FRANKLIN PIERCE LAW CENTER

CONCORD, NEW HAMPSHIRE

PRESENTS ITS

Fifth Annual Intellectual Property Litigation Series

PATENT LITIGATION: TACTICS & TOOLS

SEPTEMBER 15 - 16, 1992





Franklin Pierce Law Center

PATENT LITIGATION:

TACTICS AND TOOLS

September 15-16, 1992
Four Seasons Hotel Boston

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Franklin Pierce Law Center

September 1992

Good Morning!

It is my pleasure to welcome you to Franklin Pierce Law Center's fifth annual program on current issues in intellectual property litigation. This year we have slimmed down the series to focus on patent litigation issues. The director is again Professor Karl Jorda, who heads the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship at FPLC. Visitng Professor Christopher Blank has assisted Professor Jorda. Jamie Bulen, the Law Center's Marketing Director, has been program manager. We are especially pleased that four of the presenters are our own alumni/ae.

This greeting is an opportunity to tell you about two recent developments in intellectual property law at Franklin Pierce. The first is the inauguration of the Advanced Licensing Institute (ALI), a week-long Institute held at the school in Concord, directly following the six-week Intellectual Property Summer Institute (IPSI). The conception of Professor Jorda, ALI responds to the growing interest--and sophistication--in technology transfer and its implications for university research, international trade and industrial policy. Note the dates for 1993:

Advanced Licensing Institute	July 26-30, 1993
Intellectual Property Summer Institute	June 14-July 23, 1993

The second development is an increase in intellectual property research at the Law Center. The PTC Research Foundation, directed by Professor Robert Shaw, has initiated an international research project in prior user rights and is investigating the value of binding mediation as a way of resolving intellectual property disputes.

In addition, the school has appointed two Senior Fellows and three Research Fellows for 1992-93. Senior Fellows are Kim Tae-Yoon, an appellate trial examiner in the Korean Industrial Property Office, and Professor Thomas M. Ward of the University of Maine Law School. Their research interests are, respectively, administrative appellate procedure and the application of basic contract and commercial law concepts to the division, transfer, mortgage and liquidation of intellectual property. The three Research Fellows, all in FPLC's combined JD/MIP degree program, are Mark Cornell (state inventor assistance programs), Gianna Julian-Arnold (compulsory licensing practices), and Todd Volyn (the role of culture in international negotiations).

2 White Street • Concord, NH 03301 • 603-228-1541

PATENT LITIGATION: TACTICS AND TOOLS

Tuesday, September 15

8:30- 9:00	Registration
9:00- 9:15	Litigation: An Element of Client Counseling Christopher E. Blank Franklin Pierce Law Center Concord, NH
9:15-10:15	Patent Damages: Practical Considerations of Proof Gregory A. Madera, Fish & Richardson, Boston, MA Donald R. Ware, Foley, Hoag & Eliot, Boston, MA
10:15-10:30	Break
10:30-11:30	Patent Litigation on a Limited Budget David Wolf Wolf, Greenfield & Sacks Boston, MA
11:30-12:30	Corporate Counsel's Management of Patent Litigation Michael D. Rostoker LSI Logic Corporation Milpitas, CA
12:30- 2:00	Lunch (On Your Own)
2:00- 3:00	Summary Judgments in Patent Cases Paul E. Krieger Pravel, Gambrell, Hewitt, Kimball & Krieger Houston, TX
3:00- 4:00	Alternative Dispute Resolution & Settlement Thomas L. Creel Kaye, Scholer, Fierman, Hays & Handler New York, NY
4:00- 5:00	Defendant's Opening Statement and its Profound New Importance James W. Geriak Lyon & Lyon Costa Mesa, CA
5:00- 6:00	Cocktail Hour (Cash Bar) -- Gilbert Stuart Room

PATENT LITIGATION: TACTICS AND TOOLS

Wednesday, September 16

8:30- 9:00	Registration
9:00- 9:15	Ethical Litigation: The Practitioner's Challenge Karl F. Jorda Franklin Pierce Law Center Concord, NH
9:15-10:15	Ethical Issues Facing the Private Intellectual Property Practitioner Jerome G. Lee Morgan & Finnegan New York, NY
10:15-10:30	Break
10:30-11:30	Attorney Disqualification: Recent Developments and Current Issues Kenneth R. Adamo Jones, Day, Reavis & Pogue Cleveland, OH
11:30-12:30	Meeting the Burden of Proof in Discovery and Before Filing: Discovery Sanctions and Rule 11 Breton A. Bocchieri Poms, Smith, Lande & Rose Los Angeles, CA
12:30- 2:00	Lunch (On Your Own)
2:00- 3:00	Jury Trials: Neutralizing Jury Predispositions and Other Techniques V. Bryan Medlock, Jr. Richard, Medlock & Andrews Dallas, TX
3:00- 4:00	Rule 38 and Frivolous Appeals Jennifer A. Tegfeldt Fitzpatrick, Cella, Harper & Scinto Washington, DC
4:00- 5:00	The Federal Circuit: An Insider's View on Evolving Issues Judge Paul R. Michel United State Court of Appeals for the Federal Circuit Washington, DC

SPEAKERS

Kenneth R. Adamo

Kenneth R. Adamo, a partner in the Cleveland firm of Jones, Day, Reavis & Pogue, is a member of the Illinois, Ohio, New York and Texas bars and is licensed to practice before the United States Patent and Trademark Office. His practice comprises a broad spectrum of US and foreign intellectual property law activities, including patent, trademark, copyright, trade secret, unfair trade practice and related tax, antitrust, patent misuse and bankruptcy matters; proceedings before the United States International Trade Commission; and intellectual property licensing, with heavy emphasis on litigation, alternative dispute resolution proceedings and ex parte/inter partes matters before the United States Patent and Trademark Office.

Mr. Adamo earned degrees from Rensselaer Polytechnic Institute (BS Chemical Engineering), The Albany Law School of Union University (JD), and The John Marshall Law School (LLM, Intellectual Property Law).

His professional memberships include: Member, American Bar Association (Vice Chair--Publications, Trial Practice Committee, Litigation Section; Chair, Committee 403, Inequitable Conduct, Patent, Trademark and Copyright Section); American Intellectual Property Law Association; The Intellectual Property Law Association of Chicago; Austin Intellectual Property Law Association; Dallas/Ft. Worth Patent Association; and the Cleveland Intellectual Property Law Association.

A list of published/presented articles and papers are available upon request.

Christopher E. Blank

Chris Blank is Visiting Professor of Law and Director of JD/Master of Intellectual Property Joint Degree Program at Franklin Pierce Law Center. He currently teaches Intellectual Property Litigation Management, Patent and Trade Secret Law, and Intellectual Property Research & Writing. Prior to joining FPLC, Mr. Blank was Patent Attorney at Dow Corning Corporation (1985-87) and Patent Counsel at Bausch & Lomb Corporation (1987-91).

Mr. Blank earned degrees from Allegheny College (BS Chemistry), Syracuse University (MS Chemistry) and Franklin Pierce Law Center (JD). He is a member of New York and Michigan Bars and is registered to practice before the US Patent and Trademark Office, US Court of Appeals for the Federal Circuit, and US District Court for Western District of New York.

Professional memberships include Rochester Intellectual Property Law Association and Saginaw Valley Patent Law Association.

Breton A. Bocchieri

Mr. Bocchieri is a partner of Poms, Smith, Lande & Rose of Los Angeles, California, a law firm that specializes in intellectual property law. Mr. Bocchieri's practice specializes in patents, trademarks, copyright and trade secret litigation, including jury trials, with particular emphasis on patent and trademark litigation, as well as appellate practice before the Court of Appeals for the Federal Circuit.

Representing Kawasaki Motors Coporation U.S.A., Mr. Bocchieri was the principal litigation counsel responsible for the precedent-setting Refac v. Hitachi, et al decisions report in the LOS ANGELES TIMES, NEW YORK TIMES, WALL STREET JOURNAL and other press in which the plaintiff was ordered to show infringement by 118 defendants early in discovery and suffered dismissal, attorneys' fees, and Rule 11 sanctions of over 1.4 million dollars for its failure to adequately define infringement.

A Rutgers College graduate, his technical background is in electronics. He has worked with leading companies in the computer industry to protect frontier technology such as enhanced computer graphics systems for computer-aided design and manufacturing.

Mr. Bocchieri is a graduate of Franklin Pierce Law Center. He is the author of "The Trap of Willful Patent Infringement: A Corporate Dilemma," which was published in Idea: The Journal of Law and Technology, Vol. 29, and New Matter, Official Publication of the State Bar of California, Intellectual Property Sections, Vol. 14, No. 9. The article has been cited twice in Chisum's preeminent treatise on patent law. Mr. Bocchieri has also lectured at legal associations and seminars on the subject of intellectual property litigation.

Thomas L. Creel

Mr. Creel is a partner in Kaye, Scholer, Fierman, Hays & Handler, a large general practice firm which also specializes in intellectual property litigation. He was formerly a partner in Kenyon & Kenyon, an intellectual property firm in New York City, where he practiced for 25 years. His practice has been concentrated in patent and other intellectual property litigation.

Mr. Creel has taught patent law at Columbia University Law School for the past nine years and is a member of the worldwide organization of teachers of intellectual property associated with WIPO. He is the editor of THE GUIDE TO PATENT ARBITRATION published by BNA Books, and authored by members of the New York Patent Trademark and Copyright Law Association, Inc. He is also a frequent lecturer and author on intellectual property subjects.

Currently a vice president of the NYPTCLA, Mr. Creel was formerly a long-time chairman of the ADR Committee and is active in other bar associations as well.

He received a BS from University of Kansas and LLB from University of Michigan.

James W. Geriak

James W. Geriak of Lyon and Lyon in Costa Mesa, specializes in patent litigation and has been lead counsel for the prevailing party in such cases as Spectra-Physics v. Coherent and Scripps v. Genentech. He has also served on the quiet side of the bench as an arbitrator in several patent licensing disputes and is presently under appointment as a special master in a patent infringement case currently pending in the Central District of California.

Mr. Geriak holds degrees from Rensselaer Polytechnic Institute and Georgetown University.

Karl F. Jorda

Mr. Karl F. Jorda is Franklin Pierce Law Center's David Rines Professor of Intellectual Property Law and Industrial Innovation and Director of the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship. He teaches Licensing Intellectual Property and Intellectual Property Management.

Mr. Jorda earned degrees from University of Frankfurt/College of Great Falls (BA Liberal Arts and Sciences) and University of Notre Dame (MA Chemistry and JD).

Prior to joining FPLC, Mr. Jorda held the position of Chief Patent Counsel at CIBA-GEIGY (1963-89). Professional memberships are numerous and include leadership positions with PIPA, NYPTC, AIPLA, IPO, ACPC, ABA and LES, to name a few. He is a member of the Illinois, Indiana and New York Bars and is registered to practice before the US and Canadian Patent Offices; Court of Appeals for the Federal Circuit; and US Supreme Court.

Mr. Jorda was recently a consultant to Indonesian and Bulgarian Patent Offices and was head of a delegation of U.S. Patent Counsel to the Japanese Patent Office at various times from 1984 through 1990.

Paul E. Krieger

Paul E. Krieger is partner of Pravel, Gambrell, Hewett, Kimball & Krieger, a Houston firm specializing in patent, trademark, copyright, unfair competition and antitrust law.

A graduate of University of Pittsburgh (BS), Pennsylvania State University, University of Maryland (LLB) and George Washington University (LLM), Mr. Krieger is admitted to the Bars of Maryland, District of Columbia, Texas and U.S. Court of International Trade.

Mr. Krieger is an Adjunct Professor at Bates College of Law, University of Houston. Professional memberships include State Bar of Texas; District of Columbia Bar; Maryland State Bar; Texas Bar Foundation; Houston Bar Foundation; America Bar Association; AIPLA; LES; USTA; Texas Technology Transfer Association; and NYPTC.

Mr. Krieger is a frequent lecturer on topics of intellectual property law and has authored and coauthored numerous articles.

Jerome G. Lee

Jerome G. Lee, The Senior Partner at Morgan & Finnegan (New York and Washington, DC), received a BS in Chemical Engineering from University of Wisconsin and JD from New York University Law School. He is admitted to the New York Bar, Bar of the Supreme Court of the United States and Bars of various Federal District and Circuit Courts.

Professional membership includes Advisory Committee to the US Court of Appeals for the Federal Circuit; New York Patent, Trademark and Copyright Law Association (Past President); American Intellectual Property Law Association (Immediate Past President); American Bar Association (Government Standards Committee and Chair of the Committee on Ethics & Professional Responsibility, PTC Section); and American Bar Association (Fellow).

Gregory A. Madera

Gregory A. Madera, a Managing Partner of the Boston office of Fish & Richardson, holds degrees from Massachusetts Institute of Technology and Harvard Law School. Dealing exclusively in patent, trademark and copyright litigation, Mr. Madera has been trial counsel in a number of cases, including several patent infringement actions for 3M (most recently against Johnson & Johnson resulting in a judgment for 3M in the amount of $116 million, including $53 million in punitive damages for willful infringement and misappropriation of trade secrets relating to 3M's Scotchcast® orthopedic casting products)(see 22 USPQ2d 1401), Post-it™ self-stick notepads (see 7 UPSQ2d 1589), Scotchtint™ reflective window film, intraocular lenses and foam earplugs. Other patent infringement cases include The Gillette Company (Right Guard® antiperspirant [see 211 USPQ 499], razors, Foamy® shave gel) and Cobe Laboratories (dialysis machines). Mr. Madera's experience also includes actions involving enforcement of trademarks for Trak (see 205 USPQ 35, 475 F.Supp. 1076, 209 USPQ 507, and 212 USPQ 846), Paramount Pictures ("Cheers®"), Children's Television Workshop ("Sesame Street"), Stride Rite (Keds® shoes), United Brands (Chiquita® bananas), and Speedy Muffler King.

Mr. Madera is a member of the USTA TRADEMARK REPORTER Board of Editors (1987-1991) and coauthor of AVOIDANCE AND RESOLUTION OF DISCOVERY DISPUTES -- FROM THE PERSPECTIVE OF LITIGATION COUNSEL and APPROPRIATE USE OF INTERROGATORIES AND REQUESTS FOR ADMISSIONS, in "Patent Litigation: Avoidance and Successful Resolution," ALI-ABA Course of Study C116 (1986); and coathor MASSACHUSETTS LAW, a chapter in "State Trademark and Unfair Competition Law", ed. USTA, pub. Clark Boardman, 1987.

V. Bryan Medlock, Jr.

Mr. Medlock is partner in the Dallas law firm of Richard, Medlock & Andrews. He earned a BS in Chemical Engineering and LLB from University of Oklahoma; in 1962, he was Managing Editor of OKLAHOMA LAW REVIEW.

Professional memberships include American Bar Association (Chairman, Litigation Section, Patent Litigation Committee, 1983-86); American Intellectual Property Law Association; Texas Bar Association (Chairman, Patent, Trademark and Copyright Section, 1973); Dallas Bar Association; and Southwestern Legal Foundation (Chairman, Annual Institute on Patent Law, 1976-79, 1983-).

Honors include Phi Eta Sigma; Tau Beta Pi; and Southern Methodist University Guest Lecturer, Trade Secret Law, 1972-75.

Paul R. Michel

Judge Michel graduated from Williams College and the University of Virginia Law School. He served seven years as a criminal prosecutor in Philadelphia and continued in government service as an Assistant Watergate Special Prosecutor and Assistant Counsel to the Senate Intelligence Committee. In 1976, Judge Michel was selected Deputy Chief of the new Public Integrity Section in the Department of Justice. There he directed the "Koreagate" investigation until 1978 when he was appointed Associate Deputy Attorney General. Starting in 1981, he served as Counsel and Administrative Assistant to Senator Arlen Specter. Judge Michel was appointed to the Federal Circuit in March 1988. The father of two grown daughters, in December 1989 Judge Michel married Dr. Elizabeth Morgan.

Michael D. Rostoker

Mr. Rostoker is Director of Intellectual Property at LSI Logic Corp., Milpitas, CA and former Senior Counsel at Intel Corporation.

He has earned degrees from University of Pittsburgh (BS, Industrial Engineering), Franklin Pierce Law Center (JD) and City University of Los Angeles (PhD).

Various professional memberships include ABA; AIPLA; ATLA; Editorial Board, Software Protection Journal; Massachusetts, New Hampshire, Pennsylvania and Washington, DC bars; admitted to practice before the Federal Circuit and US Patent and Trademark Office; Former Chairman, National Inventors Council.

Mr. Rostoker lectures extensively on intellectual property matters. He has authored Technology Management: Licensing and Protection for Computers in the World Market, Capitol Communications, 1992; "A Survey of Corporate Licensing," 24 IDEA 2, 1983; and "Robert v. Sears: A New Text of Patentability?", 24 IDEA 1, 1982. Coauthorship includes Computer Jurisprudence: Legal Responses to the Information Revolution, Oceana Publications, 1986; "Technology Transfer: How to Encourage and Expedite", Condyne, 1986; and Creative Matching: Bringing Inventions to the Marketplace, PTC Research Foundation, 1983.

Jennifer A. Tegfeldt

Ms. Tegfeldt is an Associate with Fitzpatrick, Cella, Harper & Scinto, Washington, DC. She was admitted to the Bar in Massachusetts (1985) and in the District of Columbia (1989). She received a BS in Biological Sciences from the University of California, Davis and JD from Franklin Pierce Law Center. She is a former Law Clerk to the Honorable Pauline Newman, Court of Appeals for the Federal Circuit (1985-1987).

Ms. Tegfeldt is currently the Chair of the Liaison Committee for the Federal Circuit Bar Association and Historian of the Giles S. Rich American Inn of Court. She has several recent publications in which she was coauthor, including "Optimizing Damage Awards in Patent Infringement Cases," presented at the First Annual Continuing Legal Education Program on Patent Prosecution and Litigation, held in conjunction with the 1991 Induction Ceremonies of the National Inventors Hall of Fame, and "Property Rights in Living Matter: Is New Law Required?", 68 Den. U.L. Rev. 141 (1991). Her practice includes patent prosecution, litigation, licensing and counseling in the areas of biotechnology and chemistry, along with trademark and copyright matters.

Donald R. Ware

Donald R. Ware, a partner in the Boston firm of Foley, Hoag & Eliot, is a graduate of Yale College and Harvard Law School. He has been litigating intellectual property cases for more than a decade, including most recently the successful defense of Parke, Davis & Company and Becton Dickinson and Company in a six-week patent damages trial involving a medical device.

David Wolf

David Wolf, a Partner of the Boston firm of Wolf, Greenfield & Sacks, has extensive trial and appellate experience in patent, trademark and copyright litigation, including successful appearances as lead counsel before the US Supreme Court in the landmark Aro I and Aro II patent cases, and before federal courts throughout the country. He also has expertise in handling large patent and trademark portfolios and licensing for a variety of the area's leading corporations. Mr. Wolf has a degree from the University of Massachusetts, where he studied chemistry and economics, and a law degree from Harvard University. He also studied electrical engineering at Northeastern University.

He has served in a variety of capacities on local and national bar associations, including President of the Boston Patent Law Association. He is a member of AIPLA, LES, and USTA and has served as Director for various corporations. He is admitted to the bar of the Commonwealth of Massachusetts and to practice before the US Supreme Court, US Court of Appeals for the Federal Circuit, numerous federal district and appellate courts, the US Patent and Trademark Office, and the patent offices of several foreign countries.

He has frequently lectured for bar associations and other groups, has been on the faculty of the ABA Trademark Trial Advocacy Program, testified as an expert in several patent cases, and has served as an arbitrator in various intellectual property right disputes. Mr. Wolf holds over a dozen patents in electrical and mechanical arts.

Presentation for:

Franklin Pierce Law Center's Fifth Annual

Intellectual Property Litigation Series,

Patent Litigation: Tactics & Tools

PATENT DAMAGES: PRACTICAL CONSIDERATIONS OF PROOF

By
Gregory A. Madera
Fish & Richardson
Boston, Massachusetts

and

Donald R. Ware
Foley, Hoag & Eliot
Boston, Massachusetts

September 15, 1992
Boston, Massachusetts

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CALCULATING PATENT DAMAGES:

A CASE STUDY

By
Gregory A. Madera

Fish & Richardson
Boston, Massachusetts

September 15, 1992
Boston, Massachusetts

3M DAMAGES	CLAIMED ($Millions)	AWARDED ($Millions)
I. LOST PROFITS		
A. Lost Profits Due To Lost Sales Of Tape And Accessories	35.3	23.3
1. Working Capital Adjustment	(0.3)	accounted for above
B. Lost Profits Due To Price Erosion		
1. Pre-Injunction Period	52.2	38.7
2. Post-Injunction Period	34.5	0.0
3. Market Expansion	(9.8)	(9.8)
II. REASONABLE ROYALTIES	4.7	1.4
III. PREJUDGMENT INTEREST	17.0	9.5
TOTAL	133.5	63.2

FIGURE 1

3M CAPACITY
HISTORICAL

	ACTUAL PRODUCTION	3M CLAIMED LOST SALES	TOTAL	CAPACITY
Q4 85	1,248,452	249,771	1,498,223	2,625,000**
1986	5,400,000	922,354	6,322,354	10,500,000
1987	6,400,000	1,586,283	7,986,283	11,000,000
1988	7,689,000	2,061,471	9,730,471	11,000,000
1989	9,200,000	2,527,834	11,727,834	11,000,000
1990	9,200,000*	2,467,024	11,667,024	15,000,000

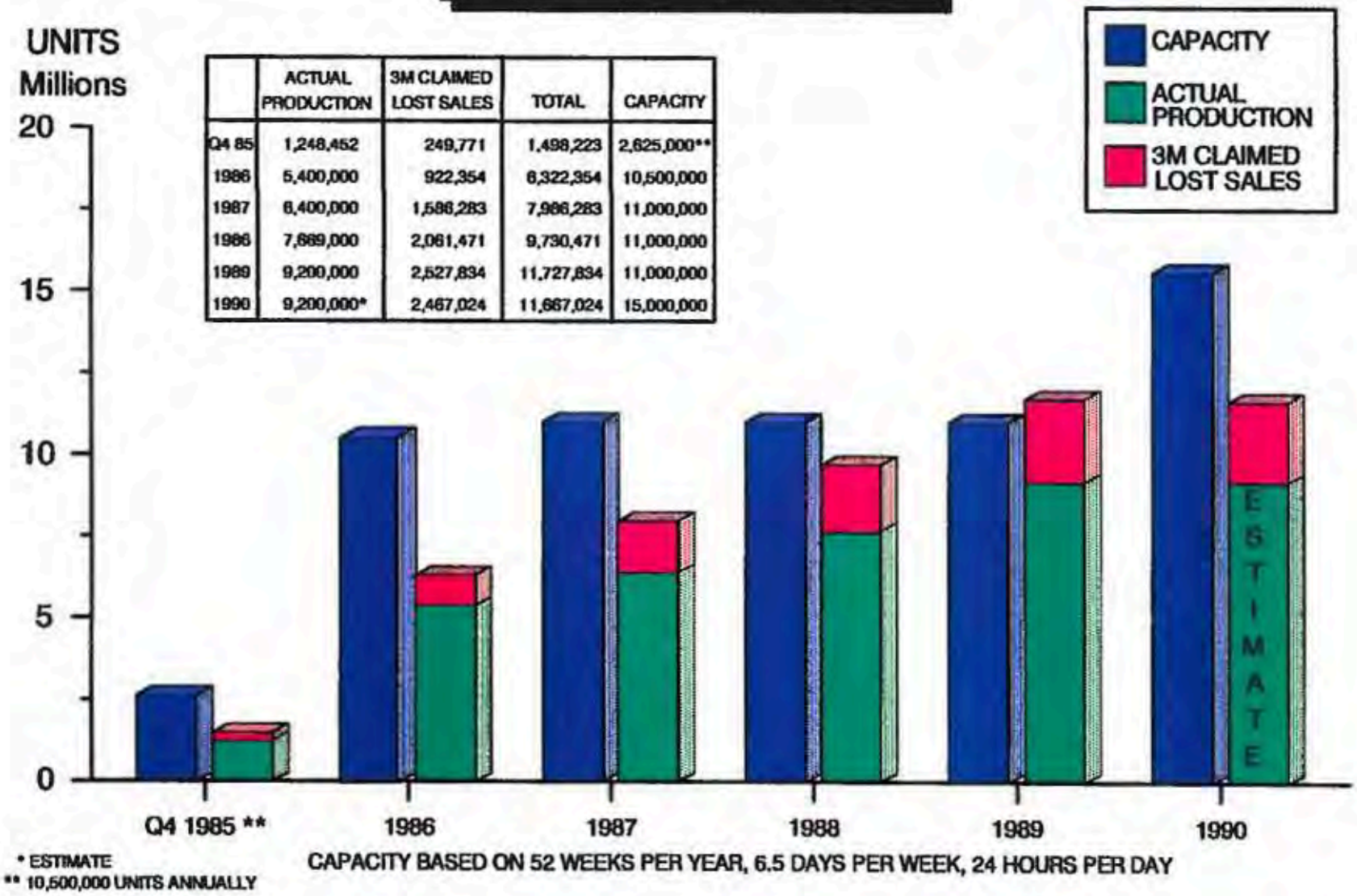


FIGURE 2

CALCULATION OF LOST PROFITS

(Throughout Period of Infringement)

I. QUANTITY EFFECT

(3M Lost Sales) x (Actual 3M Price - Actual 3M Incremental Cost)

II. PRICE EFFECT

(3M Actual Sales + 3M Lost Sales) x (Expected 3M Price - Actual 3M Price)

III. EXPANSION ADJUSTMENT EFFECT

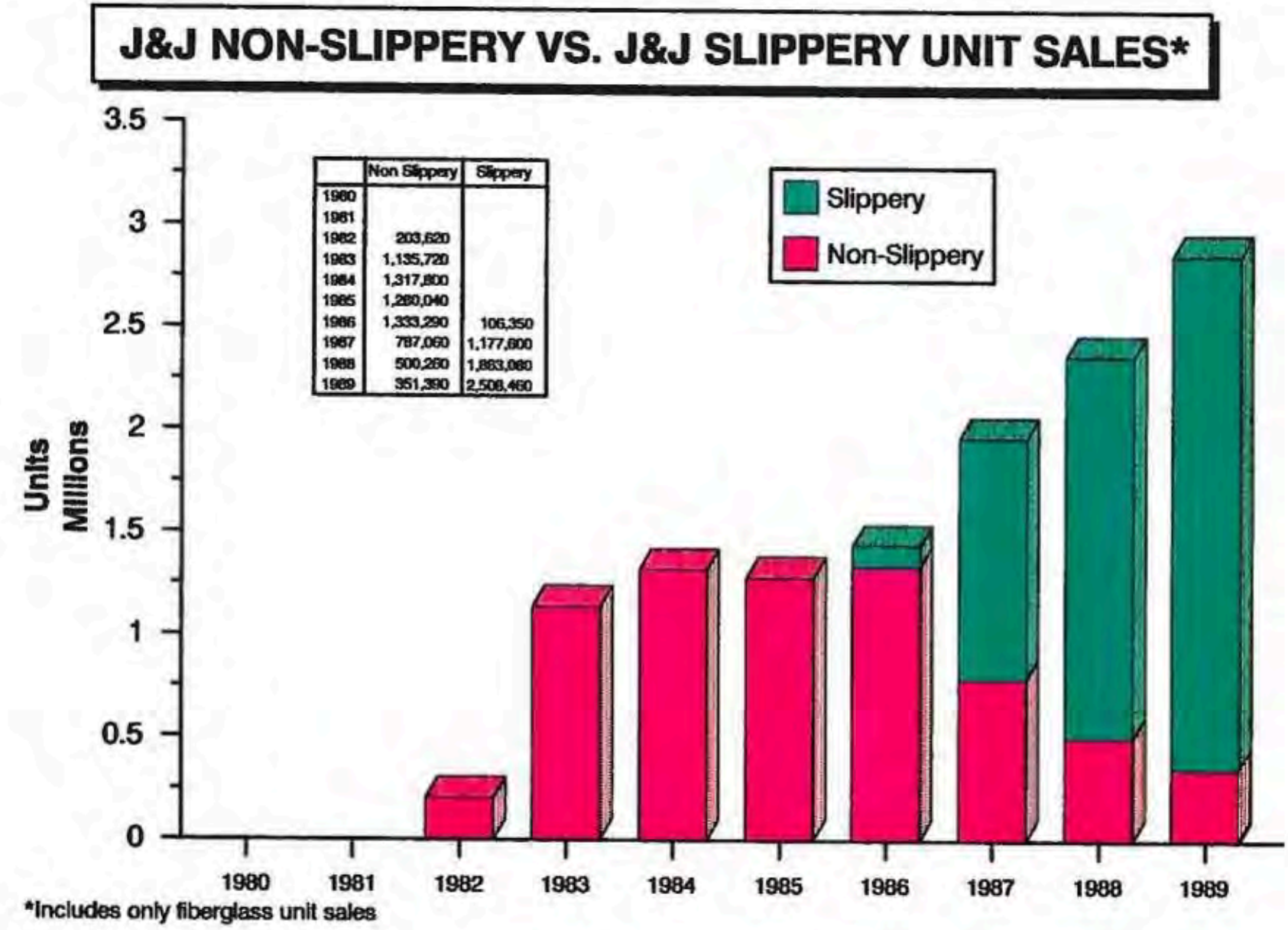
(Increased 3M Actual and Lost Sales Due to Market Expansion) x

(Expected 3M Price - Actual 3M Incremental Cost)

IV. TOTAL DAMAGES

Quantity Effect + Price Effect - Expansion Adjustment Effect

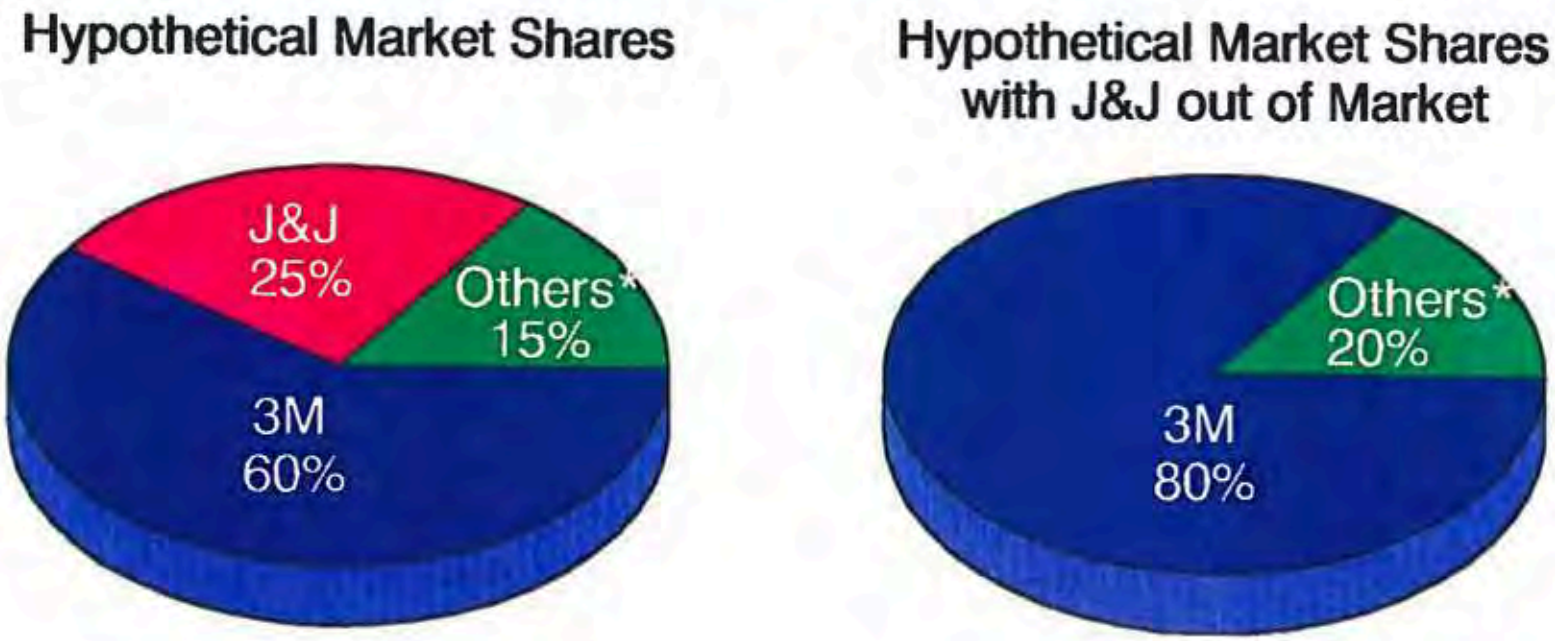
FIGURE 3



	Non Slippery	Slippery
1980		
1981		
1982	203,620	
1983	1,135,720	
1984	1,317,800	
1985	1,280,040	
1986	1,333,290	106,350
1987	787,060	1,177,800
1988	500,260	1,863,080
1989	351,390	2,508,460

FIGURE 4

ALLOCATION OF J&J SALES
USING HYPOTHETICAL MARKET SHARES



* Includes Zimmer, DePuy, Kirschner, Royce, Carapace, Cutter, and other

FIGURE 5

CALCULATION OF "NON-SLIPPERY" LOST SALES

(Throughout Period of Infringement)

I. 3M METHOD

(3M's Hypothetical Market Share)$_{\text{IHPR DATA}}$ x (# J&J Non-Slippery Sales) =

$$\frac{\text{3M Market Share}}{\text{(Total Market Share - J\&J Market Share)}} \times \text{(\# J\&J Non-Slippery Sales)}$$

II. J&J METHOD

$$\frac{\text{Actual 3M Non-Slippery Sales}}{\text{(Total Non-Slippery Sales - J\&J Non-Slippery Sales)}_{\text{AVG DATA (IHPR, IMS and F\&S)}}} \times$$

(# J&J Non-Slippery Sales - # J&J Alleged Non-Infringing Substitutes)

CALCULATION OF "SLIPPERY" LOST SALES

(Throughout Period of Infringement)

I. 3M METHOD

(0.90) x (J&J Slippery Sales)

II. J&J METHOD

Essentially Alleged That It Would Have Sold A Significant Number Of Acceptable Non-Infringing Substitutes$_{\text{(RED LABEL, BLK LABEL AND PLASTER SCENARIOS)}}$

FIGURE 6

% CALCULATION OF INCREMENTAL COSTS

(Throughout Period Of Infringement)

I. 3M METHOD

For Each Size Of Each Product, Determined Nature of Cost Accounts Within These Categories:

Factory Costs + Sales Costs + Administrative Costs + Labor and Engineering Costs + Freight Costs + Miscellaneous Other Costs

$$\% \text{ Variable Unit Cost In N Year} = \frac{\text{(Variable Unit Cost In N Year)}}{\text{(Calculated Unit Cost In N Year)}}$$

II. J&J METHOD

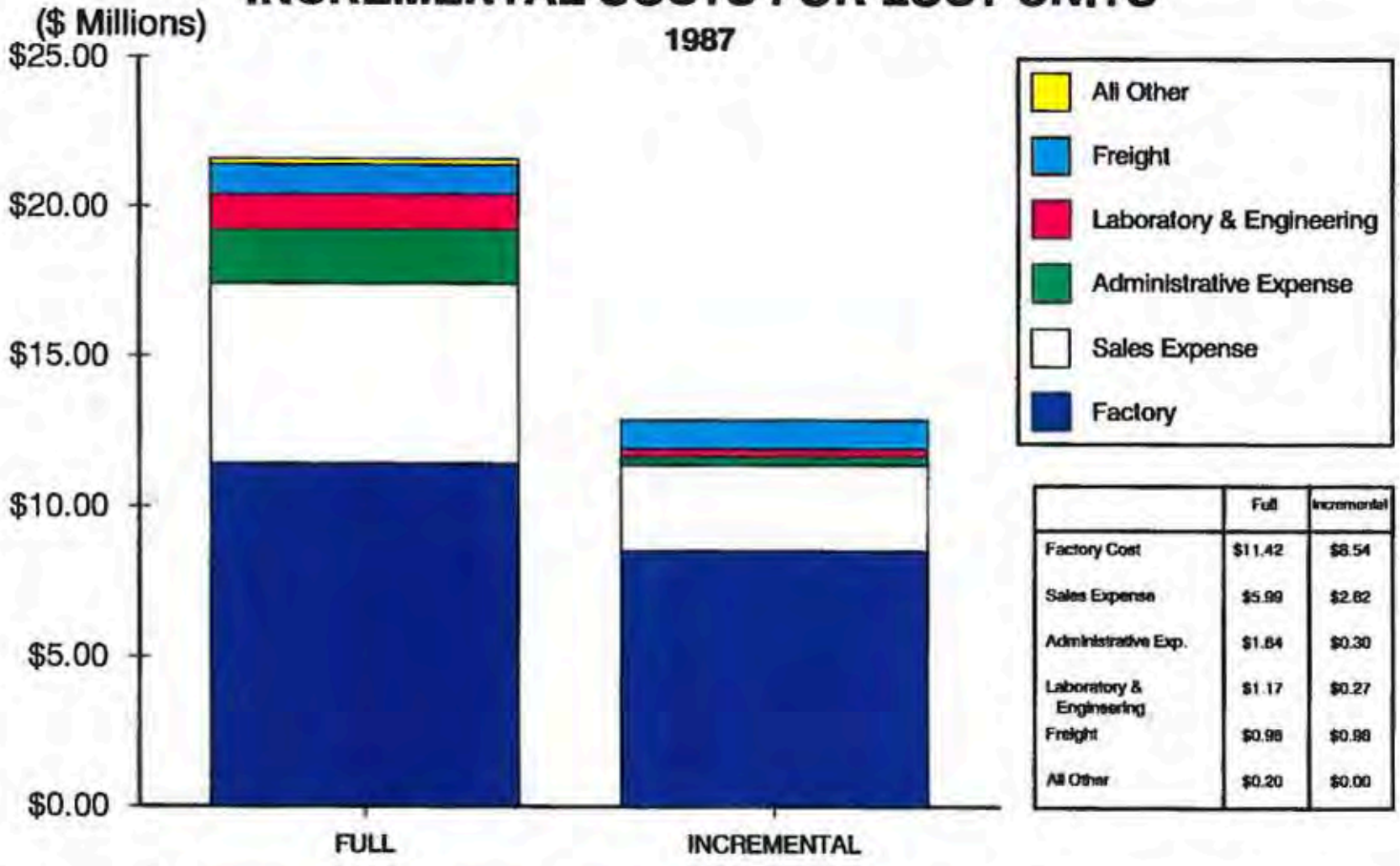
Of The Following Categories, Determined That All But Laboratory Expenses Were Variable Costs:

Wage and Salary Expense + Factory Overhead Expense + General Sales Costs + Branch Service Costs + Marketing Operations Costs + Laboratory Expenses + Administrative Costs

$$\% \text{ Variable Unit Cost In N Year} = \frac{\dfrac{\text{(Variable Cost In (N+1) Year)}_{\text{(DEFLATE PPI)}}}{\text{(\# Fiberglass Units)}}}{\dfrac{\text{(Total Domestic Production Cost + Total Sales Expense)}}{\text{(\# Fiberglass Units)}}}$$

FIGURE 7

COMPARISON OF ALL CASTING DIVISION COSTS AND INCREMENTAL COSTS FOR LOST UNITS

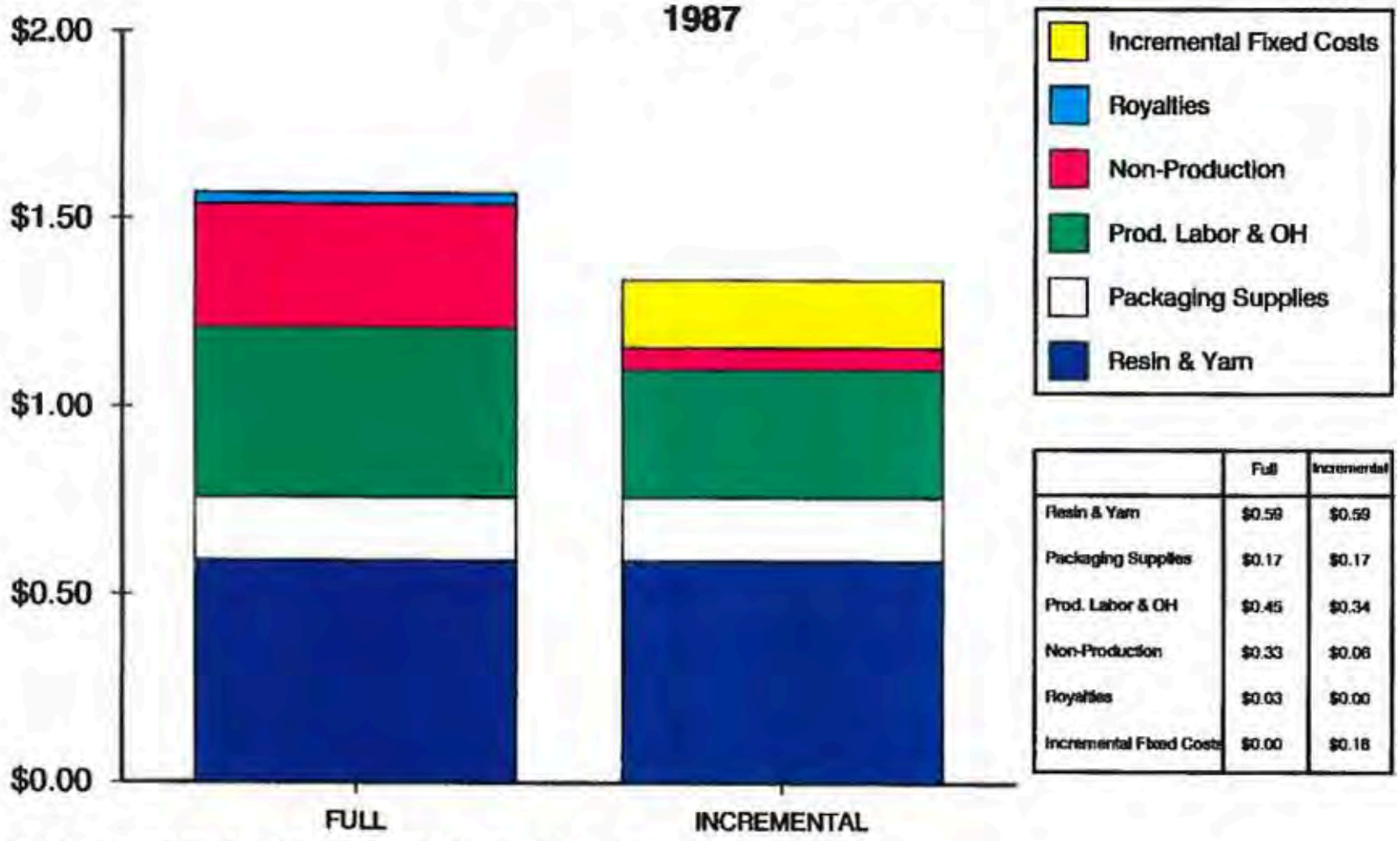


	Full	Incremental
Factory Cost	$11.42	$8.54
Sales Expense	$5.99	$2.62
Administrative Exp.	$1.84	$0.30
Laboratory & Engineering	$1.17	$0.27
Freight	$0.98	$0.98
All Other	$0.20	$0.00

SOURCE: Full Costs - 3M Orthopedic Division Commodity P&L for Casting Products
Incremental Costs - Troxel Damage Model

FIGURE 8A

FULL FACTORY COSTS COMPARED WITH INCREMENTAL COSTS - 4" SCOTCHCAST PLUS



	Full	Incremental
Resin & Yarn	$0.59	$0.59
Packaging Supplies	$0.17	$0.17
Prod. Labor & OH	$0.45	$0.34
Non-Production	$0.33	$0.06
Royalties	$0.03	$0.00
Incremental Fixed Costs	$0.00	$0.16

SOURCE: Full Costs - Orthopedic Division Scotchcast Plus Unit Cost
Incremental Costs - Appendix A, Section III, Schedule I;
Incremental Costs on a per unit basis

FIGURE 8B

CALCULATION OF PRICE EROSION

I. 3M METHOD

(Pre-Injunction Period)

For Each Size of Each Product:

(Profits Due To Price Erosion) - (Profits Due To Market Expansion) =

$\{[(\text{3M Expected Price})_{(\text{PPI INDEX})} - (\text{3M Actual Historical Price})] \times$

$(\text{\# Actual Sales} + \text{\# Lost Sales})\} - (\text{Profits Due To Market Expansion})_{(\text{REGRESSION ANAL.})}$

II. 3M METHOD

(Post-Injunction Period = 2 yrs.)

