No. 12-1163

IN THE

Supreme Court of the United States

HIGHMARK INC.,

Petitioner,

v.

ALLCARE HEALTH MANAGEMENT SYSTEM, INC.,

Respondent.

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

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY OWNERS ASSOCIATION IN SUPPORT OF RESPONDENT

Of Counsel:

PHILIP S. JOHNSON, *President*
KEVIN H. RHODES,
Chair, Amicus Brief Committee
INTELLECTUAL PROPERTY OWNERS ASSOCIATION
1501 M Street, NW, Suite 1150
Washington, DC 20005
(202) 507-4500

PAUL H. BERGHOFF
Counsel of Record
ERIN R. WOELKER
MCDONNELL BOEHNEN HULBERT & BERGHOFF LLP
300 South Wacker Drive
Chicago, Illinois 60606
(312) 913-0001
berghoff@mbhb.com

Counsel for Amicus Curiae

250480

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

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INTEREST OF *AMICUS CURIAE*

Amicus curiae Intellectual Property Owners Association (IPO) is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in U.S. intellectual property rights.[1] IPO's membership includes more than 200 companies and a total of over 12,000 individuals who are involved in the association either through their companies or as inventor, author, executive, law firm, or attorney members. Founded in 1972, IPO represents the interests of all owners of intellectual property. IPO regularly represents the interests of its members before Congress and the USPTO and has filed amicus curiae briefs in this Court and other courts on significant issues of intellectual property law. The members of IPO's Board of Directors, which approved the filing of this brief, are listed in the appendix.[2]

IPO submits this brief in support of the Respondent in light of the importance of deterring abusive patent litigation and harmonizing the interpretation of the "exceptional case" standard with respect to baseless litigation positions at the district court level. In *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 687

1. No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *Amicus Curiae* or its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief.

2. IPO procedures require approval of positions in briefs by a two-thirds majority of directors present and voting.

F.3d 1300 (2012), the Federal Circuit properly reviewed *de novo* the district court's assessment of whether the nonprevailing plaintiff's claims were "objectively reasonable." Because the determination of whether a party's litigation positions in a patent case were objectively reasonable is most properly characterized as a question of law, or in some cases a mixed question of fact and law, it should be subject to *de novo* review on appeal. IPO supports the review of the "objective baselessness" or "objective unreasonableness"[3] inquiry consistent with traditional standards of review and in a manner that will promote uniformity among the district courts in the award of fees in cases of meritless litigation.

SUMMARY OF ARGUMENT

The Patent Act provides that the court in "exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. Various types of conduct can form the basis for a finding of exceptional case, including willful infringement, inequitable conduct before the United States Patent and Trademark Office, misconduct during litigation, vexatious or unjustified litigation, and taking or maintaining positions in litigation that are "objectively unreasonable." *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989) (citing *Standard Oil Co. v. American Cyanamid Co.,* 774 F.2d 448, 455 (Fed. Cir. 1985)); *see, also*, *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed.Cir.2005); *Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539, 543–44 (Fed. Cir. 2011); *iLOR, LLC*

3. The terms "baseless" and "unreasonable" are used interchangeably in this brief.

v. Google, Inc., 631 F.3d 1372, 1377 (Fed. Cir. 2011). This Court has yet to interpret the "exceptional case" language of Section 285.

In the context of frivolous or meritless litigation positions, the Federal Circuit requires that the position(s) of the sanctioned party be "objectively unreasonable" or baseless to support an exceptional case finding.[4] *See, e.g.*, *Brooks Furniture*, 393 F.3d at 1381; *Old Reliable*, 635 F.3d at 543-44; *iLOR,* 631 F.3d at 1377. "To be objectively baseless, the [litigation positions] must be such that no reasonable litigant could reasonably expect success on the merits." *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008) (internal quotation marks omitted). As properly applied by the Federal Circuit in *Highmark*, the question of whether a claim or defense is objectively unreasonable is one of law, based on underlying mixed questions of law and fact, and, therefore, should be reviewed *de novo.* Findings as to subjective bad faith, on the other hand, are purely factual and should be reviewed for clear error. *See Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1328 (Fed. Cir. 2003); *see also Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011).

