IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS

FORT WORTH DIVISION

HIGHMARK, INC.	§	
	§	
Plaintiff,	§	Civil No.: 4:03 CV – 1384 – Y
	§	
vs.	§	Judge Terry R. Means
	§	
ALLCARE HEALTH MANAGEMENT	§	
SYSTEMS, INC.,	§	
	§	
Defendant.	§	

SPECIAL MASTER'S REPORT AND RECOMMENDED DECISIONS ON SUMMARY JUDGMENT MOTIONS AND MOTIONS TO EXCLUDE EXPERT OPINIONS AND REPORTS

CONFIDENTIAL PURSUANT TO PROTECTIVE ORDER

TABLE OF CONTENTS

Page #s

TABLE OF CONTENTS
(Continued)

Page #s

TABLE OF CONTENTS
(Continued)

Page #s

TABLE OF AUTHORITIES

Page #s

TABLE OF AUTHORITIES
(Continued)

Page #s

TABLE OF AUTHORITIES
(Continued)

Page #s

TABLE OF AUTHORITIES
(Continued)

Page #s

OTHER AUTHORITIES

I. INTRODUCTION

Plaintiff Highmark, Inc. ("Highmark") filed this action against Allcare Health Management Systems, Inc. ("Allcare") seeking declaratory judgment of invalidity, non-infringement and unenforceability of U.S. Patent No. 5,301,105 ("the '105 patent"). Allcare filed a counterclaim alleging infringement of the '105 patent.

I previously submitted a Special Master's Report and Recommended Decisions on Claim Construction, recommending construction of disputed terms of Claims 1, 52, 53, and 102 of the '105 patent. Cl. Constr. Rep., Dckt. No. 367. This Court adopted those recommendations. Dckt. No. 375.

Subsequently, the parties filed the following motions, which have referred to me as Special Master, for recommended decisions:

1. Highmark's Motion for Summary Judgment;

2. Allcare's Motion for Partial Summary Judgment;

3. Highmark's Motion to Exclude Expert Opinion and Report of Robert A. Sherwin Regarding Reasonable Royalty Calculation;

4. Allcare's Motion to Exclude Expert Testimony of Mark M. Gleason Regarding Reasonable Royalty Calculation;

5. Highmark's Motion to Exclude the Testimony and Report of Stephen D. Holland, M.D.; and

6. Allcare's Motion to Exclude the Expert Testimony of Jeremy Nobel, M.D.

Allcare does not allege infringement of Claim 1 and has withdrawn its allegation of infringement of Claim 102. Highmark will not, in this litigation, pursue its allegation of invalidity of Claim 102. Highmark has not withdrawn its allegation of invalidity of Claim 1, but does not seek summary judgment of invalidity of Claim 1. Thus, I will not consider the validity, or infringement of Claims 1 and 102 in this Report.

The motions were fully briefed by the parties. A full day hearing was held on February 26, 2008. At the hearing, oral argument was presented by counsel for both parties.

I have reviewed and considered all of the arguments, evidence and submissions of the parties and provide the following report and recommended decisions.

II. THE '105 PATENT

The '105 patent was issued to Desmond D. Cummings on April 5, 1994. HA1.[1] The invention relates to a managed health care system that uses a computer system to interconnect and integrate interaction of the patient, health care provider, bank or other financial institution, insurance company, utilization reviewer, and employer so as to include within a single system each of the essential participants to provide patients with complete and comprehensive pretreatment, treatment and post-treatment health care and payment for such health care. '105 patent, cover page, Abstract.[2]

Referring to Fig. 1 of the patent, a computer central processor 10 is the heart of the operational system. The central processor is connected to memory banks 16, 17, 18, 19, 20, 21 and 44 which store various information and data. *Id.* at 4:30-39. These memory banks may be a part of the processing system 10 or may be separate data banks that are accessible to the processing system. The central processor is connected to a plurality of remote physician office terminals, 11a-11c, each located in the office of a respective physician or other health care provider. The central processor also is connected to other participants in the system such as banks 27 and insurance companies 24a-24c. *Id.* at 5:49-6:2.

---

[1] The appendices submitted by Highmark are cited as HA____. The Allcare appendices are cited as APP_____. Separate appendices were submitted for each motion, except the appendices for the non-infringement and invalidity motions are combined. Unless otherwise stated, the citations are to the appendices to the motion being discussed.

[2] Citations to the patent are to the cover page, or to column and line of the specification, or to a figure of drawing.

The central processor memory banks include information identifying each potential patient having the required insurance, or otherwise being authorized to use the system. *Id.* at 8:3-14. When a patient visits a physician or other health care provider, the patient's identification is entered into the system through that health care provider's remote office terminal 11a and is communicated to the central processing system for verification of the patient's authorization to participate in the health care system. *Id.* at 8:9-14; 8:57-9:12; boxes 100-102, Fig. 5. The central processor accesses appropriate insurance information such as a list of treatments and authorized costs from an insurance file memory bank 18. *Id.* at 9:26-33; box 104, Fig. 5; 4:53-62.

The physician may use an optional diagnostic smart system to assist in making a diagnosis. To do so, the physician enters, through the physician's office terminal, patient symptoms and other data which will assist in making a diagnosis and identifying recommended treatment. *Id.* at 9:53-60; box 111, Fig. 5. The central physician's file 44 has stored in its memory identification of the most commonly encountered diseases and other ailments, together with the symptoms usually associated with them. *Id.* at 6:55-59. When the physician enters the observed symptoms and requests a diagnosis, the central processing system obtains the necessary data from the physician's file 44 and prepares a list of the most likely medical conditions corresponding to the observed symptoms, together with the generally approved or recommended treatment protocols. *Id.* at 6:59-67; box 112, Fig. 5. Thus, the physician is assisted by the processing system in identifying the most likely causes of the health problem, and the recommended treatment.

Having made the diagnosis, with or without the assistance of the diagnostic smart system, the health care provider then enters into the system data identifying the proposed treatment. *Id.* at 11:32-36; box 127, Fig. 6. The system memory banks include information identifying treatments and procedures for which utilization review is required. *Id.* at 4:53-62. The processing system compares the proposed treatment with recommended protocols stored in the insurance file 18 and physician file 44 and indicates

whether the proposed treatment meets applicable criteria of the insurer. *Id.* at 10:3-8; 11:37-40; box 128, Fig. 6. If the treatment requires utilization review or does not meet the applicable criteria, there ensues a discussion with a nurse and sometimes with the Medical Director. *Id.* at 11:44-55. If the treatment is approved, the health care provider proceeds with treatment. After treatment the health care provider enters into the system that the visit is completed. *Id.* at 13:24-30; box 159.

The system then makes provision for transfer of approved sums from the bank to the health care provider. *Id.* at 13:44-52.

Fig. 3 illustrates an alternative embodiment which functions similarly to that of Fig. 1 discussed above, but differs in that the physician file 44, and some other data files, may be located in the separate physician offices in a personal computer ("PC"), instead of at the central location with the central processor; and some of the data processing is done at the separate physician's offices in a microprocessor 60 which communicates with the central processor through a conventional modem 62. *Id.* at 7:39-60.

III. SUMMARY JUDGMENT MOTIONS

A. Law Applicable To Summary Judgment

Summary judgment is appropriate when the record shows no genuine issue of material fact, and an entitlement to judgment as a matter of law for the moving party. *See* Fed. R. Civ. P. 56(c). A material fact is one that is relevant and necessary to the proceedings. *See Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248 (1986). A genuine issue exists if sufficient evidence is presented so that a reasonable fact finder could decide the issue in the nonmoving party's favor. *Id.* However, an asserted issue of material fact is not "genuine" in the sense of Fed. R. Civ. P. 56 if a reasonable jury could only resolve the question for the moving party. *See id.* at 248. The evidence proffered by the nonmoving party "is to be believed, and all justifiable inferences are to be drawn in [the nonmovant's] favor." *Id.* at 255. When ruling on a motion for summary judgment, the

court must keep in mind the proof necessary to support liability or a defense under the applicable substantive law. *Id.* at 254.

The Federal Circuit has emphasized repeatedly that "summary judgment is as appropriate in a patent case as any other case." *See, e.g., Avia Group Int'l, v. L.A. Gear Cal., Inc.,* 853 F.2d 1557, 1561 (Fed. Cir. 1988); *Mark I Marketing Corp. v. R.R. Donnelly & Sons Co.,* 55 F.3d 285, 289 (Fed. Cir. 1995). Noninfringement is an issue on which it has "repeatedly upheld a grant of summary judgment." *Chemical Eng'g Corp. v. Essef Indus., Inc.,* 795 F.2d 1565, 1571 (Fed. Cir. 1986).

Finally, when both parties move for summary judgment, the court must evaluate each motion on its own merits, resolving all reasonable inferences against the party whose motion is under consideration. *McKay v. United States,* 199 F.3d 1376, 1380 (Fed. Cir. 1999).

B. Highmark's Non-Infringement Summary Judgment Motion

Highmark's Motion for Summary Judgment includes both a Motion for Summary Judgment of Non-Infringement and a Motion for Summary Judgment of Invalidity. I will discuss them separately.

IV. LAW APPLICABLE TO INFRINGEMENT

The determination of infringement is a two-step process. The first step is to determine the scope and meaning of the patent claims at issue as a matter of law. *Markman v. Westview Instruments, Inc.,* 52 F.3d 967, 976, 979 (Fed. Cir. 1995) (*en banc*), *aff'd,* 116 S. Ct. 1384 (1996); *Cybor Corp. v. FAS Techs., Inc.,* 138 F.3d 1448, 1454 (Fed. Cir 1998) (*en banc*). That has been done in the Claim Construction Report and this Court's Order adopting that report. Dckt. No. 367; Dckt. No. 375.

Second, the properly construed claims are compared to the accused product or process to determine whether all the limitations of the claims are present. *Cybor,* 138 F.3d at 1454 (*citing Read Corp. v. Portec, Inc.,* 970 F.2d 816, 821, (Fed. Cir. 1992)); *Markman v. Westview Instr., Inc.,* 52 F.3d 967, 976 (Fed. Cir. 1995) (*en banc*), *aff'd,* 116

S. Ct. 1384 (1996); *Renishaw v. Marposs Societa Per Azoni,* 158 F.3d 1243, 1247-1248 (Fed. Cir. 1998). The patent owner bears the burden of proving infringement by a preponderance of the evidence. *Conroy v. Reebok Int'l, Ltd.,* 14 F.3d 1570, 1573 (Fed. Cir. 1994). Where the parties do not dispute any relevant facts regarding the accused product, but disagree over possible claim interpretations, the question of infringement collapses into the question of claim construction, which is a matter of law suitable for summary judgment. *See Rhine v. Cassio, Inc., 1*83 F.3d 1342, 1345 (Fed. Cir. 1999); *Athletic Alternatives, Inc. v. Prince Mfg., Inc.,* 73 F.3d 1573, 1578 (Fed. Cir. 1996).

Allcare does not allege infringement under the doctrine of equivalents, only literal infringement. Literal infringement of a method claim is found only where each limitation of an asserted patent claim is found literally in the accused process. *Palumbo v. Don-Joy Co.,* 762 F2d 969, 974 (Fed. Cir. 1985). Omission of a single claimed step from an accused process is sufficient to preclude a finding of literal infringement of that claim. *Wolverine World Wide, Inc. v. Nike, Inc.,* 38 F.3d 1192, 1199 (Fed. Cir. 1994) ("If an express claim limitation is absent from the accused product, there can be no literal infringement as a matter of law").

With respect to literal infringement, there is a generally applicable doctrine that "one who does not infringe an independent claim can not infringe a claim dependent on (and thus containing all the limitations of) that claim." *Wahpeton Canvas Co. v. Frontier Inc.,* 870 F.2d 1546, 1552 n. 9 (Fed. Cir. 1989).