$[(\text{3M's Projected Sales}) \times (\text{Expected Price} - \text{Actual Price})_{(\text{PPI INDEX})}] \times$

(Discount Due To 3M Cost of Capital)

III. J&J METHOD

Essentially Attacked 3M's Underlying Evidentiary Basis

FIGURE 9


EXPECTED PRICES vs. ACTUAL PRICES
AVERAGE SELLING PRICE PER ROLL
$7.5
$7
$6.5
$6
$5.5
$5
$4.5
1985
1986
1987
1988
1989
1990
Expected Prices
Actual Prices
Actual
Expected
1985 $5.990 $5.990
1988 $5.637 $6.151
1987 $5.302 $6.582
1988 $5.409 $6.990
1990 $5.358 $6.990
1990 $5.311 $7.300

FIGURE 10

CALCULATION OF REASONABLE ROYALTY

(On Sales For Which 3M Did Not Claim Lost Profits)

I. 3M METHOD

For Each Patent:

(# Lost Sales) x (Reasonable Royalty Rate) =

(# Lost Sales) x [(3M's Average Profit Rate During Pre-Infringement Period + 5% Due To Price Erosion During That Period)] x (Agreement Factor)$_{WLE-WLR}$

For Four Patents In Suit:

20% Reasonable Royalty

II. J&J METHOD

Per Patent:

(J&J's Alleged Profits in 1985 On Net Sales of Infringing Product) x (.333)

If More Than One Patent Found Infringed, Not To Exceed:

(J&J's Alleged Profits in 1985 On Net Sales of Infringing Product) x (0.50)

CALCULATION OF PREJUDGMENT INTEREST

(Both Parties Agreed)

Based On Rate Of:

Six Month U.S. Treasury Bills, Compounded On A Semi-Annual Basis Over Damages Period

FIGURE 11

Accompanying Presentation of Gregory A. Madera for:

Franklin Pierce Law Center's Fifth Annual

Intellectual Property Litigation Series,

Patent Litigation: Tactics & Tools

PATENT DAMAGES--

LIFE IN THE "BUT-FOR" WORLD

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PATENT DAMAGES – LIFE IN THE "BUT-FOR" WORLD

by
Frank P. Porcelli and
John M. Skenyon[1]

The law of patent damages has changed dramatically in recent years. Most patent law practitioners are aware of the ultimate result, very large damages awards. Most notable is the recent $873 million award in the Polaroid v. Kodak instant photography litigation. But the underlying reasons for such awards are not often fully appreciated. It is true, of course, that each damages case depends in very large part on the unique facts involved. Nevertheless, a proper understanding and application of the law of patent damages, as it exists today, may greatly improve the patentee's chances of maximizing recovery.

For the most part, patentees have been fairly quick, not only in following the new trends in the law, but also in exercising considerable creativity in so doing, much to their financial benefit. However, an infringer's answer to

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[1]Messrs. Porcelli and Skenyon are members of the firm, Fish & Richardson of Boston, Massachusetts. The article represents only their opinions and analyses.

©1986, 1987, 1988, 1991, 1992 Frank P. Porcelli and John M. Skenyon. This paper was originally presented along with Messrs. Porcelli and Skenyon's speeches on patent damages at a joint seminar of the Boston, New York and Connecticut patent law associations on September 20, 1986. The paper was updated for their speeches on patent damages at the Federal Circuit Symposium held on May 18, 1987, further updated for their article "Patent Damages," appearing in the November 1988 issue of the Journal of the Patent and Trademark Office Society (Vol. 70, No. 11, pp. 762-85), additionally updated for a CLE presentation to the Minnesota Intellectual Property Law Association on June 6, 1991, updated again for a presentation at the 1991 Annual Meeting of the ABA Section of Patent, Trademark and Copyright Law, and it has been further updated for a presentation by Mr. Madera at the Franklin Pierce Law Center's 1992 Fifth Annual Intellectual Property Litigation Series.

the damages question often seems mired in outmoded, and to some degree, repudiated damages defense concepts. This is unfortunate because the current damages law provides opportunities for an infringer to adequately defend a case, at least in many instances.

With this in mind, we will discuss, from the perspective of both the patentee and the infringer, the current trends in three major areas of the law on patent damages: (1) reasonable royalty damages; (2) lost profits (including both lost sales and price erosion); and (3) prejudgment interest.

The federal circuit recently reaffirmed that trial courts have a broad range of discretion within each of these areas. Damages are a question of fact, reviewed under the clearly erroneous standard when fixed by the court (Fed.R.Civ.P. 52(a)), but reviewed under the more restrictive substantial evidence standard when arising under a denial of a motion for JNOV. Smithkline Diagnostics, Inc. v. Helena Laboratories Corp., 926 F.2d 1161, 1164 n.2 (Fed. Cir. 1991).

However, the trial court does not have discretion to choose between lost profits and reasonable royalty damages; where a plaintiff proves lost profits, it is entitled to that amount. Id. Nor may a trial court inflict punitive damages via the lost profits calculation. Beatrice Foods Co. v. New England Printing and Lithographing Co., 899 F.2d

1171, 1176 (Fed. Cir. 1990) (trial court erred in holding that the defendant, as a tortfeasor, had no manufacturing costs; case was remanded for consideration of enhanced damages as authorized by 35 U.S.C. § 284).

I. Reasonable Royalty Damages

The patent statute authorizes only one measure of patent damages. Simply put, a successful patentee[2] in an infringement action is entitled to recover "damages adequate to compensate for the infringement." 35 U.S.C. § 284. As stated by the federal circuit, the familiar reasonable royalty measure of patent damages is "merely the floor below which damages shall not fall."[3] Bandag, Inc. v. Gerrard Tire Co., Inc., 704 F.2d 1578, 1583 (Fed. Cir. 1983); Stickle v. Heublein, Inc., 716 F.2d 1550, 1561 (Fed. Cir. 1983); Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552, 1568 (Fed. Cir. 1984); Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1574 (Fed. Cir. 1988); Lindemann Maschinenfabrik v. American Hoist & Derrick Co., 895 F.2d 1403, 1406 (Fed. Cir. 1990).

In the context of patent damages, however, the term "reasonable royalty" usually does not connote the minimum level of compensation. Instead, the term is commonly used

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[2]Even patent owners who do not market the patented product during the period of the alleged infringement may be entitled to lost profit damages. Scripto-Tokai Corp. v. Gillette co., 788 F. Supp. 439, 442 (C.D. Cal. 1992). See also Rite-Hite Corp. v. Kelley Co., Inc., 774 F. Supp. 1514 (E.D. Wis. 1991) .

[3]It is our emphasis that is added here and throughout the article, unless otherwise noted.

to refer to an entire category of patent damages. Specifically, whenever the patentee is unable to prove actual damages, i.e., lost profits, the damage award received (however it is computed) is usually called a "reasonable royalty".

This is an unfortunate misnomer. Merely because the general category of damages is called "reasonable royalty," many overly optimistic infringers, in assessing their damages exposure, assume that the maximum amount of damages they face will be equivalent to the royalty they would have negotiated for the use of the patented item in the first place. This is very rarely the case. As shall be discussed in more detail, reasonable royalty damages are almost always much higher and quite often bear little relationship to any royalty the parties would have actually agreed upon.[4]

It is best to think of the "reasonable royalty" measure of damages as what it really is, damages adequate to compensate for the infringement. The specific amount depends not only on the particular facts involved but, in

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[4]In Bott v. Four Star Corp., 229 U.S.P.Q. 241 (E.D. Mich. 1985), the infringer argued that damages of about $100,000 were proper based on the standard industry royalty rate of 3% of gross sales. The district court awarded damages of over 1.9 million dollars. The award included: (1) lost profits; (2) reasonable royalty at a rate of 5% (which rate the court said would have been "substantially higher" if there had been no lost profit award); (3) increased damages for willful infringement; (4) attorneys fees; and (5) prejudgment interest. The award was affirmed on appeal, except for about $60,000 of the lost profits award, which was remanded for findings. 807 F.2d 1567 (Fed. Cir. 1986). In Smithkline Diagnostics, 926 F.2d at 1167, the court selected a 25% royalty, and noted that neither the defendant's suggested 3% figure nor the plaintiff's 48% figure were credible.

larger part, on the patentee's presentation of its damages case and the infringer's response.

Indeed, the trial court's award is subject to little scrutiny by the federal circuit. The ultimate figure is usually affirmed if it is "[n]either so outrageously high nor so outrageously low as to be insupportable as an estimation of a reasonable royalty." Lindemann Maschinenfabrik, 895 F.2d at 1406; Smithkline Diagnostics, 926 F.2d at 1168.

A. Determining Reasonable Royalty Damages

In any given case, all, none or some of the damages may reflect a "reasonable royalty." The combined award occurs when lost profits can only be shown in connection with some but not all of the infringing sales. In such a case, the reasonable royalty measure of damages is applied to the unaccountable sales.[5]

In spite of what appears to be a universally held belief among infringers, there is no single accepted way of

[5]See Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 551 (Fed. Cir. 1984) (affirming a combined lost profits-reasonable royalty award determined by a master); Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 615-16 (Fed. Cir. 1984) (affirming a combined lost profits-reasonable royalty recovery awarded by a jury); TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 898 (Fed. Cir. 1986) (affirming a master's award that included lost profits for certain years and a reasonable royalty for others); Radio Steel & Mfg. Co. v. MTD Products, Inc., 788 F.2d 1554, 1555 (Fed. Cir. 1986) (affirming an award of lost profits and reasonable royalties based upon particular customers); Amstar Corp. v. Envirotech Corp., 823 F.2d 1538 (Fed. Cir. 1987) (affirming an award of damages based on lost profits fo some sales and a reasonable royalty for others); Datascope Corp. v. SMEC, Inc., 879 F.2d 820 (Fed. Cir. 1989) (affirming a 5% reasonable royalty rate and remanding for determination of lost profits); State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573 (Fed. Cir. 1989) (affirming a 3% reasonable royalty on 60% of sales and lost profits on the remaining 40%).

determining "reasonable royalty" damages. As the federal circuit stated in TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 899 (Fed. Cir. 1986):

> Section 284 does not mandate how the district court must compute that figure, only that the figure compensate for the infringement.

Thus, from the appellate viewpoint, the focus is, at least to some extent, not on how the award was computed, but rather on the dollar amount awarded.

This is not particularly new. The low dollar amount of the reasonable royalty award was certainly a factor in the reversal in Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1158 (6th Cir. 1978), the seminal damages case. There, while Judge Markey (sitting by designation) found the lower court's method of determining a reasonable royalty particularly faulty, he noted, apparently with some sarcasm:

> Though unable to prove the actual amount of lost profits or to establish a damage figure resulting from Stahlin's price cut, Panduit was clearly damaged by having been forced, against its will, to share sales of the patented product with Stahlin. Further, Panduit has been forced into thirteen years of expensive litigation, involving $400,000 in attorney fees, a trial, a contempt proceeding to enforce the court's injunction, a hearing on damages and three appeals. For all this, the damages adequate to compensate for infringement, 35 U.S.C. § 284, have thus far been found to total $44,709.60.

Under these circumstances, it is not surprising that when an infringer appeals a damages award to the federal circuit today (as being too high, of course), the appeal

does not often meet with much success. In the 27 cases decided to date by the federal circuit, in which a specific reasonable royalty damages award has been appealed by an infringer, the federal circuit has viewed many lower court errors as non-prejudicial, reversing in only nine cases.[6] Most were remanded in light of errors in methodology rather than erroneous results. In reversing the Stickle case, however, the federal circuit clearly suggested that on remand, the lower court's recomputed damages should be significant. Stickle, 716 F.2d at 1563. And in Hughes Tool, regardless of reversal, the award would no doubt have ranged into the millions of dollars.

With this general background, we may now examine two quite distinct methods of determining a "reasonable royalty" (both specifically approved by the federal circuit).

1. The Analytical Approach

One approved method of arriving at a reasonable royalty is the "analytical approach." The royalty calculation is based on the infringer's own internal profit

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[6] Bandag, Inc. v. Gerrard Tire Co., Inc., 704 F.2d 1578 (Fed. Cir. 1983); Stickle v. Heublein, Inc., 716 F.2d 1550 (Fed. Cir. 1983); Hughes Tool Co. v. Dresser Indus., Inc., 816 F.2d 1549 (Fed. Cir. 1987); Del Mar Avionics, Inc. v. Quinton Inst. Co., 836 F.2d 1320 (Fed. Cir. 1987) (reasonable royalty inappropriate where patentee could prove lost profits); Fromson, 853 F.2d at 1568 (trial court erred in apportioning profits for a unitary product); Snellman v. Ricoh, Co., Ltd., 862 F.2d 283 (Fed. Cir. 1988) (trial court erred in setting aside jury award of $12 million in light of $20.5 million license fee paid by a third party); Richardson v. Suzuki Motor Co., Ltd., 868 F.2d 1226 (Fed. Cir. 1989) (prejudicial jury instruction); Allen Archery, Inc. v. Browning Mfg. Co., 898 F.2d 787 (Fed. Cir. 1990) (trial court erred in using the price charged to a wholly-owned subsidiary as the royalty base); Trell v. Marlee Elecs. Corp., 912 F.2d 1443 (Fed. Cir. 1990) (trial court erred in accepting 6% as an "established" royalty where the figure resulted from only one prior licensing agreement).

projections for the infringing item at the time the infringement began.

In TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 899 (Fed. Cir. 1986), the special master computed "reasonable royalty" damages based upon an internal memorandum written by the infringer's top management before the infringement began. The memo indicated that the infringer projected a substantial gross profit (52.7%) from the proposed infringing sales. Using this figure, the master subtracted overhead expenses to obtain the infringer's projected net profit (37% to 42%). The master then divided the projected net profit between the infringer and the patentee. The master found that at the time infringement began, the infringer would have accepted the usual industry profit on the item. Thus, the profit for the infringer was set at the standard industry rate (6.6% to 12.5%), and the remaining 30% became the "reasonable royalty".

On appeal, the infringer contended that it was error for the master to use this approach, asserting that the more traditional "willing licensor-willing licensee" test was the legally correct method. (Coincidentally, that method would not have produced such an "exorbitant" royalty). The infringer also downplayed the significance of its pre-infringement memorandum in favor of highlighting that the

actual profits realized on the infringing products were much lower than the projected figures.

The federal circuit rejected all of the infringer's contentions and affirmed the award. After noting that there is no one way to determine patent damages, the court held that it was of no consequence that a lesser royalty may have resulted from another analysis. The only question was whether or not the approach used by the lower court was proper. The court concluded that it was. In particular, the court upheld the master's analytical approach because, unlike the infringer's contentions, it focused on the critical time when infringement began and not thereafter. As the federal circuit explained earlier in Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1081 (1983), in the context of another reasonable royalty damages calculation:

> The issue of the infringer's profit is to be determined not on the basis of a hindsight evaluation of what actually happened, but on the basis of what the parties to the hypothetical license negotiations would have considered at the time of the negotiations. Whether, as events unfurled thereafter, [the infringer] would have made an actual profit while paying the royalty determined as of [the date infringement began], is irrelevant. Panduit 575 F.2d at 1164, 197 U.S.P.Q. at 736.

Consequently, the fact that the infringer's actual profits were less than its projected profits was meaningless.[7] The

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[7] Accord, State Indus. Inc. v. Mor-Flo Indus. Inc., 883 F.2d 1573, 1580 (Fed. Cir. 1989) ("There is no rule that a royalty be no higher than the infringer's net profit margin").

infringer's pre-infringement memorandum was probative on the issue, particularly because it was used by the infringer in deciding whether to manufacture and market the infringing device. Thus, as a matter of law, the court focuses on the time infringement began, and consequently, evidence of what happened after that time is not likely to mitigate damages.[8]

In sharp contrast to the infringer's ineffective defense in TRW, the infringer in Hughes Tool Co. v. Dresser Indus., Inc., 816 F.2d 1549, 1556-7 (Fed. Cir. 1987), launched a proper attack on a reasonable royalty award calculated by the analytical approach. There, the lower court based its 25% reasonable royalty award in part on what was believed to be the infringer's profit projections of 60%. On appeal, a sharply divided panel of five federal circuit judges reversed. The majority held that the lower court misread the evidence and that the infringer's 60% projection figure was only a return on capital and not a profits projection.

Regardless of the whether the federal circuit correctly assessed the nature of the infringer's profit

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[8]However, the Magistrate in Lindemann, 895 F.2d at 1404-1405, rejected plaintiff's damages calculations, because they were based on "the infringer's anticipated profits which [bore] no relationship to the actual profits." In contrast, the court in Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1535, amended, 17 U.S.P.Q.2d 1711 (D. Mass. 1990), considered a reasonable royalty based on infringer Kodak's last profit projection prior to market entry, compared the figure calculated under that approach to testimony of what willing negotiators would have agreed to, and concluded that 10% was reasonable under either approach.

projection, the infringer's approach in Hughes Tool, unlike that in TRW, is the best and possibly only defense to a reasonable royalty case based on the analytical method; the fatal profit projection itself must be directly attacked. The infringer, though, cannot rely on evidence of lower actual profits or evidence dated after the critical time when infringement first began.

The analytical approach was also successfully attacked in a process patent case. In Johns-Manville Corp. v. Guardian Indus. Corp., 718 F. Supp. 1310, 1313-14 (E.D. Mich. 1989), aff'd without opinion, 925 F.2d 1480 (Fed. Cir. 1991), the court termed a 35.8% running royalty "unrealistic", and jettisoned the analytical approach in favor of the hypothetical negotiation approach. The patent was for a process which produced great manufacturing cost savings; in addition, a significant portion of the infringer's profits may have derived from economies of scale.

Obviously from the patentee's perspective, there are considerable advantages to the analytical method.[9] The procedure is straightforward, and places the infringer in the undesirable position of, at best, attacking or at least contradicting in some way proprietary documents dating from the critical time when infringement began. The foregoing

[9]The patentee, to a great degree, determines which damages approach is used.

notwithstanding, an infringer who, at the outset, projected large profits for the sale of an infringing product, may face serious difficulty in trying to minimize patent damages.

2. The "Willing Licensor-Willing Licensee" Fiction

The second approved method of determining reasonable royalty damages is the more familiar "willing licensor-willing licensee" test. In the past, the outcome has often equaled the royalty rate the patentee and the infringer would have negotiated at the outset. Goodyear Tire and Rubber Co. v. Overman Cushion Tire Co., 95 F.2d 978, 984 (6th Cir. 1937); Rockwood v. General Fire Extinguisher Co., 37 F.2d 62, 66 (2nd Cir. 1930). This is not the case today. The willing licensor test is really "more of a statement of approach than a tool of analysis." Georgia-Pacific Corp. v. United States Plywood Corp., 318 F.Supp. 1116, 1121 (S.D.N.Y. 1970), mod. and aff'd, 446 F.2d 295 (2d Cir. 1971). Nonetheless, the basic framework of this test is still valid today, with the significant proviso that, in the context of these fictional negotiations, both parties are assumed to agree that the patent in question is valid and would be respected by the infringer. Trio Process Corp. v. L. Goldstein's Sons, Inc., 533 F.2d 126, 129 (3d Cir. 1976).

From the infringer's position, the chief danger in using the "willing licensor-willing licensee" approach is to read the name literally and then build a damages defense

around the actual royalty rate the parties would have negotiated. Judge Markey, in Panduit, made clear that this view would be error:

> The setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly 'willing' patent owners and licensees. That view would constitute a pretense that the infringement never happened. It would also make an election to infringe a handy means for competitors to impose a 'compulsory license' policy upon every patent owner.
>
> * * *
>
> On the date a patent issues, a competitor which made no investment in research and development of the invention, has four options: (1) it can make and sell a non-infringing substitute product, and refrain from making, using, or selling a product incorporating the patented invention; (2) it can make and sell the patented product, if the patent owner be willing, negotiating a license and paying a reasonable (negotiated) royalty; (3) it can simply take the invention, running the risk that litigation will ensue and that the patent will be found valid and infringed, ... Determination of a reasonable royalty, after election of option (3), cannot, without injustice, be treated as though the infringer had elected option (2) in the first place.

Panduit, 575 F.2d at 1158-1159. Judge Markey reiterated these views a decade later in Fromson, 853 F.2d at 1576.

The federal circuit has followed Judge Markey's reasoning. In remanding the case for a re-determination of damages in Stickle v. Heublein, Inc., 716 F.2d 1550, 1563 (Fed. Cir. 1983), the federal circuit offered the following suggestion to the lower court:

> As a final matter we would add that the trial court may award an amount of damages greater than a reasonable royalty so that the award is 'adequate to compensate for the infringement.' As stated in Panduit Corp. v. Stahlin Bros. Fibre Works, supra, 575 F.2d at 1158, 197 U.S.P.Q. at 731:
>
> '[T]he infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid. As said by this court in another context, the infringer would be in a 'heads-I-win, tails-you-lose' position.'
>
> Such an increase, which may be stated by the trial court either as a reasonable royalty 'for an infringer' (as in Panduit) or as an increase in the reasonable royalty determined by the court, is left to its sound discretion.

Consequently, as a matter of law, the post-trial reasonable royalty for an infringer may be, and most often is, far different than a pre-infringement royalty negotiated between the parties. Indeed, the federal circuit has affirmed "reasonable royalty" awards that are well in excess of what the parties would have actually agreed to as a result of licensing negotiations prior to infringement.

In TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 900 (Fed. Cir. 1986), the federal circuit relied upon Panduit in affirming the 30% reasonable royalty determined by the analytical method, stating that it was of little relevance that the patentee may have accepted a lesser rate as a result of actual licensing negotiations with the infringer, because to do so would be "to pretend that the infringement never happened". In Deere & Co. v. Int'l Harvester Co., 710

F.2d 1554, 1558 (Fed. Cir. 1983), the federal circuit upheld a 15% reasonable royalty, even though before the infringement began, the patentee had offered a license to the infringer (under the patent in suit) at a rate of 1%. And in Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 617 (Fed. Cir. 1984), the court affirmed a reasonable royalty of about 33% while royalty rates in the industry were normally between 3% and 10%. Moreover, in Smithkline Diagnostics, the federal circuit upheld a 25% reasonable royalty award, well exceeding the defendant's proposed 3% royalty, which was based on two existing licenses. Smithkline Diagnostics, 926 F.2d at 1163.

In conclusion, a reasonable royalty for an infringer in the context of a damages accounting is not the same as the reasonable royalty the parties would have actually agreed upon had they negotiated a license at the outset. In fact, in view of the holding in Panduit, as adopted by the federal circuit, it cannot be. Thus, an infringer should not frame its damages defense on a strict reading of the "willing licensor-willing licensee" fiction. Unfortunately, though, this is often the argument presented.[10]

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[10]Only in American Original Corp. v. Jenkins Food Corp., 774 F.2d 459 (Fed. Cir. 1985), is there any affirmance of a recovery which seems roughly equivalent to a negotiated royalty rate. In that case, the court made no reference to Panduit. Surprisingly, the federal circuit has recently affirmed four single-digit royalty awards, but in three cases, the patentee received additional compensation: Datascope, 879 F.2d 820 (Fed. Cir. 1989) (remanded for calculation of lost profits); State Indus. v. Mor-Flo, 883 F.2d 1573 (Fed. Cir. 1989) (lost profits); Slimfold Mfg. Co. v. Kinkead Indus. Inc., 18

We will now examine some of the traditional evidence used in determining a reasonable royalty under the "willing licensor-willing licensee" method, although the same evidence may be used to support a damages calculation under the analytical method. TWM Mfg. Co. Inc. v. Dura Corp., 789 F.2d 895, 899-900 (Fed. Cir. 1986).

The district court in the often cited case, Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), formulated fifteen factors for use in determining a reasonable royalty under the "willing licensor-willing licensee" method. The factors have been used or at least acknowledged by many other courts, including the federal circuit. They are:

> 1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.
>
> 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.
>
> 3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.
>
> 4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

U.S.P.Q.2d 1842 (Fed. Cir. 1991) (0.75% royalty augmented by profits realized by manufacturing cost savings). In Lindemann, the patentee presented non-credible evidence and was awarded $10,000 "nominal" royalties.

5. The commercial relationship between the licensor and the licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor.

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.

7. The duration of the patent and the term of the license.

8. The established profitability of the product made under the patent; its commercial success; and its current popularity.

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

14. The opinion testimony of qualified experts.

> 15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee--who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention--would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

The district court in Georgia-Pacific indicated that in theory, "there is no formula by which these factors can be rated precisely in order of their relative importance." Georgia-Pacific, 318 F. Supp. at 1120. However, while the federal circuit has specifically affirmed reasonable royalty awards determined on the basis of Georgia-Pacific factors,[11] other cases indicate that the court is particularly influenced by one factor and has virtually disregarded two others. We turn now to those three factors and then discuss some others.

a. The Ability Of The Patented Product To Promote The Sale Of Other Goods Is Very Important.

One factor significantly impacting reasonable royalty damages awards is the ability of the patented product to help promote the sales of collateral, non-patented items. In Deere & Co. v. Int'l Harvester Co., 710

[11] Railroad Dynamics, Inc. v. A. Stucki Co. 727 F.2d 1506, 1518 (Fed. Cir. 1984); Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1077 (Fed. Cir. 1983); Smithkline Diagnostics, 926 F.2d at 1168.

F.2d 1554, 1558-1559 (Fed. Cir. 1983), the lower court, in determining a reasonable royalty, noted that the sales of the patented item (corn head for harvesting corn) facilitated the more important and more profitable sales of the non-infringing combine machines, the collateral item. According to the district court, because the collateral sales were so important, the infringer would have paid a substantial percentage of its net sales on the infringing product as a royalty, "even exceeding its expected profit on [its infringing corn heads], to protect [the collateral non-infringing product's] sales and profits." See Deere & Co. v. International Harvester Co., 218 U.S.P.Q. 403, 407 (C.D. Ill. 1982).

The federal circuit affirmed. In dismissing the infringer's argument that the district court had in effect allowed the patentee to benefit from misuse and antitrust violations, the federal circuit commented:

> [T]he district court did nothing more or less than take into account the impact of anticipated collateral sales of an admittedly noninfringing product line on the respective bargaining positions of the parties engaged in the theorized licensing negotiations. We consider this an eminently reasonable approach to the willing seller-willing buyer analysis.

Id. at 1559. Judge Davis dissented because the approach "mandate[d] just such an improper tying relationship in the

guise of assuming that [the infringer] would agree to it." Id. at 1561.[12]

In Radio Steel & Mfg. Co. v. MTD Products, Inc., 788 F.2d 1554, 1556-1557 (Fed. Cir. 1986), the court upheld a 10% reasonable royalty rate based in part on the effect the sales of the infringing products had on the sales of collateral items. Additionally, in Trans-World Manufacturing Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552 (Fed. Cir. 1984), the federal circuit remanded the case because the lower court improperly excluded evidence of how profits relating to the collateral item (eyeglasses) may have been enhanced by the sale of the patented product (an eyeglass display case). There, the court stated:

> By supplying the patented racks for displaying the eyeglasses, Nyman used 'the patented [invention] in promoting sales of' the nonpatented eyeglasses. Trans-World may be able to prove that Nyman's infringing use of the displays played an important part in the retail sales of Nyman's eyeglasses. Furthermore, the extent of the profits from such sales could be relevant in determining the amount of a reasonable royalty. If, for example, sales were increased because of the infringing use of the displays, that fact could affect the amount of royalties a potential licensee would be willing to pay. We therefore disagree with the district court's exclusion of evidence of Nyman's profits from the sale of displayed eyeglasses as not relevant to the determination of a reasonable royalty.

[12]Later cases have accorded little weight to Judge Davis' dissent.

Id. at 1568. More recently, in TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 901 (Fed. Cir. 1986), the federal circuit, citing Trans-World, stated:

> Where a hypothetical licensee would have anticipated an increase in sales of collateral unpatented items because of the patented device, the patentee should be compensated accordingly.

The court recognized such a sales relationship existed in affirming the 30% reasonable royalty award in that case.

Thus, if a patented item increases the sales of non-patented, collateral items, "reasonable royalty" damages may be very high indeed. In fact, under proper conditions, reasonable royalty damages may theoretically exceed the expected profits on the infringing item. Consequently, to maximize a damage award, a patentee should always include the effect of these sales in its estimation. Older cases which suggested otherwise[13] are no longer valid and therefore, should not be cited by an infringer in defending a damages case. Instead, an infringer should evaluate its exposure due to any collateral sales.

b. An Established Royalty For The Patent In Suit Is Difficult To Prove.

Where there is an established royalty for the patent in suit, that royalty "will usually be adopted as the best measure of reasonable and entire compensation." Textronix, Inc. v. United States, 552 F.2d 343, 347 (Ct. Cl. 1977);

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[13] See e.g., Jenn-Air Corp. v. Penn Ventilation Co., 394 F. Supp. 665, 676 (E.D. Pa. 1975).

accord, Nickson Ind. Inc. v. Rol Mfg. Co., 847 F.2d 795, 798 (Fed. Cir. 1988) (affirming trial court's award of 8.8%, the royalty rate paid by the patentee's established licensees).

In Studiengsellschaft Kohle, m.b.H. v. Dart Indus., Inc., 862 F.2d 1564, 1568 (Fed. Cir. 1988), the federal circuit affirmed the trial court's revision of the royalty rate set by the special master. The trial court found the Master's selection of a straight royalty floor of 3.7%-4.0% to be an error of law in light of Stickle, because the patentee's usual licensing practices evidenced a sliding scale with large up-front payments. The federal circuit concluded:

> This court held in Stickle that a district court was clearly in error for basing a reasonable royalty on the use of a patented machine where the usual practice in the industry was to negotiate a paid-up license based on a lump sum payment for each machine. 716 F.2d at 1561-63, 219 U.S.P.Q. at 386. The rule of Stickle applies with even greater force in this case to the subsidiary determination of a floor at the hypothetical negotiation, because that floor was based on specific, identifiable licenses granted by Ziegler. * * * If the master had looked to SGK's actual practices as Judge Wright held he should have, the guessing game as to the economic value of the upfront payments would have been unnecessary. The law should make sense even in a field as murky as hypothetical negotiations to fix a reasonable royalty, and, under Judge Wright's approach, it does.

Id. at 1568. Nevertheless, when opposing an "established royalty" argument, a patentee's best defense is to demonstrate that widespread infringement made the

established royalty artificially low. Nickson, 847 F.2d at 798.

Although the federal circuit recently remarked that established royalty rates are a valid basis for awarding a reasonable royalty, such rates must meet stringent standards. In order to establish a royalty rate, it must be paid by such a number of persons "as to indicate a general acquiescence in its reasonableness." Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983), quoting Rude v. Westcott, 130 U.S. 152, 165 (1889). As the federal circuit explained in Deere & Co. v. International Harvester Co., 710 F.2d 1554, 1557 (Fed. Cir. 1983):

> In the absence of any evidence indicating a general acceptance within the farm equipment industry of a particular market value for the [patent in suit], we cannot say that the district court's conclusion of no established royalty in this case is erroneous.

Consequently, the touchstone is really whether there is a general acceptance in the industry of a particular rate for the patent in suit. Proof of one license is not enough. Deere & Co. v. Int'l Harvester Co., 710 F.2d 1554, 1557 (Fed. Cir. 1983); Stickle v. Heublein, Inc., 716 F.2d 1550, 1561 (Fed. Cir. 1983); Trell v. Marlee Electronics Corp., 912 F.2d 1443, 1446 (Fed. Cir. 1990). Similarly, mere offers to license do not indicate general industry acceptance. Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d

1075, 1078 (Fed. Cir. 1983).[14] Nevertheless, while perhaps not technically a showing of established royalty, various courts have considered licensing offers probative evidence on the issue, and in cases where the offers have been widespread, some courts have, prior to the federal circuit, awarded reasonable royalty damages accordingly. See Pitcairn v. United States, 547 F.2d 1106, 1118 (Ct.Cl. 1977).

While the federal circuit has yet to be confronted with a case involving an industry-wide offer to license,[15] it has readily dismissed evidence of isolated licensing offers. In each case, the federal circuit deemed that the offers lacked virtually all probative value.[16] This trend appears unlikely to change.

Still, there are other significant obstacles to overcome in attempting to prove an established royalty, even if a number of actual licenses for the patent in suit exist.

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[14]This works both ways. A patentee may not establish a high reasonable royalty rate merely by citing to high licensing offers. American Original Corp. v. Jenkins Food Corp., 774 F.2d 459, 464 (Fed. Cir. 1985).

[15]Cf. Allen Archery, Inc. v. Browning Mfg. Co., 898 F.2d 787 (Fed. Cir. 1990). The trial court held that the proper royalty rates were those contained in the non-exclusive licenses "offered by Allen and accepted by other compound bow manufacturers"; the federal circuit remanded for recalculation of the royalty base, noting "the parties do not challenge the district court's use of Allen's industry-wide licensing agreement as the basis for determining the amount of a reasonable royalty." Id. at 790.

[16]Deere & Co. v. Int'l Harvester Co., 710 F.2d 1554, 1557 (Fed. Cir. 1983); Railroad Dynamics, Inc. v. A. Stucki Co. 1506 F.2d 1506, 1518-1519 (Fed. Cir. 1984); American Original Corp. v. Jenkins Food Corp., 774 F.2d 459, 464 (Fed. Cir. 1985); Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1082 (Fed. Cir. 1983); Trell v. Marlee Electronics Corp., 912 F.2d 1443, 1446 (Fed. Cir. 1990).

For example, an infringer may encounter evidentiary problems.

Usually, the licenses are offered as proof of one issue, the true value of the patented invention as reflected by the royalty rates in those licenses. As a preliminary matter, licenses that were negotiated during settlement of actual or threatened litigation are discounted because their licensing rates may have been influenced more by the desire to avoid litigation costs than by the true value the parties placed on the invention. Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1164 n. 11 (6th Cir. 1978).[17] Moreover, such license agreements are not admissible under Rule 408 of the Federal Rules of Evidence (FRE), which provides:

> Evidence of (1) furnishing or offering or promising to furnish, or (2) accepting or offering or promising to accept, a valuable consideration in compromise or attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to prove liability for or invalidity of the claim or its amount. Evidence of conduct made in compromise negotiations is likewise not admissible.

The federal circuit specifically held that this Rule would exclude licenses negotiated during settlement of disputes where the licensee was infringing at the time of the

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[17] A licensing rate may also be discounted (as to establishing a royalty rate) if the amount received was speculative in any way, or if the value of the patent at the time appeared somewhat speculative. Hanson v. Alpine Valley Ski Area, Inc. 718 F.2d 1075, 1078 (Fed. Cir. 1983) (amount speculative); Deere & Co. v. Int'l Harvester Co., 710 F.2d 1554, 1557 (Fed. Cir. 1983) (value of patent speculative.

negotiation. The court also applied this Rule in excluding actual licensing offers for the patent in suit made in the context of an existing infringement problem with others. Deere & Co. v. International Harvester Co., 710 F.2d 1554, 1556-1557 (Fed. Cir. 1983).[18]

Even if the licenses are admitted into evidence, an infringer still must show their probative value on the ultimate issue. In Deere, for example, the federal circuit ruled that the district court had erroneously excluded two documents under Rule 408: (1) a license under the patent in suit to a third party; and (2) an offer to license the patent, which offer was made by the patentee to the infringer before infringement began. In both instances, there was no existing controversy (i.e., ongoing infringement) between the respective parties at the time of the license or licensing offer. But the lower court's error was ruled harmless because both documents were held to be of little or no probative value. The license was negotiated at a time when the controversy between the patentee and the infringer had begun, even though the third party licensee was not infringing the patent at the time. While this did not disqualify the third party license under Rule 408, the federal circuit, nevertheless, said:

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[18]In his dissenting opinion in Deere, 710 F.2d at 1560-1561, Judge Davis cited a variety of older cases, mostly opined by the old Court of Claims, for the proposition that such licenses, even those negotiated during settlement of infringement, were admissible on the subject.

> As the [third party] license was negotiated against a backdrop of continuing litigation and . . . infringement of the [patent in suit], the district court could properly discount the probative value of the [third-party] license with regard to a reasonable royalty.

Id. at 1557. Secondly, as to the patentee's original licensing offer to the infringer which was made prior to the start of infringement, the federal circuit stated:

> In 1973, Deere faced a major competitor [the infringer] which had, on its own initiative, approached Deere for a license under an untested patent of indeterminate value. For the district court to consider Deere's royalty offer under such circumstances to be of little or no usefulness in determining a reasonable royalty does not constitute error as a matter of law.

Id. at 1557.

In similar circumstances, the federal circuit found it unnecessary to decide whether licensing offers by the patentee to alleged infringers were properly excluded under Rule 408, because it "[could not] say that the exclusion was prejudicial." Hanson, 718 F.2d at 1082. Later, in Railroad Dynamics, Inc. v. A. Stucki Co., 727 F.2d 1506, 1518 (Fed. Cir. 1984), the federal circuit considered a licensing offer (7.5%) made to the infringer before infringement began, but because it was not a "firm offer," the court accorded it less weight and affirmed the higher reasonable royalty rate.

On the other hand, licenses negotiated after third party litigation has settled liability issues are treated more favorably by the federal circuit. In Snellman v. Ricoh

Co., Ltd., 862 F.2d 283, 289 (Fed. Cir. 1988), the federal circuit distinguished Deere v. Int'l Harvester by noting that the license in the present case was not an attempt to resolve a dispute or avoid litigation. Thus, FRE 408 did not apply. In earlier litigation, the patent in suit was held valid and infringed. The defendant agreed to pay $20.5 million as a lump sum royalty for a license if the appellate court affirmed the judgment. In remanding the case for recalculation of the damages, the federal circuit implicitly held that this license was of significant probative value.

In Studiengesellschaft Kohle, the federal circuit affirmed the trial court's ruling that the special master's exclusion of a post-liability settlement was clearly erroneous. The trial court stated that the settlement was "highly probative evidence." The federal circuit noted that Deere and Alpine Valley could not be read to "establish a rule that all post-infringement evidence is irrelevant" and distinguished Panduit only as cautioning against settlements taking place under threat of litigation. Id. at 1571-1572. Both the trial court and the federal circuit concluded that post-liability licenses duplicate the analytical process undertaken by the court in setting the reasonable royalty. Id.

Though there remain some evidentiary obstacles, the net result may be that the federal circuit's cautious

approach to established royalties is becoming more permissive.[19]

c. An Established Royalty Based Upon Other Patents In The Industry.

In the past, courts have given weight to relevant industry licensing practices in determining a reasonable royalty. This remains true with the federal circuit, at least insofar as structuring the damages award. In Stickle v. Heublein Inc., 716 F.2d 1550, 1562-1563 (Fed. Cir. 1983), the federal circuit overturned a reasonable royalty based on the use of a patented machine; the industry custom was to license such machines based on a lump sum.

Though a party may structure reasonable royalty damages in terms of industry licensing practices, it is difficult to prove that general industry licenses dictate a specific royalty rate for the patent in suit. First, such industry licenses are subject to the same evidentiary problems that were discussed earlier. The real difficulty, though, is that to even be considered by a court, industry licenses under other patents must be for products closely related to the patented item. And, if they are so related, there must be enough of them to establish an industry

[19]Compare Bandag, Inc. v. Gerrard Tire Co., Inc., 704 F.2d 1578 (Fed. Cir. 1983) (reversing lower court's use of established royalty) with Nickson Indus., Inc. v. Rol Mfg. Co., Ltd., 817 F.2d 795 (Fed. Cir. 1988) (requiring patentee to provide evidence that established royalty was artificially low).

standard.[20] In Railroad Dynamics Inc. v. Stucki Co., 727 F.2d 1506, 1518 (Fed. Cir. 1984), no such nexus was found:

> RDI points to three licenses for bolsters and sideframes having royalty rates of either 1% or $1 as evidence of an industry standard. However, three licenses relating to products entirely distinct from the patented product are insufficient here to establish an industry standard. The district court correctly refused to apply the rates of those licenses in the present case.

Nevertheless, even where an industry standard is clearly established, it may be accorded little weight. In Bio-Rad Laboratories, Inc., 739 F.2d at 617, the federal circuit affirmed a reasonable royalty of about 33% despite substantial evidence of established industry royalty rates ranging between 3% and 10%. The court opined:

> Nicolet also argues that the reasonable royalty, presumed to be part of the damages award, is too high. They point out that the industry royalty rate runs from three to ten percent of sales while the royalty awarded by the jury approaches one third of the selling price of the MX-ECO. Though established royalty rates are normally applicable, . . . they do not necessarily establish a ceiling for the royalty that may be assessed after an infringement trial.

Once again, the court implied that damages awards should be greater than the amount the parties would have negotiated had no infringement occurred. Indeed, in only one case to

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[20]But even a large number of licenses may not be dispositive of an established industry standard. In Hughes Tool Co. v. Dresser Indus., Inc., 816 F.2d 1549 (Fed. Cir. 1987), for example, the lower court did not give much weight to 45 licenses and offers of licenses for other patents owned by the patentee. While the federal circuit reversed in that case, it did so on an unrelated ground and did not criticize the lower court's conclusion on this point at all.

date has the federal circuit based an award on industry royalty rates. American Original Corp. v. Jenkins Food Corp., 774 F.2d 459 (Fed. Cir. 1985). Consequently, it is unwise to greatly rely on such evidence in most damages cases.

We shall now look at other Georgia-Pacific factors which have been considered, at least indirectly, by the federal circuit.

d. The Relationship In The Marketplace Between The Parties.

