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THE *HIGHMARK* FRACTURE: IN SEARCH OF THE APPROPRIATE STANDARD OF REVIEW FOR EXCEPTIONAL CASE DETERMINATIONS IN PATENT LITIGATION

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Attorneys' fees and sanctions awarded by trial courts in exceptional patent cases are routinely assessed in millions of dollars. The Federal Circuit is the sole appellate authority in patent cases and thus has the responsibility of reviewing these high-stakes determinations. In Highmark, Inc. v. Allcare Health Management Systems, Inc.*, a 2-1 majority fundamentally shifted the standard of review applied to exceptional case determinations to a de novo standard. Subsequent petition for rehearing en banc revealed a significant fracture in the Federal Circuit regarding this issue. The reviewing judges split 7-5, denying rehearing but eliciting an additional opinion for the majority and two additional dissents. The majority advocates for de novo review, while the dissent champions a deferential clear error approach. However, because exceptional case determinations are mixed questions of law and fact, neither standard will appropriately fit all cases. This Recent Development explores the essence of appellate review in the exceptional case context, analyzes the two opinions, and promotes an alternative approach that calibrates the standard of review to the nature of each issue.*

I. INTRODUCTION

In *Highmark, Inc. v. Allcare Health Management Systems, Inc.* ("*Highmark I*"),[1] the Federal Circuit laid out its position regarding the standard of review for exceptional case determinations.[2] Under 35 U.S.C. § 285, courts may award attorneys' fees to a prevailing

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[1] 687 F.3d 1300 (Fed. Cir. 2012).
[2] *See id.* at 1309–10.

party in "exceptional" patent cases.[3] For a case to be exceptional, it requires "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 Rule 11 of the *Federal Rules of Civil Procedure*, or like infractions."[4] In *Highmark I*, the majority held that such determinations are to be reviewed *de novo*.[5] Where the district court had levied millions of dollars in attorneys' fees and expenses against Allcare based on exceptional case findings, the Federal Circuit opted to reverse the lion's share.[6] A vehement dissent argues that the application of the *de novo* standard relies on erroneous precedent and contradicts direction from the Supreme Court in analogous Rule 11 analyses.[7]

The *Highmark* fracture within the Federal Circuit, the sole appellate authority in patent cases, is of paramount importance.[8] This paper explores the bases of both positions, concluding that the blanket application of either the *de novo* or clear error standard in all exceptional case determinations is sub-optimal. Rather, courts should implement a calibrated two-part test. First, courts should determine the appropriate standard for a given exceptional case determination depending upon whether it turns more prominently on a question of fact or a question of law, and then the courts should apply that standard to the merits.[9]

Part II of this paper explores the underpinnings of appellate review. Part III expounds the facts and procedural history of *Highmark*. Part IV discusses the disparate standards on either side

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[3] 35 U.S.C. § 285 (2006).

[4] Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005).

[5] *Highmark I*, 687 F.3d at 1309–10.

[6] *See id.* at 1319.

[7] *Id.* at 1319–20 (Mayer, J., dissenting); *see* FED. R. CIV. P. 11 (allowing sanctions for frivolous litigation).

[8] Attorneys' fees and sanctions awarded pursuant to an exceptional case finding are often large. *See Highmark I*, 687 F.3d at 1308. In *Highmark I*, the total sanctions included $4,694,727.40 in attorneys' fees, $209,626,56 in expenses, and $375,400.05 in expert fees and expenses. *Id.* at 1308.

[9] *See infra* Part IV.

of the *Highmark* fracture. Part V analyzes the gap between these two positions and proposes an alternate approach.

II. JUDICIAL REVIEW GENERALLY

Modern appellate courts conduct the delicate business of reviewing lower court decisions: affirming proper judgments, checking error, and ultimately ensuring against injustice. Standards of review guide this enterprise by addressing a fundamental question: "What level of deference is a trial court due?"[10] On the surface such standards exist as "yardstick phrases" such as clear error, abuse of discretion, substantial evidence, or *de novo* review. Determining the appropriate standard to apply begins with properly characterizing the issue.

A. *Characterization of the Issue*

Determining the nature of an issue under review is often difficult. The Supreme Court describes the distinction as having a "vexing nature," with no "rule or principle that will unerringly distinguish a factual finding from a legal conclusion."[11] Though the line is blurred, the choice of standard of review begins with the description of an issue as a question of fact, a question of law, or a mixed question of law and fact.[12]

B. *Reviewing Questions of Fact*

Federal Rule of Civil Procedure 52(a)(6) mandates that "findings of fact . . . must not be set aside unless clearly

[10] Alternatively, one can think of standards of review as defining the affirmative power an appellate court has to reverse decisions of the lower court. 1 STEVEN ALAN CHILDRESS & MARTHA S. DAVIS, FEDERAL STANDARDS OF REVIEW § 1.01, at 1-2 (4th ed. 2010). Note that the term "standard of review" as used here must not be confused with its use in the context of a court's review of legislation. The concepts are distinct, despite the confusing overlap of language. Standards such as *strict scrutiny* or *rational basis* are invoked to determine a statute's constitutional muster, whereas the standards addressed here govern review of lower court decisions.

[11] Pullman-Standard v. Swint, 456 U.S. 273, 288 (1982).

[12] Note that the term "question of fact" is synonymous with "finding of fact" and "matter of fact." Likewise, a "question of law" may equally be referred to as a "finding of law" or "matter of law."

erroneous . . . ."[13] Modern appellate review, in the civil context, begins with this language.[14] It clarifies first that the appellate authority must determine whether an issue under review is or is not a "finding of fact," and, if so, it obliges that authority to defer to the lower court absent "clear error." The words "clear error," while perhaps a useful starting point, offer little tangible guidance. Indeed, soon after Rule 52's adoption, Judge Learned Hand pointed out its deficiency:

> It is idle to try to define the meaning of the phrase "clearly erroneous"; all that can be profitably said is that an appellate court, though it will hesitate less to reverse the finding of a judge than that of an administrative tribunal or of a jury, will nevertheless reverse it most reluctantly and only when well persuaded.[15]

Since Rule 52's adoption,[16] courts have developed a number of functional definitions of the "clear error" standard. The most prominent to date is the *Gypsum* conviction-of-mistake formulation.[17] Under *Gypsum*, "[a] finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed."[18] This language has been further refined in subsequent cases, precluding a clear error determination in instances where a trial judge chooses between permissible views of the weight of evidence, where the appellate court might reach a different result on the same evidence, or where the appellate court might reach a different construction.[19] While

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[13] FED. R. CIV. P. 52(a)(6).

[14] Note that the U.S. Supreme Court has extended the standard of Federal Rule of Civil Procedure 52(a)(6) to criminal cases, though it is of little import for our purposes.

[15] United States v. Aluminum Co. of Am., 148 F.2d 416, 433 (2d Cir. 1945).

[16] *See* FED. R. CIV. P. 52.

[17] *See* 1 CHILDRESS & DAVIS, *supra* note 10, § 2.05, at 2-34; *see also* United States v. U.S. Gypsum Co., 333 U.S. 364, 395 (1948) (defining the "clear error" standard). Note that a second prominent line exists, *Sander*'s three-part formula, though *Gypsum* is the most widely adopted. *See* 1 CHILDRESS & DAVIS, *supra* note 10, § 2.06, at 2-40 to -41. It is not treated here as it is not considered inconsistent with *Gypsum*, and the divergence "has not appeared to make much difference in practical application." *Id.*

[18] *Gypsum*, 333 U.S. at 395.

[19] *See* Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 857–58 (1982).

