No. 12-

IN THE

Supreme Court of the United States

HIGHMARK INC.,

Petitioner,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Respondent.

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

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The Patent Act provides that a "court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. A case is "exceptional" if it is objectively baseless and brought in bad faith. After living with this case for more than six years, the District Court found that it was objectively baseless and brought in bad faith, and it awarded fees. Over a strong dissent, a Federal Circuit panel reversed, holding that a district court's objective baselessness determination is reviewed "without deference." Pet. App. 9a. The Federal Circuit denied rehearing *en banc* by a vote of six to five. One of the two pointed dissents from that denial accurately observed that the decision below "deviates from precedent * * * and establishes a review standard for exceptional case findings in patent cases that is squarely at odds with the highly deferential review adopted by every regional circuit and the Supreme Court in other areas of law." Pet. App. 191a.

The question presented is: Whether a district court's exceptional-case finding under 35 U.S.C. § 285, based on its judgment that a suit is objectively baseless, is entitled to deference.

PARTIES TO THE PROCEEDINGS

The following were parties to the proceedings in the U.S. Court of Appeals for the Federal Circuit:

1. Highmark Inc., the petitioner on review, was plaintiff-appellee below.

2. Allcare Health Management Systems, Inc., respondent on review, was defendant-appellant below.

RULE 29.6 DISCLOSURE STATEMENT

Petitioner Highmark Inc. has no parent corporation, and no publicly held company owns ten percent or more of its stock.

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Highmark Inc. respectfully petitions for a writ of *certiorari* to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The District Court's opinion is reported at 706 F. Supp. 2d 713 (Pet. App. 44a). The Federal Circuit's decision is reported at 687 F.3d 1300 (Pet. App. 1a). The Federal Circuit's order denying rehearing *en banc* is reported at 701 F.3d 1351 (Pet. App. 179a).

JURISDICTION

The Federal Circuit entered judgment on August 7, 2012, and denied rehearing on December 6, 2012. Pet. App. 1a, 181a. On February 4, 2013, the Chief Justice extended the time to file this petition to April 5, 2013. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATUTE INVOLVED

Section 285 of the Patent Act, 35 U.S.C. § 285, provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

INTRODUCTION

This petition arises from a patent-infringement case of the sort—in the District Court's own words—"that gives the term 'patent troll' its negative connotation." Pet. App. 69a. Respondent Allcare Health Management Systems, Inc., has one business and one business only: licensing a vague health-care patent through the threat of litigation. In 2002, Allcare accused Petitioner Highmark Inc. of infringing various claims of that patent. Allcare demanded exorbitant licensing fees and threatened suit if Highmark would not pay. Highmark refused and sought a declaratory judgment of non-infringement. Allcare counterclaimed for infringement. Highmark prevailed on summary judgment, but only after a litigation that needlessly dragged on for years and cost millions of dollars.

Highmark then sought attorneys' fees pursuant to 35 U.S.C. § 285, which grants district courts discretion to award fees in "exceptional" patent cases, including those in which infringement allegations are objectively baseless. The District Court, after carefully reviewing six years of litigation, agreed and found that a fee award was warranted. It was "firmly convince[d]" that this case was exceptional because, among other things, Allcare pursued "meritless allegations well after the lack of merit became apparent," advanced infringement theories that were contradicted by its own experts, and engaged in "deceitful conduct." Pet. App. 92a, 77a, 90a.

A divided Federal Circuit reversed. And it did so on the back of an abrupt departure from its own precedent: The panel majority decided to review *de novo* the District Court's finding that Allcare's claims were "objectively baseless," rather than reviewing for clear error, as the court has always done. Pet. App. 9a-11a. The panel thus refused to defer to the District Court's extensive findings and reversed, relying on a legal theory Allcare had not even advanced. Pet. App. 21a. That approach drew a sharp dissent from Judge Mayer and a five-judge dissent from denial of rehearing *en banc*. Judge Mayer wrote that, "[a]pplying th[e] highly deferential standard of review" that had long been settled law, "there is no basis for overturning the trial court's determination." Pet. App. 32a. And the *en banc* dissenters pointedly condemned the panel's *de novo* approach, stating that it "deviates from precedent" and establishes a standard "squarely at odds" with the approaches of "every regional circuit and the Supreme Court." Pet. App. 191a.

The dissenters were quite right about that. Remarkably, the Federal Circuit's decision to employ *de novo* review in this case splits with *every* other relevant authority. It is irreconcilable with this Court's cases, which hold in the context of analogous fee-award statutes that a district court's findings should be reviewed deferentially. *See Cooter & Gell* v. *Hartmax Corp.*, 496 U.S. 384, 400 (1990); *Pierce* v. *Underwood*, 487 U.S. 552, 563 (1987). It is irreconcilable with the Federal Circuit's own cases, which long have held that a Section 285 finding is "reviewed for clear error." *Cybor Corp.* v. *FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998) (en banc). And it sets the Federal Circuit at odds with every

other court of appeals: While patent appeals—and thus Section 285 issues—are now consolidated in the Federal Circuit, every circuit considered the standard of review for Section 285 awards in the years before the Federal Circuit was created. They *all* came to the opposite conclusion from the decision below.

This Court should step in and reset the course on this increasingly important question. As the members of this Court have recognized, patent litigation is changing. "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay Inc.* v. *MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Often the threat of an exceptional-case finding is the primary deterrent to an unscrupulous patent troll bent on pressing baseless infringement allegations. And the "district court is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard" to decide whether a fee award is warranted. *Cooter*, 496 U.S. at 402. The Federal Circuit's decision to arrogate that responsibility to itself improperly divides labor between the trial courts and courts of appeals, increases costs, and gives trolls more leverage to extort licensing fees for patents of suspect validity. It creates yet another perverse incentive in a patent system that is already subject to exploitation.

As the dissent below recognized, this Court has "reprimanded" the Federal Circuit often for not following this Court's guidance, but "[i]t is clear from *Highmark* that [the Federal Circuit] has not learned [its] lesson." Pet. App. 203a. A reminder here is in order. The writ should be granted.

STATEMENT

A. Background

Allcare is a patent assertion entity whose sole business is licensing U.S. Patent No. 5,301,105 (the '105 patent) through litigation and the threat of litigation. Allcare obtained the '105 patent for $75,000 through an assignment from the inventor. The patent discloses a vague "health management system" meant to facilitate the interaction of a physician, patient, bank, and insurance company. The patent claims at issue here cover a method of using a computer system to generate a list of possible treatments based on symptom data entered by a physician. Pet. App. 2a-4a.[1]

In 2002, Allcare found a new target for its licensing endeavor: Highmark, a non-profit Blue Cross Blue Shield Plan that provides health insurance to its members. Allcare sent Highmark a letter claiming that it had commissioned an analysis of "Highmark's transaction processing systems" and that it believed these systems infringed the '105 patent. Pet. App. 45a-46a. In the correspondence that followed, Allcare threatened a lawsuit that would lead to millions of dollars in legal fees and "substantial damages." *Id.* Rather than acquiesce in Allcare's demand for licensing fees, Highmark sought a declaratory judgment of non-infringement and invalidity. Allcare counterclaimed for infringement of claims 52, 53, and 102 of the '105 patent. Pet. App. 5a, 47a.

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[1] As Judge Mayer observed in dissent, the '105 patent is probably invalid under Section 101's subject matter eligibility requirements. Pet. App. 41a-43a; *see Mayo Collaborative Servs.* v. *Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012); *Bilski* v. *Kappos*, 130 S. Ct. 3218 (2010).

After four years of discovery, Highmark moved for summary judgment. Allcare did not even oppose summary judgment on claim 102, and eventually withdrew that claim with prejudice. Pet. App. 5a. The District Court then granted summary judgment for Highmark on claims 52 and 53, finding that Highmark's system plainly did not include at least one critical element of those claims. *See Lucent Techs., Inc.* v. *Gateway, Inc.*, 580 F.3d 1301, 1317 (Fed. Cir. 2009) ("To infringe a method claim, a person must have practiced all steps of the claimed method.").

Specifically, claim element 52(c) required "entering * * * data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment." Pet. App. 3a. The District Court found that that element required a physician to input a patient's symptoms into a computer system, which would respond with a list of potential treatments. Pet. App. 73a. But as Allcare's own expert admitted, in Highmark's computer system the physician herself enters the symptoms *and* proposed treatment into the system. *Id.* As the District Court explained, a physician who uses Highmark's system is not, therefore, "entering * * * data * * * *for* tentatively identifying a proposed mode of treatment," because the physician has already identified the treatment herself. Pet. App. 75a-76a (emphasis added). Because this element was missing, Highmark could not infringe claims 52. Further, because claim 53 was dependent upon claim 52 and thus included all of its limitations, summary judgment was mandated on that claim as well. *See Wolverine World Wide, Inc.* v. *Nike, Inc.*, 38 F.3d 1192, 1199 (Fed. Cir. 1994).

Allcare appealed, reiterating its infringement arguments to the Federal Circuit, which summarily rejected them without a written opinion. *Highmark, Inc.* v. *Allcare Health Mgmt. Sys., Inc.*, 329 F. App'x 280 (Fed. Cir. 2009). Then-Chief Judge Michel chastened Allcare's counsel at oral argument that his position on infringement "makes no sense to me at all." Tr. of July 10, 2009 Oral Argument at 6, *Highmark, Inc.* v. *Allcare Health Mgmt. Servs., Inc.*, No. 4:03-cv-1384, Doc. 541 Ex. 1 (N.D. Tex. Sept. 4, 2009).

B. The Exceptional-Case Finding

Highmark moved for fees under Section 285 of the Patent Act, which provides that a "court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. Under Section 285, a case can be deemed "exceptional" for various types of misconduct. *Brooks Furniture Mfg., Inc.* v. *Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). Apart from misconduct, a case can be exceptional if it meets two requirements: It must be "objectively baseless"—that is, "so unreasonable that no reasonable litigant could believe it would succeed"—and it must be brought in bad faith. *Old Reliable Wholesale, Inc.* v. *Cornell Corp.*, 635 F.3d 539, 544 (Fed. Cir. 2011); *Brooks*, 393 F.3d at 1381.

After an extensive review of the record, the District Court concluded that this case was exceptional, in part because Allcare's infringement contentions were objectively baseless and made in bad faith. Pet. App. 90a-92a, 174a-177a. The court determined that Allcare had not adequately investigated its case before filing, and that an investigation could have shown that Highmark was not infringing Allcare's patent. Pet. App. 64a-66a. As the court put it,

"Allcare had not done its homework when it began trolling for dollars and threatening litigation." Pet. App. 69a. The District Court likewise found that Allcare continued to pursue "meritless allegations after the lack of merit became apparent," Pet. App. 77a, and, indeed, after they were shown to be "without support by its own expert's report and deposition testimony." Pet. App. 78a. Allcare even "appear[ed] to acknowledge that it continued to pursue meritless allegations as insurance or leverage." *Id.*

Moreover, the District Court pointed to numerous instances of Allcare's "vexatious" and "deceitful" conduct over the course of the litigation. Pet. App. 90a. It found that Allcare had "used a survey with a stated purpose of identifying leaders in the medical-information-processing industry as a ruse to identify potential targets for licensing demands"; that it had asserted a frivolous res judicata defense; that it had changed its position several times on claim construction "[w]ithout reasonable explanation" and after court-ordered deadlines; and that it had made misrepresentations to another district court to get the case transferred to the Northern District of Texas. Pet. App. 69a, 82a-83a, 91a.

In sum, the District Court exhaustively canvassed the strength of Allcare's claims and its behavior during litigation. Its opinions on the fee and sanctions issues spanned well over a hundred pages. Pet. App. 44a-178a. And it concluded, based on that extensive factual review, that "Allcare's actions align with the sort of conduct that gives the term 'patent troll' its negative connotation. * * * The evidence of these actions firmly convinces the Court of Allcare's use of frivolous and vexatious tactics and supports an exceptional-case finding[.]" Pet. App. 69a, 82a.

C. The Federal Circuit's Decision

The Federal Circuit majority reversed the exceptional-case finding in part. Pet. App. 14a-31a. And it did so by reviewing that finding through a lens it had never before employed. In reviewing a district court's objective-baselessness findings, the Federal Circuit has for many years applied clear-error review. Pet. App. 207a-209a; *see infra* at 22-23. The majority in this case abandoned that standard. Instead, it held that objective baselessness is "a question of law based on underlying mixed questions of law and fact and is subject to *de novo* review." Pet. App. 9a (internal quotation marks omitted). It thus "review[ed] the court's determination of objective reasonableness without deference." *Id.*

Even without deference, the panel majority affirmed that Allcare's "claim 102 infringement litigation warranted an exceptional case finding." Pet. App. 14a. But it reversed the exceptional-case finding as to claim 52. The panel majority held that Allcare's construction of claim 52 was not objectively baseless because there "was support in the [patent] specification for Allcare's position." Pet. App. 20a. The majority admitted that Allcare had not "pointed to the specification as an argument in support of its theory." Pet. App. 21a. But, reviewing *de novo*, it held that its own hypothetical theory was non-frivolous and precluded an exceptional-case finding nonetheless. Pet. App. 21a-22a. The panel majority also held that none of the instances of litigation misconduct found by the District Court separately warranted an exceptional-case finding. Pet. App. 24a. In the end, the majority "remand[ed] th[e] case to the district court for a calculation of attorneys'

fees based on the frivolity of the claim 102 allegations only." Pet. App. 31a.

Judge Mayer filed a sharply-worded dissent. He wrote that under longstanding circuit precedent, objective baselessness is "a finding of fact which may be set aside only for clear error." Pet. App. 31a. He further decried the Federal Circuit's "increasing infatuation with *de novo* review of factual determinations," which is "an enormous waste of resources and vitiates the critically important fact-finding role of the district courts." Pet. App. 32a-33a (citing *Anderson* v. *City of Bessemer City*, 470 U.S. 564, 575 (1985)). And he explained why deference is particularly appropriate in the exceptional-case context:

> As an appellate court, we are ill-suited to weigh the evidence required to make an exceptional case determination. In many cases, a trial court will declare a case exceptional only after spending months—and sometimes even years—reviewing the evidence, hearing testimony, and evaluating the conduct of the litigants. Its intimate familiarity with the facts of the case, and the parties involved, place it in a far superior position to judge whether or not a litigant's claims of infringement were objectively baseless.

Pet. App. 35a-36a.

Judge Mayer explained that deferential review was required not just by the Federal Circuit's case law but by this Court's binding precedent. "Although the Supreme Court has not yet spoken on the appropriate standard of review applicable to section 285 exceptional case determinations," he wrote, "it has made clear that a highly deferential standard of review applies in analogous proceedings." Pet. App.

37a. In *Cooter*, this Court held that " '[a]n appellate court's review of whether a legal position was reasonable or plausible' " for purposes of Rule 11 "must be reviewed under a highly deferential abuse of discretion standard." Pet. App. 38a (quoting *Cooter*, 496 U.S. at 402). And in *Pierce*, this Court held that "in the context of fee awards under the Equal Access to Justice Act * * * a deferential abuse of discretion standard applies, even though an EAJA award turns on the question of whether the government's litigation position had a 'reasonable basis both in law and fact.' " *Id.* (quoting *Pierce*, 487 U.S. at 565). Judge Mayer concluded that *Cooter* and *Pierce* were binding and required deferential review of Section 285 fee awards; Section 285 was not different in any relevant way. Pet. App. 38a-39a.

Finally, Judge Mayer demonstrated that—evaluated through the proper standard of review—this is an easy case: "Given that Allcare persisted in advancing infringement allegations that were both in direct conflict with the plain claim language and unsupported by the testimony of its own expert, the district court had ample grounds for concluding that Allcare's allegations of infringement of claim 52(c) were frivolous." Pet. App. 40a. He would have affirmed the fee award in full.

D. The *En Banc* Dissent

Highmark petitioned for rehearing *en banc*, which the Federal Circuit denied by a vote of six to five.[2] Judges Moore and Reyna each wrote dissents.

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[2] Judge Mayer, who wrote the panel dissent, is a senior judge and could not participate in the *en banc* vote. A total of six of the twelve Federal Circuit judges that considered this case thus disagreed with the panel's holding.

Judge Moore, joined in full by four other judges, attacked the panel decision for "deviat[ing] from precedent, invad[ing] the province of the fact finder, and establish[ing] a review standard for exceptional case findings in patent cases that is squarely at odds with the highly deferential review adopted by every regional circuit and the Supreme Court in other areas of the law." Pet. App. 191a. She warned that the Federal Circuit must "avoid the temptation to label everything legal and usurp the province of the fact-finder with [its] manufactured *de novo* review." Pet. App. 202a. And she too concluded that this Court's decisions in *Cooter* and *Pierce* provide the governing rule. "Under Rule 11, as with objective baselessness, the district court must determine whether a party's position was objectively unreasonable," she wrote. Pet. App. 195a. "In *Cooter*, the Supreme Court concluded that all aspects of a sanctions determination under Rule 11 should be reviewed on appeal under an abuse of discretion standard. * * * The parallels to Rule 11 are compelling, and in my view dispositive of how we should approach the 'objective baselessness' inquiry." Pet. App. 196a-197a. Judge Moore noted that the Supreme Court had "reprimanded" the Federal Circuit not long ago for disregarding Supreme Court precedent and "creating patent-law specific rules." Pet. App. 203a. "It is clear from *Highmark*," she wrote, that "our court has not learned its lesson." *Id.*

Judge Reyna, in a separate dissent, explained that "[e]ven a cursory review of our cases reveals that we have clearly set forth a deferential standard of review and we have routinely communicated to litigants and lower courts that we will review all § 285 findings for clear error." Pet. App. 208a. He

continued: "[T]he established precedent is especially wise, and should not be disturbed because it respects the enduring balance between the trial judge and the appellate panel in carrying out their distinctive responsibilities." *Id.* (citing *Salve Regina College* v. *Russell*, 499 U.S. 225, 233 (1991)).

This petition followed.

REASONS FOR GRANTING THE PETITION

This case warrants *certiorari* review. The Federal Circuit's decision to review "objective baselessness" findings *de novo* cannot be reconciled with this Court's precedents. It conflicts with decisions in *every* other circuit. It splits the Federal Circuit internally and abandons that court's established precedent—both cert-worthy factors, given the Federal Circuit's unique exclusive jurisdiction over patent matters. *See Warner-Jenkinson Co.* v. *Hilton Davis Chem. Co.*, 520 U.S. 17, 21 (1997) (granting *certiorari* to resolve a "significant disagreement" within the Federal Circuit, which had split the *en banc* court 7-5); *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 727 (2002) (granting *certiorari* when the Federal Circuit's "holding departed from its own cases").

The issue presented also has tremendous practical importance. Litigation by patent assertion entities, sometimes called "patent trolls," now accounts for a majority of all patent cases. The threat of an exceptional-case finding is a crucial deterrent to meritless suits designed to extort licensing fees. The district court is in the best position to apply the "fact-dependent legal standard" and to determine when fees are warranted. *Cooter*, 496 U.S. at 402. Placing that responsibility in the court of appeals creates

tremendous inefficiencies, further inflates out-of-control legal costs, and increases the risk of error. As the *en banc* dissenters observed: "There is simply no reason to believe that we, as an appellate tribunal spending just thirty minutes with the attorneys and having a limited record and knowledge of the events taking place in the proceeding below, are in a better position than the trial judge to decide 'objective baselessness.' " Pet. App. 200a-201a. Just so. This Court should grant *certiorari* and reverse.

I. THE DECISION BELOW CANNOT BE RECONCILED WITH THIS COURT'S PRECEDENTS.

This Court, on two occasions, has mandated deference to a district court's findings in contexts closely analogous to an exceptional-case determination. The decision below is irreconcilable with those cases. This Court should grant *certiorari* to ensure that the Federal Circuit faithfully follows binding precedent. *See KSR Int'l Co.* v. *Teleflex Inc.*, 550 U.S. 398, 407 (2007) (granting *certiorari* because the Federal Circuit decided a case "in a manner contrary to [the Patent Act] and our precedents").

1. In *Pierce*, the Court considered the proper standard of review for fee awards under the Equal Access to Justice Act, 28 U.S.C. § 2412(d). That Act authorizes a court to award attorneys' fees in any civil action brought by or against the United States if the court finds that the position of the United States was not "substantially justified." *Id.* A position is not substantially justified if it has no "reasonable basis in both law and fact," *Pierce*, 487 U.S. at 565—essentially the same as the "no reasonable litigant could believe it would succeed" standard used to

judge objective baselessness under the Patent Act. *Old Reliable Wholesale*, 635 F.3d at 544.

This Court in *Pierce* held that appellate courts should apply "an 'abuse of discretion' standard" when reviewing a district court's reasonable-basis finding. 487 U.S. at 559. Several considerations dictated that conclusion. The Court noted that "[i]t is especially common for issues involving what can broadly be labeled 'supervision of litigation,' which is the sort of issue presented here, to be given abuse-of-discretion review." *Id.* at 558 n.1. The Court also explained that appellate standards of review often reflect "a determination that, as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question." *Id.* at 559-560 (quoting *Miller* v. *Fenton*, 474 U.S. 104, 114 (1985)). That consideration militated in favor of deferential review:

> Not infrequently, the question will turn upon not merely what was the law, but what was the evidence regarding the facts. By reason of settlement conferences and other pretrial activities, the district court may have insights not conveyed by the record, into such matters as whether particular evidence was worthy of being relied upon, or whether critical facts could easily have been verified by the [losing party].

Id. at 560. Moreover, "even where the district judge's full knowledge of the factual setting can be acquired by the appellate court, that acquisition will often come at unusual expense[.]" *Id.* The appellate court would have to "undertake the unaccustomed task of reviewing the entire record, not just to determine whether there existed the usual minimum support for the merits determination made by the factfinder

below, but to determine whether urging of the opposite merits determination was substantially justified." *Id.*

Notably, the Court held that deferential, abuse-of-discretion review extends even to "purely legal" questions in connection with the fee award. *Id.* at 560. That makes sense because the question on review of a fee award "will not be precisely the same as the merits"; as a result, "the investment of appellate energy will either fail to produce the normal law-clarifying benefits that come from an appellate decision on a question of law, or else will strangely distort the appellate process." *Id.* at 561. Either way, *de novo* scrutiny is not an effective or efficient use of a court of appeals' time.

The considerations driving *Pierce* apply with equal force here, as the dissenters recognized. Pet. App. 38a, 197a-198a. After all, the basic question in EAJA and Patent Act fee petitions is the same: whether a claim has objective merit. The standard of review thus should be the same too. A trial judge in a patent case, as in any other type of case, will have "insights not conveyed by the record" and a "full knowledge of the factual setting" that an appellate court could only attain with great effort. *Pierce*, 487 U.S. at 560. And in a patent case, just like an EAJA case, the determination of reasonableness (or lack thereof) "may turn on legal positions taken, on factual support for those positions, or both," and "[t]he trial court is in the best position to make the requisite findings and weigh them accordingly." Pet. App. 198a (discussing *Pierce*). The panel majority's *de novo* review standard cannot be reconciled with *Pierce*.

2. The decision below likewise cannot be squared with *Cooter*, which adopted a deferential standard for reviewing Rule 11 sanctions. *See* 496 U.S. at 399-402. Rule 11 authorizes sanctions against an attorney for advancing contentions that are not "warranted by existing law" or that lack "evidentiary support." Fed. R. Civ. Proc. 11(b). Thus, as this Court recognized in *Cooter*, "[d]etermining whether an attorney has violated Rule 11 involves a consideration of three types of issues": first, the factual basis for the claim; second, legal issues related to whether a claim is "warranted by existing law"; and third, whether to sanction and the amount of any sanction. 496 U.S. at 399. Before *Cooter*, some courts of appeals had varied the level of deference accorded to a district court depending on the *type* of issue the court was deciding. *Id.* The Ninth Circuit, for example, had reviewed questions of the first type for clear error, questions of the second type *de novo*, and questions of the third type for abuse of discretion. *Id.*

This Court squarely rejected that approach. It held, instead, that "an appellate court should apply an abuse-of-discretion standard in reviewing *all aspects* of a district court's Rule 11 determination." *Id.* at 405 (emphasis added). And it made clear that "all" means "all." The appellate courts thus must defer to the "the district court's legal conclusions" about whether a position was warranted, just as they do to more quintessentially factual conclusions. *See id.* at 401.

The Court reached that conclusion by doing what the panel majority in this case *refused* to do—namely, analogize between the case before it and the standard applicable in a similar fee statute. The

Court thus looked to *Pierce* and concluded that *Pierce* "strongly supports applying a unitary abuse of discretion standard to all aspects of a Rule 11 proceeding." *Cooter*, 469 U.S. at 403. That was so for two reasons. First, a "ruling that a litigant's position is factually well grounded and legally tenable for Rule 11 purposes is * * * fact specific," just like a determination in the EAJA setting about whether a legal position is "substantially justified." *Id.* Thus, in the Rule 11 context, just as in *Pierce*, the "district court [i]s 'better positioned' to make such a factual determination." *Id.* (quoting *Pierce*, 487 U.S. at 560). Second, in the Rule 11 context, like the EAJA context, "only deferential review g[ives] the district court the necessary flexibility to resolve questions involving 'multifarious, fleeting, special, narrow facts that utterly resist generalization.' " *Id.* at 404 (quoting *Pierce*, 487 U.S. at 562). For both reasons, the Court concluded that the "district court is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11." *Id.* at 402. Abuse-of-discretion review accordingly applied. *Id.* at 405.

Cooter, like *Pierce*, weighs strongly in favor of—if it does not mandate—deferential review of all aspects of a district court's exceptional-case determination. And yet the decision below adopted the *exact* tripartite review structure that was rejected in *Cooter*. It calls for review of the factual question of bad faith for clear error, the mixed question of objective baselessness *de novo*, and the actual award of fees for abuse of discretion. Pet. App. 9a-12a, 183a-184a. This Court squarely rejected that incoherent approach in *Cooter*. It should do the same here. In Section 285 cases, just as in Rule 11 or EAJA cases, the inquiry

whether a litigant's position was justified has factual components. *Compare Pierce*, 487 U.S. at 560 (the EAJA question frequently "will turn upon not merely what was the law, but what was the evidence regarding the facts"), *with FilmeTec Corp.* v. *Hydranautics*, 67 F.3d 931, 938 (Fed. Cir. 1995) (court must "tak[e] all the facts and circumstances into account" before determining whether a claim is "objectively baseless"). Indeed, that is even more necessary in the Section 285 context because "unlike the situation under Rule 11," a Section 285 fee award "*is based on the entire case*, and does not turn on whether the patentee's position would have been reasonable at the time of filing the complaint or pleading." Pet. App. 188a (emphasis added). A retrospective evaluation of the entire record—in this case a record spanning six years—requires more familiarity with the facts and nuances of a litigation than would a one-off snapshot of the state of play on a date certain. *Cooter* and *Pierce* apply *a fortiori.*

3. The decision below is also at odds with Federal Rule of Civil Procedure 52(a)(6), which provides that "findings of fact, whether based on oral or other evidence, must not be set aside unless clearly erroneous." The Federal Circuit has stated on countless occasions that the "exceptional case" determination is "a question of fact." *E.g.*, *Frank's Casing Crew & Rental Tools, Inc.* v. *Weatherford Int'l, Inc.*, 389 F.3d 1370, 1376 (Fed. Cir. 2004); *Badalamenti* v. *Dunham's, Inc.*, 896 F.2d 1359, 1364 (Fed. Cir. 1990). Indeed, the exceptionality of a case must be proven by "clear and convincing evidence," Pet. App. 8a, a standard that "applies to questions of fact and not to questions of law." *Microsoft Corp.* v. *i4i Ltd. P'ship*, 131 S. Ct. 2238, 2253 (2011) (Breyer, J., concurring).

And Rule 52(a) says unequivocally that findings of fact can only be set aside if "clearly erroneous." It "does not make exceptions or purport to exclude certain categories of factual findings from the obligation of a court of appeals to accept a district court's findings unless clearly erroneous." *Pullman-Standard* v. *Swint*, 456 U.S. 273, 287 (1982). The Federal Circuit has no warrant to make such an exception here.

4. The panel majority found support for its *de novo* standard in *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries, Inc.* (*"PRE"*), 508 U.S. 49 (1993). That reliance was mistaken, as the dissenters from denial of rehearing explained. Pet. App. 192a-195a.

PRE involved the "sham" exception to antitrust immunity. The question before the Court was whether litigation could be a "sham merely because a subjective expectation of success does not motivate the litigant." 508 U.S. at 57. The Court answered no. It explained that a lawsuit can only be a "sham" if it is "objectively baseless," and a suit is "objectively baseless" only if the plaintiff lacks "probable cause to institute legal proceedings." *Id.* at 60-62. In the course of its analysis, the Court noted 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." *Id.* at 63.

That is the sentence on which the panel majority relied for its newly-minted *de novo* standard of review. But that reliance is misplaced. First, the quoted sentence was discussing the allocation of authority between the trial judge and the *jury*, not the trial judge and the *appellate court*. The Court's citations make this plain: It cited two nineteenth-

century cases addressing whether the question of "probable cause," as an element of the tort of malicious prosecution, should go to the jury. *Stone* v. *Crocker*, 41 Mass. 81, 85 (1832) ("When the facts are undisputed," probable cause "becomes a mere question of law which the court must decide, and it would be useless and improper to take the opinion of a jury on it."); *Stewart* v. *Sonneborn*, 98 U.S. 187, 194 (1878). The sentence therefore is simply irrelevant to this case. No one disputes that an exceptional-case finding under the Patent Act is made by the court, not the jury. In that sense, it is a "question of law." But that does not mean it is subject to *de novo* review. To the contrary: *Cooter* and *Pierce* make clear that even some "legal" questions (in the *PRE* sense) decided by a trial court should be reviewed deferentially. *Cooter* and *Pierce* also make clear that the circumstances warrant deference here.

Second, in *PRE* the question of objective baselessness was not even in dispute. As the Court noted, "PRE neither 'allege[d] that the [copyright] lawsuit involved misrepresentations' nor 'challenge[d] the district court's finding that the infringement action was brought with probable cause, i.e., that the suit was not baseless.' " *PRE*, 508 U.S. at 54 (quoting *Columbia Pictures Indus., Inc.* v. *Prof'l Real Estate Investors, Inc.*, 944 F.2d 1525, 1530 (9th Cir. 1991)). Rather, the parties had *conceded* that the litigation was not objectively baseless; the issue was not even before the Court. *PRE* did not overrule two precedents—*Cooter* and *Pierce*—on an issue that was neither argued nor contested. That case provides no support for the panel majority's novel, no-deference approach.

II. THE DECISION BELOW CREATES BOTH AN INTRA-CIRCUIT AND INTER-CIRCUIT SPLIT.

In this case, the Federal Circuit departed from its own patent law precedents and split with the unanimous view of its sister circuits. Those factors reinforce the need for *certiorari* review.

1. The decision below breaks from a consistent line of Federal Circuit precedent. Until this case, it was settled law that an exceptional case finding is a "factual determination reviewed for clear error." *Cybor*, 138 F.3d at 1460 (en banc); *see, e.g.*, *Nilssen* v. *Osram Sylvania, Inc.*, 528 F.3d 1352, 1357 (Fed. Cir. 2008) ("We review a finding that a case is 'exceptional' within the meaning of 35 U.S.C. § 285 for clear error."); *Eon-Net LP* v. *Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011) ("[T]he district court did not clearly err in finding that Eon-Net pursued objectively baseless infringement claims."); *Computer Docking Station Corp.* v. *Dell, Inc.*, 519 F.3d 1366, 1380 (Fed. Cir. 2008) ("[T]he district court's finding that the action was not objectively baseless was not clearly erroneous"). Indeed, the Federal Circuit has not just applied the clear-error standard consistently; it had persuasively justified that deferential standard in terms that echo *Cooter* and *Pierce*: "When reviewing an exceptional case finding for clear error, we are mindful 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 us for only a short period of time, we are not in the position to second-guess the trial court's judgment." *Eon-Net*, 653 F.3d at 1324. Both the panel dissent and the five dissenters from denial of rehearing *en banc* recognized this

settled law and urged the court to hew to it, to no avail. Pet. App. 31a-32a, 208a-210a.[3]

The Federal Circuit's abrupt swerve from its own precedent, and that court's deep internal divisions, weigh heavily in favor of *certiorari* review. E. Gressman *et al.*, *Supreme Court Practice* § 4.21, at 287 (9th ed. 2007) (the "likelihood of Supreme Court review increases" when the Federal Circuit "departs from its own patent law precedents"); *Warner-Jenkinson*, 520 U.S. at 21; *Festo*, 535 U.S. at 727. The Federal Circuit's exclusive jurisdiction over patent matters means that this divide will not percolate, and no guidance from other circuits will be forthcoming. The only way to resolve the dispute is for this Court to step in.

2. As Judge Moore accurately observed in dissent, the decision below is also "squarely at odds with the highly deferential review adopted by every regional circuit" in analogous areas of law. Pet. App. 191a. In light of this Court's unequivocal guidance, it is unsurprising that "the regional circuits are unanimous that the issue of objective reasonableness under Rule 11 is to be reviewed deferentially by the appellate courts." Pet. App. 196a; *see also id.* n.4 (citing cases). The same goes for fee awards under the EAJA and 28 U.S.C. § 1927. Pet. App. 199a & n.5 (citing cases). And with respect to the Lanham

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[3] The Federal Circuit cases refer to "clear error," while *Cooter* and *Pierce* refer to "abuse of discretion," but the standards are effectively identical. *See Cooter*, 496 U.S. at 401 ("When an appellate court reviews a district court's factual findings, the abuse-of-discretion and clearly erroneous standards are indistinguishable: A court of appeals would be justified in concluding that a district court had abused its discretion in making a factual finding only if the finding were clearly erroneous.").

Act's fee provision[4]—a provision that is identical to Section 285 of the Patent Act—the courts are near-unanimous in favor of deference; only the Ninth Circuit is an outlier. The First Circuit, for example, has explained that "the district court has the intimate knowledge of the nuances of the underlying case" and is therefore "better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard." *Tamko Roofing Prods., Inc.* v. *Ideal Roofing Co.*, 282 F.3d 23, 30 (1st Cir. 2002) (quoting *Cooter*, 496 U.S. at 402). Ten other circuits agree. *See Farberware Licensing Co.* v. *Meyer Mktg. Co.*, 428 F. App'x 97, 99 (2d Cir. 2011); *Securacomm Consulting, Inc.* v. *Securacom Inc.*, 224 F.3d 273, 279 (3d Cir. 2000); *Employers Council On Flexible Comp.* v. *Feltman*, 384 F. App'x 201, 205-206 (4th Cir. 2010); *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); *Blue Dane Simmental Corp.* v. *American Simmental Ass'n*, 178 F.3d 1035, 1043 (8th Cir. 1999); *Nat'l Ass'n of Prof'l Baseball Leagues, Inc.* v. *Very Minor Leagues, Inc.*, 223 F.3d 1143, 1146 (10th Cir. 2000); *Tire Kingdom, Inc.* v. *Morgan Tire & Auto, Inc.*, 253 F.3d 1332, 1335-36 (11th Cir. 2001); *ALPO Petfoods, Inc.* v. *Ralston Purina Co.*, 913 F.2d 958, 971 (D.C. Cir. 1990). *But see Secalt S.A.* v. *Wuxi Shenxi Constr. Mach. Co.*, 668 F.3d 677, 687 (9th Cir. 2012).

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[4] *See* 15 U.S.C. § 1117(a)(3) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.")

3. The decision below actually creates a circuit split with respect to the Patent Act itself, despite the Federal Circuit's exclusive patent jurisdiction. The "exceptional case" provision of the Patent Act, as it currently stands, was enacted in 1952. Between that date and the creation of the Federal Circuit in 1982, every court of appeals had occasion to determine the appropriate standard of review for a district court's exceptional-case finding. And the circuits were unanimous: An exceptional-case finding should be reviewed *deferentially*, for abuse of discretion. "The law placing, as it does, the discretion in the trial court to determine * * * whether the case is an exceptional one so that attorneys' fees should be allowed, appellate courts ought not and will not interfere with the exercise of such discretion." *Garrett Corp.* v. *American Safety Flight Sys., Inc.*, 502 F.2d 9, 22 (5th Cir. 1974); *see also Codex Corp.* v. *Milgo Elec. Corp.*, 717 F.2d 622, 630 (1st Cir. 1983); *American Safety Table Co.* v. *Schreiber*, 415 F.2d 373, 380 (2d Cir. 1969); *Omark Indus., Inc.* v. *Colonial Tool Co.*, 672 F.2d 362, 365 (3d Cir. 1982); *Western Elec. Co.* v. *Stewart-Warner Corp.*, 631 F.2d 333, 336 (4th Cir. 1980); *Kearney & Trecker Corp.* v. *Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977); *Loctite Corp.* v. *Fel-Pro, Inc.*, 667 F.2d 577, 584 (7th Cir. 1981); *Bolt, Beranek & Newman, Inc.* v. *McDonnell Douglas Corp.*, 521 F.2d 338, 344 (8th Cir. 1975); *Maurice A. Garbell, Inc.* v. *Boeing Co.*, 546 F.2d 297, 300-301 (9th Cir. 1976); *Lam, Inc.* v. *Johns-Manville Corp.*, 668 F.2d 462, 476 (10th Cir. 1982). The Federal Circuit has now set itself against the collective wisdom of every one of its sister circuits.

4. In sum, the Federal Circuit has not only abruptly broken from its own precedent in subjecting a district court's exceptional case finding to *de novo* scrutiny; it has broken from every other court of appeals. As the *en banc* dissent put it: "I can divine no reason * * * to disregard such clear and wise precedent from our sister circuits." Pet. App. 196a-197a. There is no reason. This Court should grant *certiorari* to bring the Federal Circuit in line with its sister circuits.

III. THE QUESTION PRESENTED IS IMPORTANT TO PATENT LAW AND THE PRESERVATION OF PROPER ROLES OF TRIAL AND APPELLATE COURTS.

1. Patent litigation is changing. Members of this Court recognized several years ago that "[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *eBay*, 547 U.S. at 396 (Kennedy, J., concurring). That development has accelerated: The year *eBay* was decided, 19 percent of all patent infringement suits were filed by patent assertion entities. That number is now 62 percent. C. Chien, *Patent Trolls by the Numbers*, Patently-O, Mar. 14, 2013.[5] And suits filed by patent assertion entities have a startlingly low success rate: Such entities win only 8 percent of the time when the suit is actually litigated to judgment, compared with a 40 percent success rate for companies that actually practice their patents. J. Allison *et al.*, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L. J. 677, 693-694 (2011). As Judge Lourie

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[5] *Available at* http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html.

has observed: "Many patent suits are brought these days with little chance of success. Appeals to this Court from summary judgments of non-infringement based on claim constructions that are affirmed here are testament to the frequency of non-meritorious claims brought in the district courts." *Medtronic Navigation, Inc.* v. *BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 967 (Fed. Cir. 2010) (Lourie, J., concurring).

That vanishingly small success rate is no coincidence. It stems from the basic business model of many patent assertion entities like Allcare: threaten suit with weak claims in the hopes of extracting a licensing fee that is less than what it would cost a firm to actually litigate. And the costs of defending against these suits can be devastating. According to published data, the median cost of defending patent suits with less than $1 million at stake is $650,000; the average cost of defending patents suits with $1 million to $25 million at stake is about $2.5 million; and the average cost of defending patent suits with more than $25 million at stake is over $5 million. Am. Intellectual Property Law Ass'n, *Report of the Economic Survey 2011*, at 35 (2012).[6] One estimate puts the total direct costs of defending against suits by patent assertion entities in 2011 at over $29 billion. J. Bessen & M. Meurer, *The Direct Costs from NPE Disputes* at 31 (Boston Univ. Sch. of Law Working Paper No. 12-34, 2012).[7] On the other

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[6] *Available at* http://docs.justia.com/cases/federal/district-courts/california/cacdce/8:2010cv01656/486026/282/4.pdf?ts=1338593710.

[7] *Available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210.

hand, patent assertion entities can litigate on a contingency basis, and so have almost nothing to lose by bringing a weak suit—except being hit with attorneys' fees under 35 U.S.C. § 285.