One important factor in selecting a reasonable royalty has been the parties' commercial relationship. In Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1163 (6th Cir. 1978), Judge Markey quoted approvingly from Egry Register Co. v. Standard Register Co., 23 F.2d 438, 443 (6th Cir. 1928) as follows:

> In fixing a reasonable royalty, the primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement. This must be modified by the commercial situation, and when the result is to interfere with a patent monopoly, which the patentee was in position to and desired to keep, by retaining the entire market himself, his compensation for parting against his will with that opportunity must take due account of the loss to him of anticipated profits on the business which the licensees will thus get away from him. It is a step further, and we think a necessary one, to say that, when the patentee's business scheme involves a reasonable expectation of making future profits by the continuing sale to the purchaser of the patented machine, of supplies to be furnished by the patentee, which future business he will lose by

> licensing a competitor to make the machine this expectant loss is an element to be considered in retroactively determining a reasonable royalty; and this is so even though the expectation of such future business was not the result of any system of contract obligations, but was only expectation reasonably based on established business methods and customs.

In fact, in remanding the case for a reassessment of the damages award, one factor the lower court was instructed to consider was the "attendant profit Panduit would expect to lose by licensing a competitor." Id. at 1164.

While the federal circuit has not directly confronted the issue, the court indicated in Deere & Co. v. Int'l Harvester Co., 710 F.2d 1554, 1558 (Fed. Cir. 1983) that a lesser royalty may apply where the parties did compete, but where the patentee would have been unable to make all of the infringing products because of production limitations. Moreover, some courts have indicated that a lesser reasonable royalty rate may be appropriate where the patentee and the infringer do not compete. Devex Corp. v. General Motors Corp., 494 F.Supp. 1369, 1377 (D. Del. 1980), aff'd 667 F.2d 347 (3d Cir. 1981), aff'd on other grounds, 461 U.S. 648 (1983).

e. The Patentee's Policy As To Licensing

In Georgia-Pacific, the court stated:

> In the hypothetical negotiations, USP would have been reasonable in taking the position that it would not accept a royalty significantly less than the profit it was making by its policy of licensing no one to

> sell [the patented product] in the United States.

Georgia-Pacific, 318 F. Supp. at 1127. Judge Markey quoted this language in Panduit, and in remanding that case to recompute damages, another factor the lower court was instructed to consider was the patentee's "unvarying policy of not licensing the [patent in suit]." Georgia Pacific, 318 F. Supp. at 1164. In one recent federal circuit case, though, the court affirmed a reasonable royalty based in part on the patentee's policy of not licensing. Radio Steel & Mfg. Co. MTD Products, Inc., 788 F.2d 1554, 1557 (Fed. Cir. 1986).[21] Thus, at least implicitly, the federal circuit regards the patentee's policy of licensing the patent in suit as a factor, albeit a minor factor, that may impact the damages calculations.

f. The Established Profitability Of The Patented Product And Its Recognized Utility.

The patentee's established profitability for the patented item, unlike that of the infringer, continues to be an important factor in determining a reasonable royalty. In Deere & Co. v. Int'l Harvester Co., 710 F.2d 1554, 1558 (Fed. Cir. 1983), for example, the federal circuit affirmed an award of a 15% royalty based in part on a finding that

[21] In Hughes Tool Co. v. Dresser Indus., Inc., 816 F.2d 1549, 1554 (Fed. Cir. 1987), the federal circuit noted (without criticism) the district court's finding that the patentee had no desire to license direct competitors (despite the fact that the patentee had licensed a direct competitor in settlement of litigation involving the patent in suit, licensed a non-competitor under the patent in suit, and licensed or tried to license many of its other patents).

the patentee made a 30% profit on its patented product. Hence, a patentee with a high profit margin may fare better (for damages purposes) than a patentee with a marginally profitable item.

Directly related to profitability is the presence or absence of non-infringing substitutes for the patented item, a factor usually associated with a lost profits analysis. One court has held that the existence of non-infringing substitutes reduces a reasonable royalty. Hughes Tool Co. v. G.W. Murphy Indus., Inc., 491 F.2d 930-931 (5th Cir. 1973). While the same is true today, it must be qualified somewhat. The critical legal definition of an "acceptable" substitute (for this purpose) is an exceedingly narrow one, as Judge Markey said in Panduit:

> A product lacking the advantages of that patented can hardly be termed a substitute 'acceptable' to the customer who wants those advantages.
>
> * * *
>
> The 'acceptable substitute' element, though it is to be considered, must be viewed of limited influence where the infringer knowingly made and sold the patented product for years while ignoring the 'substitute.' There are substitute products for virtually every patented product; the availability of railroads and box cameras should not of itself diminish royalties payable for infringement of the right to exclude others from making and selling the Wright airplane or the Polaroid camera.

Panduit, 575 F.2d at 1162.

Consequently, of particular importance is the infringer's view of the "acceptable substitutes" at the time infringement began (and not after a finding of infringement), and an infringer's marketing memos dating from the critical time period may be particularly telling on this issue. In Deere & Co. v. Int'l Harvester, Inc., 710 F.2d 1554, 1558 (Fed. Cir. 1983), for example, the infringer discredited any possible argument that its own non-infringing corn head was an acceptable substitute for the patented item; a statement excerpted from its candid marketing memos envisioned a "dismal future" for its non-infringing product and a "bright future" for the patented item. Under those circumstances, it was not surprising that the infringer's older non-infringing product was found not to be an acceptable substitute, and predictably, the patentee obtained significant reasonable royalty damages.

In any event, the patentee's profitability on the patented item and the related question of whether a non-infringing substitute, having the advantages sought in the patented item, exists in the marketplace are factors which should be considered by both parties in assessing reasonable royalty damages. In particular, an infringer should not place great reliance on a proposed substitute which does not have at least some of the sought-after advantages of the patented item. Moreover, a substitute certainly should not

be relied upon when it is being displaced in the market by the infringing product.

g. The Portion Of The Profit Creditable To The Invention As Distinguished From Non-Patented Elements

Since Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568 (Fed. Cir. 1988), infringers should be cautious in arguing that an apportionment of profit should be made due to the presence of non-patented elements in the infringing device. In Fromson, Judge Markey rejected, albeit on the specific facts presented, such an apportionment effort and treated the invention as an "entirety." (This is analogous to the entire market value rule in lost profits cases, discussed infra). Id. at 1577-1278.[22]

In sum, in analyzing the reasonable royalty case law, the federal circuit has accepted two distinct methods for computing a reasonable royalty; the analytical method and the "willing licensor-willing licensee" method. But th court has left the door wide open for other plausible theories. As to the more traditional reasonable royalty factors under the willing licensor test, the court has favorably considered evidence of a patented product's ability to support the sales of other items and has strained to lessen the influence of the infringer's usual defenses--

[22]Overall, the federal circuit has been unkind to apportionment efforts.

"established royalty" and "industry royalty rates." While the foregoing provides some guidance in presenting and defending a reasonable royalty case, reasonable royalty damages, regardless of how computed, are more often sustained whenever they "adequately compensate" the patentee in light of the infringement. The awards are more often overturned when they do not.

II. Lost Profits Damages

The second major category of patent damages is lost profits. Lost profits encompasses at least four areas: 1) lost profits on lost sales; 2) lost profits due to price erosion; 3) projected lost profits; and 4) lost foreign sales.

A. Lost Profits Due to Lost Sales

Lost profits due to lost sales compensates the patentee for lost sales due to the presence of the infringer's product in the marketplace. Basically, the court determines what the infringer's customers would have done had the infringing product never existed. The test is highly subjective.

Specifically, a patentee is entitled to recover "lost profits" damages for any sales it would have made "but for" the infringement. Paper Converting Machine Co. v. Magna-Graphics Corp., 745 F.2d 11, 21 (Fed. Cir. 1984). In applying the "but for" standard, the patentee does not usually have to show that each and every one of the

infringer's customers would have purchased the patentee's product instead of something else. As the federal circuit said in American Hoist & Derrick Co. v. Sowa & Sons, 725 F.2d 1350, 1365 (Fed. Cir. 1984) (quoting Milgo Electronics v. United Business Communications, 623 F.2d 645, 663 (10th Cir. 1980)):

> Neither the trial court nor the appellate court can demand absolute proof that purchases of the infringing product would have bought the patent-holder's product instead. It is impossible and therefore unnecessary for the patent-holder to negate every possibility that the purchasers might not have bought another product.

The federal circuit further explained this standard in Paper Converting Machine, 745 F.2d at 21:

> The patent holder does not need to negate all possibilities that a purchaser might have bought a different product or might have foregone the purchase altogether. The 'but for' rule only requires the patentee to provide proof to a reasonable probability that the sale would have been made but for the infringement.[23]

The most widely accepted test, by which the reasonable probability standard is applied, was set forth by

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[23] Cf. Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268, 275 (Fed. Cir. 1985) (The patentee's burden is only to prove such by a preponderance of the evidence). For recent district court discussion, see TP Orthodontics Inc. v. Professional Positioners Inc., 20 U.S.P.Q.2d 1017 (E.D. Wis. 1991); AMP Inc. v. Lantrans Inc., 22 U.S.P.Q.2d 1448 (C.D. Cal. 1991) ("Where the infringing product is an identical copy, or a virtually identical copy, of the commercial version of the patented invention, and particularly where the infringing product and the commercial version of the patented invention have common advantages over . . . "competing" products, it is reasonable to infer that the patentee probably would have made the sale but for the infringing sale").

Judge Markey in Panduit, 575 F.2d at 1156. Four factors are considered:

1. Whether a demand existed for the patented product during the period of infringement.

2. Whether there was an absence of acceptable non-infringing substitutes for the patented product during the period of infringement.

3. Whether the patentee had the manufacturing and marketing capabilities to have supplied the patented product to the customers who bought the infringing product.

4. The amount of profit the patentee would have made on the lost sales.

While the federal circuit has indicated that the Panduit test is not necessarily the exclusive means by which a determination of lost profits may be made, Bio-Rad Laboratories v. Nicolet Instrument Corp., 739 F.2d 604, 616 (Fed. Cir. 1984), it has frequently relied on the four-part Panduit test in deciding the issue.[24]

1. The Four Panduit Factors

a. Demand For The Patented Product During the Period Of Infringement

The first Panduit factor, proof of customer demand for the patented product, is best shown by evidence of the patentee's commercial success, accompanied by some evidence

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[24] See Central Soya Co., Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1578 (Fed. Cir. 1983); Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 552-55 (Fed. Cir. 1984); Bio-Rad Laboratories, 739 F.2d at 615-617; Weinar v. Rollform Inc., 744 F.2d 797, 807-08 (Fed. Cir. 1984); Paper Converting Machine Co. v. Magna-Graphics, 745 F.2d 11, 21-22 (Fed. Cir. 1984).

which shows that the merits of the patented invention are responsible for the success. What is often overlooked is that the infringer's commercial success (as to the infringing product) is also cogent evidence of such demand. The federal circuit has similarly commented:

> The substantial number of sales by Champion of infringing products containing the patented features itself is compelling evidence of the demand for the product. See, e.g., Bros. Inc. v. W.E. Grace Manufacturing Co., 320 F.2d 594, 138 U.S.P.Q. 357 (5th Cir. 1963); Transit Development Co. v. Cheatham Electric Switching Device Co., 194 F. 963, 967 (2d Cir. 1912). Champion's sales necessarily meant that there were buyers who wanted the product and were willing to pay Champion's price, which was substantially the same as that of Gyromat. As the master observed, [t]he patented control features were advertised by Champion and while Champion has shown that painting systems could be made and sold without the patented features, the patented control system was obviously important enough to keep for 15 years on all of its shortstroke reciprocating painting systems. If there was no demand for the patented system, Champion would not have run the risk of infringement.

Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 552 (Fed. Cir. 1984). Moreover, when the infringer advertises the patented features of the infringing product, proof of demand for the patented product is virtually a foregone conclusion. Consequently, to date before the federal circuit, no patentee asserting lost profits damages has ever failed to prove it.

An infringer often attacks the attributes of the patented product in order to establish lack of demand for

the patented item. But denigrating non-patented attributes may suggest to the court that demand for the infringing product arises from precisely those attributes covered by the patent. In Ziggity Systems v. Val Watering Systems, 769 F. Supp. 752, 821 (E.D. Pa. 1990), the court turned the tables on the defendant in just such a manner:

> Defendants contend that Ziggity's nipple drinker is defective and unpopular because of poor materials and quality control. However, this argument, if true, actually supports the proposition that the claimed invention is in demand. The advantages of the leveraged actuation of Ziggity's drinkers must compensate for the potential leaks from rubber seats or else Ziggity would not have sold the millions of drinkers that it has."

1) The Market Expansion Defense

While it is generally fairly easy for a patentee to prove demand for the patented product, an infringer still may assert a weighty defense by demonstrating that his entry into the market expanded the market beyond what it would have been without the infringer's influence. In effect, the defense is that the infringer created demand. The utility of this defense varies according to the nature of the patented product and the characteristics of the relevant market. Specifically, claims of market expansion may be less successful where the court has found that the patented feature is the predominant motivating force of consumer purchases. The inquiry is typically subsumed under the analysis of the second Panduit factor, the availability of "acceptable non-infringing alternatives."

An infringer relying on this defense may need to present proof that the infringing product possesses advantages which are unique; thus, showing lower cost or heightened consumer awareness due to increased advertising may not suffice. The infringer in Pfizer Inc. v. International Rectifier Corp., 218 U.S.P.Q. 586 (C.D. Cal. 1983), relied on evidence that its products were heavily advertised, lower-priced generic versions of the patented drug that consequently expanded the market such that the patentee made more money because of the infringer's presence. Unfortunately, the district court rejected the infringer's explanation for the increase in demand and awarded the patentee a substantial award of lost profits. Pfizer, 218 U.S.P.Q. at 591-595.

More recently, the district court in Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1502-1504, amended, 17 U.S.P.Q.2d 1711 (D. Mass. 1990), addressed and rejected a market expansion defense put forward by Kodak. In doing so, the court found that the econometric models relied on by Kodak were far less reliable than testimony of fact witnesses, contemporaneous documents and market research. Polaroid, 16 U.S.P.Q.2d at 1503.[25] The court concluded that "there was nothing unique and critical to

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[25] Judge Mazzone stated: "While I do not accept these models in this case, I am not critical of the field of econometrics as a whole. I believe that it can provide valuable insight into complicated matters. However, in this case the models contain assumptions contrary to the facts and achieve extreme results which by their very nature are suspect."

Kodak's entry [into the instant camera market] such that without its infringement, demand would have been diminished." Polaroid, 16 U.S.P.Q.2d at 1504.[26]

Although the infringers in Pfizer and Polaroid were not successful in arguing a market expansion theory, infringers should still consider using such a strategy. Pfizer and Polaroid turned on the facts specific to those markets. Factors such as the relative size of the patentee and the infringer and the ability of the infringer to reach new markets not reachable by the patentee could give vitality to this defense in the right case. Perhaps the actual mistake made in Pfizer was the infringer's credulity-straining argument that the patentee was actually better off because of the infringement. Likewise, the court in Polaroid felt that Kodak's argument went against the facts and common sense.[27]

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[26] Kodak's market expansion argument dealt with three distinct variables -- the effect of Kodak's name and reputation, the distribution and marketing capability of the parties and a synergistic effect, or "hype", created by Kodak's entry and vigorous competition. As to Kodak's name and reputation, Judge Mazzone suggested that this factor was important when legitimizing a product. Legitimization was not necessary in this case, as the patentee was known and respected in the general field, and consumers themselves were able to judge the quality of the product. Moreover, Judge Mazzone's finding that consumers were motivated to purchase instant cameras primarily for the instant feature greatly hindered Kodak's attempts to prove that the Kodak name was a motivating factor in market expansion. Ultimately, although Kodak suggested viable arguments, it could not overcome Polaroid's strong evidence on the importance of the instant feature. Any doubts were resolved against the infringer. Similarly, although Judge Mazzone accepted in principle that Kodak and Polaroid together created a synergistic market effect, the lack of quantification again was resolved against the infringer.

[27] Market expansion arguments regarding "submarkets" were useful in reducing the overall lost profits award in Polaroid. Judge Mazzone found that the built-in flash feature of the Kodak camera allowed it to make sales in Saudi Arabia, where "privacy is of great concern" and "religious customs

b. The Existence (Or Non-Existence) Of Acceptable, Non-Infringing Substitutes For The Patented Invention

The most heavily litigated question in lost profits cases involves the second Panduit factor, whether acceptable, non-infringing substitutes for the patented invention existed during the period of the infringement. "The underlying rationale for imposing this requirement is that if acceptable noninfringing substitutes existed, consumers may have purchased the substitutes, rather than the patent owner's product, even if the infringer had not been in the marketplace." Scripto-Tokai Corp. v. Gillette Co., 788 F. Supp. 439, 445 (C.D. Cal. 1992). Thus, the patentee could not be said to have lost a sale at all, despite the infringement.[28]

Usually, the patentee is unable to prove directly (by evidence of specific lost sales) that the infringer's customers would have bought the patented product.[29]

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prohibit photographing women outside the home." With Kodak's introduction of a built-in flash, the Middle Eastern market "exploded."

[28]In the past, some district courts have read this Panduit factor literally, and held that if lost profits could not be proven for all of the infringing sales, lost profits could not be assessed for any of them. These cases are of very doubtful validity today in view of the federal circuit's affirmance of combined awards of lost profits and reasonable royalties. (See the cases listed in footnote 5). In each case, the patentee was able to prove lost profits for only some of the infringing sales, yet the court affirmed the judgment.

[29]In some cases, it is possible to analyze each sale to determine whether or not the patentee would have made the sale if the infringer did not. See e.g., Amstar Corp. v. Envirotech Corp., 823 F.2d 1538 (Fed. Cir. 1987). These cases usually involve a few sales of expensive, very specialized products, and the parties may have known at the time of each sale that the other was also bidding for the particular sale. These cases, although in the minority, are not all that rare.

However, this does not preclude an award of lost profits. Instead, the patentee may show by inference that it would have likely made such sales. The inference is created by showing the absence of acceptable noninfringing substitutes that could have been bought by the infringer's customers. Current case law is significantly supportive in this area.

But what legally constitutes an acceptable substitute and what, as a practical matter, constitutes an acceptable substitute are entirely different things. The court in Panduit discussed what legally constitutes such a substitute:

> Proof of the absence of noninfringing substitutes:
>
> '[I]nvolves some of the same evidence as that which was introduced in support of the validity of the patent. The patent owner who had proved a long-felt need for a particular invention has a lighter burden in establishing that his customers, as well as the infringer's customers, were in fact seeking to obtain the patented solution to such need or problem.'
>
> * * *
>
> Stahlin's own intra-company memo (PX 58), and its $1,788,384 sales of infringing ducts during the period when allegedly acceptable noninfringing substitutes are now said to have been available, leave no doubt that the patented improvement created a substantial customer preference. A product lacking the advantages of that patented can hardly be termed a substitute 'acceptable' to the customer who wants those advantages.

Panduit, 575 F.2d at 1162.

As above indicated, an infringer cannot simply show that the supposed substitute generally "competes" with the patented product; the substitute must possess the particular advantages of the patented product which are desirable to the customers.

For example, in Radio Steel & Mfg. Co. v. MTD Products, Inc., 788 F.2d 1554, 1556 (Fed. Cir. 1986), the federal circuit rejected the argument that prior art wheelbarrows were acceptable substitutes for the patented wheelbarrow. Although both functioned alike, the prior art devices lacked the patented features. Thus, they were not "acceptable" to those who bought the infringing wheelbarrows because of the patented features. Again, in TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 901-902 (Fed. Cir. 1986), the federal circuit stated:

> Mere existence of a competing device does not make that device an acceptable substitute. The special master committed no error in noting that none of the alleged substitutes had all benefits of the patented device. See Central Soya Co. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1579, 220 U.S.P.Q. 490, 494 (Fed. Cir. 1983).[30]

Thus, only the limited (and perhaps non-existent) group of competing products that also possess those advantages of the patented product desired by customers are

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[30]See also Standard Havens Prods. v. Gencor Indus., 953 F.2d 1360, 1373 (Fed. Cir. 1991) ("It is true that the record establishe[d] a competitive market for asphalt plants, with parallel flow plants competing for sales with counterflow plants. However, the mere existence of a competing device does not necessarily make that device an acceptable substitute").

"acceptable" substitutes. Of course, the substitutes need not have all the advantages of the patented product, but only those for which customers seek out the patented goods. "Thus, to prove that there are no acceptable noninfringing substitutes, the patent owner must show either that (1) the purchasers in the marketplace generally were willing to buy the patented product for its advantages, or (2) the specific purchasers of the infringing product purchased on that basis." Standard Havens Prods. v. Gencor Indus., 953 F.2d 1360, 1373 (Fed Cir. 1991).[31] A patentee who failed to heed this requirement lost on that issue. Slimfold Mfg. Co., Inc. v. Kinkead Indus., Inc., 18 U.S.P.Q.2d 1842 (Fed. Cir. 1991). There, the court concluded:

> Slimfold contends that the old hardware used by Kinkead and other companies cannot be acceptable non-infringing alternatives because they do not have the advantages of the new hardware covered by the Ford patent. That proposition may be correct if it is shown that consumers specifically want a device with those advantages. See TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 901 ... (1986). However, not only has Slimfold failed to show that buyers of bi-fold metal doors specifically want a door having the advantages of the Ford patent, but the fact (found by the district court) that neither Slimfold's nor Kinkead's market share changed significantly after introduction of the 'new' doors is very probative of the contrary conclusion.

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[31]The infringer's own advertising may be very helpful. Most often, advertising departments are quick to promote new features, including (unwittingly) those features patented by another. The infringer's advertising of patented features is indirect evidence that the infringer's customers bought the infringing product for those features. The advertising makes it difficult for the infringer to argue that those features were unknown to its customers or were not the reason for their purchasing decision.

Id.

A patentee may also follow the approach approved in Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268 (Fed. Cir. 1985). There, the federal circuit found that sales of the patented device constituted a mini-market, within which there were no acceptable substitutes:

> The testimony indicates that devices covered by the '592 patent account for 25 percent of the total desuperheater market, but that there exists within this total market a 'special niche' or a mini-market for desuperheaters covered by the '592 patent. Only Eur-Control and Yarway sell to that market. Devices sold outside the 25 percent will desuperheat steam, but are not equal or equivalent to the Gustafsson invention. Thus, this mini-market is the relevant market for purposes of determining lost profits. Appellants' argument that a mere 25 percent market share precludes a finding of no acceptable substitutes is clearly unsupported in light of this mini-market. Instead, the evidence supports the court's finding that there is no noninfringing acceptable substitute to meet the specific needs of this relevant market. Cf. Central Soya, 723 F.2d at 1579 p. 4, 220 U.S.P.Q. at 494 n. 4 (finding no acceptable noninfringing substitute where other products in the market were either inferior or different).[32]

Yarway, 775 F.2d at 276. To the same effect was Marsh-McBirney, Inc. v. Montedoro-Whitney Corp., 882 F.2d 498, 505 (Fed. Cir. 1989) (patentee's and infringer's devices together occupied "a separate niche"). As a result, a patentee who proves that a narrow mini-market existed may

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[32] In Kerwit Medical v. N & H Instruments, 224 U.S.P.Q. 679, 688 (N.D. Tex. 1984) (awarding lost profits, the court stated that the relevant market in patent cases is defined in "very narrow terms").

likely obtain lost profits damages, even though, as a practical matter, there were a variety of other non-infringing products which broadly "competed" with the patented product. However, the non-infringing products could be viewed as "market influences," thereby limiting the price that the patentee could demand. The Polaroid case is a dramatic case in point. Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1506 (D. Mass. 1990) (court found "substantial evidence that [instant] film and camera prices were seriously constrained after 1980 by the increase in the relative value of conventional photography").

Additionally, the infringer's actions may indirectly aid the patentee's case. If the infringer knew of the non-infringing substitutes alleged in its damages case, but ignored them in favor of the infringing one, the non-infringing products may not ever be found "acceptable" substitutes. As the federal circuit said in TWM Mfg. Co., Inc. v. Dura Corp., 789 F.2d 895, 902 (Fed. Cir. 1986):

> [The infringer] ignored those substitutes while it sold the patented invention and thus its acceptable substitute argument 'must be viewed of limited influence.'[33]

Substitutes devised by an infringer after the fact are also not acceptable substitutes, even when the infringer is successful in switching its customers from the infringing

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[33]Citing Panduit, 575 F.2d at 1162 n. 9. See also Scripto-Tokai Corp. v. Gillette Co., 788 F. Supp. 439 (C.D. Cal. 1992).

product to the new substitute. As Judge Markey held in Panduit (in the context of a reasonable royalty discussion):

> The post-hoc circumstance that Stahlin, when finally forced to obey the court's injunction, was successful in 'switching' customers to a noninfringing product, does not destroy the advantage-recognition attributable to the patent over the prior 15 years. Those preferred advantages were recognized by Stahlin itself, by other infringers, by customers, by the district court, and by this court. That Stahlin's customers, no longer able to buy the patented product from Stahlin, were willing to buy something else from Stahlin, does not establish that there was on the market during the period of the infringement a product which customers in general were, in the master's words, 'willing to buy in place of the infringing product.' Moreover, Stahlin's 'switching' occurred years after the date on which the determination of available substitutes must focus, i.e., the date of first infringement.

Panduit, 575 F.2d at 1162.

Consequently, the patentee's burden lessens once the pool of acceptable substitutes narrows, which then creates the necessary inference to meet the "but for" test. More often, the patentee is helped by infringers who defend the issue improperly.

From the infringer's perspective, the most common error is in using a shotgun approach, alleging that virtually everything in the field is an acceptable substitute. First, it is wrong as a matter of law, and, second, the approach obscures the basic inquiry which the infringer, not the patentee, is in the best position to control.

Recall that the relevant inquiry is what would the infringer's customers have done if the infringing product did not exist. Therefore, the people to whom the substitutes must be acceptable are not customers in general, but only the infringer's customers. The infringer may prove this by direct evidence, since customer or warranty lists that identify those very people are often retained. The customers may then be surveyed, and if the result of a proper, admissible survey shows that those customers never knew of the patentee's products and would therefore have purchased another good, the direct evidence will greatly overshadow all of the inferences proffered by the patentee.

Indeed, on the issue of demand and marketing capability, the court in Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1501, n. 13 (D.Mass. 1990), cited the survey discussion in the authors' article published in the JPTOS in support of its comment that infringer Kodak would have been better off had such a survey been done. Kodak's failure to do so left the court with no direct evidence of the quantitative effect of Kodak's advertising and promotion on the motivations of its customers to buy instant cameras. The consequent burden of uncertainty fell on the infringer. Id. Thus, an infringer's primary defense should be to show by direct evidence (e.g., by a survey) that its own customers for the infringing product would not

have purchased the patented item had the infringing one not existed.

1) Market Share Allocation
As An Alternative Method

Even if the existence of some acceptable substitute[34] has been proven, the infringer has not necessarily prevailed on the lost profits issue. Lost profits may be calculated by a pro rata market share theory, that is, in a world lacking the infringing item, some percentage of the infringer's customers would have purchased the patented product rather than an acceptable non-infringing alternative. For those sales, the patentee is entitled to recover his lost profits.

A market share analysis, strongly supported by the record, is directly responsive to the ultimate question on patent damages as phrased in Aro Mfg. Co. v. Convertible Top Co., 377 U.S. 476, 507 (1964): "Had the Infringer not infringed, what would the Patent Holder . . . have made?" In the reality of the marketplace, had the infringing product not existed, it is likely that the patentee would have gained some of those customers. For a patentee who can only prove lost profits for some infringing sales, a market share analysis may be the best approach.

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[34] These acceptable substitutes may be products which differ from the plaintiff's product, or alternatively, may be substantially similar products marketed by the plaintiff's own licensees. In either scenario, the simple "two-supplier market" model, i.e., the one-to-one correlation of plaintiff's lost sales to defendant's infringing sales, is lost.

Prior to the establishment of the federal circuit, express legal support for the market share analysis was found in Orthman Mfg. v. Chromalloy Am. Corp., 512 F. Supp. 1284 (C.D. Ill. 1981). The case involved a market shared by the patentee, the patentee's licensees, and the infringer. The court held that, despite the existence of the licensees, the patentee was entitled to lost profits corresponding to the patentee's share of the market plus a reasonable royalty on the remaining infringing sales. The court specifically held:

> 37. Between September 1975, when it first began commercial production of its K470 rotary hoe, and October 14, 1980, defendant had produced 2,004 enclosed cylinder tool bars in conjunction with its manufacture of the accused structures.
>
> 38. As of the time of trial, plaintiff [the patentee] and its licensees had manufactured 14,800 tool bars, as reflected by plaintiff's records. Plaintiff has had a 19 percent share of that market. From 1972 through the fiscal year 1980, plaintiff's average pre-tax profit on sales of tool bars manufactured by it was $104 per bar.
>
> 39. Had defendant not followed its pattern of infringement, it may reasonably be inferred that plaintiff would have enjoyed a 19 percent share of the market generated by that infringement. It was, up to October 14, 1980, deprived of profits which it could reasonably have anticipated on sales of 381 [19% x 2,004] additional units at its average profit, for a total sum of $39,624.

Orthman, 512 F. Supp. at 1292-1293.

The "substitutes" in Orthman were by definition acceptable, because they were the patented (licensed)

products themselves. When the substitutes lack some of the patented features, a market share analysis should be even more persuasive. Thus, in 1989 the federal circuit approved the market share approach in State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573 (Fed. Cir. 1989). In affirming an award of lost profits which gave the patentee its requested pro rata market share of the infringing sales, Judge Mayer wrote for the court:

> Absence of Substitutes and Market Share
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> This is the first time we have considered whether lost profits can be based on market share. Other courts of appeals that have faced the question have found it unnecessary to answer it. See Baumstimler v. Rankin, 677 F.2d 1061, 1072 215 U.S.P.Q. 575, 584 (5th Cir. 1982); Hughes Tool Co. v. G.W. Murphy Indus., 491 F.2 923, 929, 180 U.S.P.Q. 353, 358 (5th Cir. 1973).
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> * * *
>
> Here we have multiple competitors and the patent owner contends that all the competitors infringed or sold a far less preferable alternative--fiberglass. The district court made the absence of acceptable substitutes, Panduit item (2), a neutral factor by crediting all the other competitors with their market shares as State requested. If the court is correct in its finding that the other competitors were likely infringers of one or the other of State's patents, State would have been entitled to their shares of the market on top of its own, and a correspondingly greater share of Mor-Flo's sales. If it is wrong in whole or in part, State would have been entitled to its current share or to a lesser increase in share. We need not decide which it is because it would make no difference to the outcome. State would get at least what it asked for, because as discussed further below the district court

> found, and we agree, that State's share of the market was proven.
>
> But Mor-Flo should not complain because if anything it received a windfall from this approach. To the extent infringing competitors got credit for sales that should have gone to State, the share of the market against which Mor-Flo's damages might be assessed is reduced. So we think that in these circumstances the presence or absence of acceptable noninfringing alternatives does not matter. The question then becomes whether an established market share combined with the other Panduit factors is sufficient to show State's loss to a reasonable probability. Bio-Rad Laboratories, 739 F.2d at 616.

Mor-Flo, 883 F.2d at 1577-1578.

In essence, proof of an established market share for the patentee replaces the absence of an acceptable non-infringing alternative as the second factor in the Panduit test. Interestingly, in reaching its conclusion in Mor-Flo the court did not refer to Orthman's market share holding.

Since Mor-Flo, the federal circuit has addressed market share analyses on two occasions: Smithkline Diagnostics v. Helena Laboratories, 926 F.2d 1161 (Fed. Cir. 1991) and Slimfold Mfg. Co., Inc. v. Kinkead Indus., Inc., 18 U.S.P.Q.2d 1842 (Fed. Cir. 1991). In Smithkline Diagnostics, the court affirmed the denial of lost profits, first, because the patentee failed to prove the absence of acceptable noninfringing substitutes and second, alternatively, because the market data used by the patentee in proving its market share was unreliable. Smithkline Diagnostics, 926 F.2d at 1166. In Slimfold, the patentee,

after failing to prove that customers desired the patented advantages, relied alternatively on a market share analysis, which was similarly unpersuasive. The federal circuit affirmed, holding that the failure to award lost profits based on market share was not, "in the present case," an abuse of discretion. The patentee argued that Slimfold was indistinguishable from Mor-Flo. However, the opposite was true. In Mor-Flo there was ample evidence of demand for the patented features; in Slimfold there apparently was not, and market shares did not change upon introduction of the patented devices.

Hence, market share analysis is an effective alternative to proving the absence of acceptable noninfringing substitutes if it is determined properly (e.g., by a credible, reliable market survey) and coupled with a convincing showing of some demand for the patented features.

Recently, market share lost profit awards were made or recommended in five district court cases: Uniroyal, Inc. v. Rudkin-Wiley Corp., 13 U.S.P.Q.2d 1192 (D. Conn. 1989), modified and vacated on other grounds, 19 U.S.P.Q.2d 1432 (Fed. Cir. 1991) (court modified judgment, holding that plaintiffs were entitled to 100% of lost profits, since court's reduction of profits based on market share was inconsistent with its finding that there were no acceptable, non-infringing substitutes for the patented device); King

Instrument Corp. v. Perego, 737 F. Supp. 1227 (D. Mass. 1990); Motorola, Inc. v. Hitachi, Ltd., 750 F. Supp. 1319 (W.D. Tex. 1990); BIC Leisure Products, Inc. v. Windsurfing Int'l Inc., 761 F. Supp. 1032 (S.D.N.Y. 1991); and Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 22 U.S.P.Q.2d 1401 (D. Minn. 1991).

Of course, the patentee's burden is made lighter when the relevant market is a "two-supplier" market, consisting only of the patent holder and the infringer. One district court recently concluded, "it may be inferred that the patent holder would have made the infringer's sales or charged higher prices but for the competition." Tenax Corp. v. Tensar Corp., 19 U.S.P.Q.2d 1881, 1887 (D. Md. 1991). See also Andrew Corp. v. Gabriel Elecs. Inc., 23 U.S.P.Q.2d 1019 (D. Me. 1992).

c. Patentee's Manufacturing And Marketing Capacity

In assessing the third Panduit factor, the patentee's manufacturing and marketing capacity, the court simply determines whether the patentee possessed the physical ability to make the lost sales. This factor is rarely a serious hurdle for the patentee. In fact, the federal circuit has been particularly liberal in upholding determinations of manufacturing and marketing capacity.

In Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549 (Fed. Cir. 1984), the court accepted a finding that the patentee could have subcontracted out the work, and in

Bio-Rad Laboratories, 739 F.2d at 616, the court accepted evidence that the patentee could have expanded its facilities to meet the increased demand. However, the court reversed an award of lost profits in Water Technologies Corp. v. Calco, Ltd., 850 F.2d 660 (Fed. Cir. 1988), because the patentee owned no manufacturing facilities.

As for marketing capacity, "persuasive evidence" in the Gyromat case was merely that the patentee had substantial sales and was known in the market. Gyromat, 735 F.2d at 554. This evidence prevailed in spite of the fact that the patentee had not even bid on may of the jobs awarded to the infringer. In contrast, Judge Mazzone, in the Polaroid case, carefully weighed this factor. Polaroid and Kodak, not surprisingly, presented vastly different scenarios of Polaroid's capabilities; these were characterized as the "could have" vs. the "would have" tests. An intermediate test, which incorporated an analysis of Polaroid's forecasting and decisionmaking skills, as well as the company's technical and physical potential, was implemented by the court. Judge Mazzone stated:

> I do not believe Polaroid is legally entitled to credit for perfect foresight in this hindsight analysis of potential capability. Therefore, I must consider Polaroid's forecasting and planning capabilities as part of its manufacturing capability.

Polaroid, 16 U.S.P.Q.2d at 1520.

Because Judge Mazzone noted that Polaroid's forecasting ability was "poor," he limited his estimate of

Polaroid's film manufacturing capability. Id. He further found that Polaroid's camera production for 1977-1980 would have been limited so as to be commensurate with its film production. Id. at 1525.[35]

d. Lost Profits Determined

1) The Incremental Method Of Profit Computation

The fourth requirement of the Panduit test is that there be a computation of the lost profits. In most instances, the computation must be fairly detailed.[36] It is common for both parties to present expert accounting testimony regarding the patentee's profits, as calculated by a method which has been approved by the federal circuit, the incremental income method. Paper Converting Machine Co. v. Magna-Graphics Corp., 745 F.2d 11, 22 (Fed. Cir. 1984).

Under the incremental method, the patentee's lost profits are determined by calculating the gross dollar amount the patentee would have received from the lost sales and deducting from that figure the amount of the patentee's "variable" costs, that is, those costs which would have increased with the increased production due to sales to the infringer's customers (e.g., the amount of raw material

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[35]If the federal circuit approves this approach, patentees and infringers alike would benefit from a more careful treatment of this step of the Panduit analysis in the future.

[36]For a recent case where the court criticized the use of an observation and interview method of accounting, see Andrew Corp. v. Gabriel Elecs. Inc. 23 U.S.P.Q.2d 1019, 1027 (D. Me. 1992).

needed to make the extra products). "Fixed" costs (such as property taxes and rent for the manufacturing space) are not deducted from the gross total because it is assumed that they have been fully paid for by the actual sales made.

As explained by the federal circuit in Paper Converting Machine, 745 F.2d at 22:

> The incremental income approach to the computation of lost profits is well established in the law relating to patent damages. [Citations omitted.] The approach recognizes that it does not cost as much to produce unit N + 1 if the first N (or fewer) units produced already have paid the fixed costs. Thus fixed costs -- those costs which do not vary with increases in production, such as management salaries, property taxes, and insurance -- are excluded when determining profits.

Consequently, the patentee's "lost profit" for each infringing sale is necessarily greater than the actual profit the patentee earned for each patented item it actually did make and sell.

The most difficult aspect of the incremental income approach involves the identification of variable overhead costs, that is, a determination of which overhead costs increased with increased production, as opposed to those which did not. Two methods are used. One is a statistical method, known in accounting circles as linear regression. This approach assesses the patentee's overall cost picture in an objective, mathematical way to determine how overhead varies with increased production. A second and more common calculation is to review each overhead item, of which there

are usually hundreds ("a line-by-line" analysis), and then decide whether the cost item is fixed, variable or partly both.

While these calculations are complex, they should be carried out whenever possible. The federal circuit, though, has been somewhat lenient towards patentees who experience difficulty in proving the amount of lost profits directly. In Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 761 F.2d 649 (Fed. Cir. 1985), the court approved the district court's reliance on the infringer's actual profits as indirect evidence of the patentee's lost profits. More recently in Carella v. Starlight Archery and Pro Line Co., 804 F.2d 135, 141 (Fed. Cir. 1986), where the patentee's company was small, both the lower court and the federal circuit accepted the unchallenged testimony of the patentee's spouse as sufficient evidence of the lost profit per unit.

Nevertheless, from the patentee's viewpoint, relying on such "indirect" evidence is risky, particularly where damages may be significant. Instead, a traditional analysis is preferred, accompanied by the testimony of an accountant. More importantly, the infringer should not accept such calculations at face value. In many instances, certain assumptions are made as to fixed and variable items, and often, a successful attack on one or two assumptions drastically lowers a lost profits calculation. Again, an

illustrative case is Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481 (D. Mass. 1990). The district court, after criticizing the patentee's accountant for conducting a poorly documented and flawed line-by-line analysis of manufacturing costs, accepted Kodak's linear regression cost analysis, which led to a much smaller lost profits award. Id. at 1525-1528.[37]

B. Lost Profits On More Than Just The Sale Of The Patented Product

Apart from the four Panduit factors, there are additional concerns that may contribute to the calculation of lost profits. One of these is the recurring issue of whether the patentee may recover lost profits on the sale of a good that includes more than the patented device (e.g., the sale of a kit, one component of which is patented, or a system containing the patented unit and several other units). Often, the lost sale (and the lost profit) encompass more than the patented product. Consequently, the federal circuit adopted the "entire market value" rule, which was explained in Paper Converting Machine Co. v. Magna-Graphics Corp., 745 F.2d 11, 22-23 (Fed. Cir. 1984):

> The 'entire market value rule' allows for the recovery of damages based on the value of an entire apparatus containing several features, even though only one feature is patented. In Leesona Corp. v. United States, 599 F.2d 958, 974, 202 U.S.P.Q. 414, 439 (Ct. Cl. 1981),

[37]This case, however, should not be read as holding that regression analyses are inherently superior to line-by-line analyses but rather, as finding fault with the particular line-by-line analysis submitted by Polaroid.

> our predecessor court stated that under the entire market value rule:
>
> '[I]t is not the physical joinder or separation of the contested items that determines their inclusion in or exclusion from the compensation base, so much as their financial and marketing dependence on the patented item under standard marketing procedures for the goods in question.'
>
> * * *
>
> The deciding factor, rather, is whether '[n]ormally the patentee (or its licensee) can anticipate sale of such unpatented components as well as of the patented' ones. Tektronix, Inc. v. United States, 552 F.2d 343, 351, 193 U.S.P.Q. 385, 393 (Ct. Cl. 1977). If in all reasonable probability the patent owner would have made the sales which the infringer has made, what the patent owner in reasonable probability would have netted from the sales denied to him is the measure of his loss, and the infringer is liable for that.

In applying the rule, the court approved the award of lost profits on separate, unpatented items that had been sold with the patented item (as a system).

The inclusion of these so-called collateral or "convoyed" sales continues to be a valid aspect of lost profits calculations. Beatrice Foods v. New England Printing, 899 F.2d 1171, 1175 (Fed. Cir. 1990); Micro Motion Inc. v. Exac Corp., 19 U.S.P.Q.2d 1001 (N.D. Cal. 1991); BIC Leisure Products, Inc. v. Windsurfing Int'l Inc., 761 F. Supp. 1032 (S.D.N.Y. 1991).

The validity of including convoyed sales is extremely significant from the patentee's point of view, because with proper evidentiary support, these damages may

account for a large share of the award. Proper evidentiary support, however, is the key. In King Instrument Corp. v. Otari Corp., 767 F.2d 853 (Fed. Cir. 1985), the federal circuit found the patentee's evidence that accessories would have been sold with the patented product insufficient and vacated an award of lost profits on the accessories for further consideration by the district court. Cf. Micro Motion v. Exac Corp., 19 U.S.P.Q.2d 1001 (N.D. Cal. 1991) ("very little evidence on the issue" presented, but court accepted assertion that the plaintiff "historically sold about $15 of accessories for every $100 of mass flowmeters").

In any event, a patentee should never overlook this factor, and the infringer should be prepared to rebut the evidence by attacking the underlying basis for the entire market value assertion.

C. Additional Areas Of Lost Profit Damages

The federal circuit, in Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056 (Fed. Cir. 1983), made clear that there are at least two possible additions to the usual lost profits theme: (1) recovery because the patentee's profits were reduced by the infringer's price erosion; and (2) recovery because the patentee's future growth was impaired by the infringement ("lost growth" or "projected lost profits"). There are other areas as well, such as lost profits due to lost foreign sales.