Generally, appellate courts serve two primary institutional functions—the correction of error in the

4. In addition, the Federal Circuit currently requires a showing that the litigation positions were asserted in subjective bad faith. The issue of whether, in the context of positions taken in litigation, the prevailing party must prove both "objective baselessness" and "subjective bad faith" is presently before this Court in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No 12-1184. IPO has also submitted a brief as *Amicus Curiae* in that case.

initial proceedings and the development of the law. *See, e.g.*, Daniel J. Meador et al., Appellate Courts 1040–50 (2d ed. 2006); Paul. D. Carrington, Daniel J. Meador & Maurice Rosenberg, Justice on Appeal 2 (1976). *De novo* review plays a critical role in performing these functions by allowing an appellate court to ensure that a case before it was decided in a manner consistent with past cases. By giving the appellate court full authority to police the trial court's interpretation and implementation of the legal standards involved, *de novo* review ensures that, among other things, the same legal standard is being applied in every case to which it is relevant. By correcting trial court errors and harmonizing the law of its jurisdiction, an appellate court may promote fair treatment of litigants and predictability of outcome at the trial level and foster an environment in which fewer errors are committed in the first instance. *See* Roscoe Pound, Appellate Procedure in Civil Cases 3 (1941) ("That hasty, unfair or erroneous action may be reversed by a court of review holds back the impulsive, impels caution, constrains fairness and moves tribunals to keep to the best of their ability in the straight path.").

IPO believes that the question of "objective reasonableness" is best served by a *de novo* standard of review. Plenary review is most appropriate for questions of law such as this because it serves to promote fairness and consistency in the application of the test for what are "objectively baseless" litigation positions that support a finding of an "exceptional case" under 35 U.S.C. § 285. Such consistent application of Section 285 by the lower courts should, in turn, deter abusive litigation practices from the outset. Accordingly, the determination of whether a claim was "objectively reasonable" for the purposes of

an exceptional case finding under 35 U.S.C. § 285 should be reviewed *de novo*.

ARGUMENT

I. Whether a Claim is "Objectively Reasonable" Presents a Question of Law That Warrants *De Novo* Review

The appropriate standard of review to apply to an issue on appeal often turns on the type of underlying inquiry—is it one of fact, law, both? On one end of the spectrum, questions of fact involve the determination of the "basic, primary, or historical facts: facts 'in the sense of a recital of external events and the credibility of their narrators.'" *Townsend v. Sain*, 372 U.S. 293, 309, n. 6 (1963) (quoting *Brown v. Allen*, 344 U.S. 443, 506, 73 S.Ct. 437 (1953) (opinion of Frankfurter, J.)). Where the inquiry involves the content or interpretation of a legal rule or the determination of whether a legal rule is met, it is deemed a "question of law." *See, e.g.*, *Miller v. Fenton*, 474 U.S. 104, 114-115 (1985) (identifying evaluation of a "pristine legal standard" or the "ultimate question" under the law, e.g., admissibility of a confession, as questions of law); *see also Thompson v. Keohane*, 516 U.S. 99, 112 (1995) (identifying "the ultimate 'in custody' determination for *Miranda* purposes" as a question of law). A "mixed question of law and fact," lying somewhere in the middle, is often characterized as a question about whether certain agreed upon facts meet a legal standard. *Thompson*, 516 U.S. at 111-13.

Questions of law, and mixed questions of law and fact, have historically been reviewed *de novo* on appeal. *See,*

e.g., *Id.* at 113; *Sumner v. Mata,* 455 U.S. 591, 597 (1982) *(per curiam)* ("[T]he constitutionality of the pretrial identification procedures used in this case is a mixed question of law and fact" reviewed without deference.) [5] The question of "objective unreasonableness" in the exceptional case inquiry will often present a pure question of law or, at most, a mixed question of law and fact. While some degree of factual inquiry may be required, the reasonableness of a nonprevailing party's litigation positions will ultimately turn on the legal merits of the underlying claims, defenses and legal theories. *See, e.g.*, *Professional Real Estate Investors v. Columbia Pictures Industries, Inc.*, 508 U.S. 49, 60 (1993) (holding that, to be considered "sham," "a lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits"); *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 682 F.3d 1003, 1006 (Fed. Cir. 2012) (holding that the threshold test for "objective recklessness" in the context of enhanced damages "entails an objective assessment of potential defenses based on the risk presented by the patent"); *see also Miller*, 474 U.S. at 115 (considering "the nature of the inquiry itself" in concluding that the voluntariness of a confession merits plenary review on appeal). Accordingly, the ultimate question of whether a non-prevailing party's litigation positions were "objectively reasonable" should be reviewed without deference.