The threat of an exceptional case finding is thus often the sole consideration dissuading a patent troll from pressing meritless claims against innocent parties. And the district court is simply in the best position to "apply the fact-dependent legal standard" and make that finding. *Cooter*, 496 U.S. at 402. "Trial judges can spend hundreds of hours reading and rereading all kinds of source material, receiving tutorials on technology from leading scientists, formally questioning technical experts and testing their understanding against that of various experts, [and] examining on site the operation of the principles of the claimed invention." *Cybor*, 138 F.3d at 1477 (Rader, J., dissenting). The Federal Circuit, by contrast, sees only the briefs, record excerpts, and a short, strictly regulated oral argument. A "sterile written record can never convey all the nuances and intangibles of the decisional process." *Id.* at 1478.

2. This case is a perfect example of why the standard of review should reflect the district court's institutional advantages. The question under Section 285 is not whether a legal argument has merit in a vacuum; rather, a court "tak[es] *all of the facts and circumstances* into account" before determining whether a claim is "objectively baseless." *FilmeTec*, 67 F.3d at 938. The Federal Circuit, pronouncing *ex cathedra* that this suit was not objectively baseless, simply lost sight of the circumstances and contextual factors driving the District Court's decision.

Recall that the panel majority found Allcare's suit not "baseless" on the ground that Allcare's construc-

tion of claim element 52(c) found some support in the patent specification. Pet. App. 20a-21a. But that rationale was fatally flawed, as the trial judge immediately would have recognized. First, the parties *stipulated* to the meaning of a key word in claim 52(c), and the Federal Circuit's gloss is contrary to the stipulation. Pet. App. 133a. Second, Allcare's own expert effectively conceded that the limitation of claim 52(c) was not met. Pet. App. 73a-74a. Third, Allcare's pre-filing investigation regarding claim 52(c) was woefully inadequate. Pet. App. 59a-62a. Finally, Allcare had never advanced the theory ultimately adopted by the panel majority in support of its infringement arguments in the District Court or on appeal. The majority invented it after-the-fact. In light of all these facts and circumstances, no "reasonable litigant in [Allcare's] position could realistically expect success on the merits." *PRE*, 508 U.S. at 63. At most they could expect some leverage toward a settlement, since litigating to judgment is expensive. But that expectation assuredly is not enough to make an assertion of infringement reasonable.

In short, the Federal Circuit was able to reach the conclusion it did only because it lost sight of—or never understood—facts and circumstances that revealed the unreasonableness of Allcare's litigating position. Those facts and circumstances were apparent to the trial judge just by virtue of having lived with the case for years. This case exemplifies why allowing a panel of appellate judges to "usurp the province of the fact finder" leads to bad decisions. Pet. App. 202a. The district court is a "firsthand observer of proceedings below" with a "view from the trenches." Pet. App. 36a (quoting *Kale* v. *Combined*

Ins. Co., 861 F.2d 746, 758 (1st Cir. 1988)). The Supreme Court and all the regional circuits have formalized that superior vantage in a deferential standard of review. This Court should ensure that the Federal Circuit does too.

3. The case is deeply important for another reason: It is part of a larger pattern of Federal Circuit decisions arrogating greater authority to the court of appeals and upsetting the traditional relationship between trial and appellate courts. The Federal Circuit now has asserted *de novo* review for claim construction, *Cybor*, 138 F.3d at 1456, willfulness, *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012); obviousness, *Merck & Co., Inc.* v. *Teva Pharmaceuticals USA, Inc.*, 395 F.3d 1364, 1369 (Fed. Cir. 2005); enablement, *Sitrick* v. *Dreamworks, LLC*, 516 F.3d 993, 999 (Fed. Cir. 2008); definiteness, *Young* v. *Lumenis, Inc.*, 492 F.3d 1336, 1344 (Fed. Cir. 2007); conception, *Slip Track Sys., Inc.* v. *Metal-Lite, Inc.*, 304 F.3d 1256, 1262 (Fed. Cir. 2002)—the list goes on. All of these determinations have substantial factual components.

It is time to put a halt to the Federal Circuit's expansion of *de novo* review. This Court has said that proceedings in district court should be the "main event" and not a "tryout on the road." *Anderson*, 470 U.S. at 575. The Federal Circuit is increasingly making itself the "main event." That is harmful to federal judicial administration. It upsets the proper roles of trial and appellate courts. And it is bad for litigants: It will make patent lawsuits more uncertain, more unpredictable, and more expensive.

CONCLUSION

For the foregoing reasons, the petition for a writ of *certiorari* should be granted.

Respectfully submitted,

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March 2013

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

HIGHMARK, INC.,

Plaintiff-Appellee,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Defendant-Appellant.

2011-1219

Appeal from the United States District Court for the Northern District of Texas in case no. 03-CV-1384, Judge Terry Means.

Decided: August 7, 2012

CYNTHIA E. KERNICK, Reed Smith, LLP, of Pittsburgh, Pennsylvania, argued for plaintiff-appellee. With her on the brief were JAMES C. MARTIN, KEVIN S. KATONA and THOMAS M. POHL.

DONALD R. DUNNER, Finnegan, Henderson, Farabow, Garrett & Dunnerr, LLP, of Washington, DC, argued for defendant-appellant. With him on the brief were ERIK R. PUKNYS, of Palo Alto,

California. Of counsel on the brief was DAN S. BOYD, The Boyd Law Firm, P.C., of Dallas, Texas.

Before NEWMAN, MAYER, and DYK, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* DYK. Dissenting in part opinion filed by *Circuit Judge* MAYER.

DYK, *Circuit Judge*.

Allcare Health Management Systems, Inc. ("Allcare") appeals from an order of the United States District Court for the Northern District of Texas finding this case exceptional under 35 U.S.C. § 285 and awarding attorneys' fees and costs to Highmark, Inc. ("Highmark"). *See Highmark, Inc. v. Allcare Health Mgmt. Sys. Inc.* ("*Exceptional Case Order*"), 706 F. Supp. 2d 713, 738 (N.D. Tex. 2010). The district court found the case exceptional because it concluded that Allcare had pursued frivolous infringement claims, asserted meritless legal positions during the course of the litigation, shifted its claim construction positions, and made misrepresentations in connection with a motion to transfer venue. We affirm in part, reverse in part, and remand.

BACKGROUND

I

Allcare owns U.S. Patent No. 5,301,105 ("the '105 patent"), which is directed to "managed health care systems" used to interconnect and integrate physicians, medical care facilities, patients, insurance companies, and financial institutions, '105 Patent col. 1 ll. 4-11, particularly with respect to utilization review. In health care, "utilization

review" is the process of determining whether a health insurer should approve a particular treatment for a patient. In general, the patent's claims cover a method of determining whether utilization review is necessary in a particular instance, and whether a recommended treatment is appropriate. If utilization review is required, the method prevents authorization and payment until the appropriateness of the treatment has been determined and the treatment has been approved.

At issue in this case are claims 52, 53, and 102. Independent claim 52 recites:

> A method of managing a comprehensive health care management system utilizing a data processor, data bank memories, input means and payment means comprising:
>
> (a) entering into said data processor data identifying each of a predetermined plurality or persons;
>
> (b) entering into one of said data bank memories an identification of predetermined procedures requiring utilization review;
>
> (c) entering through said input means into said data processor data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment and, when said proposed mode of treatment includes one of said predetermined procedures requiring utilization review, producing indicia indicative thereof; and
>
> (d) preventing payment therefor by said payment means until said utilization review has been obtained and data indicative thereof has been entered into said system.

'105 patent col. 21 ll. 22-41. Claim 53 depends from claim 52 and claims the additional step of producing some sort of indicia when the proposed mode of treatment includes ancillary services, such as by pharmacists, prosthesis providers, dentists, and the like. '105 patent col. 21 ll. 43-49, col. 14 ll. 35-38. Independent claim 102 recites:

> A method of managing an integrated health care management system having input means, payment means and memory storage comprising:
>
> (a) storing through said input means into said memory storage personal health profile data for each of a predetermined plurality of persons;
>
> (b) storing into said memory storage symptoms and treatment data for each of a predetermined plurality of health profiles and problems;
>
> (c) storing in said memory storage criteria for identifying treatments requiring utilization review;
>
> (d) storing in said memory storage criteria for identifying treatments requiring second opinions;
>
> (e) entering into said system information identifying a proposed medical treatment for one of said plurality of persons;
>
> (f) identifying whether or not said proposed medical treatment requires utilization review; and
>
> (g) preventing said system from approving payment for said proposed medical treatment if said proposed medical treatment requires utilization review until such utilization review has been conducted.

'105 patent col. 28 ll. 8-30.

II

Highmark, a Pennsylvania insurance company, filed suit against Allcare in the Western District of Pennsylvania seeking a declaratory judgment of non-infringement, invalidity, and unenforceability of all claims of the '105 patent. After the case was transferred to the Northern District of Texas, Allcare counterclaimed for infringement, asserting infringement of claims 52, 53, and 102. During the course of the case, the district court appointed a special master to resolve issues of claim construction, including various limitations in claims 52 and 102. These claim construction disputes are described below. The special master issued a claim construction report, Special Master's Report and Recommended Decisions on Claim Construction ("*Claim Construction Report*"), *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y (N.D. Tex. Dec. 20, 2006), which the district court adopted, *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y (N.D. Tex. Mar. 23, 2007).

Highmark moved for summary judgment of non-infringement. While Allcare opposed Highmark's motion with respect to claims 52 and 53, it did not oppose the motion with regard to claim 102 and formally withdrew the infringement allegations with respect to that claim. The district court reappointed the special master, who recommended that summary judgment of non-infringement of claims 52 and 53 be granted. Special Master's Report and Recommended Decisions on Summary Judgment Motions ("*Summary Judgment Report*"), *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y,

slip op. at 15 (N.D. Tex. Apr. 25, 2008). The district court adopted the special master's recommendations, Amended Order Adopting Findings and Recommendations of Special Master, *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y (N.D. Tex. Sept. 2, 2008), and entered final judgment of non-infringement in favor of Highmark, Amended Final Judgment, *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y (N.D. Tex. Oct. 15, 2008). Allcare appealed. On July 13, 2009, this court affirmed the district court's judgment under Federal Circuit Rule 36 without a written opinion. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 329 F. App'x 280 (Fed. Cir. 2009).

While the previous appeal was pending before this court, Highmark moved for an exceptional case finding with respect to Allcare and an award of attorneys' fees and expenses under section 285 and for sanctions against Allcare's attorneys under Rule 11 of the Federal Rules of Civil Procedure.

After reviewing the record, the district court found the case exceptional and that Allcare's attorneys had violated Rule 11. *Exceptional Case Order*, 706 F. Supp. 2d at 738-39. The court based both its exceptional case finding and the Rule 11 sanctions on the same conduct. The court found that Allcare's claims for infringement of claims 52 and 102 were frivolous. The court also found that Allcare engaged in litigation misconduct by asserting a frivolous position based on *res judicata* and collateral estoppel, shifting its claim construction position throughout the course of the proceedings before the district court, and making misrepresentations to the

Western District of Pennsylvania in connection with a motion to transfer venue. After finding the case exceptional under section 285, the district court entered judgment awarding Highmark $4,694,727.40 in attorneys' fees and $209,626.56 in expenses, and it also invoked its inherent power to impose sanctions and awarded $375,400.05 in expert fees and expenses. The district court did not determine how much of the monetary awards were attributable to each issue.

Shortly after the district court's exceptional case finding and judgment awarding fees and expenses, Allcare's attorneys withdrew from the case based on conflicts of interest and separately moved for reconsideration of the Rule 11 sanctions. To support the motions for reconsideration, the attorneys provided additional evidence concerning their representation of Allcare. Based on these filings, the district court vacated the Rule 11 sanctions against the attorneys. After the court vacated the attorney sanctions, Allcare moved to reconsider the exceptional case finding and the judgment awarding attorneys' fees, or in the alternative to grant a new trial or hold an evidentiary hearing. This motion was denied. Allcare timely appealed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a).

DISCUSSION

Under 35 U.S.C. § 285, a "court in exceptional cases may award reasonable attorney fees to the prevailing party." Once it is determined that the party seeking fees is a prevailing party, determining whether to award attorneys' fees under 35 U.S.C. § 285 is a two-step process. *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327-28 (Fed. Cir. 2003). First, a

prevailing party must establish by clear and convincing evidence that the case is "exceptional." *Id.* at 1327. An award of fees against a patentee can be made for a frivolous claim, inequitable conduct before the Patent and Trademark Office, or misconduct during litigation. *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989). Second, if the case is deemed exceptional, a court must determine whether an award of attorneys' fees is appropriate and, if so, the amount of the award. *Forest Labs.*, 339 F.3d at 1328. "[T]he amount of the attorney fees [awarded] depends on the extent to which the case is exceptional." *Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340, 1344 (Fed. Cir. 2001).

There is no dispute that Highmark is the prevailing party in this litigation. We consider the various grounds relied on by the district court for finding this case exceptional.

I

The central issue is whether Allcare's infringement counterclaims against Highmark were frivolous. It is established law under section 285 that absent misconduct in the course of the litigation or in securing the patent, sanctions may be imposed against the patentee only if two separate criteria are satisfied: (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). The requirement that the litigation be objectively baseless "does not depend on the state of mind of the [party] at the time the action was commenced, but rather requires an objective assessment of the

merits." *Id.* at 1382. "To be objectively baseless, the infringement allegations 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).

Furthermore, even if the claim is objectively baseless, it must be shown that lack of objective foundation for the claim "was either known or so obvious that it should have been known" by the party asserting the claim. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007); *see also iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). This is known as the subjective prong of the inquiry. This same objective/subjective standard applies for both patentees asserting claims of infringement and alleged infringers defending against claims of infringement. *See iLOR*, 631 F.3d at 1377.

We have recently clarified that "the threshold objective prong . . . is a question of law based on underlying mixed questions of law and fact and is subject to *de novo* review." *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, No. 2010-1510, — F.3d —, 2012 WL 2149495, at *1 (Fed. Cir. June 14, 2012); *see also Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011). That determination must be made by the court as a matter of law rather than by the jury. We review the court's determination of objective reasonableness without deference since it is a question of law. *Bard*, 2012 WL 2149495, at *1.[1] With respect to the

[1] The dissent urges that *Bard* was wrongly decided in holding that de novo review was required. As explained in *Bard*, the objective reasonableness test was based on the objective prong

of the standard for sham litigation explained in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993). The Supreme Court in *Professional Real Estate* held that objective reasonableness in this context is an issue decided by the court as a matter of law. 508 U.S. at 63.

The dissent nonetheless urges that treating objective reasonableness as a question of law is inconsistent with *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384 (1990), and *Pierce v. Underwood*, 487 U.S. 552 (1988). These cases held that appeals courts must apply deferential standards of review to district court Rule 11 sanctions and determinations under the Equal Access to Justice Act ("EAJA") that a litigation position was "substantially justified." Rule 11 and EAJA are materially different from section 285, and the Supreme Court in *Cooter* and *Pierce* identified relevant distinguishing factors.

First, in *Pierce*, the Supreme Court recognized that where there is potential for a "substantial amount of [monetary] liability produced by the District Judge's decision," more "intensive[]" review by the appellate court is necessary. 487 U.S. at 563. Because the median award in EAJA cases was less than $3,000, deferential review was appropriate. Under section 285, however, the award of fees is routinely in the millions of dollars as it is here, thus supporting de novo review. Also in *Pierce*, the Court noted that the language of the EAJA statute itself "suggests some deference to the district court upon appeal," and recognizes deferential review where an agency awards fees. *Id.* at 559.

Second, while both Rule 11 and section 285 have both subjective and objective components, Rule 11 review is not easily separated into these separate components as is the standard under section 285. *See Cooter*, 496 U.S. at 401-02. Because deferential review is particularly appropriate as to the subjective determination, *see id.*, a deferential standard for the whole of Rule 11 is required. Under the *Brooks Furniture* standard, where the section 285 inquiry is easily divided into objective and subjective components, only the subjective prong is reviewed under a deferential standard.

Third, the inquiries under Rule 11 and EAJA look to the situation existing at the time a particular claim or representation was made, analyzing only the facts and law

subjective prong, "there is a presumption that an assertion of infringement of a duly granted patent is made in good faith." *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersyteme GmbH*, 603 F.3d 943, 954 (Fed. Cir. 2010). Thus, the subjective prong of *Brooks Furniture* must be established with clear and convincing evidence.[2]

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present at that time determine whether the claim or representation was justified. Such inquiries are necessarily fact intensive. On the other hand, as explained below, the inquiry under the objective prong of *Brooks Furniture* is a retrospective assessment of the merits of the entire litigation and does not rely on the facts present at a particular time and is "based on the record ultimately made in the infringement proceedings." *Bard*, 2012 WL 2149495, at *4; *see also Seagate*, 497 F.3d at 1371 (stating that the objective prong is "determined by the record developed in the infringement proceeding"). In other words, the objective reasonableness determination does not require fact finding. The question is simply whether the record established in the proceeding supports a reasonable argument as to the facts and law.

Finally, the policy goals of sanctioning and deterring poor litigation practices present in *Cooter* (which suggest deference to the district court because it is best situated to achieve these goals) are not present here. *See* Fed. R. Civ. P. 11 advisory committee's note to 1993 amendments ("[T]he purpose of Rule 11 sanctions is to deter rather than to compensate . . . ."). The purpose of section 285, unlike that of Rule 11, is not to control the local bar's litigation practices—which the district court is better positioned to observe—but is remedial and for the purpose of compensating the prevailing party for the costs it incurred in the prosecution or defense of a case where it would be grossly unjust, based on the baselessness of the suit or because of litigation or Patent Office misconduct, to require it to bear its own costs. *See Badalamenti v. Dunham's, Inc.*, 896 F.2d 1359, 1364 (Fed. Cir. 1990); *Cent. Soya Co., Inc. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983).

[2] As *Seagate* noted, under the subjective prong, "to establish willful infringement, a patentee must show by clear and

iLOR, 631 F.3d at 1377; *see also Medtronic*, 603 F.3d at 954. We review factual findings as to subjective bad faith for clear error. *See Forest Labs.*, 339 F.3d at 1328; *see also Powell*, 663 F.3d at 1236.

II

Highmark contends that the *Brooks Furniture* objective reasonableness standard applies only with respect to the initial filing of the infringement counterclaim and does not apply to determining whether Allcare's continued litigation of baseless claims was frivolous. Appellee's Br. 41. That is not correct. Rather, the objective prong requires a retrospective assessment of the merits of the entire litigation determined "based on the record ultimately made in the infringement proceedings." *Bard*, 2012 WL 2149495, at *4 (directing the district court to determine in the first instance, "based on the record ultimately made in the infringement proceedings, whether a reasonable litigant could realistically expect [its positions] to succeed" (internal quotation marks omitted)); *iLOR*, 631 F.3d at 1378; *Seagate*, 497 F.3d at 1371 (stating that the objective prong is "determined by the record developed in the infringement proceeding"). The question is whether, in light of that record, "no reasonable litigant could realistically expect success on the merits." *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993). The objective prong is a single backwards-looking inquiry into the reasonableness of the claims in light of the full

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convincing evidence that the infringer *acted despite* an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.3d at 1371 (emphasis added).

record. *See iLOR*, 631 F.3d at 1377-78 (citing *Brooks Furniture*, 393 F.3d at 1382).

Similarly, in considering a party's subjective state of mind, we are "to take into account the totality of circumstances." *Mach. Corp. of Am. v. Gullfiber AB*, 774 F.2d 467, 473 (Fed. Cir. 1985); *Forest Labs.*, 339 F.3d at 1330 (considering the record as a whole in determining whether the patentee maintained its infringement counterclaim in bad faith). Unlike the objective prong, which is a single retrospective look at the entire litigation, the subjective prong may suggest that a case initially brought in good faith may be continued in bad faith depending on developments during discovery and otherwise. *See Computer Docking Station Corp. v. Dell, Inc.*, 519 F.3d 1366, 1380 (Fed. Cir. 2008).

However, we apply the objective/subjective standard on a claim by claim basis. *ICU Med., Inc. v. Alaris Med. Sys., Inc.*, 558 F.3d 1368, 1379-81 (Fed. Cir. 2009) (affirming the district court's determination that the patentee's assertion of only one claim was objectively baseless and brought in bad faith); *see also Mathis v. Spears*, 857 F.2d 749, 761 (Fed. Cir. 1988). Because the rationale for awarding fees against a patentee for the filing of frivolous claims is "to reimburse the alleged infringer for defending an action improperly brought," *Mach. Corp.*, 774 F.2d at 474, in these situations attorneys' fees can only be shifted insofar as each claim is found frivolous, *see Mathis*, 857 F.2d at 761 (awarding attorneys' fees only for the frivolous claims); *see also Beckman*, 892 F.2d at 1554 (holding that when "one party prevails on some claims in issue while the other party prevails on other claims, this fact should

be taken into account when determining the amount of fees under § 285"). Thus, here we will treat separately the finding that infringement claim based on claim 102 rendered the case exceptional and the finding that the infringement claim based on claim 52 rendered the case exceptional. *See Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1323-26 (Fed. Cir. 2010) (addressing separately whether each of three counts asserted by the plaintiff was frivolous).

A

The district court found that Allcare's claim 102 infringement litigation warranted an exceptional case finding. We agree.

Claim 102 is directed to "[a] method of managing an integrated health care management system." '105 patent col. 28 ll. 8-9. The key question with respect to claim 102 was whether the preamble term "integrated health care management system" was a claim limitation and, if so, whether it required patient and employer interaction. On appeal, Allcare contends that it was not unreasonable to argue that the preamble was not limiting or, if limiting, that it did not require patient and employer interaction.

The preamble of claim 102 clearly falls within those cases where the preamble is held to be limiting because the "limitations in the body of the claim rely upon and derive antecedent basis from the preamble." *Eaton Corp. v. Rockwell Int'l Corp.*, 323 F.3d 1332, 1339 (Fed. Cir. 2003). Here, claim 102's recitation of "said system" in elements (e) and (g) can only derive its antecedent basis from the "integrated health care management system" from the preamble. It is also clear from the specification that an "integrated health care management system"

required patient and employer interaction in addition to the participation of the health care provider and insurer. The patent specification begins by explicitly stating that "[t]his invention relates to managed health care systems . . . which integrate physicians, medical care facilities, patients, insurance companies and/or other health care payers, employers and bank and/or other financial institutions." '105 patent col. 1 ll. 1-11. The specification goes on to explain that "[t]he preferred embodiment of the present invention includes the *integrated interconnection and interaction* of the patient, health care provider, bank or other financial institution, utilization reviewer/case manager and employer." '105 patent col. 1 ll. 54-58 (emphasis added). In distinguishing the prior art in the background of the invention, the specification also explains that previous payment systems have not "included *integration of the active participation* by a patient's employer or inclusion of a patient's own available cash balances." '105 patent col. 1 ll. 44-47 (emphasis added). The invention was thus intended to "provide[] full integration of each of the aforementioned activities." '105 patent col. 1 ll. 50-51. Moreover, one of the objects of the invention is "to provide an integrated health care management system including *interactive participation* with patients' employers and banks." '105 patent col. 2 ll. 11-14.

Allcare agreed early in the case in a Joint Claim Construction statement that the preamble to claim 102 was limiting. *See* J.A. 5665 ("The parties also agree that the preamble term 'integrated health care management system' is construed as a claim limitation . . . ."). Indeed, Allcare's own proposed

construction of the preamble specified that the system "integrates (*i.e.*, . . . includes) physicians, medical care facilities, *patients*, insurance companies and/or other health care payers, *employers* and banks and/or other financial institutions." *Claim Construction Report*, slip op. at 43-44 (emphases added). Allcare thus contemplated that an integrated health care management system somehow required interaction with patients and employers. Even now, Allcare offers no plausible arguments that the preamble should not have been limiting or that it did not require patient and employer interaction.

There was also no plausible argument that Highmark's method involved the interconnection and interaction of patients and employers as was required by claim 102. Allcare's expert even conceded as much during deposition. J.A. 22885.[3] Allcare has not even argued that Highmark's method included such interaction. Thus, Allcare's infringement claims with respect to claim 102 were objectively unreasonable.

Allcare also argues on appeal that its infringement allegations with respect to claim 102 do not warrant an exceptional case finding because they were not brought in subjective bad faith. A claim is brought

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[3] Q. How does the employee/member [i.e., patient] interact with the bank in the Highmark system?

A. The employee—from the information that I read, the employee does not appear to interact with the bank. . . .

Q. Is there any interaction between the employee/member and the employer in Highmark's system?

A. The employer—interaction between the employee and the employer in the Highmark system, based on my—my opinion is without my report no.

in subjective bad faith if the objective unreasonableness of the claim "was either known or so obvious that it should have been known" by the patentee. *See Seagate*, 497 F.3d at 1371. That is clearly so here. Allcare knew or should have known that its allegation of infringement of claim 102 was unreasonable, and this is not a situation in which Allcare acted in good faith at the inception of the litigation, but because of later developments acted in bad faith in continuing the litigation.

To be sure, even where infringement allegations are objectively unreasonable, a patentee may have reason to believe that its allegations are supportable so as to negate a finding of bad faith.[4] But here, Allcare has made no such showing at any point in the litigation. Allcare points only to a survey of health care management and insurance organizations regarding their medical authorization and claims payment systems performed by Seaport Surveys, Inc. ("Seaport") to demonstrate that it had reason to believe its infringement allegations with respect to claim 102 were supportable. Allcare,

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[4] Thus, for example, an adequate pre-filing investigation may negate a claim of bad faith. The district court here found that Allcare did not conduct an adequate pre-filing investigation. Since we have concluded that Allcare engaged in bad faith from the inception—because it knew or should have known that the allegation of infringement of claim 102 was frivolous—we need not examine the pre-filing investigation. Furthermore, apart from the section 285 inquiry, failure to conduct an adequate pre-filing investigation, in some circumstances, independently supports an award of attorneys' fees under Rule 11. *See Hoffmann-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363 (Fed. Cir. 2000). Here, the district court did not sanction Allcare under Rule 11 for its failure to conduct an adequate pre-filing investigation.

however, never demonstrated how the survey (or anything else in the record) supported its claim construction position with respect to claim 102. The survey also did not show that Highmark was infringing under the correct claim construction. The district court did not clearly err in concluding that Allcare's claim 102 allegations were brought in subjective bad faith.

Allcare also argues that the district court's vacating sanctions against Allcare's attorneys is inconsistent with the district court's exceptional case finding against All-care. This is incorrect. A lack of sanctions against attorneys is not in itself a ground for barring sanctions against a client. Rule 11 sanctions against an attorney may form a basis for an exceptional case finding. *See Brooks Furniture*, 393 F.3d at 1381 ("A case may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as . . . conduct that violates Fed. R. Civ. P. 11 . . . ."). But the absence of Rule 11 sanctions does not mandate the opposite conclusion. Allcare also contends that new evidence brought up during the reconsideration of Rule 11 sanctions mandates reversal of the exceptional case finding. However, the additional evidence relied on by the district court in vacating the Rule 11 sanctions had no bearing on the interpretation of claim 102 or Allcare's knowledge of whether Highmark's systems were infringing. The district court thus did not clearly err in concluding that Allcare's allegations of infringement of claim 102 warranted an exceptional case finding.

B

We reach a different conclusion with respect to the claim 52 infringement claims because we conclude that Allcare's position was not objectively unreasonable. Highmark's theory is that it did not infringe because it did not satisfy element (c) of claim 52. Element (c) requires "entering . . . data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment . . . ." '105 patent col. 21 ll. 31-34. It was not disputed that this limitation covered the patent's preferred embodiment—what the parties refer to as a "diagnostic smart system"—which automatically generates a list of recommended treatments based on the patient symptoms reported by the healthcare providers. J.A. 11584. The question was whether this limitation was also met where a physician enters both the symptoms and the proposed diagnosis or treatment as done in Highmark's system, referred to as a traditional "utilization review smart system," i.e., a system which does not automatically generate treatment options. The district court found that it did not, and we affirmed.

The district court's exceptional case finding with respect to claim 52 centered on Allcare's lack of basis for its claim construction position. Allcare's position was that claim 52 covered systems where the physician entered both the "data symbolic of patient symptoms" and the "proposed mode of treatment," and the system did not automatically propose a treatment. While the claim language "entering . . . data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment" favors the

construction ultimately adopted by the district court, it does not foreclose Allcare's construction.

Under *Phillips v. AWH Corp.*, 415 F.3d 1303, 1315 (Fed. Cir. 2005) (en banc), we must also look to the specification. There was support in the specification for Allcare's position. With respect to the entry of symptoms and treatments, the specification discloses essentially two embodiments. In the preferred embodiment, a physician first facilitates "the entry of symptoms or other data which can assist in making a diagnosis and identifying . . . recommended treatment protocols." '105 patent col. 9 ll. 58-60. The system then "correlat[es] the observed patient symptoms and test results so as to identify the most likely causes of the health problem," as well as "the most appropriate treatment protocols." '105 patent col. 9 ll. 61-65. The specification states that the system will only "prepare[] a list of the most likely medical condition . . . [and] the generally approved and/or recommended treatment protocols" when it is "requested" from the system. '105 patent col. 6 ll. 64-67. This is what has been referred to as the "diagnostic smart system."

But the specification also discloses an embodiment where, in addition to entering symptom and diagnosis data, "[t]he physician or staff member enters into the System data identifying the proposed pattern of treatment." '105 patent col. 10 ll. 3-5. Thereafter, "the System compares the proposed pattern of treatment with . . . recommended treatment protocols and provides an indication of any problem differences." '105 patent col. 10 ll. 5-8. Thus, as the special master recognized, a diagnosis can be made "with or without the assistance of the

diagnostic smart system," and the physician can be the one to "enter[] into the system data identifying the proposed treatment." *Claim Construction Report*, slip op. at 3.

We ultimately agreed with the district court that the language of claim 52, and particularly element (c) ("entering . . . data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment"), did not cover the embodiment where the physician entered the symptoms and the proposed treatment. But it was not unreasonable for Allcare to argue that the language of the claim encompassed both embodiments. 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.[5] As we held in *iLOR*, "simply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless." 631 F.3d at 1380. This is not a case where the claim language was not subject to an alternate construction or where "the specification and prosecution history clearly refute [the patentee's] proposed claim construction." *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 919 (Fed. Cir. 2012). Allcare's argument with respect to this

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[5] *See Yee v. City of Escondido*, 503 U.S. 519, 534 (1992) (holding that where an issue has been properly presented, on appeal "parties are not limited to the precise arguments they made below"); *Interactive Gift Express, Inc. v. Compuserve Inc.*, 256 F.3d 1323, 1347 (Fed. Cir. 2001) (holding that although a party cannot change the scope of its claim construction on appeal, it is not precluded "from proffering additional or new supporting arguments, based on evidence of record, for its claim construction").

element was not "so unreasonable that no reasonable litigant could believe it would succeed." *See iLOR*, 631 F.3d at 1378.

The burden was on the party seeking sanctions (Highmark) to establish that under this alternative claim construction, the allegations of infringement were objectively unreasonable. There was no showing by Highmark that it would not infringe under an alternate construction of claim 52 covering the system where the physician enters the proposed treatment.

Because we conclude that Allcare's allegations of infringement of claim 52 were not objectively baseless, we need not reach the question of whether Allcare acted in subjective bad faith. *See Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539, 547 n.4 ("When making a section 285 fee award, subjective considerations of bad faith are irrelevant if the challenged claims or defenses are not objectively baseless."); *see also Prof'l Real Estate Investors*, 508 U.S. at 60 ("Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation."). We therefore reverse the district court's conclusion that Allcare's allegations of infringement of claim 52 support an exceptional case finding.[6]

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[6] Highmark appears to argue that an exceptional case finding is justified here because Allcare failed to make an adequate pre-filing investigation as required by Rule 11. Our cases have not always been clear as to whether the failure to make an adequate pre-filing investigation under Rule 11 can support an exceptional case finding when the *Brooks Furniture* test has not been satisfied, and it would be a most unusual case in which the infringement case was objectively reasonable but the pre-filing investigation was unreasonable. We need not decide

III

Quite apart from the frivolity of the alleged infringement claims, an exceptional case finding can also be supported by litigation misconduct. *MarcTec*, 664 F.3d at 919 ("[I]t is well-established that litigation misconduct and 'unprofessional behavior may suffice, by themselves, to make a case exceptional under § 285.'" (quoting *Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1106 (Fed. Cir. 2003))); *Brooks Furniture*, 393 F.3d at 1381 ("A case may be deemed exceptional when there has been . . . misconduct during litigation, . . . conduct that violates Fed. R. Civ. P. 11, or like infractions."). "Litigation misconduct generally involves unethical or unprofessional conduct by a party or his attorneys during the course of adjudicative proceedings," and includes advancing frivolous arguments during the course of the litigation or otherwise prolonging litigation in bad faith. *See Old Reliable*, 635 F.3d at 549; *Computer Docking Station Corp.*, 519 F.3d at 1379. A finding of exceptionality based on litigation misconduct, however, usually does not support a full award of attorneys' fees. *See Beckman*, 892 F.2d at 1553-54. Instead, the fee award "must bear some relation to the extent of the misconduct," *Special*

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whether such a finding with respect to the pre-filing investigation could ever support an exceptional case finding because the district court made no finding of a Rule 11 violation with respect to Allcare as opposed to its attorneys, and the Rule 11 violation found with respect to the Allcare attorneys was vacated. As we read the district court opinion, sanctions here were based on a finding that Allcare's claim construction was frivolous, and were not based on any finding that Allcare failed to investigate whether under its proposed claim construction Highmark infringed.

Devices, 269 F.3d at 1344 (quoting *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 831 (Fed. Cir. 1992)), and compensate a party for the "*extra* legal effort to counteract the[] misconduct," *Beckman*, 892 F.2d at 1553.

Here, in addition to determining that Allcare's overall infringement allegations were frivolous, the district court found the case exceptional based on three primary instances of alleged litigation misconduct: (1) asserting a frivolous position based on *res judicata* and collateral estoppel; (2) shifting the claim construction position throughout the course of the proceedings before the district court; and (3) making misrepresentations to the Western District of Pennsylvania in connection with a motion to transfer venue. None of these actions is sufficient to make this case exceptional under section 285.

A

We consider first whether Allcare engaged in litigation misconduct by making frivolous arguments. In evaluating the frivolity of particular arguments made during the course of the litigation, the arguments must be shown to be at least objectively unreasonable. Thus, under section 285 a party cannot be sanctioned for making frivolous arguments during the course of the litigation if the arguments themselves were not objectively unreasonable at the time they were made. *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1339 (Fed. Cir. 2009) ("Although the district court ultimately concluded that the underlying substance of Medtronic's defense 'lacks merit,' there is no indication, much less a finding, that Medtronic's arguments were baseless, frivolous, or intended

primarily to mislead the jury. Although the defense ultimately failed, Medtronic should not have been sanctioned for merely raising it . . . ."). We determine whether a particular argument was objectively unreasonable without deference to the district court's determination. *See Bard*, 2012 WL 2149495, at *1.[7]

This issue arises from the following circumstances. Before initiating suit against Highmark, Allcare filed suit against Trigon, a Blue Cross Blue Shield insurance provider like Highmark, in the Eastern District of Virginia, also asserting various claims of the '105 patent. As part of the *Trigon* action, the court issued rulings construing some of the disputed claim limitations, primarily in claim 52, in a manner favorable to Allcare. In answering Highmark's complaint, Allcare contended that based on the Blue Cross Blue Shield relationship between Highmark and Trigon, and based on Highmark's knowledge of and participation in the *Trigon* action, Highmark was bound under principles of *res judicata* and collateral estoppel to the district court's rulings in that action. Allcare's theory was one of "virtual representation." However, after Allcare met-and-conferred with Highmark and learned that there was only a limited relationship between Highmark and Trigon, Allcare promptly withdrew the argument.

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[7] If instead of relying on section 285 the district court imposed sanctions for frivolous arguments under Rule 11, we would apply Rule 11 standards and the deferential standard of review from *Cooter*, 496 U.S. at 405. But here the district court vacated sanctions under Rule 11 standards and imposed them under only section 285.

Although the Supreme Court later "disapprove[d] the doctrine of preclusion by 'virtual representation,'" *Taylor v. Sturgell*, 553 U.S. 880, 885 (2008), at the time Allcare asserted the defense it was not wholly without merit. The doctrine of virtual representation was "equitable and fact-intensive" in nature, with "no clear test for determining the applicability of the doctrine." *Tyus v. Schoemehl*, 93 F.3d 449, 455 (8th Cir. 1996). Indeed, the doctrine was unsettled and varied widely in application from circuit to circuit. *Compare id.* at 455-56 (describing a seven-factor test for finding virtual representation), *with Klugh v. United States*, 818 F.2d 294, 300 (4th Cir. 1987) (holding that a party is "a virtual representative" only if the party is accountable to the nonparties who file subsequent suit and has "the tacit approval of the court" to act on the nonparties' behalf). Due to the relationship and similarities between Highmark and Trigon, and Highmark's knowledge of and participation in the *Trigon* action, Allcare had at least some support for its initial contention that Trigon was a virtual representative of Highmark. Thus, it was not objectively unreasonable for Allcare to initially assert this legal argument. When Allcare received information from Highmark regarding the limited relationship between Highmark and Trigon and Highmark's limited involvement in the *Trigon* action, thus leading Allcare to believe it would be unsuccessful in its preclusion argument, it promptly withdrew it. This is not a proper basis for finding the case exceptional under section 285. The district court clearly erred by finding that Allcare's brief assertion of this position warrants an exceptional case finding.

B

Highmark also argues that Allcare's "shifting claim construction" with respect to element 52(c) was improper and warrants an exceptional case finding. Allcare originally proposed the following claim construction for the two key (underscored) elements of element 52(c):

> *Data symbolic of symptoms for tentatively identifying*: "any information, coded or otherwise, reflecting a patient's health, reason for visit or condition, *e.g.*, symptoms, test results and other data, that is relevant to diagnosis and treatment by a care provider, including but not limited to ICD disease codes."
>
> *Tentatively identifying a proposed mode of treatment*: "the act or process of determining the treatment that is appropriate, subject to later amendment or confirmation."

J.A. 11953-54. Allcare later combined the two key elements and proposed that element 52(c) be construed as

> one or more items of information representative of a sign of disorder or disease with a view toward, as concerns or corresponding to, provisionally putting forth a suggested method of the application of remedies or therapies to a patient for a disease or injury.

J.A. 11954. Allcare again adjusted its proposed claim construction to

> information expressed in a symbolic or representative manner pertaining to the evidence of disease or changes in the physical

> condition of a patient, with a view toward, as concerns or corresponding to, provisionally *putting forth* a suggested method of the application of remedies or therapies to a patient for a disease or injury.

J.A. 11954 (emphasis added). Finally, Allcare redrafted its construction of "tentatively identifying a proposed mode of treatment" to be "provisionally (*i.e.*, non-finally) *naming or recognizing* a suggested method of treatment." J.A. 23006 (emphasis added).

These linguistic shifts in the proposed claim construction are insufficient to constitute litigation misconduct and an exceptional case finding. The constructions proffered by Allcare do not differ in substance. Each demonstrated that it was Allcare's position that the claims were not limited to diagnostic smart systems and that there was no "cause-and-effect" relationship between the entering of symptoms and the automatic identification of the treatment. Allcare's position on this point never changed. Highmark does not cite any authority to support its position that minor word variations in claim construction positions, where the substance of the claim construction does not change, are sanctionable. We also note that some of Allcare's resubmissions of claim construction positions and arguments to the district court were the result of this court's en banc decision in *Phillips*, which issued while the claim construction issues were pending before the district court. Indeed, Highmark itself conceded that new claim construction briefs in light of *Phillips* were desirable and would benefit the district court. *See* Order Striking Claim-Construction Motion and Related Filings, Directing

an Amended Claim-Construction Motion, and Rendering Moot Related Filings and Motions, *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y (N.D. Tex. Aug. 12, 2005), ECF No. 282. Again, the district court clearly erred in finding that Allcare's minor changes in claim construction support an exceptional case finding under section 285.

C

Finally, the district court found that misrepresentations made before the Western District of Pennsylvania in connection with a motion to transfer venue supported an exceptional case finding. After Highmark initiated suit in the Western District of Pennsylvania, Allcare sought to transfer the case to the Northern District of Texas. The issue was personal jurisdiction. Highmark contended that Allcare had sufficient contacts with Pennsylvania for personal jurisdiction based in part on a survey it commissioned to locate potential infringers, which led to survey calls to companies in Pennsylvania. Allcare argued that this was not a sufficient "contact" for purposes of personal jurisdiction. Allcare contended that the survey was not such a contact because Allcare "did not control the manner in which Seaport Surveys, an independent contractor, went about *completing* the surveys." *Exceptional Case Order*, 706 F. Supp. 2d at 734 (internal quotation marks omitted). Allcare also contended that it "did not control how Seaport Surveys carried out its surveys, nor did it dictate what companies Seaport opted to call upon." *Id.* In finding this case exceptional, the district court found that these statements were misrepresentations

because, although no Allcare employees participated in the actual survey calls, "Allcare participated in and, indeed, controlled every other aspect of the survey." *Id.* This included designing the initial questionnaire, providing a supplemental questionnaire, and effectively controlling which companies were to be interviewed. Thus, the district court found that Allcare's representations to the Western District of Pennsylvania related to its motion to transfer were "at best obfuscatory and [] strain[ed] the bounds of zealous advocacy." *Id.* at 735.