1. The Accused System

On Highmark's Motion for Summary Judgment of Non-Infringement the Court must accept the admissible evidence proffered by Allcare, and draw all justifiable inferences in favor of Allcare. Therefore, I will cite primarily to the description of the Highmark accused system provided by Allcare's technical expert Dr. Holland in his Report. APP 677-774.

Highmark is a Blue Shield insurer. Holland Rep. at ¶ 13. It is not a "provider" of medical services. Highmark's integrated electronic claims adjudication and processing system includes components such as ECS, ICIS, VIPR, OSCAR, ROAR and MaxMC. *Id.* at ¶ 25.

ECS (Enrollment Communications System) stores member enrollment information. *Id.* at ¶ 26. It is used to verify enrollment and determine eligibility. *Id.* at ¶ 29.

ICIS (Integrated Customer Information System) maintains group information related to all of the participating employers and their health benefit plans. It is used to check benefits for members. *Id.* at ¶ 36 and 38.

VIPR (Provider Database) maintains electronic files relating the participating providers who are set up for payment by electronic funds. *Id.* at ¶ 42.

OSCAR (Optimum System for Claims Adjudicating and Reporting) is an electronic claims processing systems incorporated in the Highmark system. When a patient receives a service from their physician, the charge is entered either manually or electronically on a HCFA 1500 form or screen by the physician office staff, and submitted. An electronic claim is submitted using practice management software. The claim is placed in one of the processing systems and passes through a processing review automatically. *Id.* at ¶ 49-50. OSCAR adjudicates claims and automatically passes approved transactions without human intervention to a reimbursement component called RENO for payment. *Id.* at ¶ 58.

The Highmark system enables use of Navinet, a web-based portal which is integrated with the system. Highmark providers use Navinet to submit requests for referrals or authorization and eligibility and benefits inquiries. Navinet provides a web-based front end to Highmark's applications and databases for provider transactions including coverage verification, claim submission, authorizations, and referrals. *Id.* at ¶ 294, 303 and 304. Navinet users at a provider's office use a personal computer running

a web browser such as Internet Explorer to connect to Highmark's web-site, which links to NaviMedix, which operates NaviNet. *Id.* at ¶ 362. Navinet training and support are funded by Highmark at no charge to the provider. *Id.* at ¶ 359.

The Highmark utilization review system permits advance authorization of a proposed treatment. *Id.* at ¶ 383-385. After the treatment is administered and a claim for payment is submitted, Highmark's claims processing computer searches for any previously obtained pre-authorization. If none is found, payment is withheld until adjudication, including utilization review, has been completed. *Id.* at ¶ 63, citing affdvt. of Francavilla.

In the Highmark system, utilization review is the determination of the medical necessity of a procedure. *Id.* at ¶ 407. The Highmark system uses rules that include a consideration of procedure codes in order to determine whether to automatically approve the request without human intervention. *Id.* at ¶ 432 and 433. The ROAR (Referrals and Authorization Requests) application in the system includes a procedure code table. The table indicates those procedures for which authorization is required. *Id.* at ¶ 99, 105, and 106.

MaxMC is used by Highmark's Healthcare Management Services for utilization review, based on diagnosis and procedure codes. *Id.* at ¶ 112 and 113. CPT codes are used for procedure codes. *Id.* at ¶ 120. The system instructs the user to enter 1CD9 codes as the diagnosis. *Id.* at ¶ 129-131.

Highmark maintains a "data warehouse" containing information compiled from processed claims. Highmark analyzes information in the data warehouse and develops reports regarding patient conditions for case management and condition management, including personal wellness profile data that members enter. Highmark uses predictive modeling to improve identification of at-risk individuals and more efficiently align patients with care management interventions. It warehouses the member wellness profile data. *Id.* at ¶ 79, 80, 82, 87 and 88.

Using the Highmark member portal, members can access a "Healthwise Knowledgebase." That is a comprehensive evidence-based resource of physician approved information for medical consumers, which supports decisions relating to treatment options. *Id.* at ¶ 270 and 271. Through that portal, members also can obtain a Personal Wellness Profile that identifies health risks, goals, and sources of information. *Id.* at ¶ 272.

In 2001 and 2002, Highmark augmented the consumer portal by adding a number of transactions supported by Navinet under a section of the portal called Health eConnect. It provides a conduit for messaging between doctors and their patients. *Id.* at ¶ 339 and 341.

At least since 2005, Highmark has offered "Lifestyle Returns" through its web-site. This supports members in improving and maintaining their health by developing and living a healthy lifestyle. *Id.* at ¶ 347 and 348.

2. Does The Accused System Contain Every Element Of The Asserted Claims?

Allcare alleges infringement of Claims 52 and 53 of the '105 patent. Both are method claims, and are reproduced in Attachment A hereto.

Highmark contends that the accused system does not contain every element of the asserted claims. Specifically, Highmark contends that the accused system:

a) does not contain the "health care management system" of the preambles of Claims 52 and 53; and

b) does not accept entry of "data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment." Claim 52(c).

If either of those limitations is not present in the accused system, then the accused system does not literally infringe either Claim 52 or 53 and summary judgment of non-infringement would be appropriate.

a) "Health Care Management System"

The preamble of Claims 52 and 53 recites a "health care management system," and that is a limitation of the claims. Cl. Const. Rep. at 38, Dckt. No. 367, HA25 at 63. The Court's claim construction requires that the health care management system of Claims 52 and 53 "provide patients with . . . the treatment and prevention of disease, especially by trained and licensed professionals . . .". Cl. Const. Rep. at 12, 37. Highmark contends that its system does not provide such treatment and prevention of disease. Highmark Opening. Br. at 28.

The term "provide" was construed in the context of "providing ancillary services" in Claim 53, but was not expressly construed in the context of the preambles to Claims 52 or 53. The meaning of "providing" with respect to ancillary services in Claim 53, and with respect to treatment and prevention of disease in the preambles of Claims 52 and 53 should be the same, *i.e.*, "giving or arranging for." Cl. Const. Rep. at 42. The reasons given for that construction with respect to providing ancillary services in Claim 53 apply equally to providing treatment and prevention of disease in Claims 52 and 53.

The computer system is part of the claimed health care management system, but the computer system alone is not the claimed health care management system. The claimed health care management system "has many participants." It uses a computer system to combine the patient, the provider and other participants "so as to include in a single (health care management) system each of the essential elements." *Id.* at 1, 2 and 12. The term "elements" is used in its broad sense to include participants. *Id.* at 11.

The claim construction for the preambles recites that the treatment and prevention of disease is provided by professionals (the providers, e.g. physicians or hospitals). The computer system need not be a robotic doctor. It is the health care management system, not the computer system, that must "provide patients with. . . the treatment and prevention of disease." The physician is a participant in the health care management system. There

is no genuine issue of fact that the physicians, as participants in the health care management system, give and arrange for the treatment and prevention of disease.

Therefore, the "health care management system" limitation of the preambles of Claims 52 and 53 is satisfied by the accused system. Summary judgment of non-infringement based upon alleged lack in the accused system of the "health care management system" of the preambles would be inappropriate.

b) 52(c) "Data Symbolic of Patient Symptoms For Tentatively Identifying A Proposed Mode of Treatment"

Element (c) of Claim 52 provides in part:

> (c) entering through said input means into said data processor data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment... '105 Patent at 21:31-34.

In their claim construction contentions, both parties agreed that this claim limitation covers a diagnostic smart system as disclosed in the '105 patent. In the disclosed diagnostic smart system, 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. The quoted portion of 52(c) reads naturally and easily on such a diagnostic smart system. The physician enters data symbolic of patient symptoms and the computer system, through its diagnostic smart system, tentatively identifies a proposed mode of treatment for the entered symptoms.

The accused system does not include such a diagnostic smart system. It does include a utilization review system for advance authorization of a proposed treatment as described above. *Supra*, p. 8. In the Claim Construction Report, I refused the request of Allcare to find that element 52(c) covers the utilization review system disclosed in the patent, without the disclosed diagnostic smart system, because such a determination was not a proper part of a claim construction analysis. Cl. Constr. Rep. at 41.

The issue here is whether in the accused system, the provider enters data symbolic of patient symptoms for tentatively identifying a proposed method of treatment, as claimed.

The NaviNet provider web portal presents an authorization request form (APP 28901) on the physician's computer screen. The physician is instructed to enter an ICD9 diagnostic code and a CPT proposed procedure code on that form. The accused system then determines from its database whether or not the proposed procedure requires utilization review for "medical necessity" before being authorized.

Combining the relevant constructions from the Claim Construction Report shows that "data symbolic of symptoms" was construed as:

> "information expressed by means of a symbol or symbols or representative manner pertaining to a noticeable change in a patient's condition indicative of some bodily or mental disease, or other medical condition." Cl. Const. Rep. at 28-29.

Highmark contends that the Claim Construction Report concluded that ICD9 codes indicate a treatment, not symptoms and thus the entry of ICD9 codes in the accused system in the "diagnosis" box cannot satisfy the claim limitation of entering data symbolic of symptoms.

However, the discussion in the Claim Construction Report regarding ICD9 codes as indicating a treatment, not symptoms, referred to the specific *structure disclosed in the patent specification* for performing the first function of claim element 1(d). That analysis of disclosed structure was an analysis appropriate only to a claim limitation, such as 1(d), in the special "means plus function" format governed by 35 U.S.C. § 112, par. 6 ("112-6"). Such analysis is not relevant to element 52(c) which is not in 112-6 format. The Claim Construction Report specifically noted that "the analysis of the *structure* for performing that function in 1(d) is not applicable" to 52(c). *Id.* at 40. (emphasis added). The focus of a patent infringement analysis for a claim element not covered by section

112-6 is on the accused system, not on the structure of the preferred embodiment described in the patent.

Thus, whether or not the Highmark system uses ICD9 codes as data symbolic of symptoms was not resolved in the claim construction of 52(c), which only concluded that ICD9 codes were not used as symptom data in the preferred embodiment disclosed in the patent.

In the accused system, the Navinet web portal requests the provider to enter a ICD9 code as the "diagnosis," not as the symptom. However, Dr. Holland testified that ICD9 codes from Chapter 16 of the ICD-9-CM Manual, when used in the accused system, are data symbolic of symptoms, as are some codes from other Chapters, and that ICD9 codes entered as "diagnosis" may represent both patient symptoms and diagnosis, e.g. "headache." Holland Rep. at ¶ 409-424. Drawing all reasonable inferences in Allcare's favor, Allcare raises a genuine issue of fact as to whether the ICD9 codes entered in the accused system sometimes are "data symbolic of patient symptoms."

However, 52(c) requires that the data symbolic of patient symptoms be entered "for tentatively identifying a proposed mode of treatment." The Highmark utilization review requires identification of the proposed treatment so it can be compared to the authorized list of treatments, and either approved or disapproved for reimbursement. Although, according to Dr. Holland, in the accused system ICD9 codes are sometimes entered as data symbolic of patient symptoms, the utilization review system does not use the 1CD9 code to identify a proposed mode of treatment. It uses the ICD9 code to identify the diagnosis or the symptom. CPT code identifies the proposed treatment. *Id.* at ¶ 120, 310.

Dr. Holland admits that, in the Highmark system, utilization review is the determination of the medical necessity of a "procedure." *Id.* at ¶ 407. The Highmark system uses rules that include a consideration of "procedure codes" to determine whether to automatically approve the request without human intervention. *Id.* at ¶ 432 and 433.

The ROAR (Referrals and Authorization Requests) application includes a "procedure code" table. The table indicates those "procedures" for which authorization is required. *Id.* at ¶ 99, 105, and 106.

MaxMC is used by Highmark's Healthcare Management Services (HMS) for utilization review, based on diagnosis and "procedure codes." *Id.* at ¶ 112 and 113. CPT codes are used for "procedure codes." *Id.* at ¶ 120. The system instructs the user to enter the ICD9 code as the diagnosis. *Id.* at ¶ 129-131. Navinet uses CPT codes as the "procedure codes" and ICD9 codes as the diagnosis codes. *Id.* at ¶ 310, 405.