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5. Though the ultimate holding of "objective unreasonableness" should be reviewed *de novo* on appeal, that holding may be based on underlying findings of the fact by the district court. Those underlying factual findings should be accorded appropriate deference. Similarly, IPO recognizes that other factors and conduct that may be relevant in the "exceptional case" analysis can be more (or purely) factual in nature (for example, litigation misconduct) and therefore should be subject to a higher standard of review.

II. Factors Considered By the Supreme Court in Determining Which Standard of Review to Apply Weigh in Favor of *De Novo* Review

The inherent difficulty in distinguishing questions of law and questions of fact and, in turn, determining the proper standard of appellate review has been recognized by this Court. *See, e.g.*, *Miller*, 474 U.S. at 113 ("In the § 2254(d) context, as elsewhere, the appropriate methodology for distinguishing questions of fact from questions of law has been, to say the least, elusive."). Several factors have been employed by the Court in determining which standard of review to apply to a particular issue.

Often, determination of the applicable standard of review has turned on whether "one judicial actor is better positioned than another to decide the issue in question." *Id*. at 114. For example, where the issue "involves the credibility of witnesses" and "turns largely on an evaluation of demeanor," the trial court, who views the presentation of evidence firsthand, is considered to be better suited to make such evaluations and is, therefore, afforded a level of deference on appeal. *Id*.; *Salve Regina College v. Russell,* 499 U.S. 225, 233 (1991) (explaining that a "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") (internal citations omitted). In reviewing the "objective reasonableness" of the legal merits of a party's litigation positions on appeal, the district court is not in a superior position to the appellate court. In this inquiry, the factual record is already set and the issue turns on whether the

record established in the proceeding supports a reasonable argument as to the facts and law. *See Thompson*, 516 U.S. at 114-15 (concluding that "once the historical facts are resolved" the lower court is not "in an appreciably better position" than the reviewing court to make the ultimate legal determination); *iLOR*, 631 F.3d at 1377-78 ("The existence of objective baselessness is to be determined based on the record ultimately made in the infringement proceedings.") (citing *Brooks Furniture*, 393 F.3d at 1382.) Indeed, because the Federal Circuit "sees far more patent cases than any district court," the Federal Circuit is better positioned than the district courts "to recognize those 'exceptional' cases in which a litigant could not, under the law, have had a reasonable expectation of success." *Highmark*, 687 F.3d at 1356.

Furthermore, *de novo* review will also promote consistency in application of the objective test among the trial courts. *De novo* review guards against having the same legal arguments interpreted differently in different trial courts by allowing an appellate court to ensure that the case under review was decided in a manner consistent with past cases. It would be undesirable for legal arguments to be "objectively unreasonable" before one trial court, yet "objectively reasonable" in another.

In *Ornelas v. United States.*, 517 U.S. 690 (1996), in the context of reviewing a probable-cause or reasonable suspicion determination under the Fourth Amendment, this Court explained:

> A policy of sweeping deference would permit, "[i]n the absence of any significant difference in the facts," "the Fourth Amendment's incidence

> [to] tur[n] on whether different trial judges draw general conclusions that the facts are sufficient or insufficient to constitute probable cause." Such varied results would be inconsistent with the idea of a unitary system of law. This, if a matter-of-course, would be unacceptable.

Id. at 697 (internal citations omitted).

Further, a clear and consistent application of the "objective unreasonableness" test, as promoted by *de novo* review, will inform litigants going forward of the types of legal claims and defenses that warrant an award of fees under Section 285, thereby allowing them to formulate their litigation positions accordingly. Providing the clarity necessary for parties to correct their conduct, by dropping frivolous claims or defenses or choosing not to assert them in the first instance, strongly serves the goal of deterring abusive patent litigation.

Continuing *de novo* review of objective unreasonableness by the Federal Circuit will not waste judicial energy. In evaluating "objective reasonableness," as mentioned above, the factual record is already set. The "objective" prong is a "single backwards looking inquiry into the reasonableness of the claims in light of the full record." *Highmark*, 687 F.3d at 310-11. Further, before turning to the issue of attorneys' fees under Section 285 and the "objective reasonableness" of the nonprevailing party's claim, the appeals court will likely have already undertaken a review of the merits of the case on appeal. It will not require significant energy for an appellate panel that has already addressed the merits to then determine if, under the correct law, a litigant asserted an objectively

unreasonable position. Thus, the concern expressed by the Court in *Pierce v. Underwood*, 487 U.S. 552 (1987), regarding "the investment of appellate energy" in *de novo* review is significantly mitigated. *Id.* at 561.

