

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
3470 Twelfth Street, Riverside, CA 92501
CIVIL MINUTES -- GENERAL

Case No. EDCV 06-01109-SGL (OPx)

Date: October 8, 2009

Title: ALLFLEX USA, INC., a Delaware corporation -v- AVID IDENTIFICATION SYSTEMS, INC., a California corporation

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PRESENT: HONORABLE STEPHEN G. LARSON, UNITED STATES DISTRICT JUDGE

Cindy Sasse
Courtroom Deputy

None Present
Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

ATTORNEYS PRESENT FOR DEFENDANTS:

None present

None present

PROCEEDINGS: **ORDER TO SHOW CAUSE; ORDER DENYING EX PARTE APPLICATION TO QUASH AMON-WACTER SUBPOENAS; ORDER ADOPTING IN PART DISCOVERY REFEREE'S REPORT AND RECOMMENDATION; ORDER STAYING CASE IN ALL RESPECTS PENDING COMPLETION OF REEXAMINATION PROCEEDINGS BEFORE PATENT AND TRADEMARK OFFICE; ORDER VACATING ALL PRE-TRIAL AND TRIAL DATES**

The Court held a status conference with how to proceed in this matter given certain disclosures made by defendant and information uncovered in subsequent discovery related to the re-examination of the patents at issue herein.

This case was instituted by Allflex on October 6, 2006. The case is currently scheduled with the following pre-trial and trial dates:

Trial date: August 10, 2010

Final Pre-Trial Conf. July 19, 2010

Dispositive Motion June 8, 2010

Expert Cutoff

April 9, 2010

Fact Discovery Cutoff

January 25, 2010

Moreover, after a series of orders issued by this Court, only two of the original five Avid-held patents-in-suit are left in this case: The '409 patent and the '017 patent (the declaratory relief claim concerning the three other patents having been dismissed for lack of jurisdiction because of Avid's covenant not to sue on those patents against Allflex).

After receipt from each side of a pre-Markman tutorial CD and extensive Markman briefs, the Court conducted a three-hour Markman hearing on the two patents-in-issue on July 14, 2008.

As the Court was about to render its Markman order (literally within a week of doing so), Avid's counsel (Kirkland & Ellis) disclosed to the Court on March 16, 2009, that both remaining patents-in-suit had been undergoing re-examination (initiated by an unknown third-party, but not Allflex) before the Patent and Trademark Office ("PTO") for the past two years.

Specifically, a request to institute re-examination proceedings with respect to the '409 patent was brought before the PTO on April 30, 2007, with the PTO granting the request a few weeks later on June 14, 2007. (See Notice of Reexamination at 2). The PTO eventually issued a Final Office Action upholding the '409 patent on January 13, 2009. (See id).

With respect to Avid's and its attorneys' knowledge of that re-examination request and subsequent re-examination proceedings, these are the presently known facts. On May 4, 2007, Avid's patent counsel who appears on its behalf on matters before the PTO, Mr. David Abel of DLA Piper, informed Avid of the '409 patent PTO re-examination request. DLA Piper was then retained by Avid to represent it in connection with the '409 re-examination. On the same day (May 4, 2007), Kirkland & Ellis filed with the Court a Notice of Appearance as co-counsel for Avid in the action before this Court. Unknown to the Court at the time, but as later revealed, Avid's initial counsel, Fish & Richardson, discovered it had a conflict of interest in continuing to represent Avid in the matter. Fish & Richardson, however, remained as counsel of record, and continued to perform legal services for Avid in connection with this matter for the next two months. The Request for Substitution was not filed until July 9, 2007, and not ordered by the Court until July 20, 2007.

Three days later, on May 7, 2007, Avid informed its initial and still retained counsel in the Allflex matter, Fish & Richardson, of the request for a re-examination of the '409 patent before the PTO. In the three days that followed – from May 7 to May 10 – "there were numerous electronic mail communications between Fish [& Richardson] and Avid regarding 'the re-examination of the '409 patent.'" (Discovery Referee's R&R at 2, lines 22-24).

As far as the '017 patent is concerned, a request to institute re-examination proceedings was brought before the PTO on May 31, 2007, with the PTO granting the request on June 14, 2007, the same day the agency granted the third-party's request to re-exam the '409 patent. The re-examination proceedings were still on-going as of March 16, 2009, when Avid's present counsel

(Kirkland & Ellis) notified the Court about the PTO re-examination proceedings. Subsequently, the PTO issued a Final Office action rejecting the '017 patent in light of certain prior art; Avid has since appealed the Final Office action to the PTO Board of Appeals and the matter is still on-going at this time.