The '105 patent expressly refers to CPT codes as standard "treatment" codes used for reporting "procedures" performed by the physician, using "procedures" and "treatment" essentially interchangeably. '105 Patent at 11:24-31. This is consistent with the usage of "procedure" in the Highmark system.

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." *Id.* at ¶ 457. They do not *identify* the treatment.

However, Allcare contends that the entire authorization request form (APP 2890), not the CPT code alone, is the proposed treatment, citing Exh. D to Holland Report, p. 5, Holland Dep., pp. 166-182, and Holland Rep. ¶ 426-433. To the contrary, according to Dr. Holland:

> "When a request for authentication is submitted through NaviNet, the Highmark system uses rules that include a consideration of *procedure codes* in order to determine whether to automatically approve the request or to send the request for clinical review." Holland Rep. ¶ 432. (emphasis added).

Thus, the request for authorization form includes the CPT procedure code, but it is that procedure code, not the remainder of the authorization form, that identifies the proposed treatment.

"Proposed mode of treatment" in the claims means "a suggested method of the management and care of a patient to combat disease or injury." Claim Constr. Rep. at 31. A symptom or diagnosis is the *reason* or justification for a proposed mode of treatment. A symptom is not "a suggested method of the management and care of a patient." The entry of the symptom is not for *identifying* the proposed mode of treatment, it is for supporting the medical necessity of the proposed treatment. The cited testimony and report of Dr. Holland do not raise a genuine material issue of fact otherwise.

By stipulation of the parties, "for" in the claims has been construed to mean "used to indicate the aim, or purpose of an action or activity." Cl. Const. Rep. at 28. Allcare argues that construction does not require a cause and effect relationship using, as an analogy, "tying my shoes for running around the block." Hrg. Trans. at 128-29.

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" and "used to indicate the aim, or purpose of an action or activity," require 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.

No reasonable juror could find that entry of a ICD9 code as a symptom in the accused system is "for tentatively identifying a proposed mode of treatment." Thus, it is recommended that summary judgment of non-infringement be granted on this ground.

3. Vicarious Liability

a) Introduction And Law

Allcare's allegations are limited to direct infringement, under 35 U.S.C. § 271 (a) Allcare does not allege "indirect infringement," *i.e.*, induced infringement under Section 271(b) nor contributory infringement under Section 271(c).

Direct infringement of a method claim requires that a party perform each and every step of the claimed method. *BMC Resources Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378 (Fed. Cir. 2007). There is no genuine dispute that Highmark itself does not perform each and every step of Claims 52 and 53. Specifically, element (c) of Claim 52 requires that "data symbolic of patient symptoms" be entered "through such input means." The "input means" is a terminal in the physician's office and data entered through it is entered by the physician or her staff. *See* Cl. Const. Rep. at 12. It is undisputed that the physicians are not employed by Highmark.

Allcare contends that Highmark is liable for the acts of the physician, and thus is liable for direct infringement, under the doctrine of vicarious liability. The law imposes vicarious liability on a party for the acts of another in circumstances showing that the liable party *controlled* the conduct of the acting party. *Id.* at 1379. A defendant cannot avoid liability for infringement by having someone else carry out one or more of the claimed steps *on its behalf*. *Id.*

Direct infringement through vicarious liability is to be contrasted with induced infringement or contributory infringement, so-called "indirect infringement." Direct infringement is a strict-liability offense, while induced infringement requires "specific intent," to induce another to infringe, and contributory infringement requires knowledge and has its own very specific requirements. *Id.* at 1381. Allcare does not allege indirect infringement.

It is well established that traditional vicarious liability rules ordinarily make principals vicariously liable for acts of their agents. *Meyer v. Holley*, 537 U.S. 280, 285-86 (2003).

In *Cross Medical Products v. Medtronic Sofamor Danek,* an apparatus claim required connection of a surgical implant to the patient's bone, a step which the surgeon completed. 424 F.3d 1293 (Fed. Cir. 2005). A representative of the implant manufacturer, Medtronic, appeared in the operating room, and identified devices to be used by the surgeons, but did not direct the surgeon's action in performing the surgery. The Federal Circuit found that Medtronic did not directly infringe through vicarious liability because, "if anyone makes the claimed apparatus, (including the connection to the bone), it is the surgeons, who are, as far as we can tell, not *agents* of Medtronic." *Id.* at 1311 (emphasis added). Thus, although it is not entirely clear, the Federal Circuit apparently applied an agency requirement.

Agency is defined in the Restatement as:

> "Agency is the fiduciary relationship that arises when one person (a 'principal') manifests assent to another person (an 'agent') that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act."

Restatement (Third) of Agency § 1.01 (2006).

The Federal Circuit has not adopted the Restatement standard but has, at least, adopted the agency concepts that the principal must have controlled or directed the actor, who must be acting on behalf of the principal. *BMC Resources*, 498 F.3d at 1379.

b) <u>Element 52(c)</u>

As discussed above, in the accused system the physician's entry of data symbolic of patient symptoms does not satisfy the claim requirement that such entry is "for tentatively identifying a proposed mode of treatment." Thus, there can be no direct infringement even under a theory of vicarious liability. Although that moots the vicarious

liability issue, for completeness I will analyze vicarious liability hypothetically as if the physician's entry of patient symptoms were "for tentatively identifying a proposed mode of treatment."

On this motion the evidence must be viewed in the light most favorable to Allcare, but, in order to avoid summary judgment of non-infringement, Allcare must at least raise a genuine issue of fact as to Highmark's direction or control of the physician's entry of symptom data, and as to the physician entering that data on Highmark's behalf.

Here, when the physician enters the symptoms or diagnosis data and the proposed treatment data for utilization review, the physician is acting on behalf of the patient who is seeking reimbursement for the cost. The physician is not acting on behalf of Highmark. Thus, there can be no vicarious liability.

Moreover, the physician exercises his or her independent judgment as to the diagnosis, symptoms or treatment to enter. Highmark does not control or direct that decision. Nor does Highmark control or direct the decision of the physician or the patient to seek reimbursement from Highmark at all. Highmark's rejection of a proposed treatment does not require that the provider not perform it. Such rejection only informs the provider that Highmark will not pay for such procedure. Thus, Highmark does not direct or control the provider's entry of symptom data, or of the proposed treatment.

Highmark does control and direct the format in which the data must be entered so the system can accept it, but that is control only of the form of communication, not of the substance of the communication.

In *BMC Resources*, the defendant, Paymentech, managed a computer system through which a retail customer could pay a bill by entering information about the desired payment and a debit card number to be used for the payment. Paymentech's system routed the information to a debit network, which routed it to the customer's bank. The bank checked availability of funds and authorized or declined the transaction. If

authorized, the bank made the payment from the customer's account. The bank informed the customer of the result through Paymentech. *Id.* at 1375-76.

The claimed method recited the steps performed by the bank as well as those performed by Paymentech. BMC alleged that Paymentech was liable for direct infringement through vicarious liability.

The Federal Circuit affirmed summary judgment of no infringement, finding insufficient evidence that Paymentech controlled or directed the bank. As here, Paymentech did not control or direct the decision by the bank. For the same reason, Highmark does not control or direct the decision of the physician in entering symptom data.

In *BMC Resources* and *Cross Medical*, the court set a high standard for vicarious liability. The court acknowledged that requiring control or direction may allow parties to avoid infringement through arm's length agreements. *Id.* at 1381. However, the court noted that, when a defendant participates in or encourages infringement but does not directly infringe a patent, the normal recourse under the law is for the court to apply the standards for liability under indirect infringement. *Id.* at 1379. The Federal Circuit expressed concern that expanding the rules governing direct infringement, could subvert the statutory scheme for indirect infringement *i.e.* contributory infringement and induced infringement. *Id.* at 1381.

Concern over a party avoiding infringement by arm's-length cooperation can usually be offset by different claim drafting. *Id.* Here, as in *BM Resources*, Allcare could have drafted its claims to focus on one party. For example, 52(c) could have recited "receiving" rather than "entering" the data to focus on activities performed by Highmark rather than by the physician. Allcare chose instead to include within a single claim, acts which might be performed by different parties. The court in *BMC Resources* noted the difficulty of proving infringement of such a claim format. Nonetheless, the court refused to unilaterally restructure the claim or the standards for joint infringement to remedy the

patentee's choice of claim format, *citing Sage Prods. Inc. v. Devon Indus. Inc.,* 126 F. 3d 1420, 1425 (Fed. Cir. 1997) ("[A]s between the patentee who had a clear opportunity to negotiate broader claims but did not do so, and the public at large, it is the patentee who must bear the cost of its failure to seek protection for this foreseeable alteration of its claimed structure.") *Id.*

Allcare contends that Paymentech was more nearly in the position of the physician than in the position of Highmark. However, Paymentech, like Highmark, was the central participant in the system, but relied on other participants, the physician here and the bank there, to perform some of the claimed steps.

Allcare argues that Highmark's reference, in its promotional reference to "our network providers" is sufficient to create control or an agency relationship. It is not sufficient, any more than a bank referencing "our customers" would be sufficient to create control or an agency relationship.

Allcare lists nine bullet points which it contends raise a genuine issue of material fact regarding Highmark's control of the entry of data symbolic of patient symptoms by the physician. Allcare Opp. at 27-28. The bullet points relate primarily to providing an authorization request form to the provider, requiring a specified format for data entry on that form, instructing the provider how to use the system, encouraging the provider to use the system, and the like. However, that does not equate to controlling what the physician chooses to enter. The physician can enter whatever diagnosis he or she deems appropriate. Highmark does not control the substance of the entry, only the format in which the information must be presented so that the system can understand the physician's diagnosis. Moreover, the physician does not enter the data on behalf of Highmark.

Even if it were found that the entry of data by the physician satisfies 52(c), Highmark would not be vicariously liable for the acts of the physician. It is

recommended that summary judgment of non-infringement be granted on this ground as well.

c) The Preamble

At the hearing Highmark contended that it does not perform, direct or control all of the acts included in the "health care management system" recited in the preamble of Claims 52 and 53. Specifically, Highmark contended that it does not perform, direct or control the acts of "provid(ing) patients with complete and comprehensive maintaining and restoration of health by the treatment and prevention of disease. *See* Cl. Const. Rep. at p. 12.

That allegation was not presented in Highmark's briefs on this motion, and thus, it presumably was waived. However, because it was thoroughly argued at the hearing, I will not decide the waiver issue. I will consider the argument and make a recommended ruling. Because my recommended ruling on this issue is adverse to Highmark, Allcare will not be prejudiced by any lack of notice.

As discussed above, the system includes the recited provision of treatment and prevention of disease, albeit that is done by the providers. However, to satisfy the preamble of the claims, Highmark need only "manage" the healthcare system, not perform all aspects of it. "Managing" has been construed to mean "directing or administering." Cl. Const.. Rep. at 37. Highmark has stated that "Highmark can be likened to the central nervous system of the health care delivery process; the nexus through which all of the participants connect." H26100, Highmark 2000 Annual Report; *See* Holland Rep. at ¶ 21. A reasonable jury could find that Highmark administers the accused health care management system, even though it does not itself perform all aspects of the system.

Thus, this is not appropriate ground for summary judgment of non-infringement.

4. Conclusion

For the reasons discussed above in sections 3(b) and 4(b), it is recommended that the motion for summary judgment of non-infringement be granted.

B. Highmark's Invalidity Summary Judgment Motion

Highmark contends that Claims 52 and 53 are invalid as obvious in the view of the Bank One MPS, the PDE/IMP system, and certain prior art diagnostic smart systems.