The district court erred in finding the case exceptional based on these representations. As recognized by the district court in vacating Rule 11 sanctions against the attorneys, "if any court were to issue sanctions based on the [transfer] motion, it would be most appropriate for the Western District of Pennsylvania to do so." Opinion and Order Reconsidering and Vacating Sanctions, *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 4:03-CV-1384-Y, slip op. at 41 (N.D. Tex. Aug. 9, 2010). Indeed, a court generally should sanction "conduct beyond that occurring in trial [only] when a party engages in bad-faith conduct which is in direct defiance *of the sanctioning court*." *FDIC v. Maxxam, Inc.*, 523 F.3d 566, 591 (5th Cir. 2008) (internal quotation marks omitted); *see also Chambers v. NASCO, Inc.*, 501 U.S. 32, 57 (1991). The district court offered no justification for sanctioning conduct before a different tribunal. On appeal, Highmark likewise offered no authority for the issuance of sanctions for conduct that occurs solely before another tribunal. Thus, these supposed

misrepresentations do not support an exceptional case finding.

* * *

We therefore affirm the district court's finding that Allcare's allegations of infringement of claim 102 rendered the case exceptional under section 285 and reverse the district court's finding that Allcare's other claims and actions supported an exceptional case finding. Because the district court did not determine the amount of attorneys' fees apportionable to each of the above issues, a remand is necessary. *See Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1186 (Fed. Cir. 1995) (remanding for a calculation of attorneys' fees based on the court's partial reversal of the underpinnings of the exceptional case finding). We remand this case to the district court for a calculation of attorneys' fees based on the frivolity of the claim 102 allegations only.

Affirmed in part, reversed in part, and remanded.

MAYER, *Circuit Judge*, dissenting-in-part.

The court errs when it says that no deference is owed to a district court's finding that the infringement claims asserted by a litigant at trial were objectively unreasonable. *See Ante* at 9 ("We review the [district] court's determination of objective reasonableness without deference since it is a question of law."). When reviewing an exceptional case determination under 35 U.S.C. § 285, reasonableness is a finding of fact which may be set aside only for clear error. *See Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir.

2011) ("When reviewing an exceptional case finding for clear error, we are mindful 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 us for only a short period of time, we are not in the position to second-guess the trial court's judgment."). Applying this highly deferential standard of review, there is no basis for overturning the trial court's determination that the infringement counterclaims brought by Allcare Health Management Systems, Inc. ("Allcare") against Highmark, Inc. ("Highmark") were frivolous. I would affirm the district court's award of attorney fees and expenses in its entirety.

I.

Congress created this court in 1982 with the goal of promoting greater uniformity in the interpretation and application of the nation's patent laws. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) ("Congress created the Court of Appeals for the Federal Circuit as an exclusive appellate court for patent cases, observing that increased uniformity would strengthen the United States patent system in such a way as to foster technological growth and industrial innovation." (citations and internal quotation marks omitted)). The fact that we have been vested with exclusive appellate jurisdiction in patent cases does not, however, grant us license to invade the fact-finding province of the trial courts. Our increasing infatuation with de novo review of factual determinations began with claim construction, *see Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1455-56 (Fed. Cir. 1998) (en banc), and has now infected review of both

willful infringement, *see Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, No. 2010-1510, 2012 WL 2149495, at *1 (Fed. Cir. June 14, 2012), and section 285 exceptional case determinations. As a result of this appellate overreaching, litigation before the district court has become a mere dress rehearsal for the command performance here. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1334 (Fed. Cir. 2005) (en banc) (Mayer J., dissenting) ("If we persist in deciding the subsidiary factual components of claim construction without deference, there is no reason why litigants should be required to parade their evidence before the district courts or for district courts to waste time and resources evaluating such evidence."). Encouraging relitigation of factual disputes on appeal is an enormous waste of the litigants' resources and vitiates the critically important fact-finding role of the district courts. *See Anderson v. City of Bessemer City*, 470 U.S. 564, 575 (1985) ("[T]he parties to a case on appeal have already been forced to concentrate their energies and resources on persuading the trial judge that their account of the facts is the correct one; requiring them to persuade three more judges at the appellate level is requiring too much.").

Absent misconduct during litigation or when securing a patent, sanctions under section 285 may be awarded only if a two-prong test is satisfied: (1) the litigation is brought in subjective bad faith; and (2) it is objectively baseless. *Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539, 543 (Fed. Cir. 2011). The objective baselessness standard under section 285 "is identical to the objective recklessness standard for enhanced damages" in the willful infringement context. *iLOR,*

LLC v. Google, Inc., 631 F.3d 1372, 1377 (Fed. Cir. 2011). Until *Bard*, 2012 WL 2149495, at *1, this court had correctly applied a highly deferential "clear error" standard of review to the factual underpinnings of an exceptional case determination. *See Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1357 (Fed. Cir. 2008) ("We review a finding that a case is 'exceptional' within the meaning of 35 U.S.C. § 285 for clear error."); *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1299 (Fed. Cir. 2004) ("We review a denial of attorney fees under 35 U.S.C. § 285 for an abuse of discretion; however, we review the factual determination whether a case is exceptional under § 285 for clear error."); *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1328 (Fed. Cir. 2003) (emphasizing that this court reviews a trial "court's factual findings, including whether the case is exceptional, for clear error"); *Brasseler, U.S.A. I., L.P. v. Stryker Sales Corp.*, 267 F.3d 1370, 1378 (Fed. Cir. 2001) ("Whether a case is 'exceptional,' in accordance with 35 U.S.C. § 285, is a question of fact."). *Bard*, however, rejected this approach, concluding that whether a litigant's conduct was objectively reasonable is a question of law subject to de novo review. *See* 2012 WL 2149495, at *1. Because *Bard* usurps the fact-finding role of the trial courts and is plainly inconsistent with our precedent it is an outlier and of no precedential value. We are bound to follow the standard of review articulated in earlier decisions. *See Johnston v. IVAC Corp.*, 885 F.2d 1574, 1579 (Fed. Cir. 1989) ("Where conflicting statements . . . appear in our precedent, the panel is obligated to review the cases and reconcile or explain the statements, if possible. If not reconcilable and if not

merely conflicting dicta, the panel is obligated to follow the earlier case law which is the binding precedent."). The law of this circuit can only be superseded by the court en banc. *See Sacco v. Dep't of Justice*, 317 F.3d 1384, 1386 (Fed. Cir. 2003).

Bard is simply wrong when it concludes that a determination of whether conduct is objectively reasonable is a question of law subject to de novo review. *See* 2012 WL 2149495, at *2. To the contrary, the question of what constitutes reasonable conduct under varying circumstances is a quintessentially factual inquiry. Indeed, the Supreme Court has acknowledged that reasonableness is a question of fact by recognizing "the jury's unique competence in applying the 'reasonable man' standard." *TSC Indus. v. Northway, Inc.*, 426 U.S. 438, 450 n.12 (1976). This court, too, has recognized that the reasonableness of a litigant's conduct is a factual question. *See Nat'l Presto Indus., Inc. v. W. Bend Co.*, 76 F.3d 1185, 1193 (Fed. Cir. 1996) ("Whether the infringer had a reasonable belief that the accused activity did not violate the law is a question of fact, as are other questions relevant to the issue of willfulness." (citations omitted)); *see also Rand v. Underwriters at Lloyd's*, 295 F.2d 342, 346 (2nd Cir. 1961) (emphasizing that "when dissimilar inferences may be drawn from undisputed facts, or when the facts are in dispute, 'reasonableness' is a jury question"). As an appellate court, we are ill-suited to weigh the evidence required to make an exceptional case determination. In many cases, a trial court will declare a case exceptional only after spending months—and sometimes even years—reviewing the evidence, hearing testimony, and evaluating the

conduct of the litigants. Its intimate familiarity with the facts of the case, and the parties involved, place it in a far superior position to judge whether or not a litigant's claims of infringement were objectively baseless:

> The district judge is a firsthand observer of the proceedings below. His is the view from the trenches: he sees the shots fired by one party against the other, and he has full knowledge of the circumstances prompting the cross-fire. . . . Since the imposition of sanctions will usually require [an] intensive inquiry into the factual circumstances surrounding an alleged violation, the trial judge is in the best position to review [those] circumstances and render an informed judgment.

Kale v. Combined Ins. Co., 861 F.2d 746, 758 (1st Cir. 1988) (citations and internal quotation marks omitted).

Bard's assertion that objective reasonableness is a question of law is anomalous given that the exceptional nature of the case must be established by clear and convincing evidence. *See Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304 (Fed. Cir. 2009). The clear and convincing evidence standard applies to questions of fact, not to questions of law. *See, e.g., Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1366 (Fed. Cir. 2008) ("The predicate facts must be proven by clear and convincing evidence." (citations and internal quotation marks omitted)). Furthermore, the *Bard*

approach is unnecessarily complex [1] and will undoubtedly spawn unneeded litigation over which issues in a section 285 determination are issues of fact, which are issues of law, and which are mixed questions of law and fact. *See Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 401 (1990) (explaining that there is no "rule or principle that will unerringly distinguish a factual finding from a legal conclusion," and that "[m]aking such distinctions is particularly difficult" in the context of attorney fee awards (citations and internal quotation marks omitted)).

Although the Supreme Court has not yet spoken on the appropriate standard of review applicable to section 285 exceptional case determinations, it has made clear that a highly deferential standard of review applies in analogous proceedings brought under Rule 11 of the Federal Rules of Civil Procedure. *See Cooter*, 496 U.S. at 399-405. Prior to *Cooter*, some circuit courts of appeals had divided review of Rule 11 sanctions into three separate analyses, reviewing fact-findings under a clearly

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[1] As a practical matter, the *Bard* approach will be difficult and time-consuming to apply. *Bard* instructs:

> In considering the objective prong of [*In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc)], the judge may when the defense is a question of fact or a mixed question of law and fact allow the jury to determine the underlying facts relevant to the defense in the first instance, for example, the questions of anticipation or obviousness. But . . . the ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a valid patent should always be decided as a matter of law by the judge.

Bard, 2012 WL 2149495, at *4.

erroneous standard, legal questions under a de novo standard, and the actual sanction decision for abuse of discretion. *Id.* at 399. The Supreme Court rejected this approach, concluding that although Rule 11 determinations involve both factual and legal issues, all aspects of such a determination must be reviewed under a highly deferential abuse of discretion standard. *Id.* at 405. In the Court's view, application of a deferential standard was appropriate because "the district court [was] better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11." *Id.* at 402. Significantly, the Court rejected the view that a determination as to whether a litigant's conduct was reasonable must be reviewed by an appellate court de novo. *Id.* at 405 ("An appellate court's review of whether a legal position was reasonable or plausible enough under the circumstances is unlikely to establish clear guidelines for lower courts; nor will it clarify the underlying principles of law." (citations and internal quotation marks omitted)). Similarly, in the context of fee awards under the Equal Access to Justice Act ("EAJA"), 28 U.S.C. § 2412(d), the Supreme Court has determined that a deferential abuse of discretion standard applies, even though an EAJA award turns on the question of whether the government's litigation position had a "reasonable basis both in law and fact." *Pierce v. Underwood*, 487 U.S. 552, 565 (1988).

Bard offers no persuasive explanation as to why the highly deferential standard of review adopted in *Cooter* and *Pierce* should not apply to section 285 exceptional case determinations. Simply because the section 285 analysis can touch on issues of patent

validity and infringement does not mean that this court can shirk our obligation to afford due deference to the better-informed judgment of the trial court on factual matters. *See Pullman-Standard v. Swint*, 456 U.S. 273, 287 (1982) (Rule 52(a) of the Federal Rules of Civil Procedure "does not make exceptions or purport to exclude certain categories of factual findings from the obligation of a court of appeals to accept a district court's findings unless clearly erroneous.").

II.

Here, the trial court, in a thorough and well-reasoned opinion, concluded that Allcare engaged in "vexatious and, at times, deceitful conduct" and "maintained infringement claims well after such claims had been shown by its own experts to be without merit." *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 706 F. Supp. 2d 713, 737 (N.D. Tex. 2010). The court found that Allcare failed to conduct any sort of reasonable pre-filing investigation before asserting its infringement counterclaims against Highmark. *Id.* at 723-27. Robert Shelton, Allcare's vice-president, ignored persuasive, publically-available evidence[2] which clearly demonstrated that

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[2] "[B]y all accounts a large amount of information regarding Highmark's system was available publicly. Allcare even discovered a demonstration version of Highmark's system complete with a representative user interface. This interface displayed what code was used by Highmark's system . . . and what the code was used for (to indicate symptoms rather than to determine a proposed treatment)." *Highmark*, 706 F. Supp. 2d at 725 (citations omitted). Had Allcare conducted an even minimal investigation of publically available information regarding the Highmark system, it would have discovered that that system did not meet claim 52(c)'s requirement that

Highmark's accused system failed to meet key elements of claim 52(c) of U.S. Patent No. 5,301,105 (the "'105 patent"). Claim 52(c) specifically requires "entering . . . data symbolic of patient symptoms *for* tentatively identifying a proposed mode of treatment." '105 patent col. 21 ll. 31-34 (emphasis added). In Highmark's accused system, however, a physician or other medical professional enters both the symptoms and the proposed diagnosis and treatment options. Thus, symptom data is not entered "for" the purpose of "identifying a proposed mode of treatment" as required by claim 52(c). Indeed, Allcare's own expert acknowledged that in the Highmark system symptom data was entered to identify the condition for which the patient was already receiving treatment and *not* "for" the purpose of identifying the proposed mode of treatment. *See* Joint App'x 11586-88; *Highmark*, 706 F. Supp. 2d at 731 ("Allcare's allegations were shown to be without support by its own expert's report and deposition testimony. Yet Allcare persisted in its infringement allegations."). Given that Allcare persisted in advancing infringement allegations that were both in direct conflict with the plain claim language and unsupported by the testimony of its own expert, the district court had ample grounds for concluding that Allcare's allegations of infringement of claim 52(c) were frivolous.[3] Because there was no clear error in the

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symptom data is entered "for" the purpose of "identifying a proposed mode of treatment." '105 patent col. 21 ll. 31-34.

[3] The court errs when it concludes that an embodiment disclosed in the specification provided reasonable support for Allcare's allegation that the Highmark system met the limitations of claim 52(c). That embodiment plainly did not

trial court's exceptional case determination, its section 285 award must be affirmed.

III.

Finally, it is worth noting that the infringement trial in this case occurred prior to the Supreme Court's decisions in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), and *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012). Had the trial court had the benefit of these decisions, it could have applied 35 U.S.C. § 101 to invalidate Allcare's '105 patent at the summary judgment stage of the proceedings. *See Bilski*, 130 S. Ct. at 3225 (noting that whether claims are directed to statutory subject matter is a "threshold test").

"[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998). A patentee does not uphold his end of this "bargain" if he seeks broad monopoly rights over a basic concept, fundamental principle, or natural law without a concomitant contribution to the existing body of scientific and technological knowledge. In *Bilski*, an application was rejected as patent ineligible because it did not "add" anything to the basic concept of hedging against economic risk. 130 S. Ct. at 3231 (emphasizing that the application applied the concept of hedging using "well-known random analysis techniques"). In *Mayo*, likewise,

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describe a system in which the physician enters symptoms "for" the purposes of identifying a method of treatment, *see* '150 patent col. 10 ll. 5-8, and was therefore not covered by claim 52(c).

process claims were invalidated under section 101 because they simply described a law of nature and applied it using "well-understood, routine, [and] conventional" means. 132 S. Ct. at 1294.

A similar analysis applies here. Allcare's claimed diagnostic system falls outside the ambit of section 101 because it is directed to the "abstract idea" that particular symptoms are likely caused by particular diseases or conditions. The '105 patent describes a system in which a user enters data regarding a patient's symptoms and a computer generates a list of possible diseases or conditions that might be causing such symptoms. Any healthcare provider or patient who has ever consulted a medical treatise or home medical reference book to determine what disease or condition might be causing particular symptoms has practiced a non-computerized version of the claimed method. Because the '105 patent simply describes the abstract idea that certain symptoms are correlated with certain diseases and then applies that idea using conventional computer technology, it fails to meet section 101's subject matter eligibility requirements. *See MySpace, Inc. v. Graphon Corp.*, 672 F.3d 1250, 1267 (Fed. Cir. 2012) (Mayer, J., dissenting) ("While running a particular process on a computer undeniably improves efficiency and accuracy, cloaking an otherwise abstract idea in the guise of a computer-implemented claim is insufficient to bring it within section 101." (footnote omitted)); *see also Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012) (concluding that claims drawn to a "computer-aided" method of processing information through a clearinghouse fell outside the ambit of section 101); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d

1366,1375 (Fed. Cir. 2011) (emphasizing "that the basic character of a process claim drawn to an abstract idea is not changed by claiming only its performance by computers, or by claiming the process embodied in program instructions on a computer readable medium"). Where, as here, a patent describes an abstract idea, but discloses no new technology or "'inventive concept,'" *Mayo*, 132 S. Ct. at 1294, for applying that idea, a robust application of section 101 at the summary judgment stage will save both courts and litigants years of needless litigation.

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

HIGHMARK, INC.,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

CIVIL NO. 4:03-CV-1384-Y

OPINION AND ORDER GRANTING MOTION FOR EXCEPTIONAL-CASE FINDING AND ATTORNEY'S FEES[1]

Pending before the Court is the Motion for Exceptional Case Finding and Award of Attorney Fees and Expenses (doc. #513) filed by plaintiff, Highmark, Inc. ("Highmark"). After review, the Court concludes that this case is exceptional under 35 U.S.C. § 285 as a consequence of certain acts of defendant Allcare Health Management Systems, Inc. ("Allcare"), over the course of the litigation. The Court further concludes that sanctions under

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[1] This order is being issued to correct a clerical error in the original order (doc. #564). The references to Alfredo Silva in the original order are replaced in this order with Mike McKool Jr.

Federal Rule of Civil Procedure 11 are appropriate. Highmark's motion will, therefore, be granted.

Also before the Court is Allcare's Motion for Hearing (doc. #552) in which Allcare requests that the Court conduct a hearing on the motion for exceptional-case finding. Because the Court has ruled on the motion for exceptional-case finding based on the briefing, the Court DENIES the motion for hearing as MOOT.

I. BACKGROUND

Allcare is a Virginia corporation with its principal place of business in Fort Worth, Texas. Allcare's business is the licensing of intellectual-property assets. Among the assets handled by Allcare is U.S. Patent No. 5,301,105 ("the '105 patent"). After conducting a survey of various healthcare management and insurance companies, Allcare filed suit against twenty-four such companies in four separate suits asserting that the companies' computerized information-management systems infringed the '105 patent.

Highmark was among the companies surveyed by Allcare. In April 2002, Allcare's vice president of licensing, Robert Shelton, wrote a letter to Highmark stating that Allcare believed Highmark's system infringed the '105 patent, requesting that Highmark consider purchasing a license to the '105 patent, and raising the potential for litigation if Highmark refused. Allcare sent additional letters to Highmark, encouraging Highmark to purchase a license, threatening litigation, and warning Highmark of the "substantial damages" Allcare would pursue, as well as the high costs of litigation. (Mot. App. at 354 (December 11, 2002, letter from counsel for Allcare,

Steven Hill, noting that over $2 million in fees had been expended in approximately 6 months by an entity defending against a related infringement suit by Allcare and that Allcare would be seeking "substantial damages" against Highmark).)

Among the suits instituted by Allcare based on alleged infringement of the '105 patent is *Allcare Health Management Systems, Inc. v. Trigon Healthcare, Inc.*, 1:02-CV-756-A (E.D. Va. Feb. 3, 2003). Trigon Healthcare, Inc., was also surveyed by Allcare. Based apparently on Trigon's responses, Allcare determined that Trigon's system infringed the '105 patent. After sending Trigon a letter and suggesting it license the '105 patent from Allcare, Allcare filed an infringement suit against Trigon in May 2002. (Resp. App. at 138.) According to Allcare, Trigon and Highmark's defenses to Allcare's allegations of infringement of claim 52 were the same in that both Trigon and Highmark challenged the validity of the '105 patent in light of undisclosed prior art and each claimed that their respective systems lacked a "diagnostic smart system" as required by claim 52. A diagnostic smart system, as contemplated by the '105 patent, is a system in which a physician enters codes symbolizing patient symptoms that are then compared by the computer system to stored data on the usual symptoms of common diseases and ailments. (Cl. Constr. Rep., doc. #367, at 2-3.) After this comparison, the system generates a list of conditions that are likely the cause of the specific patient's symptoms, along with recommended treatments. (*Id.)* Allcare filed a motion for summary judgment and, on February 3, 2003, the United States District Court for the Eastern District of Virginia entered its order. (Resp.

App. at 41-66.) The court concluded that claim element 52(c) did not require a diagnostic smart system and that the entry of data symbolic of patient symptoms did not have to be for the purpose of suggesting a mode of treatment. (Resp. App. at 45, 51-52). The court also concluded that the '105 patent is enforceable. (*Id.* at 57-62, 66.)

After the summary-judgment rulings in *Trigon*, Allcare sent another letter to Highmark. The letter apprised Highmark of the rulings favorable to Allcare in *Trigon*, again requested that Highmark purchase a license and suggested that litigation may be necessary if Highmark refused. After some discussion between Highmark and Allcare, Highmark filed this action against Allcare seeking a declaratory judgment of invalidity, noninfringement, and unenforceability of the '105 patent. Allcare filed a counterclaim alleging infringement of the '105 patent.

In August 2006, Don W. Martens was appointed special master in this case, and the issue of claim construction was referred to him. Martens submitted a report and recommendation (doc. #367) that the Court adopted in March 2007 (doc. #375). Martens's report construed the claims at issue in this case—claim 1, 52, 53, and 102.[2] After Martens's report, in February 2008, Allcare withdrew its counterclaim of infringement as to claim 102 (doc. #481). Highmark also withdrew its contention of invalidity and unenforceability of claim 1 (doc. #505). Martens also issued a report on Highmark's motion for summary judgment (doc. #484). The Court

[2] It should be noted that claim 53 is dependent upon claim 52. (Doc. #367 at 41.)

adopted Martens's report and entered summary judgment in favor of Highmark on August 28, 2008 (doc. #503), concluding that the '105 patent is not unenforceable but that Highmark's system did not infringe claim 52 or 53. As the prevailing party in this patent case, Highmark now seeks attorneys' fees and other expenses.

II. DISCUSSION

A. Legal Standards

1. 35 U.S.C. § 285

"The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The evaluation of whether attorneys' fees should be awarded under § 285 is a two-step process. *See Digeo, Inc. v. Audible, Inc.*, 505 F.3d 1362, 1366-67 (Fed. Cir. 2007). First, a court must determine whether there is clear and convincing evidence that the case is exceptional. *See id.* at 1367. "The 'clear and convincing' standard is an intermediate standard which lies somewhere in between the 'beyond a reasonable doubt' and the 'preponderance of the evidence' standards of proof." *Pfizer, Inc. v. Apotex, Inc.*, 480 F.3d 1348, 1360 n.5 (Fed. Cir. 2007) (citing *Addington v. Texas*, 441 U.S. 418, 425 (1979) and *SSIH Equip. S.A. v. United States Int'l Trade Comm'n*, 718 F.2d 365, 380-81 (Fed. Cir. 1983) (Nies, J., additional views)). "Although an exact definition is elusive, 'clear and convincing evidence' has been described as evidence that 'place[s] in the ultimate factfinder an abiding conviction that the truth of its factual contentions are highly probable.'" *Id.* (quoting *Colorado v. New Mexico*, 467 U.S. 310, 316, (1984)). It is such evidence as to form in the mind of the trier of fact a

"firm belief or conviction" as to the truth of the allegations sought to be established. *See Trans-World Mfg. Corp v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1559-60 (Fed. Cir. 1984) (discussing use of clear-and-convincing standard in proving prior use of a patented invention in overcoming presumption of patent's validity).

"A case may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." *Brooks Furniture Mfg., Inc., v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). A court may find a case exceptional because the case is frivolous. *See Stephens v. Tech Int'l, Inc.*, 393 F.3d 1269, 1273-74 (Fed. Cir. 2004) (noting that a case may be deemed exceptional due to, inter alia, the frivolity of the suit); *see also Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989) (stating that "unjustified litigation" or a "frivolous suit" can form the basis of an exceptional-case finding). "A frivolous infringement suit is one [that] the patentee knew or, on reasonable investigation, should have known was baseless." *Stephens*, 393 F.3d 1273-74.

An award of attorneys' fees is not made mandatory by an exceptional-case finding. As the second step of the analysis under section 285, once a case is shown by clear and convincing evidence to be exceptional, a court must assess whether, in its discretion, an award of fees is justified. *See Digeo, Inc.*, 505 F.3d at 1366-67. A court may exercise its discretion and

decline to award attorneys' fees despite such an exceptional-case finding. In assessing whether an exceptional-case finding justifies an award of fees, a court must weigh factors—such as the relative merits of the parties' positions, the tactics of counsel, and the conduct of the parties—that contribute to a fair allocation of the burdens of litigation. *See S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986).

2. Federal Rule of Civil Procedure 11

A court may also award fees and expenses as a sanction under Rule 11. *See* FED. R. CIV. P. 11; *see also Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 393 (1990) (explaining that the sanctions under Rule 11 "may, but need not, include payment of the other parties' expenses"). Among the bases upon which a court may award Rule 11 sanctions is the failure by a party seeking relief to properly investigate its allegations before filing suit. *See S. Bravo Sys. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996). In this case, at issue are Allcare's counterclaims of infringement. The United States Court of Appeals for the Federal Circuit has explained:

> Before filing counterclaims of patent infringement, Rule 11, we think, must be interpreted to require the law firm to, at a bare minimum, apply the claims of each and every patent that is being brought into the lawsuit to an accused device and conclude that there is a reasonable basis for a finding of infringement of at least one claim of each patent so asserted. The presence of an infringement analysis plays the key role in

> determining the reasonableness of the pre-filing inquiry made in a patent infringement case under Rule 11.

View Eng'g, Inc. v. Robotic Vision Sys., 208 F.3d 981, 986 (Fed. Cir. 2000).

3. Inherent Powers

A court may also award fees to a successful party under its inherent equitable power. *See Hall v. Cole*, 412 U.S. 1, 15 (1973). Before a court may exercise its inherent authority to impose sanctions, there must be "a finding of fraud or bad faith whereby the very temple of justice has been defiled." *See Amsted Indus. v. Buckeye Steel Castings Co.*, 23 F.3d 374, 378 (Fed. Cir. 1994). A court's inherent authority is in addition to authority provided by statute or rule. *See id.*

B. Analysis

1. Pre-Filing Investigation

Highmark insists that Allcare failed to obtain an opinion of a lawyer before filing counterclaims of infringement. Highmark also argues that Allcare failed to evaluate whether all of the elements of the patent claims at issue were contained in Highmark's system. In this regard, Highmark argues that although Allcare commissioned a survey by Seaport Surveys, Inc. ("the Seaport Survey"), to assess the systems of various health-industry companies, including Highmark, Allcare failed to tailor that survey to determine whether the systems of the companies surveyed contained all of the elements of patent claims 52, 53, and 102. Additionally, Highmark maintains that the fact that its system lacks claim element 52(c), which requires the entry

into a system of "data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment," was the key to its defense against Allcare's allegation of infringement regarding claim 52. Despite this, Allcare never addressed how Highmark's system allegedly encompassed element 52(c), even after Highmark filed a motion for summary judgment on this precise point.

a. Need for Opinion by Patent Attorney

Allcare contends that a formal opinion by a patent lawyer is unnecessary for an adequate pre-filing investigation. Citing *Deering Precision Instruments, L.L.C. v. Vector Distribution Systems*, 347 F.3d 1314 (Fed. Cir. 2003), Allcare notes that the Federal Circuit has "rejected arguments that an action was frivolously filed even when the patentee did not obtain a formal opinion of counsel before asserting infringement." (Resp. Br. at 13.) Rather, all that is required is a "good faith, informed comparison of the claims of a patent against the accused subject matter." *See Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1302-04 (Fed. Cir. 2004) (denying Rule 11 sanctions where patentee had made good-faith comparison and concluding the case was not exceptional for same reason). And Allcare insists it performed such a good-faith comparison.

But the issue in *Deering* appears to have been whether attorneys' fees were justified in light of the patentee's failure to consult a *patent* attorney regarding the patent's prosecution history and infringement under the doctrine of equivalents. *See Deering*, 347 F.3d at 1321. And regardless, the Federal Circuit in *Deering* merely decided that the

district court had not committed clear error by refusing to conclude that the failure to obtain an opinion of patent counsel is *per se* gross negligence and by otherwise concluding that the patentee's conduct was not harassing. *See id.* at 1321, 1327. Moreover, Highmark does not limit its complaint to Allcare's alleged failure to secure the opinion of a patent attorney. Rather, Highmark complains that the only investigation apparent from the record was performed by a layman.

b. Pre-Filing Investigation by Counsel[3]

Allcare insists that its counsel, Stephen Hill, provided an element-by-element explanation for its allegation of infringement of claim 52. (Resp. App. at 139.) That explanation is allegedly contained in certain charts that were initially prepared for the *Trigon* litigation. Because of the similarity of the issues in this case and those in *Trigon*, and because counsel for Highmark requested as much, Hill provided Highmark with the charts developed in connection with *Trigon*. (*Id.* at 4, 139-40.) Hill also purports to have spoken with experts to confirm his determination of infringement. (Resp. App. at 162-63.)

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[3] The adequacy of counsel's pre-filing investigation is relevant to both fees under § 285 and sanctions under Rule 11. *See* FED. R. CIV. P. 11 (requiring all pleadings to be signed by an attorney whose signature represents that "the claims, defenses, and other legal theories are warranted" after a reasonable inquiry); *Brooks Furniture Mfg., Inc., v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (conduct that justifies exceptional-case finding includes "conduct that violates Fed. R. Civ. P. 11, or like infractions").

Highmark counters that the *Trigon* charts are insufficient to establish an adequate pre-filing investigation in this case. The charts, according to Highmark, deal with claim construction, not infringement. Hill seems to recognize as much in his declaration. (Resp. App. at 163 (describing the charts from *Trigon* as claim-construction charts).) As the United States Supreme Court explained in *Markman v. Westview Instruments*:

> [A] patent includes one or more 'claims,' which particularly poin[t] out and distinctly clai[m] the subject matter which the applicant regards as his invention. A claim covers and secures a process, a machine, a manufacture, a composition of matter, or a design, but never the function or result of either, nor the scientific explanation of their operation. The claim define[s] the scope of a patent grant, and functions to forbid not only exact copies of an invention, but products that go to the heart of an invention but avoids [sic] the literal language of the claim by making a noncritical change . . . .

Markman v. Westview Instruments, 517 U.S. 370, 373-74 (1996) (alterations in original) (citations and quotations omitted). On the other hand, "patent lawsuits charge what is known as infringement, and rest on allegations that the defendant without authority ma[de], used or [sold the] patented invention, within the United States during the term of the patent therefor." *Id.* at 374 (alterations in original) (internal quotations and citations omitted). Thus, Highmark argues that the charts address the

definition and scope of the '105 patent but do not address whether its system infringes the patent.

A review of the charts submitted by Allcare establishes that the charts do not merely recount the language of the claims at issue and proffer a construction of such claims. Instead, the charts also purport to include the relevant features of Highmark's system. (Resp. App. at 5-21.) But Allcare's evidence indicates that the charts' descriptions of features of Highmark's system are based on Allcare's analysis of the *Trigon* system and the perceived similarity between the *Trigon* system and that of Highmark. In fact, Hill describes Allcare's pre-filing investigation of its claims against Highmark as involving "discussions with technical experts . . . who[] authored an expert report in *Trigon* addressing one or more aspects of patent infringement of *Trigon's* system." (Resp. App. at 163.)

In his declaration, Hill also states that "early in discovery, Allcare provided Highmark with a claim chart in this case which was of our pre-filing analysis of infringement *against Trigon."* (Resp. App. at 140 (emphasis added).) Allcare's briefing and evidence indicate that the *Trigon* charts were "annotated to take into consideration the technical documents which Highmark withheld until after discovery began in this case." (Resp. Br. at 1 n.2; Resp. App. at 154.) Allcare does not explain how it could demonstrate an adequate pre-filing investigation of its claims against Highmark by producing charts from *Trigon* that obviously could not have been annotated with information Allcare had not yet received from Highmark through discovery. *Cf.*

Jundin v. United States, 110 F.3d 780, 784 (Fed. Cir. 1997) (noting Court of Federal Claims Rule 11, patterned after Fed. R. Civ. P. 11, is not satisfied by "after-the-fact" investigation). Indeed, the charts that are contained in Allcare's appendix are dated November 8, 2004, eleven months after Allcare filed its counterclaims.

Highmark also points out that while Hill claims to have conferred with experts regarding his pre-filing infringement analysis, experts were not consulted regarding Highmark's system until after Allcare's counterclaims were filed. Hill states that he relied upon the charts from *Trigon* as to claim 52 but based his assessment of the alleged infringement of other claims "on discussions with appropriate technical consultants such as Dr. Holland." (Resp. App. at 163.) But invoices submitted by Dr. Holland to counsel for Allcare indicate that his earliest involvement in this case was in September 2004, well after Allcare had filed its answer and counterclaims. (Reply App. at 1-3.) Other invoices indicate that Allcare's remaining experts were not involved in this case prior to Allcare's filing of its counterclaims. (*Id.* at 4-10.)

Hill, along with an Allcare expert, also purportedly supervised Robert Shelton, Allcare's vice president of licensing, in his investigative efforts, which are discussed in detail below. But the expert assistance Shelton received dealt with his preparation of charts addressing the validity of the '105 patent in light of prior art, not whether Highmark's system infringed the '105 patent. (Mot. App. at 91-99.)

Hill broadly states that he was "involved in an investigation . . . [that] included a review of a survey

of Highmark." (Resp. App. at 137.) At no point, however, does Hill claim to have directly participated in the interpretation of the Seaport Survey results. To the contrary, in discussing Allcare's pre-filing investigation efforts, Hill cites Allcare's interrogatory responses which, in turn, recount Shelton's interpretation of Highmark's survey responses. (Resp. App. at 163 (citing Mot. App. at 176-79).) Indeed, these responses indicate that it was Shelton who formed the "opinion" and belief that Highmark's system infringed the '105 patent underlying Allcare's allegations. (Mot. App. at 165.) And Hill's discussion of his supervision of Shelton never addresses Shelton's interpretation of the Seaport Survey results or any role Hill might have played in such interpretation. (Resp. App. at 189-92.)

Allcare has produced a declaration by Hill, largely comprised of other broad statements and general assurances, to support its contention that it adequately investigated its allegations before filing counterclaims. But the only documentary evidence of Hill's investigation are the charts developed in *Trigon*, which Hill "annotated" with information that was not received until after Allcare's counterclaims were filed. (Resp. App. at 140, ¶12.) This is representative: Hill's statements regarding pre-filing investigation are without documentary support while his statements regarding post-filing investigative efforts are supported.

Hill's general assurances do not overcome the lack of any discussion or evidence of his specific efforts in investigating Highmark's system as opposed to the system in *Trigon.* Allcare protests that it has not provided Highmark or this Court with notes or

documents verifying Hill's pre-filing investigation because such things would reflect Hill's opinions and thought process and are, therefore, privileged. An attorney's opinions regarding a patent are privileged. *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004) (en banc). But Allcare's decision to claim privilege in briefing this motion is questionable given its apparent failure to list documents related to Hill's analysis on its privilege log. *Cf. Rambus Inc. v. Infineon Techs. Ag.*, 318 F.3d 1081, 1106 (Fed. Cir. 2003) (affirming district-court ruling that failure to disclose documents on privilege log was litigation misconduct). And regardless of the existence of privilege at the time Highmark served discovery requests on Allcare, Allcare has asserted Hill's analysis as a defense to Highmark's motion for attorneys' fees. (Resp. Br. at 2.) Allcare has, therefore, waived the attorney-client privilege in regard to the issue of its pre-filing investigation. *See In re Echostar Commc'ns. Corp.*, 448 F.3d 1294, 1300 (Fed. Cir. 2006) (asserting the advice of counsel as a defense waives the attorney-client privilege for all communications on the subject matter and documents memorializing such communications).

Even assuming that Hill's opinions and mental impressions developed during his pre-filing investigation are privileged, Hill's declaration provides almost no detail regarding his efforts in conducting a pre-filing investigation. Hill simply asserts that he was "involved in an investigation into the technology of Highmark, Inc.," prior to filing counterclaims and engaged in an "element-by-element comparison of each claim . . . to the accused Highmark system." (Resp. App. at 137.) But the

specific investigation efforts that Hill discusses refer to the *Trigon* charts, which were annotated with information on Highmark's system after Allcare's counterclaims were filed, and Hill's post-filing consultation with experts.

The almost complete lack of detail in Hill's declaration regarding pre-filing investigation efforts, coupled with Allcare's failure to produce any documentary evidence of such efforts and its contradictory and suspect tactic of relying on counsel's advice as a defense to Highmark's motion while asserting that such advice is privileged leave the Court with the firm conviction that Hill performed either no pre-filing investigation at all, or one that was inadequate. *See Calloway v. Marvel Entm't Group, Div. of Cadence Indus. Corp.*, 854 F.2d 1452, 1471 (2d Cir. 1988) (lack of affidavit by attorney detailing pre-filing investigation suggests no investigation was made), *rev'd on other grounds Pavelic & LeFlore v. Marvel Entm't Group, Div. of Cadence Indus. Corp.*, 493 U.S. 120 (1989); *cf. Eltech Systems Corp. v. PPG Indus., Inc.,* 710 F. Supp. 622, 637-38 (W.D. La. 1988) *aff'd*, 903 F.2d 805 (Fed. Cir. 1990) (citing *Kori Corporation v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 656-57 (Fed. Cir. 1985); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983)) (patentee's otherwise unreasonable pre-filing investigation not excused by reliance on undisclosed oral opinion of counsel because court could not "assess the reasonableness of the opinion"). When Hill's lack of or inadequate investigation is coupled with the portions of Allcare's interrogatory responses establishing that it was Shelton who formed the opinion and belief that Highmark's system infringed

the '105 patent, the Court is convinced that it is highly probable that the only pre-filing assessment of the Seaport Survey responses was performed by Shelton. This abdication of the responsibility for assessing the merit of a potential allegation of infringement falls short of what Rule 11 requires. *See* Fed. R. Civ. P. 11(b) (stating that by advocating a filing, an attorney certifies the propriety of the legal positions and truthfulness of the factual contentions contained in the filing); *Pavelic & LaFlore*, 493 U.S. at 125 (explaining that the "signing attorney cannot leave it to some trusted subordinate, or to one of his partners, to satisfy himself that the filed paper is factually and legally responsible; by signing he represents not merely the fact that it is so, but also the fact that he *personally has applied his own judgment*") (emphasis added).

c. Pre-Filing Investigation by Allcare

Allcare insists that Shelton's investigative efforts alone are enough to stave off attorneys' fees and sanctions. In doing so, it insists that Shelton was qualified for the work he performed—interpreting the Seaport Survey results, researching Highmark's system, and evaluating infringement—and was properly supervised.

Allcare's evidentiary support for Shelton's investigative efforts consists of its responses to Highmark's interrogatories. (Mot. App. at 162-66.) Those responses disclose that after Allcare received Highmark's answers to the Seaport Survey, Shelton undertook additional research on Highmark's system via public information available on the internet. (*Id.)* In fact, a demonstration version of Highmark's

system with an example-user interface was available on the internet and apparently discovered by Shelton during his research. (Mot. App. at 346-47 (letter by Hill to Highmark discussing the navimedix, vodium, and clarityvision websites).)

