

Calif. Patent Rule Changes May Be Traps For Unwary

Friday, Feb 29, 2008 --- Patent litigators practicing in the busy Northern District of California need to understand several important changes to the Patent Local Rules that affect patent cases filed on or after March 1, 2008.

One of the country's busiest patent litigation venues, the Northern District of California has long had a set of Patent Local rules considered to be successful in managing the complexities of patent litigation and the volume of cases in the district.

Other busy patent districts, including the Southern District of New York and the Eastern District of Texas, have borrowed heavily from the Northern District's Patent Local Rules in crafting their own local guidelines for patent cases.

Under the revisions, increased diligence at an earlier stage of most patent cases will be critical to avoid pretrial missteps. This article identifies some of the issues that arise as a result of the revisions and suggests areas where patent litigators will need to exercise that increased diligence.

Initially adopted in 2000 to address procedural issues unique to patent cases, the Patent Local Rules have functioned well. However, the experience of the bench and bar in the last seven years have demonstrated where a few changes would further streamline the pre-trial process.

The Court's advisory report on the revised rules (available on the Court's Web site, along with the text of the revised Patent Local Rules) states that the revisions include two "major conceptual changes."

The first requires that parties jointly identify the "most significant" claims terms during the claim construction process. The second major change is the elimination of "preliminary" infringement and invalidity contentions in favor of a single round of contentions, which can be modified only for good cause.

The revisions also include a number of specific modifications, which are summarized in the advisory report.

In general, the revised rules will force parties to litigate much more diligently in the early stages of patent cases. The consequences of failing to do so may be severe.

Parties Must Now Jointly Identify "Most Significant" Claims Terms

The new requirement that parties must jointly identify the "most significant"

claims terms will allow the Court to deploy judicial resources more efficiently during the claim construction process. Historically, the number of claim terms a court would construe has varied as to each judge in the Northern District.

Over time, reflecting the reality that few claim terms are case dispositive, the trend has accelerated towards limiting the total number of claim terms to be construed.

To address this issue, revised Rule 4-1 continues the requirement that the parties must meet and confer after exchanging lists of disputed claim terms in an effort toward resolving differences, and adds a further requirement that the parties must “jointly identify the 10 terms likely to be most significant to resolving the parties’ dispute, including those terms for which construction may be case or claim dispositive.”

The advisory report notes that under revised Rule 1-3, the number of “significant” terms may be adjusted upward or downward “based on the circumstances of any particular case.”

Under revised Rule 4-3(c), the parties in their Joint Claim Construction and Prehearing Statement must include “[a]n identification of the terms whose construction will be most significant to the resolution of the case up to a maximum of 10.

The parties shall also identify any term among the 10 whose construction will be case or claim dispositive. If the parties cannot agree on the 10 most significant terms, the parties shall identify the ones which they do agree are most significant and then they may evenly divide the remainder with each party identifying what it believes are the remaining most significant terms.”

Under the plain reading of Rule 4-3(c), the limitation on the number of “significant” terms to be construed is not dependant on the number of patents in suit. However, best practice dictates addressing the number of “significant” terms to be identified at the initial case management conference.

Revised Rules 4-3(a) and 4-3(c) appear to allow the parties to present disputed claim terms to the Court beyond those identified as “most significant.”

However, as a practical matter, under the revised rules the risk is heightened that the Court will not construe a claim term if none of the parties affirmatively states that its construction may be case or claim dispositive.

Therefore, litigants might be wise to view the maximum number of “significant” claim terms as a presumptive limitation on the total number of terms that will be construed by the Court.

The requirement to identify “significant” claim terms will force parties to develop more complete case theories prior to the claim construction process, because such theories must be anticipated before one can identify

“significant” claim terms.

Likewise, the presumptive limitation on the number of claim terms to be construed will impact the strategic analysis necessary when the possibility exists to assert multiple patents.

Rules Eliminate The Concept Of “Preliminary” Contentions

The elimination of the concept of “preliminary” contentions is truly a major conceptual change to the Patent Local Rules. Importantly, revised Rules 3-1 and 3-3 require the parties to exchange the single round of contentions within the same time frame defined under the previous rules for the disclosure of preliminary contentions.

Specifically, Rule 3-1 specifies that infringement contentions are due “not later than 10 days after the Initial Case Management Conference,” and Rule 3-3 requires that invalidity contentions are due “not later than 45 days after” service of infringement contentions.

Clearly, this rule change will force parties to exercise more diligence during early stages of the case in order to make their infringement and invalidity contentions as complete as possible.

Litigants might be tempted to take comfort in the provisions of revised Rule 3-6, which allows for amendments to infringement or invalidity contentions under certain circumstances. However, such amendments may be made “only by order of the Court upon a timely showing of good cause.”

The “good cause” test for amending contentions is not new in the Northern District Patent Local Rules. Indeed, the previous Rule 3-7 provided that amendment of the “final” contentions could be made “only upon a showing of good cause.”