1. Applicable Law

A patent claim is invalid "if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C. § 103. Obviousness is a question of law based upon underlying factual questions. *Leapfrog Enters., Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1160 (Fed. Cir. 2007). Those underlying factual questions include: (1) the scope and content of the prior art; (2) the differences between the claims and the prior art; (3) the level of ordinary skill in the pertinent art; and (4) any secondary considerations of nonobviousness, such as commercial success, long-felt but unresolved need, failure of others, copying, and unexpected results. *See Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17-18 (1966).

Once granted, issued patents are entitled to a presumption of validity. 35 U.S.C. § 282. For this reason, the law requires clear and convincing evidence of patent invalidity before a patent may be declared invalid. *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1365 (Fed. Cir. 2004).

Highmark relies primarily on the recent *KSR* case for its obviousness contentions. *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007). In *KSR*, the Supreme Court held that mere combinations of familiar elements found in the prior art are particularly likely to be obvious.

> Neither the enactment of § 103 nor the analysis in *Graham* disturbed this Court's earlier instructions concerning the need for caution in granting a patent based on the combination of elements found in the prior art. For over a half century, the Court has held that a "patent for a combination which only unites old elements with no change in their respective functions . . . obviously withdraws what is already known into the field of its monopoly and diminishes the resources available to skillful men." This is a principal reason for declining to allow patents for what is obvious.

Id. at 1739 (citations omitted). Thus, "a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions." *Id.* at 1740.

"The combination of *familiar* elements according to *known methods* is likely to be obvious when it does *no more than yield predictable results*." *Id.* at 1739 (emphasis added). There are three factual predicates in the foregoing quote: (1) all of the elements of the claims must be "familiar;" (2) all of the elements of the claim must be arranged according to "known methods;" and (3) the arrangement of all of the elements of the claim must be in such a way as to do nothing more than yield "predictable results." At trial, Highmark would have the burden to prove each of those facts by clear and convincing evidence.

2. Level Of Ordinary Skill In The Art

The Claim Construction Report adopted by the Court included the following determination of the level of ordinary skill in the art:

> a person of ordinary skill in the art would have sufficient knowledge of managed health care systems to understand how the various participants interact with each other, and sufficient knowledge of computer systems to enable design of flow charts for the interconnection and interaction of the various computer system components, the various participants in the

managed health care system, and the functions each component or participant will perform. Cl. Const. Rep. at 9.

That determination was expressly limited to being for the purpose of claim construction. *Id.* Allcare's validity expert, Mr. Gross, offers a detailed analysis of the issue of ordinary skill in this art and proposes that persons who possess the kind of knowledge described in the Claim Construction Report would likely have a technical degree, or equivalent, plus about five years experience in the field. Gross Rep., APP 849-57, ¶ 20-51. That proposal is not inconsistent with the level of skill adopted by the court for claim construction purposes, but rather sets forth an example of specific background which might qualify a person as one of ordinary skill in the art. However, other backgrounds could also satisfy the requirement as set forth in the Claim Construction Report.

Therefore, it is recommended that the court confirm the level of skill set in the Claim Construction Report as the level of ordinary skill in the art.

3. Scope And Content Of The Prior Art

a) PDE/IMP System

Mr. Ryce, a Highmark employee, submitted a declaration authenticating an article in a customer newsletter, published in March 1990 and describing a computerized utilization review system as being then in use. (The "PDE/IMP System".) Exh. A to Ryce Decl., HA108-114. Allcare has not disputed that the PDE/IMP article is prior art for what it discloses.

Mr. Ryce, based upon his memory, testified that the PDE/IMP system and other earlier HRS systems in public use before the filing date of the application for the '105 patent, included a number of claimed features not disclosed in the PDE/IMP article. Mr. Ryce admits that prior to his preparation for deposition, he had only a very high level of understanding of the PDE/IMP process, and had to be "brought up to speed as to details." Ryce Dep. APP 661.

Testimony regarding prior use generally requires corroboration. Uncorroborated testimony concerning prior public use can be "unsatisfactory" due to "the forgetfulness of witnesses, their liability to mistakes, (and) their proneness to recollect things as the party calling them would have them recollect...." *The Barbed-Wire Patents*, 143 U.S. 275, 284 (1892). Accordingly, such testimony rarely satisfies the burden upon the accused infringer to prove invalidity by clear and convincing evidence. *See id.*

In *Woodland Trust v. Flowertree Nursery, Inc.*, the Federal Circuit commented that mere testimony of invalidating activity is treated with skepticism, "reinforced, in modern times, by the ubiquitous paper trail of virtually all commercial activity. It is rare indeed that some physical record (*e.g.*, a written document such as notes, letters, invoices, notebooks, or a sketch or drawing or photograph showing the device, a model, or some other contemporaneous record) does not exist." 148 F.3d 1368, 1373 (Fed. Cir. 1998).

For corroboration of his testimony, Mr. Ryce relies heavily on an On-Site-Review manual dated six months after the filing of the '105 application, and his memory that features disclosed in the manual were included in the system before the '105 filing date. Exhibit B to his declaration, HA119-126. The On-Site-Review manual is too late in time to provide sufficient corroboration to satisfy the clear and convincing evidence standard as to public use before the filing of the '105 application, when the evidence is viewed in the light most favorable to Allcare.

Mr. Ryce also relies on an "Internal Letter," which apparently was not a publication. Exhibit C to Ryce Decl. Thus, it apparently is not offered as prior art, but is offered as corroboration of Mr. Ryce's testimony. The Internal Letter describes a future development project extending well past the '105 filing date. It is insufficient to provide clear and convincing evidence, without genuine issue of fact, corroborating Mr. Ryce's testimony that certain systems existed or were publicly used prior to that filing date.

In *Woodland,* the Federal Circuit set forth eight criteria for assessing corroboration. 148 F.3d at 1371. At least some of those eight criteria include factual

issues which cannot properly be resolved on this summary judgment motion. Thus, the evidence is insufficiently corroborated to establish the facts testified to by clear and convincing evidence on summary judgment, when the evidence is viewed in a light most favorable to Allcare.

Therefore, for this summary judgment motion I will rely only on the PDE/IMP article (HA115) itself as the PDE/IMP prior art, and will not consider Mr. Ryce's uncorroborated testimony. This is not intended to disparage Mr. Ryce's veracity, but merely recognizes the strong concerns in the case law about uncorroborated oral testimony of prior use, and the need to view the evidence in the light most favorable to Allcare on this summary judgment motion.

b) Bank One System

Highmark also has submitted a declaration (HA190) from a former Bank One employee, Mr. Kurtyka, concerning a brochure describing a Bank One Medical Payment System (HA187). The declaration was prepared for use in other litigation involving the '105 patent. Allcare does not contest that the brochure was publicly distributed and is prior art for what it discloses.

In his declaration, Mr. Kurtyka testified, from his memory, that it was planned that the Bank One MPS would connect to other systems and perform additional claimed functions not described in the brochure. Mr. Kurtyka testified that the brochure "and further details of the Bank One MPS as set forth above" were freely disseminated to numerous other persons outside Bank One before the April 8, 1991 filing date of the application for the '105 patent. Kurtyka Decl. at ¶ 14. Mr. Kurtyka's testimony, like that of Mr. Ryce, is not sufficiently corroborated for purposes of summary judgment.

Mr. Kurtyka testified that he met with Dr. Cummings and Mr. Connor and provided them the details "as set forth above." *Id.* Mr. Kurtyka produced correspondence corroborating the fact of these meetings and the general topics discussed, but not corroborating discussion of specific details as set forth in his declaration.

Subsequent to execution and submission of the Kurtyka declaration in the prior litigation, Allcare retained Mr. Kurtyka as a technical expert in this case. Mr. Kurtyka was deposed in this case in that capacity, and at his deposition confirmed that his prior declaration was truthful. Kurtyka Dep. Tr. 187:82 – 189:3, HA 158. Highmark contends that this makes Mr. Kurtyka's declaration admissible under FRE 801(d)(2)(c) as an admission by a person authorized by Allcare to make a statement concerning the subject. FRE 801 (d) (2) (c) only provides that a party admission is not hearsay. The issue regarding Mr. Kurtyka's declaration is not one of hearsay, but one of corroboration.

Confirmation of the declaration after retention as an expert for Allcare alleviates the concern discussed in *Woodland Trust* regarding the unreliability of uncorroborated testimony from a witness friendly to the accused infringer. 148 F. 3d at 1371. However, whether or not it satisfies the *Woodland Trust* rule of reason test need not be decided for purposes of this motion.

Even if it does satisfy that test, it is not clear from the declaration which of the "details" set forth were disclosed to others before April 8, 1991. The declaration describes numerous details and then later broadly states that the details "set forth above" were disclosed. There remains a genuine issue of material fact as to which details were disclosed—*e.g.*, the details set forth in the Bank One MPS brochure, or some or all of the details of the plans to incorporate other features in the system. Highmark, in the deposition of Mr. Kurtyka, did not inquire about that.

Thus, even if admissible, when viewed in the light most favorable to Allcare the declaration is too vague concerning critical facts to provide clear and convincing evidence of disclosure of specific details beyond those described in the brochure, without genuine issues of fact. Thus, for purposes of this motion, I will rely only on the Bank One MPS brochure (HA187) itself as disclosing the prior art Bank One MPS.

As with Mr. Ryce, this is not intended to disparage Mr. Kurtyka's veracity.

c) **Prior Art Diagnostic Smart Systems**

Highmark also relies on U.S. Patent Nos. 4,290,114 (HA204) and 5,255,187 (HA288), as well as descriptions of systems in the Internist I publication (HA279), and a publication describing systems called MYCIN and ONCIN (HA330), all as disclosing prior art diagnostic smart systems. There is no dispute those patents and articles are prior art for what they disclose.

4. **Claim 52**

a) **Differences Between The Claim And The Prior Art**

i. **Preamble**

"Health care management system," as recited in the preamble of Claim 52 has been construed to mean:

"A system combining a patient, health care provider, bank or other financial institution, insurance company, utilization reviewer/case manager and employer so as to include within a single system each of the essential elements to provide patients with complete and comprehensive maintaining and restoration of health by the treatment and prevention of disease, especially by trained and licensed professionals and payment therefore, including." Cl. Const. Rep. at 12.

The prior art Bank One MPS brochure discloses a system combining the patient, health care provider, bank, insurance company and employer. HA187. Allcare contends that the patient is not disclosed as an "essential participant" in the Bank One MPS system. Allcare Opp. Memo. at p. 41. Allcare also contends that the brochure lacks disclosure of any combination of patients/and/or employers, and/or banks. *Id.* To the contrary, the Bank One MPS brochure expressly shows boxes for the employer, the bank, and the patient's checking account or credit card. Moreover, in note 1, it refers to medical cards issued to "policy holder enrollees," clearly referring to the patients.

Allcare admits that the Bank One MPS brochure "includes the patient as a participant," but only as handing a card to the provider to verify eligibility. This is the

same way in which the patient is combined with the system in the '105 patent. Allcare does not cite to any disclosure in the '105 patent which requires that the claims be interpreted to require that the patient communicate directly with the system, rather than through the health care provider.

The Bank One MPS document describes only a system for medical claims processing and payments. However, the preamble does not require that the computer system provide the health care. It specifies that the health care will be provided "by trained and licensed professionals." The preamble requires that the health care management system combine the listed participants that are essential for providing the health care and paying for it. The Bank One MPS combines all of those participants.

In any event, the term "comprehensive" in the preamble is used generally to indicate that the system has many participants and functions rather than to focus on the amount of interaction between those participants and the processing components. Claim Constr. Rep., at 12.

Allcare does not contend that Bank One MPS lacks any other element of the preamble. Thus, the Bank One MPS discloses all elements of the preamble of Claim 52.