Shelton wrote a letter to Highmark's chief executive and financial officers and its general counsel in April 2002, suggesting that Highmark purchase a license of the '105 patent and hinting that failure to do so would result in a suit. (*Id.* at 164, 342-44). After Highmark denied that its system infringed the '105 patent, Shelton engaged in further research. (*Id.* at 165.) After his research, which apparently included the review of thousands of pages of documents, Shelton came "to believe" and "formed the opinion" that Highmark's system was a "smart system"—a system that, through the use of symptom codes, could indicate an insurance provider's approval or denial of authorization for a medical procedure—and, therefore, infringed the '105 patent. (Mot. App. at 162-66.)

Highmark complains that Shelton is not qualified to perform a pre-filing investigation because he is neither an engineer nor a patent lawyer. Allcare counters that, as Allcare's vice president of licensing, Shelton is experienced in patent matters. He is also the named inventor on two U.S. patents related to healthcare technology. The charts prepared by Shelton were reviewed for accuracy by Allcare's expert, Robert Gross. And Highmark did not point out any specific deficiency in the charts during its deposition of Gross or before the special master, and does not do so now. (Resp. App. at 189-91.)

But the charts prepared by Shelton and reviewed by Gross address the validity of the '105 patent in light of prior art, not whether the '105 patent was infringed by Highmark's system. (Mot. App. at 91-99.) These are separate issues. *See Lawman Armor Corp. v. Winner Int'l LLC*, 437 F.3d 1383, 1385 (Fed. Cir. 2006).

And Shelton's qualifications aside, the plain language of Rule 11 states that it is the attorney that represents to the court, by filing, signing, or advocating a pleading, that the contentions presented in that pleading are warranted after reasonable inquiry. *See* FED. R. CIV. P. 11(a), 11(b). However qualified Shelton may be or however extensive his investigative efforts, they do not fulfill the requirement of Rule 11. *See Q-Pharma, Inc.*, 360 F.3d at 1300 (noting that Rule 11 "requires an *attorney* to conduct a reasonable inquiry into the law and facts before filing a pleading") (emphasis added). Consequently, a violation of Rule 11 was committed regardless of Shelton's efforts. *See S. Bravo Sys. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996) (where evidence indicated that attorneys had merely relied on client's lay opinion that patent was infringed, Federal Circuit reversed and remanded district court's denial of Rule 11 sanctions stating that if such were the case, "it would be difficult to avoid the conclusion that sanctions are appropriate"); *also cf. Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997) (attorney violates Court of Federal Claims Rule 11, patterned after the 1983 version of civil rule 11, by "giving blind deference to his client" regarding infringement analysis).

d. Reliance on *Trigon* Rulings

Highmark also complains that rather than perform an adequate pre-filing investigation of its system, Allcare pursued infringement claims against Highmark based on the summary-judgment rulings in *Trigon.* The rulings in *Trigon* are relevant to the issue of whether Highmark's system infringed the '105 patent only to the extent that Highmark's system and the system in *Trigon* are the same. There is no indication in the record that Allcare investigated Highmark's system or compared it to Trigon's system before filing counterclaims against Highmark. Yet Allcare points to the *Trigon* rulings as justification for its claims of infringement against Highmark.

In any event, the *Trigon* rulings dealt almost exclusively with the issues of claim construction, unenforceability, and invalidity of the '105 patent with regard to claim 52. The *Trigon* court's infringement analysis consists, in its entirety, of two sentences in which the court declares, without elaboration, that "summary judgment is inappropriate" because "there are genuinely disputed issues of material fact." (Resp. App. at 65.) The fact that Allcare obtained a favorable *construction* of claim 52 in *Trigon* did not satisfy its obligation to perform a pre-filing investigation regarding Highmark's alleged *infringement* of claim 52 before filing its counterclaim in this case. With regard to claim 102, Allcare does not discuss, nor does the Court's review of the *Trigon* summary-judgment ruling disclose, how the *Trigon* rulings on claim 52 bears on infringement of claim 102, if at all.

e. Availability of Information for Pre-Filing Investigation

According to Highmark, Allcare had tools with which to perform an adequate pre-filing investigation of Highmark's system—for starters, the Seaport Survey. (Mot. App. at 68-69; 463.) Allcare reports that the Seaport Survey was presented to healthcare companies as an attempt "to identify organizations that [were] the leaders in the electronic processing of authorization and referral requests." (Mot. App. at 521.) In reality, the survey was an effort by Allcare to identify companies using healthcare information-management systems similar to that embodied by the '105 patent to justify approaching such companies about purchasing a license of the '105 patent. (Mot. App. at 68-69; 342-44.) And, Highmark argues, despite Allcare's control over the Seaport Survey (Mot. App. at 68), Allcare failed to ask questions to determine whether the surveyed companies' systems contained all of the necessary elements of claims 52 and 102. Specifically, the Seaport Survey did not ask about the aspect of claim element 52(c) that was ultimately found to be missing from Highmark's system, i.e., whether Highmark's system permits the entry of symptoms or symptom data for the purpose of tentatively identifying a proposed mode of treatment. (Mot. App. at 521-37.) As for claim 102, the Seaport Survey failed to elicit whether Highmark's system possessed claim element 102(b), which requires a system to store symptom and treatment data for a predetermined plurality of health profiles and problems. (*Id.)* Nor did the survey inquire as to whether Highmark's system allowed for the sort of interconnection and interaction between system

users required by claim 102's preamble. Allcare's response does not address these alleged deficiencies.

Instead, Allcare asserts that it requested documents relating to Highmark's system but Highmark, on confidentiality grounds, refused to provide them. Allcare's argument seems to be that Highmark placed Allcare in an untenable position. First, Highmark sued for a declaratory judgment, thus initiating this litigation and compelling Allcare to file its counterclaims. Then, contrarily, says Allcare, Highmark now insists that Allcare should have performed a better pre-filing investigation despite Highmark's refusal to provide information on its system to Allcare. Allcare demands that these factors be weighed against finding this case exceptional.

The Federal Circuit has, under some circumstances, concluded that an alleged infringer's failure to provide information requested by a patentee justifies a conclusion that a case is not exceptional. For instance, Allcare cites *Hoffmann La Roche, Inc. v. Invamed, Inc.*, 213 F.3d 1359, 1364 (Fed. Cir. 2000). There, the patentee claimed that it had requested information on the alleged infringer's manufacturing process but was denied that information due to a confidentiality agreement. The patentee filed suit and stated in its complaint that it was unaware of any technique by which it could reverse engineer the alleged infringer's product and thereby determine the alleged infringer's process. Noting that the alleged infringer suggested no alternative method of gathering the necessary information, and that had the alleged infringer simply provided the information, as it eventually did, it could have avoided litigation,

the court of appeals affirmed the district court's denial of Rule 11 sanctions and § 285 attorneys' fees. *Hoffmann La Roche, Inc. v. Invamed Inc.*, 213 F.3d 1359, 1363-65 (Fed. Cir. 2000).

In this case, however, the alleged infringer has suggested an alternative method of gathering information. Highmark notes that it answered Allcare's survey questions. But the fact is Allcare did not ask about certain essential elements of claims 52 and 102.

Regardless of the survey results, by all accounts a large amount of information regarding Highmark's system was available publicly. Allcare even discovered a demonstration version of Highmark's system complete with a representative user interface. (Mot. App. at 346-47.) This interface displayed what code was used by Highmark's system (ICD9 as opposed to CPT) and what the code was used for (to indicate symptoms rather than to determine a proposed treatment). (*Id.* at 347.) These aspects of Highmark's system played a key role in its defense against Allcare's allegation of infringement of claim 52 and the summary judgment that was ultimately issued in this case. At the least, Allcare should have used available information to further assess Highmark's system before filing its counterclaims. But as discussed above, available information was never evaluated by an attorney.

f. Highmark's Initiation of this Suit

As noted, Allcare claims that shortcomings in its pre-filing investigation may be attributed to the fact that Highmark filed this declaratory-judgment action and, therefore, Allcare was forced to respond. At least one court has taken into consideration the

fact that the alleged infringer initiated litigation, thus pressing the patentee to take responsive action. *See Polarity, Inc. v. Diversified Techs., Inc.*, No. C-06-0646 EMC, 2006 U.S. Dist. LEXIS 89802, at *14-15 (N.D. Cal. Nov. 29, 2006). The court in *Polarity* did not find conclusive the mere fact that a preemptive declaratory judgment was filed, but instead considered what the declaratory-judgment suit disclosed about the circumstances of that case—the alleged infringer's refusal to respond to attempts to communicate or negotiate by the patentee.

In this case, Allcare sent a letter to Highmark suggesting that Highmark purchase a license to the '105 patent from Allcare to prevent the need for litigation. (Mot. App. at 342-44.) Highmark then engaged in communications with Allcare over the next year to assess the merits of Allcare's allegations and to dissuade Allcare from pursuing litigation. (*Id.* at 164, 750.) Only after it became clear that Allcare was bent on pursuing its allegations of infringement did Highmark file its declaratory-judgment action. (*Id.* at 750.) And cases such as *Polarity* notwithstanding, the Federal Circuit requires that prior to filing a complaint of infringement, including a counterclaim to the alleged infringer's declaratory-judgment action, the patentee "must be prepared to demonstrate to both the court and the alleged infringer exactly why it believed before filing the claim that it had a reasonable chance of proving infringement." *View Eng'g, Inc.*, 208 F.3d at 986.

Indeed, it would not be unfair to suggest that a patentee have a reasonable basis for believing a potential target has infringed before it makes its first demand that the target purchase a license to use the

invention or face the probability of an expensive infringement suit.[4] If Allcare had investigated Highmark's system sufficiently to have such a reasonable basis, Allcare would not have been in an untenable position when it was served with Highmark's suit.[5] Allcare had only to marshal for its

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[4] The threat of a suit forces the alleged infringer to investigate the patentee's allegations and the existence of a valid patent, which is itself difficult and costly, and forces the alleged infringer to decide whether to deny infringement and be exposed to costly litigation or enter into licensing negotiations. *See* Gerard N. Magliocca, 82 Notre Dame L. Rev. 1809, 1814-17 (June 2007) (noting that "no simple research can ensure that a technology is not already patented" and that so-called patent trolls operate by obtaining patents that have been dormant and then aggressively and opportunistically enforcing them); *see also* John M. Golden, 85 Tex. L. Rev. 2111, 2125-30 (June 2007) (noting that the weaker the infringement case, the more likely the alleged infringer's decision to settle will be motivated by the high costs of litigation, which causes the settlement to fail to reflect the true economic contribution of the patent to the allegedly infringing product); Marc Morgan, Comment, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves The Title Patent Troll*, 17 Fed. Cir. B.J. 165, 174 (2008) (noting that, in addition to the high cost of patent litigation, which averages $2 million per suit, investigating a patent itself can be costly).

[5] Undermining Allcare's argument that it was pressed by Highmark's filing of a declaratory-judgment action into a premature filing of its counterclaims, is Allcare's decision to send Highmark letters requesting that Highmark license the '105 Patent, disclosing Allcare's efforts to litigate the patent against other companies, and threatening litigation for "substantial damages" if a license agreement were not reached. (Mot. App. at 342-61.) *See Wembley, Inc. v. Superba Cravats, Inc.*, 315 F.2d 87, 89 (2d. Cir. 1963) (stating that the availability of declaratory relief reduces the unfair advantage of patentees who threaten suit to obtain a license by allowing the alleged infringer to challenge the validity of the patent and

counsel all the knowledge it had that supported a reasonable and good-faith demand on Highmark, its target turned plaintiff. But if Allcare was caught flat-footed by Highmark's preemptive suit, it was not because Highmark acted hastily or unduly aggressively but because Allcare had not done its homework when it began trolling[6] for dollars and threatening litigation almost a year before Highmark filed its suit.

2. Allcare's Continued Pursuit of Frivolous Claims

Beyond the alleged deficiencies in the pre-filing investigation, Highmark also insists that Allcare

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thereby prevent "an invalid patent from remaining in the art of a scarecrow"); *see also Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 734-735 (Fed. Cir. 1988) (observing that the declaratory-judgment act prevents alleged infringers from being forced into "an in terrorem choice between the incurrence of a growing potential liability for patent infringement and abandonment of their enterprises") *overruled on other grounds by MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

[6] "Patent troll" is a pejorative term used to describe an entity that "enforces patent rights against accused infringers in an attempt to collect licensing fees, but does not manufacture products or supply services based upon the patents in question." *InternetAd Sys., LLC v. Opodo, Ltd.*, 481 F. Supp. 2d 596, 601 (N.D. Tex. 2007). In this case Allcare's actions align with the sort of conduct that gives the term "patent troll" its negative connotation. Allcare used a survey with a stated purpose of identifying leaders in the medical-information-processing industry as a ruse to identify potential targets for licensing demands, accused Highmark of infringing the '105 patent and, ultimately, filed counterclaims for infringement against Highmark having never performed an adequate investigation of such claims, and, along the way engaged in questionable and, at times, deceitful conduct.

should have realized its infringement allegations were meritless soon after the counterclaims were filed and should have withdrawn them. According to Highmark, Allcare was given a chance to inspect Highmark's system in April 2004. At this point, Highmark contends, Allcare should have realized Highmark's system did not contain element 52(c), as construed by this Court, or the required elements of claim 102. But Allcare, who now complains that any deficiencies in its pre-filing investigation are due in part to Highmark's refusal to provide confidential technical documents until suit was filed, did not even take an expert to inspect Highmark's system. (Mot. App. at 751.) This, notwithstanding Hill's statement in a July 2002 letter that if, after being presented with Allcare's claims and supporting evidence, Highmark continued to insist its system did not infringe the '105 patent, the only plausible way to bridge the gap would be for an Allcare representative, Hill, and "one or more industry experts . . . to make an hands-on inspection" of Highmark's system. (Mot. App. at 348.)

Allcare offers no explanation for its failure to inspect. It does explain that it maintained its allegations of infringement of claims 52 and 102 after the April 2004 inspection because it was spurred on by the *Trigon* summary-judgment rulings and the fact that, as an apparent result of the rulings, five healthcare companies licensed the '105 patent rather than contest validity. In this regard, Allcare's reliance on the *Trigon* rulings has some purchase. The Federal Circuit has approved of a district court's consideration of the fact that other alleged infringers, similarly situated, had settled cases with a patentee under § 285. *See J.P. Stevens Co. v. Lex Tex., Ltd.*,

822 F.2d 1047, 1049, 1051 (Fed. Cir. 1987). But the district court in *J.P. Stevens Co.* had considered the settlement of other cases in concluding that attorneys' fees were inappropriate *despite* an exceptional-case finding. *See id.* And, as already discussed, reliance on the *Trigon* ruling is only reasonable to the extent Allcare investigated Highmark's system and found it similar to that in *Trigon*—something that was never established in this case.

Highmark further argues that Allcare should have realized that its infringement counterclaims were frivolous because Allcare's own expert, Dr. Holland, conceded in his August 2007 deposition that Highmark's system did not infringe the '105 patent. As an example, the preamble to the 102 claim limits itself to a system including an "integrated interconnection and interaction of the patient, healthcare provider, bank or other financial institution, insurance company, utilization reviewer/case manager and employer." (Cl. Constr. Rep., doc. #367, at 20-21.) Holland admitted in his deposition that Highmark's system does not provide for the sort of interconnection and interaction required by claim 102. Thus, according to Highmark, Allcare should have known that its infringement allegations regarding the 102 claim were frivolous by this point.

The effect of a claim's preamble is a matter of claim construction. *Pitney Bowes, Inc. v. Hewlett-Packard Co.*, 182 F.3d 1298, 1305 (Fed. Cir. 1999). Hence, whether claim 102's preamble limited the scope of the claim might have been arguable at the outset of this litigation. But once this Court, on March 23,

2007, adopted the special master's report on claim construction, the scope of the claims at issue was clear. (Doc. #375.) Five months later, when its own expert recognized that Highmark's system did not possess all of the elements of claim 102, Allcare should have realized its allegation was meritless.

But Allcare maintained its allegations of infringement of claim 102 until February 6, 2008 (doc. #481), well after claim construction in this case clarified the elements of claim 102 in March 2007, and also well after Allcare's own expert's report indicated that claim 102 was not infringed by Highmark's system. Allcare explains that Holland highlighted nineteen paragraphs of his report that supported infringement of claim 102. (Resp. App. at 156.) But the report, and specifically these paragraphs, are not included in Allcare's appendix.[7]

Highmark complains that Allcare's continued pursuit of frivolous allegations increased the cost of the litigation. In support, Highmark states that because of Allcare's continued pursuit of its allegation of infringement of claim 102, it was necessary for Highmark to retain a rebuttal expert. Highmark had to include arguments regarding claim 102 in its motion for summary judgment, filed October 31, 2007, as well. (Doc. #400.)

Just as with claim 102, the elements of claim 52 were made clear by the special master's claim construction. And, also just as with claim 102, that construction made it apparent that Highmark's

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[7] Regardless, the reference to these paragraphs in Allcare's appendix indicates that these paragraphs do not address the preamble limitation of claim 102, and thus would not rebut Highmark's argument on this point.

system did not infringe upon claim 52. Claim 52(c) was determined to cover a "diagnostic smart system" as disclosed by the '105 patent, i.e., a system in which "the physician enters the patient's symptoms and the computer system identifies the most likely medical conditions corresponding to the entered symptoms together with the generally approved treatment." (Infringement Rep., doc. #484, at 11.) Highmark's system uses the codes contemplated by the '105 patent—ICD9 codes—to identify symptoms but not proposed treatment. Proposed treatments are entered into the Highmark system by the physician, not generated by the Highmark system, and are indicated by a CPT code, not an ICD9. (*Id.* at 14-15.) Again Holland's report, served on Highmark on June 29, 2007 (doc. #406 at 3), demonstrates that Highmark's system lacked necessary aspects of this claim element. As the special master explained:

> Accepting, for purposes of this summary judgment motion, Dr. Holland's testimony that ICD9 codes are sometimes used as data symbolic of patient symptoms, in the accused system the physician enters data symbolic of patient symptoms (ICD9 code), *and* enters data tentatively identifying a proposed mode of treatment (CPT Code). The ICD9 code is not entered for identifying a proposed treatment as claimed. The ICD9 codes indicate the 'condition for which the patient is receiving treatment.' [Citing Holland's report] at ¶ 457. They do not *identify* the treatment.

(Infringement Rep., doc. #484, at 14, 15.) Indeed, as argued by Highmark, the summary judgment

entered in this case in Highmark's favor was predicated on the concessions and recognitions in Holland's report. (*See id.* at 14-15.)

In its supplemental briefing, Allcare argues that during the oral argument on the appeal of the merits, a comment by a member of the panel of the Federal Circuit recognized that the construction of claim 52 in the Court's order on the summary-judgment motions was different from that in the special master's report. Specifically, Judge Dyk commented that "what happened here was that you had an initial claim construction from the Special Master which was then elaborated, if you will, in connection with the summary judgment decision." (Supp. Br. App. at 3.)[8] But Allcare's argument places far too much emphasis on this comment.

During claim construction, Highmark argued that claim 52(c) was limited to the diagnostic smart system described in patent '105's specification. (Cl. Constr. Rep., doc. #367, at 40.) Allcare argued that claim 52(c) covered both the diagnostic smart system as well as a utilization review system embodied in the patent's specification. The special master declined to decide between these alternative arguments, noting that to limit claim 52(c) to the diagnostic-smart-system embodiment would be to impermissibly limit the claim by reference to a specification, while to decide whether claim 52(c)

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[8] Citations to the appendix submitted by Highmark along with its supplemental briefing (doc. #541) are cited as "Supp. Br. App. at." Citations to the supplemental appendix submitted by Highmark in the initial briefing of its motion for exceptional-case finding (doc. #533) are cited as "Supp. App. at."

covered the utilization review system would amount to a premature infringement analysis. (*Id.* at 41-42.)

The special master did, however, construe claim 52(c) and specifically construed the claim element's use of the word "for" as meaning "used to indicate the aim, or purpose of an action or activity." (*Id.* at 40.) Thus, as of the special master's claim construction, it was apparent that the "aim" or "purpose" of entering "data symbolic of patient symptoms," as described by claim 52(c), is "identifying a proposed mode of treatment." That this construction should have alerted Allcare to the deficiency in its position is all the more apparent when considered in light of the fact that, as of the special master's report on claim construction, all parties agreed that claim 52(c) covered at least the diagnostic-smart-system embodiment, which requires that the system identify a proposed mode of treatment through the use of symptom codes entered by the physician. Although a specific embodiment is not to be used to limit a claim, it is meant to illustrate the meaning and coverage of a claim. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1315 (Fed. Cir. 2005) ("[C]laims must be read in view of the specification, of which they are a part. [The specification] is the single best guide to the meaning of a disputed term."). As the special master stated:

> The step of "entering . . . data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment" is disclosed in the specification as performed by the central processing system determining the recommended treatment protocols from the entered observed symptoms. '105 Patent at 6:59-67. The claim is not limited to the

> specific embodiment disclosed, but the limitation must be construed in that context. In the context of the specification, "for" . . . require[s] that the proposed mode of treatment must be identified by using the entered symptoms to determine one or more appropriate treatments. That is not done in the accused system, in which the physician enters both the diagnosis or symptoms, and the proposed treatment.

The special master's conclusion that the specific purpose, under claim 52(c), of the entry of symptom codes was to identify a proposed mode of treatment taken in light of the diagnostic-smart-system embodiment makes it apparent that a system such as Highmark's, that does not assist the physician in identifying the illness or a proposed treatment, does not infringe claim 52.

Thus, Judge Dyk's comment aside, the meaning given to claim 52(c) by the special master was clear. Moreover, Allcare's argument that the meaning given to claim 52(c) in the order on the motions for summary judgment was changed from that recommended by the special master as a justification for its continued pursuit of a counterclaim for infringement of claim 52 is undermined by its own counsel's statements. During the very oral arguments in which Allcare argues that a changed claim construction was recognized, Hill stated that "[t]he claim construction never changed." (Supp. Br. App. at 3.)

Allcare states that even the special master recognized this case involved difficult issues. This is certainly true. But however difficult some issues in

this case may have been, it is no explanation for Allcare's continued pursuit of meritless allegations after the lack of merit became apparent. In fact, on the same page on which the special master recognized the difficulty of certain aspects of this case, the special master acknowledged that it was clear Hill and Allcare were taking a position inconsistent with Holland's report regarding the role of code entry for diagnosis and treatment regarding claim 52. (Resp. App. at 236.)

Even maintenance of frivolous claims is not exceptional according to Allcare. For instance, in *Union Pacific Resources Company v. Chesapeake Energy Corporation*, 236 F.3d 684 (Fed. Cir. 2001) which was an appeal from this Court, the Federal Circuit concluded that this Court did not commit clear error in refusing to find a case exceptional where it was alleged that a frivolous claim had not been withdrawn early enough. *See id.* at 694. The Federal Circuit explained that it is normal for claims and parties to be dropped during the course of litigation, that a narrowing of issues is "sound judicial policy," and that the party seeking fees had not shown that the conduct at issue was "exceptional or vexatious as compared to normal litigation." *See id.*

Conversely, in this case Highmark clearly has shown that Allcare's conduct was not part of normal litigation conduct. Indeed, Allcare's own explanations for maintaining its claims after Holland's report exposed them to be without support establish that Allcare's conduct was not part of normal litigation conduct. Specifically, Allcare attempts to excuse as strategic its delay in

withdrawing its allegation of infringement of claim 102. Allcare withdrew its allegation that claim 102 was infringed by Highmark's system after deposing Highmark's expert, Dr. Jeremy Nobel, and concluding that Highmark's contention that claims 52 and 53 were invalid was without merit. (Resp. App. at 158.) Thus, Allcare appears to acknowledge that it continued to pursue meritless allegations as insurance or leverage in relation to the opposing party's contentions. This demonstrates that this is not a case in which a party maintained meritless allegations for a brief period or without reflection. Nor is this merely a case in which the patentee took a position regarding infringement against which summary judgment was eventually entered or with which the Court disagreed. Instead, Allcare's allegations were shown to be without support by its own expert's report and deposition testimony. Yet Allcare persisted in its infringement allegations.

3. Continued Reliance on *Trigon*

More generally, Highmark complains that Allcare has continually referred to the summary-judgment ruling in *Trigon* and the licensing agreements that followed as support for Allcare's position in this case. Allcare has in fact used the similarity of the *Trigon* case in its negotiations with Highmark and throughout this litigation. Before the summary-judgment ruling in *Trigon* issued, Allcare suggested that Highmark set aside $3.75 million in escrow to be paid to Allcare as a license fee in the event Allcare succeeded on its summary-judgment motion. After the District Court for the Eastern District of Virginia ruled in Allcare's favor, Allcare wrote another letter to Highmark apprising Highmark of the ruling,

again requesting that Highmark license the '105 patent, and threatening litigation. (Resp. App. at 138.) Further, since its favorable summary-judgment ruling in *Trigon*, and particularly in briefing the issue of the adequacy of its pre-filing investigation in this case, Allcare has continued to rely on its efforts in *Trigon* and upon *Trigon*'s outcome.

"An infringement analysis . . . requires two steps: (1) construction of the claims to determine the scope and meaning of the asserted claims; and (2) comparison of the properly construed claims with the allegedly infringing device." *Deering Precision Instruments*, 347 F.3d at 1322. As already explained, the *Trigon* rulings did not address infringement in any detail but instead focused on the issues of claim construction, unenforceability, and invalidity. And Allcare's reliance on *Trigon* as a justification for maintaining infringement claims against Highmark is further undermined by the dubious nature of the *Trigon* rulings. In interpreting claim element 52(c), which defines claim 52 as entailing the entry of "data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment," the Eastern District of Virginia concluded that the word "for" does not indicate a cause-and-effect relationship but, instead, merely indicates a correspondence between symptoms and the proposed treatment. That is, the method embodied by claim 52 is not limited to a system in which the doctor's entry of patient symptoms causes the system to identify a proposed mode of treatment. But one need only consult a dictionary to find that the word "for" indicates a correspondence only when used with regard to quantities, such as "two for one," or in

idiomatic expressions, such as "word for word." *See* 4 Oxford English Dictionary 26 (2d ed. 1989) (definitions A.VIII.24 & A.VIII.25 of "for"). And as discussed above, in context, the word "for" clearly indicates a cause-and-effect relationship, not a mere correspondence as determined by the Eastern District of Virginia. *See id.* at 24 (definition A.IV.8.a) (defining "for" as meaning "with the object or purpose of"). Indeed, as comments made by the panel of the Federal Circuit during oral argument of the appeal of the merits in this case indicate, the use of the word "for" discriminates "between [a system] where the computer, with its memory and analytic capability, picks the treatment versus the situation where the physician picks the treatment before the physician even begins to type anything on the form." (Supp. Br. App. at 6.)

Moreover, once a claim construction was issued in this case, the issue became whether Highmark's system infringed the '105 patent as so construed. The *Trigon* rulings became irrelevant. The maintenance of an infringement allegation that "the patentee knows, or on reasonable investigation should know, is baseless constitutes grounds for declaring a case exceptional under 35 U.S.C. § 285." *Eltech Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 810-811 (Fed. Cir. 1990). Thus, even if an exceptional-case finding might not be justified based on Allcare's scant pre-filing investigation alone,[9] it is

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[9] *See Stephens*, 393 F.3d at 1273-74 ("A frivolous infringement suit [under § 285] is one which the patentee knew or, on reasonable investigation, should have known was baseless."); *see also Ultra-Temp Corp. v. Advanced Vacuum Sys., Inc.*, 189 F.R.D. 17, 22 (D. Mass. 1999) ("[U]nlike Rule 11, a failure to conduct an adequate investigation, without more, is not

justified when considered in combination with Allcare's continued pursuit of allegations shown to be meritless and with its use of other tactics yet to be discussed here.

4. Assertion of Meritless Defenses

Highmark further contends that Allcare asserted meritless defenses. As already noted, on March 4, 2003, after the summary-judgment rulings in *Trigon*, Shelton, on behalf of Allcare, wrote a letter to Highmark discussing the rulings, proposing that Highmark purchase a license to the '105 patent, and suggesting that litigation might ensue if Highmark refused. (Resp. App. at 132-33.) Hill and another attorney representing Allcare, V. Bryan Medlock, were sent copies of the letter. (*Id.* at 133.) In the letter, Allcare acknowledges that the *Trigon* rulings have no binding effect on Highmark in this litigation. (*Id.* at 133.) Nevertheless, in its original answer, filed December 16, 2003 and signed by Medlock, Allcare asserted that Highmark had participated in defending against the infringement allegations in *Trigon* and was, therefore, bound under res judicata and collateral estoppel to the orders issued in *Trigon.* (Doc. #22, at 5.) Highmark filed a motion for judgment on the pleadings as to the res judicata and collateral estoppel defenses, (doc. #28), after which Allcare withdrew the defenses. Highmark argues that Allcare's answer increased the expense of this litigation and demonstrates Allcare's willingness to make meritless assertions. Allcare meekly defends

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grounds for finding a case to be 'exceptional' under 35 U.S.C. § 285."); *compare Judin*, 110 F.3d at 784 (sanctions were appropriate under Court of Federal Claims Rule 11 due to lack of pre-filing investigation even where claims were "colorable").

those arguments by noting that it attempted to negotiate the issue without the need for motion practice and that neither the Court nor the special master gave thought to giving the *Trigon* rulings binding effect in this case. (Resp. App. at 167-68.)

But Highmark's point is that despite Allcare's knowledge that the defenses were without merit, it nevertheless asserted them and thereby unnecessarily increased the issues and costs in this litigation. Allcare's attempt to negotiate the withdrawal of its meritless defenses and the fact that the defenses did not prejudice Highmark's legal position do nothing to address this point. The evidence of these actions firmly convinces the Court of Allcare's use of frivolous and vexatious tactics and supports an exceptional-case finding and sanctions under Rule 11.

5. Allcare's Shifting Claim Construction

Allcare also allegedly engaged in various other acts of litigation misconduct. The Court concludes, however, that most of the remaining acts alleged by Highmark appear to be discovery disputes that are likely in a complex and hotly contested case. But Highmark also insists that Allcare's claim construction, particularly with regard to claim element 52(c), "shifted" throughout the litigation. Allcare explains that it was merely engaged in "word smithing" in an effort to bridge the differences in the parties' proposed constructions. The timing of Allcare's proposed constructions, however, refutes this explanation.

As noted by Highmark, Allcare timely filed its proposed claim construction under the Court's scheduling order. (Docs. #59.) After the scheduling-

order deadline and after Highmark filed its motion for summary judgment, Allcare changed its proposed construction in a motion for claim construction. (Doc. #158.) And after the special master had conducted a claim-construction or "*Markman*" hearing, Allcare again altered its proposed construction in a chart of "claim terms at issue and the constructions of said terms that are acceptable to Allcare," which was disclosed to Highmark on November 15, 2006. (Mot. App. at 411.) Highmark points to other changes to Allcare's proposed construction, such as by way of an updated proposed order to Allcare's motion for claim construction after Highmark opposed such motion, but these appear to be due to clerical error or otherwise explainable. (Doc. #269.)

Allcare responds that Highmark suffered no harm as a result of its changing proposed construction. Further, according to Allcare, any harm suffered by Highmark due to the delayed claim construction in this case was not a result of Allcare's changes to its proposed construction. On August 12, 2005, this Court ordered all claim-construction briefing stricken and new briefing due to the Federal Circuit's decision in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005). (Doc. #282.) Even so, the Court rejects Allcare's explanation for its actions. Without reasonable explanation, Allcare presented Highmark with various constructions of the '105 patent's claims, thus complicating Highmark's ability to advance its own claim construction and to defend against Allcare's elusive allegations.

6. Allcare's Control of the Seaport Survey

One last allegation regarding Allcare's conduct during this litigation warrants discussion.

Highmark argues that Allcare misrepresented its role in the formulation and dissemination of the Seaport Survey to the United States District Court for the Western District of Pennsylvania in securing a transfer of venue to this Court. Allcare argued that the Seaport Survey was not a "contact" with the Western District of Pennsylvania for the purpose of personal jurisdiction because Allcare did not control the Seaport Survey.

In his declaration, Shelton clarifies the representations to the Western District of Pennsylvania at issue. Allcare argued that the Seaport Survey was not a contact with Pennsylvania for jurisdictional purposes because it "did not control the manner in which Seaport Surveys, an independent contractor, went about *completing* the surveys." (Resp. App. at 115 (emphasis added).) Further, Shelton insists "Allcare did not control how Seaport Surveys carried out its surveys, nor did it dictate what companies Seaport opted to call upon." (*Id.*)

As for the literal completion of the survey, it is true that no Allcare employee or personnel participated in the survey calls in any way, and Allcare was not aware of the survey results until days after the interviews were completed. But Allcare participated in and, indeed, controlled every other aspect of the survey. As for the design of the questionnaire, it appears that Allcare had total control. Shelton states in his declaration that after initial discussions with Seaport, he sent Seaport a draft questionnaire. (Resp. App. at 116.) After initial test surveys were performed, Shelton provided Seaport a revised questionnaire. (*Id.* at 117.) Shelton later provided

Seaport a supplemental questionnaire to be used in follow-up interviews. (*Id.)* Seaport's response to Highmark's subpoena confirms Allcare's control over the composition of the questionnaire, stating "[t]he survey questionnaire that we used for this research was provided by Allcare." (Mot. App. at 717.)

The record also indicates that Allcare effectively controlled what companies were to be interviewed. Shelton states in his deposition that he extensively participated in the preparation of the survey and identified some companies that were to be surveyed. (Mot. App. at 271.) Shelton provided a list of fifty companies from which Seaport was to complete twenty initial interviews. (Resp. App. at 116; Supp. App. at 22-24.) An email included in Highmark's supplemental appendix indicates that Shelton specifically identified eleven Virginia-based companies to be surveyed as well. (Supp. App. at 13-14.) As for the remainder of the Seaport Survey, which was to involve the survey of 50 to 100 companies per month for several months, Allcare directed Seaport to locate a list of other firms to interview. (*Id.* at 117.) "The telephone lists were sourced by Seaport Surveys from a provider . . . according to Allcare's specifications" says Seaport. (Mot. App. at 717.) Then based on the methodology proposed by Allcare, Seaport selected companies, as well as the specific person within a given company, to survey. (Resp. App. 116-18; (Mot. App. at 273 (Shelton stating Allcare instructed Seaport Surveys on "how to go about identifying firms—identifying individuals to interview for completing the survey"); Supp. App. at 21.) Thus, Allcare not only provided a list of specific companies for Seaport to survey, Allcare specified the sort of companies it desired to

have surveyed so that Seaport could obtain a list, and provided a methodology for selecting companies and individuals to be interviewed. In fact, when Seaport had difficulty getting through to a person to be interviewed at some of the companies surveyed, Allcare offered to research and resolve the issue itself. (Supp. App. at 20.)

The Western District of Pennsylvania does not appear to have placed much weight on Allcare's representation regarding the degree of control over the Seaport Survey. Even so, Allcare's representation to the Western District of Pennsylvania that it "did not control how Seaport Surveys carried out [the] surveys" is at best obfuscatory and it strains the bounds of zealous advocacy. The evidence leaves this Court with the firm conviction that counsel for Allcare, including Hill, who presented the motion to dismiss to the Western District of Pennsylvania did not live up to the spirit, and probably not the letter, of Rule 11 in making the argument.

7. Conclusion Regarding Rule 11 and § 285

a. Rule 11

Having reviewed the arguments and evidence presented by both sides, and having reviewed the record of this case as a whole, the Court finds that no pre-filing investigation of Allcare's counterclaims was performed by an attorney, let alone a patent attorney. This alone warrants sanctions under Rule 11. *See Pavelic & LaFlore*, 493 U.S. at 125 (signing attorney may not merely trust subordinate or other attorneys "that the filed paper is factually and legally responsible"); *S. Bravo Sys.*, 96 F.3d at

1375 (attorney may not rely on client's lay opinion); *cf. Judin*, 110 F.3d at 784 (sanctions were appropriate under Court of Federal Claims Rule 11 due to lack of pre-filing investigation even where claims were "colorable"). Responsibility for this failure falls predominantly on Hill's shoulders. The record establishes that Hill has been involved in this case since its earliest stages. (See Doc. #4 (motion to dismiss filed with the Western District of Pennsylvania, in which Hill joins).) Despite the designation on the docket of Joseph Cleveland as lead counsel, the evidence in the record shows that Hill has been regarded as Allcare's chief counsel. (See doc. #285 (letter from Cynthia Kernick, counsel for Highmark).) Indeed, Allcare's response to the motion for exceptional-case finding relies heavily on Hill's declaration and description of the events in this case and, with regard to pre-filing investigation, Allcare relies almost exclusively on Hill's investigative efforts in defending against Highmark's motion.

And as the foregoing analysis establishes, those efforts were sorely deficient. Rather than perform a true pre-filing investigation as to the merits of Allcare's claims of infringement against Highmark, Hill relied on the analysis performed by Shelton, the pre-filing investigation from *Trigon*, and the summary-judgment rulings from *Trigon.* Shelton is a layman, and Rule 11 does not allow an attorney to wholly defer to his client's analysis, particularly in the context of patent litigation, which often involves substantial costs. In any event, Shelton's analysis, as well as the charts and summary-judgment rulings from *Trigon* dealt with claim construction, not infringement. For the *Trigon* investigation and

rulings to have any bearing on whether Highmark's system infringed the '105 patent, it would have to be shown that Highmark's system was the same, in relevant aspects, as the system in *Trigon.* This was never shown. Hill provides broad assurances that he performed a proper pre-filing investigation, and he and Allcare rely on his opinions as proof of such investigation. Yet, contrarily, Hill and Allcare assert that the opinions are privileged. In any event, there is no documentary evidence to support Hill's assertions.

Hill was also aware that Highmark could not be held to the rulings in *Trigon* based on res judicata or collateral estoppel. Nevertheless, Allcare asserted these defenses in its original answer. And Hill joined in the motion to dismiss filed with the Western District of Pennsylvania in which Allcare represented that it did not control the Seaport Survey, despite the fact that Allcare clearly controlled all relevant aspects of it.

Hill is not the only attorney whose conduct falls short of what Rule 11 requires. V. Bryan Medlock of Sidley Austin, LLP, signed Allcare's original answer and counterclaim. This pleading included not only Allcare's counterclaims of infringement, for which there had been no pre-filing investigation, but also included the resjudicata and collateral-estoppel defenses based on the *Trigon* rulings, which Allcare had previously acknowledged were not viable against Highmark.

Joseph Cleveland, of Brackett & Ellis, PC, appeared in this case on behalf of Allcare in January 2004, and was designated in April 2004 as Allcare's lead attorney. In October 2004, the parties filed

their proposed joint claim construction. Thereafter, Allcare engaged in needless alterations of its claim construction. And in responding to the motion for exceptional-case finding, Cleveland and Hill argue that the claim construction changed from the special master's report to the summary-judgment ruling. They argue that Judge Dyk recognized as much during oral argument of the appeal on the merits, and that this explains their continued pursuit of the infringement claims. But a review of the record shows that the claim construction did not change. Hill acknowledged this during oral argument before the court of appeals.

Finally, Hill; Cleveland; and Mike McKool Jr., Christopher Harrington, Luke McLeroy, and R. Darryl Burke, of the firm McKool Smith, continued to pursue the infringement claims against Highmark, well after those claims had been shown to be without merit. Allcare's response brief points to the rulings in *Trigon* and agreements by other healthcare-management companies to license the '105 patent as justification for the continued pursuit of claims against Highmark. But the claim-construction rulings in *Trigon* became irrelevant to this case once this Court adopted the special master's report on claim construction in March 2007. Of course, Allcare might have argued that it continued with its infringement claims in order to appeal the claim construction. But Allcare has not argued this, and it is noteworthy that Allcare's arguments regarding claim construction were rejected by the Federal Circuit on the appeal of the merits. To the contrary, Allcare acknowledges that it continued to pursue its infringement allegation as to claim 102 based not on its merit, but as leverage against Highmark's claims.

Regardless, when Allcare's expert acknowledged, by way of his June 2007 report and August 2007 deposition, that Highmark's system lacked essential elements of both claims 52 and 102, Allcare should have withdrawn its claims. Instead, Allcare persisted, needlessly prolonging this litigation and increasing its costs.

In light of these actions, the Court concludes that sanctions are appropriate against Hill and his firm, Hill, Kertscher & Wharton, LLP; Bracket & Ellis; V. Bryan Medlock and his firm Sidley Austin, LLP; and McKool Smith. *See* Fed. R. Civ. P. 11(d) (stating that, absent exceptional circumstances, an attorney's firm must be held jointly responsible for his Rule 11 violation).

b. Section 285

This same pattern of conduct, by clear and convincing evidence, exhaustively identified and examined here, justifies an exceptional-case finding. The evidence establishes with a high probability that Allcare was not some naive or passive participant in this litigation. Rather, it pursued this suit as part of a bigger plan to identify companies potentially infringing the '105 patent under the guise of an informational survey, and then to force those companies to purchase a license of the '105 patent under threat of litigation.