As for Avid's and its counsels' knowledge about the '017 re-examination proceedings, counsel at DLA Piper notified Avid of the request for a re-examination of the '017 patent by way of an email on June 7, 2007, and the firm was then retained by Avid to represent it (as with the '409 patent) before the PTO in connection with the same. Avid in turn notified Fish & Richardson, its co-counsel in the Allflex matter, sometime in June, 2007, of the '017 re-examination.

During the course of both patents-in-suit's re-examination, DLA Piper periodically sent to Avid documents related to the re-examinations "at or about the [same] time they were filed with or received from the [PTO]." (Discovery Referee's R&R at 3, lines 2-4).

As noted earlier, on July 20, 2007, the Court granted Avid's application to substitute Kirkland & Ellis for Fish & Richardson as its sole counsel of record in the case. At no point – from first receiving notice of the request for re-examination in May, through the order of re-examination in June, up to their being substituted by Kirkland & Ellis in July – did any counsel of Fish & Richardson provide the Court or Allflex with notice (in any form) of the re-examination proceedings.

Insofar as communication of the re-examination proceedings to the incoming counsel for Avid, it is significant that Fish & Richardson and its attorneys, including Mr. John Thornburgh, Brian Wacter, and Michael Amon, were involved in transferring the case files to Kirkland & Ellis. Kirkland & Ellis states that it did not learn of the re-examination proceedings until during one of its "periodic sweeps" of Avid's files to locate responsive documents on March 10, 2009. The March 10, 2009, "document sweep" (for which Kirkland & Ellis was "given full access to the files and access to the server and computers") was either the fifth or sixth such sweep that Kirkland & Ellis had performed of Avid's files since coming onboard in this matter. (Discovery Referee's R&R at 6, lines 10-13). Although no Rule 30(b)(6) witness from Kirkland & Ellis has been deposed on this point, Kirkland & Ellis' attorneys have repeatedly made these same representations in open court proceedings before this Court since the disclosure was made and in papers they have subsequently filed with the Court.

Much of the litigation effort over the past six months since the disclosure was made has centered on discovery efforts by Allflex to determine whether Kirkland & Ellis was made aware of the reexaminations by either Avid or Fish & Richardson at any point from early May to Fish & Richardson's full and complete departure from this case.¹

¹ There is some evidence that Fish & Richardson attorneys were involved in case transfer meetings with Kirkland & Ellis up until sometime in October, 2007.

Avid's Rule 30(b)(6) witnesses unequivocally state that they told Fish & Richardson about the re-examinations (a point which Fish & Richardson acknowledges), and assumed Fish & Richardson would thereafter tell Kirkland & Ellis about it, but apparently took no action to confirm that was indeed the case.

Fish & Richardson's Rule 30(b)(6) witness, Mr. Thornburgh, was frankly so unclear on this question that it is hard to determine whether he was testifying that no one at Fish & Richardson could "remember" or "recall" if the re-examination was disclosed to Kirkland & Ellis during the transfer of the case files, or whether he, the witness, could not "recall" or "remember." What is clear from Mr. Thornburgh's deposition is that, contrary to Kirkland & Ellis' repeated refrain in its pleadings, he does not unequivocally state that Fish & Richardson did not disclose the information to Kirkland & Ellis, but only that the firm could "not recall" or could "not remember" whether or not it told Kirkland & Ellis.

Also occurring both shortly before and during this 2007 period was activity related to a document discovery request propounded by Allflex to Avid that has since proven to be central to this issue. On March 2, 2007, Allflex served its initial request for production of documents to Avid, requesting 115 categories of documents, the most notable being all documents related to the '409 and '017 patents, including, per request no. 11, "all documents relating to the prosecution histories" for the '409 and '017 patents. On May 1, 2007, two days after the request for a re-examination of the '409 had been filed with the PTO, Avid (through its counsel Fish & Richardson) produced 115,941 documents responsive to Allflex's request, including documents related to the prosecution histories of the '409 and '017 patents during a prior litigation between Avid and another pet chip manufacturer in a case in Texas. Nowhere in this initial production was there any mention of, reference to, or production of documents relating to request for the request for re-examination before the PTO (namely, the one concerning the '409 patent).

Later, on July 10, 2007, (more than two months after both Avid and Fish & Richardson were notified of the '409 re-examination, a little more than a month after both were notified of the '017 re-examination, and a month after the PTO ordered the reexamination of both patents), Avid (again through its counsel Fish & Richardson) produced another 41,073 pages of documents to Allflex, but, again, nowhere in this second batch of documents was there any document produced concerning the re-examinations. Fish & Richardson's counsel later admitted during the status conference before this Court that once the order of re-examination was handed down by the PTO, the fact thereof (and all documents related thereto, including the request itself) would have been considered responsive documents to Allflex's initial request for production of the '409 and '017 "prosecution histories."