The PDE/IMP system as described in the article (HA115) combines the provider, the insurer, or utilization reviewer and the patient, but does not disclose inclusion of a bank or employer.

ii. Element 52(a)

52(a) provides:

(a) entering into said data processor data identifying each of a predetermined plurality of persons;

The Bank One MPS brochure discloses that Bank One issues medical cards to policyholder enrollees who present the card to the provider for electronic validation for authorized services against a current database of patient information. Allcare contends that there is no disclosure that the Bank One database includes the identity of all members

of a predetermined group. Clearly, the identity of every one of the policyholder enrollees who are authorized for coverage must be in the database, as claimed. How else could verification occur? The claim does not require that the data for "each" has been entered by the *provider*. Thus, the Bank One MPS brochure discloses the limitations of 52(a).

The PDE/IMP article (HA115) does not mention use of the PDE/IMP system to verify that the patient is in the insurer's list of those insured. Thus, although the insurer clearly must have had such a list in a database, and it seems likely that it was a part of the PDE/IMP system, there is no disclosure or teaching of that in the PDE/IMP article.

iii. Utilization Review

Claim 52 further provides:

"(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;"

The PDE/IMP system, as disclosed in the article, appears to be used to obtain requested utilization review. However, the decision as to whether utilization review is required may be made by the nurse manually, which may not require the claimed data bank list of predetermined procedures requiring utilization review. There is no disclosure in the article of that decision being made by the computer system, nor of inclusion or use of such a data bank list.

Moreover, even if the PDE/IMP system, as disclosed in the article, included some type of data bank list, there is a genuine dispute of material fact as to whether it was a list of procedures or a list of diagnosis. *See Allcare* Opp. at 15-18; Gross Report at ¶ 103-104, APP 867.

Thus, there is at least a genuine issue of fact as to whether or not the PDE/IMP system article discloses utilization review as claimed.

The Bank One system brochure discloses "adjudication" of the claim before payment. Allcare contends that is not a disclosure of utilization review as claimed.

Element 52(b) requires entering into the data bank memories, an identification of predetermined procedures requiring utilization review. In its broadest sense "utilization review" can be prospective, concurrent, or retrospective. Claim Construction Report at 23. However, Element 52(c) requires that data symbolic of patient symptoms be entered "for tentatively identifying a proposed mode of treatment for utilization review." A "proposed" mode of treatment requires that the utilization review be prospective, not retrospective, i.e., utilization review must be before treatment. Thus, Claim 52 requires prospective utilization review. The Bank One brochure discloses submission of the "claim" for "adjudication" which is followed by payment, indicating that the submission is after the treatment has been performed.

Thus, when the evidence is viewed in the light most favorable to Allcare, neither the PDE/IMP System article nor the Bank One MPS brochure discloses prospective utilization review as required by Claim 52 by clear and convincing evidence without any genuine issue of material fact.

iv. Entering...data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment

Highmark cites various prior art patents and articles, identified above at 3(c), as disclosing "clinical diagnostic smart systems" which include "entry of symptom data into a computer which then would produce therapeutic recommendation." *See* Highmark's Opening Memo. at 8-9. Highmark does not assert that any of those patented systems included a comprehensive health care management system, utilization review, a list of procedures requiring utilization review, or prevention of payment until utilization review is completed.

The PDE/IMP article discloses entering through the input means "utilization review information" for a nurse reviewer to determine whether hospital admission is medically appropriate. The article does not describe whether the input information is data symbolic of patient symptoms for tentatively identifying a proposed mode of treatment, or is data directly identifying the diagnosis or proposed treatment. There is substantial disagreement among the experts on this. Viewing the evidence in the light most favorable to Allcare, it is not clear and convincing, nor free of issues of fact, as required to satisfy Highmark's burden for summary judgment.

When viewed in the light most favorable to Allcare, the Bank One MPS brochure does not describe entering symptoms, tentatively identifying a proposed mode of treatment, or utilization review.

v. Element 52(d)

Claim 52 further provides:

(d) preventing payment therefore by said payment means until said utilization review has been obtained and data indicative thereof has been entered in said system.

The Bank One MPS brochure does disclose preventing payment if the claim does not pass "adjudication," but does not disclose prospective utilization review, and *ipso facto* does not disclose preventing payment until prospective utilization review has been obtained.

The PDE/IMP article does not mention payment or preventing payment.

b) Obviousness

Highmark relies on the *KSR* standard for its obviousness contentions. Obviousness does not require that claimed elements be found in a single reference, but in *KSR* all claimed elements were disclosed in the prior art references collectively. That was important to the *KSR* holding. 127 S. Ct. at 1739-40. Highmark cites an accumulation of references, which collectively do not disclose all of the claimed elements. Therefore, *KSR* is inapplicable.

Viewing the evidence in the light most favorable to Allcare, neither the Bank One MPS brochure, nor the PDE/IMP article, nor any of the smart diagnostic system patents cited by Highmark, discloses a computerized prospective utilization review system as defined in Claim 52. In the absence of that element of the claim from all of the corroborated prior art relied upon by Highmark, Highmark has not shown that it can carry its burden of proof by clear and convincing evidence without any genuine issue of material fact.

5. Claim 53

As Claim 53 depends from, and includes all of the elements of Claim 52, Highmark's motion fails as to Claim 53 also.

6. Conclusion

It is recommended that summary judgment of invalidity be denied.

C. Allcare's Motion For Summary Judgment Of Enforceability

1. Introduction

To prevail on its allegation that the '105 patent is unenforceable by reason of inequitable conduct at trial, Highmark must show by clear and convincing evidence that the applicant or another substantively involved in the prosecution:

i) failed to disclose material information or submitted material false information; and

ii) did so with the intent to deceive the PTO.

Kingsdown Medical Consultants v. Hollister, Inc., 863 F.2d 867 (Fed. Cir. 1988).

The courts have uniformly held that cumulative prior art is immaterial by definition. *Micro Chemical v. Great Plains Chem.*, 103 F.3d 1538, 1550 (Fed. Cir. 1997), *cert. denied*, 521 U.S. 1122 (1997). In *Regents of Univ. Of California v. Eli Lilly & Co.*, the Federal Circuit reversed a holding that an undisclosed prior art reference was material and stated "even where an applicant fails to disclose an otherwise material prior art reference, that failure will not support a finding of inequitable conduct if the reference is

'simply cumulative to other references,' *i.e.*, if the references teaches no more than what a reasonable examiner would consider to be taught by the prior art already before the PTO." 119 F.3d 1559, 1574-75 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1089 (1998).

It is undisputed that Dr. Cummings knew of the Bank One brochure, and the SSCI system, and neither was disclosed to the PTO. Allcare contends that each was cumulative to prior art considered by the Examiner, and therefore neither was "material."

Allcare denies an intent to deceive, but does not base this summary judgment motion on a lack of such intent. Allcare Reply at 4. The record contains many testaments to the integrity of Dr. Cummings and Mr. Connors. However, it would be inappropriate to determine their integrity or intent on this motion, which does not properly raise either.

2. The SSCI System

Highmark cites no documentation of the SSCI system, and relies on deposition testimony of Dr. Cummings. As Dr. Cummings is the inventor and is adverse to Highmark, his testimony does not require corroboration in order to be used against his own interest.

Highmark alleges that the SSCI system is not cumulative because it discloses the "entry and/or storage of items of medical history" as required in various claims of the '105 patent. Opp. at 30. However, the prior art Pritchard Patent No. 4,491,725, which was considered by the PTO in examination of the '105 patent application, discloses storage of the patient's "detailed medical history." APP 328 (5:60-62); APP 324, 328 (Fig. 5 and accompanying text at 6:25-29). Thus, the SSCI system is merely cumulative as to that element.

Highmark does not urge that any other element of the SSCI system is not disclosed in Pritchard. Therefore, the SSCI system is merely cumulative to the Pritchard patent, and is not material.

3. Bank One

Allcare contends that the Bank One brochure was cumulative to the Pritchard and Doyle (4,916,611) (APP 287) prior art patents which were both considered by the Examiner. Highmark contends that the Bank One system included the claimed utilization review while neither Doyle nor Pritchard did.

Allcare focuses on the Bank One brochure, while Highmark focuses primarily on the Kurtyka Declaration describing the system as allegedly publicly used before the application for the '105 patent was filed. The Bank One brochure and system were discussed above in considering Highmark's motion for summary judgment of invalidity. There the evidence had to be viewed in the light most favorable to Allcare. On this motion by Allcare, the evidence must be viewed in the light most favorable to Highmark. *McKay*, 199 F.3d at 1380.

The parties disagree as to whether the Bank One brochure discloses utilization review as claimed. Element 52(b) requires entry into the data bank memories an identification of predetermined procedures requiring utilization review. In its broadest sense "utilization review" can be prospective, concurrent, or retrospective. Cl. Const. Rep. at 23. However, element 52(c) requires that data symbolic of patient symptoms be entered for tentatively identifying a proposed mode of treatment for utilization review. A "proposed" mode of treatment requires that the utilization review be prospective, not retrospective, i.e., utilization review in 52(c) is before treatment. Thus, Claim 52 requires prospective utilization review.

The Bank One brochure discloses submission of the "claim" for "adjudication" which is followed by payment, indicating that the submission is after the treatment has been performed. Even when viewed in the light most favorable to Highmark, no reasonable trier of fact could find that the Bank One brochure is clear and convincing evidence of prior art utilization review before treatment.

In the Doyle patent, a treatment is called a "diagnosis." Doyle patent at 2:47-55. Doyle discloses verification that the plan will reimburse for the given diagnosis (treatment). *Id.* at 3:1-7 and 6:48-54. That is at least "adjudication" of a claim comparable to that disclosed in the Bank One brochure. Doyle discloses in at least as much detail as the Bank One brochure, systems that adjudicate and pay claims. Thus, even when the Bank One brochure and the Doyle patent are viewed in the light most favorable to Highmark, the Bank One brochure is cumulative to Doyle insofar as utilization review is concerned.

Apparently the Bank One system was still in the design stages when the application for the '105 was filed. However, Kurtyka testified in his declaration that the Bank One system was designed to provide prospective utilization review. HA175, Kurtyka Decl. at ¶ 11. Moreover, Kurtyka testified that he met with Dr. Cummings several times during 1990, gave him the brochure, and described the features of the Bank One system to Dr. Cummings "in detail." *Id.* at 175-178.

As discussed above, with respect to the invalidity motion, Mr. Kurtyka attached to his declaration copies of correspondence between himself and Mr. Connors, an investor in Dr. Cummings' invention, who attended some of the meetings with Dr. Cummings. That correspondence confirmed that Mr. Kurtyka met with Dr. Cummings and Mr. Connor and that the brochure was given to Mr. Connor. HA180-85. No details of what was discussed about the Bank One system are provided in that correspondence. Mr. Kurtyka also testified at his deposition about those meetings. HA159-162.

Subsequent to execution and submission of the Kurtyka declaration in the prior litigation, Allcare retained Mr. Kurtyka as a technical expert in this case. Mr. Kurtyka was deposed in this case in that capacity, and at his deposition confirmed that his prior declaration was truthful. Kurtyka Dep. Tr. 187:82 – 189:3, HA 158. Highmark contends that this makes Mr. Kurtyka's declaration admissible under FRE 801(d)(2)(c) as an admission by a person authorized by Allcare to make a statement concerning the subject.

As discussed above in Section IV (B) (3), FRE 801 (d) (2) (c) is directed only to the hearsay rule, and not to corroboration. The issue here is corroboration, not hearsay.

The Federal Circuit in *Woodland Trust* applied a rule of reason test for corroboration, and listed the interest of the witness as one of eight factors to be considered. 148 F. 3d at 1371. It is clear from the analysis in that case that interest of the witness is a strong factor. It would be unreasonable to disregard as a matter of law on summary judgment, the fact testimony of Allcare's technical expert to the extent that it is contrary to the fact testimony of the inventor of Allcare's patent. Thus, Mr. Kurtyka's declaration and deposition testimony when viewed in a light most favorable to Highmark, raise a genuine issue of fact as to whether prospective utilization review was disclosed to Dr. Cummings by Mr. Kurtyka before the alleged invention by Dr. Cummings.