1. Lost Profits Due to Price Erosion

In TWM Mfg. Co. v. Dura Corp., 789 F.2d 895, 902 (Fed. Cir. 1986), the court accepted a reduced profits theory in affirming the damages award. There, the reduced profits were due to sales the patentee made at special discounts in order to compete with the infringer's pricing practices. Also, in Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056 (Fed. Cir. 1991), the court affirmed an award of lost profits due to price erosion where the patentee reduced its prices in order to meet the infringer's price. Other competitors existed, but the court found that they did not significantly influence the patentee's pricing policy.

As seen from Lam, the nexus or causation problem in showing that the infringer caused the patentee to reduce its prices may be particularly perplexing when other competitors exist. Significantly, the Supreme Court recognized this problem early on and laid the basis for a market share-type analysis as a solution. The Court stated in Boesch v. Graff, 133 U.S. 697, 706 (1890):

> When, however, a plaintiff seeks to recover because he has been compelled to lower his prices to compete with an infringing defendant, he must show that his reduction in prices was due solely to the acts of the defendant, or to what extent it was due to such acts.

Moreover, a district court in a pretrial ruling in BIC Leisure Products, Inc. v. Windsurfing Int'l Inc., 687 F. Supp. 134 (S.D.N.Y. 1988), cited Orthman (market share

analysis applied to lost profits on lost sales) as support for a patentee's right to seek lost profits due to price erosion in a market which had numerous licensees.

Alternatively, a patentee could argue (as was done successfully in Lam) that since the infringer was the dominant competitor, the patentee made pricing decisions substantially in reaction to the infringer's prices.[38]

Although the infringer caused the patentee to lower its prices, the court in Micro Motion Inc. v. Exac Corp., 19 U.S.P.Q.2d 1001 (N.D. Cal. 1991), awarded only partial price erosion damages because the infringer was not the "proximate cause" of the patentee's decision not to raise prices in later years of infringement. During the later time period, third-party manufacturers had entered the market and accounted for a significant percentage of the market.

One surprising price erosion case is Kalman v. Berlyn Corp., 914 F.2d 1473, 1485 (Fed. Cir. 1990). There the federal circuit affirmed an award of lost profits due to price erosion, although the infringer's prices had been higher than the patentee's. Both the trial court and the appeals court accepted the inventor's testimony that he priced below the infringer in order to effectively compete with him.

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[38]This was the result reached after a careful analysis of the relative influence of the infringer and third party competitors in Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 22 U.S.P.Q.2d 1401 (D. Minn. 1991).

Another interesting aspect of price erosion is the volume effect-- a patentee may lower prices and increase volume to offset eroding profit margins. This, in fact, was what occurred in the Panduit case, and both the district court and the sixth circuit denied any recovery for price erosion. Panduit, 575 F.2d at 1157. Consequently, the prudent approach for a patentee who believes a plausible case exists for price erosion (or for an infringer who wishes to lessen the damage) is to conduct a "price elasticity analysis" to determine and quantify any such volume effect. Such an effect would be offset against the price erosion claim. In Minnesota Mining v. Johnson & Johnson Orthopaedics, the special master accepted the volume effect as quantified by the patentee's economist. Even after offsetting the volume effect against the price erosion claim, the net recommended award was still substantial.

As a final note, bare assertions by executives of the plaintiff corporation may not provide sufficient support for a finding of price erosion. In Modine Mfg. Co. v. Allen Group Inc., 14 U.S.P.Q.2d 1210, 1220 (N.D. Cal. 1989), aff'd 917 F.2d 538 (Fed. Cir. 1990), cert. denied 111 S. Ct. 2017 (1991), the jury found that the plaintiff corporation would have realized a 21.9% price increase on its sales and on 95% of the infringer's sales as well as a 28% royalty on the remaining 5% of the infringer's sales. However, the figures were adopted from the unsupported testimony of plaintiff

corporation's president and licensing expert. Accordingly, the court granted a new trial on damages, stating that the jury's verdict was "based on speculation, contrary to the clear weight of evidence, and a miscarriage of justice." Moreover, in Polaroid, the court declined to award damages based on price erosion, given proof that Polaroid historically lowered prices, even prior to Kodak's infringement.[39]

2. Projected Lost Profits

Lam v. Johns-Manville, 718 F.2d 1056, 1066 (Fed. Cir. 1983), includes an excellent analysis of an award of "projected lost profits" based on lost growth, which the federal circuit affirmed.[40] More recently, in BIC Leisure Products, Inc. v. Windsurfing Int'l, 687 F. Supp. 134, 137-138 (S.D.N.Y. 1988), the district court permitted the patentee to argue two such theories: 1) lost future profits due to depressed prices generally, and 2) projected lost profits based on future competition with infringer BIC in the post-injunction period ("accelerated reentry by BIC").

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[39]In contrast, the court in Micro Motion Inc. v. Exac Corp., 19 U.S.P.Q.2d 1001 (N.D. Cal. 1991) found support for the executives' potentially self-serving testimony for the patentee in a policy of price increases for products which did not compete directly with the infringer.

[40]However, in Amstar Corp. v. Envirotech Corp., 823 F.2d 1538 (Fed. Cir. 1987), the patentee asserted that its lost growth was a result of the infringement, but the district court ruled that the issue was not properly before the court since it was not raised by the pleadings or by the history of the case. The federal circuit implicitly agreed and never reached the merits of the question on the appeal.

But the special master in Minnesota Mining v. Johnson & Johnson Orthopaedics recommended that the court reject 3M's claim for projected lost profits due to depressed prices in the post-injunction period, in part because the evidence was too speculative.

3. Lost Foreign Sales

The impact of the infringement on potential foreign sales may be another factor in determining lost profits. In Amstar Corp. v. Envirotech Corp., 823 F.2d 1538 (Fed. Cir. 1987), for example, the infringer, prior to 1984, supplied parts to three foreign customers who then assembled the infringing device outside of the United States. The patentee argued that it was entitled to damages for these foreign sales. But the district court and the federal circuit disagreed. The federal circuit, citing Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972), concluded that no infringement occurred.[41]

In 1984, Congress overruled Deepsouth by enacting 35 U.S.C. § 271(f).[42] Unfortunately the provision is not

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[41]The Court in Deepsouth found that the petitioner was not foreclosed by 35 U.S.C. § 271(a), which proscribes the unauthorized making of any patented invention within the United States, from making the parts of shrimp deveining machines (the subject of the patent in suit) to sell to foreign buyers for assembly abroad. The Court held that the word "makes" as used in § 271(a) did not extend to the manufacture of the constituent parts of a combination machine. Moreover, the unassembled export of the elements of an invention did not infringe a patent.

[42]35 U.S.C. § 271(f)(2) reads in part:

> Whoever without authority supplies or causes to be supplied in or from the Unites States any component of a patented invention that is especially made or especially adapted for use in the invention. . . and

retroactive. Since the allegedly infringing acts in Amstar occurred prior to the date of enactment of the new provision (November 8, 1984), no recovery was permissible.

In conclusion, analysis of recent lost profits case law indicates that lost profits damages have become more of a viable remedy for the patentee than in the past. Moreover, the variety of considerations provide flexibility and creativity in presenting lost profits cases. But lost profits cases may be adequately defended if, and only if, the infringer focuses on the proper issues and does not rely on outmoded case law. In any event, as with reasonable royalty damages, a party most often succeeds when its arguments best reflect commercial reality, while adhering reasonably, though not woodenly, to the principles of the case law developed primarily over the last six or seven years.

III. Prejudgment Interest

The last topic of this paper is prejudgment interest, an often overlooked area of damages law. Frequently, prejudgment interest is not considered until the very end of the damages case, as a sort of addendum to the basic damages calculations themselves. This is unfortunate because quite often, due to the length of time between the

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intend[s[that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

start of the infringement and the final judgment, prejudgment interest may easily equal or exceed the principal damages award.

Prejudgment interest is routinely awarded in almost all patent cases as a result of the Supreme Court decision, General Motors Corp. v. Devex Corp., 461 U.S. 648 (1983).[43] In doing so, the Supreme Court made clear that district court discretion in denying such an award is very limited:

> We do not construe § 284 as requiring the award of prejudgment interest whenever infringement is found. That provision states that interest shall be 'fixed by the court,' and in our view it leaves the court some discretion in awarding prejudgment interest. For example, it may be appropriate to limit prejudgment interest, or perhaps even deny it altogether, where the patent owner has been responsible for undue delay in prosecuting the lawsuit. There may be other circumstances in which it may be appropriate not to award prejudgment interest. We need not delineate those circumstances in this case. We hold only that prejudgment interest should be awarded under § 284 absent some justification for withholding such an award.

General Motors, 461 U.S. at 656-57.

The federal circuit has addressed in depth the issue of what constitutes adequate "justification" for a denial of prejudgment interest. In Radio Steel & Mfg. Co. v. MTD

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[43]The statute governing prejudgment interest, 35 U.S.C. § 284, reads:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

Prods., Inc., 788 F.2d 1554, 1557-1558 (Fed. Cir. 1986), the court affirmed an award of such relief, holding that a patentee's failure to remove its patent notice from the patented wheelbarrows until one and a half years after the patent had expired was inadequate justification for a denial of prejudgment interest. The court stated the rule as follows:

> The justification to which the Supreme Court [in General Motors] referred must have some relationship to the award of prejudgment interest, which award the Court held 'is necessary [in the typical case] to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement.' Id. [461 U.S.] at 655, 103 S.Ct. at 2062. (footnote omitted).

Radio Steel, 788 F.2d at 1558.

Following this approach, the federal circuit in Bio-Rad Laboratories v. Nicolet Instrument Corp., 807 F.2d 964 (Fed. Cir. 1986), vacated a district court's denial of prejudgment interest for the major portion of the prejudgment time period. The district court had found that the delay caused by the patentee's alleged dilatory conduct during discovery warranted the denial of prejudgment interest. The court of appeals also rejected the infringer's suggestion, based on a comment made by Justice Stevens in his concurring opinion in General Motors, that defendant's "well justified" challenge to the patent supported the lower court's reduction of prejudgment interest. Citing Radio Steel, the court failed to see a

"relationship" between the amount of the award and the merits of the infringer's challenge.

Finally, in Hughes Tool Co. v. Dresser Indus., Inc., 816 F.2d 1549, 1558-1559 (Fed. Cir. 1987), the federal circuit vacated a denial of prejudgment interest for the period during which the patent in suit had been held invalid prior to a reversal by the ninth circuit. The court simply held that as a matter of law, the district court was not precluded from awarding prejudgment interest during that period. Judge Friedman, in a dissent joined by Judge Bennett, would have held outright that interest should have been awarded during that period. Hughes Tool, 816 F.2d at 1561-1562.

Thus, as a practical matter, what may work to reduce or limit prejudgment interest may be the patentee's delay in bringing suit or prosecuting the case. In such instances, there is a relationship between the action and the award (increased as a result of the patentee's delay) that would justify the reduction. For example, the court in Uniroyal Inc. v. Rudkin-Wiley Corp., 13 U.S.P.Q.2d 1192 (D. Conn. 1989), modified and vacated on other grounds, 19 U.S.P.Q.2d 1432 (Fed. Cir. 1991), held that the patentee was not entitled to prejudgment interest which accrued during a four year stay that it had requested. Nonetheless, the infringer should behave in such a manner so as to limit the amount of

interest accruing and present arguments directed to the interest calculation.

Later federal circuit cases have, for the most part, followed the reasoning in these earlier cases but with a more cursory treatment. Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1573-1574 (Fed. Cir. 1988) (rejecting infringer's argument that delay between the filing of the complaint and the date of trial should bar interest award, where infringer concealed its use of the claimed process and where the delay was caused by other suits on the same patent); Lummus Indus., Inc. v. D.M. & E. Corp., 862 F.2d 267, 274-275 (Fed. Cir. 1988) (vacating denial of interest as based on improper reasons and remanding for reconsideration only of delay reason, pointing out that "the withholding of prejudgment interest based on delay is the exception, not the rule," and citing Radio Steel as requiring that the delay must be prejudicial to the defendant); Allen Archery, Inc. v. Browning Mfg. Co., 898 F.2d 787, 791-792 (Fed. Cir. 1990) (remanded to increase interest award to cover period during which case was stayed pending earlier-filed litigation against third party on same patent; held that patentee did not have to prove what use it would have made of the money to get interest award); and Kalman v. Berlyn Corp, 914 F.2d 1473, 1485-1486 (Fed. Cir. 1990) (delay in filing suit was not a reason for denying

interest where patentee had been suing another infringer, whose defense was controlled by present infringer).[44]

Assuming no adequate justification exists for withholding or reducing prejudgment interest, the remaining issues are the rate that should be applied, whether the interest should be simple or compounded, and whether the interest should be applied to pre-tax or post-tax damages (lost profits and/or reasonable royalties). Unlike the question of whether to award such interest, the first two issues are clearly within the discretion of the trial court and are rarely overturned on appeal. Gyromat Corp. v. Champion Spark Plug Co., 735 F.2d 549, 556-557 (Fed. Cir. 1984).

As to interest rates, various courts have granted awards based on the prime lending rate. Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1066 (Fed. Cir. 1983); Studiengesellschaft Kohle, m.b.H. v. Dart Indus., 862 F.2d 1564, 1579-80 (Fed. Cir. 1988); Scott Paper Co. v. Moore Business Forms, Inc., 594 F. Supp. 1051, 1083 (D.Del. 1984); and Shiley, Inc. v. Bentley Laboratories, Inc., 225 U.S.P.Q. 1013, 1020 (C.D.Cal. 1985). See also Arriflex Corp. v. Aaton Cameras, Inc., 220 U.S.P.Q. 424 (S.D.N.Y. 1984) (treasury

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[44]In a case interpreting 35 U.S.C. § 284 (award of prejudgment interest) in light of 35 U.S.C. § 285 (award of attorney's fees) and Supreme Court precedent, the federal circuit held that a district court had authority, in cases of "bad faith or other exceptional circumstances," to award prejudgment interest on the unliquidated sum of an attorney's fees award. Mathis v. Spears, 857 F.2d 749, 760-61 (Fed. Cir. 1988).

bill rate). Still, others have awarded the rate provided for by state statute in state court cases. Railroad Dynamics Inc. v. A. Stucki Co., 727 F.2d 1506, 1520 (Fed. Cir. 1984).

Only in Bio-Rad Laboratories v. Nicolet Instrument Corp., 807 F.2d 964 (Fed. Cir. 1986), did the federal circuit vacate the lower court's selection of a rate. The evidence suggested that the appropriate rate was the prime rate compounded or the rate the patentee actually paid on its corporate borrowings. The lower court, instead, applied the reduced rate of 7% simple interest (the standard California prejudgment rate) because of a clearly erroneous finding of dilatory conduct by the patentee.

The use of both compound interest and simple interest has been upheld by the federal circuit. Railroad Dynamics, 727 F.2d at 1510 (compound interest) and Gyromat, 735 F.2d at 556-557 (simple interest). However, the federal circuit indicated in Dynamics Corp. of America v. U.S., 766 F.2d 518, 520 (Fed. Cir. 1985), that compound interest may be more fair than simple interest.

One trial court recently revised its initial award of prejudgment interest from prime rate, compounded annually, to prime rate, compounded daily. The difference amounted to more than $400,000. The court noted that daily compounding "more accurately reflects modern banking and investment practices." Uniroyal Inc. v. Rudkin-Wiley Corp.,

13 U.S.P.Q.2d 1192, 1203 (D. Conn. 1989), modified and vacated on other grounds, 19 U.S.P.Q.2d 1432 (Fed. Cir. 1991).

The issue of whether prejudgment interest should be based on pre-tax or post-tax damages was squarely addressed in Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1541 (D. Mass. 1990). Kodak argued that basing interest on pre-tax damages gave the patentee a windfall because of differences between historical and current tax rates. Citing a number of reasons but without citing any judicial precedent, the court rejected Kodak's approach.[45]

As with most damages issues, the burden of deciding what rate should apply falls mainly on the patentee. Recall that the purpose of prejudgment interest is "to compensate for the delay a patentee experienced in obtaining money he would have received . . . had no infringement occurred." Paper Converting Machine v. Magna-Graphics, 745 F.2d 11, 23 (Fed. Cir. 1985). The patentee cannot arbitrarily select a high rate, but instead must examine its corporate records over the relevant time period and determine how the increased money (lost profits or royalty) would have been treated. The company's tax situation plays an important role. The question then usually reduces to a choice between

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[45]In the area of lost profits computation, the federal circuit has held that taxes should not be deducted from a patentee's damages award. Kalman v. Berlyn Corp., 914 F.2d 1473, 1482-83 (Fed. Cir. 1990). Cf. Love v. Kwitny, 20 U.S.P.Q.2d 276 (S.D.N.Y. 1991).

one or two applicable rates. It is far better for the patentee to present a convincing case for a fair rate, such as its rate of borrowing at the time, than simply to demand the highest rate possible without any evidentiary support. Where a patentee does the latter, the infringer's counterattack may well result in a low, simple interest rate. In sum, careful presentation of economic and financial evidence bearing on the prejudgment interest issue, often with the aid of an independent accounting expert, may result in a very satisfying award.

IV. Conclusion

The law of patent damages is rapidly evolving. From a patentee's perspective, presentation of a damages case is not as simple as it once was, but new theories of recovery provide opportunities for a patentee to claim substantial awards. As well, an infringer should keep current with new developments in the case law. Although sophisticated analyses may predict substantial recoveries, a damage theory will nevertheless collapse if not supported by credible evidence. And an informed infringer will effectively exploit these evidentiary weaknesses and minimize his liability.

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DAMAGE CONTROL IN PATENT LITIGATION

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DAMAGE CONTROL IN PATENT LITIGATION*

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I. INTRODUCTION

A. The Statutory Scheme.

1. Compensatory damages.

Section 284 of the Patent Act provides that, upon finding for the claimant, the court shall award damages "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . ." Such damages may be found by a jury or assessed by the court.

2. Increased damages.

Section 284 also authorizes the court (not a jury) to increase the damages "up to three times the amount found or assessed." Under the case law, the court's award of increased damages is ordinarily based upon a finding of "willful infringement."

3. Attorneys' fees.

Section 285 of the Act authorizes an award of reasonable attorneys' fees to the prevailing party "in exceptional cases." A finding of willful infringement, by itself, provides a sufficient basis for a court's award of attorneys' fees to the patentee.

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*An earlier version of this paper appears in Intellectual Property Litigation (1991).

B. The Evolution of Large Damage Awards.

1. The Federal Circuit's relative hostility toward invalidity defenses means more cases reach the damages phase.

2. Damage awards based on lost profits have included not only profits on lost sales, but also reduced profits on the patentee's own sales as a result of price erosion or increased expenses.

3. Damage awards based on a "reasonable royalty" have included not only a royalty on sales of the infringing product, but also a royalty on sales of other, non-patented products sold together with the infringing product.

4. The Federal Circuit's expansive concept of "willful infringement" has led to an increasing number of multiple damages awards.

5. As a result of the substantial costs of patent litigation, when attorneys' fees are awarded, the amount of the award is likely to be sizeable.

6. The trend toward more jury trials has produced some notably large awards and added an additional element of uncertainty to patent litigation.

7. As a result of Polaroid and several other cases, the press regularly reports large damage awards in patent cases, creating an atmosphere of heightened anxiety on the part of accused infringers.

C. Damage Control.

1. Contrary to popular belief, not every award of patent damages has been astronomical. Reasonable royalty awards amounting to 5% or less of infringing sales are still reported, and such awards are regularly upheld by the Federal Circuit.

2. The enormous discretion afforded to district courts in assessing patent damages puts a premium

on thorough preparation and effective advocacy. In one recent case, the Federal Circuit upheld an award of only nominal damages to a patentee where defendant persuaded the court that the opinion of plaintiff's expert on damages was "based on a nonexistent or at best woefully incomplete understanding of the market and on an estimate of anticipated profits that bore no relation to actual profits." Lindemann Maschinenfabrik v. American Hoist & Derrick Co., 895 F.2d 1403, 1407 (Fed. Cir. 1990).

3. In preparing for the damages portion of a patent case, counsel must develop a comprehensive understanding of the relevant market, pinpoint the weaknesses in plaintiff's theory of damages and formulate a consistent and compelling trial strategy. This effort cannot await the trial itself, and certain aspects of it should begin as soon as the claim is asserted.

II. PRETRIAL CONSIDERATIONS

A. Avoidance of Willful Infringement.

1. An award of increased damages involves three separate considerations: (a) whether, as a factual matter, the infringement was willful, (b) whether, considering the degree of defendant's culpability, the court should exercise its discretion to increase the damages, and (c) assuming it does, determination of the appropriate multiplier. Each of these considerations is affected by defendant's conduct long before the trial on damages. A company facing the risk of patent infringement litigation can take several steps before and during the litigation to minimize its exposure to increased damages.

2. A key factor in a court's decision to award increased damages is whether the defendant made good faith efforts to design around the patent. A defendant who "faithfully copied" the patented product is far more likely to face a treble damage award than one that undertakes independent

research and development aimed at improving upon and differentiating its product from the patented product. See Bott v. Four Star Corp., 807 F.2d 1567, 1572 (Fed. Cir. 1986). Although the die may be cast by the time suit is brought, a company should not overlook the potential advantages of ongoing R&D and product improvements during the litigation. It should also make sure it has documented the extent of its R&D efforts and preserved records that may be useful.

3. Another important consideration is whether defendant obtained an invalidity or non-infringement opinion prior to commencing infringement. Once defendant is on notice of the patent, failure to seek and obtain competent legal advice will virtually assure a finding of willful infringement. Although the existence of a favorable legal opinion will not guarantee a finding of non-willfulness, it will be given considerable weight in the "totality of circumstances" test applied by the Federal Circuit. An opinion of independent patent counsel is preferred, but the Federal Circuit has accepted opinions of in-house patent counsel. E.g., Uniroyal Inc. v. Rudkin-Wiley Corp., 19 U.S.P.Q.2d 1432 (1991). An opinion of trial counsel prepared in anticipation of litigation will be of lesser value.

4. Although an opinion obtained after the commencement of infringement will not overcome a finding of willful infringement, it may be useful nevertheless. Even after a finding of willful infringement, the court may, in its discretion, decline to increase the damages, or may increase the damages by a low multiple. E.g., Modine Mfg. Co. v. The Allen Group, Inc., 917 F.2d 538 (Fed. Cir. 1990), cert. denied, 111 S.Ct. 2017 (1991); Datascope Corp. v. SMEC, 14 U.S.P.Q.2d 1071 (D.N.J. 1990). A favorable opinion of counsel, even though insufficient to overcome a finding of willful infringement, may help defendant avoid a treble damages award.

5. Defendant should not assume that the court's refusal to enjoin infringing sales during the litigation will protect it from a finding of willful infringement with respect to sales made after commencement of the litigation. Moreover, in a case where liability and damages are bifurcated, an adverse decision on liability increases the risk of a multiple damages award with respect to subsequent sales, even when the court grants a stay pending appeal. See Bott, 807 F.2d at 1572-74 (over 80% of infringing sales occurred after court granted stay of injunction). Thus, at each stage of the litigation, defendant should review the risks associated with continuing to sell the allegedly infringing product.

6. The conduct of the litigation is also an important factor in awards of increased damages and attorneys' fees. Counsel who raise insubstantial defenses, unnecessarily prolong the litigation or engage in bad faith tactics during discovery and trial will greatly increase the risk of an award of treble damages and attorneys' fees.

B. Conduct of the Business During the Litigation.

1. Unless the patent expires during the litigation, a defendant should assume that ordinary business records relating to the patented product, even though created after commencement of the action, will be discoverable.

2. Current sales and marketing plans, sales forecasts and other ongoing analyses of the product may bear on market definition, demand for the patented product, price sensitivity and other relevant issues. Such documents should be carefully reviewed in light of plaintiff's theory of damages. Consideration should also be given to whether such documents can be created under circumstances that will make them subject to work product protection.

3. Defendant's document retention policy also should be reviewed. Defendant's failure to maintain adequate accounting records with respect to the patented product can be treated as evidence of willful infringement and can lead to adverse inferences concerning profit margins and other relevant computations. It can also result in a court's refusing to allocate between sales of the patented product and sales of related but non-patented products when calculating a reasonable royalty. See TWM Mfg. Co. v. Dura Corp., 789 F.2d 895 (Fed. Cir.), cert. denied, 479 U.S. 852 (1986).

C. The Risk of Inconsistent Trial Positions.

1. Defendants often overlook the impact on damages of positions asserted prior to the damages phase. This can arise in several situations.

2. When defendant is asserting an antitrust counterclaim, it may take a position on market definition that will prove to be inconsistent with its position on the existence of acceptable, noninfringing substitutes.

3. Similarly, in fighting off a request for injunctive relief, defendant may be tempted to assert the importance of the patented product to its other product lines. This assertion may come to haunt a defendant faced with a claim for royalties on the sale of collateral products.

4. The same issue may arise in the case of a reissue patent, where defendant raises equitable considerations under §252 of the Act that emphasize the importance of the patented product to defendant's business.

5. The bottom line is, in litigating issues of liability, counsel must not overlook the factual issues that will later arise in connection with plaintiff's claim for damages.

III. LOST PROFITS

A. The Legal Framework.

1. Since the purpose of patent damages is to compensate a patentee for pecuniary loss, courts generally prefer a lost profits measure of damages. E.g., Polaroid Corp. v. Eastman Kodak Co., 16 U.S.P.Q.2d 1481, 1484 (D. Mass. 1990). Unless a design patent is involved, 35 U.S.C. § 289, the patentee may recover only its own lost profits, not the infringer's profits.

2. The most straightforward claim for lost profits is based on sales that were lost to the infringer due to the infringer's actual sales. In a two-supplier market, the patentee may claim that, but for that infringement, it would have made all the sales made by the infringer, or that it would have made some substantial percentage of the infringer's sales. In a multi-supplier market, the patentee may claim that it would have made a portion of the infringer's sales, based on its market share. See State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577-78 (Fed. Cir. 1989), cert. denied, 110 S.Ct. 725 (1990).

3. In either case, courts generally require the patentee to prove (a) demand for the patented product in the market; (b) the absence of acceptable noninfringing substitutes; (c) its manufacturing and marketing capability to exploit the demand; and (d) the amount of profit it would have made on the lost sales. See Panduit Corp. v. Stahlin Bros. Fibre Works, 575 F.2d 1152 (6th Cir. 1978).

4. A lost profits measure of damages is not limited to profits on the patentee's lost sales. It may also include reduced profits on the patentee's actual sales, due to price erosion or increased expenses caused by the infringement. Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056 (Fed. Cir. 1983). The patentee may also claim projected lost profits with respect to the post-infringement period, based upon such

considerations as impaired growth rate and loss of good will. Id. at 1068; see Sun Products Group, Inc. v. B&E Sales Co., 700 F.Supp. 366 (E.D. Mich. 1988).

5. In defending against a lost profits claim, defendant has available two broad means of attack. First, defendant can attempt to show that in the absence of infringement, the patentee would not have made the sales made by defendant. Second, defendant can attempt to show that the amount of the patentee's lost profits is far less than that claimed.

B. Attacking the Lost Sales Claim.

Whether the patentee would have made the infringer's sales but for the infringement is a question of fact. Defendant's objective is to rebut the claim, or at least to show that the claim is conjectural, and that a reasonable royalty measure of damages should be adopted in lieu of an award of lost profits. The elements of proof discussed in Panduit offer several opportunities along these lines.

1. Demand for the patented product.

A court that already has found the invention to have been novel and non-obvious, and has found the defendant to have infringed, will be reluctant to find the absence of demand for the patented product. But defendant should not concede that, but for the infringement, the patentee would have made the same level of sales that defendant made.

a. In Polaroid, Kodak presented extensive evidence to support the proposition that its infringing sales of instant cameras had the effect of expanding the market. It offered evidence as to its name, reputation, quality and product features, its sales force and distribution network, and the effect of its advertising campaigns. This evidence was buttressed with market research, expert opinion and an econometric model. While the

court rejected much of the evidence, it did find that Polaroid would not have made all of Kodak's sales in certain premium channels and in some foreign markets.

b. The Polaroid court's rejection of Kodak's econometric model suggests that a successful model must be built on conservative assumptions and that its quantitative output must be consistent with the testimony of fact witnesses and contemporaneous documents.

2. The existence of acceptable, noninfringing substitutes.

a. To defeat the second prong of the Panduit test, a defendant must show the existence of substitute products that offer all the key advantages of the patented device but do not infringe. Panduit, 575 F.2d at 1162. The courts treat this inquiry as a narrow one; the existence of a competing device does not make the device an acceptable substitute to customers who want the advantages of the patented device. TWM Mfg. Co., 789 F.2d at 901. In a recent decision, however, the Federal Circuit recognized that the "realities of the market" should be considered if other suppliers would likely have captured sales made by the infringer, despite differences in the products. SmithKline Diagnostics, Inc. v. Helena Laboratories Corp., 962 F.2d 1161, 1165-66 (Fed. Cir. 1991).

b. Although it remains an uphill battle under the case law, defendant should always seek to prove the existence of acceptable, noninfringing substitutes. It may be possible by market share data, customer surveys and fact witnesses to show that at least a segment of the market cared less about the advantages of the patented invention than about other features of the infringing product. Defendant can then argue, under Mor-Flo, that the patentee's

lost sales should not equal the amount of infringing sales, but instead should be a percentage of infringing sales based on its share of a more broadly defined market. Further, educating the fact-finder as to the existence of competitive products will prove useful in the court's consideration of any price erosion claim, as well as its determination of a reasonable royalty based on a hypothetical negotiation as of the time of infringement.

3. The patentee's manufacturing and marketing capacity.

   a. When the infringer is a large company with a substantial market share, defendant may have a basis to challenge the patentee's capacity to manufacture sufficient products to take over the infringer's sales volume. See Polaroid, 16 U.S.P.Q.2d at 1510-25; Water Technologies Corp. v. Calco Ltd., 850 F.2d 660, 673 (Fed. Cir. 1988) (patentee had no facilities to manufacture the product commercially). Further, even if the patentee had the ability to expand its facilities to meet added demand, the investment required can be treated as an incremental expense, thereby reducing the amount of lost profits.

   b. Defendant can also attack the patentee's capability to market and sell the volume of products sold by defendant. See Micro Motion Inc. v. Exac Corp., 19 U.S.P.Q.2d 1001, 1006 (N.D. Cal. 1991) (patentee might not have found every customer that infringer found; some customers may have needed a feature that only the infringer could provide; some customers may have been dissatisfied with patentee and refused to buy from it; other customers might have purchased from third parties). This prong of the test raises the same market expansion issues discussed in connection with the demand test.

C. Challenging the Computation of Lost Profits.

1. The relevant sales base.

a. Under Federal Circuit decisions, a patentee may, in some circumstances, recover lost profits not only on lost sales of the patented device, but also on lost sales of non-patented components of an apparatus containing the patented device. Under the "entire market value rule," such recovery may be permitted when the patentee can normally anticipate the sale of the non-patented component together with the sale of the patented component. E.g. Paper Converting Machine v. Magna-Graphics, 745 F.2d 11, 22-23 (Fed. Cir. 1984.)

b. Since this is a question of fact, defendant should be prepared to show that the non-patented components can be and often are sold separately, and that customers choose to purchase the non-patented components independently of their decision to purchase the patented device. Fact witnesses, customer surveys and statistical analyses can help rebut a claim of this nature. Further, defendant should emphasize that the burden is on plaintiff to quantify the volume of non-patented components that normally are sold with the patented item. See King Instrument Corp. v. Otari Corp., 767 F.2d, 853, 865-66 (Fed. Cir. 1985).

2. Price erosion.

a. Increasingly, claims for lost profits include allegations of price erosion. That is, the patentee asserts that it lost profits not only on the sales it lost to the infringer, but also on its own sales, due to an inability to maintain or raise prices in the face of competition. This claim is especially appealing where the volume of infringing sales is small in comparison to the patentee's sales. See Micro Motion

(awarding $14 million in price erosion damages, as compared with award of less than $5 million for lost sales). See also Minnesota Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., No. 4-86-359, Memorandum Opinion of Special Master (D. Minn. April 30, 1991) ("3M"). ($29 million in price erosion damages, as compared with $23 million for lost sales).

b. To defeat a price erosion claim, defendant should offer evidence to show other factors in the marketplace that constrained the patentee's prices. In this context, the existence of noninfringing substitutes, even if inferior to the patented product, may have prevented the patentee from raising its prices. Expert testimony from an economist may establish that the infringer had insufficient market power to affect overall prices, or that the infringer's sales were concentrated within a separate submarket in which the patentee did not compete. It may be possible to show that the infringer's average selling prices were higher than the patentee's prices, and thus did not exert downward pressure on pricing. More generally, evidence of industry-wide trends with respect to pricing may provide an alternative explanation for the alleged price erosion.

c. In Polaroid, the court rejected Polaroid's price erosion claim. The court relied on evidence that Polaroid's pricing decisions during the period of infringement were consistent with its historical behavior as a monopolist and resulted from independent market forces, including competition from conventional photography and changing consumer perception of instant photography. 16 U.S.P.Q.2d at 1505.

d. In attacking a price erosion claim, a defendant should also address the likely market expansion effect of lower prices.

That is, if the patentee had raised prices in the absence of infringement, the volume of sales would likely have been lower, assuming some elasticity of demand. Thus, as a factual matter, the price erosion might not have caused a reduction in the patentee's profits. See Polaroid, 16 U.S.P.Q.2d at 1505-09 (finding that if Polaroid charged higher prices, demand would have been depressed so substantially that profits would have declined).

e. In a jury trial, defendant may be able to convince the jurors that raising prices to monopolistic levels is undesirable, and that the patentee should not be rewarded based on its inability to have gouged consumers.

3. Loss of future profits. In theory, the court may award additional damages to compensate the patentee for projected lost profits after the period of infringement. See Lam, 718 F.2d at 1067-68; Bic Leisure Products, Inc. v. Windsurfing Int'l, Inc. 687 F.Supp. 134 (S.D.N.Y. 1988). Again, defendant must address the multitude of market forces at work, and convince the factfinder that an award of future lost profits is too speculative.

4. Calculation of incremental costs.

a. Courts typically calculate the amount of lost profits using the incremental income method, in which variable costs are subtracted from the incremental revenue that was lost. See Paper Converting, 745 F.2d at 22. Here, defendant should attempt to show that the patentee's alleged fixed costs do, in fact, vary with increased volume.

b. Although fixed and variable costs can be analyzed on a line-by-line accounting basis, courts have also accepted a regression analysis of the relationship between volume and costs. In both Polaroid and 3M, this technique was utilized by defendant to reduce the profit margin applied to lost sales.

c. Under the incremental income method, additional investment required by the patentee in order to manufacture additional units can be treated as a variable cost. Thus, defendant may be able to reduce the lost profits award by showing the amount of investment necessary to meet the combined demand.

IV. REASONABLE ROYALTY

A. The Legal Framework.

1. The reasonable royalty measure of damages has been described as "a floor below which the courts are not authorized to go." Del Mar Avionics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326 (Fed. Cir. 1987). Nevertheless, plaintiff has the burden of proving the amount of a reasonable royalty, and if it fails to do so, it may be limited to nominal damages. Lindemann, 895 F.2d at 1406.

2. Courts may award a combination of lost profits and reasonable royalty, the latter applied to sales that plaintiff would not have made in any event. E.g., Mor-Flo; Polaroid. Query whether such an award is authorized under Section 284. If plaintiff has been compensated fully for its pecuniary loss by an award of lost profits, why should a reasonable royalty be added on? This battle has been lost in the Federal Circuit, but could be raised in the Supreme Court. Cf. Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964)(plurality opinion).

3. In defending against a reasonable royalty theory of damages, the overriding theme should be the constraints imposed by economic and commercial reality.

   a. Most courts follow the "hypothetical negotiation" approach discussed in Georgia Pacific Corp. v. United States Plywood Corp.,

318 F.Supp. 1116 (S.D.N.Y. 1970), mod. and aff'd in relevant part, 446 F.2d 295 (2d Cir.), cert. denied, 404 U.S. 870 (1971). This approach directs the court's attention to "a marketplace confrontation of the parties" at the time the infringement commenced, taking account of such factors as the parties' relative bargaining strength, the amount of profits to be gained or lost by the grant of a hypothetical license, the market for the product, "and any other economic factor that normally prudent businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license." Id. at 1121.

b. A well-prepared defendant can take advantage of this approach by presenting evidence of market factors that constrain the amount of royalty a reasonable and prudent licensee would be willing to pay. This will likely require testimony from marketing and sales personnel, from third parties experienced in the business and from an expert economist. In addition, to address the impact of these factors on the hypothetical negotiation, testimony from an expert in licensing will be desirable.

4. Plaintiffs typically argue that the royalty should exceed commercially accepted royalty rates on the ground that infringers would otherwise be able to impose a compulsory license. See Panduit, 575 F.2d at 1563. There are several responses to this argument.

a. In the absence of willful infringement, the award of damages is limited to compensation for pecuniary loss. Aro Mfg. Co., 377 U.S. at 507; Central Soya Co. v. George A. Hormel & Co., 723 F.2d 1573, 1579 (Fed. Cir. 1983). An award that exceeds a commercially reasonable royalty is punitive, not compensatory.

b. A patentee is entitled to recover the full amount of its lost profits; the purpose of the reasonable royalty measure of damages is merely to provide a floor on damages.

c. A patentee may obtain an injunction against future sales, as well as damages for past sales.

d. An infringer faces not only the prospect of paying a reasonable royalty on infringing sales, but also the possibility of increased damages for willful infringement and an award of attorneys' fees.

B. Factors Relevant to Reasonable Royalty.

1. The competitive environment. A defendant should present extensive evidence showing the competitive factors at work in the relevant market. If the market is highly competitive due to the grant of prior licenses or the existence of noninfringing substitutes, the patent is considerably less valuable, since the licensee will lack the ability to control prices, profit margins, production and the identity of its competitors. See T.J. Smith and Nephew Limited v. Parke, Davis & Company, No. 85-C-615W, slip. op. at 37, 46-47 (D. Utah, January 28, 1992), appeal docketed, Nos. 92-1240,1241, Federal Circuit ("Smith and Nephew") (hypothetical license less valuable due to patentee's prior grant of nonexclusive licenses). The definition of noninfringing substitutes here can be broader than in lost profits analysis. Under recent cases, a defendant can show that it would have licensed lesser, noninfringing alternatives from third parties rather than risk losing money by licensing from the patentee at too high a rate. See Mor-Flo, 883 F.2d at 1581; SmithKline, 926 F.2d at 1163. To address the marketplace issues, a defendant should present evidence of relevant markets and submarkets, market share trends, price trends, etc.

b. Since most licenses are negotiated in light of the potential for litigation, a defendant seeking to offer evidence of prior licenses must be prepared to deal with Rule 408 of the Federal Rules of Evidence. Recent cases suggest, however, that the Federal Circuit will apply a loose standard of admissibility, particularly if the circumstances of the prior license are explained. E.g., Sun Studs, Inc. v. ATA Equipment Leasing, Inc., 872 F.2d 978, 994 (Fed. Cir. 1989). Moreover, Rule 408 itself permits the admission of settlements when offered for a limited purpose, and it should be possible to offer a prior license to demonstrate the patentee's willingness to license, the effect of prior licenses on the market, and other such factors.

c. Where the patentee is a large corporate enterprise, defendant should not overlook the possible existence of intra-company license agreements. If, for tax or other reasons, the patentee has characterized the licenses as "arms-length", the royalty rates specified in the licenses may be admissible evidence of a reasonable royalty.

d. Prior licenses may be relevant to show the patentee's customary practice with respect to the structure of its licenses. This could be problematic if the patentee has succeeded in obtaining large lump sum payments in addition to a running royalty, particularly where the prior licenses contain most-favored-nations clauses. Where defendant's projected sales are substantially less than those of the prior licensees, a hypothetical license containing the same lump sum payments would put the defendant at a competitive disadvantage. Defendant should reject a theory of absolute equivalence, and demonstrate that in a hypothetical negotiation, it would agree to pay only the same effective royalty (as a percentage of its sales) as did the prior licensees. See

Studiengesellschaft Kohle m.g.H. v. Dart Industries, Inc., 666 F.Supp. 674, 682 (D. Del. 1987), aff'd 862 F.2d 1564 (Fed. Cir. 1988); Smith and Nephew, slip. op. at 50-51 (accepting "effective royalty" analysis).

6. The impact of collateral sales. In a few cases, courts have enlarged the royalty base to include collateral, non-patented products that are sold along with the patented products. E.g., TWM Mfg. Typically, these cases involve a patented device that is a component of an apparatus, where the patented device constitutes "the basis for customer demand." 789 F.2d at 901. More frequently, however, courts will consider the effect of the patented product on sales of collateral products as a factor to be weighed, along with others, in determining the appropriate royalty rate. E.g., Deere & Co. v. International Harvester, 710 F.2d 1551 (Fed. Cir. 1983); Mor-Flo, 883 F.2d at 1580.

   a. Defendant should strongly resist any attempt to expand the royalty base, and should seek to limit evidence of collateral sales to their impact, if any, on the royalty rate.

   b. It may be possible to minimize the importance of this factor in the hypothetical negotiation by showing that the relationship between the patented product and defendant's other products is a positive factor from the patentee's perspective, in that it offers greater potential for market expansion, possibly in areas in which the patentee does not compete. This evidence would tend to counterbalance any leverage the licensor might otherwise have in the hypothetical negotiation.

   c. Discovery may reveal internal marketing documents touting the synergy between the patented product and defendant's other product lines, perhaps suggesting opportunities for "bundling" or "system selling" of the products. This marketing

Converting Machines, 785 F.2d at 1016, "there is no necessary inconsistency between awarding treble damages on account of willful infringement and denying counsel fees whether or not the case is deemed 'exceptional.'" See, e.g., Oiness v. Walgreen Co., 21 U.S.P.Q.2d 1654, 1661 (D. Colo. 1991) (treble damages for willful infringement, but no award of attorneys' fees).

3. Where a finding of willful infringement has been made, or is expected, defendant's objective should be to minimize the amount of any increase in damages, and to persuade the court not to award attorneys' fees.

B. Relevant Factors.

1. Advice of counsel. Even if defendant did not obtain an adequate opinion of counsel prior to commencing infringement, the fact that it did seek legal advice militates against maximum enhancement of damage. Datascope, 14 U.S.P.Q.2d at 1074.

2. Product differentiation. Defendant should seek to prove that it undertook independent research and development aimed at differentiating its product from that of the patentee. Technical differences in the two products, the time and expense incurred in bringing the product to market and efforts to promote unique features of defendant's product will be useful to overcome a claim that defendant purposefully copied the patented device. Compare The Read Corp. v. Portec Inc., 17 U.S.P.Q.2d 1243 (D. Del. 1990).

3. Closeness of the issues. Even though defendant loses on validity and infringement, a well-presented case on liability may persuade the court that the issues were close. In several cases, courts have declined to increase damages where defendant mounted a good faith and substantial challenge to the patent claims. See Modine, 14 U.S.P.Q.2d at 1217; S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 231 U.S.P.Q. 668, 670 (S.D.N.Y 1986). This factor is also

cited frequently as a ground for denying an award of attorneys' fees. E.g., Modine, 14 U.S.P.Q.2d at 1222; Serpentix Conveyor Corp. v. Roth, 726 F.Supp. 282, 285-86 (D. Col. 1989); 3M, slip op. at 44.