Gypsum and its progeny have narrowed the definition of "clear error," they have not eviscerated it. "The *Gypsum* test requires substantial, but not blind, deference."[20]

Other interpretations of Rule 52's "clear error" standard allow different levels of deference. The most creative (and perhaps, most deferential) of these is the Seventh Circuit's "dead fish" test which states that "[t]o be clearly erroneous, a decision must strike us as more than just maybe or probably wrong; it must, as one member of this court recently stated during oral argument, strike us as wrong with the force of a five-week-old, unrefrigerated dead fish."[21] Alternatively, a two-part test arising from the Fifth Circuit contracts deference, providing for clear error either if there is a "definite and firm conviction of mistake" or if the "account was *implausible* based upon the entirety of the record."[22]

It is important to understand the breadth of the "clear error" standard as we analyze the suggestion of the dissenters in the *Highmark* decisions, who advocate for clear error review of exceptional case determinations.

C. *Reviewing Questions of Law*

It is similarly important to understand the breadth of *de novo* review, as the majorities in the *Highmark* decisions champion its use in exceptional case determinations. Outside of the subset of issues that will be considered by courts to be questions of fact, Federal Rule of Civil Procedure 52 is silent on the amount of deference owed to the trial court. Indeed, free review of questions of law is a principle "easily inferred from Rule 52's stated deference on facts and the historical role of appellate courts," and

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[20] Steven Alan Childress, *"Clearly Erroneous": Judicial Review over District Courts in the Eighth Circuit and Beyond*, 51 MO. L. REV. 93, 109 (1986) (citing Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 123 (1969)).

[21] Parts & Elec. Motors, Inc. v. Sterling Elec., Inc., 866 F.2d 228, 233 (7th Cir. 1988), *cert. denied*, 493 U.S. 847 (1989). Childress & Davis describe this formulation as, "probably unhelpful, arguably wrong, and likely a fluke of rhetoric." 1 CHILDRESS & DAVIS, *supra* note 10, § 2.06, at 2-42.

[22] 1 CHILDRESS & DAVIS, *supra* note 10, § 2.06, at 2-41 (emphasis added) (citing NAACP v. Fordice, 252 F.3d 361, 365 (5th Cir. 2001)).

it is accepted unanimously by the circuits.[23] Free review translates into a *de novo* standard, recognizing that a higher court owes no deference when exercising its law-making function.[24]

Further refinement of the universal *de novo* review of questions of law provides that generally the standard is applied with some limiting principles.[25] An appellate court "has no license to venture freely into other issues of fact or the case as a whole."[26] Instead, that appellate court "reviews only those portions of the record relevant to the legal issue."[27] Appellate courts are not free to make new determinations of fact under *de novo* review's corrected view of the law "where the district court left underlying factual issues unresolved due to a misunderstanding of the legal standard."[28] Finally, it is appropriate for the appellate court to give "some attention" to the legal interpretations of the lower court, though necessarily not rising to the level of deference under Rule 52.[29]

Despite the widespread adoption of universal *de novo* review of questions of law, that practice has begun to draw some detractors. One prominent scholar argues that universal *de novo* review is "as unexamined as it is familiar," and that "[w]hatever advantages appellate courts might generally have over trial courts, it seems unlikely that they would hold across every legal question . . . ."[30] The doctrine also presents a problem in that it obliges appellate courts to make law in every case.[31] Furthermore,

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[23] *Id.* § 2.13, at 2-82 (citing Salve Regina Coll. v. Russell, 499 U.S. 225, 231 (1991)).

[24] *See id.* § 2.14, at 2-88 to -89. Free review is synonymous with independent, *de novo*, or plenary review. *See id.*

[25] *See id.* at 2-89. In some contexts *de novo* review may mean a true reexamination and could include the taking of evidence and deciding new issues. *Id.* at 2-89 n.1.

[26] *Id.* at 2-89.

[27] *Id.*

[28] *Id.* at 2-89 to 2-90 (citing Icicle Seafoods, Inc. v. Worthington, 475 U.S. 709, 713–14 (1986)).

[29] *Id.* at 2-91.

[30] Chad M. Oldfather, *Universal De Novo Review*, 77 GEO. WASH. L. REV. 308, 308 (2009).

[31] *Id.* at 309–10 ("[W]hen coupled with the doctrine of precedent and the understanding that courts must decide the disputes that come before them,

the sheer difficulty of clearly defining an issue as one of law or fact undermines the propriety of providing zero deference to trial courts on issues deemed questions of law.[32]

D. *Reviewing Mixed Questions of Law and Fact*

Given the difficulty in distinguishing law from fact and the rarity of issues that fit squarely at the extremes, it stands to reason that a vast number of issues are left somewhere in the middle of the spectrum. Mixed questions of law and fact, like questions of law, lie outside the purview of Rule 52.[33] Unlike questions of law, however, the principal of universal *de novo* review does not always apply.[34] The Supreme Court's activity in this area has led to two prevailing characterizations.[35]

First, a mixed question of law and fact can be addressed as a singular entity. Appellate review of mixed fact-law questions under this characterization varies depending on the circumstances. Most courts default to *de novo* review.[36] Some courts take the opposite position, defaulting to a deferential standard.[37] All courts apply a deferential standard for some mixed questions.[38] A novel view pioneered in the Ninth Circuit first inquires as to the predominant nature of the issue.[39] Where the nature of an issue is predominantly factual the court will apply the clearly erroneous rule, and where predominantly legal, it applies *de novo* review.[40]

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universal *de novo* review amounts to a requirement that courts make law in all cases presenting contested legal issues." (footnote omitted)).

[32] *See id.* at 314.

[33] *See* FED. R. CIV. P. 52(a)(6) (identifying only "[f]indings of fact" as requiring review under the clearly erroneous standard).

[34] *See* 1 CHILDRESS & DAVIS, *supra* note 10, § 2.18, at 2-108.

[35] *See id.*

[36] *See id.*

[37] *See id.* at 2-108 to 2-109.

[38] *See id.* (listing questions of reasonableness and negligence as mixed questions typically treated as purely factual).

[39] *See id.* 2-109 to -110 (citing United States v. McConney, 728 F.2d 1195 (9th Cir. 1984), *en banc*, *cert. denied*, 469 U.S. 824 (1984) (detailing factors to consider in describing issue as more factual)).

[40] *See id.*

Second, mixed fact-law questions can be split into constituent parts, with each individual part being reviewed by an appropriate standard.[41] This characterization is referred to as bifurcated review.[42] By splitting out questions of fact from conclusions of law, this approach simplifies the inquiry.[43] Furthermore, it may be argued that bifurcated review more appropriately allocates authority between the trial and appellate court.[44] But the difficult distinction between law and fact remains, and so the bifurcation process itself may become complex, or in the worst cases, incorrectly categorize the issues.[45] One opponent has described bifurcated review as an "exercise [that] can, and occasionally does, do little more than serve as a covering for the exercise of the trial court function by an appellate court."[46]

III. *HIGHMARK* & EXCEPTIONAL PATENT CASES

The *Highmark* fracture embodies the Federal Circuit's struggle to determine the appropriate standard of review for exceptional case determinations. Understanding the factual and procedural context of the underlying litigation is a necessary precursor to analysis.