Although Mr. Kurtyka's declaration and deposition testimony are somewhat vague about details disclosed, a reasonable trier of fact could conclude that the Bank One system was disclosed to Dr. Cummings in sufficient detail so as to be material to Claim 52 and not cumulative of Doyle or Pritchard.

Highmark also contends that the Bank One system included provision of ancillary services as recited in Claim 53. The brochure shows a box labeled "drug companies" but does not disclose that the system contacts the drug companies to provide or arrange for drugs to be supplied to the patient as opposed to paying for drugs already supplied. Again, the Kurtyka declaration fills that gap in regard to the Bank One system. When viewed in the light most favorable to Highmark, it raises a genuine issue of material fact.

Neither Doyle nor Pritchard discloses the system as ordering drug companies to fill prescriptions for patients.

Reviewing the evidence in the light most favorable to Highmark, a genuine question of material fact is raised as to materiality of the Bank One system, considered with the Bank One brochure.

4. Conclusion

For the reasons discussed above, it is recommended that Allcare's motion for summary judgment of enforceability be denied.

V. MOTIONS TO EXCLUDE EXPERT REPORTS AND TESTIMONY

A. Applicable Law

Rule 702 of the Federal Rules of Evidence sets forth the basic guidelines for admitting expert testimony. Expert testimony is admissible only when "(1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case." Fed. R. Evid. 702; *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 592-93 (1993). The expert testimony must constitute "scientific, technical or other specialized knowledge [that] will assist the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702.

Under both Rule 702 and *Daubert*, a court acts as a "gatekeeper" to ensure the relevance and reliability of the expert testimony admitted into evidence. *Kumbo Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 149 (1999). Thus, the court must determine "whether the reasoning or methodology underlying the expert testimony is scientifically valid and whether that reasoning or methodology properly can be applied to the facts in issue." *Daubert*, 509 U.S. at 592-93.

The *Daubert* factors are not limited to testimony regarding strictly scientific knowledge, but rather apply generally to "scientific, technical, or other specialized knowledge," including expert testimony concerning damages. *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147-49 (1999). Thus, where such testimony's "factual basis, data, principles, methods, or their application are called sufficiently into question," the trial judge must determine whether the testimony has a reliable basis in the knowledge and experience of the relevant discipline. *Id.*, *citing Daubert*, 509 U.S., at 592. Where a case involves non-scientific testimony, the district court is not limited to the *Daubert*

factors in assessing the reliability of the proffered expert testimony. *Id.* at 150-51. Rather, the district court enjoys broad discretion in determining how to assess reliability and whether proffered testimony is, in fact, unreliable. *Id.*

Ultimately, the party offering the expert testimony bears the burden of demonstrating that the expert testimony is reliable and, therefore, admissible. *United States v. Williams*, 95 F.3d 723, 729 (8th Cir. 1996). If a trial court determines that "there is simply too great an analytical gap between the data and the opinion proffered," then the evidence should be excluded. *General Elec. Co. v. Joiner*, 522 U.S. 136, 147 (1997). Thus, the district court may evaluate whether the data relied upon by the expert is sufficient to support the conclusions and opinions being advanced, and "nothing in either *Daubert* or the Federal Rules of Evidence requires a district court to admit opinion evidence that is connected to existing data only by the *ipse dixit* of the expert." *Id.*

In the context of patent damages experts, reliable methodology requires that the legal grounds used by an expert to calculate damages be legally acceptable. *DSU Medical Corp. v. JMS Co., Ltd.*, 296 F. Supp. 2d 1140, 1148 (N.D. Cal. 2003).

B. Highmark's Motion To Exclude Sherwin Opinion and Report

Robert Sherman, Allcare's damages expert, is a Managing Principal and Vice President of Analysis Group, Inc., an economic consulting firm specializing in economics and finance. He holds a J.D. and an A.B. in Economics and Physics and is a Certified Public Accountant. According to his Report, he has frequently analyzed complex financial and economic issues relating to damages from a variety of sources, including lost profits computations and reasonable royalty analysis in patent disputes. In the past four years, he has testified as a damages or financial expert at deposition and/or trial in 37 cases including several patent disputes. Sherwin Rep. at Section II, HAI.

1. Reliance On The Providence Agreement

Reasonable royalty damages may be based on an established royalty, if there is one, or if not, upon a hypothetical royalty resulting from a hypothetical arm's length negotiation between a willing licensor and a willing licensee. *Hansen v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 (Fed. Cir. 1983). A comprehensive list of fifteen relevant factors in determining a reasonable royalty is set out in *Georgia-Pacific Corp. v. U. S. Plywood Corp.*, 318 F. Supp. 1116 (S. D. N.Y. 1970). Those *Georgia-Pacific* factors are widely recognized as appropriate by the courts, and specifically have been accepted by the Federal Circuit. *Unisplay S.A. v. American Electronic Sign Co.*, 69 F.3d 512 (Fed. Cir. 1995).

Highmark contends that Mr. Sherwin is relying on a single prior license between Allcare and Providence ("the Providence Agreement") as evidencing an "established royalty" and that the Providence Agreement does not satisfy the legal requirements for an "established royalty." To the contrary, Mr. Sherwin's report includes an 18-page hypothetical negotiation analysis expressing his opinion on the relevance or effect of each of the 15 *Georgia-Pacific* factors on that hypothetical analysis. Sherwin Rep. at pp. 6-23.

Based upon his review of the *Georgia-Pacific* factors, Mr. Sherwin concludes that the terms of the Providence Agreement are "the best proxy" for the license that would have been negotiated between Allcare and Highmark in the hypothetical negotiation. Sherwin Rep. at p. 12. He explains why, in his opinion, the Providence Agreement is the best proxy. He then refers to that license as the "benchmark agreement" and expresses opinions on what adjustments from its royalty terms are appropriate in view of the *Georgia-Pacific* factors. *Id.* at pp. 12-22. He finds that many of the *Georgia-Pacific* factors are "neutral" in this case, and do not affect the benchmark royalty but he makes two adjustments under other factors. He concludes by re-stating his reliance on "the concept of a hypothetical negotiation" and expresses the opinion that Allcare and Highmark would have reached an agreement structured similar to the Providence

Agreement, subject to the two adjustments discussed in his analysis of the *Georgia-Pacific* factors. *Id.*

Thus, Mr. Sherwin does not offer the Providence Agreement as an "established royalty" which substitutes for a royalty determined from a hypothetical negotiation, and the Providence Agreement need not satisfy the requirements for such an established royalty. Mr. Sherwin's determination of a starting point or "benchmark," and making adjustments which he determines appropriate under the *Georgia-Pacific* factor is not an unacceptable methodology for determining a reasonable royalty.

His reliance on a single one of the 32 Allcare licenses under the '105 patent as the benchmark from which he makes adjustments, and the fact that the total royalties collected under the Providence Agreement were very small in comparison to those sought here do raise substantial issues , but go to the weight of his opinions not to their admissibility.

Highmark also contends that Mr. Sherwin is "cherry picking" the Providence Agreement, -- relying on the portions that help Allcare and rejecting the portions that harm Allcare. That also goes to the weight of the evidence. Any flaws should be explored on cross-examination or rebuttal, rather than by excluding the testimony.

Whether or not Mr. Sherwin's opinions are persuasive is for the finder of fact to decide. Mr. Sherwin's testimony in this regard satisfies the legal requirements of F.R.E. 702.

2. <u>The Time Of The Hypothetical Negotiation</u>

Mr. Sherwin acknowledges that the hypothetical negotiation "would have occurred at the point of first infringement in October 2000." Sherwin Rep. at p. 6. Although the Providence Agreement was negotiated 18-24 months later, the courts have sometimes permitted consideration of facts subsequent to the time of the hypothetical negotiation even though those facts would not have been known at the time. *Sinclair Refining Co. v. Jenkins Petroleum Process Co.,* 289 U.S. 689, 697-98 (1933); *Fromson v. Western Litho*

Plate and Supply Co., 853 F. 2d 1568, 1575 (Fed. Cir. 1988); *Maxwell v. Baker,* 86 F. 3d 1098, 1108-09 (Fed. Cir 1996); *Studiengesellschaft Kohle, M.B.H. v. Dart Industries, Inc.,* 862 F. 2d 1564, 1571 (Fed. Cir. 1988).

Whether or not it is reasonable to rely upon an agreement negotiated after the time of the hypothetical negotiation as evidence of what would have been negotiated earlier depends upon the facts of the particular case, such as the amount of time that passed, and whether intervening events would have changed the negotiating posture. In this case, I conclude that, the time difference goes to the weight of the opinions, not to their admissibility.

3. Negotiation Under Threat Of Litigation

Highmark cites *Hansen* for the proposition that licenses granted under the threat of litigation should not be considered as evidence of a reasonable royalty. The cited portion of *Hansen* involved the issue of whether offers to license made at a time when litigation was threatened or probable should be considered evidence of an "established royalty." *Hansen*, 718 F.3d at 1078-79. But Mr. Sherwin offers the Providence Agreement as the most relevant starting point for a hypothetical negotiation, not as an "established royalty" to be substituted for a hypothetical negotiation analysis. Thus, *Hansen* is not applicable.

In *Deere & Co. v. Int'l. Harvester Co.,* cited by Highmark, the Federal Circuit merely found that the district court *did not abuse its discretion* by giving little weight to a license negotiated against a backdrop of continuing litigation. 710 F.2d 1551, 1557 (Fed. Cir. 1983). The Federal Circuit found that the district court "duly considered IH's evidence and decided it was unpersuasive." *Id.* at fn. 5. Thus, *Deere* indicates that the arguments raised by Highmark go to the weight of Mr. Sherwin's testimony, not its admissibility.

Mr. Sherwin did not consider relevant those licenses entered in settlement of litigation. Sherwin Rep. at p. 7 and 9. However, he distinguished the Providence Agreement as not being settlement of litigation. Highmark has not presented any

comparison of the facts concerning any threats of litigation in the Providence negotiations to those for each of the Allcare licenses Mr. Sherwin concluded were "settlement agreements." Based on the record before the Court on this motion, any inconsistency would go to the weight of the opinion, and should be brought out by cross-examination or rebuttal at trial, not by exclusion under F.R.E. 702.

In the last page and one-half of its Opening Memo, Highmark makes arguments that Mr. Sherwin failed to consider that:

1) 29 of Allcare's 32 license were for lump sum payments;

2) the Providence Agreement allegedly is specially tailored for Providence;

3) Providence paid less than $9,000 in royalties before terminating the license and the allegedly infringing acts; and

4) Allcare did not license anyone else on the same terms as Providence.

All of these arguments go to the weight of Mr. Sherwin's opinions, not its admissibility.

It is recommended that the Court exercise its discretion to permit the jury to hear the testimony of Mr. Sherwin, and that the motion to exclude Mr. Sherwin's report and testimony be denied.

C. <u>Allcare's Motion To Exclude Gleason Opinions And Report</u>

Mark Gleason, Highmark's damages expert, is a Certified Public Accountant with a B.A. in Economics and a Masters in Business Administration, Finance and Accounting. He is Managing Director of Gleason & Associates which provides a wide range of accounting services, including litigation support. He formerly was Director of the Financial Reorganization Group of Price Waterhouse where he served in the audit department. In the past four years he has testified at deposition and/or trial in 33 cases. Gleason Rep. APP 2 and 3.

1. Application Of *Georgia-Pacific* Factors

Allcare contends that Mr. Gleason did not apply the *Georgia-Pacific* factors. Allcare Opening Memo. at pp. 2-6. To the contrary, Mr. Gleason's report includes a lengthy consideration of all 15 *Georgia-Pacific* factors. Mr. Gleason considered the *Georgia-Pacific* factors and stated reasons for his opinions based on those factors.