4. Conduct of the litigation. Bad faith presentation of frivolous defenses will greatly increase the risk of multiple damages and attorneys' fees. E.g., Kaufman Co. v. Lantech, Inc., 807 F.2d 970, 979 (Fed. Cir. 1986). By contrast, a finding that defendant conducted the litigation fairly and in good faith may overcome a finding of willful infringement, and result in the court's declining to award either increased damages or attorneys' fees. E.g., Modine; S.C. Johnson. Conduct of the litigation by plaintiff may be relevant as well. In Smith and Nephew, the court awarded treble damages for willful infringement but declined to award attorneys' fees based on its finding that plaintiff's damage claims were "highly inflated." Slip. op. at 68.

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OUTLINE OF DISCUSSION

"PATENT LITIGATION ON A LIMITED BUDGET"

1. Introduction

Controlling litigation costs has become increasingly important with the down-turn of the economy. The numerous articles that appear in the legal journals, newspapers, and the like, generally deal with the problems caused by unusually expensive litigation or with legislation intended to control it. A great deal has been written about such matters as Atlantic-Richfield Co.'s efforts to limit its litigation expenses on pollution problems; controlling legal aid expenditures (Times Newspaper, October 18, 1990); government control and cost cutting measures in its litigation (Washington Post, July 31, 1986); controlling civil suits involving various government agencies (UPI, January 26, 1985); and cost recoveries (American Lawyer Newspaper, May 28, 1984). There are also numerous individual articles and seminars on cost reductions and efficiencies. Because of this general concern, it is timely to address the one issue that all intellectual property trial lawyers must face at one time or another, namely the limited budget lawsuit.

2. Scope of Discussion

We will discuss specifically whether and how to try a patent lawsuit on a very limited budget. This discussion will not cover alternative dispute resolutions, settlement negotiating, arbitration proceedings, mini-trials, or negotiation techniques specifically. It will deal with determining what kind of case can be tried on a limited budget and cost control of trying such a lawsuit as either a plaintiff or defendant with or without a jury.

By a limited budget I mean a lawsuit in five or very low six figures. According to the AIPLA 1991 Economic Survey, the median cost of litigating a patent through a district court trial in Boston was $508,000.00 and in New York it was $503,000.00. While a number of other cities reported lower costs, only Phoenix, Miami, and Charlotte estimated costs under $200,000.00. The national median average cost of a trial was $395,000.00. By being selective and creative, one may be able to try an average patent suit for less. However, not every patent claim can be effectively litigated on a limited budget. By their very nature, some patent claims are so complex in technology and factual issues that costs will be substantial.

But, even in those cases, considering the suggestions made here may reduce the costs. As a practical matter, we cannot really quantify how much can be saved since it depends in large measure upon the issues, the parties, and the objectives involved. Indeed, estimating the costs of litigation to begin with is, at best, a difficult problem.

3. Prelminary Evaluations - Should you take the case

Whether you represent a plaintiff or defendant, there are preliminary evaluations that you may make in most cases before you become involved in litigation. As counsel for plaintiff, you will obviously know about the claim before the lawsuit arises. In most instances, if you are regular intellectual property counsel for the prospective defendant, you will also know that a lawsuit is likely to arise.

a. As a first step, try to avoid litigation through settlement. Settlement is almost always least expensive or potentially expensive course of action to follow. The settlement negotiation process is a topic unto itself which is the subject of innumerable articles, seminars, courses, and

advice from all kinds of self-proclaimed experts. We will not cover that topic here. However, whatever settlement technique you use, do not become involved in time-consuming, protracted negotiations. Go right to the issues, set deadlines and insist on dealing with the decision maker from the start. Failure to do so may result in your client being enmeshed in costly and distracting discussions that lead nowhere.

b. If litigation is inevitable, you must first decide whether it is a case in which you should become involved. This decision must be made after evaluating the lawsuit and its potentials and also the client for whom you will work. If you are dealing with a limited budget lawsuit, you must have a client who will willingly accept and understand that compromises in litigation will be necessary, and also that the client must be an active participant in the process. The willingness to actively participate in the case means more than being kept informed and more than making substantive choices promptly. It means using the parties resources to actively advance the case.

c. Consider the issues, your time involvement, the real and hidden costs, the likely results.

d. Thoroughly discuss the claim and the expected proceedings with your client. Reduce to writing and give to your client your evaluation of the claim, the defenses, and the other party, what action will be taken, the potential recovery, and what costs and fees will be incurred and over what time period. It should also spell out the exposure, possible non-asserted claims, the impact of the client's business, and costs in ranges depending upon various scenarios or sequences. The outline should be realistic.

e. If you conclude that the client cannot afford even a limited budget lawsuit or if the recovery cannot justify a limited budget case (either as plaintiff or defendant), or if the client is not likely to actively assist or is unwilling to accept the narrow focus that you will give to the lawsuit, do not take it on as a plaintiff and urge settlement if you represent the defendant. Alternately, you can suggest other approaches, such as alternate dispute resolution or filing a lawsuit or defending pro se.

4. Preparing for Litigation

a. Define the parameters of the lawsuit as early as possible. As plaintiff's counsel, identify the specific claim or claims that you assert infringe and particularly identify products of the defendant. In general, you must develop an overall plan to present the essential contentions of your client's case fairly and in a cost-effective fashion. The words "essential" and "cost effective" are the code words.

b. As plaintiff's counsel, limit the infringement claim to a narrow scope, if possible. Avoid asserting borderline claims of infringement. If you are certain that a number of patent claims are infringed, assert only the narrowest of those claims which clearly read on the defendant's construction. If you can, limit the suit to claims that are least subject to challenge. If you are defendant's counsel, look for your strongest defenses. If the patent is clearly infringed, do not argue the issue. Go for the jugular.

c. In most instances, venue is now not usually the subject of challenge. With the new federal rules there is now greater latitude as to where defendants can be sued. For that reason, as a plaintiff's counsel, consider particularly a locus which minimizes the costs to the plaintiff. Do not select simply on the basis of proximity to your office, although that is certainly an important consideration. Consider such factors as whether the district court is a "fast track" court. Obviously if you represent the defendant, you have no choice. But as counsel for the defendant, be chary about challenging service, jurisdiction, or venue. More often than not, it will not be either successful or dispositive.

d. Ordinarily, expenses will be less if you limit the parties in the lawsuit. This, however, is not necessarily always true and, therefore, you should make a conscious decision as to whether costs will be increased if multiple parties are involved.

e. Limit the number of claims in the lawsuit to a simple patent claim without embellishments for unfair competition unless there is a compelling reason for such action and the additional claim can be proved without substantial added cost.

f. As soon as possible, determine the names of those witnesses your client controls and whom you are likely to call as witnesses. Take written statements from them as to what each is likely to say. In short, conduct interviews of your potential witnesses at an early date. Similarly, identify and gather those necessary documents for your case as soon as possible.

g. Assemble a litigating team commensurate with the nature of the claim as soon as possible. One lawyer should be primarily responsible and should have hands-on control. He must take charge, know all the issues, make all the decisions, and delegate all the work. By doing so, conferences, educating other lawyers, preparing memos, or telephone calls to others in your office are all avoided or minimized with a consequent reduction of costs. The primary attorney should be an experienced trial lawyer with enough time to fully control the case and capable of delegating specific activities on an as-needed basis. A second lawyer with limited experience (and therefore a lower billing rate) capable of handling a wide range of delegated tasks that will normally arise, including taking limited depositions, preparing briefs, and perhaps a

paralegal may be useful. The litigating team should necessarily include the client. Try to have the client commit a competent liaison person to you. That person must have the authority, competancy, and resources to effectively assist you. When assigning tasks to other lawyers, paralegals, or your client, be specific as to the task and time/costs that should be spent on the particular task. For example, you may suggest a responsive brief of no more than 5-7 pages be prepared in five hours in response to an opponent's motion. In short, the principal lawyer should not give open-ended assignments to others. The parameters of the task and the time and cost constraints should be expressly defined.

h. Evaluate your opponent's position. If you represent a plaintiff, anticipate the defenses that are likely to be raised. Consider at an early date the type of evidence you will require to meet those claims. If you represent a defendant, carefully analyze the basis of the plaintiff's claims but also identify the type of evidence you will need.

i. Prepare an outline as soon as possible setting forth your legal position and proof requirements. These outlines should be short and practical. Direct them to the proofs that are required to sustain your position. Use these memos as a checklist against which you can work to gather evidence in support of your position.

j. Prepare a schedule of tasks, as well as a detailed budget of costs and legal fees. Break down this budget to tasks necessary to establish the legal position necessary to sustain the position outlined in your legal memo. Be practical in preparing this budget. Make provisions for reassessing it as your case develops and conditions change. Present the budget to your client so that he will have full understanding of what should and should not be done. The schedule and budget should be broken down with respect to such specific tasks as database searching, preparation of outline of claims of defense, interviews, particular depositions, etc.

5. Pleadings

Use simple pleadings. If representing a plaintiff, use standard format pleadings setting forth, as simply as possible the patent and particular claims which you assert infringe. As previously noted, avoid ancillary or secondary claims such as unfair competition or the like unless it is abundantly clear that such additional claim is really necessary for a signficant portion of your recovery. In short, do not add claims simply as a make-weight. If you are a defendant, carefully pick your best defenses and try to assert and stick with them. For example, if you have a strong defense of invalidity, gamble on that defense and not other defenses such as inequitable conduct, laches, non-infringement, etc. Concentrate on a limited number of very serious defenses, even though there might be some that you might have raised under other conditions. As a defendant, avoid counterclaims except for a proforma counterclaim that the patent is either valid or not infringed to prevent possible dismissal of the suit without your concurrence.

6. Rule 16

Use a Rule 16 conference, if the court permits, to define acceptable discovery parameters. Prepare for such a conference by having proposals which will effectively limit costs. That is exactly what Rule 16 is all about.

6. Discovery Practices

a. Avoid motions and, in particular, motions for transfer and even motions to dismiss or summary judgment unless you feel very strongly that they will be dispositive of the whole claim and will be granted. In general, a great deal of money is wasted in motion practice and, in particular, in summary judgment motions since courts will usually find that there is a factual dispute. Bifurcation, if you are a defendant, in most cases is a good idea. From a plaintiff's point of view it is a tactical decision which might be considered favorably if you are convinced that if you are successful on the liability phases, the defendant will want to settle. In general, however, plaintiffs should not accept bifurcation. . Bifurcation will generally, especially if agreed upon early, reduce costs at least through the initial trial on liability.

There are a number of relevant factors which must be considered in determining whether it is advisable to seek bifurcation or not. They include whether the case is jury or non-jury, who you represent, the proofs required, the impact on settlement if the plaintiff is successful in the liability phrase, etc.

b. Call opposing counsel at an early date and try to set the ground rules for discovery. Always treat him courteously. Try to stipulate to as many facts and procedures as possible. Deal with issues of confidentiality early on. Review documents, e.g., file histories, to see if stipulations regarding their use are acceptable. Arrange for document marking and identification, explore possible stipulation of issues or what witnesses, if called on, would say.

c. If the court sets a trial schedule, try not to ask for extensions or delays. Try to complete your preparation discovery within the time set. Remember, if you conduct discovery over two years, you are much more likely to be spending a great deal more money than if you conducted your discovery in a six month period. In short, it may be convenient to you to delay but it is not going to reduce costs, except under very unusual conditions.

d. In discovery disputes, do not contest a refusal to give information unless the refusal is really essential to your case. If you find it necessary to seek the court's intervention, wait until you have collected a number of instances of abuse, review the issues with opposing counsel (as is usually required by the court), then file a motion with a short brief.

8. Depositions

a. As soon as possible, take the deposition of your client's opponent for purposes of pinning down its factual position. Notice them under F.R. Civ.P. 30(b)(6) with a request for production of documents. Schedule the depositions near where the documents are stored to minimize the likelihood that a claim the documents are unavailable. In addition, it may be necessary to offer to enter into an immediate protective order so that the opponent will not withhold documents or refuse testimony on the grounds of confidentiality.

b. Do not undertake depositions of others or third party witnesses until you have obtained any relevant documents through requests for production of documents. Before taking depositions of third party witnesses see if opposing counsel will stipulate to their testimony. Also, talk to the third party witnesses to find out if the information they possess is really critical to your case. Confirm what it is you expect to establish in the deposition in writing to the third party following your conversation.

c. Limit the deposition to specific issues of interest to you. Avoid colloquy during the deposition; refuse to argue; avoid discussions on the record; ask only questions that relate directly to issues of importance to your case. In general, avoid cross-examination of your own witnesses in depositions taken by your opponent.

d. Consider whether or not it is worthwhile going to a deposition noticed by your opponent. If you choose not to go to a deposition, you may want to consider arranging to read the transcript after it is prepared. If there is a deposition which is being scheduled by your opponent that you do not want to attend, you may in some instances be able to stipulate to

facts. Consider attending some depositions by telephone. Try to group depositions in distant areas so that travel time and expenses may be minimized. Consider deferring ordering a copy of the deposition.

e. Try to stipulate with your opponent as to factual information you think may be established by deposition. In many instances, the depositions seek very limited information which the opponent will generally provide. Do not automatically abstract every deposition. Consider use of reporters who now provide computer generated abstracts or summaries. Defer the abstracts until you believe they may be needed for trial preparation or a necessary motion. In the meanwhile, use notes taken at the deposition or short summaries prepared contemporaneously.

9. Interrogatories

Limit use of interrogatories. Most interrogatories are answered by opposing counsel and usually produce little of value for the time you spend in preparing and reviewing them.

Most information can likely be obtained from the other party in the course of the initial depositions. If served with interrogatories, identify those your client can best answer as soon as possible. Send a draft answer to your client with your preliminary objections and proposed answers. Ask your client to fill in blanks and renew your proposal.

10. Documents

Get relevant documents as soon as possible and, to the extent they may bear on the factual issues, set forth the substance of what they evidence in requests for admissions.

11. Requests for Admission

Do not be afraid to use them. Use short declarative statements. They are easily prepared. There is generally no limit on the number asked. They can come in handy, especially in a jury trial.

12. Investigating Facts and Gathering Documents

a. Use your client as a resource to investigate, search, collect evidence, make preliminary contacts with witnesses, prepare draft answers to interrogatories, and assist at depositions.

b. Use interested third parties as a resource. In many cases, third parties have a direct interest in your client's position and may be quite willing to provide assistance of various types.

c. Use databases for prior art patent and literature searches, as well as for other relevant factual investigations. In short, use technology.

13. Preparing Witnesses for Trial

a. When you know a trial is going to take place, determine which witnesses will be necessary. Outline the facts and evidence you expect to prove through each witness. Use the outlines in preparing the witnesses.

b. If you believe expert witnesses are required, consider using employees of your client. If you use an outside expert, you should shop around.

c. Familiarize the witnesses with the exhibits they will identify or use before trial. Be organized.

CONCLUSIONS

Always keep in mind your objectives and keep your plan of action narrowly focused. Test each issue with the question of whether it is really necessary and whether the results can be achieved in a more direct or less expensive fashion.

Corporate Counsel's Role in Directing Patent Litigation

> " Statutory rights become empty promises if adjudication is too long delayed to make them meaningful or the value of a claim is consumed by the expense of asserting it. "
>
> (Judge Bell, 1979)

Litigation is warfare; controlled force for a specific purpose. Litigation is never the ultimate goal for a company. Patent litigation, being especially complex and therefore expensive with potential "bet your company" results, invites the analogy of global thermonuclear war. It is a game that everyone can play -- but nobody really wins.

Yet, the primary goal of a patent litigation is to "win". Various forms of business objectives can qualify as a victory -- limiting a competitor's entry into a product market, obtaining a favorable royalty rate or simply continuing business as usual after a legal threat. It is the function of the corporate counsel to marshal all resources and champion the business goals set by corporate management.

Each stage of the conflict must be dynamically managed according to changing needs and resources by a corporate counsel who understands the fundamental intellectual property (IP) and product market needs of the corporate client. But, the goals set out at the initiation of the conflict process must be every pursued to minimize the unenviable Pyrrhic victory of winning all the battles and losing the war.

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As a philosophy, most controversies should not be litigated. Very few cases can not be resolved by well informed and objective business managers. Even where an injunction is the desired result, often another solution, such as defined market channelling or effective re-design, is potentially available. Especially where damages are the primary remedy sought, litigation represents a failure of the parties to resolve the problem. The impartial judicial lottery system that is the resultant arbitrator will almost assuredly, in retrospect, be unable to provide as suitable a solution reflecting the commercial realities as the parties could have negotiated. As few patent cases are not ultimately settled, corporate counsel should address and develop non-litigation settlement opportunities both prior to and after initiation of litigation, while tailoring the battle plan to facilitate a successful final settlement in line with the primary business needs.

Pre-Litigation

The role of the corporate counsel in patent litigation is to advance the interests of the corporate client. These necessary duties definitely involve pre-litigation planning and management. Thus, the corporate counsel must prepare the client to understand the risks and costs of "war" to prepare for victory.

In the context of this discussion, corporate counsel is that person in the corporation who has the responsibility for developing an ultimate recommendation regarding litigation and who will be charged with responsibility for effective management of the case. Traditionally, corporate counsel is a senior patent attorney who is skilled in the technology, IP and market intricacies. But, for most organizations, this person does not exist. While corporate patent

counsel in the classic sense may not exist, some individual must be nominated to fill this critical position. It may be the company's general counsel, a private patent attorney practitioner who has developed a relationship with the organization or merely some staff or business manager who will be "drafted". But, whatever his previous standing, this individual must become the intellectua property director: one part advisor, one part manager, one part attorney and one part translator for management. Thus, it is assumed that such an individual, preferably a patent counsel, is identified early.

The patent counsel is charged with identifying an approach to litigation that is compatible with the corporation's intellectual property needs and goals. Each corporate entity has a unique set of requirements. Companies which are involved with rapid innovation and short product life cycles depend more on research and development with its resultant IP than do more mature standard commodity product producing companies. With greater emphasis on IP, there is greater potential for conflict with business competitors as well as with "paper innovators" who use aggressive licensing of research -- library -- drafted patents to bleed money from the entrepreneurial product producers. Therefore, especially in high technology markets, the patent counsel must prepare the corporation for battle and defense.

The first area of concentration is the development of a corporate patent portfolio. Whether the purpose is primarily for offensive licensing purposes or for defending the market from piratical clone products, each company must target for protection innovations that lie within their own, and potentially with competitors, technology paths. The easiest way to keep abreast of this dynamic direction and receive budget support is to establish patent awareness programs for management and technical employees.

Education of your client as to what a patent is, the procedure for obtaining and defending a patent, the scope and direction of patent portfolio development and the realities of the current litigation and licensing environment for your particular technology market will prove invaluable in achieving management rapport and support during future litigation. If it is the patent counsel's ultimate recommendation to initiate litigation, he must further evaluate and communicate the likely risks, threats and outcomes, as well as financial and time costs, expected for litigation.

With the increasing ability to enforce U.S. patents and the higher awards, not to mention the availability of preliminary injunctions, more corporate counsels are recommending early first-strike litigations. But without a fully developed, rigorous risk analysis as to the strengths and weaknesses of your own patents (remember that reissue and re-examination are available to excise certain warts on your patents) in light of the competitor's products and an understanding of what your potential opponent has in its patent portfolio to counterattack, any litigation recommendation is premature. Remember when discussing IP and litigation issues with management that the in-house counsel is an advisor, not an advocate. You must remember to explain the parameters in a language they understand and avoid digressing into legalese and trivia. Management is generally composed of intellectually acute individuals who are comfortable with making decisions from informed advice. If you educate them well and involve them in early decision making, the client will more smoothly accept the transition to a litigation environment.

As part of the patent portfolio development, corporate counsel should establish a rapport with a cadre of suitable outside counsel. During the interaction common to supervision of patent prosecution and transactional legal

matters, corporate counsel can help educate outside counsel in the specifics of the technology, market channels, competitors and other client business matters. Corporate counsel also has the opportunity to evaluate whether the specific outside counsel is committed to the business needs of the client, *as directed by the corporate counsel*, both orally and in practice. Should outside counsel not be willing to act under direction, it is incumbent on corporate counsel to select other outside counsel. Where possible, such a rapport and education between outside counsel and the company's patent counsel representatives should minimize the efforts in selecting counsel for litigation in the future.

Other pre-litigation responsibilities include control and direction of patent license negotiations, including finding creative non-cash valuation for portfolio license balancing; identifying and analyzing potential threats and targets as well as providing suitable pre-litigation documentation. Document retention programs must be developed and actively policed -- the time to clean the files of difficult documentation is <u>before</u> litigation is instituted, this specifically includes all materials in patent files that are not available in the U.S.P.T.O. records. Other records development should include competent opinions of invalidity/ non-infringement of noticed third party patents as well as providing legal notice to your potential opponents of your patents.

A note of caution regarding documents prepared under the attorney work-product doctrine. It has become fairly common for courts to set aside the attorney-client privilege in patent litigation. This is either a necessary development in answering discovery on invalidity/non-infringement review to avoid willful infringement determinations, or simply because the materials were not clearly the client's proprietary materials prepared by or for legal counsel in advising the client. Simple precautions such as marking sensitive legal

documents as being "privileged" and controlling their access to only those managers who need to know the information help tremendously in minimizing inadvertent loss of attorney-client privilege.

As a last step before instituting patent litigation, or as a first step after your client has been named in a complaint, corporate patent counsel should provide to management a realistic assessment of the client's chances, subject to reassessment as the matter is developed in discovery. Management dislikes surprises, even beneficial ones. A thorough plan with probable outcomes should be explained along with at least a clear notice of the less likely, but possible, "final solution" scenarios. This assessment belongs at the outset of litigation, not only after the considerable expense of discovery has been incurred.

Initiation of Litigation

The time to commit resources to a protracted legal battle has begun. Patent counsel must now divide his time between being an advisor to management and strategic director for the litigation team.

As a first step, it is critical for corporate patent counsel to obtain a clear management commitment as to what will constitute a "win". There may be gradations or various themes that will be considered successful, but without a clearly articulated goal, excessive resources will be wasted under the Alice in Wonderland approach to litigation: if you don't know where you are going, any road will get you there. Conversely, a clearly defined series of corporate goals and objectives will substantially assist legal counsel in formulating a suitable

litigation strategy. It is critical to keep management involved and committed to obtaining the goals set out as the "win".

Specifically, patent counsel must keep an active involvement with a responsible senior manager who will understand the changing interests that the corporation may have toward the business objectives sought. That manager should be the person whom the company would bring to final settlement conferences and who has the final authority to settle the lawsuit and determine acceptable terms. Patent counsel should avoid permitting the litigation to take on a life of its own as well as avoiding the temptation to direct the litigation without management input.

Patent counsel must determine from management where the product in suit fits into the company's short-term, mid-term and long-term *business* strategy. Counsel can not reasonably formulate a budget and litigation strategy without understanding what really is in dispute and the goals to be achieved. Plainly, a litigation instigated as a personal vendetta against the other party or as a means to crush the opponent under a mountain of legal fees will be treated differently from a commercial litigation, such as one instigated simply to collect royalties.

Rarely is the trial counsel going to be given carte blanche to spend whatever is necessary to win. A proportionality rule must be used by the corporate counsel -- the cost of each aspect of the litigation must be tailored to what is at stake in the litigation and its proportional effect towards resulting in conditions favorable for a win. An initial budget definition should also be considered prior to selecting the litigation team, just as the auction-goer pre-determines a maximum price per item to avoid being "swept-up in the moment"

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excesses. Do not be overly concerned at this point in under-funding the upcoming battle. Outside litigation counsel is adept at convincing your management to spend more resources. The restraint must come from in-house counsel to keep the costs in line with the desired business goal.

Once the initial budget parameters have been determined, it is necessary to choose the litigation team. Normally, the team includes in-house legal and staff/technical support in coordination with outside litigation specialists. As it is rare for a company to have a complete litigation department in-house, even though such a group would be easier to direct towards corporate goals, the outside litigator paradigm will be considered as standard.

There are many factors to consider in selection of outside counsel, each having various weightings depending upon the particular circumstances. Topics of consideration include size of the firm (can they handle the work if the other side escalates the battle); location of the firm in relation to the client and trial venue (an agreement not to charge for travel will ameliorate the first concern, while obtaining local "co-counsel" is especially valuable for jury trials or where a bench trial is involved in an idiosyncratic district); availability and desire to handle the case (if the corporation is not considered a valued client, the commitment from the litigating firm will be insufficient); and what special skills might be available within the litigating firm.

Various special skills may be needed by the litigation team. Knowledge of specific procedural/ jurisdictional complexities (such as a Section 337 action in the International Trade Commission or ADR experience), expertise in the specific technical area of concern as well as general litigation experience make the specific firm more attractive. Where possible, using a firm from a previously

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developed cadre may insure ease of cooperation and technical expertise along with a well developed path of communication. Yet, if the firms you regularly use do not seem to fit the necessary profile, then seek elsewhere. Also, do not be afraid to take various skilled attorneys from different firms to develop the litigation team. Although this mix-and-match approach presents some coordination complexities, it is far superior to having a critical weakness on the team.

The litigation team must be led by a senior litigator. This person should be identified early and provide a commitment to the company in line with the corporate business objectives. Corporate counsel should provide deference to the team leader in selection of team members, choice of support groups (technical study, audio/visual specialists, mock-trial and jury specialists, etc.) along with principal tactical direction for the litigation. Yet, the corporate counsel is the ultimate supervisor for the corporate client that the business objectives will be met.

While it is necessary to have one person in charge of the lawsuit, the litigation itself is not the goal. It is incumbent on the inside counsel to keep this in mind. Inside counsel's career is on the line in litigation (as well as the economic health of his employer) along with outside counsel's win/loss record. However, outside counsel's reputation cannot be the reason for excessive spending or avoidance of committed planning. Indeed, if outside counsel is not willing to cooperate with the client under corporate counsel's management, it will be the responsibility of inside counsel not to take new matters to that firm and, if necessary, to transfer the litigation to another (more cooperative) law firm.

After a committed litigator and firm have been identified, it will be necessary to complete in detail the previously developed litigation budget. This budget must be a written document which is developed in concurrence with the formulation of the litigation strategy. Each phase of litigation must be separately considered with estimates of costs and fees with allowances made for division of duties between in-house and outside staff availability. It is critical to obtain accountability from outside counsel as to staying within the pre-set budget (as may be amended later by agreement due to changed circumstances). Early excesses will be compounded later.

Litigation Management

Once the litigation team is assembled, a detailed budget is accepted, and a basic strategy is set out by the outside litigation leader, it is time to step back and let the litigator "do his thing". It makes no sense to hire highly competent litigation counsel and then substitute your own judgement for theirs in the areas in which they have the experience and you do not. The management of highly skilled litigation teams often includes insuring that they have the resources and support to do the job and then getting out of the way and letting them do it! This is especially irksome when corporate management insists on "playing lawyer" (a role that ultimately loses its glamour over the months in the mountain of necessary details). Corporate counsel must stress to management that overruling the lawyers in tactical matters is akin to taking the controls from a pilot in an aerial emergency. Litigation is not the time for managers to develop or practice new skills.

Yet, while the outside litigator should be free to lead in the fight, the corporate counsel should retain a voice in all decisions and actions. Additionally, corporate counsel must always seek alternatives to continued litigation (ADR, settlement, counter threat litigation, peer pressure, political pressure, etc.). While litigation is all-out war, the corporate counsel should always be looking to negotiate a reasonable peace.

As always, corporate counsel is the manager of the client's legal needs. It remains important to continue the education of management while facilitating a minimal disruption of the business unit. Additionally, in-house counsel should develop contingency plans in the event of an unfavorable judgement. Such plans do not lower morale among the litigation team, but should convince management that some measure of damage control (for example alternate sourcing of materials/labor) will turn a potentially devastating loss into merely an excruciating inconvenience.

Most of corporate counsel's efforts will be devoted, however, to continued management of outside counsel. In-house counsel should be a managerial activist. Regular meetings with the litigation team, supervision of the cost of each aspect of the case to reflect its overall importance, review of briefs and documents for discovery (both as another trained attorney and as the person most knowledgeable about the company's proprietary information), providing discovery support and strategic goal setting will take the preponderance of corporate counsel's time and patience.

While acting as an advisor to management and securing their continued support, along with managing and directing the strategy and budget of the litigation. as well as pursuing damage control options, corporate counsel should

devote some spare time to coordinating potential external resources. Occasionally, litigation involves multiple parties on the same side, either joined through a common defense agreement or merely involved in a similar situation regarding the common enemy. Especially where a common defense with common litigation counsel is involved, each in-house counsel should strive to present a common platform and guidance to the litigation team. Back-room brawling among joined in-house counsel is, of course, acceptable so long as the litigators recognize the unity of the group of in-house counsels.

Other useful resources in the battle arena (why limit a full scale war to nuclear devices, when chemical, biological, financial and propaganda devices are available) include support by other interested parties (it's amazing how many kids on the playground want to add a kick or two when the bully is being pulled down) in both informational and financial means; staging a popular revolt by common customers who resent a potential interruption to their source(s) of supply (a note of caution must be exercised here to avoid improper or illegal activity here); public access via media support (after David slew Goliath, *everyone* wanted to buy his products... but if Goliath has squashed the poor sod, pity would have promoted David's products and demanded an outraged public censure of Goliath) and even, if possible, governmental intervention (in one celebrated or notorious case, depending on your viewpoint, a successful government lobbying program succeeded in removing a critical statutory threshold element -- damage to domestic industry -- on the eve of the requisite presentation to the ITC under Section 337); and, of course, counsel should consider cutting off supply for critical products to the opposition company, where contractual limitations do not forbid it (sowing disaffection in the ranks of opposition's management by crippling various product managers' profitability is bound to raise the attention of the opposing company's upper management).

Each of these, and other creative uses of the resources at corporate counsel's disposal, provide additional valuable leverage in persuading the opposition party to discuss suitable settlement terms.

Conclusion

Whenever possible, inter-corporate conflicts should not be litigated, but when litigation arises or is necessary, in-house counsel must provide a realistic appraisal for its successful conclusion. Even a negative judgement by a court may be ameliorated by creative damage control techniques. Yet, corporate counsel must incessantly manage all available resources -- inside and outside of the court theater -- to bring the conflict to a conclusion that is acceptable to corporate management's business objectives.

Litigation should never become the vehicle for attorney aggrandizement; rather, counsel should be aware that an attorney as *mediator* and *counsellor* to management provides much more real and perceived value to the client. As well known litigator and mediator, Abraham Lincoln advised in 1850,:

> " Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often a real loser -- in fees, expenses, and waste of time. As a peacemaker, the lawyer has a superior opportunity of being a good man. There will still be business enough. "

SUMMARY JUDGMENTS IN PATENT CASES

By

Paul E. Krieger[1]

I. Introduction

Summary Judgment has become one of the most powerful tactical weapons available to an accused infringer in a patent infringement law suit. It is also being used more often by the patent owner. This paper will discuss the history, requirements and tactics for summary judgment motions in patent cases.

Summary judgments are of a relatively recent origin, beginning in England in the mid 1800's as a creditor's remedy to collect liquidated damages without a trial.[2] Although many states adopted a similar procedure in the United States, this remedy was of limited value. However, even though a summary type of procedure was recognized in the late 1800's in patent cases where a cause of action involving a "manifestly invalid" patent was dismissed,[3] this procedure did not appear to have wide acceptability.

Even after the procedure for obtaining summary judgment was expanded and formalized when the Federal Rules of Civil Procedure were adopted in 1938, summary judgments were considered by many courts to be inappropriate in patent cases.[4] This was undoubtedly due to a reluctance to dismiss a patent case on summary judgment because of the complex fact issues involved. This was stated by the U.S. Court of Appeals for the Second Circuit in Bridgeport

Brass Co. v. Bostwich Laboratories, Inc.,[5] where the court observed that "were we skilled in the art it might be simple to determine whether there was any 'genuine issue' as to any material fact...but we lacked that special knowledge which would permit us to read the patent so understandingly...."

This reluctance was seen by the U.S. Supreme Court in Blonder-Tong Laboratories, Inc. v. University of Illinois Foundation[6] where patent validity was at issue. Courts maintained the view that a patent owner had a right to receive a full and fair trial, and not have a patent invalidated on summary judgment.[7] The general attitude of the time was that summary judgment should not be granted if there was the "slightest doubt" as to the facts involved.[8]

This attitude changed, however, after the U.S. Supreme Court decided three significant summary judgment cases in 1986, Matsushita Elec. Indus. Co. v. Zenith Radio Corp.,[9] Anderson V. Liberty Lobby, Inc.,[10] and Celotex Corp. v. Catrett[11]. A federal district judge in Houston, Texas, the Honorable Norman W. Black, characterized these decisions as bringing "about a change in traditional summary judgment doctrine" by "clarifying and establishing new standards for the granting of summary judgment."[12] These cases have also been described as signalling "a new era for summary judgments, one in which old presumptions are giving way."[13]

The Federal Circuit has recognized that the applicability of summary judgment in a patent case is no longer debatable.[14]

II. Research on Recent Summary Judgment Decisions

Lately, it seems as though summary judgment motions of various types are filed in virtually every patent infringement case. In order to find out whether the author's impressions were correct, research was conducted of reported federal district court cases from January 1991 to July 31, 1992, where summary judgment motions of validity/invalidity or infringement/non-infringement were decided. For this two and one-half year time period, 182 reported trial court decisions were found. However, this number is probably misleading. The author knows of at least two decisions which were not reported and one other motion for summary judgment of non-infringement which was denied in a one-sentence order. Also, several of the decisions were reported in the same case.

This number nevertheless reflects the fact that many summary judgment motions for the issues of validity and/or infringement are being filed and, as shown by the results tabulated below, many are being granted. Thus, there should be no hesitancy in filing a motion for summary judgment if the facts support such a motion, keeping in mind the penalties of Federal Rules of Civil Procedure 11 for not filing a motion which "after reasonable inquiry is well grounded in fact and is warranted by existing law...." The cases reported below deal only with motions where validity and

infringement issues were reviewed, and no attempt was made to count the number of decisions involving summary judgment motions on other issues such as laches, estoppel, statute of limitations, willfulness or the like.

The following chart shows a tabulation of the results of the 184 decisions indicated above. The headings denote the subject of the motion and whether it was filed to declare the patent invalid, valid, non-infringed or infringed. The columns under each heading show the disposition of the motion, the number of decisions with that particular disposition, and any appellate records which could be found.[15] The cases from which the tabulation was compiled are listed in the attached Appendix A.

Patent Invalidity

Disposition	No.	Appeals
Granted	21	2 aff'd; 1 rev'd; 3 vac'd
Denied	47	1 aff'd; 1 vac'd; aff'd on recon.

Patent Validity

Granted	6	None
Denied	6	1 aff'd

Patent Non-Infringement

Granted	47	6 aff'd; 2 rev'd; 2 vac'd; 1 vac'd on recon.
Denied	32	None

Patent Infringement

Granted	10	None
Denied	13	1 aff'd
	182	

Since this tabulation is meant only to illustrate the number of recent trial court summary judgment decisions, no effort has been made to follow up on the history of these decisions other than if an appellate history has been reported. The author is aware that several of these cases are presently pending before the Federal Circuit at various stages of appeal. Therefore, the appellate history only reflects cases with a final judgment from the Federal Circuit, and does not indicate how many are presently pending on appeal.

It is not surprising that most of the summary judgment motions tabulated involve a motion filed by the accused infringer of non-infringement, with 79 such motions being reported. It is interesting that more motions for non-infringement were granted (47) than were denied (32). This appears to indicate that when the facts are appropriate, it is incumbent on the accused infringer to file a motion for summary judgment of non-infringement.

What is surprising about the results is the number of motions which were filed to declare the patent invalid (68). It is not surprising that the denials were far greater than the grants (47 to

21). However, it is equally surprising that 21 such motions were granted. No attempt was made to analyze the summary judgments of invalidity, whether they were on the basis of sales by the patentee or on one or more pieces of independent prior art. Understandably, the facts must be extremely strong in order to sustain a summary judgment motion on invalidity in view of the clear and convincing standard required to prove a patent invalid.

The relatively large number of motions filed in order to have a patent declared either valid or infringed is surprising (35) since this has not been a tactic that is commonly discussed. However, in view of the number which have been filed and the fact that such motions have demonstrated an almost even chance of success at the district court level, this shows that such motions should be carefully considered by a patent owner.

III. Requirements for Summary Judgment

According to Fed. R. Civ. P. 56(c):

> [A] judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.

Fed. R. Civ. P. 56(e) sets forth the requirements for the respondent:

> When a motion for summary judgment is made and supported as provided in this rule, an adverse party may not rest upon the mere allegations or denials of the adverse

> party's pleading, but the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial.

Thus, a respondent cannot rest on the pleadings alone, but must present evidence to establish that there is a genuine issue of material fact. Subsection (e) specifically provides that "if the adverse party does not so respond, summary judgment, if appropriate, shall be entered against the adverse party."

Subsection (e) of the rule must be kept in mind if, for example, a motion to stay is filed to either reexamine or reissue the patent in suit after a motion for summary judgment of invalidity is filed and the motion is not granted prior to the expiration of the adverse party's time to respond substantively to the summary judgment motion. If sufficient evidence is not presented as to why there is a genuine issue of material fact, the court has the authority to grant the motion for summary judgment. Therefore, if such a situation could occur, both a substantive response to the motion for summary judgment should be filed along with any other motion to stay the proceedings.

The burden of demonstrating the absence of any genuine issue of material fact is on the party moving for summary judgment.[16] This burden can be satisfied without producing affidavits or similar materials. The movant can identify portions of the record that support his or her contention or rely solely on the pleadings if the moving party does not have the burden of proof at trial.[17]

The U.S. Supreme Court has stated there is no genuine issue for trial if a rational trier of fact could not find for the non-moving party.[18] The court has also stated that a genuine issue exists "if the evidence is such that a reasonable jury could return a verdict for the non-moving party."[19] While this standard seems relatively strict, the moving party need not "produce evidence showing the absence of a genuine issue of material fact, but the burden may be discharged by showing - that is, pointing out to the District Court - that there is an absence of evidence to support the non-moving party's case."[20] Furthermore, a summary judgment may be granted if the evidence submitted to show a fact issue is "merely colorable" or is not "significantly probative."[21]

Once the movant has filed a motion which is supported by affidavits or other evidence which, unopposed would establish its right to a judgment, the non-movant may not rest upon general denials. In order to show the absence of a genuine issue of material fact, the "opponent must do more than simply show that there is some metaphysical doubt as to the material facts...the non-moving party must come forward with 'specific facts showing that there is a genuine issue for trial.'"[22]

Any doubt as to the presence or absence of disputed issues of material fact must be resolved in favor of the presence of disputed issues, or in other words in favor of the party opposing summary judgment.[23] Thus, all doubts regarding the presence or absence of

material factual issues must be resolved in favor of the party opposing the summary judgment.

While sufficient evidence must be filed with the movant's motion in order to support the contentions alleged, any evidence presented by the adverse party can be filed at any time prior to the day of hearing.[24] Thus, additional affidavits, if deemed to be necessary or desirable, can be filed after the briefing is completed. One runs the risk, however, of having the judge treat such late-filed evidence less seriously than what was filed earlier, unless a good and sufficient reason is provided for the late filing.

IV. Tactics

Timing is an important factor in deciding when to file a motion for summary judgment. The only time restriction in the Federal Rules of Civil Procedure is that a party who is seeking recovery must file its motion after the expiration of 20 days from commencement of the action or after service of a motion for summary judgment by the adverse party.[25] If adequate discovery has not been taken by the non-movant, a motion under Rule 56(f) can be filed for additional time to respond.

Because of the tremendous cost of discovery in patent infringement cases, a defendant should seriously consider filing a

summary judgment motion for non-infringement or invalidity early in the case. A motion for non-infringement provides the accused infringer with a tactical advantage because the patentee has the burden of proving infringement by a preponderance of the evidence. If the movant can satisfy its burden of proving there is no genuine issue of material fact and it is entitled to judgment as a matter of law, this places the patentee at a tremendous disadvantage.

A motion for summary judgment of invalidity is more difficult to win. Aside from its initial burden, the movant must also prove invalidity by clear and convincing evidence.

The showing of an absence of a genuine issue of material fact would, at first blush, seem to be more difficult with regard to validity issues since there are many fact issues concerning the sufficiency of a prior art reference and the question of anticipation or obviousness. However, this is not necessarily the case. Even though claim construction is a question of law, infringement can be a compli ated fact question especially if means plus function language is at issue. Of course, strong facts simplify the presentation.

It is generally better to file a motion for summary judgment earlier rather than later. If the motion is filed early, it has a better chance of being seriously considered. The closer a case gets to trial, the greater is the tendency of a judge to deny all

motions for summary judgment and let the jury decide the case. However, the author recently experienced the opposite. Motions for summary judgment of invalidity and non-infringement, which were hotly contested, were filed several months before trial. Although the summary judgment motion for invalidity was denied, the motion for non-infringement was granted to the extent of holding that all but about 5% of the accused sales were non-infringing.[26]

Cross motions can also be an effective tactic, especially if the other side has underestimated the strength of its position. Even if the cross motion might be denied, it can emphasize the strength of the cross-movant's position. The author was involved in a case where the plaintiff-patentee filed a motion for a preliminary injunction with the complaint and moved for an expedited hearing. After the hearing was stayed to allow discovery, the defendant filed a cross-motion for summary judgment of non-infringement which put the plaintiff on the defensive. Both motions were ultimately denied without a detailed opinion[27] and the case settled a short time later.

Most summary judgment motions in patent cases involve complex technology which courts normally do not feel uncomfortable handling. No matter how simple the case may seem to be, demonstrative evidence in the form of pictures, drawings, charts, video tapes and even animated video presentations are essential in helping the court understand facts and the issues.

Also, the movant should list all the undisputed facts which are believed to support the motion in order to make it easier for the court to understand the movant's position. If the non-movant believes there are disputed facts, the evidence which tends to establish the disputed facts can be listed in similar fashion.

The facts presented to support a motion for summary judgment, and vice versa, must be "set forth in sufficient detail by a knowledgeable declarant", and not be "mere conclusory statements."[28] Most testimony is presented in the form of deposition transcripts or affidavits, which need to have the proper factual basis in order to be probative. A hearing is normally held and, depending on the judge, live witnesses may or may not be permitted.

While sufficient evidence to support a judgment must be filed with a motion, the non-movant is allowed to submit opposing affidavits.[29] Although affidavits can properly be filed to supplement an opposition after the briefing has been completed, there is a risk the court will consider such evidence an afterthought unless a good reason is given for its late presentation.

V. Conclusion

With the apparent increase in the acceptance of summary judgments in patent cases after the Supreme Court trilogy in 1986, serious consideration to such motions should be given by both the patentee as well as the accused infringer. Federal Rule of Civil Procedure 56 is a powerful weapon which can change the complexion of a case if the facts support such a motion. If it appears that a motion for summary judgment is appropriate, it should diligently be pursued to gain a maximum advantage.