A. *The Facts and Procedural History of* Highmark

Highmark, Inc. sought a declaratory judgment of non-infringement, invalidity, and unenforceability of U.S. Patent No. 5,301,105 owned by Allcare Health Management Systems, Inc.[47] The action was brought in the Western District of Pennsylvania but was swiftly transferred to the Northern District of Texas, where Allcare asserted counterclaims for patent infringement.[48]

Allcare's patent concerns "managed healthcare systems used to interconnect . . . physicians, medical care facilities, patients,

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[41] *See id.* at 2-111.
[42] *See id.* at 2-112 to -114.
[43] *See id.* at 2-113.
[44] *See id.*
[45] *See id.* at 2-114 to -115.
[46] *Id.* at 2-114.
[47] *Highmark I*, 687 F.3d 1300, 1307 (Fed. Cir. 2012).
[48] *Id.*

insurance companies, and financial institutions."[49] The system focuses on managing "utilization review," a moniker for the process of deciding what treatments health insurers should approve for a patient.[50] Three claims formed the basis of Allcare's assertion of infringement: (1) independent claim 52, which outlines a system for the input of "patient symptoms for tentatively identifying a proposed mode of treatment" that produces "indicia" of requisite utilization review where it is required and prevents payments until utilization review has been obtained; (2) claim 53, dependent on claim 52, that adds a step for supplementing indicia for proposed treatments that require "ancillary services, such as by pharmacists, prosthesis providers, dentists, and the like;" and (3) independent claim 102, which describes back-end systems for storing requisite information including patient health profiles, symptoms and treatment data, identifying criteria, and reiterates the functionality of claim 52.[51]

Due to a dispute regarding claim construction, the district court appointed a special master who later issued a definitive report.[52] Highmark moved for summary judgment of non-infringement based on that report.[53] Allcare opposed with respect to claims 52 and 53 but formally withdrew its claims regarding claim 102.[54] Once again enlisting the aid of the special master, the district court decided the case in favor of Highmark, granting summary judgment.[55] The Federal Circuit later upheld the decision.[56]

B. *The Sanctions*

While Allcare's appeal on the merits was pending before the appellate court, Highmark moved for an exceptional case finding.[57]

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[49] *Id.* at 1306.
[50] *Id.*
[51] *Id.* at 1306–07 (citing U.S. Patent No. 5,301,105 col. 21 11. 22–40 (claim 52), ll. 43–49 (claim 53), and col. 28 11. 8–30 (claim 102) (filed Apr. 8, 1991) (issued Apr. 5, 1994)).
[52] *Id.* at 1307.
[53] *Id.*
[54] *Id.*
[55] *Id.*
[56] *Id.* at 1319.
[57] *Id.* at 1307.

Highmark sought an award of attorneys' fees and expenses as recompense from Allcare's allegedly frivolous action under 35 U.S.C. § 285.[58] In addition, Highmark also moved for sanctions against Allcare's attorneys under Rule 11 of the *Federal Rules of Civil Procedure*.[59]

The district court agreed with Highmark's accusations, finding that the case was exceptional and that Allcare's attorneys had violated Rule 11.[60] Both the § 285 and the Rule 11 findings shared the same bases. First, the infringement claims regarding claims 52 and 102 were frivolous.[61] Second, Allcare engaged in litigation misconduct including "asserting a frivolous position based on res judicata and collateral estoppel, shifting its claim construction position throughout the [trial] . . . and making misrepresentations [relating to its motion to transfer] to the Western District of Pennsylvania . . . ."[62]

The district court awarded Highmark $4,694,727.40 in attorneys' fees and $209,626.56 in expenses, along with $375,400.05 in additional sanctions marked "expert fees and expenses."[63] Allcare's attorneys swiftly withdrew from the case and moved for a repeal of the Rule 11 sanctions.[64] The district court granted the motion to repeal sanctions against the attorneys, prompting Allcare to move for reconsideration regarding the § 285 exceptional case finding and award.[65] The district court rejected that motion, and Allcare's appeal brought the issue before the Federal Circuit.[66]

The Federal Circuit undertook review of the district court's exceptional case finding using the *de novo* standard outlined in

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[58] *Id.* at 1307–08.
[59] *Id.*
[60] *Id.* at 1307.
[61] *Id.* at 1307–08.
[62] *Id.* at 1308.
[63] *Id.* at 1308 ("The district court did not determine how much of the monetary awards were attributable to each issue.").
[64] *Id.* (noting that the withdrawal was based on "conflicts of interest").
[65] *Id.*
[66] *Id.*

Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc.[67] The application of that standard prompted a rousing dissent from Judge Mayer, the third judge on the panel.[68] In reviewing the case *de novo*, the majority upheld the district court's exceptional case finding in one instance, and reversed on all others.[69] A brief review of the analysis undertaken for each basis is helpful in determining which standard is appropriate.

1. *Infringement Regarding Claims 52 and 102*

For an exceptional case finding to stand absent litigation misconduct, two criteria must be satisfied: (1) the litigation is brought in bad faith (subjective prong), and (2) the litigation is objectively baseless (objective prong).[70] Where the litigation is objectively baseless, it must further be shown that the "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."[71] The objective baselessness prong was held in *Bard* to be a question of law and thus subject to *de novo* review without deference to the decision of the district court.[72] Another formulation of the pertinent question asks whether "no reasonable litigant could realistically expect success on the merits."[73]

The majority affirmed the finding of objective baselessness only with regard to Allcare's infringement action over claim 102.[74] The court pointed out a myriad of ways that Allcare agreed with the interpretation of claim 102 as an interactive system involving

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[67] 682 F.3d 1003, 1005 (Fed. Cir. 2012).

[68] *Highmark I*, 687 F.3d at 1319 (Mayer, J., dissenting) (serving as a rallying cry that would later be taken up by the panel dissent when Allcare would move to rehear the case en banc).

[69] *Id.* at 1319 (majority opinion) (upholding the exceptional case finding only with regards to Allcare's allegations of infringement on claim 102).

[70] Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005).

[71] *Highmark I*, 687 F.3d at 1309 (quoting *In re* Seagate Tech., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007)).

[72] *Bard*, 682 F.3d at 1004–06.

[73] Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60 (1993).

[74] *Highmark I*, 687 F.3d at 1312–13.

the activity of healthcare providers, patients, and employers.[75] The court further explained that such an interpretation is required by the tenants of claim construction.[76] Alternatively, "[t]here was also no plausible argument that Highmark's method involved the interconnection and interaction of patients and employers . . . ."[77] Indeed, Allcare did not argue that Highmark's method included any similar interaction.[78]

The *Highmark I* majority reversed the district court's exceptional case finding regarding claim 52.[79] The district court's finding turned on "Allcare's lack of basis for its claim construction position."[80] While the Federal Circuit agreed that the proper construction of claim 52 differed from Allcare's construction and did not warrant infringement on behalf of Highmark, it disagreed with the finding that Allcare's construction was baseless.[81] Quoting its own precedent, the court stated that "simply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless."[82] The language of claim 52, as construed by both the district court and the Federal Circuit, covered a system that requires "entering . . . data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment," which then automatically outputs a "list of recommended treatments."[83] Allcare construed claim 52 as covering systems where a healthcare provider would input both "data symbolic of patient symptoms" and the "proposed mode of treatment."[84] Though the language of the claim itself does not express both systems, a second embodiment found in the

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[75] *Id.*
[76] *Id.* at 1311–12 (stating that the preamble is unequivocally limiting with respect to the rest of a claim).
[77] *Id.* at 1312.
[78] *Id.*
[79] *Id.* at 1315.
[80] *Id.* at 1314.
[81] *Id.*
[82] *Id.* at 1315 (quoting iLor, LLC v. Google, Inc., 631 F.3d 1372, 1380 (Fed. Cir. 2011)).
[83] *Id.* at 1313–14.
[84] *Id.* at 1313.

specification provided support for Allcare's position.[85] The majority felt that the presence of such support rendered Allcare's position, while incorrect, at least not unreasonable.[86] Furthermore, the majority pointed out that the burden rested with Highmark to indicate objective unreasonableness, which it failed to do.[87] Thus, the majority reversed the exceptional case finding with regard to the frivolity of infringement action under claim 52.[88]

2. *Litigation Misconduct*

Litigation misconduct may serve as an alternative basis for finding an exceptional case under 35 U.S.C. § 285.[89] In this case, Allcare was accused of litigation misconduct in three instances.