Later in August, 2008, Allflex served a second request for the production of documents on Avid, but, again, in the production that followed (through Avid's then sole counsel Kirkland & Ellis) no documents regarding the re-examination proceedings were produced.

Presently before the Court is the Report and Recommendation ("R&R") from the Discovery Referee that the Court charged with proposing a resolution of Allflex's ex parte discovery request related to further depositions of certain Fish & Richardson attorneys (Mr. Amon and Mr. Wacter), as

well as the retention and review of the privilege logs concerning communications between the law firm(s) and Avid during the period following the request for reexamination and the transfer of the case. In tandem with consideration of the R&R is Mr. Amon and Mr. Wacter's ex parte application to quash the subpoena that was served on them by Allflex for their deposition on the same subject as Allflex's own ex parte request. Finally, the Court must consider, as part of this status conference, whether sanctions are in order for the long-belated disclosure of the re-examination proceedings and how to proceed forward in this case in light of those proceedings.

To begin, if the re-examination of the remaining patents-in-suit had been disclosed as it should have been in 2007, this Court would have stayed this entire litigation until the conclusion of the re-examination proceedings before the PTO (as is its practice and that of nearly every district court of which this Court is aware). Because that was not disclosed, this Court and Allflex have, for the past two years, proceeded to hear and litigate whether the patents in question have been infringed; patents that unbeknownst to the Court or Allflex may have been found unpatentable because of agency proceedings then underway before the PTO. Given that the re-examination of the '017 patent is still continuing (with Avid's appeal of the PTO's final office action rejecting the '017 patent still outstanding), the Court concludes that it will do what it would have done in the first instance and **STAY** the entire action (save for one proviso detailed below) until the re-examination of the '017 patent is concluded. Moreover, to that end, the Court hereby **VACATES** the trial, pre-trial, and other scheduling dates in this case. It makes no sense to continue to expend money and resources (both of the parties and the Court) on whether this patent may be infringed if it may well turn out that the patent has been rejected by the PTO.

Allflex protests such a stay, and instead seeks the best of both worlds – staying the litigation of the infringement question pending what happens before the PTO, but continuing to prosecute its inequitable conduct/unclean hands arguments based on Avid's alleged failure to disclose prior art in its initial patent application and during the re-examination before the PTO. But because the PTO may ultimately uphold its rejection of the '017 patent – making whether Avid engaged in inequitable conduct to secure its patent and during the reexamination proceedings moot – it adds nothing to the analysis as the patent is still dead. And, if the reexamination proceeding concludes with the rejection of the '017 patent, then the '409 patent could itself be subject to yet another re-examination because the claim language contained therein tracks closely to the '017 patent. Thus, vindication of the inequitable conduct/unclean hands defense could prove redundant depending on the ultimate conclusion of the reexamination of the '017 patent; allowing that sliver of the litigation to proceed, as sought by Allflex, potentially adds further wasted expense and resources into what has already turned out to be a less than productive exercise in litigation.

This leaves the Court with what to do about the wasted time and resources occasioned by the long overdue disclosure of the re-examination proceedings.

Avid spends a great deal of time arguing how it had no duty to disclose the reexamination to either the Court or Allflex either under Local Rule 83-1.4.1 or Rule 34, but in making that argument it ignores one unquestionable duty it did transgress – its duty to supplement its earlier discovery responses (that is, Allflex's March, 2007, discovery request) for the past two years and to produce

to Allflex the documents coming out of the re-examinations. DLA Piper's Rule 30(b)(6) witnesses have already testified that they promptly and periodically produced to Avid all documents generated in those reexamination proceedings as they were presented before the PTO. Indeed, those PTO reexamination documents were later found by Kirkland & Ellis allegedly for the first time within the files on-site at Avid's company headquarters.