1. Shareholder, Pravel, Gambrell, Hewitt, Kimball & Krieger, p.c., Houston, Texas; Adjunct Professor, University of Houston Bates College of Law.

2. See, William P. McLauchlan, An Empirical Study of the Federal Summary Judgment Rule, 6 L. Legal Stud, 427, 429 (1977); Ned L. Conley, Summary Judgment From the Movant's Perspective, AIPLA Selected Legal Papers, 95 (1991).

3. Richards v. Chase Elevator Co., 158 U.S. 299 (1895).

4. Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 52 U.S.P.Q. 30 (1942); Milcor Steel Co. v. George A. Fuller Co., 122 F.2d 292, 50 U.S.P.Q. 410 (2d Cir. 1941), aff'd. 316 U.S. 143, 53 U.S.P.Q. 268 (1942).

5. 181 F.2d 315, 319, 85 U.S.P.Q. 89, 92 (2d Cir. 1950).

6. Blonder-Tong Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313, 169 U.S.P.Q. 513 (1971).

7. VanWyck Int'l. Corp. v. Scovill Mfg., Co., 401 F. Supp. 1213, 184 U.S.P.Q. 572 (S.D.N.Y. 1974).

8. See, 10 Wright, et al., Federal Practice and Procedure, § 2712.

9. 475 U.S. 574, 89 L. Ed.2d 538, 106 S. Ct. 1348 (1986).

10. 477 U.S. 242, 91 L. Ed.2d 202, 106 S. Ct. 2505 (1986).

11. 477 U.S. 317, 91 L. Ed.2d 265, 106 S. Ct. 2548 (1986).

12. Black, How to Get Your Motion for Summary Judgment Granted in Federal Court, delivered at 7th Annual Intellectual Property Law Institute, Galveston, Texas 1991.

13. Childress, A New Era for Summary Judgments: Recent Shifts at the Supreme Court, 119 FRD 183, 194 (1987).

14. Avia Group v. LA Gear, 853 F.2d 1557, 7 U.S.P.Q.2d 1548, 1551 (Fed. Cir. 1988)

15. The author expresses his thanks and appreciation to Beverlee Steinberg, a 3rd year student at South Texas College of Law who worked as a summer clerk in the author's office in 1992. Her efforts in tracking down these cases and analyzing them proved to be extremely helpful.

16. Celotex Corp. v. Catrett, 477 U.S. 317, 106 S. Ct. 2548, 91 L. Ed.2d 265 (1986).

17. Id.

18. Matsushita Electrical Industrial Co. Ltd. v. Zenith Radio Corp., 475 U.S. 574, 106 S. Ct. 1348, 89 L. Ed.2d 538 (1986).

19. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed.2d 202 (1986).

20. Celotex Corp. v. Catrett, 477 U.S. 317, 325, 106 S. Ct. 2548, 2554 (1986).

21. Anderson V. Liberty Lobby Inc., 477 U.S. 242 at 249-250.

22. Matsushita Electrical Industrial Co. Ltd. v. Zenith Radio Corp., 475 U.S. 574, 106 S. Ct. 1348, 1356.

23. Lemelson v. TRW, Inc., 760 F.2d 1254, 1261, 225 U.S.P.Q. 697, 701-02 (Fed. Cir. 1985).

24. Fed. R. Civ. P. 56(c).

25. Fed. R. Civ. P. 56(a).

26. Medical Designs, Inc. v. Donjoy, Inc., CA 4 87 806K (N.D. Tex., filed June 11, 1990).

27. Austoft Industries, Ltd. v. Cameco Industries Incorporated and J&L Equipment Co., Inc., No. 90-1361 (S.D. Fla., filed Nov. 24, 1987).

28. Palumbo v. Donjoy, Co., 762 F.2d 969, 976, ____ U.S.P.Q. ____ (Fed. Cir. 1985).

29. Fed. R. Civ. P. 56(c).

APPENDIX A

INVALIDITY DENIED

1. *Waterloo Furniture Components Ltd. v. Haworth Inc.*, 1992 U.S. Dist. LEXIS 8964 (N.D. Ill. 1992)

2. *Tandem Computers v. Yuter*, 1992 U.S. Dist. LEXIS 8578 (N.D. Cal. 1992) - second time.

3. *KLA Instruments Corp. v. Orbot Inc.*, 1992 U.S. Dist. LEXIS 8544 (N.D. Cal. 1992) - denied by a Special Master and noted in the background of this case.

4. *Transco Prod. Inc. v. Performance Contracting Inc.*, 1992 U.S. Dist. LEXIS 7229 (N.D. Ill. 1992)

5. *Import Sys. Int'l Inc. v. Lee*, 1992 U.S. Dist LEXIS 3439 (S.D.N.Y. 1992)

6. *Tandem Computers Inc. v. Glenfed Financial Corp.*, 1992 U.S. Dist. LEXIS 2986 (N.D. Cal. 1992) - first time.

7. *Wolf v. Fisher-Price Toys*, 1992 U.S. Dist. LEXIS 2768 (S.D.N.Y. 1992) - also denied infringement.

8. *The Estate of Hylan B. Stoller*, 784 F. Supp. 506 (N.D. Ill. 1992)

9. *Baxter Int'l Inc. v. Cobe Lab. Inc.*, 1991 U.S. Dist. LEXIS 19639 (N.D. Ill. 1991), *aff'd on reconsideration*, 1992 U.S. Dist. LEXIS 8435 (N.D. Ill. 1992)

10. *Westvaco Corp. v. International Paper Co.*, 1991 U.S. Dist. LEXIS 19566 (E.D. Va. 1991) - denied as immaterial.

11. *Summagraphics Corp. v. Sanders Assoc. Inc.*, 1991 U.S. Dist. LEXIS 16340 (D. Conn. 1991) - also denied non-infringement.

12. *Granco-Clark Inc. v. Belco Indus. Inc.*, 1991 U.S. Dist. LEXIS 8909 (W.D. Mich. 1991), *aff'd*, 1992 U.S. App. LEXIS 12513 (Fed. Cir. 1992) (unpublished), *reh'g denied*, 1992 U.S. App. LEXIS 14902 (Fed. Cir. 1992) - denied as moot after summary judgment for non-infringement was granted; denied cross-motions for validity and infringement.

13. *Honeywell Inc. v. Minolta Camera Co.*, 1991 U.S. Dist. LEXIS 4222 (D.N.J. 1991) (unpublished)

14. *Alpex Computer Corp. v. Nintendo Co.*, 1991 U.S. Dist. LEXIS 722 (S.D.N.Y. 1991)

15. *Advanced Cardiovascular Sys. Inc. v. Scimed Life Sys. Inc.*, 783 F. Supp. 413 (D. Minn. 1991)

16. *Leading Edge Technology Corp. v. Sun Automation Inc.*, 23 U.S.P.Q.2d (BNA) 1161 (D. Md. 1991) - also denied non-infringement and cross-motion for validity.

17. *Linear Films of Oklahoma Inc. v. Mobil Oil Corp.*, 22 U.S.P.Q.2d (BNA) 1380 (N.D. Okla. 1991)

18. *Yenzer v. Agrotors Inc.*, 22 U.S.P.Q.2d (BNA) 1290 (M.D. Pa. 1991)

19. *Eagle Comtronics Inc. v. Northeast Filter Co.*, 22 U.S.P.Q.2d (BNA) 1134, 1991-2 Trade Cas. (CCH) ¶66,689 (N.D.N.Y. 1991) - denied due to assignor estoppel.

20. *W.R. Grace & Co. v. Viskase Corp.*, 21 U.S.P.Q.2d (BNA) 1114 (N.D. Ill. 1991) - also denied non-infringement.

21. *Sybron Transition Corp. v. Nixon Hargrave Devans & Doyle*, 770 F. Supp. 803, 21 U.S.P.Q.2d (BNA) 1515 (W.D.N.Y. 1991)

22. *Mosinee Paper Corp. v. James River Corp. of Va.*, 21 U.S.P.Q.2d (BNA) 1238 (E.D. Wis. 1991)

23. *Flow-Rite of Tennessee Inc. v. Sears, Roebuck & Co.*, 20 U.S.P.Q.2d (BNA) 1361 (N.D. Ill. 1991) - also denied non-infringement.

24. *McNeil-PPC Inc. v. Procter & Gamble Co.*, 767 F. Supp. 1081, 19 U.S.P.Q.2d (BNA) 1663 (D. Colo. 1991) - also denied non-infringement.

25. *Jacobson v. Cox Paving Co.*, 19 U.S.P.Q.2d (BNA) 1641 (D. Ariz. 1991) - also denied non-infringement.

26. *Dyson v. Amway Corp.*, 19 U.S.P.Q.2d (BNA) 1557 (W.D. Mich. 1991) - also denied non-infringement.

27. *Spalding & Evenflo Cos. v. Graco Metal Products Inc.*, 18 U.S.P.Q.2d (BNA) 2029 (N.D. Ohio 1991) - also denied non-infringement.

INVALIDITY DENIED - Continued

28. *Quantum Corp. v. Tandon Corp.*, 18 U.S.P.Q.2d (BNA) 1597 (N.D. Cal. 1991) - granted cross-motion for validity and denied cross-motion for infringement.

29. *Oadtrak Corp. v. Commodore Business Mach. Inc.*, 1990 U.S. Dist. LEXIS 19357 (N.D. Cal. 1990)

30. *Antonious v. Wilson Sporting Goods Co.*, 1990 U.S. Dist. LEXIS 15428 (N.D. Ill. 1990)

31. *Macrovision Corp. v. VSA Ltd.*, 1990 U.S. Dist. LEXIS 6015 (D. Or. 1990)

32. *Arachnid Inc. v. Merit Indus. Inc.*, 1990 U.S. Dist. LEXIS 5006 (N.D. Ill. 1990)

33. *New England Braiding Co. v. A.W. Chesterton Co.*, 746 F. Supp. 1200 (D. Mass. 1990)

34. *E.I. du Pont de Nemours & Co. v. Cetus Corp.*, 19 U.S.P.Q.2d (BNA) 1174 (N.D. Cal. 1990)

35. *Kearns v. Wood Motors Inc.*, 773 F. Supp. 1062, 19 U.S.P.Q.2d (BNA) 1138 (E.D. Mich. 1990)

36. *Imperial Chem. Indus. PLC v. Danbury Pharmacal Inc.*, 745 F. Supp. 998, 18 U.S.P.Q.2d (BNA) 1497 (D. Del. 1990)

37. *General Elec. Co. v. U.S. Synthetic Corp.*, 17 U.S.P.Q.2d (BNA) 1847 (D. Utah 1990)

38. *Juno Lighting Inc. v. Cooper Indus. Inc.*, 17 U.S.P.Q.2d (BNA) 1802 (N.D. Ill. 1990)

39. *Saes Getters S.P.A. v. Ergenics Inc.*, 17 U.S.P.Q.2d (BNA) 1582 (D.N.J. 1990)

40. *Vas-Cath Inc. v. Martin*, 745 F. Supp. 517, 17 U.S.P.Q.2d (BNA) 1353 (E.D. Ill. 1990) (not summary judgments but rulings of court) - denied to one patent, granted to two others.

41. *Acosta-Banuelos v. Sanders Mfg. Co.*, 16 U.S.P.Q.2d (BNA) 2048 (D. Me. 1990) - also denied cross-motion for infringement.

42. *General Elec. Co. v. Hoechst Celanese Corp.*, 740 F. Supp. 305, 16 U.S.P.Q.2d (BNA) 1977 (D. Del. 1990) - denied for overbreadth but granted for anticipation.

INVALIDITY DENIED - Continued

43. *Nobell Inc. v. Sharper Image Corp.*, 751 F. Supp. 841, 16 U.S.P.Q.2d (BNA) 1380 (N.D. Cal. 1990), *motion to reconsider denied*, 17 U.S.P.Q.2d (BNA) 1325 (N.D. Cal. 1990), *vacated*, 950 F.2d 732 (Fed. Cir. 1991) - also granted non-infringement.

44. *Tenax Corp. v. Tensar Corp.*, 743 F. Supp. 1204, 14 U.S.P.Q.2d (BNA) 2049 (D. Md. 1990) - also denied non-infringement.

45. *Home of Champions S.A. v. Althone Indus. Inc.*, 14 U.S.P.Q.2d (BNA) 1566 (D.N.J. 1990)

46. *Joy Technologies Inc. v. Quigg*, 732 F. Supp. 227, 14 U.S.P.Q.2d (BNA) 1432 (D.D.C. 1990)

47. *In re Dual-Deck Video Cassette Recorder Antitrust Litigation*, 1990-2 Trade Cas. (CCH) ¶69,141 (D. Ariz. 1990)

48. *Syntex Pharmaceuticals Int'l Ltd. v. K-Line Pharmaceuticals Ltd.*, Nos. 85-2814 and 85-2949 (D.N.J. September 18, 1989) (memorandum order), *appeal dismissed*, 905 F.2d 1525, 15 U.S.P.Q.2d (BNA) 1239 (Fed. Cir. 1990) - granted cross-motion for infringement.

49. *Becton Dickinson & Co. v. C. R. Bard Inc.*, 719 F. Supp. 1228, 12 U.S.P.Q.2d (BNA) 1678) (D.N.J. 1989), *aff'd*, 922 F.2d 792, 17 U.S.P.Q.2d (BNA) 1097 (Fed. Cir. 1990) - granted non-infringement.

INVALIDITY GRANTED

1. *Tandem Computers Inc. v. Yuter*, 1992 U.S. Dist Lexis 10687 (N.D. Cal. 1992) - on sale.

2. *Tone Bros. Inc. v. Sysco Corp.*, 23 U.S.P.Q.2d (BNA) 1185 (S.D. Iowa 1992) - public use.

3. *Sinskey v. Pharmacia Ophthalmics Inc.*, 1991 U.S. Dist. LEXIS 19398 (C.D. Cal. 1991) - on sale.

4. *Shat-R-Shield Inc. v. Trojan Inc.*, No. 86-221 (E.D. Ky. April 15, 1991) (memorandum order), *vacated*, 1992 U.S. App. LEXIS 9860 (Fed. Cir. 1992) (unpublished) - also granted non-infringement (*aff'd*).

5. *Foster v. Hallco Mfg. Co.*, 22 U.S.P.Q.2d (BNA) 1351 (D. Or. 1991) - obviousness.

6. *Tennant Co. v. Hako Minuteman Inc.*, 22 U.S.P.Q.2d (BNA) 1161 (N.D. Ill. 1991) - obviousness; denied cross-motion for validity.

7. *Keystone Retaining Wall Sys. Inc. v. Westrock Inc.*, 22 U.S.P.Q.2d (BNA) 1001, 1991-2 Trade Cas. (CCH) ¶69,677 (D. Or. 1991) - on sale; also granted non-infringement.

8. *Bush Indus. Inc. v. O'Sullivan Indus. Inc.*, 772 F. Supp. 1442, 21 U.S.P.Q.2d (BNA) 1561 (D. Del. 1991) - obviousness; also granted non-infringement.

9. *Littlefuse Inc. v. Bel Fuse Inc.*, 21 U.S.P.Q.2d (BNA) 1293 (D.N.J. 1991)

10. *American Home Products Corp. v. California Biological Vaccine Labs*, 21 U.S.P.Q.2d (BNA) 1230 (C.D. Cal. 1991), *limited upon reconsidered*, 22 U.S.P.Q.2d (BNA) 1472 (C.D. Cal. 1991) - on sale; reconsideration limited invalidity to claims 1-3; also granted cross-motion of infringement to no effect.

11. *Wang Lab. Inc. v. Toshiba Corp.*, 21 U.S.P.Q.2d (BNA) 1155 (E.D. Va. 1991), *vacated*, (Fed. Cir. 1991) (unpublished), *dismissed on remand*, 1992 U.S. Dist. LEXIS 9256 (E.D. Va. 1992) (the district court uses this to go into the reasons why they feel the Federal Circuit was wrong to vacate) - on sale.

12. *Construction Specialties Inc. v. Arden Architectural Specialties Inc.*, 20 U.S.P.Q.2d (BNA) 1874 (D. Minn. 1991) - public use.

INVALIDITY GRANTED - Continued

13. *Acme Resin Corp. v. Ashland Oil Inc.*, 20 U.S.P.Q.2d (BNA) 1305 (S.D. Ohio 1991), *aff'd*, U.S. App. LEXIS 1475 (Fed. Cir. 1992) (unpublished), *reh'g denied*, 954 F.2d 735 (Fed. Cir. 1992) - best mode.

14. *E.I. du Pont de Nemours & Co. v. Cetrus Corp.*, 1990 U.S. Dist. LEXIS 18382 (N.D. Cal. 1990) - anticipation.

15. *Foster v. Hallco Mfg. Co.*, 1990 U.S. Dist LEXIS 10138 (D. Or. 1990) - also granted non-infringement.

16. *Ryko Mfg. Co. v. Nu-Star Inc.*, 18 U.S.P.Q.2d (BNA) 1047 (D. Minn. 1990), *aff'd*, 21 U.S.P.Q.2d (BNA) 1053 (Fed. Cir. 1991) - obviousness.

17. *Quad Envtl Technologies Corp. v. Union Sanitary Dist.*, 17 U.S.P.Q.2d (BNA) 1667, 1671 (N.D. Cal. 1990), *rev'd*, 946 F.2d 870, 20 U.S.P.Q.2d (BNA) 1392 (Fed. Cir. 1991), *reh'g denied*, 1991 U.S. App. LEXIS 28619 (Fed. Cir. 1991) - obviousness.

18. *Vas-Cath Inc. v. Martin*, 745 F. Supp. 517, 17 U.S.P.Q.2d (BNA) 1353 (E.D. Ill. 1990) (not summary judgments but rulings of court) - anticipation; granted to two patents, denied to a third.

19. *Laidman v. Tivoli Indus. Inc.*, 17 U.S.P.Q.2d (BNA) 1173 (C.D. Cal. 1990) - anticipation.

20. *General Elec. Co. v. Hoechst Celanese Corp.*, 740 F. Supp. 305, 16 U.S.P.Q.2d (BNA) 1977 (D. Del. 1990) - granted for anticipation but denied for overbreadth.

21. *Registration Control Sys. Inc. v. Compusystems Inc.*, 14 U.S.P.Q.2d (BNA) 1230 (N.D. Ill. 1990), *vacated*, 17 U.S.P.Q.2d (BNA) 1212 (Fed. Cir. 1990) - obviousness.

22. *Lubrizol Corp. v. Exxon Corp.*, No. H-84-1627 (S.D. Tex. August 31, 1989) (memorandum order), *aff'd*, 1991 U.S. App. LEXIS 2759 (Fed. Cir. 1991) (unpublished), *reh'g denied*, 1991 U.S. App. LEXIS 4875 (Fed. Cir. 1991) - on sale.

23. *Winner Int'l Corp. v. Wolo Mfg. Corp.*, No. 88 CV 176 (E.D.N.Y. August 29, 1989) (memorandum order), *aff'd*, 905 F.2d 375, 15 U.S.P.Q.2d (BNA) 1076 (Fed. Cir. 1990) - also granted non-infringement; denied cross-motion for infringement.

24. *Whittaker Corp. v. UNR Indus. Inc.*, No. C-C-88-0110-M (W.D.N.C. March 22, 1989) (memorandum order), *rev'd*, 911 F.2d 709, 15 U.S.P.Q.2d (BNA) 12742 (Fed. Cir. 1990) - recapture rule.

INVALIDITY GRANTED - Continued

25. *Estate of Stoller v. Ford Motor Co.*, 711 F. Supp. 1451, 12 U.S.P.Q.2d (BNA) 1197 (N.D. Ill. 1989), *rev'd in part and vacated in part*, 18 U.S.P.Q.2d (BNA) 1545 (Fed. Cir. 1991) (unpublished) - anticipation (*rev'd*); obviousness (*vacated*).

26. *Envirotech Corp. v. Westech Eng'g Inc.*, 713 F. Supp. 372, 11 U.S.P.Q.2d (BNA) 1804 (D. Utah 1989) *rev'd*, 904 F.2d 1571, 15 U.S.P.Q.2d (BNA) 1230 (Fed. Cir. 1990), *reh'g denied*, 1990 U.S. App. LEXIS 1827 (Fed. Cir. 1990), *reh'g in banc denied*, 1990 U.S. App. LEXIS 15536 (Fed. Cir. 1990) - on sale.

27. *Continental Can Co. USA v. Monsanto Co.*, 11 U.S.P.Q.2d (BNA) 1761 (S.D. Ohio 1989), *rev'd in part, vacated in part*, 948 F.2d 1264, 20 U.S.P.Q.2d (BNA) 1746 (Fed. Cir. 1991) - anticipation and obviousness vacated; on sale reversed.

28. *Scripps Clinic & Research Found. v. Genentech Inc.*, 707 F. Supp. 1547, 11 U.S.P.Q.2d (BNA) 1187 (N.D. Cal. 1989), *rev'd*, 927 F.2d 1565, 18 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1991), *reh'g denied*, 1991 U.S. App. LEXIS 8701 (Fed. Cir. 1991) - anticipation; also granted non-infringement.

29. *Hormone Research Found. Inc. v. Genentech Inc.*, 708 F. Supp. 1096, 8 U.S.P.Q.2d (BNA) 1377 (N.D. Cal. 1988), *vacated*, 904 F.2d 1558, 15 U.S.P.Q.2d (BNA) 1039 (Fed. Cir. 1990), *reh'g denied*, 1990 U.S. App LEXIS 17559 (Fed. Cir. 1990) - enablement; also granted non-infringement (*aff'd in part and vacated in part*).

NON-INFRINGEMENT DENIED

1. *Baxter Int'l Inc. v. Cobe Lab. Inc.*, 1992 U.S. Dist. LEXIS 10010 (N.D. Ill. 1992)

2. *Driscoll Mach. Inc. v. Reynolds & Reynolds Elec. Inc.*, 1992 U.S. Dist LEXIS 7369 (E.D. Pa. 1992)

3. *Wolf v. Fisher-Price Toys*, 1992 U.S. Dist. LEXIS 2768 (S.D.N.Y. 1992) - also denied invalidity.

4. *Tri-Seal Int'l Inc. v. J.S. Plastics Inc.*, 1991 U.S. Dist. LEXIS 19603 (N.D. Ill. 1991)

5. *Zenith Lab. Inc. v. Bristol-Myers Squibb Co.*, 1991 U.S. Dist. LEXIS 18463 (D.N.J. 1991) (unpublished)

6. *Summagraphics Corp. v. Sanders Assoc. Inc.*, 1991 U.S. Dist. LEXIS 16340 (D. Conn. 1991) - also denied invalidity.

7. *Detrick v. Aquarius Assurance Ass'n Inc.*, 1991 U.D. Dist LEXIS 1050 (W.D. Mo. 1991)

8. *Leading Edge Technology Corp. v. Sun Automation Inc.*, 23 U.S.P.Q.2d (BNA) 1161 (D. Md. 1991) - also denied invalidity and cross-motion for validity.

9. *Asgrow Seed Co. v. Winterboer*, 22 U.S.P.Q.2d (BNA) 1937 (N.D. Iowa 1991) - granted cross-motion for infringement.

10. *DePaul v. General Instrument Corp.*, 22 U.S.P.Q.2d (BNA) 1871 (S.D.N.Y. 1991)

11. *Marsh-McBirney Inc. v. Jennings*, 22 U.S.P.Q.2d (BNA) 1621 (C.D. Cal. 1991) - denied cross-motion for non-infringement.

12. *In re Mahurkar*, 781 F. Supp. 1295, 22 U.S.P.Q.2d (BNA) 1218 (N.D. Ill. 1991) - denied but court stated they would change this to "granted" within two weeks unless Mahurkar's brief gave the court reason to rule otherwise. Could not find a subsequent history to see if the order was changed.

13. *W.R. Grace & Co. v. Vikase Corp.*, 21 U.S.P.Q.2d (BNA) 1114 (N.D. Ill. 1991) - also denied invalidity.

14. *Foster v. Hallco Mfg. Co.*, 20 U.S.P.Q.2d (BNA) 1857 (D. Or. 1991) - denied in part, claim 4, and granted in part, claims 1-3.

NON-INFRINGEMENT DENIED - Continued

15. *Biodex Corp. v. Chattanooga Corp.*, 20 U.S.P.Q.2d (BNA) 1517 (D. Del. 1991)

16. *Flow-Rite of Tennessee Inc. v. Sears, Roebuck & Co.*, 20 U.S.P.Q.2d (BNA) 1361 (N.D. Ill. 1991) - also denied invalidity.

17. *McNeil-PPC Inc. v. Procter & Gamble Co.*, 767 F. Supp. 1081, 19 U.S.P.Q.2d (BNA) 1663 (D. Colo. 1991) - also denied invalidity.

18. *Jacobson v. Cox Paving Co.*, 19 U.S.P.Q.2d (BNA) 1641 (D. Ariz. 1991) - also denied invalidity.

19. *United Sweetener USA Inc. v. Nutrasweet Co.*, 760 F. Supp. 400, 19 U.S.P.Q.2d (BNA) 1561 (D. Del. 1991) - denied in part, claim 8; granted in part, claim 2; also denied cross-motion for infringement.

20. *Dyson v. Amway Corp.*, 19 U.S.P.Q.2d (BNA) 1557 (W.D. Mich. 1991) - also denied invalidity.

21. *Spalding & Evenflo Cos. v. Graco Metal Products Inc.*, 18 U.S.P.Q.2d (BNA) 2029 (N.D. Ohio 1991) - also denied invalidity.

22. *One Up Inc. v. Webcraft Technologies Inc.*, 1990 U.S. Dist. LEXIS 17533 (N.D. Ill. 1990) (memorandum order)

23. *Vardon Golf Co. v. Supreme Golf Sales Inc.*, 1990 U.S. Dist LEXIS 8996 (N.D. Ill. July 20, 1990) (Magistrate's memorandum order)

24. *Budd Co. v. Complax Corp.*, 19 U.S.P.Q.2d (BNA) 1318 (E.D. Mich. 1990)

25. *Fausett v. Pansy Ellen Inc.*, 19 U.S.P.Q.2d (BNA) 1228 (N.D. Ga. 1990) - denied in part, doctrine of equivalents; granted in part, literal infringement.

26. *Schneider (USA) Inc. v. C.R. Bard Inc.*, 18 U.S.P.Q.2d (BNA) 1076 (D. Mass. 1990)

27. *Pretty Punch Shoppettes Inc. v. Creative Wonders Inc.*, 750 F. Supp. 487, 17 U.S.P.Q.2d (BNA) 1785 (M.D. Fla. 1990)

28. *T.P. Orthodontics Inc. v. Professional Positioners Inc.*, 17 U.S.P.Q.2d (BNA) 1497 (E.D. Wis. 1990)

29. *C.R. Bard Inc. v. Cordis Corp.*, 17 U.S.P.Q.2d (BNA) 1391 (D. Mass. 1990)

NON-INFRINGEMENT DENIED - Continued

30. *Rudkin-Wiley Corp. v. Pulse Inc.*, 15 U.S.P.Q.2d (BNA) 1395 (N.D. Ill. 1990)

31. *Tenax Corp. v. Tensar Corp.*, 743 F. Supp. 1204, 14 U.S.P.Q.2d (BNA) 2049 (D. Md. 1990) - also denied invalidity.

32. *Genentech Inc. v. Wellcome Foundation Ltd.*, 14 U.S.P.Q.2d (BNA) 1363 (D. Del. 1990) - denied in part, doctrine of equivalents; granted in part, literal infringement.

NON-INFRINGEMENT GRANTED

1. *Fabalon Inc. v. Avod Prod. Inc.*, 1992 U.S. Dist. LEXIS 9662 (E.D. Pa. 1992)

2. *Transco Products Inc. v. Performance Contracting Inc.*, 1992 U.S. Dist. LEXIS 7229 (N.D. Ill. 1992)

3. *Larson v. United States*, 1992 U.S. Cl. Ct. LEXIS 264 (Cl. Ct. 1992) - denied cross-motion for infringement.

4. *Zenith Lab. Inc. v. Bristol-Myers Squibb Co.*, No. 91-3423 (D.N.J. March 1, 1992) (memorandum order), *vacated on reconsideration*, 1992 U.S. Dist. LEXIS 5799 (D.N.J. 1992) (unpublished)

5. *Comora v. Thermo Cardiosystems Inc.*, 23 U.S.P.Q.2d (BNA) 1147 (C.D. Cal. 1992)

6. *Stevenson v. Doyle Sailmakers Inc.*, 22 U.S.P.Q.2d (BNA) 1952 (D. Mass. 1992)

7. *International Visual Corp. v. Crown Metal Mfg. Co.*, 22 U.S.P.Q.2d (BNA) 1778 (N.D. Ill. 1992) - denied cross-motion for infringement.

8. *Formex Mfg. Inc. v. Sullivan Flotation Sys. Inc.*, 1991 U.S. Dist LEXIS 12858 (N.D. Ga. 1991), *rev'd*, 1992 U.S. App. LEXIS 14507 (Fed. Cir. 1992)

9. *Granco-Clark Inc. v. Belco Indus. Inc.*, 1991 U.S. Dist. LEXIS 8909 (W.D. Mich. 1991), *aff'd*, 1992 U.S. App. LEXIS 12513 (Fed. Cir. 1992) (unpublished), *reh'g denied*, 1992 U.S. App. LEXIS 14902 (Fed. Cir. 1992) - motion for invalidity was denied as moot after motion for non-infringement was granted; denied cross-motions for validity and infringement.

10. *Petrosky v. Nike Inc.*, no cite (E.D. Va. August, 30, 1991) (memorandum order), *aff'd*, 1992 U.S. App. LEXIS 7636 (Fed. Cir. 1992) (unpublished)

11. *Jennmar Corp. v. Pattin Mfg. Co.*, No. C-2-84-878 (S.D. Ohio December 31, 1991) (memorandum order)

12. *Shat-R-Shield Inc. v. Trojan Inc.*, No. 86-221 (E.D. Ky. April 15, 1991) (memorandum order), *aff'd*, 1992 U.S. App. LEXIS 9860 (Fed. Cir. 1992) (unpublished) - also granted invalidity (*vacated*).

13. *Ontario Die Co. of Am. v. Independent Die Ass'n Inc.*, no cite (E.D. Mich. March 2, 1991) (memorandum order), *aff'd*, 1992 U.S. App. LEXIS 2627 (Fed. Cir. 1992) (unpublished)

NON-INFRINGEMENT GRANTED - Continued

14. *Ciba-Geigy Corp. v. Crompton & Knowles Corp.*, 22 U.S.P.Q.2d (BNA) 1761 (E.D. Pa. 1991)

15. *Kaliardos v. General Motors Corp.*, 777 F. Supp. 543, 22 U.S.P.Q.2d (BNA) 1674 (E.D. Mich. 1991)

16. *Datacard Corp. v. Kunz KG*, 778 F. Supp. 544, 22 U.S.P.Q.2d (BNA) 1140 (D.D.C. 1991)

17. *Keystone Retaining Wall Sys. Inc. v. Westrock Inc.*, 22 U.S.P.Q.2d (BNA) 1001, 1991-2 Trade Cas. (CCH) ¶69,677 (D. Or. 1991) - also granted invalidity.

18. *Illinois Tool Works Inc. v. Rawlplug Co.*, 21 U.S.P.Q.2d (BNA) 2036 (N.D. Ill. 1991), *aff'd*, 1992 U.S. App. LEXIS 16581 (Fed. Cir. 1992) (unpublished)

19. *Bush Indus. Inc. v. O'Sullivan Indus. Inc.*, 772 F. Supp. 1442, 21 U.S.P.Q.2d (BNA) 1561 (D. Del. 1991) - also granted invalidity.

20. *Key Technologies Inc. v. Simco/Ramic Corp.*, 21 U.S.P.Q.2d (BNA) 1001 (D. Or. 1991)

21. *Shoot The Hoops Inc. v. Grayhound Elec. Inc.*, 20 U.S.P.Q.2d (BNA) 1957 (D.N.J. 1991)

22. *Foster v. Hallco Mfg. Co.*, 20 U.S.P.Q.2d (BNA) 1857 (D. Or. 1991) - granted in part, claims 1-3; denied in part, claim 4.

23. *Jennmar Corp. v. Pattin Mfg. Co.*, 20 U.S.P.Q.2d (BNA) 1721 (S.D. Ohio 1991)

24. *Teletronics Pacing Sys. Inc. v. Ventritex Inc.*, 19 U.S.P.Q.2d (BNA) 1960 (N.D. Cal. 1991)

25. *Greenwood v. Seiko Instruments & Elec. Ltd.*, 19 U.S.P.Q.2d (BNA) 1862 (D.D.C. 1991)

26. *Abbott Lab. v. Pacific Biotech Inc.*, 19 U.S.P.Q.2d (BNA) 1678 (S.D. Cal. 1991)

27. *United Sweetener USA Inc. v. Nutrasweet Co.*, 760 F. Supp. 400, 19 U.S.P.Q.2d (BNA) 1561 (D. Del. 1991) - granted in part, claim 2; denied in part, claim 8; denied cross-motion for infringement.

NON-INFRINGEMENT GRANTED - Continued

28. *Hydrofoil Int'l Inc. v. Doelcher Products Inc.*, 18 U.S.P.Q.2d (BNA) 1791 (S.D.N.Y. 1991) - denied cross-motion for infringement.

29. *London v. Carson Pirie Scott & Co.*, 18 U.S.P.Q.2d (BNA) 1761 (N.D. Ill. 1991), *aff'd*, 20 U.S.P.Q.2d (BNA) 1456 (Fed. Cir. 1991)

30. *Foster v. Hallco Mfg. Co.*, 18 U.S.P.Q.2d (BNA) 1645 (D. Or. 1991)

31. *Refac Int'l Ltd. v. Mastercard Int'l*, 758 F. Supp. 152, 18 U.S.P.Q.2d (BNA) 1632 (S.D.N.Y. 1991)

32. *Foster v. Hallco Mfg. Co.*, 1990 U.S. Dist LEXIS 10138 (D. Or. 1990) - also granted invalidity.

33. *Oddzon Prod. Inc. v. Imperial Toy Corp.*, No. 89-6320-IH (C.D. Cal July 18, 1990) (memorandum order), *vacated*, 1991 U.S. App. LEXIS 14408 (Fed. Cir. 1991) (unpublished)

34. *Fausett v. Pansy Ellen Inc.*, 19 U.S.P.Q.2d (BNA) 1228 (N.D. Ga. 1990) - granted in part, literal infringement; denied in part, doctrine of equivalents.

35. *Ontario Die Co. of Am. v. Independent Die Ass'n Inc.*, 18 U.S.P.Q.2d (BNA) 1477 (E.D. Mich. 1990)

36. *Commercial Modular Sys. Inc. v. Martin Bldg. Indus. Inc.*, 17 U.S.P.Q.2d (BNA) 1971 (D. Md. 1990)

37. *Boc Group Inc. v. Novametrix Medical Sys. Inc.*, 17 U.S.P.Q.2d (BNA) 1493 (D. Conn. 1990), *aff'd*, 1991 U.S. App. LEXIS 11498 (Fed. Cir. 1991) (unpublished), *reh'g denied*, 1991 U.S. App. LEXIS 13224 (Fed. Cir. 1991) - case on remand from Federal Circuit who reversed finding of literal infringement. Summary judgment here was for doctrine of equivalents.

38. *Laitram Corp. v. NEC Corp.*, 17 U.S.P.Q.2d (BNA) 1407 (E.D. La. 1990), *rev'd*, 21 U.S.P.Q.2d (BNA) 1276 (Fed. Cir. 1991) - claims amended and infringing action predated new patent date.

39. *Giro Sport Design Inc. v. Pro-Tec Inc.*, 16 U.S.P.Q.2d (BNA) 1968 (W.D. Va. 1990)

40. *Tarel Sevens Design Inc. v. Magni Group Inc.*, 16 U.S.P.Q.2d (BNA) 1952 (C.D. Cal. 1990) - also denied invalidity cross-motion for infringement.

NON-INFRINGEMENT GRANTED - Continued

41. *Quantum Corp. v. Sony Corp.*, 16 U.S.P.Q.2d (BNA) 1447 (N.D. Cal. 1990)

42. *Dixie USA Inc. v. Infab Corp.*, 16 U.S.P.Q.2d (BNA) 1392 (C.D. Cal.1990)

43. *Nobell Inc. v. Sharper Image Corp.*, 751 F. Supp. 841, 16 U.S.P.Q.2d (BNA) 1380 (N.D. Cal. 1990), *motion to reconsider denied*, 17 U.S.P.Q.2d (BNA) 1325 (N.D. Cal. 1990), *vacated*, 950 F.2d 732 (Fed. Cir. 1991)

44. *Mallinckrodt Inc. v. Medipart Inc.*, 15 U.S.P.Q.2d (BNA) 1113 (N.D. Ill. 1990)

45. *Deuterium Corp. v. United States*, 19 Cl.C 624, 14 U.S.P.Q.2d (BNA) 1636 (Cl. Ct. 1990)

46. *Upjohn Co. v. Syntro Corp.*, 14 U.S.P.Q.2d (BNA) 1469 (D. Del. 1990)

47. *Genentech Inc. v. Wellcome Foundation Ltd.*, 14 U.S.P.Q.2d (BNA) 1363 (D. Del. 1990) - granted in part, literal infringement; denied in part, doctrine of equivalents.

48. *Medical Innovations Corp. v. Ray*, No. C-89-2246-WWS (N.D. Cal November 6, 1989) (memorandum order), *aff'd*, 1991 U.S. App. LEXIS 4497 (Fed. Cir. 1991) (unpublished), *reh'g denied*, 1991 U.S. App. LEXIS 7604 (Fed. Cir. 1991) - denied cross-motion for infringement.

49. *Laitram Corp. v. Cambridge Wire Cloth Co.*, No. S 89-756 (D. Md. November 1, 1989) (memorandum order), *vacated*, 919 F.2d 1579, 16 U.S.P.Q.2d (BNA) 1929 (Fed. Cir. 1990)

50. *Becton Dickinson & Co. v. C. R. Bard Inc.*, 719 F. Supp. 1228, 12 U.S.P.Q.2d (BNA) 1678 (D.N.J. 1989), *aff'd*, 922 F.2d 792, 17 U.S.P.Q.2d (BNA) 1097 (Fed. Cir. 1990) - denied invalidity.

51. *Winner Int'l Corp. v. Wolo Mfg. Corp.*, No. 88 CV 176 (E.D.N.Y. August 29, 1989) (memorandum order), *aff'd*, 905 F.2d 375, 15 U.S.P.Q.2d (BNA) 1076 (Fed. Cir. 1990) - also granted invalidity; denied cross-motion for infringement.

52. *Scripps Clinic & Research Found. v. Genentech Inc.*, 707 F. Supp. 1547, 11 U.S.P.Q.2d (BNA) 1187 (N.D. Cal. 1989), *rev'd*, 927 F.2d 1565, 18 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1991), *reh'g denied*, 1991 U.S. App. LEXIS 8701 (Fed. Cir. 1991) - also granted invalidity.

NON-INFRINGEMENT GRANTED - Continued

53. *Hormone Research Found. Inc. v. Genentech Inc.*, 708 F. Supp. 1096, 8 U.S.P.Q.2d (BNA) 1377 (N.D. Cal. 1988), *aff'd in part and vacated in part*, 904 F.2d 1558, 15 U.S.P.Q.2d (BNA) 1039 (Fed. Cir. 1990), *reh'g denied*, 1990 U.S. App LEXIS 17559 (Fed. Cir. 1990) - also granted invalidity (*vacated*).

54. *Intellicall Inc. v. Phonometrics Inc.*, no cite (N.D. Tex.) (memorandum order), *aff'd*, 952 F.2d 1384, 21 U.S.P.Q.2d (BNA) 1383 (Fed. Cir. 1992) - denied cross-motion for infringement.

55. *Emhart Indus. Inc. v. Universal Instruments Corp.*, no cite (N.D.N.Y.) (memorandum order), *aff'd*, 1991 U.S. App. LEXIS 1264 (Fed. Cir. 1991) (unpublished)

VALIDITY (NOT-INVALID) DENIED

1. *Granco-Clark Inc. v. Belco Indus. Inc.*, 1991 U.S. Dist. LEXIS 8909 (W.D. Mich. 1991), *aff'd*, 1992 U.S. App. LEXIS 12513 (Fed. Cir. 1992) (unpublished), *reh'g denied*, 1992 U.S. App. LEXIS 14902 (Fed. Cir. 1992) - denied as moot after summary judgment for non-infringement was granted; denied cross-motions for validity and infringement.

2. *ASQ Technology Inc. v. Weiss Scientific Glass Blowing Co.*, 1991 U.S. Dist. LEXIS 8053 (D. Or. 1991) - also denied infringement.

3. *Vardon Golf Co. v. Supreme Golf Sales Inc.*, 1991 U.S. Dist. LEXIS 7230 (N.D. Ill. 1991) - also denied infringement.

4. *Leading Edge Technology Corp. v. Sun Automation Inc.*, 23 U.S.P.Q.2d (BNA) 1161 (D. Md. 1991) - also denied cross-motion for invalidity and non-infringement.

5. *Symbol Technologies Inc. v. Metrologic Instruments Inc.*, 771 F. Supp. 1390, 21 U.S.P.Q.2d (BNA) 1481 (D.N.J. 1991) - granted infringement.

6. *Tennant Co. v. Hako Minuteman Inc.*, 22 U.S.P.Q.2d (BNA) 1161 (N.D. Ill. 1991) - granted cross-motion for invalidity.

VALIDITY (NOT-INVALID) GRANTED

1. *Vardon Golf Co. v. Supreme Golf Sales Inc.*, 1992 U.S. LEXIS 7515 (N.D. Ill. 1992)

2. *Marquip Inc. v. George M. Martin Co.*, 1991 U.S. Dist. LEXIS 18805 (N.D. Cal. 1991)

3. *AMP Inc. v. Lantrans Inc.*, 19 U.S.P.Q.2d (BNA) 1929 (C.D. Cal. 1991) - granted motion to strike invalidity defense; also granted infringement.

4. *Quantum Corp. v. Tandon Corp.*, 18 U.S.P.Q.2d (BNA) 1597 (N.D. Cal. 1991) - denied infringement; denied cross-motion for invalidity.

5. *Lund Indus. v. Westin Inc.*, 764 F. Supp. 1342, (D. Minn. 1990)

6. *Fromson v. RBP Chem. Corp.*, 15 U.S.P.Q.2d (BNA) 1689 (E.D. Wis. 1990) - also granted for infringement but not willful infringement.

7. *C. R. Bard Inc. v. Advanced Cardiovascular Sys. Inc.*, No. SA CV 88-646 JSL (C.D. Cal July 28, 1989) (memorandum order), *rev'd*, 911 F.2d 670, 15 U.S.P.Q.2d (BNA) 1540 (Fed. Cir. 1990) - also granted infringement.

8. *Boc Group Inc. v. Novametrix Medical Sys. Inc.*, 11 U.S.P.Q.2d (BNA) 1853 (D. Conn. 1989), *rev'd*, 15 U.S.P.Q.2d (BNA) 1475 (Fed. Cir. 1990) - also granted infringement.