Mr. Gleason applied the *Georgia-Pacific* factors in developing his opinion regarding the royalty Allcare would have accepted in a hypothetical negotiation in October 2000. He based his analysis on Allcare documents existing at the time. See Gleason Report at pp. 13-43 and 51-65, especially at pp. 24-26, 52-53 and 62-65. Whether Mr. Gleason's conclusions are correct goes to their weight, not their admissibility, and is a matter to be decided by the trier of fact, not by exclusion under F.R.E. 702.

Allcare and Mr. Sherwin disagree with Mr. Gleason's conclusions. Such disagreements between experts alone do not support exclusion under F.R.C.P. 702, but raise questions of fact for the jury.

2. Assumption Of Validity, Enforcement And Infringement

Allcare contends that Mr. Gleason, in his hypothetical negotiation analysis did not assume that the '105 patent is valid, enforceable and has been infringed by Highmark. Allcare Opening Memo. at pp. 5 and 21-22. To the contrary, Mr. Gleason made clear that he takes no position on the validity, enforceability, or infringement of the '105 patent, but for purposes of his damages analysis he has assumed that it is valid, enforceable and infringed. Gleason Rep., p. 5, APP 6. Nothing in his damages analysis indicates otherwise.

Mr. Sherwin stated in a footnote in his report, that Highmark has not designed around the '105 patent, and that this indicates that Highmark does not have an economically feasible non-infringing alternative. Sherwin Rep., p. 14, fn. 63, APP 570. In rebuttal to that comment, Mr. Gleason opined that Highmark had not designed around

the '105 patent because Highmark believes it is invalid, unenforceable, or not infringed, and Highmark's refusal to take a license suggests a firm conviction that the patent is invalid and not infringed. Gleason Rep., p. 31, bullet three, and p. 44, fn. 147.

That is not a revision of Mr. Gleason's assumption of validity, infringement, and enforceability for purposes of the hypothetical negotiation analysis. It purports to be evidence of what happened in the real world not the hypothetical world.

However, on this issue both damages experts are speculating and testifying about facts outside their personal knowledge and giving opinions outside their expertise. Highmark has not moved to strike footnote 63 of the Sherwin Report, nor to preclude Sherwin from testifying on the subject of that footnote. Highmark instead argues that Sherwin has "opened the door" for Gleason's rebuttal. If Sherwin's testimony as stated in his footnote 63 is admitted into evidence at trial, it may open the door for rebuttal evidence from Highmark, but it does not open the door for Mr. Gleason to speculate on factual issues on which he has no personal knowledge and are outside his expertise as a damages expert. Speculation by one expert without objection does not open the door for speculation by a rebuttal expert over objection.

Thus, it is recommended that the third bullet point on p. 31 and footnote 147 be stricken from Mr. Gleason's Report and he not be permitted to testify thereto.

This recommendation does not infect the remainder of the Report of Mr. Gleason and does not warrant exclusion of any other portion of his Report.

At the hearing, Allcare requested the right to cross examine Mr. Gleason on the fact that portions of his Report had been stricken, allegedly showing that he improperly assumed the '105 patent not to be valid, enforceable and infringed in his damages analysis. Neither the inclusion of the stricken material in the Report, nor the striking of it, indicates such an improper assumption by Mr. Gleason. It is recommended that Allcare not be permitted to cross-examine on the exclusion of this testimony. The requested cross

examination would not be relevant to any issue in the case, and would risk confusing the jury.

3. Entire Market Value Rule

Allcare contends that Mr. Gleason failed to account for the entire market value rule. Allcare Opening Memo. at pp. 5-6. But Mr. Gleason based his opinion, at least in part, on the principle of apportionment of damages. Gleason Rep. at pp. 60-61. The apportionment rule permits recovery to be apportioned as between patented and non-patented components of a product or process where the patented features create only part of the value of the product or process. *Riles v. Shell Exploration & Production,* 298 F.3d 1302 (Fed. Cir. 2002); *See, Georgia-Pacific* factor 13. The entire market rule, on the other hand, allows for the recovery of damages based on the value of an entire product or process containing several features, even though only one feature is patented. This is permitted when the patented feature is the basis for customer demand for the entire product or process. *Fonar Corp. v. General Electric Co.,* 107 F.3d 1543 (Fed. Cir. 1997). The two rules are generally mutually exclusive. Which applies depends upon the facts of the case.

Allcare disagrees with Mr. Gleason's conclusion that apportionment rather than the entire market rule, is applicable, but that is not a failure of methodology that implicates F.R.E. 702, just as Mr. Sherwin's conclusion that the entire market rule applies and his failure to discuss apportionment is not such a failure.

4. Licenses Under Threat Of Litigation

Allcare contends that Mr. Gleason's conclusion that the Providence Agreement was entered under threat of litigation, and thus should not be relied on as a basis for determining an established royalty, was based on speculation. Allcare Opening Memo. at pp. 8-9. Mr. Gleason and Mr. Sherwin reviewed the same documents and came to different conclusions as to their import. Mr. Gleason's conclusion is not the type of "unsupported speculation" which the Supreme Court cautioned against in *Daubert. See*

509 U.S. at 590. Resolving the different conclusions reached by the two experts is a question of fact for trial.

Allcare contends that Mr. Gleason improperly used a double standard because he stated that Allcare's licenses could not be relied upon to show an established royalty because they were allegedly entered under threat of litigation or were not arms-length transactions, yet he considered those same licenses during the course of his analysis. Allcare Opening Memo. at pp. 12-14.

The principle rationale for giving reduced weight to settlement induced royalty rates, is that the licensee may have been influenced to pay *more* than a reasonable royalty in order to avoid the imminent litigation. Each of the examples cited by Allcare as improper reliance by Mr. Gleason on agreements entered under threat of litigation, were cited by Mr. Gleason to show that terms *favorable* to the licensees were granted. See list in Allcare Opening Memo. at pp. 13 and 14. Such terms would not seem to have the inherent unreliability that may infect use of a litigation-induced agreement by a patentee to show that the terms accepted by a licensee establish a reasonable or established royalty. In fact, it seems these licenses show that even after threatening litigation, Allcare was willing to grant the cited terms. From that, a reasonable jury could find that such terms would have also been acceptable to Allcare in a negotiation where there was no threat of litigation. That is a sufficiently reliable methodology to avoid *Daubert* exclusion.

5. Tri Zetto

Allcare contends that Mr. Gleason's conclusion that the TriZetto system is a non-infringing market alternative, was based on speculation. Allcare Opening Memo. at pp. 8-11. Mr. Gleason is not qualified to determine as a technical matter whether or not the TriZetto system infringes, nor does he claim to have done so. Gleason Dep. 147:11-149:2; 370:16-372:14, APP 262-64 and 473-75. Mr. Gleason relies on the fact that Providence outsourced its system to TriZetto, and that Allcare has not sued TriZetto, as persuasive evidence that the TriZetto system is a better, non-infringing, market

alternative. Gleason Dep. at pp. 20, 28 and 49. Whether or not that conclusion is correct is not the issue on this motion. His conclusion is not the type of "unsupported speculation" barred by *Daubert*. In any event, Mr. Gleason ultimately concludes that he cannot be certain that TriZetto could have provided its system to Highmark, and thus, he does not consider its availability as a non-infringing alternative in his ultimate conclusions. *Id.* at 63-64.

Allcare contends that Mr. Gleason should have spoken to someone at Providence to confirm his conclusion that the Providence Agreement was not entered under a threat of litigation and to someone at Providence or TriZetto to confirm whether they believed the TriZetto system was a non-infringing alternative. Allcare Opening Memo. at pp. 20-21. Mr. Gleason relied on facts sufficient to support admissibility of his opinions. If Allcare wishes to bring out additional facts to impeach Mr. Gleason, it should do so through cross-examination or other impeachment at trial.

6. Early Adopter Discount

Allcare contends that Mr. Gleason's methodology is unreliable because he applied an "early adopter" discount to the hypothetical license negotiation. Allcare Opening Memo. at pp. 11-12. Based on evidence cited by Mr. Gleason, he concludes that if Highmark had licensed the '105 Patent in October 2000, Highmark would have been an early adopter and received a discount that Mr. Gleason concludes was part of Allcare's standard policy at the time. Allcare contends that Highmark cannot get a discount for a license it never entered.

Allcare cites *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1109 (Fed. Cir. 1996). In *Maxwell*, the Federal Circuit affirmed damages in addition to a reasonable royalty as being appropriate in that case in order to provide adequate compensation. That does not support exclusion of Mr. Gleason's testimony that a discount was in order in this case. Again, Allcare simply disagrees with Mr. Gleason's conclusion.

7. End-User Usage And EULA Fees

Allcare contends that Mr. Gleason failed to account for the fact that Allcare would have sought compensation for end-user usage in the hypothetical negotiations, and made an improper conclusionary statement about EULA fees. Allcare Opening Memo. at pp. 15-16 and 23. An expert need not rebut all theories espoused by the opposing party in order to testify under F.R.E. 702. These topics, or Mr. Gleason's alleged failure to opine on them, may be appropriate subjects for cross-examination at trial, or for argument to the trier of fact, but they do not support exclusion of Mr. Gleason's opinions under F.R.E. 702 or *Daubert*.

Allcare contends that Mr. Gleason failed to consider other important facts discussed in Allcare's Opening Memo. at pp. 16-20. Those allegedly unconsidered facts, like those discussed above, do not go to Mr. Gleason's methodology and are not sufficient to preclude the testimony from assisting the trier of fact.

8. Conclusion

It is recommended that the motion be granted in part to exclude the third bullet point on p. 31 and footnote 147 from Mr. Gleason's report and related testimony, but that the remainder of the motion be denied.

D. Highmark's Motion To Exclude Holland Report And Testimony

Dr. Steven Holland M.D., Allcare's technical expert, is a medical doctor with experience working in health care delivery systems. He worked as a hospital administrator before attending medical school. He has co-designed utilization review and claims editing systems and has experience selling a utilization software application. He currently is Senior Vice President and Medical Director of the Long-Term Care Group, a long term care company which also offers outsourcing services including enrollment, underwriting, care management and claims processing for long term care insurance products. Holland Rep. at ¶ 6-10, HA3.

1. Holland's Reliance On ICD9 Codes

Highmark contends that Dr. Holland's reliance on the entry of ICD9 codes as data symbolic of patient symptoms is contrary to this court's claim construction. It is not.

As pointed out above in Section IV 2b, the discussion in the Claim Construction Report regarding ICD9 codes as indicating a treatment, rather than symptoms, related to identification of the structure disclosed in the specification for performing the first function of element 1(d). That was a 112-6 analysis and is not relevant to element 52(c) which is not in 112-6 format. The Claim Construction Report specifically limits application of the construction of "data symbolic of" and "symptoms" to construing the first *function* of 1(d). The Report made clear that "the analysis of the structure for performing that function in 1(d) is not applicable" to 52(c). HA149-150.

Whether or not the Highmark system uses ICD9 codes as data symbolic of symptoms, as claimed in 52(c) was not resolved in the claim construction of 52(c) and is an infringement issue on which Dr. Holland may testify.

2. Reliance On Marketing Materials

Highmark objects to Dr. Holland's reliance on marketing materials to provide infringement. Infringement must be measured by an analysis of Hallmark's actual accused system. However, marketing materials may be relevant as circumstantial evidence of the accused system. *Liquid Dynamics Corp. V. Vaughan Co.*, 449 F.3d 1209, 1219 (Fed. Cir. 2006). Although they cannot trump the actual system, they may be helpful to the trier of fact. Dr. Holland's reliance on the marketing materials for certain of the claim limitations goes to the weight to be given to his testimony not to its admissibility.