Allcare's vexatious and, at times, deceitful conduct did not stop there. Allcare maintained infringement claims well after such claims had been shown by its own experts to be without merit and did so as a tactic to provide leverage against Highmark's pending claims. It also asserted defenses it and its attorneys knew to be frivolous. Indeed, just to have its case

transferred to this Court, Allcare and its attorneys misrepresented their involvement in the Seaport Survey to the Western District of Pennsylvania.

And Allcare's explanations for its conduct fail under scrutiny. Allcare complains that its inadequate pre-filing investigation was due to the fact that Highmark preemptively filed this declaratory-judgment action. But it was Allcare that began threatening suit almost a year before this action was filed. Allcare complains that Highmark refused to provide discovery-type materials so that the claims of infringement could be properly evaluated. But Allcare concedes that a great deal of information on Highmark's system was publicly available. For instance, in a July 2002 letter to counsel for Highmark, Hill explains that he used an example of Highmark's system available on the internet and a "number of . . . publicly available articles and white papers" in concluding that Highmark's system had aspects that implicated the '105 patent. (Mot. App. at 346.) Hill and Allcare failed, however, to provide any evidence, other than Hill's broad assurances, that this information was ever used in an infringement analysis before the first letter was written to Highmark raising the potential for litigation or before Allcare's counterclaims were filed. Hill and Allcare's attempt to rely on Hill's opinions as justifying the infringement claims and the lack of documentary evidence of an infringement analysis is all the more suspect in light of their attempt to assert that Hill's opinions are privileged.

Further, Allcare's argument that Highmark withheld the evidence necessary for Allcare to properly evaluate its infringement claims is

undermined by Allcare's own failure to take advantage of the information that Highmark did make available. In the July 2002 letter, Hill states that if Highmark persisted in denying that its system infringed the '105 Patent the only way to proceed would be to have an Allcare representative, Hill, and "one or more industry experts . . . to make a hands-on inspection of" Highmark's system. (Mot. App. at 348.) Highmark made its system available for inspection in April 2004, but Allcare did not send an expert to inspect it.

Hill's July 2002 letter also refers to the Seaport Survey as supporting Allcare's claim. But Allcare, which controlled all material aspects of the survey, failed to ensure that questions were asked about key aspects of the systems used by those questioned, undermining the usefulness of the survey as a tool to properly investigate its infringement allegations and exposing the survey as a ploy to identify targets from which a licensing agreement could be demanded. The evidence presented firmly convinces the Court of these facts, and, in light of them, the Court concludes that this is an exceptional case.

8. Discretion to Withhold Award

Allcare calls upon the Court, in the event of an exceptional-case finding, to exercise its discretion and deny an award of fees. In assessing whether an exceptional-case finding justifies an award of fees, a court must weigh factors such as the closeness of the case, the tactics of counsel, and the conduct of the parties that contribute to a fair allocation of the burdens of litigation. *See S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 201 (Fed. Cir. 1986). Allcare performed a poor pre-filing

investigation of its allegations, with no apparent investigation by counsel. Thereafter, Allcare maintained its allegations after they were shown to be meritless, advanced meritless defenses, and needlessly complicated claim construction. Allcare also likely misled the district court of the Western District of Pennsylvania. And while Allcare, as a patent holder, is entitled to enforce the '105 patent, Highmark is entitled to be free from the huge burdens of patent litigation to the extent possible. *Cf. Judin*, 110 F.3d at 785 (before imposing the burdens of patent litigation on an alleged infringer the patentee must ensure there is a "well-grounded basis" for the suit). Fees will be awarded and sanctions imposed in this case.

9. Inherent Authority

The Court has concluded that this is an exceptional case under § 285 and that sanctions are appropriate under Rule 11. There is no need for the Court to exercise is inherent authority to award fees and expenses.

III. CONCLUSION

The Court has concluded that the facts of this case support imposing sanctions against Steven Hill and his firm, Hill, Kertscher, & Wharton, LLP; V. Bryan Medlock and his firm, Sidley Austin, LLP; Joseph F. Cleveland and his firm, Bracket & Ellis; and Mike McKool Jr., Christopher Harrington, Luke McLeroy, and R. Darryl Burke and their firm, McKool Smith, and that there is insufficient cause to exercise its discretion to deny Highmark's request for sanctions. And in light of the conduct discussed above, the Court imposes the sanction of monetary penalties to be paid into the registry of the Court: $25,000

against Steven Hill and Hill, Kertscher, & Wharton, LLP; $5,000 against Mike McKool Jr., Christopher Harrington, Luke McLeroy, and R. Darryl Burke and McKool Smith; $2,500 against V. Bryan Medlock and Sidley Austin, LLP; and $2,500 against Joseph F. Cleveland and Bracket & Ellis. These sanctions are imposed under guidance provided by subparagraph (4) of paragraph (c) of Rule 11, which limits sanctions "to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated." The Court expressly refuses to order the sanctioned attorneys to pay any of Highmark's attorneys' fees, believing the penalties imposed suffice, and believing that equity suggests that Allcare, the beneficiary of its attorneys' efforts in this and other brought and threatened cases, should be the entity bearing the primary burden of its over-zealous pursuit of Highmark. These penalties are to be paid into the Court, by way of the clerk of Court, no later than April 30, 2010. *See* Fed. R. Civ. P. 11(c)(4) (listing payment of penalty into court as permissible sanction).

As for an exceptional-case finding under section 285, the Court has concluded this is an exceptional case and that there is no cause to exercise its discretion to deny Highmark's request for fees. Having so concluded, the issue of the reasonableness of the fees requested by Highmark remains. Highmark's current motion addresses the reasonableness of the fees based solely on estimates and acknowledges that additional briefing and evidence in support of fees is necessary. It is, therefore, ORDERED, pursuant to Fed. R. Civ. P. 54(d)(2), that Highmark submit a brief on the reasonableness of the attorney and expert fees it

requests no later than thirty days from the date of this order. Highmark must take care in its briefing to request only those attorney and expert fees that it incurred as a result of the conduct of Allcare and its attorneys as discussed in this opinion and order. *See Takeda Chem. Indus. v. Mylan Labs.*, 549 F.3d 1381, 1390 (Fed. Cir. 2008) (noting that fees for an entire suit are rarely awarded). As part of this briefing, Highmark may file under seal invoices reflecting relevant attorney and expert fees. This and any other supporting evidence, as well as Highmark's briefing, must provide sufficient detail and analysis to allow the Court to review the requested fees under the hybrid lodestar approach. *See Maxwell v. Angel-Etts of Cal.*, 53 Fed. Appx. 561, 568 (Fed. Cir. 2002) (applying hybrid lodestar approach to fee award under section 285).[10] Allcare may file a response thirty days after the date Highmark's brief is filed. Allcare's response may address the reasonableness of Highmark's requested fees, and the impact any

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[10] By allowing Highmark to file invoices under seal while limiting it to seeking fees based on the conduct set out in this opinion and order and by requiring Highmark to provide sufficient detail so that its request for fees may be properly analyzed, the Court has essentially granted the relief requested by Highmark in its Motion for Leave to File Under Seal (doc. #551) and its Motion for Leave to File, Under Seal, An Appendix in Further Support (doc. #555), while taking heed of the concerns expressed by Allcare in its response. Thus, these motions by Highmark are DENIED as MOOT. Highmark has also filed a Motion to Strike (doc. #561), which seeks to strike proposed findings of fact and conclusions of law filed by Allcare in December 2009, well after briefing of Highmark's motion for exceptional-case finding was closed. The Court did not consider Allcare's late-filed proposed findings and conclusions in this opinion and order and, therefore, Highmark's motion to strike is also DENIED as moot.

alleged litigation misconduct by Highmark should have on the amount of fees. Highmark may file a reply twenty days after the date Allcare's response is filed.

SIGNED April 1, 2010

/s/

TERRY R. MEANS
UNITED STATES
DISTRICT JUDGE

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

HIGHMARK, INC.,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

CIVIL NO. 4:03-CV-1384-Y

ORDER GRANTING MOTIONS TO
RECONSIDER, GRANTING MOTIONS
FOR GUIDANCE, AND DENYING
MOTIONS TO STRIKE

Before the Court are the motions for reconsideration of the Opinion and Order Granting Motion for Exceptional-Case Finding and Attorneys' Fees ("the Opinion and Order") (doc. #566) filed by Joseph Cleveland and the firm of Brackett & Ellis, PC; V. Bryan Medlock and the firm of Sidley Austin, LLP; R. Darryl Burke, Christopher J. Harrington, Mike McKool Jr., Luke McLeroy and the firm of McKool Smith, P.C.; and Steven Hill and the firm of Hill, Kertscher & Wharton, LLP (docs. #586, 588, 590, 591, and 594, respectively). Plaintiff Highmark, Inc., has filed a motion to strike each of the motions

for reconsideration (docs. #606, 607, 608, 609). Also before the Court is the Motion Requesting Court's Guidance on Privilege Issues (doc. #596) filed by Medlock and Sidley Austin, in which Cleveland and Brackett & Ellis have joined (doc. #599). Burke, Harrington, McKool, McLeroy, and McKool Smith have filed a Motion Regarding In-Camera Review (doc. #605).

Each of the motions for reconsideration raises the issue of the Opinion and Order's compliance with the procedural requirements of Federal Rule of Civil Procedure 11 in sanctioning the moving attorneys. A motion for Rule-11 sanctions must be filed separately from any other motion. Fed. R. Civ. P. 11(c)(2). And whether the issue of sanctions under Rule 11 is raised by a motion or by the Court sua sponte, the Court must provide the attorney or firm to be sanctioned notice and an opportunity to respond and address the allegedly sanctionable conduct. *See Marlin v. Moody Nat'l Bank, N.A.*, 533 F.3d 374, 377 (5th Cir. 2008).

In the Court's estimation, the issue of sanctions was raised by Highmark's motion for exceptional-case finding. Throughout that motion, Highmark discusses the conduct of counsel for defendant Allcare Health Management Systems, Inc. ("Allcare"), particularly Hill. Admittedly, there is no explicit request for Rule-11 sanctions against defense counsel in Highmark's brief. But Highmark notes the "unprofessional behavior of [defense] counsel," points to "the behavior of Allcare and its counsel" as a basis for an exceptional-case finding and Rule-11 sanctions, and cites in its brief various specific examples of conduct by defense counsel including discovery

gamesmanship, assertion and maintenance of frivolous claims and defenses, misrepresentations to the United States District Court of the Western District of Pennsylvania, and failure to perform an adequate pre-filing investigation into Allcare's claims of infringement. Indeed, at one point the motion points out that "Rule 11 . . . allows imposition of sanctions on law firms as well as individual lawyers." The motion was served on each of the attorneys and firms now seeking reconsideration. Why a motion invoking Rule 11, noting the Court's authority to sanction attorneys and law firms, and detailing the specific sanctionable conduct engaged in by defense counsel did not put the moving attorneys on notice that they were exposed to sanctions is unclear.

Nevertheless, it is true that Highmark combined its Rule-11 arguments with its exceptional-case arguments and did not expressly request sanctions against the attorneys. Thus, to ensure strict compliance with Rule 11, the Court GRANTS the motions to reconsider to the extent that they seek reconsideration of the Opinion and Order based on its failure to comply with the procedural requirements of Rule 11. The Court hereby provides NOTICE to Joseph Cleveland and the firm of Brackett & Ellis, PC; V. Bryan Medlock and the firm of Sidley Austin, LLP; R. Darryl Burke, Christopher J. Harrington, Mike McKool Jr., Luke McLeroy and the firm of McKool Smith, P.C.; and Steven Hill and the firm of Hill, Kertscher & Wharton, LLP, of its intent to sanction them under Rule 11. These attorneys and firms must respond, no later than May 26, 2010, and show cause as to why they should not be sanctioned in accordance with the Opinion and Order. The factual basis of the Court's intended

sanctions is that set out in the Opinion and Order and the facts alleged in Highmark's motion for exceptional-case finding (doc. #513). If any attorney or firm believes that its briefing on its motion to reconsider contains all of the factual support and argument for reversal or modification of the order imposing sanctions, it may so indicate by merely failing to file a response to this show-cause order. In that event, the Court will deem the motion and briefing on the motion to reconsider as the attorney's timely-filed response to this show-cause order.

As for the motions for guidance on privilege issues and the motion regarding in-camera review, although the sanctions issue was initially raised by Highmark, that issue is now being pursued by the Court. The Court will assess whether defense counsel's conduct warrants sanctions and any appropriate sanctions will be paid to the Court, not Highmark. Highmark, therefore, has no need to file a response and no need for access to privileged information. Thus, to address any concerns regarding the ability of the attorneys sanctioned in the Opinion and Order to present appropriate evidence on the issue of sanctions without waiving attorney-client privilege, those attorneys are ORDERED to file any documents bearing on the issue of sanctions along with their responses and may do so in accordance with the ex-parte procedures set out in the local rules. To this extent, the motions for guidance are GRANTED, and this remedy resolves the issue raised in the motion for in-camera review.

Finally, the Court DENIES Highmark's motions to reconsider. In the motions, Highmark concedes that

procedural compliance with Rule 11 and payment of sanctions to the Court are issues between the Court and the sanctioned attorneys. Highmark contends, however, that to the extent the motions present new evidence they may affect the exceptional-case finding against Allcare. Hence, Highmark insists that it must be given access to all of the evidence offered to the Court in support of the motions to reconsider, including the information redacted by the defense attorneys out of concern for attorney-client privilege. To be clear, the motions to reconsider, this order, and any future orders regarding sanctions have no bearing on the exceptional-case finding, even to the extent that new evidence contrary to the Court's findings in the Opinion and Order is presented in connection with the sanctions issue. Highmark moved for an exceptional-case finding against Allcare and Allcare had a full and fair opportunity to respond. In responding to the motion for exceptional-case finding, Allcare presented an extensive affidavit by Hill. If Allcare wished to rely on affidavits by any of the other attorneys named in the Opinion and Order it could have done so. It did not, and any new evidence presented in connection with the sanctions issue will not cause this Court to revisit the exceptional-case finding against Allcare. *See Dos Santos v. Bell Helicopter Textron, Inc. District*, 651 F. Supp. 2d 550, 553 (N.D. Tex. 2009) (discussing the role of a motion to reconsider under Rule 54). The facts as relevant to that finding have been established.

SIGNED May 6, 2010.

/s/

TERRY R. MEANS
UNITED STATES
DISTRICT JUDGE

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

HIGHMARK, INC.,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

CIVIL NO. 4:03-CV-1384-Y

OPINION AND ORDER RECONSIDERING
AND VACATING SANCTIONS

Before the Court is the issue of sanctions imposed upon certain attorneys representing Defendant, Allcare Health Management Systems, Inc. ("Allcare"), in the Opinion and Order Granting Motion for Exceptional-Case Finding and Attorneys' Fees ("the Opinion and Order") (doc. #566). Those attorneys filed motions to reconsider the sanctions and, upon reconsideration, the Court will vacate the sanctions portion of the Opinion and Order.

I. BACKGROUND

The factual background of this case involving United States Patent No. 5,301,105 ("the '105 patent") is set out in the Opinion and Order and there is no reason to restate it here. After final

judgment was entered in its favor, plaintiff Highmark, Inc. ("Highmark"), filed a motion ("the exceptional-case motion") seeking attorneys' fees under 35 U.S.C. § 285, Federal Rule of Civil Procedure 11, and the Court's inherent authority, arguing that the conduct of Allcare and certain of its counsel warranted an award of fees. The Court concluded that this case is exceptional as defined in § 285 and accordingly awarded fees to Highmark. The factual basis and legal analysis supporting that decision are set out in the Opinion and Order and nothing in this order is meant to alter or amend it.

Most of the conduct discussed by Highmark in the exceptional-case motion involved not only Allcare, but Allcare's counsel. Again, Highmark cited Rule 11 as an alternative basis for recovering fees and costs and in one portion of its motion even pointed out that "Rule 11 . . . allows imposition of sanctions on law firms as well as individual lawyers." (ECF[1] Mot. Br., doc. #515, at 18 (quoting *United Stars Indus., Inc. v. Plastech Engineered Prods., Inc.*, 525 F.3d 605, 609 (7th Cir. 2008). Having had allegations of attorney misconduct brought to its attention—allegations that the Court concluded were supported by the evidence—the Court sanctioned the attorneys it concluded were involved: Steven Hill and his firm, Hill, Kertscher, & Wharton, LLP; V. Bryan Medlock and his firm, Sidley Austin, LLP; Joseph F. Cleveland and his firm, Bracket & Ellis; and Mike McKool Jr., Christopher Harrington, Luke McLeroy,

[1] The Court uses "ECF" as an abbreviation for exceptional-case finding to refer to the briefing and appendices submitted in connection with Highmark's motion for exceptional-case finding.

and R. Darryl Burke and their firm, McKool Smith LLP ("the Attorneys").

The Attorneys responded to the Opinion and Order with motions to reconsider, arguing that the requirements of Rule 11 had not been met. Specifically, the Attorneys argued that Rule 11 requires that when a party seeks the imposition of sanctions it must do so by a motion separate from any other motion. Highmark's motion was not a proper basis for the imposition of sanctions, the Attorneys argued, because it combined arguments under section 285 and the Court's inherent authority with Rule 11 arguments. The Attorneys further pointed out that before the Court may assess sanctions sua sponte it must issue an order to show cause describing the conduct that the Court has determined warrants sanctions and provide the attorney to be sanctioned a reasonable opportunity to respond. Based on these arguments, the Court granted the motions to reconsider and in the same order required the Attorneys to respond and show cause as to why they should not be sanctioned. The Court stated that the factual bases for the potential sanctions were those set out by Highmark in its exceptional-case motion and those set out in the Opinion and Order.

Now before the Court are the Attorneys' responses to the show-cause order. The Court will review the conduct of each of the Attorneys below.

II. DISCUSSION

A. Rule 11 Standards

Federal Rule of Civil Procedure 11 imposes certain standards upon attorneys who present documents to a federal court. Specifically, Rule 11(b) provides:

> By presenting to the court a pleading, written motion, or other paper—whether by signing, filing, submitting, or later advocating it—an attorney or unrepresented party certifies that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances:
>
> (1) it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation;
>
> (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
>
> (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery; and
>
> (4) the denials of factual contentions are warranted on the evidence or, if specifically so identified, are reasonably based on belief or a lack of information.

"If, after notice and a reasonable opportunity to respond, the court determines that Rule 11(b) has been violated, the court may impose an appropriate sanction on any attorney, law firm, or party that violated the rule or is responsible for the violation. Absent exceptional circumstances, a law firm must be held jointly responsible for a violation committed by its partner, associate, or employee." Fed. R. Civ. P. 11(c).

B. Analysis

1. Steven Hill and the law firm of Hill, Kertscher, & Wharton, LLP

a. The Motion to Dismiss Before the United States District Court for the Western District of Pennsylvania

In the Opinion and Order, the Court sanctioned Hill for, among other things, his participation in a motion to dismiss for lack of personal jurisdiction filed in the United States District Court for the Western District of Pennsylvania ("the Western District"). This case was originally filed in that court. In connection with the motion, Robert Shelton, an Allcare vice president, submitted a declaration in which he discussed a survey used by Allcare to identify companies using systems that might infringe the '105 patent. This survey, the Seaport Survey, is discussed at length in the Opinion and Order. (Op. & Order at 42-45.) This Court found that Allcare represented to the Western District that it did not control the substantive aspects of the survey, the intended result being that the Western District would not regard the survey as a contact, for personal-jurisdiction purposes, by Allcare with Pennsylvania. As discussed in the Opinion and Order, the evidence shows that Allcare controlled all of the substantive aspects of the survey, from the questions asked to the companies surveyed. (*Id.*) This Court concluded that Allcare's factual arguments to the Western District, were at best obfuscatory and, thus, tested the bounds of zealous advocacy.

Hill argues that he cannot be sanctioned based on the motion to dismiss because he did not "present" the motion. (Hill's SCO[2] Resp. App., docs. #614 & 615, at 381-82.) Hill explains that he did not sign the motion, did not participate in any hearing before the Western District, and did not enter an appearance before that court until after the motion was filed. (*Id.*) Consequently, Hill insists that he did not in any way knowingly participate in an effort to mislead that court regarding Allcare's control over the Seaport Survey. (*Id.* at 381.) Further, Hill explains that the Seaport Survey itself predated his representation of Allcare, and that he had no part in designing or implementing the survey. (*Id.*)

On the signature issue, Hill cites a line of cases from the United States Court of Appeals for the Fifth Circuit beginning with *Robinson v. National Cash Register Co.*, 808 F.2d 1119 (5th Cir. 1987) that limit sanctions under Rule 11 to a signing attorney. But as explained in *Robinson*, it was the text of the rule at the time that limited its application. *See Robinson*, 808 F.2d at 1125, 1128-29. Prior to the 1993 amendments, Rule 11 did in fact authorize sanctions only against an attorney or pro se litigant who had "signed [a paper] in violation of this rule." Fed. R. Civ. P. 11 (West 1992). After the 1993 amendment, sanctions may be imposed against an attorney who "present[s] to the court (whether by signing, filing, submitting, or *later advocating*)" a

[2] The Court uses "SCO" as an abbreviation for show-cause order in citations to documents.

document that falls short of the rule's standard.[3] Fed. R. Civ. P. 11 (West 2006) (emphasis added).

And to the extent that Hill's arguments that he did not sign relevant pleadings could be taken as an argument that he did not advocate the related position taken by Allcare, such an argument is contradicted by the record in this case. The evidence shows that Hill has been involved in this case since its earliest stages, that he, along with Shelton, developed Allcare's strategy for this case, and that he has advocated Allcare's positions throughout this litigation. Hill, in his declaration in response to the show-cause order, states that his representation of Allcare began in March 2002. (Hill's SCO Resp. App. at 381.) Medlock, in his declaration in response to the show-cause order, states that in May of 2002 he met with Hill in connection with Allcare's efforts to prosecute the '105 patent. (Medlock SCO Resp. App., doc. #617, at p. 5.) Thereafter, Hill represented Allcare in connection with its efforts to prosecute the '105 patent and was its chief legal strategist and counsel regarding such efforts. Hill was the attorney who engaged in pre-suit communications with Highmark. (ECF Resp. App., doc. #527, at 121-25.) And, once Highmark filed suit, it was Hill and Shelton who led what Medlock describes as a "strategy session" on April 17, 2003, during which they discussed the construction of the '105 patent, rulings in *Allcare Health Management Systems, Inc. v. Trigon Healthcare, Inc.*, 1:02-CV-756-A (E.D. Va.

[3] Hill's citation of this outdated line of cases does nothing to persuade the Court that sanctions are not appropriate.

Feb. 3, 2003) ("*Trigon*")[4], and potential infringement claims against Highmark. (Medlock SCO Resp. App. at p.7-17.) Despite any formal appearances or designations with the courts in which this case has proceeded, Hill has consistently been treated as Allcare's lead counsel by Highmark, by co-counsel, and by Allcare itself. (*Id.*; Medlock SCO Resp. App. at 9 (describing Hill as "lead counsel"); (ECF Resp. App. at 121-25 (detailing Hill's efforts prior to suit); Doc. #285 (letter from Cynthia Kernick, counsel for Highmark.) It is in this context that Hill insists that he did not advocate the positions taken by Allcare discussed in the Opinion and Order, despite the fact that he is listed as Allcare's counsel on the motion.

Hill also posits that he did not knowingly advocate any misleading factual representation to the Western District. But under Rule 11, an attorney's conduct is measured by "an objective, not subjective, standard of reasonableness under the circumstances." *Whitehead v. Food Max of Miss., Inc.*, 332 F.3d 796, 802 (5th Cir. 2003). Although not involved in the design and implementation of the survey, Hill cannot claim ignorance of it, as he claims to have relied on it in developing his understanding of Highmark's system as part of his element-by-element infringement analysis. (ECF Resp. App. at 137, 139; Hill's SCO Resp. App. at 384.) Hill was relying on the survey results in July 2002, well before the motion to dismiss was filed in the Western District.

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[4] *Trigon* is a case in which Allcare was prosecuting the '105 patent against Trigon Healthcare, Inc. ("Trigon"), another user of a health-care information-management system. *Trigon* and its relation to this case is discussed at length in the Opinion and Order.

(Hill's SCO Resp. App. at 384.) And, as just discussed, Hill was Allcare's chief counsel at the time of the motion to dismiss and was listed as Allcare's counsel on the motion.

b. Pre-filing Investigation

Rather than dismiss, the judge in the Western District transferred the case to this Court. Shortly after the transfer, Allcare filed its answer and counterclaims (doc. #22). The answer and counterclaim are signed by Medlock, with Hill listed as additional counsel. The filing of counterclaims without an adequate pre-filing investigation is another basis for sanctions in the Opinion and Order. Hill, who was also Allcare's lead counsel in *Trigon*, insists that he performed an element-by-element comparison of Highmark's system, as he understood it, to the relevant claims of the '105 patent. (ECF Resp. App. at 137, 139, 163.)

One source of information on which Hill claims to have relied is the results of the Seaport Survey. In his declaration, Shelton explains that he is Allcare's director and vice president for licensing and that, as part of this job, it is his duty to identify potential infringers. Shelton used various sources of public information to research systems used by companies in the healthcare industry to connect to insurance providers and to process authorizations and referrals electronically in the manner Allcare believed to be covered by the '105 patent. (ECF Resp. App. at 114.) To further focus his research, Shelton arranged for the Seaport Survey to be conducted by an independent survey company between August 17, 2001, and June 26, 2002. (*Id.*) Companies surveyed were told that the survey's purpose was to "identify

organizations that are the leaders in the electronic processing of authorizations and referral requests." (ECF Mot. App., docs. # 516 & 517, at 520.) As this case demonstrates, the answers provided were actually used to identify potential infringers of the '105 patent and, in turn, used by Allcare to demand that the potential infringer purchase a license to the patent.

Hill, in his declaration in response to the show-cause order, states that his representation of Allcare began in March 2002, after the Seaport Survey had been initiated. (Hill's SCO Resp. App. at 381.) Hill stresses that he did not advise Allcare to undertake the survey and did not participate in the survey. (*Id.*) Nevertheless, he relied on the responses to the survey returned by Highmark and Trigon. Specifically, Hill states that by April 2002, he had performed an element-by-element comparison of Highmark's system with the relevant claims of the '105 patent, and that this comparison was based in part on the Seaport Survey results. (ECF Resp. App. at 137.) Hill came to the general conclusion that the Trigon and Highmark systems were similar in that both are "comprehensive internet-based system[s] connecting, among other things, network health providers to a central health insurance company for permitting the insurer to provide online authorizations of medical procedures to said providers" and "for processing and paying proper medical claims, and pending or denying claims which were not entitled to payment." (ECF Resp. App. at 138.) Consequently, Hill and Allcare believed it was appropriate to contact Highmark and request that it purchase a license to the '105 patent. (*Id.*)

In the Opinion and Order, the Court explained that the mere "threat of a suit forces the alleged infringer to investigate the patentee's allegations and the existence of a valid patent, which is itself difficult and costly, and forces the alleged infringer to decide whether to deny infringement and be exposed to costly litigation or enter into licensing negotiations." (Op. & Order, at 26 n.4.) However, the above statement by Hill of his understanding of the Trigon and Highmark systems and their similarity to each other embodies the analysis that Allcare has provided to support its first request, made in April 2002, that Highmark license the '105 patent. In the patent context, particularly in the context of the integrated computer-based system embodied by the '105 patent, Hill's rather broad conclusion that the Highmark and Trigon systems shared the general trait of connecting health-care providers to an insurance company to electronically process authorizations and referrals does not reflect the depth of analysis that would justify pursuing an infringement claim against Allcare. *Cf. S. Bravo Sys. v. Containment Techs. Corp.*, 96 F.3d 1372, 1374-75 (Fed. Cir. 1996) (stating that Rule 11 authorizes sanctions for filing claims that are "legally unreasonable [or] without factual foundation"); *also cf. View Eng'g, Inc. v. Robotic Vision Sys.*, 208 F.3d 981, 986 (Fed. Cir. 2000) (stating that before a counterclaim of infringement is filed, the law firm advancing such claim must compare the patent's claims to the accused device and conclude that there is a reasonable basis for a finding of infringement). The conclusions reflect no analysis of the details of Highmark's system or of the '105 patent that have proven central to this case, such as whether

participants in Highmark's system are "integrated" in the manner that the special master ultimately determined to be required by claim 102, or whether Highmark's system is able to propose a mode of treatment, as ultimately found to be required by claim 52.

The Court also faulted Hill for improperly delegating his duty to conduct a pre-filing investigation to Shelton. In his declaration in response to Highmark's exceptional-case motion, Hill provides several assurances that he performed a pre-filing investigation using various sources of information. But his assurances are generally conclusory, lacking any real discussion of his research or analysis efforts. On the other hand, Allcare's response to the exceptional-case motion relied in part on portions of its interrogatory responses. (Op. & Order at 14-15; ECF Resp. App. at 163 (citing ECF Mot. App. at 176-179.) A review of the interrogatory responses reveals that Allcare described its efforts to investigate Highmark's system prior to April 2002 in terms of actions taken by Shelton. For example, in response to Highmark's interrogatory calling upon Allcare to describe its investigation into Highmark's system, Allcare responded that it was Shelton who initiated the Seaport Survey and, after review of the results, Shelton who concluded that further investigation was warranted. (ECF Mot. App. at 162-66.) Shelton then apparently performed the additional investigation, reviewing Highmark's website and other internet sources, as well as performing other "follow-up research." (*Id.*) Shelton then sent the April 2002 letter to Highmark, stating Allcare's belief that Highmark's system infringed the

'105 patent and suggesting that Highmark license the patent to avoid litigation. (*Id.* at 164, 342-44.) According to the interrogatory responses, Allcare began its efforts to have Highmark purchase a license to the '105 patent after Shelton "formed the opinion" that Highmark's system was infringing it; Hill is not mentioned with regard to the pre-filing investigation until October 2002. (*Id.*)

Allcare's focus on Shelton's pre-filing efforts, as opposed to Hill's, is due at least in part to Allcare's concern for privilege issues. In its response to Highmark's interrogatory, Allcare objects that the interrogatory requests attorney-client privileged information and work product. (ECF Mot. App. at 161.) And rather than detail Hill's pre-filing efforts in response to the exceptional-case motion, Allcare relied largely on a declaration by Hill providing general assurances that a pre-filing investigation was conducted and citing the interrogatory response detailing Shelton's efforts. In its brief in response to the exceptional-case motion, Allcare again notes its privilege concerns.

Allcare is not required to disclose privileged information in defense of its pre-filing efforts. But privilege issues notwithstanding, Allcare and its counsel must comply with the law, including Rule 11. *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.,* 383 F.3d 1337, 1344 (Fed. Cir. 2004) (stating that "the duty to respect the law is undiminished" even where the attorney-client privilege applies). Highmark's motion for exceptional-case finding clearly raised the issue of whether Allcare's conduct in this case, including its pre-filing investigation, comported with 35 U.S.C.

§ 285 and Rule 11. In responding to Highmark's arguments, Allcare was not entitled to at once rely on the opinion of counsel to justify its filing of counterclaims but withhold the details of counsel's pre-filing efforts—the sort of details that would allow the Court to verify the adequacy of counsel's efforts—based on privilege. *See In re Seagate Tech, LLC*, 497 F.3d 1360, 1372 (Fed. Cir. 2007) (stating that the attorney-client privilege is not to be used at once as a sword and shield). Federal courts are accommodating regarding privilege issues and allow ex-parte and in-camera filing where appropriate. Nevertheless, Allcare essentially chose to rely on Shelton's investigation and analysis in responding to the exceptional-case motion, at least as to the time leading up to Allcare's first contact with Highmark in April 2002.

Hill now explains that he did not defer to Shelton's investigation. Rather, he worked with Shelton in investigating Highmark's system, independently assessed the information available, and confirmed Shelton's conclusions. (Hill's SCO Resp. App. at 382.) Specifically, Hill states that, based on the available literature, research he and Shelton performed, and the Seaport Survey results, he concluded that Highmark's system included the following features:

(a) a web-based portal supported by one or more data processors and offering links to pertinent health care information for patients, health care providers and employers;

(b) an online authorization system supported by one or more data processors, permitting (1) a physician office or hospital to request using an

input means an authorization from the insurer using a form wherein the requesting physician would enter an ICD-9 diagnostic code and a CPT treatment code; and (2) communicating a decision back to the physician relating to the determination in response to the authorization request [sic];

(c) a medical management system supported by one or more data processors which supported the insurance company in evaluating and deciding whether to approve the authorization requests received the online authorization requests, and then storing the record regarding the decision made for future reference, if needed [sic];

(d) a claims processing and payment system (a "payment means") supported by one or more data processors working with the medical management system to prevent payment where authorization was required, but not obtained; and

(e) a claims data warehouse supported by one or more data processors where processed claims are stored and used to accumulate useful and extensive medical information about the population of insured persons.

(Hill's SCO Resp. App. at 383.)

While these conclusions are detailed, there is no detailed discussion in the response to the show-cause order of how Hill reached them based on the evidence he had reviewed. Much as he did in response to the exceptional-case motion, Hill simply states that he reviewed certain sources of information, performed the necessary analysis, and reached these conclusions. But merely reciting the

conclusions reached, without providing more detail of how they were reached, such as how Hill's understanding of Highmark's system was supported by a particular piece of evidence or how that understanding compared to the claims of the '105 patent, makes it difficult for the Court to verify that a proper pre-filing investigation was done. *Cf. Cupit v. Fid. & Deposit Co. of Md. (In re Cupit)*, 194 Fed. Appx. 257, 258 (5th Cir. Aug. 24, 2006) (noting the burden of an attorney who has been notified of potential sanctions to show why he should not be sanctioned); *also cf. Ashcrof v. Iqbal*, 129 S. Ct. 1937, 1949 (2009) (stating that to meet the pleading burden imposed by Rule 8 the plaintiff must state sufficient facts to allow the court to infer that his claim is plausible). If an attorney could, in response to a show-cause order, show compliance with Rule 11 merely by recounting conclusions and making general assurances of a proper pre-filing investigation, Rule 11 would be a dead letter.

In May 2002, Allcare filed suit against Trigon, with Hill acting as its counsel. (ECF Resp. App. at 138.) Hill began discussions with Highmark on behalf of Allcare, disclosing in "considerable detail the basis for Allcare's contention that Highmark['s system] infringed certain claims, including claim 52, of the '105 patent." (*Id.* at 138.) In July 2002, Hill wrote a letter to Highmark's counsel referring to Shelton's April 2002 letter, discussing Allcare's research into Highmark's system, asserting that the '105 patent is not limited to a "diagnostic smart system" and, in any event, that Highmark's system is smart, and urging Highmark to purchase a license to the patent. (Hill's SCO Resp. App. at 302-05.) By August 2002, Hill claims to have performed an element-by-element

comparison of claim 52's elements against the Highmark system that not only incorporated the information he and Shelton gathered from the internet and other public sources and the Seaport Survey results, but also information on Highmark's system disclosed by Highmark during its discussions with Allcare. (ECF Resp. App. at 139.) Hill informed Highmark's counsel that he believed Allcare's infringement analysis in *Trigon* applied to Highmark's system, because "both systems pertained to the electronic authorization capabilities whereby network providers would use a personal computer to electronically complete an authorization form by filling in ICD9 and CPT codes and then transmit to the insurance company for authorization." (*Id.*) According to Hill, he concluded Highmark's system was "necessarily a utilization review system [covered by the '105 patent], requiring a database of predetermined procedures requiring authorization, as well as other forms of utilization review, such as medical appropriateness review." (*Id.)* Hill explains that when he informed Highmark's counsel of these observations, she did not disagree. (*Id.*) Hill also wrote another letter to Highmark in August 2002, this time including a side-by-side comparison of the Trigon and Highmark systems. (Hill's SCO Resp. App. 306-25.)

The element-by-element analyses Hill claims to have done as of April 2002 and as of August 2002 specifically refer to claim 52. Most notably, he states that "by August 2002, [he] had performed an element-by-element comparison of claim 52's elements with the use of the Highmark system and had determined that there was a factual basis for believing" the system infringed claim 52. (*Id.* at

139.) The analysis Hill states that he performed after *Trigon* was filed specifically refers to claim 52 as well. (*Id.* at 163.)

In response to the show-cause order, Hill hardly addresses claim 102, arguing only that he did not sign any pleading in connection with that claim. But as has been shown, Hill has been Allcare's chief counsel since before this case was filed and, when pressed to explain its pre-filing efforts, Allcare relied on Hill. And any argument by Hill that he is not responsible for the filing of allegations of infringement as to claim 102 is countered by Hill's assertion that he performed the pre-filing investigation relevant to this claim. (ECF Resp. App. at 154.) Hill designated a portion of his declaration in response to the exceptional-case motion as addressing the issue of "Assertion of Claim 102." (*Id.* at 136.) In the designated portion, Hill states that he performed an element-by-element comparison of claim 102 to Highmark's system. (*Id.* at 154.) But Hill makes this statement in the context of discussing Allcare's reasons for maintaining the allegations as to claim 102, without elaborating on his pre-filing investigation. This, despite the fact that Highmark had specifically argued that an exceptional-case finding was warranted due to Allcare's deficient pre-filing investigation as to claim 102. (ECF Mot. Br. at 12.) And Hill has not expounded upon his pre-filing efforts in response to the show-cause order, despite the Court's conclusion in the Opinion and Order that those efforts were deficient.

After this, the only discussion of pre-filing investigation specifically related to claim 102, Hill

goes on to discuss similarities between the terms of claim 52 and claim 102, as well as portions of Holland's report and deposition, including a claim chart, that he contends support Allcare's allegations based on claim 102. Holland's report was issued and his deposition taken after Allcare filed its counterclaims. And the claim chart is dated November 8, 2004, months after the amended answer asserting a counterclaim of infringement of 102 was filed. Thus, none of these items could be part of a pre-filing investigation.

The similarities might be taken to show that pre-filing efforts as to allegations involving claim 52 also support allegations involving claim 102. (ECF Resp. App. at 152-54.) But the language of the claims, both on its face and as construed, is different. For example, as Hill recognizes in his declaration, claim 52 covers a "comprehensive" health-care-management system, while claim 102 covers an "integrated" system. (*Id.* at 152.) Discussing the use of these terms in the '105 patent's claims, the special master concluded that, although these terms are used "in a somewhat overlapping manner," "comprehensive" is used in the patent to indicate the scope of the patent's participants and functions while "integrated" is used to indicate the interaction of the participants and the system's components. (Rep. on Claim Constr., doc. #367, at 11.) After Hill's discussion of the similarity of the terms of claims 52 and 102, only post-filing efforts involving experts are discussed (ECF Resp. App. at 154-56.) Ultimately, Highmark questioned Allcare's pre-filing investigation relating to claim 102. In response, the Court concluded that Highmark's arguments were well founded and, accordingly, imposed sanctions

and followed with a show-cause order to ensure compliance with Rule 11. Yet at no point has there been any meaningful explanation of the pre-filing investigation that supported Allcare's assertion that claim 102 had been infringed.

One of the Court's primary criticisms of Hill and the other attorneys sanctioned in the Opinion and Order was their reliance on developments in *Trigon*—whether it was the pre-filing investigation done in that case or the summary-judgment rulings issued by the *Trigon* court—to defend the merits of Allcare's case against Highmark. As the Court explained in the Opinion and Order, reliance on *Trigon* only indicates that an adequate pre-filing investigation was done in this case if Allcare's counsel compared the systems used by Highmark and Trigon. Hill addresses this criticism by offering up the August 2002 letter and the comparison of the responses given by Trigon and Highmark to the Seaport Survey.