Applications of this standard in the Northern District have been reviewed by the Federal Circuit. See, e.g., *02 Micro International Limited v. Monolithic Power Systems, Inc.*, 467 F.3d 1355 (Fed. Cir. November 15, 2006); and *Safeclick, LLC v. Visa International Service Association*, 2006 WL 3017347 (Fed. Cir. Oct. 23, 2006).

It must be expected that the Northern District will apply the “good cause” standard for amending the new single round of contentions in a manner similar to the way it applied this same standard concerning “final contentions” under previous Patent Local Rules.

To offer guidance, revised Rule 3-6 describes three examples of “circumstances that may, absent undue prejudice to the non-moving party, support a finding of good cause” to amend contentions.

While the given examples seem likely to arise in many cases, practitioners should view them as warnings rather than cause for comfort because these

circumstances are likely to be cited as often in opposition to motions for leave to amend contentions as they will be cited in support of such motions.

The first exemplary circumstance is where “a claim construction by the Court [is] different from that proposed by the party seeking amendment.”

Litigants should view this language as a warning to make sure that their contentions are complete based on the claim construction that they intend to argue.

Indeed, a party opposing a motion for leave to amend contentions will be quick to point out if the subject matter of any proposed amendments should arguably have been foreseen in light of the arguments later made by the party seeking leave to amend.

Also, it should be noted that in a typical case, infringement contentions are due approximately two months before the claim construction process even begins.

Therefore, a party alleging infringement has even greater incentive under the revised rules to formulate claim construction theories early in the case, and then adhere to those theories when crafting infringement contentions.

The second example - suggested as potentially constituting good cause to amend invalidity contentions - is “recent discovery of material, prior art despite earlier diligent search.”

This language should be viewed by parties challenging validity as an incentive not only to search diligently for prior art, but also to keep records of the search efforts as proof of diligence in case they are needed as evidence in support of a later motion for leave to amend invalidity contentions.

The reference in the rules to “diligent search” also increases the incentive to exhaust prior art searching in the most likely places before moving on to less likely sources of prior art.

For example, a party seeking to amend invalidity contentions probably stands a better chance of demonstrating “good cause” if the newly discovered art is a foreign language thesis as opposed to, say, another U.S. patent having the same classification codes as the patent at issue.

The third circumstance - described as possibly supporting a finding of good cause to amend infringement contention - is “recent discovery of nonpublic information about the Accused Instrumentality which was not discovered, despite diligent efforts, before the service of the Infringement Contentions.”

A patentee should view this language as a strong incentive to ensure that its infringement contentions are complete at least with respect to information about accused instrumentalities that was publicly available, or uncovered during discovery, prior to the due date for infringement contentions.

The stakes can be high upon filing a motion for leave to amend infringement or invalidity contentions. As noted, the standard for amendment is not the same as for amendment of pleadings under FRCP 15, and practitioners should be aware of how courts have previously applied the “good cause” standard in similar situations.

In *02 Micro International Limited*, the Federal Circuit affirmed a ruling by the U.S. District Court for the Northern District of California granting summary judgment of non-infringement, after refusing to grant the patentee leave to amend its final infringement contentions under the “good cause” standard. *Id.* at 1356.

The Federal Circuit agreed with the district court that “good cause” requires a showing of diligence on behalf of the party seeking the amendment. *Id.*

Noting that the burden is on the party seeking leave to amend to establish “diligence,” the Federal Circuit found that the district did not abuse its discretion in finding a lack of diligence given the patentee’s delay in moving to amend its infringement contentions, and its lack of adequate explanation for the delay. *Id.* at 1367-68.

Finally, the Federal Circuit held that exclusion of evidence (i.e., the proposed amendment to the infringement contentions) was an appropriate sanction for failure to comply with the disclosure deadlines required by the local patent rules and the case management order. *Id.* at 1369.

Given the precedents concerning application of the “good cause” standard in this context in the Northern District, and considering the elimination of “preliminary” contentions under the revised Patent Local Rules, litigants in the Northern District should approach the new single round of infringement and invalidity contentions with great care.

Specific Modifications Under The Revised Rules

The revised rules also include a number of specific modifications. Importantly, revised Rule 1-3 makes clear that the Court may modify the obligations or deadlines set forth in the Patent Local Rules based on the circumstances of any particular case.

Revised Rules 3-1 and 3-2 expand the disclosures that must be made by a patentee along with its infringement contentions. Rule 3-3(b), which requires a disclosure of obviousness contentions, has been modified in a manner consistent with the Supreme Court’s recent decision in *KSR International Co. v. Teleflex, Inc.* 550 U.S. ___, 127 S. Ct. 1727 (2007).

Rule 3-7 requires that litigants must disclose all attorney-client information on which they plan to rely at trial after the claim construction ruling.

Rule 4-7 allows for sanctions against parties that fail to meet and confer in

good faith during the claim construction process. A more complete list of specific modifications can be found in the advisory report posted on the Court's Web site along with the revised rules.

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