First, the court considered the issue of whether Allcare made frivolous arguments based on res judicata and collateral estoppel.[90] These arguments regarded a previous case brought by Allcare against Trigon, an insurance company similar to Highmark.[91] Both Trigon and Highmark were Blue Cross Blue Shield providers.[92] In the Trigon case, the court issued rulings regarding claim construction and limitations especially the construction of claim 52.[93] Allcare argued in this case that, by virtue of its Blue Cross Blue Shield relationship to Trigon and its "participation" in the Trigon action, "Highmark was bound under principles of res judicata and collateral estoppel" to the Trigon court's rulings.[94] To

[85] *Id.* at 1314.
[86] *Id.*
[87] *Id.* at 1315. This would have required a "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." *Id.*
[88] *Id.*
[89] MarcTec, LLC v. Johnson & Johnson, 664 F.3d 907, 919 (Fed. Cir. 2012) (stating that "litigation misconduct" and "unprofessional behavior" are sufficient to support an exceptional case finding).
[90] *Highmark I*, 687 F.3d at 1308.
[91] Allcare Health Mgmt. Sys., Inc. v. Trigon Healthcare, Inc., No. 1:02-CV-756-A (E.D.Va. Feb. 3, 2003).
[92] *Highmark I*, 687 F.3d at 1316–17.
[93] *Id.*
[94] *Id.*

establish Highmark's "participation," Allcare leveraged a theory of virtual representation.[95]

The district court ruled Allcare's argument objectively unreasonable pursuant to *Taylor v. Sturgell*,[96] a case that eliminated the doctrine of "preclusion by 'virtual representation.' "[97] That Supreme Court decision issued while the Highmark litigation progressed in the district court.[98] The majority in the Federal Circuit reversed the district court's finding based on that sequence of events.[99] Allcare made the virtual representation argument prior to the *Taylor* decision, and the Blue Cross Blue Shield connection between Trigon and Highmark provided at least a reasonable basis.[100] The majority also noted that when facts highlighting the diminutive relationship between Highmark and Trigon came to light, Allcare withdrew this argument.[101]

Second, the court analyzed whether Allcare committed litigation misconduct due to its "shifting claim construction."[102] The majority points out four instances in which Allcare altered its preferred interpretation of claim 52(c), each of which it categorized as "minor."[103] It goes on to state that the substance of Allcare's claim constructions did not change and that Highmark failed to provide support for its claim that "minor word variations in claim construction positions, where the substance of the claim construction does not change, are sanctionable."[104] The majority also notes that at least some of the changes in Allcare's claim construction were due to a Federal Circuit decision, *Phillips v. AWH Corp.*,[105] released while the case was ongoing.[106] While the district court considered these shifts significant enough to sustain a

[95] *Id.*
[96] 553 U.S. 880 (2008).
[97] *Highmark I*, 687 F.3d at 1317 (citing *Taylor*, 553 U.S. at 885).
[98] *Id.*
[99] *See id.*
[100] *Id.* at 1316–17.
[101] *Id.*
[102] *Id.*
[103] *Id.* at 1317–18.
[104] *Id.* at 1318.
[105] 415 F.3d 1303 (Fed. Cir. 2005).
[106] *Highmark I*, 687 F.3d at 1318.

finding of litigation misconduct, the majority in the Federal Circuit appeal rejected the district court's holding as clear error.[107]

Third, the court considered alleged misrepresentations made by Allcare to the Western District of Pennsylvania during its motion to transfer the case to the Northern District of Texas. The basis for that motion, as asserted by Allcare, was a lack of personal jurisdiction.[108] Allcare argued that it had no ties to Pennsylvania outside of a survey it commissioned from Seaport Surveys to locate potential patent infringers.[109] Allcare contended that it had no control over the methods or targets of the survey and that Seaport operated as an independent contractor, thus failing to demonstrate sufficient contacts to establish personal jurisdiction.[110] The district court cited facts indicating that "Allcare participated in and, indeed, controlled every other aspect of the survey."[111] Allcare's representations to the Western District of Pennsylvania, it held, "were 'at best obfuscatory and [ ] strain[ed] the bounds of zealous advocacy.' "[112]

Highmark I's majority opinion reversed the district court's findings based on precedent, stating "court[s] 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*.' "[113] The majority also pointed out that the Pennsylvania Court would be the most appropriate body to levy such sanctions.[114]

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[107] *Id.*
[108] *Id.*
[109] *Id.*
[110] *Id.*
[111] *Id.* (quoting Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc., 706 F. Supp. 2d 713, 734 (N.D. Tex. 2010)).
[112] *Id.* (quoting *Highmark*, 706 F. Supp. 2d at 735).
[113] *Id.* at 1319 (citing FDIC v. Maxxam, Inc., 523 F.3d 566, 591 (5th Cir. 2008)).
[114] *Id.*

IV. STANDARDS

The factions on either side of the *Highmark* fracture are distinguished by their preferred standard of review for exceptional patent cases.

A. *The De Novo Standard*

As mentioned above, the Federal Circuit relied on a *de novo* standard to review the exceptional case findings of the district court in *Highmark I*, specifically in the objective prong of the test. This allowed the panel to weigh the merits of each exceptional case finding with zero deference to the findings of the lower court. Application of *de novo* review in such cases finds its basis in *Bard*, recent Federal Circuit precedent that establishes objective reasonableness as a question of law.[115] *Bard* itself relies on a Supreme Court decision, *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.* ("*PRE*").[116] *PRE* held that sanctions for litigation require a finding of objective baselessness, which in turn requires a probable cause determination.[117] Notably, the Supreme Court went on to say 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."[118] The majority later points out that exceptional case findings generally reach the Federal Circuit on appeal after the merits of a case have been appealed and resolved, or in tandem,

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[115] *See* Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc. (*Highmark II*), 701 F.3d 1351, 1353 (Fed. Cir. 2012).

[116] 508 U.S. 49 (1993); *see* Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., 682 F.3d 1003, 1007–08 (Fed. Cir. 2012).

[117] *Highmark II*, 701 F.3d at 1353 (quoting *PRE*, 508 U.S. at 62). The Supreme Court has also explained the factual and legal basis of probable cause determinations:

> [P]robable cause is a question of law in a very important sense. . . . Whether the circumstances alleged to show it probable are true, and existed, is a matter of fact; but whether, supposing them to be true, they amount to a probable cause, is a question of law.

Stewart v. Sonneborn, 98 U.S. 187, 194 (1878).

[118] *PRE*, 508 U.S. at 63; *see also* Scott v. Harris, 550 U.S. 372, 381 (2007) (reiterating the holding).

allowing the court to weigh both the merits and the exceptional case finding together.[119]

In its response to the dissent in *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.* ("*Highmark II*"), the majority offers a number of additional arguments in support of its adoption of this standard. The principle support relies on the purpose for the Federal Circuit's existence: "Congress created this court in 1982 with the goal of promoting greater uniformity in the interpretation and application of the nation's patent laws."[120] In this role, the majority argues, the Federal Circuit is both especially equipped, and especially responsible for the adjudication of patent litigation and the leverage of sanctions in exceptional cases.[121] The complex legal issues associated with patent cases enhance that responsibility.[122] This argument specifically addresses the disparity between the use of a *de novo* standard in § 285 cases as opposed to the deferential standard applied uniformly in Rule 11 sanction cases in other circuits.

The majority also points out changes in the language of § 285, which removed explicit recognition of a discretionary authority of the trial judge.[123] Another point of support, according to the majority, rests with the policy considerations underlying § 285 sanctions.[124] As opposed to Rule 11 sanctions, which have the primary purpose of deterring abusive litigation practices,[125] § 285 sanctions for exceptional cases are meant to provide compensation to successful litigants who have been the victims of frivolous patent litigation.[126]

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[119] *Highmark II*, 701 F.3d at 1356.

[120] Highmark I, 687 F.3d 1300, 1319 (Fed. Cir. 2012) (Mayer, J. dissenting).