Strangely, although Allcare relies heavily on the results of the Seaport Survey in defending its pre-filing investigation, Hill's comparison of the responses and the Seaport Survey responses themselves were not discussed in Allcare's response to the exceptional-case motion. The comparison was not part of the record at the time the exceptional-case motion was decided, and the Seaport Survey itself was submitted by Highmark rather than Allcare. Allcare's response to the motion for exceptional-case finding, which relied heavily on a declaration by Hill, did not discuss in any detail Allcare's use of the Seaport Survey and other information available on Highmark's system to

compare it to Trigon's system. In fact, the response and Hill's declaration discuss claim charts from *Trigon* that were annotated with information produced by Highmark during discovery in this case, implying that claim charts or other forms of infringement analysis in support of Allcare's claims against Highmark did not incorporate information related to Highmark's system until after the counter-claims were filed. (ECF Resp. Br., doc. #526, at 1, n.2.) And to the extent the response to the exceptional-case motion did address similarities between the Highmark and Trigon systems, it was in passing, without factual detail or analysis, and did not address what has become a key element of this case, claim element 52(c). (*Id.* at 2, n.4.)

Having been told by Hill in August 2002 that he believed the systems used by Trigon and Highmark were "equivalent if not identical in all material respects," Highmark's counsel requested to see Allcare's infringement contentions against Trigon in chart form. (ECF Resp. App. at 140.) Hill explains that he provided Highmark a copy of charts showing his infringement analysis in *Trigon* and that later, during the early stage of discovery in this case, he provided an additional chart to Highmark reflecting Allcare's pre-filing investigation in *Trigon* and containing updated information produced by Highmark during discovery. (*Id.*)

The Court noted in the Opinion and Order that Allcare's reliance on the *Trigon* charts was typical of its response to the exceptional-case motion as a whole. Allcare and Hill's post-filing efforts were supported by documentary evidence, such as the annotated *Trigon* charts, while their pre-filing efforts

were not. Similarly, Hill asserted that he had consulted experts to confirm his infringement analysis before Allcare's claims against Highmark were filed. But the documentary evidence suggests that the relevant experts were not consulted until after the counterclaims were filed. (Op. & Order at 13-14; ECF Suppl. App., doc. #533, at 1-10.) The lack of detail in Hill's declaration regarding his infringement analysis and the information he gleaned from the various sources on which he purported to rely, coupled with the lack of documentary evidence of a pre-filing investigation by Hill, plus the evidence of Shelton's role in the pre-filing investigation, caused the Court to conclude that an inadequate investigation had been performed.

Finally, in connection with the pre-filing investigation, Hill points out that in February 2003, the summary-judgment rulings were issued in *Trigon*. (*Id.* at 142-43.) *Trigon* was filed in May 2002, and Hill explains that after a meeting with Highmark's counsel in October 2002, it was apparent that the *Trigon* litigation and Allcare's effort to have Highmark take a license of the '105 patent shared two major issues. (*Id.* at 143.) Both the *Trigon* litigation and Allcare's discussions with Highmark involved construction of claim element 52(c), and specifically the issue of whether it covered only a diagnostic smart system. And both the *Trigon* litigation and Allcare's discussions with Highmark addressed the adequacy of the disclosure of prior art by Allcare in securing the '105 patent, and the impact of such disclosure on validity and enforceability of that patent. (ECF Resp. App. at 141.) The *Trigon* Court issued summary-judgment rulings in February 2003. (*Id.* at 41-66.) That court

concluded that the '105 patent is enforceable and that element 52(c) is not limited to a diagnostic smart system. (*Id.* at 45, 57-65, 143.)

c. Shifting Claim Construction

The Court also cited Allcare's shifting claim construction as a basis for sanctioning Hill. Hill argues that sanctions are inappropriate on this basis because each claim construction had a good-faith basis in law and fact. While this may be true, the Court's point was that Allcare, without reasonable explanation, altered its claim construction after Allcare submitted its court-ordered proposed claim construction. That is, although Allcare's constructions subsequent to its proposed construction may have been substantively defensible, they unduly complicated Highmark's efforts to defend against Allcare's allegations and this Court's efforts to resolve the issue of claim construction.

Hill now explains that it is "not unusual" in patent litigation for a party to adjust its claim construction during the course of litigation. Although adjustments in a party's proposed construction may be common in an effort to reach an agreed construction, neither section 285 nor Rule 11 allows a party or its counsel to needlessly offer amended constructions over the course of a case. *See* Fed. R. Civ. P. 11(b)(1). And the Court entered a scheduling order in this case providing specific instructions regarding claim construction. Under the scheduling order, Allcare, as the party claiming patent infringement, was to submit a proposed claim construction in August 2004. (Initial Sched. Order, doc. #59, at ¶6.) Highmark would then submit a responsive proposed claim construction. Thereafter,

the parties were to confer and submit a joint claim-construction statement, which would contain the construction of the relevant claims to the extent that the parties had reached an agreement and would contain each party's proposed construction for terms that remained in dispute. Allcare could then file a motion for claim construction on the disputed terms.

Allcare timely filed its proposed claim construction under the Court's scheduling order, in which it construed, among other terms, the phrase from element 52(c) "data symbolic of symptoms for tentatively identifying a proposed mode of treatment." (ECF Mot App. at 392-93.) But Allcare then changed its proposed construction of this phrase in its motion for claim construction, (doc. #158), circumventing the response by Highmark and the attempt at reaching an agreement contemplated by the scheduling order. After the special master had conducted a claim-construction or "*Markman*" hearing, Allcare again altered its proposed construction in a chart of "claim terms at issue and the constructions of said terms that are acceptable to Allcare," which was disclosed to Highmark on November 15, 2006. (ECF Mot. App. at 411.)

Hill complains that he cannot be sanctioned based on the altered claim constructions because he was not given notice of constructions that concerned the Court so that he could respond to the show-cause order. But as the Court noted in the show-cause order, the factual basis that the Court believed warranted sanctions was that raised in Highmark's exceptional-case motion and set out in the Opinion and Order. Allcare's proposed claim construction, its motion for claim construction, and the chart of claim

terms were each identified as being the documents containing the relevant constructions. The fact that the Court did not identify a specific claim term is of no import because *any* alteration by Allcare of its claim construction that was not agreed to or was not with leave of court was contrary to the scheduling order if it came after it filed its proposed construction.

d. Preclusion Defenses

An additional ground for sanctions against Hill discussed in the Opinion and Order is Allcare's assertion of the defenses of res judicata and collateral estoppel. Hill first argues that he was not admitted to practice before this Court at the time that these defenses were filed. But as has been explained, Hill was Allcare's lead counsel since before this case was filed and he has advocated its positions throughout. In fact, this is confirmed by Hill's second argument on this point, which is that he researched the applicability of these defenses to this case and believed that asserting them was reasonable.

In support, Hill cites *Boston Scientific Corp. v. Schneider (Europe) AG*, 983 F. Supp. 245 (D. Mass. 1997), which discusses the circumstances under which a nonparty may be precluded from relitigating issues. Specifically, the court in *Boston Scientific* applied the doctrine of virtual representation in the patent-infringement context to preclude a party from litigating issues that had been previously litigated by a related entity in a separate suit. *See Boston Scientific Corp.*, 983 F. Supp. at 257-59. In so doing, that court described the doctrine of virtual representation as "an equitable theory rather than a crip rule with sharp corners and clear factual

predicates." *Id.* at 257. Privity between the party and nonparty "must be determined on a case-by-case basis" considering whether the issues in both the prior and current litigation are identical, whether the nonparty had actual or constructive notice of the prior litigation, and the equities of the case, including the nonparty's relationship with the party or participation in the prior litigation. *Id.* at 257-58, 259.

Hill explains that *Trigon* and Allcare's efforts to have Highmark license the '105 patent included identical issues, such as construction of the patent's claims. And Hill notes that he observed Highmark's counsel, Cynthia Kernick, at the hearing on the summary-judgment motions in *Trigon.* According to Hill, Kernick conferred with Trigon's counsel during the hearing to provide assistance with Trigon's arguments. (Hill's SCO Resp. App. at 398.) Thus, two of the elements of virtual representation—identity of interest and notice of the prior litigation—were met. And the third element, the balance of the equities, has at least some support (though it is hard to imagine how holding Highmark bound by the *Trigon* ruling could be equitable given the lack of relationship between the two and Highmark's very limited—and completely unofficial—role in the case).

e. Continued Pursuit of Infringement Allegations

Finally, the Court concluded in the Opinion and Order that Allcare and its counsel maintained their allegations of infringement as to claims 52 and 102 even after those claims were shown to be without support. The Attorneys invoke the "snapshot" rule, arguing that a court must evaluate a filing for

compliance with Rule 11 at the time of filing. "Like a snapshot, Rule 11 review focuses upon the instant when the picture is taken—when the signature is placed on the document." *Thomas v. Capital Sec. Servs.*, 836 F.2d 866, 874 (5th Cir. 1988). Recognizing that the snapshot rule remains the law of this circuit at least as to sanctions imposed based on the filing or signing of a document, *see Marlin v. Moody Nat'l Bank N A*, 533 F.3d 374, 380 (5th Cir. 2008), since *Thomas* Rule 11 has been amended to provide that "later advocating" a baseless position is a ground for sanction. There is simply no way that the a snapshot rule phrased in terms of the time of filing can be applied to the plain language of Rule 11, which provides for sanctions where an attorney advocates a baseless position after the relevant filing is made. As the notes to the 1993 amendment explain, "[t]he rule continues to require litigants to 'stop-and-think' before initially making the legal or factual contentions. It also, however, emphasizes the duty of candor by subjecting litigants to potential sanctions for insisting upon a position after it is no longer tenable . . . ." Thus, whether Allcare's allegations were tenable after the events discussed in the Opinion and Order and whether Hill advocated those allegations become the critical issues.

In the Opinion and Order, the Court determined that the Attorneys are subject to sanctions because they "continued to pursue the infringement claims against Highmark well after those claims had been shown to be without merit." (Op. and Order at 48.) As discussed, Hill began his representation of Allcare regarding prosecution of the '105 patent in March 2002. Hill was the attorney who performed the pre-filing investigation into Highmark's system, Hill was

the attorney who developed Allcare's construction of the '105 patent generally and in connection with *Trigon*, and Hill was the attorney who presented Allcare's theory of infringement at the April 2002 strategy session. Hill has been regarded as Allcare's lead counsel throughout this litigation, with even Hill conceding that at least by February 2004 he was Allcare's de-facto lead counsel. Hill is listed as counsel on every filing that advanced Allcare's allegations relating to claims 52 and 102, including Allcare's original answer that asserted infringement of claim 52 (doc. #22), Allcare's amended answer that asserted infringement of claim 102 (doc. #124), and the summary-judgment briefing (docs. #143). Each of the attorneys who actually signed these filings have provided declarations showing that they regarded Hill as lead counsel and deferred to Hill on the pre-filing investigation and subsequent substantive issues. (Cleveland Declaration, doc. #587 at 11-12 (describing his role in this case as functionally that of local counsel, and that he did not substantively revise documents that were passed on to him for signing and filing); Medlock Declaration, doc. #617-2, at 7-17 (describing Hill's involvement in this case and Medlock's reliance on Hill's efforts). And when the issue of of Allcare's pre-filing investigation was raised by Highmark in the exceptional-case motion, it was Hill who responded on Allcare's behalf detailing his pre-filing efforts both as to claim 52 and 102. Consequently, the Court concludes that Hill sufficiently advocated Allcare's allegations as to claims 52 and 102 to be held accountable for them.

As for the merit of those allegations, prior to concluding that Allcare's counsel should be

sanctioned for continuing to pursue the infringement claims, the Court discussed the report and deposition of Allcare's expert, Dr. Holland. As construed by the special master, the 102 claim limits itself to a system including an "integrated interconnection and interaction of the patient, healthcare provider, bank or other financial institution, insurance company, utilization reviewer/case manager and employer." (Cl. Constr. Rep., doc. #367, at 20-21.) The Court concluded that in his August 2007 deposition Holland conceded that Highmark's system did not provide for this sort of interconnection and interaction. (ECF Mot App. at 293-94.) More specifically, Holland testified that in Highmark's system the patient does not appear to interact with the financial institution and the employee does not appear to interact with the employer. (*Id.)* The Court adopted the special master's report on claim construction in March 2007. Thus, based on the arguments and record existing at the time of the Opinion and Order, it appeared that after Holland's deposition it was clear that the preamble to claim 102 was a claim limitation and that Highmark's accused system did not satisfy such limitation. Allcare, however, maintained its allegation that Highmark's system infringed claim 102 until February 6, 2008.

In response to the exceptional-case motion, Hill explained that a diagram in Holland's report showed that Holland was of the opinion that the employee could interact with the employer in Highmark's system. (ECF. Resp. App. at 155 (citing (ECF Resp. App. at 81).) But the cited portion of Holland's report is simply a diagram of Highmark's systems showing the "portals" that connect each component.

(*Id.* at 81.) There is no discussion of whether these portals allow for the interaction contemplated by claim 102. And this does nothing to address the issue of interaction between the patient and the financial institution.

Hill also insisted that Holland did not concede in his deposition that the allegations regarding claim 102 are without merit, as argued by Highmark. Hill points out that Holland was never asked whether, in order to be found to infringe claim 102, Highmark's system must provide for interaction between the employee and employer and between the bank and the patient. But Hill has not explained why these elements would not be essential. Again, claim 102, by its terms and as construed, requires interconnection *and* interaction between various system users, including those about which Highmark questioned Holland during his deposition.

The similarities between the language of claims 52 and 102 might be argued as a basis for maintaining the allegations based on claim 102. That is, to the extent that Allcare was justified in maintaining its allegations as to claim 52, because of the claims' similar language, Allcare was justified in continuing with its allegations as to claim 102 as well. But, again, claims 52 and 102 are different claims with similar, even overlapping, but nevertheless different terms. Once this case had progressed to the entry of an order on claim construction and to Holland's issuance of an expert report, general similarities in the claims' terms was no longer a sufficient basis for maintaining infringement allegations as to claim 102.

The Court also adopted the special master's construction of claim 52. Claim element 52(c)

provides, in relevant part, for entering "data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment and, when said proposed mode of treatment includes one of said predetermined procedures requiring utilization review, producing indicia thereof." Construction and application of this element has proven critical to this case. Highmark argued that the element covers a diagnostic smart system. Highmark further argued that its system is not a diagnostic smart system. Allcare took the contrary position, arguing that claim element 52(c) covered more than just a diagnostic smart system and that, regardless, Highmark's system was a form of a diagnostic smart system.

Element 52(c) was construed to cover a system into which is entered "information expressed in a symbolic or representative manner pertaining to a noticeable change in a patient's condition indicative of some bodily or mental disease, disorder or other medical condition for tentatively identifying a suggested method of the management and care of a patient to combat disease or injury." The parties stipulated, and the special master agreed, that "for," as used in element 52(c), is "used to indicate the aim, or purpose of an action or activity." Thus, under element 52(c), the aim or purpose of the entry of symptom codes into the patented system is the tentative identification of a proposed method of treatment. Or, as the special master explained in his infringement analysis, "the physician enters the patient's symptoms and the computer system identifies the most likely medical conditions corresponding to the entered symptoms together with the generally approved treatment." (Infringement Rep., doc. #484, at 11.)

Highmark's system uses ICD9, just as does the system embodied by claim 52. But in Highmark's system, rather than enter the ICD9 code for the system to propose a method treatment, the health-care provider enters ICD9 to reflect the patient's symptoms and, separately, enters CPT code to reflect the proposed treatment. It is the health-care provider, not the system, that proposes the treatment under Highmark's system. Holland's June 2007 report seemed to concede this distinction between the system embodied by claim 52 and Highmark's system. As the special master explained:

> Accepting, for purposes of this summary judgment motion, Dr. Holland's testimony that ICD9 codes are sometimes used as data symbolic of patient symptoms, in the accused system the physician enters data symbolic of patient symptoms (ICD9 code), and enters data tentatively identifying a proposed mode of treatment (CPT Code). The ICD9 code is not entered for identifying a proposed treatment as claimed. The ICD9 codes indicate the 'condition for which the patient is receiving treatment.' [Citing Holland's report] at ¶ 457. They do not *identify* the treatment.

(Infringement Rep. at 14.) Holland further acknowledged in his report that utilization review in Highmark's system is done by the system's considering the "procedure" or treatment code. (*Id.* at 13-14.) Again, this code is entered separately from the ICD9 symptom code after the proposed treatment is determined by the healthcare provider, which differs from the system covered by claim 52 in

which a symptom code is entered "for [the system to] tentatively identify[] a proposed mode of treatment." (*Id.*)

Additionally, the Court noted that Allcare had explained some of what the Court perceived to be a deficiency in its pre-filing investigation and its continued pursuit of allegations against claims 52 and 102 by asserting that Highmark had refused to give Allcare's experts access to Highmark's system. When Highmark made its system available in April 2004, Allcare did not send an expert to perform an inspection. Highmark argued in its exceptional-case motion that had an expert performed an inspection Allcare would have realized its claim were unsupported.

The inspection issues and Holland's report and deposition notwithstanding, Allcare persisted in its allegations as to claims 52 and 102, with summary judgment being entered in Highmark's favor on claim 52 based largely on Holland's report. Allcare did not respond to Highmark's summary-judgment arguments relating to infringement of claim 102 and eventually withdrew its allegations.

Hill explains that Highmark made its system available for inspection in April 2004 only in response to an order granting a motion to compel by Allcare. Hill insists that the order caught him on short notice, and that he was unable to arrange for Holland or any other expert to be present during the inspection. To compensate, Allcare had the system inspection transcribed and videotaped for later review by Holland. And Hill further explains that to criticize him and Allcare for continuing to pursue the allegations of infringement after the April 2004

inspection does not adequately take into consideration that: (1) at that point no claim construction had been entered in this case; (2) that a construction favorable to Allcare had been entered in *Trigo*n; (3) that, in Allcare's opinion, the inspection of Highmark's system supported its allegations; and (4) that other companies with systems similar to Highmark's had just purchased licenses to the '105 patent.

Additionally, Hill insists that Holland's report did support Allcare's allegation that claim 52 had been infringed. Hill points out that Holland opined in his report that symptom codes are entered into Highmark's system for proposing a mode of treatment. According to Holland, in Highmark's system utilization review is begun with an authorization form. (ECF Resp. App. at 87.) It is this form where the ICD9 symptom codes are entered and, once the form is complete, it is submitted for utilization review. (*Id.*) The completed form, Holland insists, is the proposed mode of treatment and, thus, the symptom code entered into the form is entered "for tentatively identifying a proposed mode of treatment" as required by claim 52. (*Id.*)

This is quite a thin reed on which to base Allcare's claims. This theory was rejected, rather soundly, by both the special master and the Federal Circuit. The special master noted Allcare's argument that the entire authorization code is the proposed treatment, and explained that in completing the form the health care provider selects and enters CPT code into the authorization form and that it is the CPT code, not the form as a whole, that identifies the proposed procedure. (Infringement Rep. at 14.) In support of

his recommendation that summary judgment be entered in favor of Highmark, the special master cites the portion of Holland's report cited above, in which Holland characterizes Highmark's utilization review as being based on consideration of "procedure codes," rather than the authorization form as a whole. (*Id.*) Hill offers no other theory on which Allcare could have reasonably maintained its allegations as to claim 52.

And as the Court explained in the Opinion and Order, this is not the sort of run-of-the-mill case in which a party advanced claims and theories with which the Court ultimately disagreed. In response to Highmark's exceptional-case motion, Allcare explained that it waited to withdraw its infringement allegation of claim 102 until after deposing Highmark's expert, Jeremy Nobel, at which point Allcare concluded "that narrowing the issues for trial to infringement of claims 52 and 53 did not present an undue risk to Allcare of a patent invalidity finding." (ECF Resp. Br. at 16-17.) But nowhere—not in the response to the exceptional-case motion, in Hill's motion to reconsider, or in Hill's response to the show-cause order—does Hill or Allcare explain how maintaining allegations that claim 102 had been infringed protected Allcare from a finding that the '105 patent was invalid. Rather, as the Court concluded in the Opinion and Order, the circumstances suggest that the allegations as to claim 102 were maintained as leverage. And in any event, they were maintained to a point that Highmark was forced to pay an expert to provide an opinion as to whether its system infringed claim 102 and to address Allcare's allegations based on claim 102 its motion for summary judgment.

Hill refers to the arguments made by Allcare's other attorneys in his response to the show-cause order. Mike McKool Jr., Christopher Harrington, Luke McLeroy, and R. Darryl Burke, and their firm, McKool Smith, LLP ("the McKool Smith attorneys"), argue that maintaining the allegation of infringement as to claim 52 was not objectively unreasonable, even after Holland's report, because Allcare had argued that element 52(c) also covered a "utilization review system," a system for the "review of the medical necessity or the efficiency or the quality of health care services, either prospectively, concurrently, or retrospectively." This argument is similar to, but more elaborate than, that offered by Hill.

Element 52(c), after disclosing the entry of symptom data and identification of proposed treatment, addresses utilization review and the patented system's "producing indicia thereof." That is, if the proposed mode of treatment is one that requires utilization review, the system will "cause[] to exist a sign, indication, or identifying mark indicating that utilization review is required." (Cl. Constr. Rep. at 39.) As noted in the Opinion and Order, by the time of the report on claim construction, the parties agreed that element 52(c) covered at least a diagnostic smart system. (Infringement Rep. at 11.) The special master refused in his report, however, to state whether the element covered only such a system or covered a utilization-review system as well, because to do so would have been to improperly perform an infringement analysis at the claim-construction stage.

Ultimately, the special master concluded that although claim 52 covered a utilization-review system, Highmark's system did not infringe the '105 patent. In the system disclosed by element 52(c), symptom data is entered for the purpose of the system's proposing a method of treatment *and*, if necessary, the system indicates that utilization review is required. In the Highmark system, the health care provider enters one code to reflect the patient's symptoms and, separately, enters a code to reflect the proposed treatment. Highmark's system then determines whether utilization review is necessary by comparing the proposed treatment to a list of treatments stored in a database. Thus, in the Highmark system, symptom codes are not entered "for" the system to propose a mode of treatment, as in the system disclosed by element 52(c). And Highmark's system, unlike the disclosed system, performs utilization review based on the proposed treatment codes entered by the health care provider.

The diagnostic smart system is a specific embodiment disclosed in the '105 patent. And it is true, as argued by the McKool Smith attorneys, that the mere fact that a claim covers a specific embodiment does not mean that the claim cannot cover other ways of practicing the invention. *See Home Diagnostics, Inc. v. LifeScan, Inc.*, 381 F.3d 1352, 1357 (Fed. Cir. 2004). But although true in the abstract, the McKool Smith attorneys do not meaningfully explain how this principle applies in this case. They argue that the fact that element 52(c) was construed in such a way as to cover at least a diagnostic smart system did not foreclose the element from covering other systems. But the McKool Smith attorneys do not explain how it was

reasonable to believe that element 52(c) could actually cover other systems under the facts of this case. As the special master acknowledged in his report on infringement, it is improper to limit a claim to a specific embodiment. *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1323 (Fed. Cir. 2005). Yet a claim's terms are not construed in isolation, as a claim is "part of a fully integrated instrument consisting principally of a specification," which often describes specific embodiments. *Id.* at 1315. "[T]he specification 'is always highly relevant to the claim construction analysis. Usually, it is dispositive; it is the single best guide to the meaning of a disputed term.'" *Id.* (quoting *Vitronics*, 90 F.3d at 1582). "The specification is . . . the primary basis for construing the claims." *Id.* (quoting *Standard Oil Co. v. Am. Cyanamid Co.*, 774 F.2d 448, 452 (Fed. Cir. 1985)). In this case, element 52(c) covers a system in which "data symbolic of patient symptoms" is entered "for tentatively identifying a proposed mode of treatment" and the specification discloses an embodiment in which the central processing system determines the recommended treatment using the symptoms codes. (Infringement Rep. at 11.) The special master observed that while it would be improper to simply limit claim 52 to this specific embodiment, the claim's use of the word "for" must be understood in this context. Doing so makes it clear that "for," as used in element 52(c), indicates a cause-and-effect relationship; that the proposed treatment is determined by the patented system using the entered symptom data. And again, in his report Holland recognized that in Highmark's system the health-care provider entered ICD9 code to record

symptoms and separately enters CPT code to reflect the proposed mode of treatment.

The McKool Smith attorneys argue that the fact that Allcare stipulated to the meaning of "for" as used in the claim element shows that Allcare and its attorneys believed Allcare had reasonable arguments on this claim. But the fact that Allcare and its attorneys agreed early on to a meaning of "for" that, in the context of the patent, established that a computer operated by the patented system would determine the proposed treatment only strengthens the conclusions in the Opinion and Order.

f. Summary as to Hill and Hill, Kertscher, & Wharton, LLP

To summarize, Hill has led Allcare's efforts to prosecute the '105 patent, both generally and against Highmark in particular. While this case was pending before the Western District of Pennsylvania, Hill participated in a motion to dismiss that contained what are at least misleading statements about Allcare's role in the Seaport Survey. Hill may have had no subjective knowledge of these statements, but as the attorney leading Allcare's prosecution of the '105 patent and as an attorney listed on the motion, it was Hill's duty to review the motion and its supporting evidence to ensure the motion was based on reasonable assertions of law and fact.

Even so, if any court were to issue sanctions based on the motion, it would be most appropriate for the Western District of Pennsylvania to do so. It was that court in which the misleading motion was filed. In any event, the Western District of Pennsylvania apparently did not give the representations about

Allcare's involvement in the Seaport Survey much weight as, rather than dismissing the case, it transferred the case here.

Moreover, "sanctions must be imposed within a time frame that has a nexus to the behavior sought to be deterred." *Thomas v. Capital Sec. Servs.*, 836 F.2d 866, 881 (5th Cir. 1988). Over five years passed between the filing of the motion to dismiss and Highmark's filing of the exceptional-case motion, which brought Shelton's statements to the Court's attention. Another year and a half passed before the Court imposed sanctions based in part on the motion to dismiss.

Similarly, Hill's role in Allcare's shifting claim construction does not support sanctions. Hill's explanation that Allcare's alterations of its claim construction, contrary to the scheduling order and without Highmark's agreement, is typical of a patent case is wholly unsatisfactory. Nevertheless, the documents relevant to the shifting claim construction were filed or disclosed between July 2004 and November 2006, years before Highmark's motion or the Opinion and Order.

Hill's role in Allcare's assertion of the defenses of res judicata and collateral estoppel based on Highmark's role in *Trigon* does not support sanctions either. Hill's response to the show-cause order explains that *Trigon* and Allcare's efforts against Highmark shared key issues, such as construction of the '105 patent, and that he personally observed Highmark's counsel attend the summary-judgment hearing in *Trigon* and appear to advise *Trigon's* counsel during the hearing. The doctrine of virtual representation is equity-based and nebulous, as

demonstrated by the case law cited by Hill. And, Shelton's letter disavowing any use of preclusion-based defenses aside, the doctrine was at least arguably satisfied by the facts of which Hill was aware.

Hill has not satisfactorily explained the other bases for sanctions discussed in the Opinion and Order. As for the pre-filing investigation, however, Hill has addressed at least some of the deficiencies discussed in the Opinion and Order. For example, the Court's conclusion that Hill's pre-filing investigation was inadequate was based in part on the lack of documentary evidence showing such an investigation occurred, while post-filing efforts, such as the annotation of the *Trigon* charts or the retention of experts, were documented. Hill has now provided documentary evidence supporting his pre-filing investigation in the form of the comparison of the responses to the Seaport Survey by Trigon and Highmark. These items show that Hill had information supporting his understanding of Highmark's system prior to filing. Relatedly, the Court faulted Hill for relying on his pre-filing efforts in *Trigon* and the *Trigon* summary-judgment rulings in *Trigon* to justify Allcare's case against Highmark. The comparison of the survey responses shows that Hill and Allcare had a basis for believing that pre-filing efforts in *Trigon* were relevant to the case against Highmark, and that the summary-judgment rulings, which addressed among other things the construction of the '105 patent, were relevant to the case against Highmark as well. Hill has also offered a reasonable explanation for why an expert was not taken to inspect Highmark's system in April 2004.

But Hill continues to provide essentially a "trust me" assurance that he relied on relevant evidence and performed a good-faith analysis before concluding that Allcare's claims were supportable. Hill's evidence is particularly conclusory with regard to his efforts as of April 2002, when Allcare first contacted Highmark about licensing the '105 patent. Because the Court addressed the privilege issue in the Opinion and Order, attorney-client privilege is no longer an excuse for Hill's not providing a more detailed accounting of his pre-filing efforts so the Court could verify that Hill, in fact, performed the necessary analysis.

And as for Allcare's maintenance of its allegations of infringement, claim 52 was construed to cover only a diagnostic smart system, a system that proposes a mode of treatment in response to the entry of a symptom code. This construction was a product not only of the specific embodiment of a diagnostic smart system in the '105 patent, but of the parties' agreed claim construction. And regardless of whether it was foreseeable that claim 52 would be limited to a diagnostic smart system, it was clear that it was so limited for the purposes of this litigation after the Court adopted the special master's recommendation on claim construction. Holland recognized that, in Highmark's system, the proposed mode of treatment is entered separately, as opposed to being generated by the system. Holland further recognized that utilization review in Highmark's system is performed based on the separately-entered treatment code. This contradicts the theory advanced by Holland and Hill that allegedly justified Allcare's continued prosecution of claim 52, which is that the

authorization form as a whole is the proposed mode of treatment.

Hill defends Allcare's continued prosecution of claim 102 based on similarities between its language and that of claim 52. But, again, whatever their similarities, they are separate claims with separate terms and those terms result in each claim's having a different scope. Hill also argues that, rather than conceding that Highmark's system did not allow for the sort of interaction of system users required by claim 102, as argued by Highmark, Holland's report and deposition supported prosecution of claim 102. But by its terms and as construed, claim 102 covers a system that generally requires interaction of system users. Holland seemed to recognize in his deposition that certain users do not interact in Highmark's system, and even Allcare itself apparently recognized that its allegations under claim 102 could not be supported as it ultimately withdrew them.

Finally, this was not simply a case in which a party made arguments that were ultimately rejected by the Court. Allcare's response to the exceptional-case motion and Hill's declaration statements show that Allcare maintained allegations based not on their merit, but as leverage against Highmark's claims.

Yet there are at least some portions of the record before the Court that support the filing and maintenance of Allcare's infringement allegations. Hill's declarations describe his pre-filing investigation after April 2002 as incorporating new information gathered through research he and Shelton performed and through his conversations with Highmark and its counsel. This, combined with the evidence of the Seaport Survey and Hill's

comparison of Trigon and Highmark's responses to the survey and the summary-judgment rulings in *Trigon* arguably support Allcare's prosecution of at least claim 52.

With the *Trigon* rulings, Allcare secured a construction of claim 52 that was not limited to a diagnostic smart system, which supported one of its theories of infringement in this case. To the extent that this Court entered a claim construction that differed from that in *Trigon*, Allcare might have argued that its maintenance of the claim-52 allegations were an effort to obtain a final judgment so that the construction could be appealed. *See Regents of the Univ. of Cal. v. DakoCytomation Cal., Inc.*, 517 F.3d 1364, 1371 (Fed. Cir. 2008) (noting that the Federal Circuit generally does not certify the issue of claim construction for interlocutory appeal). And with the Seaport Survey, Allcare obtained from Highmark some evidence that, even if claim 52 covers only a diagnostic smart system, Highmark's system infringed. The responses by Highmark submitted by Hill indicated that its system has some capacity to suggest a proposed treatment. Perplexingly, Hill does not make any of these arguments or point to any of this evidence in defending his role in filing or maintaining Allcare's allegations of infringement.

Even this leaves the filing and maintenance of allegations related to claim 102 unsupported. The Seaport Survey and Hill's comparison of the survey responses predate the amendment adding the counterclaim based on claim 102. But by the time of the amendment, Holland had issued his report and had been deposed and had apparently recognized

that users of Highmark's system could not interact as contemplated by claim 102. Moreover, unlike the other bases for sanctions discussed in the Opinion and Order, such as the shifting claim construction, sanctions based on the filing and maintenance of infringement allegations would be based on pleadings. *See Thomas*, 836 F.2d at 881. Sanctions must generally bear a temporal nexus to the conduct to be sanctioned, but sanctions based on pleadings may, under some circumstances, be imposed at the end of the suit. *See id.* All of this is to say, the sanctions issue against Hill is a very close call and despite the foregoing considerations weighing against sanctions they may nevertheless be appropriate. But because there is some consideration weighing against sanctioning Hill for almost all of the conduct discussed in the Opinion and Order, the Court will err on the side of caution given the potentially harsh side-effects upon reputation, client retention, and livelihood that court-imposed sanctions can have and vacate the imposition of sanctions against Hill.[5]

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[5] This conclusion has no bearing on the Court's exceptional-case finding against Allcare. Allcare was free to present any evidence it saw fit to defend against Highmark's arguments under section 285, and it chose not to submit documents such as the August 2002 letter with the comparison of the responses by Trigon and Highmark to the Seaport Survey and chose to rely on a declaration by Hill that lacked sufficient detail for the Court to verify compliance with section 285 and Rule 11. As explained in the order granting reconsideration and to show-cause, Hill and the other attorneys initially sanctioned were allowed to present additional argument and evidence to ensure compliance with Rule 11's procedure, not to give Allcare a second chance to defend its actions.

2. Joseph Cleveland and Brackett & Ellis, PC

In the Opinion and Order, the Court concluded sanctions against Joseph Cleveland and his firm, Brackett & Ellis, PC, were warranted based on Cleveland's participation in the shifting claim construction and Allcare's continued pursuit of infringement allegations after Holland's report and deposition.

For the reasons discussed above, the shifting claim construction is not a proper basis for sanctions. And, also for the reasons discussed above, the Court has concluded that it will not impose sanctions based on the continued prosecution of the infringement allegations.

Cleveland argues that sanctions against him are inappropriate for the additional reason that, although designated lead counsel, he was functionally local counsel. Cleveland points out that this case was filed before the Court adopted its current ECF procedures, so he would receive copies of documents to be filed, distribute and serve copies as necessary, and, after some review, sign and file the documents. (Cleveland Decl., doc. #587, at 10.) Cleveland's review of documents focused on ensuring compliance with local rules and included a limited review of the substances of the filing, for which he relied on Allcare's "chief" counsel. (*Id.)* Cleveland states that Hill, along with Medlock, presented their evaluation of the merits of Allcare's case against Highmark. And the record as a whole bears out that Hill was Allcare's chief counsel, and it was Hill that made substantive decisions in Allcare's prosecution of the '105 patent. (*Id.* at 3 (noting that Hill was

Allcare's lead counsel in *Trigon*); at 6 (discussing Hill's presentation of the merits of Allcare's case against Highmark).) An attorney may place "some reliance" on the investigation and factual information provided by an attorney that preceded him in the case. *Smith v. Our Lady of the Hospital Lake, Inc.*, 960 F.2d 439, 446 (5th Cir. 1992). Under Rule 11, notwithstanding reliance on another attorney's efforts, the signing attorney certifies the reasonableness of a filing and may be sanctioned if the filing does not have reasonable basis or is for an improper purpose. *See* Fed. R. Civ. P. 11(a), (b). But given the extent of Hill's leadership role in this case, the Court concludes that Cleveland's reliance on Hill should not expose Cleveland to sanctions. Accordingly, the Court will vacate the sanctions imposed on Cleveland.

3. V. Bryan Medlock and Sidley Austin, LLP

V. Bryan Medlock and his firm, Sidley Austin, LLP, were sanctioned in the Opinion and Order based on Medlock's signing Allcare's original answer, in which it alleged that claim 52 had been infringed and in which it asserted the defenses of res judicata and collateral estoppel. In his declaration in response to the show-cause order, Medlock provides an explanation similar to that of Hill to justify the assertion of the preclusion defenses. And just as did Cleveland, Medlock relied on Hill's pre-filing investigation and strategic decisions on substantive issues in filing Allcare's allegation that Highmark's system infringed claim 52. Medlock states that he was aware that Hill had been involved in Allcare's efforts to prosecute the '105 patent since early 2002,

and that Hill and Shelton presented to him their understanding of the merits of Allcare's case against Highmark in the April 2002 strategy session. Thereafter, Hill lead Allcare's efforts against Highmark, with Medlock acting only as a sounding board for his ideas.

The Court notes that Medlock has already filed a notice of appeal, and that he filed his motion for reconsideration after that notice. "Generally, a notice of appeal divests the district court of jurisdiction over the judgment or order that is the subject of the appeal." *Sierra Club, Lone Star Chapter v. Cedar Point Oil Co.,* 73 F.3d 546, 578 (5th Cir. 1996). But a district court may seek leave from the court of appeals to entertain a motion to reconsider, *Shepherd v. International Paper Co.,* 372 F.3d 326, 329 (5th Cir. 2004), and this Court hereby seeks such leave of the Federal Circuit. Once leave is sought, the appellant may file a motion to remand so that the district court may grant reconsideration. *See id.* In the event Medlock does so, and his case is remanded to this Court, the sanctions imposed on Medlock will be vacated.

4. The McKool Smith Attorneys

The McKool Smith attorneys were sanctioned in the Opinion and Order for assisting Allcare in continuing to pursue allegations of infringement after those allegations were shown to be unsupported. Aside from defending the merits of those allegations, similar to Cleveland and Medlock, the McKool Smith attorneys' chief argument is that they relied on Hill's investigation and analysis on the issue of infringement. According to the McKool Smith attorneys, their involvement in this case focused on

the issues of damages and trial strategy. Again, as with Medlock and Cleveland, given that the record shows that Hill made the strategic and substantive decisions regarding claim construction and infringement in Allcare's prosecution of the '105 patent, and that Hill made representations to the other attorneys regarding the merit of Allcare's claims against Highmark and his investigation into such claims, the McKool Smith attorneys should not be sanctioned for relying on Hill. Consequently, the sanctions against the McKool Smith attorneys will be vacated.

III. CONCLUSION

The issue of sanctions against Hill is a close one, as Hill has not addressed all of the circumstances that the Court concluded warrant sanctions in the Opinion and Order, and many of the explanations Hill has offered are less than satisfactory. Nevertheless, the Court has been presented with some consideration weighing against sanctioning Hill for almost all of the conduct discussed in the Opinion and Order. As for the other attorneys, in light of Hill's leadership role in this case and his representations to them regarding his investigation of Allcare's claims, they will not be sanctioned for relying upon Hill.

Accordingly, the sanctions imposed on Steven Hill and his firm, Hill, Kertscher, & Wharton, LLP; Joseph F. Cleveland and his firm, Bracket & Ellis; and Mike McKool Jr., Christopher Harrington, Luke McLeroy, and R. Darryl Burke and their firm, McKool Smith LLP are hereby VACATED. The clerk of Court is DIRECTED to refund the sanctions paid by these attorneys. In the event that the Federal

Circuit remands the issue of the sanctions imposed on V. Bryan Medlock and his firm, Sidley Austin, LLP, those sanctions will be vacated as well.

SIGNED August 9, 2010.

/s/

TERRY R. MEANS
UNITED STATES
DISTRICT JUDGE

APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

HIGHMARK, INC.,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

CIVIL NO. 4:03-CV-1384-Y

ORDER AWARDING ATTORNEYS' FEES

On April 1, 2010, this Court entered an Opinion and Order Granting Motion for Exceptional-Case Finding and Attorneys' Fees (doc. 566). In that order, the Court determined that the instant action is an exceptional case under 35 U.S.C. § 285 as a consequence of certain acts of defendant Allcare Health Management Systems, Inc. ("Allcare").[1] The Court also determined that there is no cause to exercise its discretion to deny the request for fees made by plaintiff Highmark, Inc. ("Highmark").[2]

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[1] The Court's exceptional-case finding and related factual findings are set out in detail in the April 1 opinion and order.

[2] To be clear, in the April 1 opinion and order, the Court made a number of other determinations that either are not relevant here or have since been affected by subsequent orders (e.g.,

Accordingly, pursuant to Federal Rule of Civil Procedure 54(d)(2), the Court directed Highmark to submit a brief on the reasonableness of the attorney and expert fees it requests. The Court cautioned Highmark to request only those attorney and expert fees that it incurred as a result of the conduct of Allcare and its attorneys as discussed in that opinion and order ("exceptional conduct"). *See Takeda Chemical Industries, Ltd. v. Mylan Laboratories, Inc.*, 549 F.3d 1381, 1390 (Fed. Cir. 2008) (noting that fees for an entire suit are rarely awarded). Therefore, the only issue before the Court is the reasonableness of the amount of fees that Highmark seeks to recover.