Last, this Court has recognized that where a "substantial amount of the liability" is at stake, a higher standard of review may be appropriate. *Id.* at 563. The Court in *Pierce* recognized that large fee awards "militat[ed] against" an abuse of discretion standard, noting that "[i]f this were the sort of decision that ordinarily has such substantial consequences, one might expect it to be reviewed more intensively." The higher attorney fees generally associated with patent litigation likewise supports a higher level of appellate scrutiny.

Taking all of these factors into account, IPO believes that *de novo* review is the appropriate standard for reviewing a district court's determination of whether a non-prevailing party's litigation positions were "objectively unreasonable" as part of the exceptional case inquiry.

III. The Supreme Court Reviews a Trial Court's Application of Comparable Objective Tests *De Novo*

De novo review of a district court's "objectively unreasonable" determination in the context of Section 285 of the Patent Act is consistent with this Court's treatment of similar objective tests in other areas of law. For example, in *Professional Real Estate Investors v. Columbia Pictures Industries, Inc.*, this Court held that whether a lawsuit is "objectively baseless" for the purposes of the sham litigation inquiry under the *Noerr-Pennington* doctrine is a legal question to be reviewed *de novo*. 508

U.S. at 63, 67. To be considered "sham," "a lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 60. The Court analogized the "objective baselessness" test in the context of the sham litigation inquiry to the fundamental legal question of whether a plaintiff had "probable cause" to institute civil legal proceedings. *Id.* at 62-63. In like manner, whether a claim or defense is "objectively unreasonable" or "objectively baseless" for the purposes of an exceptional case inquiry is a question of law subject to *de novo* review.

The questions of the "voluntariness" of a confession, whether a "reasonable person" in the suspect's position would have considered himself "in custody" for *Miranda* purposes, the "effectiveness" of counsel's assistance, and the "reasonableness" of a police officer's actions have all been deemed questions of law subject to plenary review on appeal. *See Miller,* 474 U.S. at 116 (reviewing the voluntariness of a confession without deference); *Thompson*, 516 U.S. at 111-13 (reviewing "reasonable person" standard in context of an "in custody" determination for *Miranda* purposes without deference); *Strickland v. Washington,* 466 U.S. 668, 698 (1984) (reviewing the effectiveness of counsel's assistance without deference); *Scott v. Harris*, 550 U.S. 372, 381 n. 8 (2007) (finding that once the relevant facts are determined and inferences drawn "in favor of the nonmoving party to the extent supportable by the record, the reasonableness of Scott's actions . . . is a pure question of law"). The existence of probable cause is also considered a purely legal question subject to *de novo* review. *See, e.g.*, *Ornelas v. U.S.*, 517 U.S. at 699 ("We therefore hold that as a general matter determinations of reasonable suspicion and probable

cause should be reviewed *de novo* on appeal."); *Stewart v. Sonneborn*, 98 U.S. 187, 194 (1878) ("[P]robable cause is a question of law in a very important sense. . . . Whether the circumstances alleged to show it probable are true, and existed, is a matter of fact; but whether, supposing them to be true, they amount to a probable cause, is a question of law.") (internal quotation marks omitted).

Consistent with this Court's precedent regarding similar objective standards, a trial court's determination of the "objectively unreasonable" inquiry under Section 285 should be reviewed *de novo*.

CONCLUSION

IPO urges the Court to affirm the Federal Circuit's decision in *Highmark* below. The very "nature of the inquiry itself" supports that "objective unreasonableness" is a legal question appropriate for *de novo* review. This is especially true because the Federal Circuit sits in a unique position to bring uniformity to the determination of whether a party's claims or defenses in a patent litigation were objectively reasonable or not.

Respectfully Submitted,

Of Counsel:

Philip S. Johnson, *President*
Kevin H. Rhodes,
Chair, Amicus Brief Committee
Intellectual Property Owners Association
1501 M Street, NW, Suite 1150
Washington, DC 20005
(202) 507-4500

Paul H. Berghoff
Counsel of Record
Erin R. Woelker
McDonnell Boehnen Hulbert & Berghoff LLP
300 South Wacker Drive
Chicago, Illinois 60606
(312) 913-0001
berghoff@mbhb.com

Counsel for Amicus Curiae

APPENDIX[1]

Members of the Board of Directors
Intellectual Property Owners Association

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Koninklijke Philips N.V.

Tina M. Chappell
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---

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