goals of the statute.

**D. The final decision of whether to award attorney fees in an exceptional case should be left to the discretion of the district court**

As this Court has made clear, because the statutory language of Section 285 provides that a district court “may” award attorney fees in exceptional cases, the decision to award fees after finding a case “exceptional” should be “an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.” *eBay*

*Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). In *eBay*, this Court held injunctions under patent law were subject to the same well-established principles of equity in awarding permanent injunctions in other areas of law. *Id.* The applicable test for injunctions consists of a four-factor test; only after all of the elements of the test are met may the court decide, within its discretion, whether to grant or deny injunctive relief. *Id.* This structure for the award of an injunction set out in *eBay* is analogous to the proposed two-part objective/subjective test under which each prong must be met before the court *may* award fees at its discretion.

Because the district court is left with the ultimate discretion of whether to award attorney fees based on the court's observations throughout the course of the litigation, the district court is given the appropriate amount of discretion under the two-part test.

## CONCLUSION

The NYIPLA supports a predictably applied two-part objective/ subjective test for the analysis of whether a case is “exceptional” for the purposes of awarding attorney fees under Section 285. After the case is deemed “exceptional,” a district court should be left with the discretion to award such fees. For the reasons stated above, the NYIPLA respectfully urges the Court to adopt its proposed test for the determination of an “exceptional” case.

Respectfully submitted,

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