I. REASONABLE ATTORNEYS' FEES

A. Highmark's Request

Highmark requests $4,846,710.02 in attorneys' fees and $209,626.56 in expenses.[3] Highmark indicates that its "requested fees encompass the entirety of work directed to the asserted patent-related claims and defenses because none would have been incurred if Allcare had acted reasonably before asserting infringement." (Pl.'s Br. 1 (doc. 603).) In other words, according to Highmark, it may request the entire amount of fees and expenses it incurred

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Opinion and Order Reconsidering and Vacating Sanctions, doc. 633). For purposes of the instant order, the Court's exceptional-case finding and grant of Highmark's request for attorneys' fees are the important aspects of the April 1 opinion and order, and the subsequent orders do no effect the Court's exceptional-case finding. *See* Op. and Order Vac. Sanct. 47 n.5 (doc. 633).

[3] Highmark already received $88,998.58 in the Bill of Costs (doc. 511).

litigating the patent-related issues in this case[4] and, at the same time, comply with the Court's directive to request only those attorney and expert fees it incurred as a result of the Allcare's exceptional conduct.

Nevertheless, in Volume 3 of Highmark's confidential appendix (doc. 602), Highmark provides a chart that divides its fee request into time periods based on events in the litigation in an effort to demonstrate that its fee request, although comprehensive, is tailored to Allcare's exceptional conduct. (Conf'l App. to Pl.'s Br. 1283-85.) And in its brief, Highmark explains how the fees incurred during each time period are attributable to Allcare's improper conduct. (Pl.'s Br. 22-25.) For example, Highmark asserts that the work it performed in response to Allcare's cease-and-desist letter of April 16, 2002, was only necessary because of Allcare's failure to adequately investigate the merits of its infringement claims before threatening suit against Highmark. (*Id.* at 2-3, 23.) In addition, Highmark contends that the fees and expenses it incurred after filing suit in 2003 were the direct result of Allcare's blind reliance upon the Trigon system[5] in filing and

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[4] Highmark does not request any fees for work performed after September 2009 when the Court determined that there was a substantial basis for an exceptional-case finding.

[5] The Trigon system was the subject of an infringement action that Allcare filed against Trigon Healthcare, Inc., in the United States District Court for the Eastern District of Virginia. The Eastern District granted summary judgment in favor of Allcare, concluding, among other things, that the '105 patent (which was at issue in this case) is enforceable. As the Court explains in more detail in the April 1 opinion and order, Allcare filed and maintained its infringement counterclaims against Highmark

maintaining its infringement counterclaims. (*Id.* at 23-24.) Moreover, Allcare attributes the fees it incurred after April 2004 to Allcare's failure to take an expert to inspect the Highmark system and to Allcare's maintenance of its infringement allegations even after this Court's adoption of the special master's claim construction in 2007. (*Id.* at 24.)

Highmark asserts that application of the hybrid lodestar analysis explained in *Maxwell v. Angel-Etts of Cal.*, 53 F. App'x 561 (Fed. Cir. 2002) supports the conclusion that Highmark's fee request is reasonable. "Under this approach, the [C]ourt first determines a lodestar figure by multiplying the number of hours reasonably spent on the litigation by a reasonable hourly rate." *Id.* at 568 (citing *Hensley v. Eckerhart*, 461 U.S. 424, 433-34 (1983)). The Court may then adjust the lodestar figure "based on a variety of factors, such as skill and time required, novelty of the questions involved, fixed or contingent fee basis, results obtained, and/or relationship between attorney and client." *Id.* (citing *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67, 70 (9th Cir. 1975)). If it does so, however, the Court must articulate its reasons for the adjustment. *Id.* (citation omitted). "In cases where the fee application is complex, the district court is not required to do a line-by-line analysis, but may make across-the-board cuts, so long as it sets forth a concise reason for its cuts." *Id.* (citations omitted).

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based on the Trigon system's alleged similarities to the Highmark system (although Allcare failed to, among other things, inspect the Highmark system prior to filing its counterclaims). (Op. and Order 2-5.)

Highmark indicates that some 16,019.67 hours were expended by attorneys working on its case and that an additional 2640.54 hours were expended by non-attorneys. Highmark's three-volume confidential appendix (docs. 600-602) contains detailed documentation of these hours in the way of invoices and billing statements. It appears that these hours date from May 2, 2002, after receiving Allcare's cease-and-desist letter, to September 30, 2009, after the Court determined that there was a substantial basis for an exceptional-case finding. Moreover, the appendix contains numerous redactions for hours that Highmark has excluded from its fee request. According to Highmark, these hours were either not sufficiently related to the patent claims or they were expended by attorneys with limited involvement in the case.

Furthermore, with the exception of two senior partners serving "discrete" roles in this litigation, Highmark explains that it had a special billing arrangement with the law firm Reed Smith LLP ("Reed Smith") "whereby all partners working on this case were billed at a single rate and all associates were billed at a single rate, each increasing slightly as the years progressed."[6] (Pl.'s Br. 13.) Highmark offers the 2003 and 2009 Reports of the Economic

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[6] The fees that Reed Smith charged for Highmark's lead counsel, Cynthia Kernick, and partner Eugene LeDonne ranged from $290 per hour in 2002 to $380 per hour in 2009. Further, Reed Smith billed its associates at $190 per hour in 2002 and $265 in 2009. Reed Smith charged $500 per hour for senior partners Fred Colen and James Martin, both of whom served discrete roles in the case. And Highmark's local counsel, the Gardere Firm, charged rates ranging from $235 to $510 (this latter figure was charged by Craig Florence in the last year).

Survey of the American Intellectual Property Law Association ("AIPLA") as support for its assertion that its hourly rates are reasonable.[7] (App. to Pl.'s Br. 1290-94.) As Highmark notes, the Federal Circuit has previously upheld district courts' consideration of the AIPLA surveys. *See, e.g.*, *View Eng'g, Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 987 (Fed. Cir. 2000); *Mathis v. Spears*, 857 F.2d 749, 755-56 (Fed. Cir. 1988). Given the foregoing, the Court will consider the AIPLA surveys in its evaluation of Highmark's fee request.

B. Allcare's Challenges to Highmark's Request

Allcare challenges Highmark's fee request on number of grounds. Initially, Allcare contends that by requesting fees for the entirety of work spent on the asserted patent-related claims and defenses,

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[7] According to the 2003 AIPLA survey, the median hourly rate charged in 2003 by partners practicing patent law with 15 to 19 years of experience was $325, while partners with 20 to 24 years of experience charged a median hourly rate of $348. (App. to Pl.'s Br. 1291.) Associates with 5 to 6 years of experience earned a median of $226 per hour and associates with 7 to 9 made a median of $250 per hour. (*Id.)* Based on the 2009 AIPLA survey, the median hourly rate for partners with 15 to 24 years of experience was $445 per hour, while the average hourly rate for such partners was $467 and the seventy-fifth percentile rate for them was $570. (*Id.* at 1293) The median hourly rate for partners practicing patent law in Texas was $450, the average was $472, and the seventy-fifth percentile amount was $590. (*Id.)* Full-time intellectual property lawyers at firms of more than 150 attorneys charged an average of $599 an hour and a median hourly rate of $598. (*Id.)* Moreover, the 2009 AIPLA survey indicates that the average litigation costs for patent-infringement lawsuits in Texas with more than $25,000,000 at risk was $6,120,000 and the median was $6,000,000.

Highmark has "blatantly disregarded this Court's order and implicitly seeks reconsideration of it." (Def.'s Resp. 1 (doc. 630).) Similarly, Allcare contends that Highmark's broad request does not permit Allcare to respond "point for point as to the reasonableness of Highmark's requested fees and the impact any alleged litigation misconduct by Highmark should have on that amount." (Def.'s Resp. 5.) In its brief, Highmark expressly acknowledges, however, the limitations that this Court imposed on its fee request. Moreover, as previously explained, Highmark has broken down its fee request into various periods and litigation events, explaining how each period corresponds to Allcare's objectionable conduct and providing documentation of its work. Admittedly, Highmark's fee request is expansive. Nevertheless, it is detailed enough to allow this Court to assess its merit and to allow Allcare to respond. Indeed, Allcare does respond to the reasonableness of Highmark's request, taking issue with several specific aspects of the fee request over the course of 1,907 pages. (Conf'l App. to Def.'s Resp. (doc. 631).) And likewise, Allcare manages to argue for limitations based on Highmark's conduct. (Def.'s Resp. 7-9 (asserting that the Court should reduce Highmark's fee award based on Highmark's failure to withdraw its non-infringement claim as to Claim 1).) Thus, the Court does not find persuasive Allcare's argument that Highmark blatantly disregarded the Court's April 1 order and opinion, nor does the Court find merit in Allcare's argument that the broad scope of Highmark's fee request precludes Allcare from being able to adequately respond.

Allcare next challenges Highmark's entitlement to fees for work performed in connection with Highmark's unenforceability and invalidity defenses. Allcare states that Highmark withdrew these defenses before judgment and that the Court did not discuss these defenses in the April 1 opinion and order. In reply, Highmark insists it should recover for time spent on its unenforceability and invalidity defenses because those defenses are "related" to its non-infringement claim, which Highmark asserted in response to Allcare's infringement allegations. Highmark is correct that it should be permitted to recover for the time it spent defending against Allcare's frivolous infringement allegations. However, Highmark is not entitled to recover for work done in connection with its unenforceability and invalidity defenses because these were not incurred as a direct result of Allcare's exceptional conduct as described in the April 1 opinion and order.

In addition, Allcare contends that Highmark should not be permitted to recover any fees for work performed in connection with discovery. To support this contention, Allcare quotes the portion of the April 1 opinion and order stating "that most of the remaining acts alleged by Highmark appear to be discovery disputes that are likely in a complex and hotly contested case." Def.'s Resp. 7. That comment, however, was in regards to particular discovery-related actions—not discovery-related actions in general. While Allcare is correct that Highmark should not recover for discovery-related work not incurred as a result of Allcare's exceptional conduct, Allcare's contention is too broad. Highmark should be allowed to recover fees for any discovery-related

work incurred as a result of Allcare's exceptional conduct.

Allcare also contests Highmark's request for fees incurred in connection with Claim 1.[8] Allcare asserts that "Highmark insisted for over four years that Claim 1 remain a topic of this litigation" despite learning in July 2004 that Allcare had eliminated its counterclaim for infringement as to Claim 1. (Def.'s Resp. 8.) Allcare further asserts that Highmark's refusal to withdraw Claim 1 required claim-construction analysis to occur with respect to that claim when it otherwise might have been avoided. In reply, Highmark states, that it "maintained Claim 1 in this case because it was the 'apparatus' reflection of the Claim 52 'method' and was the most cogently stated [c]laim." (Pl.'s Reply 6.) According to Highmark, the fact that the special master began its claim-construction analysis with Claim 1 is evidence that "maintaining Claim 1 in this action was appropriate." (Pl.'s Reply 6.) Highmark maintained Claim 1 in this action as part of its defense against all of Allcare's infringement allegations (e.g., Claim 502). Therefore, because Claim 1 was the predicate "system" claim for its other "method" claims, Highmark's maintenance of Claim 1 was a permissible part of its defense against Allcare's infringement allegations.

Allcare also contends that Highmark should not receive fees for work performed on its various *Trigon* motions. Highmark points out that Highmark filed multiple motions to strike reference to the *Trigon* rulings and that the Court denied each one. The

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[8] Claim 1 was one of four claims originally at issue in this case, along with claims 52, 53, and 102.

issue, however, is not necessarily whether Highmark persuaded the Court as to each of its contentions but whether the fees Highmark incurred working on those contentions were "incurred as a result of the conduct of Allcare and its attorneys as discussed in [the April 1] opinion and order." As this Court explained in the April 1 opinion and order, Allcare misused the *Trigon* rulings throughout this litigation and even before. With respect to Allcare's inadequate pre-filing investigation, this Court made the following observations:

> "[t]he rulings in *Trigon* are relevant to the issue of whether Highmark's system infringed the '105 patent only to the extent that Highmark's system and the system in *Trigon* are the same. There is no indication in the record that Allcare investigated Highmark's system or compared it to Trigon's system before filing counterclaims against Highmark. Yet Allcare points to the *Trigon* rulings as justification for its claims of infringement against Highmark."

(Op. and Order 21.) The Court also noted that "once a claim construction was issued in this case, the issue became whether Highmark's system infringed the '105 patent as so construed," and "[t]he *Trigon* rulings became irrelevant." *Id.* at 38. The Court then concluded that Allcare's persistent reliance upon the *Trigon* rulings as support for Allcare's infringement allegations was not without knowing, or at least having reason to know, that the allegations were baseless. *See id.* at 38-39 (citing *Eltech Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 810-811 (Fed. Cir. 1990)). Furthermore, after

concluding that Allcare had included in its original answer the defenses of *res judicata* and collateral estoppel despite knowing that they were meritless, the Court stated that "[t]he evidence of these actions firmly convinces the Court of Allcare's use of frivolous and vexatious tactics and supports an exceptional-case finding . . . ." *Id.* at 40. Therefore, the work Highmark performed as a result of Allcare's improper reliance on the *Trigon* rulings or the Trigon system was incurred because of Allcare's exceptional conduct, even if not every contention was successful.

Finally, in addition to challenging the reasonableness of Highmark's fee request, Allcare challenges Highmark's entitlement to fees at all. According to Allcare, Highmark "waited too long to pursue its claim that Allcare's infringement claims were frivolous" and has "not provided the Court with a record upon which it can rule." (Def.'s Resp. 11-12.) But as Highmark points out in its reply, section 285 only allows for the recovery of attorneys' fees in exceptional cases to the prevailing party, a status that cannot be determined until judgment. *See* 35 U.S.C.A. § 285. And with regard to Allcare's challenge to the record, the Court has reviewed Highmark's evidence and finds it both thorough and adequately organized. As previously explained, despite Allcare's assertion to the contrary, much of Highmark's appendix contains an adequate break-down of the fees it requests and an explanation of how those fees relate to Allcare's exceptional conduct. In any event, the Court has already determined that Highmark should recover attorneys' fees under § 285, and the sole issue before the Court is the reasonableness of those fees.

C. Determination of Reasonable Attorneys' Fees

"In determining the reasonableness of the award, there must be some evidence to support the reasonableness of, inter alia, the billing rate charged and the number of hours expended." *In re Electro-Mech. Indus.*, 359 F. App'x 160, 165 (Fed. Cir. 2009) (quoting *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1068 (Fed. Cir. 1983)). As previously discussed, Highmark submits the AIPLA surveys in support of its assertion that its requested hourly fees are reasonable. Given that Highmark's hourly rates fall within the ranges in the AIPLA surveys and in light of the fact that Allcare does not appear to challenge the reasonableness of Highmark's hourly rates, the Court concludes that the hourly rates submitted by Highmark's attorneys in this case are reasonable. *See View Eng'g, Inc.*, 208 F.3d at 987; *Mathis*, 857 F.2d at 755-56. Additionally, based on the invoices, billing statements, and charts contained in Highmark's three-volume appendix, the Court is satisfied that the hours Highmark's attorneys have purportedly expended in this litigation are substantiated by the evidence. Therefore, the Court will accept, as a starting place, the lodestar calculation proposed by Highmark. *Cf. Takeda*, 549 F.3d at 1390-91 (affirming the district court's award of $16,800,000 for attorney and expert fees and expenses).

However, an award by the court of the total amount of a fee request is unusual. *Takeda*, 549 F.3d at 1390 (citing *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1553 (Fed. Cir. 1989)). And Highmark's fee request encompasses slightly more

than just the fees it incurred as a result of Allcare's exceptional conduct as discussed in the April 1 opinion and order. Highmark's argument—that it should recover the entirety of work directed to the asserted patent-related claims and defenses because it would have incurred none if Allcare had acted reasonably before asserting infringement—is persuasive given how intertwined Allcare's exceptional conduct is with each phase of this litigation. Nevertheless, the April 1 opinion and order notes specific instances of exceptional conduct on the part of Allcare, and those instances are all that Highmark's fee request should cover. Thus, the lodestar figure should be reduced accordingly. *See Maxwell*, 53 F. App'x at 568.

Accordingly, the Court concludes that two reductions are necessary. First, Highmark's fee request should be reduced by the time attributable to its invalidity and unenforceability defenses. The Court did not find exceptional Allcare's assertions that the '105 patent was valid and enforceable. Therefore, the time Allcare spent responding to these assertions are outside the scope of fees allowed by the April 1 opinion and order. Second, Highmark's fee request should be reduced to account for the discovery disputes that the Court found "likely [to occur] in a complex and hotly contested case." (Op. and Order 41.) While much of the discovery-related work that Highmark performed in this case appears to be the result of exceptional conduct on the part of Allcare, some of it is not.

Based on the evidence that Highmark has submitted, it appears that from May 2004 through September 2009, Highmark incurred approximately

$60,793 per month in fees. It also appears that around the beginning of this period, particularly in April and May 2004, Highmark performed a significant amount of discovery-related work (e.g., drafting opposition to motion to compel). (Conf'l App. to Pl.'s Br. 185-224.). Further, it is apparent that Highmark spent much of September and October 2007 working on its summary-judgment briefing, which included arguments concerning invalidity. (Conf'l App. to Pl.'s Br. 786-807.) In light of this information, a reduction of $91,189.52 seems fair and proportionate to the amount of work Highmark committed to mere discovery-related work during that time. The Court similarly concludes that an additional reduction of $60,793 is appropriate for the work Highmark spent working on its invalidity and unenforceability defenses.[9]

II. REASONABLE EXPERT FEES

In addition to attorneys' fees, Highmark seeks $378,650.05 in expert fees and expenses. As is evident in the April 1 opinion and order, the Court has already determined that Highmark should recover reasonable expert fees. However, as Highmark notes in its brief, "[s]ection 285 does not provide for the award[ing] of expert fees."[10] *In re*

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[9] These figures are based on the Court's determination that about seventy-five percent of the work performed in the months of April and May 2004 were attributable to mere discovery disputes and that about half of the work it performed in September and October 2007 on its summary-judgment briefing is attributable to the invalidity defense. (Conf'l App. to Pl.'s Br. 185-224, 786-807.)

[10] In the April 1 opinion and order, the Court stated that there was no need to exercise its inherent authority to award fees and expenses in light of its conclusion that the instant action is an

Electro-Mech., 359 F. App'x at 165 (citing *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 23 F.3d 374, 379 (Fed. Cir. 1994)). For the Court to award expert fees in excess of the statutory fees under 28 U.S.C. § 1821, [11] it must "invoke its inherent power to impose sanctions." *Takeda*, 549 F.3d at 1391 (citations omitted). Doing so requires either "a finding of fraud or abuse of the judicial process." *Amsted*, 23 F.3d at 378-79 (citations omitted). In other words, because "not every case qualifying as "exceptional" under section 285 will qualify for sanctions under the court's inherent power," the Court must "assess whether this case goes sufficiently beyond 'exceptional' within the meaning of section 285 to justify an award of expert fees as a sanction under the [C]ourt's inherent power." *Id.* (citations omitted).

The Court concludes that this standard is met in the present case. In the April 1 opinion and order, the Court concluded that Allcare had filed and continually pursued frivolous counterclaims even after it became clear that those counterclaims were meritless. (Op. and Order 28-36.) The Court also concluded that Allcare asserted defenses despite knowing they were meritless. (*Id.* at 39-40.) Moreover, the Court based its exceptional-case finding in part on Allcare's use of "vexatious tactics."

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exceptional case under § 285 and that sanctions are appropriate under Rule 11. Since that opinion, however, the Court has vacated its imposition of Rule 11 sanctions. Therefore, in the instant order, the Court will invoke its inherent power to award expert fees, as § 285 does not provide for them.

[11] Highmark already obtained $200.00 in § 1821 witness fees in the Bill of Costs (doc. 511).

(*Id.* at 40.) Based on these findings, and pursuant to its inherent authority, the Court concludes that expert fees should be awarded in this case.

As with attorneys' fees, Highmark's expert-fee recovery must be limited to those fees incurred as a result of Allcare's exceptional conduct. After reviewing the evidence, it appears that the vast majority of Highmark's expert fees were incurred while defending against Allcare's allegations of infringement. However, expert Jeremy Noble appears to have done some work on invalidity-related defenses as well. (Conf'l App. to Pl.'s Br. 1279.) The fees attributable to this work are nominal in amount when compared to the overall request; but in an effort to remain consistent with the April 1 opinion and order and in fairness to Allcare, the Court concludes that a reduction of $3,250 is appropriate.[12]

III. POST-JUDGMENT INTEREST

Lastly, Highmark seeks post-judgment interest running from the date of "this Court's judgment awarding attorney fees." (Pl.'s Br. 22.) Under 28 U.S.C. § 1961(a), "[i]nterest shall be allowed on any money judgment in a civil case recovered in a district court." 28 U.S.C.A. § 1961(a). The phrase "any money judgment" in § 1961 includes a judgment that awards attorney fees. *Mathis*, 857 F.2d at 760. The purpose of this provision is to "deter[] use of the appellate process by the judgment debtor solely as a means of prolonging its free use of money owed the

[12] This figure is based on the 6.5 hours Nobel spent working on his invalidity report at an hourly rate of $500. (Conf'l App. to Pl.'s Br. 1279.)

judgment creditor." Thus, "[i]nterest on an attorney fee award . . . runs from the date of the judgment establishing the right to the award, not the date of the judgment establishing its quantum." *Id.* (citing *Copper Liquor, Inc. v. Adolph Coors Co.*, 701 F.2d 542, 544-45 (5th Cir. 1983); *Spain v. Mountanos*, 690 F.2d 742, 747-48 (9th Cir. 1982)). Therefore, because Highmark became entitled to attorneys' fees pursuant to the April 1 opinion and order,[13] post-judgment interest is appropriate and should accrue as of April 1, 2010, at a rate of .42%.[14]

V. CONCLUSION

Accordingly, Highmark shall recover attorneys's fees in the amount of $4,694,727.40 and $209,626.56 in expenses.[15] Highmark shall also recover expert fees and expenses in the amount of $375,400.05.

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[13] Highmark received a judgment that conferred upon it "prevailing-party" status well before the April 1 opinion and order. However, because attorneys' fees under § 285 are within the discretion of the district court and are not automatic, that judgment is not the point at which Highmark became entitled to the fees or the point when post-judgment interest should begin to accrue. *See Mathis*, 857 F.2d at 760. In any event, Highmark has not requested that the post-judgment run from the earlier judgment. Thus, the judgment from which interest shall accrue is the April 1 opinion and order.

[14] Pursuant to 28 U.S.C. § 1961(a), this rate is "equal to the weekly average 1-year constant maturity Treasury yield . . . for the calendar week preceding." 28 U.S.C.A. § 1961(a).

[15] The breakdown is as follows:

> Reed Smith - $ 4,491,196.80 in attorneys' fees and $193,833.5 in expenses; Gardere Wynne - $203,530.60 in attorneys' fees and $15,793.06 in expenses; Mark Gleason - $253,671.25 in expert fees and $3,583.89 in expenses; and Jeremy Nobel - $108,625.00 in expert fees and $9,519,91 in expenses.

Interest shall accrue on these amounts, beginning April 1, 2010, at a rate of 0.42% pursuant to 28 U.S.C. § 1961.

SIGNED November 5, 2010.

/s/

TERRY R. MEANS
UNITED STATES
DISTRICT JUDGE

APPENDIX F

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

HIGHMARK, INC.,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

CIVIL NO. 4:03-CV-1384-Y

ORDER DENYING MOTION TO ALTER OR AMEND THE JUDGMENT OR FOR A NEW TRIAL

Before the Court is the Motion to Alter or Amend Judgment or for a New Trial (doc. 643) filed by defendant Allcare Health Management Systems, Inc. ("Allcare"). By the motion, Allcare seeks reconsideration under Federal Rule of Civil Procedure 59(e) of the April 1, 2010, Opinion and Order Granting Motion for Exceptional-Case Finding and Attorneys' Fees (doc. 566) and the November 5, 2010, Order Awarding Attorneys' Fees (doc. 639). After review, the Court will deny the motion.

I. LEGAL STANDARD

A Rule 59(e) motion is one that "calls into question the correctness of a judgment." *In re Transtexas Gas Corp.*, 303 F.3d 571, 581 (5th Cir. 2002). "Rule 59(e)

serves the narrow purpose of allowing a party to correct manifest errors of law or fact or to present newly discovered evidence." *Templet v. HydroChem Inc.*, 367 F.3d 473, 479 (5th Cir. 2004) (quoting *Waltman v. Int'l Paper Co.*, 875 F.2d 468, 473 (5th Cir. 1989)). "Relief under Rule 59(e) is also appropriate when there has been an intervening change in the controlling law." *Schiller v. Physicians Res. Grp. Inc.*, 342 F.3d 563, 567 (5th Cir. 2003) (citation omitted). But "such a motion is not the proper vehicle for rehashing evidence, legal theories, or arguments that could have been offered or raised before the entry of judgment." *Templet*, 367 F.3d at 479 (citing *Simon v. United States*, 891 F.2d 1154, 1159 (5th Cir. 1990)).[1]

II. DISCUSSION

A. Arguments

Allcare contends that the Court should revisit its exceptional-case finding under 35 U.S.C. § 285 and its subsequent award of attorneys' fees because of "at least two material factors that have arisen since the [exceptional-case finding]." (Mot. Alter or Amend 1.) First, Allcare cites *Performance Pricing, Inc. v. Google, Inc.*, 704 F. Supp. 2d 577 (E.D. Tex. 2010), in which the Chief Judge of the United States Court of Appeals for the Federal Circuit sat by designation, as

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[1] In this Court, Fifth Circuit law governs the standard for altering or amending a judgment under Rule 59(e), except to the extent that substantive issues of patent law are consulted. *See Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 840 (Fed. Cir. 2009) ("The Federal Circuit defers to the law of the regional circuits on matters of procedural law that do not implicate issues of patent law." (citations omitted) (internal quotation marks omitted)).

a basis for reconsideration. Had that decision been available at the time of the exceptional-case finding, says Allcare, "a strong case law precedent would have reinforced Allcare's arguments for why this case does not rise to the high standard required for an 'exceptional case' finding and the award of attorneys' fees and costs." (Mot. Alter or Amend 3.) Second, Allcare asserts that the Court's August 9, 2010, Opinion and Order Reconsidering and Vacating Sanctions (doc. 633), by which the Court vacated Rule 11 sanctions against Allcare's counsel, "fatally undercuts" the Court's exceptional-case finding and subsequent decision to award fees pursuant to § 285. (Mot. Alter or Amend 3.) According to Allcare, the Court should "rectify this highly anomalous and inconsistent treatment of the inextricably intertwined conduct of Allcare and its lawyers." (Mot. Alter or Amend 17.) Allcare argues in the alternative that, if the Court is not prepared to set aside its exceptional-case finding based on the instant motion, then the Court should reconsider its decision denying Allcare's previous request for an evidentiary hearing on the issue (doc. 552).

Plaintiff Highmark, Inc. ("Highmark"), contends that Allcare has failed to meet its burden of showing that reconsideration of the exceptional-case finding and corresponding award of attorneys' fees is appropriate. Highmark asserts, among other things, that Allcare's motion is untimely, that the *Performance Pricing* case does not constitute "an intervening change in the controlling law," and that Allcare has pointed to no newly-discovered evidence. Highmark also asserts that reconsideration of the Court's decision to deny Allcare's request for an evidentiary hearing is, likewise, inappropriate.

B. Analysis

Initially, the Court notes that the instant motion is timely. An order that awards attorneys' fees under § 285 is not an appealable final judgment if it does not quantify the amount of the award. *See Special Devices, Inc. v. OEA, Inc.*, 269 F.3d 1340, 1343-1345 (Fed. Cri. 2001). Because Allcare filed its motion within twenty-eight days of the Court's November 5 order, which established the amount of the fee award, the motion complies with the time requirements of Rule 59(e). Fed. R. Civ. P. 59(e).

Nevertheless, after review of the briefing, the Court concludes that reconsideration of the exceptional-case finding and subsequent award of fees is not appropriate. First of all, there has been no intervening change in the controlling law. The significance of the *Performance Pricing* case, according to Allcare, is its clarification that a court must find subjective bad faith before making an exceptional-case finding. As Highmark points out, this was already the law at the time of the exceptional-case finding. *See, e.g.*, *Wedgetail Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1305 (Fed. Cir. 2009). In any event, Allcare itself recognizes that *Performance Pricing* is not controlling on this Court and, instead, "should obviously be considered persuasive." (Mot. Alter or Amend 8.)

Furthermore, Allcare has not established the presence of any manifest errors of law or fact. Despite Allcare's insistence to the contrary, the Court **did** find the requisite subjective bad faith on the part of Allcare in determining that this was an exceptional case under § 285. For example, the Court determined the following:

> [t]he evidence establishes with a high probability that Allcare was not some naive or passive participant in this litigation. Rather, it pursued this suit as part of a bigger plan to identify companies potentially infringing the '105 patent under the guise of an informational survey, and then to force those companies to purchase a license of the '105 patent under threat of litigation.
>
> Allcare's vexatious and, at times, deceitful conduct did not stop there. Allcare maintained infringement claims well after such claims had been shown by its own experts to be without merit and did so as a tactic to provide leverage against Highmark's pending claims.

(Op. and Order Granting Mot. for Exceptional-Case Finding 49-50.) Nevertheless, Allcare insists that no bad-faith finding was made because "the words 'bad faith' and 'subjective bad faith' do not appear whatsoever in the [April 1 order]." (Mot. Alter or Amend 9.) But regardless of whether the Court used the magic words "subjective bad faith," the Court made itself quite clear that Allcare acted with the requisite culpability to support an exceptional-case finding under § 285. Allcare's argument on this point is either disingenuous or the result of a spotty review of the record.

Also unavailing is Allcare's contention that the August 9 order vacating Rule 11 sanctions against Allcare's former counsel "fatally undercuts" the exceptional-case finding and subsequent award of fees. "Motions under Rule 11 and § 285 are different." *Digeo, Inc. v. Audible, Inc.*, 505 F.3d 1362, 1368 (Fed. Cir. 2007) (footnote omitted). And Allcare's

statement that the requirements of § 285 are stricter than those imposed by Rule 11 is slightly oversimplified. While it is true that Rule 11 sanctions may be imposed for conduct falling short of the "subjective bad faith" necessary for an exceptional-case finding, it is also true that Rule 11 contains a number of procedural safeguards that § 285 does not. *See, e.g.*, *Digeo*, 505 F.3d at 1368 ("One key difference is that Rule 11 motions must comply with the safe harbor provision, but § 285 motions need not."). It was, in fact, Rule 11(c)(2)'s separate-motion requirement that caused the Court to reconsider its initial of imposition of Rule 11 sanctions in the first place (doc. 612). Moreover, the Rule 11 issue, though initially raised by Highmark, was ultimately pursued and resolved by the Court. (Order Granting Motions to Reconsider 4 (doc. 612).) The exceptional-case finding, on the other hand, was initiated and advanced by Highmark, and Allcare was given a full and fair opportunity to respond and present evidence in its defense. In short, the Court's decision to vacate Rule 11 sanctions against Allcare's counsel does not, by itself, render the exceptional-case finding a manifest error of law because the requirements under Rule 11 and § 285 are different.

Allcare, nonetheless, insists that the April 9 order vacating Rule 11 sanctions renders the exceptional-case finding an "unjustifiable anomaly." (Mot. Alter Amend 6.) Allcare contends that it was "fundamentally unfair" and "inconceivable" that the Court did not consider Allcare's proposed findings and conclusions (doc. 560). (Mot. Alter or Amend 9-10.) Allcare characterizes the Court's decision not to review Allcare's proposed findings as a "refusal by the Court to consider the whole record before it."

(Mot. Alter or Amend 9.) As the Court articulated in the April 1 order, however, Allcare's proposed findings were filed well after briefing on the exceptional-case issue had closed. In other words, it was Allcare's fault—not the Court's—that the proposed findings were not filed in time to make the record. Deadlines serve an important role in assuring the fairness of litigation, and the Court's decision to enforce them and disregard the untimely-filed proposed findings is not "exalt[ing] form over substance" as Allcare suggests. (Mot. Alter or Amend 10.) Allcare's refusal to take responsibility for its own actions only affirms the Court's determination that this is an exceptional case under § 285. Allcare's proposed findings do not constitute newly-discovered evidence, and the Court's decision to refrain from considering them is not a manifest error of law or fact.

III. CONCLUSION

Therefore, the Court concludes that Allcare has failed to demonstrate the appropriateness under Rule 59(e) of revisiting the exceptional-case issue—whether by altering or amending the judgment, granting a new trial, or holding an evidentiary hearing. Allcare has not pointed to any intervening change in the controlling law, any manifest errors of law or fact, or any newly discovered evidence. Accordingly, Allcare's motion to alter or amend or for new a trial is DENIED.

SIGNED January 18, 2011.

/s/

TERRY R. MEANS
UNITED STATES
DISTRICT JUDGE

APPENDIX G

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

HIGHMARK, INC.,

Plaintiff-Appellee,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Defendant-Appellant.

2011-1219

Appeal from the United States District Court for the Northern District of Texas in case no. 03-CV-1384, Judge Terry Means.

ON PETITION FOR PANEL REHEARING
AND
ON PETITION FOR PANEL REHEARING AND
REHEARING EN BANC

CYNTHIA E. KERNICK, Reed Smith LLP, of Pittsburgh, Pennsylvania, filed a combined petition for panel rehearing and rehearing en banc for plaintiff-appellee and a response to defendant-appellant's petition for panel rehearing. With her on the petition and response were JAMES C. MARTIN, KEVIN S. KATONA and THOMAS M. POHL.

DONALD R. DUNNER, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, of Washington, DC, filed a petition for panel rehearing for defendant-appellant and a response to plaintiff-appellee's combined petition for rehearing. With him on the petition and response was Erik R. Puknys, of Palo Alto, California. Of counsel on the petition and response was Dan S. Boyd, The Boyd Law Firm, P.C., of Dallas, Texas.

Before RADER, *Chief Judge*, NEWMAN, MAYER, LOURIE, BRYSON, LINN, DYK, PROST, MOORE, O'MALLEY, REYNA, and WALLACH, *Circuit Judges*.

PER CURIAM.

DYK, *Circuit Judge*, with whom NEWMAN, *Circuit Judge*, joins, concurs in the denial of the petition for rehearing en banc.

MOORE, *Circuit Judge*, with whom RADER, *Chief Judge*, O'MALLEY, REYNA, and WALLACH, *Circuit Judges*, join, dissents from the denial of the petition for rehearing en banc.

REYNA, *Circuit Judge*, with whom MOORE, O'MALLEY, and WALLACH, *Circuit Judges*, join, dissents from the denial of the petition for rehearing en banc. RADER, *Chief Judge*, joins in Parts I–II of the dissent.

ORDER

A petition for panel rehearing was filed by Defendant-Appellant Allcare Health Management Systems, Inc. ("Allcare"), and a response thereto was invited by the panel and filed by Plaintiff-Appellee Highmark, Inc. ("Highmark"). A combined petition for panel rehearing and rehearing en banc was also

filed by Highmark, and a response thereto was invited by the court and filed by Allcare.

The petitions for panel rehearing and responses were referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and the response were referred to the circuit judges who are authorized to request a poll of whether to rehear the appeal en banc.* A poll was requested, taken, and failed.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) The petitions of Allcare and Highmark for panel rehearing are denied.

(2) The petition of Highmark for rehearing en banc is denied.

(3) The mandate of the court will issue on December 13, 2012.

FOR THE COURT

December 6, 2012
Date

/s/ Jan Horbaly
Jan Horbaly
Clerk

* Judge Mayer did not participate in the decision regarding rehearing en banc. Judge Linn assumed senior status November 1, 2012 after participating in the decision regarding rehearing en banc.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

HIGHMARK, INC.,

Plaintiff-Appellee,

v.

ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.,

Defendant-Appellant.

2011-1219

Appeal from the United States District Court for the Northern District of Texas in case no. 03-CV-1384, Judge Terry Means.

DYK, *Circuit Judge*, with whom NEWMAN, *Circuit Judge*, joins, concurring in the denial of the petition for rehearing en banc.

We agree that rehearing en banc is properly denied. We write briefly to respond to the dissents.

I

Section 284, 35 U.S.C., allows the award of enhanced damages at the conclusion of a patent case based on a finding of willful infringement. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (en banc); *see also Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991) (collecting cases). Section 285, 35 U.S.C., allows the award of attorneys'

fees at the conclusion of the case, against either a patentee or an accused infringer, if the court finds the case "exceptional." Following the Supreme Court's decision in *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* ("*PRE*"), 508 U.S. 49 (1993), we have long held that the standard for both inquiries is the same, and that it requires a dual determination that the position of the sanctioned party is (1) objectively unreasonable, and (2) asserted in subjective bad faith. *See, e.g.*, *Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539, 543-44 (Fed. Cir. 2011); *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011); *Seagate*, 497 F.3d at 1370-71; *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

We all agree that the ultimate decision to award enhanced damages and attorneys' fees (once the predicate tests have been satisfied) is committed to the district court's discretion, and that the district court's findings on the bad faith component are subject to review for clear error. *See Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1310 (Fed. Cir. 2012). The dissents also seem to agree that the objective reasonableness determination should be made by the court, not the jury. The question on which we divide is whether that determination should be subject to de novo review, as this court held in *Bard*, and as this panel (following *Bard*) held here. *See Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1005 (Fed. Cir. 2012).[1] In particular, the

[1] *Bard*'s clarification of *Seagate*'s objective prong was authorized by an en banc order granting rehearing "for the

question in this case is whether claim construction, which is a question of law in a merits determination, *see Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454-55 (Fed. Cir. 1998) (en banc), should nonetheless be treated as something else in an objective reasonableness determination.

That such legal questions invoke de novo review is clear. Our cases based the objective reasonableness standard directly on the Supreme Court's decision in *PRE*, 508 U.S. at 60-63. *PRE* held that litigation could not be sanctioned unless a suit was objectively baseless, and objective baselessness requires a probable cause determination. *Id.* at 62. *PRE* also held that "[w]here, as here, there is no dispute over the predicate facts of the underlying legal proceeding, a court may decide probable cause as a matter of law." *Id.* at 63. Under *PRE*, the reasonableness of a legal position in the context of a probable cause determination is itself a question of law, as the Supreme Court has recently confirmed. *See Scott v. Harris*, 550 U.S. 372, 381 n.8 (2007) (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"); *see also 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

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limited purpose of authorizing the panel to revise the portion of its opinion addressing willfulness." En Banc Order No. 2010-1510 (Fed. Cir. June 14, 2012).

of law.") (internal quotation marks omitted). Judge Moore's suggestion that *PRE* did not decide what it explicitly decided is not well taken. And Judge Moore cites no authority for the proposition that under *PRE*, a determination of probable cause for legal arguments is not subject to de novo review.

II

Judge Moore, Judge Reyna, and Judge Mayer in his panel dissent, urge that both this decision and *Bard* are inconsistent with our prior authority. This is incorrect.[2] More fundamentally, they assert that the de novo standard is inconsistent with the Supreme Court's decisions in *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384 (1990), and *Pierce v. Underwood*, 487 U.S. 552 (1988), which dealt with the standard of review for awards of attorneys' fees under Rule 11 and the Equal Access to Justice Act ("EAJA"). But those cases arose in quite different contexts, and are no basis for reading sections 284 and 285 as requiring deference to district courts on the objective reasonableness issue.

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[2] None of our prior opinions involved a dispute between the litigants as to whether objective recklessness is a question of law to be reviewed de novo on appeal. Because this issue was never discussed, prior cases are not binding precedents on this point. *See Brecht v. Abrahamson*, 507 U.S. 619, 631 (1993) ("[S]ince we have never squarely addressed the issue, and have at most assumed the applicability of the . . . standard . . . we are free to address the issue on the merits."); *Nat'l Cable Television Ass'n v. Am. Cinema Editors, Inc.*, 937 F.2d 1572, 1581 (Fed. Cir. 1991) (opinions that appear to apply a standard, but "with little or no analysis," are "not precedent to be followed in a subsequent case in which the issue arises"); *see also Boeing N. Am., Inc. v. Roche*, 298 F.3d 1274, 1282 (Fed. Cir. 2002) (collecting cases).

First, the language of sections 284 and 285 does not mandate deference to the district court's discretion on questions of law. To the contrary, section 285 was amended to replace an open-ended discretionary standard, and to restrict the discretion in the district courts. Section 285, as originally enacted, provided that the district court "may in its discretion award reasonable attorney[s'] fees." Patent Act of Aug. 1, 1946, ch. 726, 60 Stat. 778. The 1952 Patent Act deleted the "in its discretion" language and replaced it with the "exceptional case" standard that exists today. 35 U.S.C. § 285 (2006) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party."); *see also Rohm & Haas Co. v. Crystal Chem. Co.*, 736 F.2d 688, 691 (1984); Alan M. Ahart, *Attorneys' Fees: The Patent Experience*, 57 J. Pat. Off. Soc'y 608, 617 n.37 (1975).