On this it must be remembered that the Discovery Referee not only mentioned Local Rule 83-1.4.1 and Rule 34 as a possible basis upon which a violation could be found. On page 7, lines 4 to 14, the Discovery Referee also noted that Avid's (and its attorneys') failure to supplement their initial document response was itself a violation of Federal Rule of Civil Procedure 26(e). Avid responds that it never received a specific request for further documents from Allflex until August, 2008, but that does nothing to discharge its continuing obligations under Rule 26(e) to supplement its earlier document response "in a timely manner." See 6 JAMES WM. MOORE, MOORE'S FEDERAL PRACTICE § 26.131[3] at 26-583 to 26-584 (3rd ed. 2009) ("The duty to supplement and correct disclosures and responses is a continuing duty For example, if after answering interrogatories, additional information becomes known to the answering party, this information must be disclosed and no additional interrogatories are necessary to obtain this information. The duty to supplement does not depend on repeated requests by an adversary for updated information. The fact that a party's attorney does not know about the updated information is irrelevant; the duty exists nevertheless" (citing Arthur v. Atkinson Freight Lines Corp., 164 F.R.D. 19, 20 (S.D.N.Y. 2005))).

Moreover, the authorities clearly show that a court can impose monetary sanctions against a party and/or their attorney for violations of Rule 26(e). See Id. § 26.132[1] at 26-585 ("Although Rule 26(e) does not specifically mention sanctions, it is well established that courts may impose evidentiary and monetary sanctions for violation of the provision. This authority derives from the inherent power of courts to oversee and manage discovery") . Furthermore, Avid's protestations that it did not intend to fail to disclose this information is not determinative for establishing that a Rule 26(e) violation has occurred; instead a Rule 26(e) violation can be found even in the absence of intent "because a party is required to turn over materials that he or she is aware of, and those he or she should have been aware of." Id. at 26-584 to 26-585 ("The duty to amend is not limited to circumstances in which the failure to amend constitutes a knowing concealment. Rather, the duty to supplement and correct disclosures and discovery applies whenever a party learns that its prior disclosures are in some material respect incomplete or incorrect").

In considering an appropriate sanction, the Court is mindful that any monetary sanction imposed should be tied as much as possible to what was not supplemented – namely, the documents from the reexamination proceedings. During this two year period, the parties litigated other motions related to all five patents-then-at-suit and performed discovery related to all those five patents. Given how many patents other than the ones germane to the Rule 26(e) disclosure are wrapped up to the costs incurred in litigating the same, the Court does not believe it is advisable to charge some or all of those costs. But the same is not true with respect to the Markman hearing. That hearing was devoted almost exclusively to the '017 and '409 patents (the

other three patents having fallen out at around the same time because again of Avid's representation that it would not sue Allflex on those three patents).

Accordingly, the Courts **ORDERS** Avid and its past and present counsel (Fish & Richardson and Kirkland & Ellis) to **SHOW CAUSE** why, for apparently violating Rule 26(e), some or all of them should not bear the reasonable costs and fees Allflex incurred in preparing and submitting the pre-Markman tutorial CD, preparing and filing its various Markman briefs and papers, and in attending the three-hour Markman hearing itself. To that end, all three are to file with the Court, on or before October 20, 2009, a written response, not to exceed 15 pages, to the OSC. Moreover, in that response to the OSC, Fish & Richardson, Avid, and Kirkland & Ellis are also directed to provide any objections they have to the reasonableness of either the costs or fees or hours incurred by Allflex in litigating the matters noted above. Towards that end, the Court **ORDERS** that Allflex submit its itemized list of all reasonable costs and fees incurred in preparing and submitting the pre-Markman tutorial CD, preparing and filing its various Markman briefs and papers, and in attending the three-hour Markman hearing itself on or before October 13, 2009. The Court is mindful that should sanctions be awarded some form of apportionment may well be in order, depending on the length of time the sanctioned parties were aware or should have been aware of the re-examination proceedings and yet failed to supplement the discovery responses. The Court will thereafter issue an Order on whether, to what extent, and against whom to impose any such discovery sanctions based on the papers submitted.

In addition, having reviewed the Discovery Referee's Recommendations and having found that they are neither clearly erroneous nor contrary to law, hereby upholds (subject to certain refinements) the Discovery Referee's Recommendation that Mr. Wacter and Mr. Amon be (and hereby are) required to appear as witnesses for a deposition, not to last more than four hours combined, to be held on or before October 16, 2009, on those topics covered by the Court's May 6, 2009, Order. Said deposition shall be held before the Discovery Referee and a certified transcript of the deposition shall be lodged with the Court on or before October 20, 2009. Mr. Wacter and Mr. Amon's ex parte application to quash the subpoenas is **DENIED**.

The Court declines at this point to adopt the Discovery Referee's Recommendation that he be given a copy of the Fish & Richardson-Avid-DLA privileged documents report for an in camera review; however, all such documents are **ORDERED** to be preserved by the parties pending potential future review by the Court to whom this case is further assigned.

Except as otherwise set forth above, the Court adopts the Discovery Referee's Report & Recommendations.

IT IS SO ORDERED.