9. *C. R. Bard Inc. v. Kendall Co.*, No. 88-3236-TJH (C.D. Cal.) (memorandum order), *aff'd*, 21 U.S.P.Q.2d (BNA) 1465 (Fed. Cir. 1991) (unpublished) - also granted infringement (*vacated*).

INFRINGEMENT DENIED

1. *Larson v. United States*, 1992 U.S. Cl. Ct. LEXIS 264 (Cl. Ct. 1992) - granted cross-motion for non-infringement.

2. *International Visual Corp. v. Crown Metal Mfg. Co.*, 22 U.S.P.Q.2d (BNA) 1778 (N.D. Ill. 1992) - granted cross-motion for non-infringement.

3. *Kinberg v. Colorforms*, No. 89 Civ. 1156 (PKL) & 80 Civ. 1292 (PKL) (S.D.N.Y. Aug. 26, 1991) (memorandum order adopting April 10, 1991 report of Magistrate), *motion to reconsider denied*, 1991 U.S. Dist. LEXIS 18385 (S.D.N.Y. 1991)

4. *Granco-Clark Inc. v. Belco Indus. Inc.*, 1991 U.S. Dist. LEXIS 8909 (W.D. Mich. 1991), *aff'd*, 1992 U.S. App. LEXIS 12513 (Fed. Cir. 1992) (unpublished), *reh'g denied*, 1992 U.S. App. LEXIS 14902 (Fed. Cir. 1992) - granted for non-infringement; motion for invalidity was denied as moot after motion for non-infringement was granted.

5. *ASQ Technology Inc. v. Weiss Scientific Glass Blowing Co.*, 1991 U.S. Dist. LEXIS 8053 (D. Or. 1991) - also denied validity.

6. *Vardon Golf Co. v. Supreme Golf Sales Inc.*, 1991 U.S. Dist. LEXIS 7230 (N.D. Ill. 1991) - also denied validity.

7. *United Sweetener USA Inc. v. Nutrasweet Co.*, 760 F. Supp. 400, 19 U.S.P.Q.2d (BNA) 1561 (D. Del. 1991) - cross-motion for non-infringement denied in part, claim 8; granted in part, claim 2.

8. *Hydrofoil Int'l Inc. v. Doelcher Products Inc.*, 18 U.S.P.Q.2d (BNA) 1791 (S.D.N.Y. 1991) - granted cross-motion for non-infringement.

9. *Quantum Corp. v. Tandon Corp.*, 18 U.S.P.Q.2d (BNA) 1597 (N.D. Cal. 1991) - granted validity; denied cross-motion for invalidity.

10. *Acosta-Banuelos v. Sanders Mfg. Co.*, 16 U.S.P.Q.2d (BNA) 2048 (D. Me. 1990) - denied cross-motion for invalidity.

11. *Tarel Seven Design Inc. v. Magni Group Inc.*, 16 U.S.P.Q.2d (BNA) 1952 (C.D. Cal. 1990) - granted cross-motion for non-infringement; denied cross-motion for invalidity.

12. *Mallinckrodt Inc. v. Medipart Inc.*, 15 U.S.P.Q.2d (BNA) 1113 (N.D. Ill. 1990) - granted cross-motion for non-infringement.

INFRINGEMENT DENIED - Continued

13. *Genentech Inc. v. Wellcome Foundation Ltd.*, 14 U.S.P.Q.2d (BNA) 1363 (D. Del. 1990)

14. *Medical Innovations Corp. v. Ray*, No. C-89-2246-WWS (N.D. Cal November 6, 1989) (memorandum order), *aff'd*, 1991 U.S. App. LEXIS 4497 (Fed. Cir. 1991) (unpublished), *reh'g denied*, 1991 U.S. App. LEXIS 7604 (Fed. Cir. 1991) - denied cross-motion for infringement.

15. *Winner Int'l Corp. v. Wolo Mfg. Corp.*, No. 88 CV 176 (E.D.N.Y. August 29, 1989) (memorandum order), *aff'd*, 905 F.2d 375, 15 U.S.P.Q.2d (BNA) 1076 (Fed. Cir. 1990) - granted cross-motions for non-infringement and invalidity.

16. *Intellicall Inc. v. Phonometrics Inc.*, no cite (N.D. Tex.) (memorandum order), *aff'd*, 952 F.2d 1384, 21 U.S.P.Q.2d (BNA) 1383 (Fed. Cir. 1992) - granted cross-motion for non-infringement.

INFRINGEMENT GRANTED

1. *Asgrow Seed Co. v. Winterboer*, 22 U.S.P.Q.2d (BNA) 1937 (N.D. Iowa 1991) - denied cross-motion for non-infringement.

2. *Marsh-McBirney Inc. v. Jennings*, 22 U.S.P.Q.2d (BNA) 1621 (C.D. Cal. 1991) - denied cross-motion for non-infringement.

3. *Additive Control & Measurement Sys. Inc. v. Flowdata Inc.*, 22 U.S.P.Q.2d (BNA) 1310 (S.D. Tex. 1991)

4. *Symbol Technologies Inc. v. Metrologic Instruments Inc.*, 771 F. Supp. 1390, 21 U.S.P.Q.2d (BNA) 1491 (D.N.J. 1991) - denied validity.

5. *American Home Products Corp. v. California Biological Vaccine Labs*, 21 U.S.P.Q.2d (BNA) 1230 (C.D. Cal. 1991), *limited upon reconsidered*, 22 U.S.P.Q.2d (BNA) 1472 (C.D. Cal. 1991) - no effect because court also granted invalidity to claims 1-3.

6. *Lifting Technologies Inc. v. Armstrong Steel Mfg. Inc.*, 19 U.S.P.Q.2d (BNA) 1935 (D. Minn. 1991) - also granted "not invalid."

7. *AMP Inc. v. Lantrans Inc.*, 19 U.S.P.Q.2d (BNA) 1929 (C.D. Cal. 1991) - also granted plaintiff's motion to strike defendant's invalidity defense.

8. *In-Tech Mktg. Incorp. v. Hasbro Inc.*, 1990 U.S. Dist LEXIS 4858 (D.N.J. 1990)

9. *Rutherford v. Trim-Tex Inc.*, No. 89 C 6306 (N.D. Ill. December 7, 1990) (Magistrate's order)

10. *Fromson v. RBP Chem. Corp.*, 15 U.S.P.Q.2d (BNA) 1689 (E.D. Wis. 1990) - denied willful infringement, granted "not invalid."

11. *Syntex Pharmaceuticals Int'l Ltd. v. K-Line Pharmaceuticals Ltd.*, Nos. 85-2814 and 85-2949 (D.N.J. September 18, 1989) (memorandum order), *appeal dismissed*, 905 F.2d 1525, 15 U.S.P.Q.2d (BNA) 1239 (Fed. Cir. 1990) - denied cross-motion for invalidity.

12. *C. R. Bard Inc. v. Advanced Cardiovascular Sys. Inc.*, No. SA CV 88-646 JSL (C.D. Cal July 28, 1989) (memorandum order), *rev'd*, 911 F.2d 670, 15 U.S.P.Q.2d (BNA) 1540 (Fed. Cir. 1990) - also granted "not invalid."

13. *Boc Group Inc. v. Novametrix Medical Sys. Inc.*, 11 U.S.P.Q.2d (BNA) 1853 (D. Conn. 1989), *rev'd*, 15 U.S.P.Q.2d (BNA) 1475 (Fed. Cir. 1990) - also granted "not invalid."

INFRINGEMENT GRANTED - Continued

14. *C. R. Bard Inc. v. Kendall Co.*, No. 88-3236-TJH (C.D. Cal.) (memorandum order), *vacated*, 21 U.S.P.Q.2d (BNA) 1465 (Fed. Cir. 1991) (unpublished) - also granted "not invalid" (*aff'd*).

Patent Litigation: Tactics and Tools

Alternate Dispute Resolution and Settlement

Thomas L. Creel

Kaye, Scholer, Fierman, Hays & Handler

September 15, 1992

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Patent Litigation: Tactics and Tools
Alternate Dispute Resolution and Settlement
Tuesday, September 15, 1992

Thomas L. Creel
Kaye, Scholer, Fierman, Hays & Handler

I. INTRODUCTION

Most attorneys have heard of alternate dispute resolution ("ADR"), but few are very familiar with all of its uses. ADR is any mechanism for resolving a dispute other than a typical court litigation. Arbitration and mediation are the best known examples of ADR, but other types of ADR include religious arbitration panels; for instance, a Jewish rabbinical tribunal, known as a "Beth Din," has been recognized by courts as a valid ADR forum.[1] Basically, the parties to the dispute "customize" the procedure to fit the particular dispute. And decisions rendered by ADR officiants -- known as "awards" -- are accepted by courts as binding and are enforced.[2] The U. S. Supreme Court has specifically recognized a federal policy favoring arbitration.[3]

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1 See, e.g., Avitzur v. Avitzur, 58 N.Y.2d 108, 446 N.E.2d 136, 459 N.Y.S.2d 572, cert. denied, 464 U.S. 817 (1983) (award of Beth Din recognized).

2 See, e.g., Fed. R. Civ. P. 16(c)(7), which provides that the participants at a pre-trial conference "may consider and take action with respect to ... the possibility of settlement or the use of extrajudicial procedures to resolve the dispute." See also 9 U.S.C. § 1 et seq.

3 In Moses H. Cone Memorial Hospital v. Mercury Construction Corp., the Court stated:

(continued...)

ADR, and arbitration, is now recognized and used worldwide. For instance, an arbitrator's award may be enforced in the over 80 countries which have signed the 1958 New York Convention, unless the award is against "public policy."[4] The public policy exception is extremely narrow. Indeed, in certain industries, ADR is the recognized method of dispute resolution, as opposed to court proceedings (e.g., in the construction and labor arenas).

Patent disputes, on the other hand, are still seldom resolved outside of court proceedings.

This may be partly historical. Even after arbitration was recognized for the resolution of most types of disputes, United States courts refused to enforce arbitration clauses in patent agreements on policy grounds.[5] Courts also expressed

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[3](...continued)

> Questions of arbitrability must be addressed with a healthy regard for the federal policy favoring arbitration . . . [A]ny doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration.

460 U.S. 1, 24-25 (1983).

[4] Convention Art. V(2)(b); see, e.g., Comment, The Public Policy Defense to Recognition and Enforcement of Foreign Arbitral Awards, 7 Cal. W. Int'l L.J. 228, 228 (1977).

[5] Because arbitration is the most visible of the ADR methods, it will be the primary focus of this paper; however, the comments are generally applicable to other ADR methods, which are discussed at the end of the paper. In Beckman Instrument, Inc. v. Technical Development Corp., the Sevent Circuit stated:

> The complex principles of patent law which a court must consider and apply when deciding issues of validity and infringement, affect important questions of public policy and public rights. In con-

(continued...)

doubt that an arbitrator could understand the complexities of a patent dispute.[6] Now, however, courts no longer void the arbitration of patent cases and patent arbitration provisions are enforceable by specific statute.[7]

I submit that the infrequency of ADR in patent disputes is for lack of understanding of all aspects of ADR and lack of knowledge of ADR's successful use already in resolving patent

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[5](...continued)

> sidering the validity of patent claims, a court makes decisions not only to the parties involved, but of vital importance to the public generally."

433 F.2d 55, 63, 167 U.S.P.Q. 10, 15 (7th Cir. 1970) (quoting Lear, Inc. v. Atkins, 395 U.S. 653, 670 (1969)); see also Foster Wheeler Corp. v. Babcock & Wilcox Co., 440 F. Supp. 897, 901, 195 U.S.P.Q. 649, 651 (S.D.N.Y. 1977). Of course, this logic could have been applied to almost any type of dispute to reach the same effect.

[6] E.g., Hanes Corp. v. Millard, 531 F.2d 585, 599, 189 U.S.P.Q. 331, 336-37 (D.C. Cir. 1976) ("[Patent] issues involve complex and difficult questions in applying an extremely complicated body of law. They are questions that may be unfamiliar to arbitrators, particularly if members of the panel are not [patent] lawyers or are citizens of a foreign country.")

[7] The Patent Code was amended to allow for arbitration of patent disputes.

> A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

35 U.S.C. § 294(a) (1982).

disputes. Indeed, I will go further and submit that all patent attorneys today have to know the rudiments of ADR to avoid possible malpractice claims. This paper will, therefore, do the following:

(1) Explore why a working knowledge of ADR is required, regardless of your belief about the benefits of ADR versus the courts;

(2) Provide examples of situations where ADR has already been used successfully in patent disputes;

(3) Explain the various types of ADR, their advantages and disadvantages; and

(4) Provide forms and procedures.

II. WHY KNOWLEDGE OF ADR IS REQUIRED

Is this merely another trendy topic? A few years ago it was a Chinese patent system, or the role of the ITC and GATT, that was hot, now patent arbitration and ADR are. Five years hence, it will be something else.

This is not merely trendy. It's much like the Eastern Europe revolution in the Communist states. A revolution here happened without a shot being fired. The ADR revolution is already here. Let me try to convince you that it is indisputable that you now have to know about ADR.

First, many of your clients have agreed that ADR will be explored before litigation is commenced. What attorney would want to initiate a litigation before pursuing ADR against the signed pledge of the CEO and general counsel of his or her client that the client will not do so? This corporate pledge (Exhibit O-1) mandates that the corporation will explore the

resolution of any dispute with another signatory through negotiation or ADR techniques before pursuing full-scale litigation. It is signed by both the CEO and chief legal officer of the signatory companies. Over 400 major corporations have signed the "ADR Pledge." Among companies in the Boston area who have signed are Digital Equipment Corporation, Cabot Corporation and Massachusetts Mutual Life Insurance Co. Furthermore, a large number of law firms have signed a similar pledge. (Exhibit O-8). Among firms in Boston who have signed such a pledge are Goodwin Proctor & Hoar and Ropes & Gray. These pledges are the work of the Center for Public Resources, which is an entity in New York City that is dedicated to furthering the use of ADR. It is funded by Fortune 500 companies and law firms.

A second reason you will have to know about ADR is that almost all licenses with foreign companies include some type of ADR clause. Foreigners generally do not like litigation in the U. S. and insist on some type of an arbitration clause in a licensing agreement.

A third reason is that the civil calendar in many major cities in the country makes it almost impossible to get a civil trial because of the criminal docket. As Bob Raven, former ABA president, said a couple years ago, the civil jury calendar "will be on hold in most metropolitan areas." (See Exhibit O-2). If a client needs a case resolved, in certain instances it may only be able to do so through some type of ADR, not the traditional court systems. Indeed, the courts and legislatures have recognized

this. The Civil Justice Reform Act of 1990 mandates that the federal courts consider ADR in certain instances. For example, in the District of New Jersey there are pilot mediation programs established. The judges select specific cases which are then referred to mediation by experienced mediators who are generally partners in major law firms. Other courts use summary jury trials as a means of arriving at settlements.

Fourth, whether because of "pledges" or otherwise, many clients are demanding that ADR be investigated. With the expense and delay of court proceedings today, alternatives are constantly sought by sophisticated clients.

Finally, I appeal to your sense of duty to society and as a member of the Bar to improve our ways of resolving all disputes, including patent disputes. Do you really want to have juries decide the complex technologies in many patent suits? Where a normal patent suit costs a million dollars, is there even a possibility of an individual inventor with a recognized advance over the art stopping a deep-pocket infringer who stonewalls him? Where it takes years to get a patent case to trial, is that due process? Where courts, to keep their dockets current, try complicated patent and antitrust cases in a day or less; where judges do not decide cases for years after the trial is closed, can those possibly be ones where there is a fair trial? Doesn't it make a lot more sense to submit the matter to a knowledgeable neutral party who will decide the case expeditiously and fairly for a minimum cost? I submit to you that as members of the Bar

you at least owe it to your clients and society in general to learn about ADR and how and when it is appropriate to use it.

III. ACTUAL ADR OF PATENT DISPUTES

I want to illustrate the use of ADR in resolving patent disputes by exploring two actual controversies which were resolved successfully through ADR.[8]

The first case was a complex patent and antitrust dispute involving multiple parties, some foreign and some U. S. The parties specified the decision was to be rendered within one year and it was. This ADR proves that you can have it both ways, i.e., a binding determination made quickly, but in which a trial-like hearing was held before a former U. S. judge according to the Federal Rules of Civil Procedure.

The second was a mini-trial conducted for settlement purposes in a complex technology area. Here the neutral was not to give a binding opinion, but rather was to assist in reaching a satisfactory settlement. The settlement was reached as a direct result of this mini-trial.

Case 1 - A Binding Arbitration, Non-Administered

Facts. A complex, 10-year-old dispute involving international antitrust and patent issues was conducted in a customized arbitration hearing. The parties agreed to resolve

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[8] These two ADRs were described in a conference on ADR in technology disputes presented at the Association of the Bar of the City of New York in November 1989. The following is based on a description of that conference in Alternatives, a periodical published by CPR.

their dispute within one year, and, after a four-week arbitration hearing, succeeded in doing so. Even the losing side said: "the process worked very well for resolving a complex dispute."

The parties were a British company that owned the patent involved in the dispute, and three licensees -- two in the United States and one in France. Unlike the U. S. licensees, the French company was not licensed to manufacture and sell in the United States. The French licensee claimed that the product it developed did not violate the licensed patent; that it could be sold in the U. S., and that the agreements with the U. S. companies violated antitrust laws. The parties chose arbitration because they did not want to pay high legal fees and they wanted confidentiality.

Reducing Costs. This process offered the benefits of "a private federal trial." Former U. S. District Court Judge Marvin E. Frankel in New York chaired the arbitration panel. Two senior partners in major New York law firms were the other panel members. Arbitration offered lots of flexibility and achieved the parties' objectives of fairness, minimal cost and risk, and expeditious resolution.

The one-year deadline for completion of the arbitration provided "good discipline," time forced the attorneys to limit discovery to significant material, and that "without doubt" there were cost savings as a result of the deadline.

Another essential need of the parties was confidentiality for high technology data. Discovery materials in

lawsuits are open to the press, while arbitration protects them completely. After the hearings, the transcript and all hearing materials were destroyed. Under the Federal Arbitration Act, an award has to be filed in order to obtain enforcement proceedings; however, that can often be done under seal.

High Risks. With claims of willful infringement and antitrust violations, this case had a potential for treble damages. To minimize this risk, the parties agreed to waive damages. The issue submitted to arbitration was whether the licensee can could sell the product or not. The product is seasonal and the manufacturer needed to be able to plan ahead.

Fairness. How do you achieve fairness in arbitration? Some discovery is essential where there are allegations of conspiracy and willful infringement. The arbitrator had power to sanction discovery abuses, but never used it. The parties had other relationships that they wanted to preserve.

What really counts is the arbitrator. "Picking your own judge" is a principal advantage of ADR. In this case, each party appointed one arbitrator, and the two were then charged with selecting the neutral arbitrator to chair the panel. The two "side-arbitrators" could not agree on a single third arbitrator. They therefore picked four retired judges and asked Robert Coulson, president of the American Arbitration Association, to help with the final selection. Once the neutral was selected, all ex parte communications came to an end.

You can have it both ways. Here, the parties were able to try the case on a fast track, with all the procedural safeguards of a trial. The way they achieved this was by agreeing to apply the Federal Rules of Evidence to the depositions and to the hearing (the parties also were prohibited from making any objections in depositions (except on attorney-client or work product grounds), a step that shortened that process).

Judge Frankel insisted on compliance with the rules and "the parties got the best of both worlds." There were none of the interruptions of a federal trial, and all of the traditional safeguards. They were able to "fully litigate a gigantic antitrust case" before a fine panel. The hearings took place in a stuffy room at the Association of the Bar of the City of New York, which prompted the advice that future participants in ADR "find a nice place" for their hearing.

One of the arbitrators said that "Judge Frankel could have done it alone." The side arbitrators offered some low-key advocacy in favor of their appointers, but were not sure it had any impact (the award was two to one). What the parties got was a "full blown federal trial on an expedited basis." There were about 30 witnesses in a substantial dispute "that wasn't susceptible to compromise" after nearly 10 years of litigation.

The parties asked the arbitrators not to issue a written opinion. The agreement spelled out in detail the consequences of the arbitrator's "up or down" award. The

arbitrator moved the case "right along." The seven law firms involved cooperated, and the arbitrators handed down their award within nine months of their selection.

Case 2 - A Mini-Trial

Facts. This was the mini-trial of a technologically complex case (Phillips Petroleum v. Hercules). The case was a "very good one" for this process. The infringement claim was a "bottomless pit," the science was very complicated, and the scientists were in total disagreement. Going to court risked results that were hard to predict.

The risks were high for both parties because the patent holder's "game plan" (Phillips') was to license the whole industry, and losing on this infringement claim would jeopardize this entire program. For Hercules, the defendant, the risk of losing on Phillip's infringement claim was also high. A valuable plastic manufacturing business would be lost, and if Phillips obtained an injunction, that could be "catastrophic."

People in the industry were used to extensive patent licensing, and there was no personal animosity between the parties. Discovery was complete when the mini-trial was proposed and the parties chose James F. Davis, a former judge of the Court of Claims, to act as neutral. They also chose the "critical issues" to present at the mini-trial: they elected to address the validity of one patent and its infringement by one product that was representative of the defendant's products. The mini-trial panel consisted of Davis, flanked by the head of Phillips'

patent division and Hercules' financial and business CEO. Neither was a neophyte, nor were they technical experts.

Before the mini-trial, the parties, who were close to trial, had made full disclosure of their positions and evidence. They made written submissions to the panel, including technical papers prepared by the experts. Witnesses told their story without interruption, giving the lawyers a chance to evaluate them as trial witnesses.

Judge Davis has called this the "classic" situation for a mini-trial. Both sides had lost objectivity, both thought "I am right," but both sensed that a neutral might not think so. They recognized that they might have to go to trial and wanted a "pre-Broadway test run." There were no dangers at that stage because they were way past the point where any surprise was possible.

The neutral in such situations should be encouraged to participate and ask questions freely. The parties should have the benefit of the neutral's fresh reactions to their presentations, as the best key to what is not "getting across." The parties need to define what they expect from the neutral; participation in settlement negotiations, being on call during negotiations, or being available later.

Settlement was not reached at once. The mini-trial paved the way, and the settlement was a direct result of it. The "numbers were very far part," beyond the neutral's ability to

reconcile. However, he sensed that the parties would move towards settlement, as they eventually did.

The private mini-trial resulted in a stipulated dismissal and there is no way to know from court records that it even happened.

IV. WHAT ARE THE CHARACTERISTICS OF ADR?

ADR allows the parties to customize a creative solution to resolving a dispute. Sometimes these solutions involve specialized procedures, while other times they allow the issues to be limited or the scope of any award to be limited.

The parties also have the power to select the judges, who are often persons familiar with the technology or industry. This can allow the resolution of a matter to be expedited.

Moreover, because ADR is invoked as a contractual matter, facts and issues raised during the proceedings can be kept confidential.

As mentioned above, ADR can provide a speedier resolution than litigation. Since there are ordinarily no formal opinions issued, and the arbitrator is under time limits to resolve the case, a matter can be resolved in far less time than a court. And because the focus can be narrowed and the action completed quicker, it is one of the factors that makes ADR less expensive.

Another advantage of ADR is the possibility to reduce costs to the litigants. Patent cases routinely cost millions of

dollars in legal fees, and it is almost impossible to get away trying a case "on the cheap." But ADR is typically less expensive.

In some instances, the use of ADR can accommodate "cultural differences" between disputants, since various countries have different methods of resolving disputes. It also can solve international discovery problems by creating individualized avenues for fact finding. ADR also allows the litigation of all patents in various countries simultaneously.

Moreover, where law is unsettled, issues between two parties can be resolved without requiring that a binding precedent be established. In that way the parties to the arbitration can have the relationship and responsibilities between themselves resolved -- certainty is often the most important factor to a business dispute -- without having to worry about public policy or generalized statements of the law that are not within the instant fact pattern.

V. TYPES OF ADR

A. Arbitration

Arbitration is the most recognizable form of ADR. And the most common type of arbitration is binding, administered arbitration, where any award is binding on the parties and the rules are set and administered by a recognized organization.[9]

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[9] The frequently cited administering organizations are the American Arbitration Association (AAA), International

(continued...)

Frequently the administrator is named in a contract or agreement prior to any dispute.

A typically binding, administered arbitration proceeding commences with a "demand" and entails the submission, pursuant to contract, of proofs and arguments concerning a dispute. The dispute is heard by a panel of one or three arbitrators who render a final, binding decision. The typical case has a fairly formal presentation by counsel. Cases may be presented by affidavit, deposition and documentary evidence, but the formal rules of evidence need not be followed. The proceeding may be conducted in secrecy. There is also the opportunity to present live witnesses and cross-examine them in common law countries. The panel that hears the evidence may question witnesses.

Arbitration rules forbid private communications between the arbitrator and the parties. The arbitrator, at the conclusion of the proceedings, will make a binding award, but normally will not provide reasons for the award. There are no appeals from binding arbitration unless the parties contract otherwise. The decision is one that tries to do justice under the facts presented, although it does not necessarily follow the

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[9](...continued)
Chamber of Commerce (ICC), London Court of Arbitration, Center for Policy Resolution (CPR), United Nations Commission on International Trade Law (UNCITRAL), American Institute of the Stockholm Chamber of Commerce (AISCC), Inter-American Commercial Arbitration Commission (IACAC), and Japan Commercial Arbitration Association.

absolute rule of law. In the U. S., there are very few bases for overturning an award.

B. The Mini-Trial

One of the other forms of ADR that is commonly employed is the mini-trial. It is a method of facilitating settlement; the neutral does not render a binding opinion. It combines many of the features of other dispute resolution processes while allowing a third-party "neutral advisor" to officiate at the proceedings.

As in all ADR, the parties are free to choose how they would like to proceed. The presentation of evidence and arguments -- termed the "information exchange" -- is a short process before a panel comprised of the advisor and officials for each party who have settling authority. At the conclusion of a mini-trial, the principals and neutral try to reach a settlement after hearing from both sides. The neutral can act as a mediator and can render a non-biding opinion which often assists in settling the case. The opinion, in conjunction with the parties' knowledge of the strong and weak points of their positions during the presentation of proof, often spurs the parties on to a favorable settlement. As mentioned, the advisor's opinion is merely advisory and has no binding effect.

In this manner a legal dispute is converted into a settleable business dispute. However, the mini-trial does not work well when one side wants war, credibility is a key issue in the case, there are high stakes (such as an injunction) at issue,

or one side is not operating in good faith. It also seems to succeed best where significant discovery has been completed.

C. Other Types of ADR

There are an endless variety of ADR procedures and types, since ADR is merely a customized way to resolve a dispute. Some which have been used enough to acquire names are set forth below.

The first is negotiation. This, in its simplest form, is the give-and-take which occurs daily in a lawyer's life.

Another is mediation, which, similar to negotiation, is a daily staple where a third party is brought in as a mediator. This is a common procedure in labor disputes.

Private judging services are also a useful ADR tool. Typically, a case is referred to a hired judge (dubbed "rent-a-judge") for an expedited, but bona fide, court-like trial. The judge, usually a retired judge, hears the case and enters a decision, findings of fact and conclusions of law in a court trial. The decision is then entered as a judgment and has the full force and effect of a final determination by that court. As with traditional trial court decisions, however, the parties are free to appeal the award on any substantive or procedural grounds. In many respects, the rent-a-judge program is akin to binding arbitration where the parties have provided for appellate review of the arbitrator's award.

Many courts have their own court-annexed ADR, where the court orders the parties to engage in either mediation or non-binding arbitration.[10]

A summary jury trial is a shortened trial -- patent cases typically take only a day -- where the counsel for each side presents the case mostly in narrative form and a jury issues a non-binding verdict. Such trials are generally court-ordered and occur after discovery is substantially completed. Sometimes, these proceedings are beneficial in cases where there are several factual disputes or where damage estimations are required. However, because they usually occur after discovery (and the attending motions, delays and expenses), the savings in time and money are less than can be achieved through other ADR techniques.

The "moderated settlement conference" is a hybrid of a number of other types of ADR. This process is much like a mini-trial, except the presentations are even more abbreviated and narrative. The neutral panel attempts to facilitate a settlement after the narrative. Further, unlike binding arbitration, this process allows for compromise; the panel is allowed to discuss its views with the parties without reaching a final decision.

VI. ADR CLAUSES

ADR clauses are routinely divided into pre-dispute and post-dispute for definitional purposes. Pre-dispute are the type

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[10] See, e.g., Fed. R. App. Pro. 33, which provides for a court-ordered prehearing conference or settlement discussions before an appeal is heard.

routinely found in license agreements which typically provide for any dispute arising under the agreement to be submitted to arbitration. Typical clauses are found in Appendix 1.

Clauses like this have the benefit of being simple and of having been frequently construed by many courts. On the other hand, inserting such boiler plate without more negates part of the advantage of ADR in being able to customize the procedure to fit your specific situation. For example, in a license between a company in a country whose language is other than English, whose language should be used? Must the arbitrator be fluent in both languages? Is the arbitration to be held in a country where the language is still a third so there is no possible bias? Must the relevant documents be translated into both languages? If so, at whose expense? Etc.

Usually, the submission of an existing dispute to ADR is done with a more comprehensive agreement because the dispute is then actual, rather than hypothetical. Then the clause will deal with real problems in a finite setting, rather than dealing blindly with unforeseen future occurrences.

An example of one such clause is forth in Exhibit 1-5 and a checklist of clauses for contracts is set forth at Exhibit 3.

VII. CONCLUSION

A confluence of factors has resulted in the necessity of all intellectual property lawyers being familiar with ADR's

strengths, weaknesses and procedures. However, ADR is not a panacea for litigation's shortcomings. Rather, it is another dispute resolution possibility that should be considered where the circumstances warrant.

In the appropriate circumstances, ADR can be effectively used to provide a quick, inexpensive and just result as compared to litigation. This ultimately benefits the clients, and society as a whole.

Alternative Dispute Resolution and Settlement

Thomas L. Creel
Kaye, Scholer, Fierman, Hays & Handler

Presented September 15, 1992 at the Franklin Pierce Law Center Fifth Annual Intellectual Property Litigation Series, "Patent Litigation: Tactics and Tools"

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1. Sample Arbitration Clauses*
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5. Forms for Mini-Trials*
6. Bibliography

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*Collected from appendices in New York Patent, Trademark and Copyright Law Association, Inc., *Guide to Patent Arbitration* (BNA 1987).

Sample ADR Pledge[1]

In the event of a business dispute between our company and another company which has made or will then make a similar statement, we are prepared to explore with that other party resolution of the dispute through negotiation or ADR techniques before pursuing full-scale litigation. If either party believes that the dispute is not suitable for ADR techniques, or if such techniques do not produce results satisfactory to the disputants, either party may proceed with litigation.

_____

Chief Executive Officer

_____

Chief Legal Officer

1 Corporate Policy Statement, Center for Public Resources, Inc. (CPR). CPR publishes a registry of companies that have signed its ADR Corporate Policy Statement. The list includes Digital Equipment Corp., Cabot Corp., Eaton Corp., Echlin, Inc., Ferro Corp., Massachusetts Mutual Life Insurance Co., Ocean Spray Cranberries, Inc., Raytheon Co., United Technologies Corp., and Xerox Corp.

The civil jury calendar "will be on hold in most metropolitan areas no later than two years from now."*

*Attorneys Describe ADR Use in Antitrust and Patent Controversies, 3 ADR Report 401, 403 (BNA 1989) (quoting Robert D. Raven, immediate past president of the American Bar Association).

Characteristics of ADR:

* Customized and creative resolution of the dispute
* Parties have power to select judges (who are knowledgeable about the technology)
* Facts and issues of the dispute can remain confidential
* Speedy resolution of the dispute
* Expenses curtailed in many cases
* Resolution of the dispute without setting court precedent
* "Cultural differences" between disputants can be accommodated (e.g. international discovery problems)
* Issues between parties can be resolved before the "law" is settled

Types of ADR

1. Negotiation
2. Mediation
3. Formal, Binding Arbitration
4. Mini-Trials
5. "Rent-a-Judge" Private Judging
6. Court Annexed ADR
7. Summary Jury Trials
8. Moderated Settlement Conferences

ADR Tribunals and Organizations

1. **American Arbitration Association**
   140 West 51 Street
   New York, NY 10020
   (212) 484-4000

2. **International Chamber of Commerce**
   (Chambre de Commerce Internationale - CCI)
   38, cours Albert 1er
   F-75008 Paris
   France
   1 495 32 828

   affiliated with
   U. S. Council for International Business
   1212 Avenue of the Americas
   New York, NY 10036
   (212) 354-4480

3. **London Court of Arbitration**

4. **The Center for Public Resources**
   366 Madison Avenue
   New York, NY 10017
   (212) 949-6490

5. **Endispute**
   1820 Jefferson Place, NW
   Washington, DC 20036
   (202) 429-8782

6. **National Institute for Dispute Resolution (NIDR)**
   1901 L Street, NW, Suite 600
   Washington, DC 20036

7. **Bar Associations**

8. **Other Dispute Resolution Services**
   Judicate
   1608 Walnut Street, Suite 803
   Philadelphia, PA 19103
   (215) 546-6200
   Universities (e.g., Duke University)
   Industry Dispute Resolution Organizations

Examples of Actual Disputes Resolved Using ADR
(Case #1 – Binding Arbitration Hearing)

Facts: Complex 10-year old dispute involving patent and antitrust issues. Foreign licensee, which did not hold rights to make and use in the United States, claimed that a product it developed under the license did not infringe the patent and could be sold in the U.S. Foreign licensee also claimed that patentee's licensing of other U.S.-based companies violated U.S. antitrust law.

Arbitration Hearing Agreement Terms:

* Resolve dispute within one year
* Limit discovery to significant material
* Each side selects one arbitrator, those selected arbitrators select one neutral arbitrator (in this case a former federal judge was selected)
* Keep relevant technology confidential (transcripts and hearing materials were destroyed)
* Waive damage issues
* Submit one issue to arbitrators: whether or not foreign corporation could make the product
* No written opinion (arbitrators gave opinion within nine months of their selection)
* Empower arbitrators to sanction discovery abuse
* Apply Federal Rules of Evidence at depositions and hearing

Result: Parties were able to try case on a "fast track", while maintaining the procedural safeguards of a federal trial. Parties were able to litigate a "gigantic antitrust case" before a competent and knowledgeable panel.

Examples of Actual Disputes Resolved Using ADR
(Case #2 – Patent Infringement Mini-Trial)

Facts: Patentee sued for alleged infringement of a valuable patent pertaining to plastic manufacturing technology. The infringement claim was considered to be a "bottomless pit", because of the complicated science involved. Even the scientific experts were in total disagreement over the nature of the technology. Each party believed it was "right".

Mini-Trial Procedures:

* No risk proceeding
* Tribunal consisted of one officer from patentee and accused, plus a neutral chosen by the parties (a former judge was the neutral)
* Parties selected only "critical issues" to present at the mini-trial
* Before the mini-trial, parties made full disclosure of their positions and evidence
* Parties also submitted written arguments to the tribunal, including technical papers prepared by expert witnesses
* Witnesses gave testimony without interruption (giving the lawyers a chance to evaluate their effectiveness)
* The neutral judge was encouraged to participate and ask questions

Result: Settlement achieved as a direct result of the mini-trial.

This was a "classic" case for using a mini-trial. Both sides had lost objectivity in a complicated case, and wanted an outside opinion at no risk. Moreover, going to court was risky, because the final outcome was hard to predict.

CPR LAW FIRM POLICY STATEMENT

ALTERNATIVES TO LITIGATION

_____
FIRM

_____
ADDRESS

_____

_____
CITY, STATE, ZIP

_____
TELEPHONE

We recognize that for many disputes there may be more effective methods of resolution than traditional litigation. Alternative dispute resolution (ADR) procedures -- used in conjunction with litigation or independently -- can significantly reduce the costs and burdens of litigation and result in solutions not available in court.

In recognition of the foregoing, we subscribe to the following statements of policy on behalf of our firm.

First, appropriate lawyers in our firm will be knowledgeable about ADR.

Second, where appropriate, the responsible attorney will discuss with the client the availability of ADR procedures so the client can make an informed choice concerning resolution of the dispute.

_____
PARTNER EXECUTING ON BEHALF OF FIRM

_____
DATE

Note: Please send a signed copy of your statement to:
The Center for Public Resources/CPR Legal Program
366 Madison Avenue, New York, New York 10017.

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Sample Arbitration Clauses

Collected here are certain standard clauses which have the merit of being widely used already. They therefore have the advantages of acceptance, wide use, and a body of case law interpreting them. Also presented are other clauses for special purposes or ones which some attorneys believe may be more appropriate than the standard clauses. Of course, an attorney should consider the client's objectives when drafting a contract so as to determine which specific clause is most appropriate.

The following is the American Arbitration Association standard clause for the arbitration of future patent disputes:

> "Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating to patent validity or infringement arising under this contract, shall be settled by arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association, and judgement upon the award rendered by Arbitrator(s) may be entered in any Court having jurisdiction thereof."

The following is the American Arbitration Association standard arbitration clause for the submission of existing patent disputes:

> "We, the undersigned parties, hereby submit to arbitration under the Patent Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly the matter in dispute, including specific reference to any existing patent validity or infringement dispute arbitrable under 35 U.S.C. §294(a)). We further agree that the above controversy be submitted to

(one)(three) Arbitrator(s) selected from the National Panel of Patent Arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the Rules and that we will abide by and perform any award and that a judgment of a Court having jurisdiction may be entered upon the award."

The following is a more elaborate clause drafted by IBM as a clause for inclusion in certain agreements:

"A. The parties desire to avoid and settle without litigation future disputes which may arise between them relative to this Agreement. Accordingly, the parties agree to engage in good faith negotiations to resolve any such dispute. In the event they are unable to resolve any such dispute by negotiation, then such dispute concerning any matter whose arbitration is not prohibited by law at the time such dispute arises shall be submitted to arbitration in accordance with the Licensing Agreement Arbitration Rules of the American Arbitration Association (hereafter 'Rules') then in effect and the award rendered by the arbitrators shall be binding as between the parties and judgment on such award may be entered in any court having jurisdiction thereof; provided, however, that with respect to any matter in dispute concerning royalties due and payable by one party, such party shall have previously exercised its right to have an auditor examine records of the other party pursuant to Section _____ before proceeding to arbitration.

"B. Three neutral arbitrators shall be appointed by the American Arbitration Association in accordance with Section 12 of such Rules, and at least one of such arbitrators shall be an attorney-at-law, and all decisions and awards shall be made by a majority of them except for decisions relating to discovery and disclosures as set forth in Section 16C hereof.

"C. Notice of a demand for arbitration of any dispute subject to arbitration by one party shall be filed in writing with the other party and with the American Arbitration Association. The parties agree that after any such notice has been filed, they shall, before the hearing thereof, make discovery and disclosure of all matters relevant to such dispute, to the extent and in the manner provided by the Federal Rules of Civil Procedure. All questions that may arise with respect to the obligation of discovery and disclosure and the protection of the disclosed and discovered material shall be referred to a single arbitrator who shall be an attorney-at-law and one of the three neutral arbitrators appointed in accordance with Section 16B for determination, and his determination shall be final and conclusive. Discovery and disclosure shall be completed no later than ninety (90) days after filing of

such notice of arbitration unless extended by such single arbitrator upon a showing of good cause by either party to the arbitration. The arbitrators may consider any material which is relevant to the subject matter of such dispute even if such material might also be relevant to an issue or issues not subject to arbitration hereunder. A stenographic record shall be made of any arbitration hearing.

"D. In the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between the parties from the date of such modification.

"E. The parties shall share the cost of arbitration.

* * *

"H. This Agreement shall be construed, and the legal relations between the parties hereto shall be determined, in accordance with the substantive law of the State of New York, except that the Federal Arbitration Act, Title 9 of the United States Code, shall apply to all matters that arise out of arbitration pursuant to Resolution of Disputes Section."[1]

It is preferable to have a standard arbitration clause even when one of the parties is a foreigner. Where one or both parties are foreigners the standard American Arbitration Association clause may be supplemented by supplementary procedures for international arbitration. For example, the clause can address items which are of concern where the parties are of different nationalities, e.g., nonnational arbitrators, number of arbitrators, communications, exchange of documents, documents to arbitrator in advance, location of hearings, language of the arbitration, opinions of the arbitrator, and, of course, fees.

A different arbitration clause which is of much narrower application and will probably only be used with a nationalized industry or governmental agency of a third world or Communist country is contained in the "Procedures for Cases under the UNCITRAL Arbitration Rules." The UNCITRAL Arbitration Rules, adopted in 1976 by the U.S. Commission on International

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[1]This clause is reprinted with the permission of the American Arbitration Association's *Arbitration Journal* and Paul D. Carmichael. See Carmichael, *The Arbitration of Patent Disputes*, 38 Arb. J. 3 (1983).

Trade Law, are used sparingly and may be a compromise where one party is a Socialist government. The proposed clause is as follows:

> "Any dispute, controversy, or claim arising out of or relating to the contract, or the breach, termination, or invalidity thereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules in effect on the date of this contract. The appointing authority shall be the American Arbitration Association. The case shall be administrated by the American Arbitration Association in accordance with its 'Procedures for Cases under the UNCITRAL Arbitration Rules.' "

The International Chamber of Commerce Court of Arbitration (ICC) recommends the following clause for parties desiring ICC arbitration:

> "All disputes arising in connection with the present contract shall be finally settled under the rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."

In *Rhone-Poulenc Specialites Chimiques v. SCM Corp.*, 769 F.2d 1569 (Fed. Cir. 1985), the contract contained a clause which read as follows:

> "8.3 Any controversy or claim arising out of or relating to this Agreement or the breach thereof, shall, unless amicably adjusted otherwise, be settled by arbitration in Florida in accordance with the rules of the International Chamber of Commerce."

The Arbitration Institute of the Stockholm Chamber of Commerce (AISCC) suggests the following clause:

> "Any dispute in connection with this agreement shall be finally settled by arbitration in accordance with the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce. The arbitral tribunal shall be composed of _____ arbitrators (a sole arbitrator). The law of _____ shall govern the matter regulated in the agreement. The arbitration shall be conducted in the _____ language."

The London Court of Arbitration recommends the following clause:

> "Any dispute or difference between the parties in connection with this contract (agreement) shall be referred to and

determined by arbitration under the International Arbitration Rules of the London Court of Arbitration."

If the parties further provide that English substantive law will be applied and wish to exclude review of the award or determination of preliminary points of law by English courts, they are advised to add:

"The parties agree to exclude any right of application or appeal to the English Courts in connexion with any question of the law arising in the course of the arbitration or with respect to any award made."

The clause recommended by the Inter-American Commercial Arbitration Commission for the arbitration of future disputes is as follows:

"Any dispute, controversy, or claim arising out of or relating to this contract, or the breach, or termination or invalidity thereof, shall be settled by arbitration in accordance with the Rules of Procedure of the Inter-American Commercial Arbitration Commission in effect on the date of this agreement. The arbitral tribunal shall decide as amiable compositeur or ex aequo et bono."