[121] *Highmark II*, 701 F.3d at 1356.

[122] *See id.*

[123] *Id.* at 1354 (explaining that Congress changed the language from "[the court] may in its discretion award reasonable attorney[s'] fees" to "the court in exceptional cases may award reasonable attorney[s'] fees").

[124] *See id.* at 1354–55.

[125] Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 393 (1990).

[126] *Highmark II*, 701 F.3d at 1354–55 (citing Mathis v. Spears, 857 F.2d 749, 753 (Fed. Cir. 1988)).

B. *Dissent and the Clear Error Standard*

The *Highmark I* dissent rebuked the aforementioned extrapolation, arguing that the *de novo* standard is inappropriate and that *Bard* is bad precedent that should be overruled.[127] As a primary component to its argument, the dissent asserted that blanket *de novo* review relegates district court hearings regarding excessive case findings to "mere dress rehearsal for the command performance here."[128] Further, the district courts are better positioned to make the determination and to review their exceptional case findings without deference represents appellate overreach.[129] To exemplify the district court's unique position in evaluation of objective reasonableness, the dissenters pointed to situations where courts accept expert testimony to assist in legal determinations: "Even when we attempt to . . . 'consider the record as a whole,' this court is not on equal footing with the district court in weighing determinative facts, especially in the context of expert opinions."[130]

The dissent makes a number of additional arguments. First, it argues that the majority's interpretation of important precedents, including *PRE*, is incorrect.[131] Second, the majority misconstrues mixed questions of fact and law as simple questions of law.[132] To highlight the error in the majority's characterization, the dissent quotes the Supreme Court as stating that differentiating law and fact "is particularly difficult since there is no 'rule or principle that will unerringly distinguish a factual finding from a legal

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[127] Highmark I, 687 F.3d 1300, 1320–21 (Fed. Cir. 2012) (Mayer, J., dissenting).

[128] *Id.* at 1320.

[129] *Id.*

[130] *Highmark II*, 701 F.3d at 1366 (Reyna, J., dissenting) (internal citations omitted) (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 witnesses) (citing Salve Regina Coll. v. Russell, 499 U.S. 225, 233 (1991)). Judge Reyna further states, "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." *Id.* at 1365.

[131] *Id.* at 1358 (Moore, J., dissenting).

[132] *Id.*

conclusion' in the context of attorney fee awards."[133] Finally, the dissent argues that, pursuant to Supreme Court authority, the uniform application of the deferential clear error standard in all other circuit courts to sanction determinations under Rule 11 provides strong evidence that clear error is also the appropriate standard for reviewing § 285 exceptional case determinations.[134]

V. ANALYSIS

The deeply entrenched posture of both the pro-*de novo* and the pro-clear error members of the Federal Circuit, as seen in *Highmark I* and *II*, is indicative of the merits of each argument. Neither approach is optimal. Rather, the court should seek a middle ground—the adoption of a two-part process that would first determine the appropriate standard to apply to a particular finding of objective baselessness and only then come to a determinative conclusion on the merits.

There are two primary issues at the core of the *Highmark* fracture. First, whether Federal Circuit and Supreme Court precedent indicate that objective baselessness should be reviewed *de novo*. Second, whether objective reasonableness in exceptional case determinations is a question of law, a question of fact, or a mixed question of law and fact. Note, however, that these issues are not entirely independent, as the law-fact inquiry directly informs the selection of an appropriate standard of review. This section proceeds first by addressing these two core issues in the context of the exceptional case findings in *Highmark I*. It then proposes a new, calibrated standard.

A. *Direct Precedent:* Bard *and* PRE

The *Highmark I* majority's primary argument in favor of *de novo* review is that the standard is required by its precedent in *Bard*, which is informed by the Supreme Court's decision in *PRE*.[135] In *PRE*, the Supreme Court considered a case involving

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[133] *Id.* at 1365–66 (Reyna, J., dissenting) (quoting Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 401 (1990)).
[134] *Id.* at 1359 (Moore, J., dissenting).
[135] *See* Highmark I, 687 F.3d 1300, 1309 (Fed. Cir. 2012).

sham litigation.[136] The court held that for litigation to be considered a "sham," there must be a finding of objective baselessness, as opposed to a showing of some subjective opinion of the accused litigant.[137] It is not enough, for example, to show that one particular offending lawyer believed his client's suit to be without merit. Rather, it would have to be shown that no reasonable attorney would believe that the suit had merit. In its discussion, the Supreme Court analogized objective baselessness to a lack of probable cause to bring the suit.[138] *Bard* seized on the probable cause analogy and extended it by citing additional criminal law precedent that establishes probable cause, in the criminal context, to be a question of law reviewed *de novo*.[139] Using this logic, the *Bard* panel shifted to *de novo* review for objective recklessness under 35 U.S.C. § 284 willful infringement findings.[140]

The path the *Bard* panel followed is narrow, perhaps even treacherous. First, the *Bard* panel relied on *iLor, LLC v. Google, Inc.*,[141] which characterized the § 284 objective recklessness standard as "identical" to the objective baselessness standard required by § 285 exceptional case determinations.[142] This first link in *Bard*'s logic chain seems to be the primary hook used by the *Highmark I* majority to extend *Bard*'s holding from the § 284 willful infringement context to the § 285 exceptional case context. *Bard*'s logic continues: Because objective recklessness equals objective baselessness (*iLor*), and objective baselessness, at least in the sham litigation context, is analogous to a lack of probable cause (*PRE*), § 284 objective recklessness determinations are analogous to a lack of probable cause.[143] Finally, because probable

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[136] *See* Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc. (*PRE*), 508 U.S. 49, 51 (1993).

[137] *Id.*

[138] *See id.* at 62. Note that "probable cause" is a term of art borrowed from criminal law.

[139] *See* Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., 682 F.3d 1003, 1007–08 (Fed. Cir. 2012).

[140] *See id.*

[141] 631 F.3d 1372 (Fed. Cir. 2011).

[142] *See Bard*, 682 F.3d at 1007.

[143] *See id.* at 1008.

cause is reviewed *de novo*, § 284 objective recklessness determinations should be reviewed *de novo* as well.[144]

The connection is not altogether illogical, but it may best be described as a stretch. Even where one is willing to accept the extension of the Supreme Court's probable cause analogy to infer that the *de novo* standard of review for probable cause in criminal cases should apply to sham litigation in civil cases, it takes an altogether separate leap of faith to accept that objective baselessness in the sham litigation context is equivalent to objective baselessness in the exceptional patent case context. Furthermore, *iLor* did not suggest that either objective recklessness under § 284, or objective baselessness under § 285, is a question of law to be reviewed *de novo*.[145]

The *Highmark I* dissent, as highlighted by the dissents in *Highmark II*, finds the *Bard* approach wholly unpersuasive.[146] Indeed, those judges argue that the majority characterization of *PRE* is incorrect, even hinting that *Bard* should be overruled.[147] Instead, the dissenters argue that *PRE* only provides for review of objective reasonableness as a matter of law when there are no predicate facts in dispute.[148] As set out by Judge Moore in *Highmark II*, "What the Supreme Court in *PRE* did *not* say is that objective reasonableness or probable cause is always decided as a matter of law."[149] Therefore, Judge Moore concluded that generalization of this principle in *Bard* to all cases of objective recklessness is appellate overreach.[150] Even worse, he argues, is the further expansion to objective baselessness findings in exceptional cases.[151]

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[144] *See id.*
[145] *See iLor, LLC*, 631 at 1374.
[146] *See* Highmark I, 687 F.3d 1300, 1320 (Fed. Cir. 2012) (Mayer, J., dissenting); *see also* Highmark II, 701 F.3d 1351, 1362 (Fed. Cir. 2012) (Moore, J., dissenting).
[147] *See Highmark I*, 687 F.3d at 1320 (Mayer, J., dissenting); *see also Highmark II*, 701 F.3d at 1362 (Moore, J., dissenting).
[148] *See Highmark II*, 701 F.3d at 1358–59 (Moore, J., dissenting).
[149] *Id.*
[150] *See id.*
[151] *See id.*

Whether *Bard* should be overturned is an open question, but the majority's claim that *Bard* and *PRE* establish *de novo* review as the unequivocal standard in exceptional case determinations is, at best, suspect.