3. Reliance On "Health eConnect" And "Lifestyle Returns"

Highmark objects to Dr. Holland's reliance on Highmark's "Health eConnect" and "Lifestyle Returns" programs to establish infringement because those programs apparently were not instituted until 2001 and 2005 respectively. Allcare has established

that Dr. Holland's references to the "Health eConnect" and "Lifestyle Returns" are relevant to infringement at least during the time period in which they were used by Highmark. Dr. Holland acknowledges that those programs were "post-2000 system initiatives," and thus does not misstate the evidence. HA64.

4. Conclusion

It is recommended that the motion to exclude Dr. Holland's report and testimony be denied.

E. Allcare's Motion To Exclude Nobel Testimony

Dr. Jeremy Nobel M.D., Highmark's technical expert, is a medical doctor who also holds a Masters of Public Health degree and a Masters of Science in Epidemiology from the Harvard School of Public Health. He has been on the faculty of the Harvard School of Public Health since 1987 where he has principally focused on the use of information technology to improve health care delivery. He was a co-founder of NaviMedix whose web-based information technology products, including NaviNet, are used in the Highmark accused system. Nobel Report at ¶ 3—5, APP 2-3. Dr. Nobel left NaviMedix in 2002.

1. Nobel's Invalidity Opinion

a) The Preamble

Allcare contends that Dr. Nobel used different constructions of the preamble for his invalidity opinions versus his non-infringement opinions. However, Allcare admits that the construction used by Dr. Nobel for his invalidity opinion is correct. Allcare Opening at p. 7. Thus, this issue will be discussed below with respect to his non-infringement opinions.

b) Element 52(a)

Allcare contends that Dr. Nobel misapprehended the construction of 52(a) as requiring that only a single member of a predetermined group need to be identified, based on his analysis of Claim 1(a). Claim element 52(a) is a method limitation and is not

subject to construction under the special rules of 35 U.S.C. § 112, par. 6 ("112-6"), whereas 1(a) is subject to 112-6. Cl. Constr. Rep. at 38. Therefore, Claim 1(a) is limited to entry of the data through the physician's office terminal, whereas 52(a) does not specify whether the data is entered through a data terminal at the office of the employer, the insurer, or the physician is not specified in 52(a). *Id.*

However, both 1(a) and 52(a) have in common "data identifying each of a predetermined plurality of persons." That is the function in 1(a), and the data entered in the method step of 52(a). That phase has the same construction in both claims, as Dr. Nobel correctly notes. Nobel Rep. at ¶ 60. Contrary to Allcare's construction at the hearing, 1(a) is not satisfied by a single person. Both 1(a) and 52(a) are limited to every one of a predetermined group. Hrg. trans. at 194; Cl. Constr. Rep. at 15.

Dr. Nobel's reliance on his 1(a) analysis as the basis for his 52(a) analysis may not have been the clearest approach, but it does not reflect "fundamentally unsound methodology," as Allcare alleges. The prior art he relies on does anticipate 52(a) properly construed, and his testimony would be helpful to the jury. *See* discussion of 52(a) in regard to the invalidity summary judgment motion above. It would be unreasonable to exclude Dr. Nobel from testifying on this issue. It is recommended that Dr. Nobel be permitted to testify that the prior art he relies on does disclose the limitations of 52(a).

c) Element 52(b)

Allcare alleges that the PDE/IMP system did not disclose a database of health care *procedures* requiring utilization review. As discussed in regard to the invalidity summary judgment motion, the PDE/IMP article does not disclose a list of either procedures or symptoms for that purpose. In considering Highmark's motion for summary judgment of invalidity, I refused to consider the Ryce Affidavit description of the PDE/IMP system, because when considered in the light most favorable to Allcare, that description was not adequately corroborated. However, the summary judgment standard will not be applicable at trial, and it is not before me to recommend a decision on admissibility at

trial of the testimony set forth in the Ryce Affidavit. If it is admitted into evidence, it may raise a fact issue as to whether the PDE/IMP had such a list. *See* Ryce Affidavit at ¶ 10 and 12.

The Ryce Affidavit refers only to "predetermined rules" without specifying whether that means a list of predetermined procedures requiring utilization review. However, if testimony as set forth in the Ryce Affidavit is admitted into evidence at trial, Dr. Nobel should be permitted to testify as to his expert opinion that "predetermined rules" does mean such a list. It is premature to exclude this testimony of Dr. Nobel until it is determined at trial whether the Ryce testimony will be admissible.

Moreover, the issue of whether any list in PDE/IMP was a list of symptoms or a list of procedures also is a question of fact and not an issue that is best decided in this Rule 702 motion.

Allcare objects to Dr. Nobel obtaining information, on which he relied, from a telephone conference with Mr. Ryce and others just days before his Invalidity Report was filed. Whether or not to admit such evidence from Mr. Ryce or others at trial is also an evidentiary issue beyond the scope of this Rule 702 motion to exclude Dr. Nobel's opinions. In any event, an expert may be permitted to rely on non-admissible evidence. Whether or not that will be appropriate here is a matter better decided at trial.

d) Element 52(c)

The same analysis applies to 52(c) as to 52(b) immediately above.

e) Alleged Lack of Written Description and Enablement

Dr. Nobel sets forth the appropriate legal standards (¶ 17), and his conclusions as to specific claim terms and his reasons for arriving at those conclusions (¶ 87-88 and 91-92).

Allcare disagrees with Dr. Nobel's conclusions, but his methodology is adequate to satisfy the requirements of Rule 702. If Allcare contends that Dr. Nobel's conclusions are not correct, it should use cross-examination or rebuttal to establish that.

2. Nobel's Non-Infringement Opinions

a) Preamble

Allcare contends that Dr. Nobel uses a narrower construction of the preamble for his infringement opinion than for his validity opinion.

Dr. Nobel recites the same claim construction for both his invalidity and non-infringement opinions and expressly acknowledges that they must be the same. However, in his infringement opinion, he accepts, "for the sake of argument" Dr. Holland's definition of "system" ("a collection of components to accomplish a specific function or set of functions"). Nobel Rep. at 450, ¶ 163. Using that definition, he concludes that the Highmark "system" does not satisfy the preamble because the Highmark computer system does not perform the functions of treatment and prevention of disease. Id. at 450, ¶ 164. Those functions of course are performed by the providers, not by the electronic components.

Dr. Nobel is entitled to rebut the conclusions of Dr. Holland. However, Dr. Holland did not conclude that the preamble requires that the computer system treats and prevents disease. In fact, Dr. Holland concluded that the Highmark system includes "providers" who are "combined into the system." The '105 patent does not disclose the computer system as treating or preventing disease. The disclosed and claimed computer system is not a robotic doctor. In the '105 patent, as in the Highmark system, the provider treats and prevents disease.

Dr. Nobel takes an IEEE definition for "system" cited by Dr. Holland, and then misapplies it in a manner inconsistent with the patent, Dr. Nobel's invalidity analysis and Dr. Holland's report.

Dr. Nobel offers no opinion that the claim preamble does not read on the Highmark system based on a claim analysis which he contends is correct; the analysis that he used for his invalidity opinion. Accordingly, it is recommended that Dr. Nobel be

precluded from opining at trial that the claim preamble does not read on the Highmark system.

I do not recommend exclusion of Dr. Nobel's invalidity testimony, nor the remainder of his non-infringement testimony, because those are severable.

b) Unsupported Paragraphs

Allcare complains that numerous paragraphs in Dr. Nobel's Report make statements of alleged fact, without any supporting citation to the record. See Allcare Opening Brief at 20 for list of allegedly "unsupported paragraphs." It certainly would have been much better practice for Dr. Nobel to have given citations for those numerous statements in his report. Allcare deposed Dr. Nobel one week after his report was filed and thus seemingly had an opportunity promptly to inquire as to the source of the statements. At oral hearing Allcare argued that it did not have time because of the seven-hour time limit on the deposition.

At the hearing, Allcare requested that Dr. Nobel be required to amend the paragraphs of his report listed in lines 1-2 of p. 20 of Allcare's Opening Brief to cite the evidentiary support. Highmark agreed to do so. Trans. at 205-06. It is recommended that Dr. Nobel be ordered to make such amendment, within an appropriate time following adoption of this Report by the Court, to the extent support in the record is not cited and is available. That will eliminate any potential prejudice to Allcare.[3]

c) Conversations With Highmark's Employees

Allcare objects to Dr. Nobel's testifying based upon what he learned in conversations with "previously undisclosed" persons at Highmark who assisted with a demonstration of the accused system. Dr. Nobel, as Highmark's technical expert, was

[3] It is noted that if this Court enters summary judgment of non-infringement, as recommended in this report, the amendment will be moot.

entitled to view a demonstration of the accused system, and to ask Highmark's employees any questions he had that would assist him in understanding the system.

It is understood that the accused system was earlier demonstrated to Allcare's technical expert, Dr. Holland. Presumably Allcare also has received in discovery other evidence describing the accused system. Thus, Allcare has not established that it has suffered prejudice from conversations between Dr. Nobel and employees of Highmark.

In any event, Allcare noted at the hearing that if Dr. Nobel did not testify regarding non-infringement of the preamble limitations, Allcare's objections to this objection would be moot. Hrg. trans. at 211. Above, I have recommended that Dr. Nobel not be permitted to testify as to the preamble on the infringement issue. If that recommendation is accepted by this Court, this issue becomes moot.

3. Conclusion

For the reasons stated above, it is recommended that:

a) Dr. Nobel not be permitted to opine at trial that the claim preamble does not read on the Highmark system; and

b) Dr. Nobel be ordered to amend his Report to cite evidentiary support for certain paragraphs of his report as identified above, to the extent that such support is available in the record.

It is recommended that the motion to strike and exclude Dr. Nobel's Report and testimony be denied except as specified above.

4/24/08
Date

Don W. Martens, Special Master

ATTACHMENT A

Claims 52 and 53 of the '105 patent provide:

52. 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 of 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 therefore by said payment means until said utilization review has been obtained and data indicative thereof has been entered in said system.

53. A method of managing a health care management system according to claim 52 in which the step of tentatively identifying a proposed mode of treatment further includes checking said proposed mode of treatment and when said proposed mode of treatment includes an ancillary service, producing indicia indicative thereof and providing said ancillary service.

H:\DOCS\DWM\DWM-2652.DOC

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF TEXAS

FORT WORTH DIVISION

Highmark, Inc.	§	
	§	
Plaintiff,	§	Civil No.: 4:03 CV – 1384 – Y
	§	
vs.	§	Judge Terry R. Means
	§	
Allcare Health Management Systems, Inc.,	§	
	§	
Defendant.	§	

RECORD OF MATERIALS AND EVIDENCE

CONSIDERED BY SPECIAL MASTER

IN PREPARATION OF REPORT AND RECOMMENDED

DECISIONS ON SUMMARY JUDGMENT MOTIONS

AND MOTIONS TO EXCLUDE EXPERT OPINIONS AND REPORTS

CONFIDENTIAL PURSUANT TO

PROTECTIVE ORDER

HIGHMARK v. ALLCARE HEALTH MANAGEMENT SYSTEMS, INC.
United States District Court
For the Northern District of Texas
Fort Worth, Texas
Case No. 4:03 CV-1384-Y

Record of Materials and Evidence
Considered by Special Master

1. Order Granting Joint Motion to Appoint Special Master dated December 19, 2007.

2. All Motions for which recommended decisions are made in The Special Master's Report and Recommended Decisions filed herewith, together with all Memorandum and Appendices in support, opposition, or reply filed by the parties regarding those motions.

3. Various case law, statutory, and other authority as cited by the parties or in the Special Master's Report filed herewith.

4. Transcript of February 26, 2008 Hearing, and arguments presented at that hearing.

5. Visual aids used by the parties February 26, 2008 Hearing (demonstrative only)

6. All evidence referenced in the Special Master's Report filed herewith.

4/24/08
Date

Don W. Martens
Special Master

H:\DOCS\DWM\DWM-2684