Second, the relevant policy considerations behind sections 284 and 285 are quite different from those involved in EAJA and Rule 11. Those provisions are addressed to the award of attorneys' fees, not enhanced damages, as provided in section 284. Even as to the attorneys' fees provision of section 285, the considerations are different. Rule 11 deters abusive litigation practices, *Cooter & Gell*, 496 U.S. at 393, and EAJA discourages the government from initiating unjustified litigation by evening the playing field, "eliminat[ing] for the average person the financial disincentive to challenge unreasonable governmental actions." *Comm'r, INS v. Jean*, 496 U.S. 154, 163 (1990). In contrast, section 285, while it serves deterrent purposes, is a primarily compensatory provision. *See, e.g.*, *Mathis v. Spears*, 857 F.2d 749, 753 (Fed. Cir. 1988) ("The purpose of Section 285 is to reimburse a party injured when

forced to undergo an 'exceptional' case." (emphasis omitted)). Early on, it was recognized that attorneys' fee awards were "not to be regarded as a penalty for failure to win a patent infringement suit," and should only be allowed where it would be "grossly unjust that the winner . . . be left to bear the burden of his own counsel fees." *Rohm & Haas*, 736 F.2d at 691 (quoting *Park-In Theatres, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951)).

Third, unlike sanctions under Rule 11 or attorneys' fees under the EAJA, enhanced damages and exceptional case findings frequently involve extraordinarily large awards, often amounting to millions of dollars.[3] Highmark was awarded approximately $5 million in attorneys' fees and expenses in this case. *Highmark*, 687 F.3d at 1308. Bard was awarded $185,589,871.02 in enhanced damages and $19 million in attorneys' fees and costs. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 670 F.3d 1171, 1178 (Fed. Cir. 2012). The Supreme Court recognized in *Pierce* that large fee awards "militat[ed] against" an abuse of discretion

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[3] For enhanced damages, *see, e.g.*, *Krippelz v. Ford Motor Co.*, 667 F.3d 1261, 1264–65 (Fed. Cir. 2012) ($21 million in enhanced damages); *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 858 (Fed. Cir. 2010) ($40 million in enhanced damages); *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1323 (Fed. Cir. 2008) ($38,482,008.00 in enhanced damages).

For attorneys' fees, *see, e.g.*, *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 910 (Fed. Cir. 2012) ($4,683,653.03 in attorneys' and experts' fees and expenses); *Lazare Kaplan Int'l, Inc. v. Photoscribe Techs., Inc.*, 628 F.3d 1359, 1366 (Fed. Cir. 2010) (over $6 million in attorneys' fees); *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 549 F.3d 1381, 1385 (Fed. Cir. 2008) ($16.8 million in attorneys' fees).

standard: "If this were the sort of decision that ordinarily has such substantial consequences, one might expect it to be reviewed more intensively." *Pierce*, 487 U.S. at 563. However, the Court concluded that this concern was unwarranted as applied to EAJA, because at the time EAJA fee awards were typically only a few thousand dollars. *Id.*; *see also Jean*, 496 U.S. at 164 n.12 ("In 1989 [EAJA] awards averaged less than $3,000 each").

Fourth, unlike the situation under Rule 11, the decision to award attorneys' fees and enhanced damages to prevailing parties under sections 284 and 285 is based on the entire case, and does not turn on whether the patentee's position would have been reasonable at the time of filing the complaint or pleading. *See Antonious v. Spalding & Evenflo Cos.*, 275 F.3d 1066, 1076 (Fed. Cir. 2002); Fed. R. Civ. P. 11 advisory committee's note, 1983. Rather, our en banc decision in *Seagate* established that objective reasonableness for enhanced damages is a single retrospective look at the merits of the case after the conclusion of the litigation, when there is a "prevailing party." *See, e.g.*, *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1264 (Fed. Cir. 2008) ("[O]bjective baselessness requires a determination based on the record ultimately made . . . not on the basis of information available to the patentee at the time the allegations were made."). The same is true of attorneys' fee awards under section 285 in the litigation of unmeritorious cases. Nor do sections 284 and 285, in these respects, implicate supervision of the local bar, a matter that *Cooter & Gell* found particularly within the expertise of the local district court. 496 U.S. at 404.

Fifth, appeals of enhanced damage awards and exceptional case findings typically come to this court either after an appeal that resolved the merits, or in an appeal that also involves review of the merits.[4] The district court, when it makes an objective reasonableness determination after a trial on the merits, is simply unable to forecast what this court will decide in the merits appeal. In this respect, it is not "uniquely positioned" to decide the objective reasonableness question. Moreover, the existence of appellate review on the merits before the objective reasonableness determination significantly mitigates the concern expressed in *Pierce* with "the investment of appellate energy" in de novo review. *Pierce*, 487 U.S. at 561; *see also Cooter & Gell*, 496 U.S. at 403-04. It will not require a significant "investment of appellate energy" for an appellate panel that has already addressed the merits to then determine if, under the correct law, a litigant was objectively unreasonable. Quite the contrary; the merits panel is typically better situated to make that determination than the district court, and remand for a district court's determination of objective reasonableness in light of the appellate merits determination would often be wasteful. The Federal Circuit brings to the table useful expertise. Our court sees far more patent cases than any district court, and is well positioned to recognize those

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[4] *E.g.*, *Meyer Intellectual Props., Ltd. v. Bodum, Inc.*, 690 F.3d 1354 (Fed. Cir. 2012); *Bard*, 670 F.3d 1171; *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010); *ICU Med., Inc. v. Alaris Med. Sys., Inc.*, 558 F.3d 1368 (Fed. Cir. 2009); *see also Highmark*, 687 F.3d 1300 (addressing damages after a prior merits appeal); *MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 910 (Fed. Cir. 2012) (same).

"exceptional" cases in which a litigant could not, under the law, have had a reasonable expectation of success.

III

Patent cases present complex legal issues. The interests of the parties, the legal system and the public are best served if both patentees and accused infringers are able to present reasonable legal positions without fear of sanctions. Unlike Rule 11, section 285 provides no safe harbor that allows a party to withdraw its case and thereby avoid the possibility of sanctions. De novo appellate review of the objective reasonableness defense assures uniformity in the treatment of patent litigation, insofar as reasonableness is the governing issue. At the same time, district courts will continue to play an important role in determining whether the subjective good faith prong of the applicable test has been satisfied and whether, if the legal predicates for a sanctions award have been satisfied, an award is desirable in a particular case.

MOORE, Circuit Judge, with whom RADER, Chief Judge, and O'MALLEY, REYNA, and WALLACH, Circuit Judges, join, dissenting from the denial of the petition for rehearing en banc.

Our court system has well-defined roles: the trial court makes factual findings and the appellate court reviews those findings with deference to the expertise of the trial court. An exceptional case determination under 35 U.S.C. § 285 has traditionally been one of the questions of fact determined by the trial court that is reviewable only for clear error. Contrary to our precedent, the

divided *Highmark* panel decided that a district court's exceptional case finding—based on its determination that the infringement claims asserted at trial were objectively baseless—is entitled to no deference and should be reviewed *de novo*. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1309-10 (Fed. Cir. 2012). Because *Highmark* deviates from precedent, invades the province of the fact finder, and establishes a review standard for exceptional case findings in patent cases that is squarely at odds with the highly deferential review adopted by every regional circuit and the Supreme Court in other areas of law, I dissent from the denial of rehearing en banc.

I.

Attorney fees may be awarded to the prevailing party in "exceptional cases." 35 U.S.C. § 285. The exceptional nature of a case must be established by clear and convincing evidence. *Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc.*, 393 F.3d 1378, 1382 (Fed. Cir. 2005). Absent misconduct in the litigation or in securing the patent, sanctions can be awarded "only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Id.* at 1381.

Until *Highmark*, it was well established that the exceptional case determination, including objective baselessness, was a question of fact, subject to review only for clear error. *See, e.g.*, *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1459 (Fed. Cir. 1998) (en banc) ("[T]he district court must determine whether a case is exceptional, a factual determination reviewed for clear error."); *Eon-Net LP. v. Flagstar Bancorp.*, 653 F.3d 1314, 1323, 1326 (Fed. Cir. 2011)

("[We] review the court's exceptional case finding for clear error. . . . [T]he district court did not clearly err in finding that Eon-Net pursued objectively baseless infringement claims."); *ICU Med., Inc. v. Alaris Med. Sys., Inc.*, 558 F.3d 1368, 1380 (Fed. Cir. 2009) (affirming the district court's exceptional case finding because it did not clearly err by finding that certain claims were objectively baseless); *Evident Corp. v. Church & Dwight Co., Inc.*, 399 F.3d 1310, 1315 (Fed. Cir. 2005) ("Whether a case is exceptional depends on findings of fact best left to the trial court, which we consequently review for clear error."). The *Highmark* majority is not free to disregard binding precedent on this point—the objectively baseless inquiry is a question of fact—and we should give the district court deference on appeal.

The *Highmark* decision relied, as did the *Bard* decision,[1] on *Professional Real Estate Investors, Inc. v.*

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[1] The *Highmark* decision rests in significant part on *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006-07 (Fed. Cir. 2012), which held that objective recklessness in a willfulness determination under 35 U.S.C. § 284, "even though predicated on underlying mixed questions of law and fact, is best decided by the judge as a question of law subject to *de novo* review." Until *Bard*, both before and after *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc), we reviewed the willfulness issue for clear error. *See, e.g.*, *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1229 (Fed. Cir. 2011) ("When the resolution of a particular issue or defense is a factual matter, however, whether reliance on that issue or defense was reasonable under the objective prong is properly considered by the jury."). *Bard's* holding that the objective prong "*should always* be decided as a matter of law by the judge" cannot be reconciled with *Powell*. *Bard*, 682 F.3d at 1006-07 (emphasis added). For reasons similar to those discussed below, this court should also revisit *Bard* en banc.

Columbia Pictures Indus., Inc. (*PRE*), 508 U.S. 49 (1993), to justify this new *de novo*, no deference, approach to objective reasonableness. *See Highmark*, 687 F.3d at 1310 n.1; *Bard*, 682 F.3d at 1007-08. The *Highmark* majority believed that "The Supreme Court in *Professional Real Estate* held that objective baselessness in this context is an issue decided by the court as a matter of law." *Highmark*, 687 F.3d at 1310 n.1. With all due respect, it did not. Objective baselessness was *not* even at issue in *Professional Real Estate*. The parties conceded that the litigation was *not* objectively baseless. *PRE*, 508 U.S. at 54; *Columbia Pictures Indus., Inc. v. Prof'l Real Estate Investors, Inc.*, 944 F.2d 1525, 1530 (9th Cir. 1991) ("PRE does not challenge the district court's finding that the infringement action was brought with probable cause, i.e., that the suit was not baseless. Rather, PRE argues that the copyright infringement lawsuit is a sham because Columbia Pictures did not honestly believe that the infringement claim was meritorious."). PRE argued to the Supreme Court that: "Lawsuits that are 'not baseless' may nevertheless fall within the sham exception where they are pursued with indifference to their outcome and for reasons such as directly to burden and harass a competitor and thereby unreasonably restrain competition." Pet'r Br., *PRE*, 1992 WL 541279, at *13 (May 14, 1992). The Court rejected this contention: "We left unresolved the question presented by this case—whether litigation may be sham merely because a subjective expectation of success does not motivate the litigant. We now answer this question in the negative and hold that an objectively reasonable effort to litigate cannot be sham regardless of subjective intent."

PRE, 508 U.S. at 57. The Supreme Court explained: "In sum, fidelity to precedent compels us to reject a purely subjective definition of 'sham.'" *Id.* at 60.

What the Supreme Court in *Professional Real Estate* did *not* say is that objective reasonableness or probable cause is always decided as a matter of law. The Court in *Professional Real Estate* could decide the issue of objective reasonableness as a matter of law was because there were *no facts in dispute*: "*Where, as here, there is no dispute over the predicate facts* of the underlying legal proceeding, a court may decide probable cause as a matter of law." *Id.* at 63 (emphasis added).[2] It is thus error to state: "The Supreme Court in *Professional Real Estate* held that objective reasonableness in this context is an issue decided by the court as a matter of law." *Highmark*, 687 F.3d at 1310 n.1. The *Highmark* majority's interpretation of *Professional Real Estate* is at odds with numerous other courts that have held, pursuant to *Professional Real Estate*, that when predicate facts are in dispute, objective reasonableness *cannot* be decided as a matter of law.[3] Creating a unique standard for objective

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[2] This is not a particularly surprising approach. Courts often decide otherwise factual issues as a matter of law when the underlying facts are not in dispute. This is sometimes called summary judgment. *See* Fed. R. Civ. P. 56.

[3] *See, e.g.*, *Pers. Dep't, Inc. v. Prof'l Staff Leasing Corp.*, 297 Fed. App'x 773, 780 (10th Cir. 2008) (unpublished) ("Supreme Court precedent [(including *Professional Real Estate)*] clearly contemplates that when genuine issues of material fact exist regarding a defendant's probable cause to institute the underlying lawsuit, summary judgment [] is improper."); *In re Relafen Antitrust Litig.*, 346 F. Supp. 2d 349, 361 (D. Mass. 2004) ("Here, 'the facts tending to establish the existence or want of existence of probable cause' were disputed, rendering

baselessness, applicable only to patent cases, is a misinterpretation of *Professional Real Estate* and is simply wrong.

II.

The question of whether something is "objectively baseless" is not unique to patent law or the Federal Circuit. In fact, there are many instances when a court must consider whether a litigant's position is objectively baseless or objectively reasonable. And in those instances, the regional circuits and the Supreme Court have consistently held that deference should be given by the appellate court to the trial court's conclusions.

Indeed, in *Professional Real Estate*, the Supreme Court analogized objective baselessness, or lack of probable cause, to the good cause standard of Federal Rule of Civil Procedure 11. *See PRE*, 508 U.S. at 65. Under Rule 11, as with objective baselessness, the district court must determine whether a party's position was objectively unreasonable. *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 393 (1990); *see also,*

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the question inappropriate for decision as matter of law." (citation omitted)); *New York Jets LLC v. Cablevision Sys. Corp.*, No. 05 Civ. 2875(HB), 2005 WL 3454652, at *2 (S.D.N.Y. Dec. 19, 2005) ("I cannot determine, as a matter of law, that [prior] actions were (or were not) objectively baseless"); *In re Neurontin Antitrust Litig.*, Nos. 02-1830, 02-1731, 02-5583, 2009 WL 2751029, at *22 (D.N.J. Aug. 28, 2009) ("Furthermore, when the predicate facts of an allegedly sham lawsuit are disputed, sham litigation claims should not be decided by the court as a matter of law."); *Echostar Satellite, L.L.C. v. ViewTech, Inc.*, No. 07-CV-1273, 2009 WL 1668712, at *3 (S.D. Cal. May 27, 2009) (concluding that because the facts were disputed, the court could not determine as a matter of law "whether the litigation is objectively reasonable").

e.g., *Morris v. Wachovia Sec. Inc.*, 448 F.3d 268, 277 (4th Cir. 2006).

In *Cooter*, the Supreme Court concluded that all aspects of a sanctions determination under Rule 11 should be reviewed on appeal under an abuse of discretion standard. 496 U.S. at 401. The Court recognized that some variation in the application of a standard based on reasonableness, like Rule 11, is inevitable, but that the "district court is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11." *Id.* at 402-03. There is no way to reconcile our court's *de novo* standard of review for objective baselessness in patent cases with *Cooter* and *Professional Real Estate*.

Not surprisingly, given the clear direction from the Supreme Court, the regional circuits are unanimous that the issue of objective reasonableness under Rule 11 is to be reviewed deferentially by the appellate courts.[4] I can divine no reason to create a rule

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[4] *See, e.g.*, *Whitehead v. Food Max of Miss., Inc.*, 332 F.3d 796, 802-03 (5th Cir. 2003) (determining compliance with Rule 11 is "an objective, not subjective, standard of reasonableness under the circumstances" and concluding that the "district court is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11" (citation omitted)); *see also CQ Int'l Co., Inc. v. Rochem Int'l, Inc., USA*, 659 F.3d 53, 62-63 (1st Cir. 2011); *Star Mark Mgmt., Inc. v. Koon Chun Hing Kee Soy & Sauce Factory, LTD.*, 682 F.3d 170, 177-78 (2d Cir. 2012); *In re Taylor*, 655 F.3d 274, 282-83 (3d Cir. 2011); *Merritt v. Int'l Ass'n of Machinists & Aerospace Workers*, 613 F.3d 609, 626-27 (6th Cir. 2010); *Ross v. City of Waukegan*, 5 F.3d 1084, 1088-89 (7th Cir. 1993); *Clark v. United Parcel Serv.*, 460 F.3d 1004, 1010-11 (8th Cir. 2006); *G.C. & K.B. Invs., Inc. v. Wilson*, 326

unique to patent cases, to disregard such clear and wise precedent from our sister circuits, or to disregard the Supreme Court's precedent in *Cooter* and *Professional Real Estate*.

The parallels to the Rule 11 inquiry are compelling, and in my view dispositive of how we should approach the "objective baselessness" inquiry. But Rule 11 is not the only situation in which courts confront objective reasonableness. For example, the Equal Access to Justice Act (EAJA) awards a prevailing party costs and attorney fees unless "the court finds that the position of the United States was substantially justified." 28 U.S.C. § 2412(d)(1)(A). In *Pierce v. Underwood*, 487 U.S. 552 (1988), the Supreme Court analyzed the EAJA fee-shifting provision and concluded that the "substantially justified" language means "justified to a degree that could satisfy a reasonable person," which is "no different from the 'reasonable basis both in law and fact' formulation" adopted by the vast majority of the appellate courts having addressed the issue. 487 U.S. at 565. As a result, the Court concluded that the issue should be reviewed under the abuse of discretion standard. The Court reasoned that the district court was in the best position to make this determination:

> [D]etermining whether mixed questions of law and fact are to be treated as questions of law or of fact for purposes of appellate review . . . has turned on a determination that, as a matter of the sound administration of justice,

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F.3d 1096, 1109 (9th Cir. 2003); *Dodd Ins. Servs., Inc. v. Royal Ins. Co. of Am.*, 935 F.2d 1152, 1155 (10th Cir. 1991); *Kaplan v. DaimlerChrysler, A.G.*, 331 F.3d 1251, 1255 (11th Cir. 2003).

> one judicial actor is better positioned than another to decide the issue in question. We think that consideration relevant in the present context as well, and it argues in favor of deferential, abuse-of-discretion review. To begin with, some of the elements that bear upon whether the Government's position was substantially justified may be known only to the district court. Not infrequently, the question will turn upon not merely what was the law, but what was the evidence regarding the facts. By reason of settlement conferences and other pretrial activities, the district court may have insights not conveyed by the record, into such matters as whether particular evidence was worthy of being relied upon, or whether critical facts could easily have been verified by the Government.

Pierce, 487 U.S. at 560 (internal quotation marks and citations omitted).

The same can be said about the objectively baseless analysis in the exceptional case context. The district court is better situated to decide whether a litigation position was objectively baseless. Such a determination may turn on legal positions taken, on factual support for those positions, or both. The trial court is in the best position to make the requisite findings and weigh them accordingly. Like the EAJA determination, the district court's objective baselessness findings should be given deference on appeal.

Regional circuits also consider whether a prevailing party is entitled to attorney fees under 28 U.S.C. § 1927. In a majority of circuits, the § 1927 inquiry

is objective, just like § 285's "objective baselessness." *See Jensen v. Phillips Screw Co.*, 546 F.3d 59, 64-65 (1st Cir. 2008) ("In this circuit, courts use a mainly objective standard for the purpose of determining when a lawyer's actions are unreasonable or vexatious. . . . This focus on objective measurement comports with the majority view across the circuits." (citations to cases from the Sixth, Seventh, Eleventh, and Federal Circuits omitted)); *Lee v. L.B. Sales, Inc.*, 177 F.3d 714, 718-19 (8th Cir. 1999). In all regional circuits, regardless of whether the inquiry is objective or subjective, it is a question of fact that is reviewed with deference.[5]

Despite all of these parallel inquiries where the regional circuits and the Supreme Court have consistently held that the objective reasonableness finding is to be given deference on appeal, *Highmark* holds that our court should review this determination *de novo*. There is no reason a district court judge's findings on objective reasonableness should be reviewed without deference (*de novo*) in patent cases, but given deference in all other areas of law. There is no justification in either law or logic for the departure that our court takes in *Highmark.*

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[5] See Jensen, 546 F.3d at 64-65; Gollomp v. Spitzer, 568 F.3d 355, 368 (2d Cir. 2009); LaSalle Nat. Bank v. First Conn. Holding Grp., LLC XXIII, 287 F.3d 279, 288 (3d Cir. 2002); Newport News Holdings Corp. v. Virtual City Vision, Inc., 650 F.3d 423, 443 (4th Cir. 2011); Cambridge Toxicology Grp., Inc. v. Exnicos, 495 F.3d 169, 180 (5th Cir. 2007); Braunstein v. Ariz. Dep't of Transp., 683 F.3d 1177, 1184 (9th Cir. 2012); Roth v. Green, 466 F.3d 1179, 1187 (10th Cir. 2006).

III.

As Judge Mayer explained in his dissent, "the question of what constitutes reasonable conduct under varying circumstances is a quintessentially factual issue." *Highmark*, 687 F.3d at 1321 (Mayer, J., dissenting). An objectively baseless lawsuit is one in which no reasonable litigant could reasonably expect success on the merits. *PRE*, 508 U.S. at 60. The question is not whether the litigation or positions taken in litigation are actually meritorious but rather whether a reasonable person in similar circumstances would have expected any chance of success. Thus, whether a defendant's anticipation defense is considered "objectively baseless" depends not on whether the defense is actually meritorious, but instead on whether a reasonable attorney would think the defense is completely meritless in light of the facts and circumstances relevant to the defense. District court judges live with these cases, often for many years. They are better situated to review the evidence, hear the testimony and evaluate the parties' conduct, behavior, and positions in the litigation.[6] There is simply no reason to believe that

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[6] *See Eon-Net*, 653 F.3d at 1324 ("When reviewing an exceptional case finding for clear error, we are mindful 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 us for only a short period of time, we are not in the position to second-guess the trial court's judgment."); *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 549 F.3d 1381, 1391-92 (Fed. Cir. 2008) (Bryson, J., concurring) ("A district judge who has lived with a case and the lawyers for an extended period . . . is infinitely better situated than we are to . . . assess whether the case should be treated as exceptional and whether fees should be awarded. Where the trial court applies the proper legal standards and conducts a thorough

we, as an appellate tribunal spending just thirty minutes with the attorneys and having a limited record and knowledge of the events taking place in the proceeding below, are in a better position than the trial judge to decide "objective baselessness." Objective baselessness in the § 285 context, like Rule 11, the EAJA, and § 1927, involves fact issues decided by the district court judge that should be afforded deference on appeal.

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review of the circumstances bearing upon the section 285 inquiry, there is little room for a reviewing court to second-guess the trial court's judgment."); *Thomas v. Capital Sec. Svcs., Inc.*, 836 F.2d 866, 873 (5th Cir. 1988) ("The trial judge is in the best position to review the factual circumstances and render an informed judgment as he is intimately involved with the case, the litigants, and the attorneys on a daily basis."); *O'Connell v. Champion Int'l Corp.*, 812 F.2d 393, 395 (8th Cir. 1987) ("This [Rule 11] determination . . . rests upon and is informed by the District Court's intimate familiarity with the case, parties, and counsel, a familiarity we cannot have. Such a determination deserves substantial deference from a reviewing court."); *Mendez-Aponte v. Bonilla*, 645 F.3d 60, 68 (1st Cir. 2011) ("We give deference to a district court's decision to impose sanctions because it is in the best position to 'evaluate the circumstances surrounding an alleged violation and render an informed judgment.'" (citation omitted)); *Thompson v. RelationServe Media, Inc.*, 610 F.3d 628, 638 (11th Cir. 2010) ("Given the district court's familiarity with the case and the parties, the district court is in a better position 'to make these [Rule 11] determinations in the first instance, explicitly and on the record.'"); *Mars Steel Corp. v. Cont'l Bank N.A.*, 880 F.2d 928, 933 (7th Cir1989) (en banc) ("Because the district courts have the best information about the patterns of their cases, they are in the best position to determine whether a legal position is far enough off the mark to be frivolous or whether an attorney conducted an adequate inquiry under the particular circumstances of a case.").

IV.

We need to avoid the temptation to label everything legal and usurp the province of the fact finder with our manufactured *de novo* review. We have done it with claim construction, *see Cybor*, with willfulness, *see Bard*, and now with the exceptional case, *see Highmark*. When we convert factual issues, or mixed questions of law and fact, into legal ones for our *de novo* review, we undermine the uniformity and predictability goals this court was designed to advance.

This is not to say that these issues should be given to the jury. The Supreme Court held that claim construction is better decided by the district court judge. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 388 (1996). This does not, however, morph a mixed question of law and fact into a pure legal question entitled to no deference on appeal. Stating that something is better decided by the judge is not the same as saying it is a matter of law. The same is true with the objectively baseless analysis in the willfulness context. We have concluded then when the analysis turns on purely legal issues, the judge not the jury should be the fact finder. *Powell*, 663 F.3d at 1236-37. This is logical. It does not, however, convert the issue into a legal one. For example, in deciding whether a defendant's claim construction position is objectively baseless, the judge, not the jury, decides claim construction. The jury would not have heard the claim construction arguments; they are held in a *Markman* hearing outside the presence of the jury. In that circumstance, it makes no sense for the jury to decide whether arguments it never heard were objectively

baseless. The judge is better suited to make this determination. That does not, however, make the inquiry purely legal entitled to no deference on appeal. Whether a district court's claim construction is correct on the merits is significantly different from whether a litigant's claim construction position is objectively baseless. Indeed, whether a party's position—on claim construction, anticipation, obviousness, or otherwise—is objectively baseless involves consideration of not only the state of the law when the position was advanced, but also the underlying facts and circumstances forming the basis of the position. Objective baselessness is a finding that should be given deference by this court.

CONCLUSION

Highmark is contrary to Supreme Court precedent, contrary to the practice of the other circuits, and improperly shifts the decision-making balance between the trial and appellate courts. The Supreme Court reprimanded our court not so long ago for departing from the "long tradition of equity practice" and creating patent-law specific rules. It is clear from *Highmark* that our court has not learned this lesson. I dissent from the denial of en banc review in this case.

REYNA, *Circuit Judge*, dissenting, with whom RADER, *Chief Judge*, joins in parts I–II, and with whom MOORE, O'MALLEY and WALLACH, *Circuit Judges*, join in full.

I dissent from the court's refusal to consider *en banc* the proper standard of review governing exceptional case determinations under 35 U.S.C. § 285. The majority decision is incorrect in

presuming it appropriate for us to invade the fact finding province of the lower court.[1] Sitting as a three judge panel, the *Highmark* majority shifts our standard of review from the deferential clear error standard to *de novo* review when assessing whether infringement allegations are objectively baseless. Until now, we have treated all aspects of § 285 determinations as issues of fact and we have repeatedly emphasized the importance of deferring to the trial judge who is intimately familiar with the litigation and has observed all case developments—factual, legal, evidentiary, or otherwise—before ruling on a motion for attorneys' fees. As explained below, this court now adopts an erroneous approach that disregards binding precedent, misunderstands the deference owed to the factual findings of the district court, and overstates the significance of § 284 authority.

I

In the proceedings below, the district court awarded an accused infringer attorneys' fees, expert fees, and costs after it prevailed on a motion for summary judgment of non-infringement. *See Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1307–09 (Fed. Cir. 2012). The award of fees followed the district court's declaration that the case was exceptional. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 706 F. Supp. 2d 713, 738 (N.D. Tex. 2010). The district court explained that

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[1] Many of the issues I raise herein have previously been addressed in Judge Mayer's well-crafted dissent. I share in full my colleague's views in this particular case. *See generally Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1319–24 (Fed. Cir. 2012).

the patentee's allegations of infringement were frivolous, *id.* at 727–29, and also found that the patentee impermissibly shifted its claim construction positions throughout the course of the proceedings, made improper arguments on the issues of *res judicata* and collateral estoppel, and made misrepresentations to the transferor court in connection with a motion to transfer venue. *Id.* at 733-36. On appeal, this court reversed the district court's findings with regard to litigation misconduct and reversed the award of attorneys' fees for one of the two independent claims because it determined as a matter of law that the infringement claim was not objectively baseless.

Our case law regarding § 285 is a well-established "two-step process." *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327–28 (Fed. Cir. 2003). As relevant here, the first step is for a prevailing party to establish by clear and convincing evidence that the case is "exceptional." *Id.* at 1327. In *Brooks Furniture*, we explained that a showing of exceptionality can be made only if (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless. *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (relying on *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993)). Thus, our cases consistently required a two-prong analysis assessing both the objective reasonableness of the losing party's positions and the losing party's subjective intent.

This court routinely reviews lower courts' § 285 rulings in patent cases, and we have consistently done so by reversing only in instances of clear error. *E.g.*,

Eon-Net LP v. Zimmerman, 653 F.3d 1314, 1323–24 (Fed. Cir. 2011) ("[W]e review the court's exceptional case finding for clear error."); *ICU Med., Inc. v. Alaris Med. Sys., Inc.*, 558 F.3d 1368, 1380 (Fed. Cir. 2009) (affirming the district court's exceptional case findings because they were not clearly erroneous); *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1357–58 (Fed. Cir. 2008) (explaining that the "court did not clearly err in finding [the] case exceptional"); *see also Forest Labs*, 339 F.3d at 1328 (emphasizing that this court reviews a trial "court's factual findings, including whether the case is exceptional, for clear error"). In reviewing for clear error, we have noted that district courts are owed a "high level of deference," *Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1305 (Fed. Cir. 2009) (internal citation omitted), because "[w]hether a case is 'exceptional' in accordance with 35 U.S.C. § 285, is a question of fact." *Brasseler, U.S.A. v. Stryker Sales Corp.*, 267 F.3d 1370, 1378 (Fed. Cir. 2001); *see also Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009) (discussing the determination of whether the case is exceptional as "a question of fact").

The purpose underlying 35 U.S.C. § 285 is to compensate a prevailing party for its monetary outlays in the prosecution or defense of the suit. *See Central Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983). Congress authorized awards of attorney fees to prevailing defendants "to enable the court to prevent a gross injustice to an alleged infringer." S. Rep. No. 1503, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387; *see also Mathis v. Spears*, 857 F.2d 749, 758 (Fed. Cir. 1988). Thus, the exceptional case

determination is bound up with whether a court will "make whole a party injured by an egregious abuse of the judicial process." *Mathis*, 857 F.2d at 758 (citing *Hall v. Cole*, 412 U.S. 1, 5 (1973)).

Against this backdrop, the two-judge *Highmark* majority alters the standard of review for a patent-specific statute without accounting for the litany of precedential decisions applying the clear error standard to the objective and subjective exceptional case inquiries. This departure constitutes an issue of great importance and I desire *en banc* action to examine—with the input of the full court—whether our prior precedent should be overruled. *Preminger v. Sec'y of VA*, 517 F.3d 1299, 1309 (Fed. Cir. 2008) (citing *Sacco v. Dep't of Justice*, 317 F.3d 1384, 1386 (Fed. Cir. 2003) (holding that a prior precedential decision on a point of law cannot be overruled or avoided unless the court sits *en banc)*).

II

The principle of *stare decisis* tasks courts with abiding by, or adhering to, decided cases. *Accord Hubbard v. United States*, 514 U.S. 695, 711 (1995) (Scalia, J., concurring). *Stare decisis* is the preferred course because it "promotes the evenhanded, predictable, and consistent development of legal principles, fosters reliance on judicial decisions, and contributes to the actual and perceived integrity of the judicial process." *Payne v. Tennessee*, 501 U.S. 808, 827 (1991) (internal citation omitted); *see also In re Bilski*, 545 F.3d 943, 993–94 (Fed. Cir. 2008), *aff'd but criticized on other grounds*, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (noting the judicial obligation to respect the principles of *stare decisis*). The Supreme Court suggests that governing decisions

should only be set aside where the applicable rule of law is "unworkable" or "badly reasoned." *Payne*, 501 U.S. at 827.

We have a duty today and every day to yield to settled rules in our jurisprudence. Even a cursory review of our cases reveals that we have clearly set forth a deferential standard of review and we have routinely communicated to litigants and lower courts that we will review all § 285 findings for clear error. Here, the established precedent is especially wise, and should not be disturbed because it respects the enduring balance between the trial judge and the appellate panel in carrying out their distinct responsibilities. *E.g.*, *Salve Regina College v. Russell*, 499 U.S. 225, 233 (1991) (noting that established standards of deference for appellate review of district-court determinations reflects "an accommodation of the respective institutional advantages of trial and appellate courts").

The *Highmark* decision casually sets aside binding precedent that was neither unworkable nor badly reasoned. While we may be tempted to view ourselves as best-positioned to weigh whether a given party's claim construction or infringement positions are objectively reasonable, in doing so, we fallaciously presume that we can neatly separate intertwined issues of law and fact. As the Supreme Court teaches, however, "[m]aking such distinctions is particularly difficult" since there is no "rule or principle that will unerringly distinguish a factual finding from a legal conclusion" in the context of attorney fee awards. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 401 (1990); *see also Highmark*, 687 F.3d at 1322 (Mayer, J., dissenting) (recognizing

that implementing a *de novo* standard of review for questions of objective baselessness will "undoubtedly spawn unneeded litigation over which issues in a section 285 determination are issues of fact, which are issues of law, and which are mixed questions of law and fact").

Instead of applying *de novo* review to a mixed question of law and fact, I would abide by the Supreme Court's guidance and continue to apply the clear error standard to a trial court's informed judgment. *See Salve Regina College*, 499 U.S. at 233 (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); *see also Cooter & Gell*, 496 U.S. at 402 ("[T]he district court is better situated than the court of appeals to marshal the pertinent facts and apply the fact-dependent legal standard mandated by Rule 11"). This path more closely tracks the § 285 statutory goals such as deterring suits that a district court finds are "clearly unwarranted." *Automated Business Cos. v. NEC Am., Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000); *see also Mathis*, 857 F.2d at 754, 758.

Nowhere is the mixed nature of objective baselessness conclusions more apparent than when courts accept the testimony of experts to assist in making legal determinations. The inherent complexity of patent cases almost always requires expert testimony on questions of infringement and validity, and this testimony certainly bears upon

whether a litigant's position is objectively baseless. I am persuaded that we tread too far by declining any deference to lower court conclusions that may turn on, or be informed by, how a skilled artisan would understand the claims.[2] In my view, the judge presiding over claim construction, summary judgment, and trial is uniquely positioned to refer back to earlier proceedings when parsing through whether or not a party was objectively reasonable in litigating a particular claim or the case as a whole. Even when we attempt to "look backwards" and "consider the record as a whole," *see Highmark*, 687 F.3d at 1310–11, this court is not on equal footing with the district court in weighing determinative facts, especially in the context of expert opinions. *Salve Regina College*, 499 U.S. at 233 (recognizing a trial court's superior fact finding ability and demanding that due regard be given to a trial court in judging the credibility of the witnesses).

III

I take particular issue with the majority's overstated reliance on developments in the willful

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[2] For example, in a situation where the objective baselessness allegations are premised on a finding that certain claims were insolubly ambiguous pursuant to 35 U.S.C. § 112, ¶ 2, a trial judge may dismiss all or part of the case based on a showing that one of ordinary skill in the relevant art could not discern the boundaries of the claim based on the claim language, the specification, the prosecution history, and the knowledge in the relevant art. *See Haemonetics Corp. v. Baxter Healthcare Corp.*, 607 F.3d 776, 783 (Fed. Cir. 2010). In such a case, it is entirely possible that this decision would be reached through reliance on expert testimony. We as an appellate court cannot adequately, if at all, assess credibility of such testimony because the witness is not before us in person. We should thus limit our intervention to instances of clear error.

infringement context in order to dictate a less deferential standard of review in deciding whether it is proper to award attorneys' fees. The majority does not make even a veiled attempt to premise its decision on applicable § 285 cases. Instead, it manipulates two inapposite § 284 cases in order to unnecessarily extend *de novo* review. [3] *See Highmark*, 687 F.3d at 1309.

First, the majority quotes *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012), which held that objective recklessness in a willfulness determination is subject to *de novo* review even though the "ultimate question of willful infringement has long been treated as a question of fact." *Id.* at 1006–07 (internal citations omitted). Despite the puzzling conclusion in *Bard* that we can transform a question of fact into a mixed question of law and fact in order to exclude a jury from deciding what conduct is reasonable, I am aware of no Supreme Court or *en banc* authority requiring us to apply the same standard of review for § 285 as we do in § 284. Even assuming *Bard* was correctly decided, in the absence of a compelling reason or explanation to further extend *Bard*'s

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[3] *Highmark* does not incorporate the discussion in *iLOR v. Google* which equated the objective baselessness standard for enhanced damages and attorneys' fees and the objective recklessness standard for willful infringement actions. *See iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). Even so, *iLOR* does not state that we are departing from a clear error standard of review for § 285. Indeed, even after we decided *iLOR,* we continued to review the trial court's objective baselessness findings for clear error. *See Eon-Net*, 653 F.3d at 1324, 1326 (assessing the reasonableness of the plaintiff's claim construction positions under the clear error standard) (citing *iLOR*, 631 F.3d at 1378–79).

directive allowing questions of fact to masquerade as questions of law, I caution against upsetting the equilibrium we have achieved in reviewing exceptional case determinations.

I consider the two standards of review to be distinct questions, in part, because the posture by which the two questions reach this court is not the same. Both before and after our decision in *In re Seagate*, the question of willful infringement[4] has frequently been submitted to a jury as a question of fact. *See i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 858 (Fed. Cir. 2010) ("Here, the question of willfulness was submitted to the jury. Microsoft does not dispute that the jury instructions were proper under [*Seagate*]."). The same is not true in the § 285 context. By contrast, the exceptional case determination has always been a factual question answered by the trial judge based on that judge's review of objective and subjective circumstances that emerged throughout the course of the entire litigation.[5] Now, as before, trial judges are still being

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[4] Following *In re Seagate*, the § 284 inquiry has been (1) whether there was clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) whether the infringer knew or should have known of the objectively high risk. *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1312 (Fed. Cir. 2010) (citing *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc)).

[5] The *Seagate* decision "left it to future cases to further develop the application of [the willful infringement] standard." 497 F.3d at 1371. While I share Judge Mayer's concerns that *Bard* was wrongly decided pursuant to a three judge panel unilaterally shifting the appropriate standard of review, *see Highmark*, 687 F.3d at 1321, I note that at least *Bard* attempted to bolster its

asked to answer a single question—"Is this case exceptional?"—except we now refuse to give their objective baselessness findings any deference. We tie the trial court's hand if we render it mute in the face of such questions. I do not read *Bard* to compel a shift in our standard of review for exceptional case issues and I consider it unnecessary to apply two different standards of review to answer one overriding question.

In addition to relying on *Bard*, the *Highmark* majority suggests that *Powell v. Home Depot*, 663 F.3d 1221, 1236 (Fed. Cir. 2011) supports its newly-adopted standard of review. This reliance is misplaced because *Powell*'s actual treatment of the § 285 issues is inconsistent with the standard of review applied in *Highmark*. In *Powell*, both § 284 and § 285 determinations were discussed, yet *Highmark* ignores that the standards of review were not the same. *See Powell*, 663 F.3d at 1229. Notably, while the *Powell* willful infringement discussion distinguished when an accused infringer's reliance on a particular defense is a question for the court instead of the jury, it never attempted to extend this analysis to the exceptional case discussion. *See id.* at 1236–37. To the contrary, *Powell* affirmed all of the district court's exceptional case findings after reiterating our well-established clear error review for all aspects of the exceptional case determination. *Powell*, 663 F.3d at 1229, 1241 ("A district court's finding that a case is 'exceptional' within the

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reasoning with a recent § 284 *en banc* decision. The same is not true in the *Highmark* case, where the § 285 standard of review was altered without reference to binding Supreme Court or *en banc* authority discussing the unique purpose of 35 U.S.C. § 285.

meaning of 35 U.S.C. § 285 is reviewed for clear error."). I do not read *Powell* to support the conclusion in *Highmark* and I am left without any basis to determine that the majority was justified in importing the § 284 standard of review to exceptional case inquiries.