Bard's holding, however, does not solely rest on its inferences from *PRE*. The *Bard* panel conceded that the Federal Circuit historically did not characterize objective recklessness determinations as questions of law.[152] Rather, they were treated as final questions of fact, predicated by mixed questions of law and fact.[153] It is worth noting that prior to *Highmark I*, the Federal Circuit likewise treated objective baselessness determinations under § 285 as questions of fact, reviewed under a clear error standard.[154] *Bard* shifted the accepted characterization by treating the final determination as a question of law predicated on mixed questions of law and fact.[155] It specifically addressed the prior jurisprudence, noting its change of course in light of the *PRE* argument outlined above, and additional reasoning regarding the characterization.[156] The majority in both *Highmark I* and *Highmark II* failed to address Federal Circuit precedent applying a clear error standard of review to objective baselessness determinations.[157] The additional reasoning in *Bard* is analyzed below, as it informs the second major inquiry: Is objective reasonableness best characterized as a question of law, fact, or a mixed question?

B. *Question of Law, Fact, or Mixed*

Before diving headlong into the murky waters of law and fact, it is helpful to check our bearings. An exceptional case determination can arise in a number of contexts. The two contexts appearing in this case are frivolous infringement claims and

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[152] *See* Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., 682 F.3d 1003, 1006 (Fed. Cir. 2012).
[153] *See id.*
[154] *See Highmark II*, 701 F.3d at 1357 (Moore, J., dissenting).
[155] *See Bard*, 682 F.3d at 1006.
[156] *See id.*
[157] *See Highmark II*, 701 F.3d at 1362 (Moore, J., dissenting).

litigation misconduct.[158] Exceptional case determinations arising in the frivolous claims context trigger the two-prong *Brooks Furniture* test.[159] Appellate review of the second prong of that test, requiring a finding of objective baselessness, used to be reviewed for clear error.[160] *Highmark I*, as reinforced by *Highmark II*, has changed that standard so that such findings will be reviewed *de novo*.[161] This shift has split the Federal Circuit, creating what this article describes as the *Highmark* fracture.

The district court found this case exceptional on five bases: (1) Allcare's frivolous infringement claim regarding claim 52, (2) Allcare's frivolous infringement claim regarding claim 102, (3) Allcare's shifting position on claim construction, (4) misrepresentations made by Allcare to the district court in Pennsylvania in its effort to move venue, and (5) Allcare's baseless arguments invoking res judicata and collateral estoppel.[162] Bases (1) and (2) arise in the context of frivolous infringement claims that are subject to the two-prong test at the core of the fracture and thus command our focus. Bases (3)–(5) arise in the context of litigation misconduct. Though they do not directly inform the inquiry into the standard of review for objective baselessness, they, nevertheless, are instructive.

1. *Characterizing Exceptional Cases—Frivolous Infringement Claims Context*

The contested *de novo* standard nominally applies only to exceptional case determinations arising in the context of frivolous infringement claims. In its opinion in *Highmark II*, the majority indicates that the only question at issue between itself and the dissenters is whether claim construction should be treated as a question of law or something else in an objective reasonableness

[158] *See supra* Part III.B.

[159] Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005).

[160] *See Highmark II*, 701 F.3d at 1357 (Moore, J., dissenting).

[161] *See Highmark II*, 701 F.3d at 1353; Highmark, 687 F.3d 1300, 1309–10 (Fed. Cir. 2012).

[162] *See Highmark I*, 687 F.3d at 1307–08).

determination.[163] That characterization highlights two levels of inquiry: (1) whether claim construction itself is a question of law, fact, or a mixed question; and (2) whether the application of the objective baselessness standard to the underlying claim construction is a question of law, fact, or a mixed question. The majority cites *Cybor Corp. v. FAS Techs., Inc.*[164] as establishing that claim construction is undeniably a question of law.[165] Furthermore, because objective baselessness is a legal standard being applied to an underlying pure question of law, the entire inquiry is properly characterized as a question of law.[166]

The dissent offers a different perspective. First, they hint that *Cybor Corps.* may be yet another example of the appellate overreach exemplified by *Bard* and *Highmark I*, and they question whether claim construction itself is a pure question of law.[167] Specifically, because expert testimony is often required at the trial level for the purposes of understanding claim construction and meanings, the trial court judge must exercise his duty of weighing that evidence factually, based on the demeanor of the witness.[168] Furthermore, the application of the objective baselessness standard requires more inputs than the validity of claim construction alone. Review must take into account additional factual determinations.[169] Thus, the objective baselessness in an exceptional case determination is a mixed question predicated by questions of fact and mixed questions of fact and law.

In *Highmark I & II*, the majority set out the position that the application of the objective baselessness standard, arising in the frivolous infringement context of an exceptional case determination, is a question of law that will always be reviewed *de novo*.[170] The majority applied this new standard to each

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[163] *Highmark II*, 701 F.3d at 1353.
[164] 138 F.3d 1448 (Fed. Cir. 1998).
[165] *See id.* at 1454–55; *see also Highmark II*, 701 F.3d at 1353.
[166] *See Highmark II*, 701 F.3d at 1353.
[167] *See id.* at 1362 (Moore, J., dissenting).
[168] *Id.* at 1353 (Reyna, J., dissenting).
[169] *See id.*
[170] *See Highmark II*, 701 F.3d at 1353; Highmark I, 687 F.3d 1300, 1309–10 (Fed. Cir. 2012).

exceptional case determination arising in the frivolous infringement claim context.[171]

In the first instance, the majority disagreed with the district court regarding Allcare's claim of infringement of claim 52—where the district court found the claim objectively baseless, the majority reversed.[172] The majority's reasoning included: (1) that an embodiment in the patent's specification supported Allcare's construction of claim 52; and (2) that Highmark carried the burden of indicating objective baselessness, which it failed to meet.[173] Reason (1) seems clearly to be a question of fact, although one easily determined from the record. Reason (2), however, appears to be a mixed question of law and fact. This rationale does not support the majority's conclusion that objective baselessness is always a question of law, predicated upon questions of law. However, it does not explicitly preclude a conclusion that the final determination should be characterized as a question of law for other reasons.

The majority affirmed the district court's finding of an exceptional case based on frivolous infringement of claim 102.[174] The majority's first reason for affirming was the myriad of ways that Allcare agreed to a particular interpretation of claim 102 throughout the litigation.[175] That interpretation, which both the district and appellate courts found to be required by the rules of claim construction, was also found to be objectively baseless.[176] Note that the objective baselessness finding is predicated solely on matters relating to claim construction. But, beyond the legal rules that determine appropriate construction, the Federal Circuit also considers the purely factual matter of Allcare's acquiescence to the construction throughout the litigation. Besides being best described as a finding of fact, the determination that Allcare acquiesced in a "myriad of ways" appears to be that type of fact that a trial judge would be better positioned to observe. The

[171] *See Highmark I*, 687 F.3d at 1312–15.
[172] *Id.* at 1315.
[173] *Id.* at 1314.
[174] *Id.* at 1312–13.
[175] *Id.*
[176] *Id.* at 1312.

reasoning of the majority seems to firmly counter the conclusion that objective baselessness in the frivolous infringement claim context is purely a question of law.

Characterization of an issue as a question of law or fact is a difficult process.[177] Despite arguments to the contrary, the recurring presence of questions of fact or mixed questions amongst the objective baselessness analysis of *Highmark I* weighs heavily against a pure question of law characterization.

2. *Characterizing Exceptional Cases: Litigation Misconduct Context*

The holding of *Highmark I*, and the focus of this paper, purports to directly address review of objective baselessness findings in exceptional cases. That question only arises where a case is found exceptional because of a frivolous claim of infringement. Exceptional case determinations can arise in other contexts, including some that require an objective baselessness finding similar to that required in the *Brooks Furniture* test.[178] As a general matter, it is difficult to lump all of these additional underlying contexts into a single characterization as a question of fact, law, or mix. The challenge of determining on a case-by-case basis how to properly characterize each of those contexts would, in theory, be academic. Because the *Highmark I* holding only applies in the frivolous infringement context, it should not disturb the standard of review in other contexts.[179] We address the additional exceptional case findings here because (1) there is evidence that the majority in *Highmark I* applied the new *de novo* standard even outside of the frivolous infringement context and (2) those findings provide additional evidence in support of a mixed-

[177] *See supra* Part II.

[178] *See* Brooks Furniture Mfg., Inc. v. Dutailer Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005). Note that similar is not the same. The objective baselessness finding required in Rule 11 determinations (which may serve as the basis of an exceptional case finding) lives separate and apart. *See infra* Part V.B.4. A finding of willful infringement under § 284, which requires a determination of objective recklessness, may also serve as a basis for an exceptional case finding. Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., 682 F.3d 1003, 1007–08 (Fed. Cir. 2012).

[179] *See Highmark I*, 687 F.3d at 1312–15.

question characterization for objective baselessness in the frivolous infringement context.[180]

Exceptional case finding (5), as numbered in the introduction to Part V, involves Allcare's arguments invoking res judicata and collateral estoppel. It is instructive for two reasons. First, this determination provides an example of an exceptional case determination that relies on a Rule 11-type underpinning. This is interesting because that underpinning requires an objective baselessness determination that is separate from the determination required by the *Brooks Furniture* test and § 285 in the context of frivolous infringement claims.[181] It is worth noting here, however, that such determinations under Rule 11 are reviewed for clear error pursuant to Supreme Court precedent.[182] Second, case (5) is instructive because the majority in *Highmark I* nevertheless apply to it their newly minted *de novo* standard of review. Though it finally rejects the exceptional case finding due to clear error,[183] the majority explicitly states that it reviewed the district court's objective baselessness finding *de novo*.[184] In this context, however, objective baselessness must be established prior to the exceptional case determination. It is objective baselessness that establishes Allcare's arguments as litigation misconduct, and the fact that those arguments are litigation misconduct may then support an exceptional case finding. This analysis never triggers the *Brooks Furniture* test. The *Highmark I* majority's position can only be explained as (1) an intent to extend *de novo* review to all objective baselessness determinations, whether in the *Brooks Furniture* test or any other context or (2) simply a mistake of application. Note that if the first explanation holds true, it arguably contradicts

[180] Note that exceptional case finding (4), regarding misrepresentations to the Wester District of Pennsylvania, is not addressed. Its disposition holds little benefit for our analysis.

[181] *See* Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 405 (1990).

[182] *See id.* at 393.

[183] *See* Highmark I, 687 F.3d 1300, 1317 (Fed. Cir. 2012).

[184] *Id.* at 1316.

Supreme Court instruction that objective baselessness determinations in Rule 11 cases must be reviewed for clear error.[185]

Exceptional case finding (3) involved Allcare's shifting claim construction throughout the litigation. This basis is instructive, as it provides an additional example of factual findings that might inform an objective baselessness determination. The majority did not include Allcare's shifting claim construction in weighing the district court's exceptional case determinations,[186] but in future cases, it certainly may be considered. Where a party asserts infringement on a claim, the fact that it vacillates between different interpretations of that claim might be informative to the inquiry of whether their assertion is objectively baseless. Furthermore, that fact is one more readily observable by the trial judge. This provides further evidence that objective baselessness is more appropriately characterized as a mixed question of fact and law.

3. *Allocation v. Analysis: Which Court Is Better Positioned?*

Direct analysis of the proper characterization of objective baselessness may not be determinative. As the Federal Circuit stated in *Bard*:

> "The decision to label an issue a 'question of law,' a 'question of fact,' or a 'mixed question of law and fact' is sometimes as much a matter of allocation as it is of analysis. . . ." When an "issue falls somewhere between a pristine legal standard and a simple historical fact, the fact/law distinction at times has turned on a determination that . . . one judicial actor is better positioned than another to decide the issue in question."[187]

This avenue is not left untrodden in the battle over *Highmark*. The dissenters in *Highmark I* and *Highmark II* argue that the trial judge is uniquely positioned to weigh the factual underpinnings of

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[185] *See Cooter & Gell*, 496 U.S. at 405 (holding that clear error be used for Rule 11 cases).

[186] *See Highmark I*, 687 F.3d at 1317–18 (reversing the district court's exceptional case determination but giving no indication that Allcare's shifting position factored into the frivolous infringement calculus).

[187] Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc., 682 F.3d 1003, 1006 (Fed. Cir. 2012) (citations omitted) (quoting Miller v. Fenton, 474 U.S. 104, 113–14 (1985)).

objective baselessness determinations.[188] That position has merit, and is especially credited by the fact that patent litigation generally involves expert testimony.

The majority's argument that the Federal Circuit occupies a special position as the sole appellate authority for patent litigation, and in that role has developed special expertise to review patent related issues is also well taken. The technicality of patent cases, including claim construction, lends weight to the majority's argument that the Federal Circuit may be as well, or better, positioned than a generalist district court in making exceptional case determinations. This rationale is one of the principle factors weighing in favor of the majority's stance on the standard of review.

4. *Analogous Precedent: Rule 11*

The objective baselessness standard in exceptional case determinations does not stand alone. Numerous contexts exist which require courts to make similar determinations—generally in the process of levying sanctions. A study of how those determinations are reviewed is potentially instructive. Indeed, the analogy of objective baselessness in *Highmark I* and *II* to the similar objective baselessness determination required by Federal Rule of Civil Procedure 11 is a central point of argument between the pro-*de novo* and pro-clear error camps.[189]

The majorities in *Highmark I* and *Highmark II* argue that the dissenters' Rule 11 analogy is inapplicable because the patent context is sufficiently distinct.[190] The dissenters hold it up as direct evidence that the Supreme Court would reject *de novo* review of objective baselessness findings.[191] Though there is some validity to the differences outlined by the majority, the congruencies between the two are sufficient to at least render Rule 11

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[188] *See Highmark I*, 687 F.3d at 1321 (Mayer, J., dissenting); *see also* Highmark II, 701 F.3d 1351, 1365 (Fed. Cir. 2012) (Reyna, J., dissenting).

[189] *See supra* Part IV.B.

[190] *See Highmark II*, 701 F.3d at 1354–55 (reaffirming the conclusions of the majority in *Highmark I*, as both decisions were written by Judge Dyk).

[191] *See Highmark I*, 687 F.3d at 1322 (Mayer, J., dissenting); *see also Highmark II*, 701 F.3d at 1359 (Moore, J., dissenting).

considerations instructive.[192] It is also worth noting that, while the majority rails against the validity of the Rule 11 analogy, it bases much of its pro-*de novo* argument on the decision of *PRE*, a case involving objective baselessness determinations in sham litigation.[193] No clarification is provided regarding why a sham litigation analogy is foundational while the Rule 11 analogy should be discarded.

The issue at bar in Rule 11 determinations is to determine whether litigation has been brought without merit.[194] It has been characterized in three distinct partitions: (1) factual underpinnings, (2) a legal conclusion of objective baselessness, and (3) a discretionary decision regarding whether, and in what amount, to levy sanctions.[195]

The separate characterization of the elements of Rule 11 facilitated the adoption in some circuits of a bifurcated standard of review.[196] In those circuits, factual underpinnings would be reviewed for clear error, the objective baselessness determination would be reviewed *de novo*, and the discretionary levy of sanctions would be reviewed for abuse of discretion.[197] In *Cooter & Gell v. Hartmarx Corp.*,[198] the Supreme Court rejected this multi-step review in favor of applying a clear error standard for all parts of the inquiry.[199]

Where the Supreme Court's decision is interpreted as a "carving out" of the specific mixed-question in Rule 11 as one to be treated as fact, it may be set aside for purposes of persuasiveness. As discussed in Part II, there are a number of

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[192] For example, the majority highlights distinctions in the primary purpose of each statute (either to compensate injured parties in the § 285 context, or to deter future misconduct in the Rule 11 context) and the relative amount of awards (relatively small in Rule 11 cases, exceptionally large in § 285 cases). *Highmark II*, 701 F.3d at 1354–55; *Highmark I*, 6816.7 F.3d at 1315–

[193] *See supra* Part V.A.

[194] *See* 1 CHILDRESS & DAVIS, *supra* note 10, § 4-15[2], at 4-125 to -126.

[195] *See id.*

[196] *See id.*

[197] *See id.*

[198] 496 U.S. 384 (1990).

[199] *See id.* at 405.

issues that fall within the murky waters between pure fact and pure law in which the court has directed a specific standard of review. The Court's action here might also be interpreted as persuasive, if not binding, precedent disapproving of a *de novo* standard of review in objective baselessness determinations. Finally, the Court's decision may be understood as a rejection of bifurcated review as a structural concept.

C. *Proposing a Calibrated Standard*

Objective baselessness determinations in the exceptional case context are best characterized as mixed questions of law and fact. Accordingly, as noted in Part II, the Rule 52 requirement of clear error review for factual findings does not control. This does not preclude the application of a clear error standard. The specific application of clear error review in Rule 11 determinations clearly indicates that mixed questions may be treated as questions of fact for the purposes of review. Though this Recent Development rejects the *Highmark I* and *II* majority's characterization of the issue as a question of law, that conclusion does not necessarily preclude application of a *de novo* standard. Even if objective baselessness was a pure question of law, as indicated in Part II, recent stirrings have questioned universal *de novo* review in such contexts.

Despite the fact that both clear error and *de novo* review are available options, neither is appropriate. The mixed nature of objective baselessness determinations will place any individual finding somewhere in the blended zone between pure fact and pure law. It does not follow, however, that each finding will be exactly in the center of that spectrum. Some mixed questions turn more centrally on underlying questions of fact. Others are predominated by a conclusion of law. The blanket application of either the *de novo* or clear error standard will thus result in injustice at the extremes. Where an objective baselessness finding turns more prominently on a question of fact, at the very least, clear error review is more appropriate than *de novo* review, and vice-versa. That misapplication is not without cost. Disregarding the staggering amounts of money that may be awarded in exceptional

case determinations, relying on an inappropriate standard misallocates authority between the trial and appellate courts.

Two known standards attempt to more delicately allocate imbedded issues to the appropriate courts. The first is a bifurcated approach, which separates questions of fact from conclusions of law and then allocates them among the trial and appellate authorities.[200] Bifurcated standards do not avoid the difficult problem of properly characterizing the underlying issue, but they facilitate the effort to get each part in the appropriate hands. As discussed in Part V.B.4, such an approach to Rule 11 determinations was rejected by the Supreme Court. Given the similarities between Rule 11 and the issues at bar here, this paper avoids bifurcated review.

Rather, this Recent Development advocates for a calibrated approach. First, the appellate court will be required to determine whether the objective baselessness determination turns more predominantly on a finding of fact or a conclusion of law. In the former case, the appellate court will review the objective baselessness finding giving deference to the trial court. In the latter, it will review the determination *de novo*. Similar to bifurcated review, a calibrated approach does not avoid the difficult question of characterizing each new objective baselessness determination. Its advantage is that it allows the appellate court to review the issue as a whole, weighing its constituent underpinnings to make a single conclusion. This is distinct from bifurcated review, which would require a court to assess, and conclusively decide, the nature of each constituent underpinning.

The calibrated standard must be applied on an ad-hoc basis and characterization will remain difficult. Some guideposts are helpful. First, where an objective baselessness determination turns on only the technicalities of claim construction, as informed by well-established legal principles, it is appropriately reviewed *de novo*. This may be considered the default position. Where factual underpinnings clearly inform the objective baselessness finding, it

[200] 1 CHILDRESS & DAVIS, *supra* note 10, § 4-15, at 4-126.

is possible that clear error review will be more appropriate. If a determination necessarily includes the evaluation of witness testimony, that fact will weigh in favor of clear error review. Other factual findings may weigh in favor of clear error review if the lower court is in a better position to observe them. Arguments fielded by counsel at trial, for example, are informed not just by their substance as reviewable in the record but by the manner of their delivery. Alternatively, the existence of additional support within a patent for a party's adopted claim construction is a factual consideration easily reviewable in the record. The former example would weigh in favor of clear error review. The latter would bear no weight against the default *de novo* standard.

The *Highmark* exceptional case findings provide a convenient testing ground for the calibrated approach. The majority in *Highmark I* reversed frivolous infringement regarding claim 52 based on a mixed question of law and fact that does not fit neatly along the lines of a known guidepost.[201] The outcome of the first step of the calibrated approach regarding this issue is unclear. Note that the lack of clarity reflects exactly the same considerations at the heart of the *Highmark* fracture: The calibrated approach does not cure the difficulty of the debate in close cases. It does quarantine that difficulty. Given the slim majority's affinity for characterizing objective baselessness as a question of law, it is likely that the current court would apply *de novo* review to this exceptional case determination and reach the same final result.

Frivolous infringement regarding claim 102 was affirmed, based in part on an evaluation of Allcare's position as communicated beyond its direct argument: the "myriad of ways" that Allcare acquiesced to the objectively baseless construction. This factual determination is more readily observed by the trial court, and thus would weigh heavily in favor of clear error review. Though the application of that more appropriate standard in this

[201] Specifically, whether Highmark met its burden of showing not only an absence of infringement under the alternative claim construction but that the alternative construction was objectively baseless.

case would not necessarily require a different outcome, it would afford the appropriate deference to the lower court.

Finally, the application of the calibrated standard is inappropriate outside of the frivolous infringement context. Where exceptional case determinations arise in other contexts, including litigation misconduct requiring an embedded objective baselessness test, the appropriate standard of review must be selected independently, observing necessary precedent.

VI. CONCLUSION

An important question has arisen regarding the review of exceptional case findings in patent litigation, with the adoption of a *de novo* standard of review by the Federal Circuit in *Highmark* and the dissents' adherence to a deferential, clear error standard.

The majority makes a legitimate point. In the case of patent litigation in particular, there is a heightened responsibility of the Federal Circuit to get it right. This formed the basis of the *Bard* decision and is the underpinning of the majority's defense of the *de novo* standard. The dissenters are also correct when they argue that reviewing fact-based inquiries with zero deference to the district court eviscerates any reason for the district to cover that material in the first place.

What both factions overlook is a fundamental truth: Because exceptional case determinations are mixed cases of fact and law, they exist along a spectrum with some issues turning more on legal analysis and others on factual analysis. Where the *de novo* standard is appropriate for resolving questions of law, when it is applied to mixed situation that rely more heavily on factual determinations, injustice results. The same is true regarding the clear error standard and situations that depend directly on questions of law. The answer is the implementation of a calibrated test, which would first determine the appropriate standard for a given situation and then apply that standard. While such a system raises issues of consistency, and blurred lines in difficult cases, it provides an adequate means to avoid injustice at the extremes and to reconcile the entrenched positions of the Federal Circuit.