Its rules also suggest that the parties consider including the number of arbitrators, the place of arbitrators, and the language to be used.

Finally, there follows a sample arbitration agreement for a pre-existing controversy which was drafted by one of the largest U.S. companies for its use:

"AGREEMENT dated as of the _____ day of _____ 19___, and effective as of that date, but actually executed this _____ day of _____, 19___, by and between XYZ Co., a corporation of the State of _____, having a place of business at _____ (hereinafter referred to as XYZ), and MANUFACTURING COMPANY, a corporation of the State of _____ having a place of business at _____ (hereinafter referred to as MC).

RECITALS

"1. XYZ represents that it is the owner of the following unexpired U.S. patent and has the right to grant licenses and other rights thereunder: U.S. Patent No. _____ hereinafter referred to as the XYZ U.S. PATENT.

"2. On or about _____, XYZ orally charged MC with infringement of the XYZ U.S. PATENT and later confirmed the charge in writing.

"3. MC believes that the XYZ U.S. PATENT is invalid and not infringed by any product manufactured by MC and has so notified XYZ.

"4. MC represents that it is the owner of the following three unexpired U.S. patents and has the right to grant licenses and other rights thereunder:

U.S. Patent No. And Inventor(s)	Title	(Claims Involved)	Issue Date (Expiration Date)
MC GROUP A U.S. PATENTS			
MC GROUP B U.S. PATENT			

"5. By a letter dated _____, MC charged XYZ with infringement of MC GROUP A U.S. PATENTS and called MC GROUP B U.S. PATENT to the attention of XYZ.

"6. XYZ believes that the involved claims of the MC GROUP A U.S. PATENTS and the MC GROUP B U.S. PATENT are not infringed by any product manufactured by XYZ and has so notified MC.

"7. Each of the parties hereto desires to resolve the present dispute involving the XYZ U.S. PATENT and the MC GROUP A U.S. PATENTS and the MC GROUP B U.S. PATENT.

"8. Although the parties hereto have negotiated in good faith, they have been unable to resolve this dispute.

"9. The parties hereto desire to resolve this dispute by submitting it to binding arbitration under 35 U.S.C. §294.

"NOW, THEREFORE, in consideration of the premises and mutual covenants and promises hereinafter contained, the parties hereto agree as follows:

"Article I

"Agreement to Arbitrate

"A. The parties agree to submit, pursuant to the provisions of 35 U.S.C. §294, to arbitration under the Patent Arbitration Rules (hereinafter referred to as the 'Rules') of the American Arbitration Association (hereinafter referred to as the 'AAA') the controversies specifically set forth in Attachment A. The parties further agree to faithfully observe this Agreement and the Rules and to abide by and perform any award and agree that a judgment of a Court having jurisdiction may be entered upon the award.

"B. The arbitration shall be commenced, in accordance with Section 9 of the Rules, within ____ days following the effective date of this Agreement. MC shall file the required copies of this Agreement and the appropriate administrative fee. XYZ shall

promptly reimburse MC for one-half the amount of the administrative fee.

"C. Insofar as there is any conflict between the Rules and the provisions of this Agreement, the provisions of this Agreement shall prevail.

"D. A single arbitrator shall be selected by mutual agreement of the parties. If the parties cannot, within ____ days following commencement of the arbitration, agree upon an arbitrator who is willing and able to serve in that capacity, a single arbitrator shall be appointed from the National Panel of Patent Arbitrators pursuant to Section 13 of the Rules.

"E. All proceedings requiring the presence of the arbitrator shall be conducted at the offices of the arbitrator, unless the arbitrator otherwise recommends or the parties otherwise agree.

"F. The parties and the arbitrator shall agree upon a per diem fee for the arbitrator's services prior to the preliminary hearing of the arbitration. The parties shall share the expenses and fees involved in the arbitration as provided in the Rules, provided, however, that the arbitrator shall be instructed in making his award to require either party to pay a portion of the other's expenses if and to the extent that he finds a party guilty of having needlessly or unreasonably prolonged or extended any discovery or arbitration proceeding or of having otherwise needlessly or unreasonably burdened the opponent or increased the cost of arbitration.

"*Article II*
"*Arbitration Proceeding*

"A. Each party may individually apply for orders or interim awards under Section 34 of the Rules to preserve or protect trade secrets or other proprietary information that might be disclosed during the arbitration.

"B. Pursuant to Section 40(a) of the Rules, the parties agree that each party independent of the other party may submit, by mail or overnight delivery, to the arbitrator written documents making requests or providing information which may have supporting material attached, provided a copy of such material is also sent by the same mail or overnight delivery means to the AAA and the other party.

"C. In all discovery matters and in matters pertaining to the taking of testimony, the arbitrator shall be authorized to control the scope thereof to matters which are relevant and which promise to yield evidence of sufficient materiality to justify the time and burden required by the inquiry into such matters.

"D. With respect to any issue regarding standard of invention, inventive level or interpretation of patent claims, the arbitrator shall be instructed to apply his judgment of what constitutes generally recognized criteria, without reference to any special criterion of any one case or court, and shall apply his individual judgment to the extent that subjective judgment is required. (In this clause the accused infringer may want to point out any particularly pertinent decision of the Court of Appeals for the Federal Circuit.)

"Article III
"Award

"A. If the arbitrator finds for good cause shown that he is unable to render an award within the sixty (60) day period provided for in Section 41 of the Rules, the parties shall, upon the arbitrator's request for an extension of time, extend the time of award for a single time period not to exceed sixty (60) days.

"B. When an award is made, notice thereof shall be given in writing to the U.S. Commissioner of Patents and Trademarks within thirty (30) days of the date of the award, as provided for in 35 U.S.C. §294(d). There shall be a separate notice prepared for each patent involved in the arbitration proceeding and the owner of the patent shall give such notice to the Commissioner. If the required notice is not filed with the U.S. Commissioner of Patents and Trademarks within the thirty (30) day period, then the other party to the arbitration proceeding may file such notice.

"C. If the arbitrator finds and makes an award that all such patents are valid and infringed, each of the parties hereto shall execute the U.S. PATENT LICENSE AGREEMENT as contained in Attachment B attached hereto within sixty (60) days of the date of such award.

"D. If the arbitrator finds and makes an award that one or more of such patents are not infringed, the party who owns such one or more patents shall withdraw all charges of infringement against the other party as to such one or more patents and shall abstain from future charges of infringement of such one or more patents as they apply to all dynamoelectric machine structures considered by the arbitrator during the aforesaid arbitration proceeding.

"E. If the arbitrator finds and makes an award that any or all claims of any one or more of such patents are invalid, the party who owns such patent(s) shall abstain from continuing or making any further charges of infringement against the other party with respect to such claim(s) found to be invalid.

"F. With respect to the awards of Sections C, D, and E of this Article III, unless all such patents of both parties are found to be not infringed and/or invalid by the arbitrator, the U.S. PATENT LICENSE AGREEMENT of Attachment B shall be modified as appropriate to reflect such awards and the parties shall execute the modified AGREEMENT within sixty (60) days of the date of such awards and duly perform such AGREEMENT thereafter. However, under ARTICLE II of such modified AGREEMENT the royalty payable to MC by XYZ shall not be affected or reduced should one or more but not all of the MC GROUP A and B U.S. PATENTS be found to be not infringed and/or invalid.

"Article IV
"Modification of Award

"If any of the XYZ U.S. PATENT, MC GROUP A U.S. PATENTS, or MC GROUP B PATENT is subsequently determined to be wholly or partially invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, either party or its successor in interest shall be free to apply to a court of competent jurisdiction for appropriate modification of the award rendered in, or resulting from, this arbitration proceeding and pertaining to such patent; and such modification shall govern the rights and obligations between the parties as of the date the court enters its decision on such modification.

"Article V
"Notices

"All notices in connection with this Agreement shall be in writing and shall be considered given when delivered personally or when mailed by registered or certified mail, and directed to the appropriate address as follows:

"General Manager
"MANUFACTURING COMPANY

_____

_____

"Vice President
"XYZ Company

_____

_____

"Either party may, by written notice to the other, change the address to which notices are to be directed.

"Article VI
"Entire Agreement and Amendments

"This instrument contains the entire agreement between the parties respecting the subject matter hereof and supersedes and cancels all previous negotiations, agreements, commitments, and writings in respect thereto, and may not be released, discharged, abandoned, changed, or modified in any manner, orally or otherwise except by an instrument in writing signed by duly authorized officers or representatives of the parties.

"IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in duplicate by their duly authorized officers or representatives.

"XYZ COMPANY	MANUFACTURING COMPANY
By _____	By _____
Title _____	Title _____
Date _____	Date _____

"Attachment A

"The controversies or issues to be submitted to the arbitrator for arbitration in accordance with Section A of ARTICLE I of this ARBITRATION AGREEMENT shall be as follows:

"1. Which, if any, claims of the XYZ U.S. PATENT are infringed by any MC model _____ or any other MC model identified during the arbitration proceeding.

"2. Which, if any, claims of MC GROUP A U.S. PATENTS are infringed by XYZ models _____ or any other XYZ model identified during the arbitration proceeding.

"3. Which, if any, claims of MC GROUP B U.S. PATENT are infringed by the method of assembly of XYZ models ——— or the method of assembly of any component thereof.

"4. Whether or not each claim of XYZ U.S. PATENT, found to be infringed, is valid.

"5. Whether or not each claim of any MC GROUP A U.S. PATENTS, found to be infringed, is valid.

"6. Whether or not each claim of any MC GROUP B U.S. PATENT, found to be infringed, is valid."

(The parties should agree in advance on a suitable U.S. Patent License Agreement as Attachment B to the arbitration agreement.)



American
Arbitration
Association

Patent Arbitration Rules

as Amended and in Effect January 1, 1991

Introduction

The suitability of arbitration as a prompt and effective means of resolving intellectual-property disputes has been well recognized in recent years. This is evidenced by the fact that a growing number of intellectual-property dispute cases are arbitrated each year under the auspices of the American Arbitration Association (AAA). In the patent field, arbitration now is also facilitated by important new legislation expanding the range of disputes that may be arbitrated.

The AAA is a public-service, not-for-profit organization offering a broad range of dispute resolution services to business executives, attorneys, individuals, trade associations, unions, management, consumers, families, communities, and all levels of government. Services are available through AAA headquarters in New York City and through offices located in major cities throughout the United States. Hearings may be held at locations convenient for the parties and are not limited to cities with AAA offices. In addition, the AAA serves as a center for education and training, issues specialized publications, and conducts research on all forms of out-of-court dispute settlement.

The arbitrability of patent disputes was aided when former president Ronald Reagan, on August 27, 1982, signed Public Law 97-247, which specifically provides fo the voluntary arbitration of a broad range of patent disputes, including questions of validity and infringement. The arbitration section of PL 97-247 (35 USC, § 294) became effective on February 27, 1983.

Under this statute, parties to a contract may voluntarily agree to arbitrate their patent disputes, both pending and future, and such agreements and awards may be enforced under Title 9, US Code. Such arbitration shall be private and the resulting award shall be final and binding. Awards are enforceable when notice of an award is filed with the Commissioner of Patents and Trademarks. The award is binding only on the parties to the arbitration, and the parties may agree that the award will be modified if the patent that is the subject of the arbitration is subsequently determined to be invalid or unenforceable.

In 1984, the Congress further expanded the scope of informal resolution of intellectual-property disputes when it enacted two statutes that became effective November 8. The Patent Law Amendments Act of 1984 (HR 6286; PL 98-6220) adds a new subsection (d) to 35 USC, section 135, which provides for arbitration of patent interferences. The Semiconductor Chip Protection Act of 1984 (HR 6163; PL 98-620, 17 USC, §§ 901 *et seq.*) sanctions litigation of disputes over royalties payable for innocent infringement of chip-product rights unless they are resolved by voluntary negotiation, mediation, or binding arbitration.

Those who use and support arbitration as a means of resolving intellectual-property and licensing disputes have acknowledged the following advantages of arbitration over litigation in this technical field—relative speed and economy, privacy, convenience, informality, reduced likelihood of damage to ongoing business relationships, more suitability to international problems, and, especially important, the ability of the parties to select arbitrators who are experts and familiar with the subject matter of the

dispute. These rules were prepared by the AAA staff with assistance from a special advisory committee of patent attorneys. The committee, chaired by Harry F. Manbeck, Jr., included Rudolph J. Anderson, Jr., Robert B. Benson, Jerome E. Luecke, John E. Maurer, David W. Plant, Roger S. Smith, Arthur R. Whale, and Richard C. Witte.

For arbitration of future patent disputes:

The AAA recommends the following arbitration clause for insertion into all patent contracts:

Standard Patent Arbitration Clause
Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

For submission of existing patent disputes:

We, the undersigned parties, hereby agree to submit to arbitration under the Patent Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly). We further agree that the above controversy be submitted to (one)(three) arbitrator(s) selected from the panels of arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the rules, and that we will abide by and perform any award rendered by the arbitrator(s) and that a judgment of the court having jurisdiction may be entered upon the award.

Mediation

In appropriate cases, the parties may wish to submit their dispute to mediation. In mediation, the neutral mediator assists the parties in reaching a settlement, but does not have the authority to make a binding decision or award. Mediation is administered by the AAA in accordance with the Commercial Mediation Rules, which are available through all of the AAA's regional offices. There is no additional administrative fee where parties to a pending arbitration attempt to mediate their dispute under the AAA's auspices.

Where the parties are nationals or residents of different countries, the Supplementary Procedures for International Commercial Arbitration shall, by agreement of all parties, apply as well.

The services of the AAA are generally concluded with the transmittal of the award. Although there is voluntary compliance with the majority of awards, judgment on the award can be entered in a court having appropriate jurisdiction if necessary.

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Patent Arbitration Rules

1. Agreement of Parties

The parties shall be deemed to have made these rules a part of their arbitration agreement whenever they have provided for arbitration by the American Arbitration Association (hereinafter AAA) or under its Patent Arbitration Rules. These rules and any amendment of them shall apply in the form obtaining at the time the demand for arbitration or submission agreement is received by the AAA. The parties, by written agreement, may vary the procedures set forth in these rules.

2. Name of Tribunal

Any tribunal constituted by the parties for the settlement of their dispute under these rules shall be called the Patent Arbitration Tribunal.

3. Administrator and Delegation of Duties

When parties agree to arbitrate under these rules, or when they provide for arbitration by the AAA and an arbitration is initiated under these rules, they thereby authorize the AAA to administer the arbitration. The authority and duties of the AAA are prescribed in the agreement of the parties and in these rules, and may be carried out through such of the AAA's representatives as it may direct.

4. National Panel of Arbitrators

The AAA shall establish and maintain a National Panel of Patent Arbitrators, which will include individuals having experience in patent law and/or special technical expertise, and shall appoint arbitrators therefrom as hereinafter provided.

5. Regional Offices

The AAA may, in its discretion, assign the administration of an arbitration to any of its regional offices.

6. Initiation under an Arbitration Provision in a Contract

Arbitration under an arbitration provision in a contract shall be initiated in the following manner:

(a) The initiating party (hereinafter claimant) shall, within the time period, if any, specified in the con-

tract(s), give written notice to the other party (hereinafter respondent) of its intention to arbitrate (demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved, if any, the remedy sought, and the hearing locale requested, and

(b) shall file at any regional office of the AAA three copies of the notice and three copies of the arbitration provisions of the contract, together with the appropriate administrative fee as provided in the Administrative Fee Schedule.

The AAA shall give notice of such filing to the respondent or respondents. A respondent may file an answering statement in duplicate with the AAA within twenty days after notice from the AAA, in which event the respondent shall at the same time send a copy of the answering statement to the claimant. If a counterclaim is asserted, it shall contain a statement setting forth the nature of the counterclaim, the amount involved, if any, and the remedy sought. If a counterclaim is made in the answering statement, the appropriate fee provided in the Administrative Fee Schedule shall be forwarded to the AAA with the answering statement. If no answering statement is filed within the stated time, it will be treated as a denial of the claim. Failure to file an answering statement shall not operate to delay the arbitration.

7. Initiation under a Submission

Parties to any existing dispute may commence an arbitration under these rules by filing at any regional office of the AAA three copies of a written submission to arbitrate under these rules, signed by the parties. It shall contain a statement of the matter in dispute, the amount of money involved, if any, the remedy sought, and the hearing locale requested, together with the appropriate administrative fee as provided in the Administrative Fee Schedule.

8. Changes of Claim

After filing of a claim, if either party desires to make any new or different claim or counterclaim, same shall be made in writing and filed with the AAA, and a copy shall be mailed to the other party, who shall have a period of twenty days from the date of such mailing within which to file an answer with the AAA. After the arbitrator is appointed, however, no new or different

claim may be submitted except with the arbitrator's consent.

9. Administrative Conference, Preliminary Hearing, and Mediation Conference

At the request of any party or at the discretion of the AAA, an administrative conference with the AAA and the parties and/or their representatives will be scheduled in appropriate cases to expedite the arbitration proceedings.

In large or complex cases, at the request of any party or at the discretion of the arbitrator or the AAA, a preliminary hearing with the parties and/or their representatives and the arbitrator may be scheduled by the arbitrator to specify the issues to be resolved, to stipulate to uncontested facts, and to consider any other matters that will expedite the arbitration proceedings. Consistent with the expedited nature of arbitration, the arbitrator may, at the preliminary hearing, establish (i) the extent of and schedule for the production of relevant documents and other information, (ii) the identification of any witnesses to be called, and (iii) a schedule for further hearings to resolve the dispute.

With the consent of the parties, the AAA at any stage of the proceeding may arrange a mediation conference under the Commercial Mediation Rules, in order to facilitate settlement. The mediator shall not be an arbitrator appointed to the case. Where the parties to a pending arbitration agree to mediate under the AAA's rules, no additional administrative fee is required to initiate the mediation.

10. Fixing of Locale

The parties may mutually agree on the locale where the arbitration is to be held. If any party requests that the hearing be held in a specific locale and the other party files no objection thereto within twenty days after notice of the request has been mailed to it by the AAA, the locale shall be the one requested. If a party objects to the locale requested by the other party, the AAA shall have the power to determine the locale and its decision shall be final and binding.

11. Qualifications of an Arbitrator

Any neutral arbitrator appointed pursuant to Section 12, 13, or 14, or selected by mutual choice of

the parties or their appointees, shall be subject to disqualification for the reasons specified in Section 18. If the parties specifically so agree in writing, the arbitrator shall not be subject to disqualification for those reasons.

Unless the parties agree otherwise, an arbitrator selected unilaterally by one party is a party-appointed arbitrator and is not subject to disqualification pursuant to Section 18.

The term "arbitrator" in these rules refers to the arbitration panel, whether composed of one or more arbitrators and whether the arbitrators are neutral or party appointed.

12. Appointment from Panel

If the parties have not appointed an arbitrator and have not provided any other method of appointment, the arbitrator shall be appointed in the following manner: immediately after the filing of the demand or submission, the AAA shall submit simultaneously to each party to the dispute an identical list of names of persons chosen from the panel.

Each party to the dispute shall have ten days from the mailing date in which to cross off any names objected to, number the remaining names in order of preference, and return the list to the AAA. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an arbitrator to serve. If the parties fail to agree on any of the persons named, or if acceptable arbitrators are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the AAA shall have the power to make the appointment from among other members of the panel without the submission of additional lists.

Any arbitrator appointed pursuant to this section or any chairman appointed pursuant to Section 14 shall be skilled in patent law.

13. Direct Appointment by a Party

If the agreement of the parties names an arbitrator or specifies a method of appointing an arbitrator, that designation or method shall be followed. The

notice of appointment, with the name and address of the arbitrator, shall be filed with the AAA by the appointing party. Upon the request of any appointing party, the AAA shall submit a list of members of the panel from which the party may, if it so desires, make the appointment.

If the agreement specifies a period of time within which an arbitrator shall be appointed and any party fails to make the appointment within that period, the AAA shall make the appointment.

If no period of time is specified in the agreement, the AAA shall notify the party to make the appointment. If within ten days thereafter an arbitrator has not been appointed by a party, the AAA shall make the appointment.

14. Appointment of Neutral Arbitrator by Party-Appointed Arbitrators or Parties

If the parties have selected party-appointed arbitrators, or if such arbitrators have been appointed as provided in Section 12, and the parties have authorized them to appoint a neutral arbitrator within a specified time and no appointment is made within that time or any agreed extension thereof, the AAA may appoint a neutral arbitrator, who shall act as chairperson.

If no period of time is specified for appointment of the neutral arbitrator and the party-appointed arbitrators or the parties do not make the appointment within ten days from the date of the appointment of the last party-appointed arbitrator, the AAA may appoint the neutral arbitrator, who shall act as chairperson.

If the parties have agreed that their party-appointed arbitrators shall appoint the neutral arbitrator from the panel, the AAA shall furnish to the party-appointed arbitrators, in the manner prescribed in Section 12, a list selected from the panel, and the appointment of the neutral arbitrator shall be made as prescribed in that section.

15. Nationality of Arbitrator in International Arbitration

Where the parties are nationals or residents of different countries, any neutral arbitrator shall, upon the request of either party, be appointed from among the nationals of a country other than that of

any of the parties. The request must be made prior to the time set for the appointment of the arbitrator as agreed by the parties or set by these rules.

16. Number of Arbitrators
If the arbitration agreement does not specify the number of arbitrators, the dispute shall be heard and determined by one arbitrator, unless the AAA in its discretion, directs that a greater number of arbitrators be appointed.

17. Notice to Arbitrator of Appointment
Notice of the appointment of the neutral arbitrator, whether appointed mutually by the parties or by the AAA, shall be mailed to the arbitrator by the AAA, together with a copy of these rules, and the signed acceptance of the arbitrator shall be filed with the AAA prior to the opening of the first hearing.

18. Disclosure and Challenge Procedure
Any person appointed as neutral arbitrator shall disclose to the AAA any circumstance likely to affect impartiality, including any bias or any financial or personal interest in the result of the arbitration or any past or present relationship with the parties or their representatives. Upon receipt of such information from the arbitrator or another source, the AAA shall communicate the information to the parties and, if it deems it appropriate to do so, to the arbitrator and others. Upon objection of a party to the continued service of a neutral arbitrator, the AAA shall determine whether the arbitrator should be disqualified and shall inform the parties of its decision, which shall be conclusive.

19. Vacancies
If for any reason an arbitrator is unable to perform the duties of the office, the AAA may, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in accordance with the applicable provisions of these rules. In the event of a vacancy in a panel of neutral arbitrators after the hearings have commenced, the remaining arbitrator or arbitrators may continue with the hearing and determination of the controversy, unless the parties agree otherwise.

20. Date, Time, and Place of Hearing
The arbitrator shall set the date, time, and place for each hearing. The AAA shall mail to each

party notice thereof at least ten days in advance, unless the parties by mutual agreement waive such notice or modify the terms thereof.

21. Representation
Any party may be represented by counsel or other authorized representative. A party intending to be so represented shall notify the other party and the AAA of the name and address of the representative at least three days prior to the date set for the hearing at which that person is first to appear. When such a representative initiates an arbitration or responds for a party, notice is deemed to have been given.

22. Stenographic Record
Any party desiring a stenographic record shall make arrangements directly with a stenographer and shall notify the other party of these arrangements in advance of the hearing. The requesting party or parties shall pay the cost of the record. If the transcript is agreed by the parties to be, or determined by the arbitrator to be, the official record of the proceeding, it must be made available to the arbitrator and to the other parties for inspection, at a date, time, and place determined by the arbitrator.

23. Interpreters
Any party wishing an interpreter shall make all arrangements directly with the interpreter and shall assume the costs of the service.

24. Attendance at Hearings
The arbitrator shall maintain the privacy of the hearings unless the law provides to the contrary. Any person having a direct interest in the arbitration is entitled to attend hearings. The arbitrator shall otherwise have the power to require the exclusion of any witness, other than a party or other essential person, during the testimony of any other witness. It shall be discretionary with the arbitrator to determine the propriety of the attendance of any other person.

25. Postponements
The arbitrator for good cause shown may postpone any hearing upon the request of a party or upon the arbitrator's own initiative, and shall also grant such postponement when all of the parties agree thereto.

26. Oaths

Before proceeding with the first hearing each arbitrator may take an oath of office and, if required by law, shall do so. The arbitrator may require witnesses to testify under oath administered by any duly qualified person and, if it is required by law or requested by any party, shall do so.

27. Majority Decision

All decisions of the arbitrators must be by a majority. The award must also be made by a majority unless the concurrence of all is expressly required by the arbitration agreement or by law.

28. Order of Proceedings and Communication with Arbitrator

A hearing shall be opened by the filing of the oath of the arbitrator, where required; by the recording of the place, time, and date of the hearing, and the presence of the arbitrator, the parties, and their representatives, if any; and by the receipt by the arbitrator of the statement of the claim and answering statement, if any.

The arbitrator may, at the beginning of the hearing, ask for statements clarifying the issues involved. In some cases, part or all of the above will have been accomplished at the preliminary hearing conducted by the arbitrator pursuant to Section 9.

The complaining party shall then present evidence to support its claim. The defending party shall then present evidence supporting its defense. Witnesses for each party shall submit to questions or other examination. The arbitrator has the discretion to vary this procedure but shall afford a full and equal opportunity to all parties for the presentation of any material and relevant evidence.

Exhibits, when offered by either party, may be received in evidence by the arbitrator.

The names and addresses of all witnesses and a description of the exhibits in the order received shall be made a part of the record.

There shall be no direct communication between the parties and a neutral arbitrator other than at oral hearing, unless the parties and the arbitrator agree otherwise. Any other oral or written communication from the parties to the neutral arbitrator shall be directed to the AAA for transmittal to the arbitrator.

29. Arbitration in the Absence of a Party or Representative

Unless the law provides to the contrary, the arbitration may proceed in the absence of any party or representative who, after due notice, fails to be present or fails to obtain a postponement. An award shall not be made solely on the default of a party. The arbitrator shall require the party who is present to submit such evidence as the arbitrator may require for the making of an award.

30. Evidence

The parties may offer such evidence as is relevant and material to the dispute and shall produce such evidence as the arbitrator may deem necessary to an understanding and determination of the dispute. An arbitrator or other person authorized by law to subpoena witnesses or documents may do so upon the request of any party or independently, with notice to all parties. The arbitrator may subpoena witnesses by describing with reasonable particularity the matter on which testimony is required and directing the subpoena to an organization that will be responsible for designating an appropriate witness.

The arbitrator shall be the judge of the relevance and materiality of the evidence offered, and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all of the arbitrators and all of the parties, except where any of the parties is absent in default or has waived the right to be present.

31. Evidence by Affidavit and Posthearing Filing of Documents or Other Evidence

The arbitrator may receive and consider the evidence of witnesses by affidavit, but shall give it only such weight as the arbitrator deems it entitled to after consideration of any objection made to its admission.

If the parties agree or the arbitrator directs that documents or other evidence are to be submitted to the arbitrator after the hearing, the documents or other evidence shall be filed with the AAA for transmission to the arbitrator. All parties shall be afforded an opportunity to examine such documents or other evidence.

32. Inspection or Investigation
An arbitrator finding it necessary to make an inspection or investigation in connection with the arbitration, shall direct the AAA to so advise the parties. The arbitrator shall set the date and time and the AAA shall notify the parties. Any party who so desires may be present at such an inspection or investigation. In the event that one or all parties are not present at the inspection or investigation, the arbitrator shall make a verbal or written report to the parties and afford them an opportunity to comment.

33. Interim Measures
The arbitrator may issue such orders for interim relief as may be deemed necessary to safeguard the property that is the subject matter of the arbitration, to preserve evidence, and/or to protect any trade secrets or other proprietary information that might be disclosed during the arbitration.

34. Closing of Hearing
The arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, or if satisfied that the record is complete, the arbitrator shall declare the hearing closed and a minute thereof shall be recorded. If briefs are to be filed, the hearing shall be declared closed as of the final date set by the arbitrator for the receipt of briefs. If documents are to be filed as provided in Section 31 and the date set for their receipt is later than that set for the receipt of briefs, the later date shall be the date of closing the hearing. The time limit within which the arbitrator is required to make the award shall commence to run, in the absence of other agreements by the parties, upon the closing of the hearing.

35. Reopening of Hearing
The hearing may be reopened on the arbitrator's initiative, or upon application of a party, at any time before the award is made. If reopening the hearing would prevent the making of the award within the specific time agreed upon by the parties in the contract(s) out of which the controversy has arisen, the matter may not be reopened unless the parties agree upon an extension of time. When no specific date is fixed in the contract, the arbitrator may reopen the hearing and shall have sixty days from the closing of the reopened hearing within which to make an award.

36. Waiver of Oral Hearing
The parties may provide, by written agreement, for the waiver of oral hearings in any case. If the parties are unable to agree as to the procedure, the AAA shall specify a fair and equitable procedure.

37. Waiver of Rules
Any party who proceeds with the arbitration after knowledge that any provision or requirement of these rules has not been complied with and who fails to state an objection thereto in writing shall be deemed to have waived the right to object.

38. Extensions of Time
The parties may modify any period of time by mutual agreement. The AAA or the arbitrator may for good cause extend any period of time established by these rules, except the time for making the award. The AAA shall notify the parties of any extension.

39. Serving of Notice
Each party shall be deemed to have consented that any papers, notices, or process necessary or proper for the initiation or continuation of an arbitration under these rules; for any court action in connection therewith; or for the entry of judgment on any award made under these rules may be served on a party by mail addressed to the party or its representative at the last known address or by personal service, in or outside the state where the arbitration is to be held, provided that reasonable opportunity to be heard with regard thereto has been granted to the party.

The AAA and the parties may also use facsimile transmission, telex, telegram, or other written forms of electronic communication to give the notices required by these rules.

40. Time of Award
The award shall be made promptly by the arbitrator and, unless otherwise agreed by the parties or specified by law, no later than sixty days from the date of closing the hearing, or, if oral hearings have been waived, from the date of the AAA's transmittal of the final statements and proofs to the arbitrator.

41. Form of Award

The award shall be in writing and shall be signed by a majority of the arbitrators. It shall be executed in the manner required by law.

42. Scope of Award

The arbitrator may grant any remedy or relief that the arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract or injunctive relief to terminate infringement. The arbitrator shall, in the award, assess arbitration fees, expenses, and compensation as provided in Sections 47, 48, and 49 in favor of any party and, in the event any administrative fees or expenses are due the AAA, in favor of the AAA.

43. Award upon Settlement

If the parties settle their dispute during the course of the arbitration, the arbitrator may set forth the terms of the agreed settlement in an award. Such an award is referred to as a consent award.

44. Delivery of Award to Parties

Parties shall accept as legal delivery of the award the placing of the award or a true copy thereof in the mail addressed to a party or its representative at the last known address, personal service of the award, or the filing of the award in any other manner that may be permitted by law.

45. Release of Documents for Judicial Proceedings

The AAA shall, upon the written request of a party, furnish to the party, at its expense, certified copies of any papers in the AAA's possession that may be required in judicial proceedings relating to the arbitration or as required for filing with the Commissioner of Patents and Trademarks.

46. Applications to Court and Exclusion of Liability

(a) No judicial proceeding by a party relating to the subject matter of the arbitration shall be deemed a waiver of the party's right to arbitrate.

(b) Neither the AAA nor any arbitrator in a proceeding under these rules is a necessary party in judicial proceedings relating to the arbitration.

(c) Parties to these rules shall be deemed to have consented that judgment upon the arbitration award may be entered in any federal or state court having jurisdiction thereof.

(d) Neither the AAA nor any arbitrator shall be liable to any party for any act or omission in connection with any arbitration conducted under these rules.

47. Administrative Fee

As a not-for-profit organization, the AAA shall prescribe an Administrative Fee Schedule and a Refund Schedule to compensate it for the cost of providing administrative services. The schedule in effect at the time the demand for arbitration or submission agreement is received shall be applicable.

The administrative fees shall be advanced by the initiating party or parties, subject to final apportionment by the arbitrator in the award.

When a claim or counterclaim is withdrawn or settled, the refund shall be made in accordance with the Refund Schedule.

The AAA may, in the event of extreme hardship on the part of any party, defer or reduce the administrative fee.

48. Expenses

The expenses of witnesses for either side shall be paid by the party producing such witnesses. All other expenses of the arbitration, including required travel and other expenses of the arbitrator, AAA representatives, and any witness and the cost of any proof produced at the direct request of the arbitrator, shall be borne equally by the parties, unless they agree otherwise or unless the arbitrator in the award assesses such expenses or any part thereof against any specified party or parties.

49. Neutral Arbitrator's Fee

An appropriate daily rate of compensation and other arrangements will be discussed by the administrator with the parties and the arbitrator and agreed to prior to the commencement of any of the activities of the arbitrator. If the parties fail to agree to the terms of compensation within a reasonable period of time in the opinion of the

AAA, an appropriate rate shall be established by the AAA and communicated in writing to the parties.

Any arrangement for the compensation of a neutral arbitrator shall be made through the AAA and not directly between the parties and the arbitrator. The terms of compensation of neutral arbitrators on a panel shall be identical.

50. Deposits

The AAA may require the parties to deposit in advance of any hearings such sums of money as it deems necessary to defray the expense of the arbitration, including the arbitrator's fee, if any, and shall render an accounting to the parties and return any unexpended balance at the conclusion of the case.

51. Interpretation and Application of Rules

The arbitrator shall interpret and apply these rules insofar as they relate to the arbitrator's powers and duties. When there is more than one arbitrator and a difference arises among them concerning the meaning or application of these rules, it shall be decided by a majority vote. If that is unobtainable, either an arbitrator or a party may refer the question to the AAA for final decision. All other rules shall be interpreted and applied by the AAA.

Administrative Fee Schedule

A filing fee of $300 will be paid when a case is filed. The balance of the administrative fee is based on the amount of each claim or counterclaim as disclosed when the claim or counterclaim is filed. This balance is due and payable sixty days after the AAA's commencement of administration, or prior to the date of the first hearing, whichever occurs first. If at any time a claim or counterclaim is settled or withdrawn, the balance of the administrative fee remains due and the Refund Schedule shall then be applied. When oral hearings are waived under Section 36, the Administrative Fee Schedule shall still apply.

Amount of Claim or Counterclaim	Fee
Up to $10,000	$300
$10,000 to $25,000	3%
$25,000 to $50,000	$750, plus 2% of excess over $25,000
$50,000 to $100,000	$1,250, plus 1% of excess over $50,000
$100,000 to $500,000	$1,750, plus ½% of excess over $100,000
$500,000 to $5,000,000	$3,750, plus ¼% of excess over $500,000
$5,000,000 to $50,000,000	$15,000, plus 1/10% of excess over $5,000,000

Where the claim or counterclaim exceeds $50 million, there is no additional administrative fee.

When no amount can be stated at the time of filing, the administrative fee is $1,000, subject to adjustment in accordance with the above schedule as soon as an amount can be disclosed.

An appropriate administrative fee will be determined by the AAA for claims and counterclaims that are not for a monetary amount.

If there are more than two parties represented in the arbitration, an additional 10% of the administrative fee will be due for each additional represented party.

The minimum administrative fee for a case heard by three arbitrators is $1,500, payable by the party requesting same.

Postponement Fees

Sole-Arbitrator Cases

$100 is payable by a party causing its first postponement of any scheduled hearing.

$200 is payable by a party causing its second or subsequent postponement of any scheduled hearing.

Three-Arbitrator Cases

$150 is payable by a party causing its first postponement of any scheduled hearing.

$300 is payable by a party causing its second or subsequent postponement of any scheduled hearing.

Additional Hearing Fee

$75 is payable by each party for each hearing after the first hearing that is clerked by the AAA.

Hearing-Room Rental

Hearing rooms for second and subsequent hearings are available on a rental basis at AAA offices. Check with your local office for specific availability and rates.

Refund Schedule

The Refund Schedule is based on the administrative fee due on a claim or counterclaim asserted by a party.

If the AAA is notified that a claim or counterclaim has been settled or withdrawn before a list of arbitrators has been sent out, all of the fee in excess of $300 will be refunded.

If the AAA is notified that a claim or counterclaim has been settled or withdrawn after a list of arbitrators has been sent out but before the original due date for the return of the first list, two thirds of the fee in excess of $300 will be refunded.

If the AAA is notified that a claim or counterclaim has been settled or withdrawn after the original due date for the return of the first list but at least two business days before the initial date and time set for the first scheduled hearing, one third of the fee in excess of $300 will be refunded.

There will be no refund after any hearing or mediation conference has been held; where a claim or counterclaim was filed as an undetermined/undisclosed claim and remained so at the time of settlement or withdrawal; where a consent award was issued by the arbitrator; or where a determination is made by the arbitrator resulting in the closing of the file.

Appendices

1. 35 USC, § 294 Voluntary Arbitration

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner

shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.

2. 35 USC, § 135
Arbitration of Interferences

* * *

(d) Parties to a patent interference, within such time as may be specified by the Commissioner by regulation, may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Commissioner, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Commissioner from determining patentability of the invention involved in the interference.

3. 17 USC, § 901
Limitation on Exclusive Rights: Innocent Infringement

(a) Notwithstanding any other provision of this chapter, an innocent purchaser of an infringing semiconductor chip product...

* * *

(2) shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip product that the innocent purchaser imports or distributes after having notice of protection with respect to the mask work embodied in the semiconductor chip product.

(b) The amount of the royalty referred to in subsection (a) (2) shall be determined by the court in a civil action for infringement unless the parties resolve the issue by voluntary negotiation, mediation, or binding arbitration...

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*Hearings may be held anywhere in the United States or abroad.

Commonly Used Rules Available from the AAA:

Commercial Arbitration Rules
Commercial Mediation Rules
Supplementary Procedures for International Commercial Arbitration
Construction Industry Arbitration Rules
Construction Industry Mediation Rules
Securities Arbitration Rules
Dispute Resolution Procedures for Insurance Claims
Expedited Labor Arbitration Rules
Model Employment Arbitration Procedures
Voluntary Labor Arbitration Rules (Including Streamlined Labor Arbitration Rules)

For specialized industry rules, contact the AAA regional office nearest you.

Services Available from the AAA:

Arbitration
Mediation
Mini-trial
Factfinding
Election Services
Education
Training
Insurance ADR
ADR for Business
Court-Referred Mediation

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See the inside back cover for a list of AAA regional offices.

AAA133-3M-1/91

CHECKLIST FOR DRAFTING PATENT ARBITRATION AGREEMENTS

Item	Comment	Applicable States	Related AAA Commercial Arbitration Rule
1– Expression of intent to arbitrate	To be enforceable, a contract provision calling for arbitration of future patent disputes must require arbitration and not merely permit it. It should also bind both parties. *Hull Dye and Print Works, Inc. v. Riegel Textile Corp.*, 17 App. Div. 2d 946, 235 N.Y.S. 2d 782 [1944].	35 USC §294(a) – contracts requiring arbitration of future patent disputes in agreements to settle existing disputes by arbitration	
	It appears even the validity and enforceability of the contract itself can be arbitrated if the definition of arbitrable issues is sufficiently broad, but not if such issues are directed in particular to the arbitration clause. *Prima Paint Corp. v. Flood and Conklin Mfg. Co.*, 388 U.S. 395 [1967].	– shall be valid, irrevocable and enforceable except for any grounds that exist at law or equity for revocation	
	An action brought in violation of an agreement to arbitrate can be stayed and arbitration compelled. But a party who takes actions inconsistent with arbitration, such as filing a suit, cannot thereafter invoke an agreement to arbitrate.	9 USC 43 – proceedings in a U.S. court involving issues referable to arbitration under a written agreement will be stayed pending arbitration	
	Parties may wish to include a limitation in future dispute contracts setting the time within which arbitration of a dispute may be demanded. Otherwise, it has been held that the statute of limitations for breach of the obligation to arbitrate begins to run, not when the dispute arose, but when the demand for arbitration was made. eg *Revolution Electric Corp. v. Hyperion and Terrific Tel. Int'l*, 2d 8th Cir. 1951, cert. den. 340 U.S. 854 [1951].		

CHECKLIST FOR DRAFTING PATENT ARBITRATION AGREEMENTS

Item	Comment	Applicable Statutes	Related AAA Commercial Arbitration Rule
	Failure of a party to participate may not defeat an agreement to arbitrate. A clause authorizing parties to proceed ex parte would clarify the issue	9 USC §4 – party aggrieved by the alleged failure of another to arbitrate under a written agreement may move for a U.S. District Court order directing the parties to proceed with the arbitration	Section 30 – Arbitration may proceed in the absence of any party after due notice
		9 USC §206 UN Convention* Art. II.3 – courts are to refer parties to arbitration upon the request of one party if agreement is valid and operative	
	Proper notice is essential for an ex parte proceeding, and is a grounds for refusing an award under the UN Convention. The method of service should be prescribed by the agreement.	UN Convention Art. V.1b – improper notice of the appointment of an arbitrator or of the proceedings is a grounds for refusing recognition and enforcement of an award	Section 48(b) Consent to stated method of service is deemed to parties providing for arbitration under these rules
		*UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards, enacted under 9 USC §201	
2—Description of arbitrable issues	In arbitration clauses covering future disputes, a broad definition of arbitrable issues should be considered so as to provide sufficient coverage for unknown future issues. In submissions of existing disputes, parties can control arbitration by narrowing the definition of arbitrable issues.	9 USC §§10(d) and 11(b) UN Convention Art. V.1c – provide for the vacation and modification of awards outside of or not covering submitted subject matter	Section 43 Scope of arbitrator's award is defined
	In view of past judicial hostility, the arbitration of disputes relating to patent validity or infringement should be specifically set out, and should preferably mirror the language of 35 USC	35 USC §294(a) – specifically sanctions provisions requiring arbitration of "any dispute relating to patent validity or infringement arising under the contract", and agreements in writing "to settle [an existing patent validity or infringement] dispute by arbitration."	

3—Governing law provisions	Parties may wish to specify the law to be applied by the arbitrator, particularly if there is a conflict or interpretation among the statutes. If a submission is unrestricted, an award will not be vacated by a showing of mere errors of law, so long as an arbitrator has not shown a "manifest disregard" of it. *Wilko v. Swan*, 346 U.S. 427, 436 (1954). For a discussion, see 33 Arb. J. 9, 12 (Dec. 1978).		
	The usual patent defenses are available, but are to be considered only if raised.	35 USC §294(d) —defenses provided for under 35 USC §282 are to be considered by the arbitrator if raised by any party	
4—Place of Hearing	Pre designation of a locale, or allowing for selection by a neutral party is particularly suggested in contracts dealing with future disputes. To avoid any inclination to arbitrate unnecessarily, or to use the selection of an inconvenient locale to pressure for settlement, it has been suggested that a clause be used allowing the party proceeded against to designate the place for the hearing.		Section 11 Parties may mutually agree on a locale. If none is selected within 7 days, the AAA will select it. One party may, however, request a locale, and, unless objected to, it will be used.
	Note that standard for 11 hundred of Commerce rules will for arbitration in a neutral country.		
	9 USC §4 authorizes petitions to direct arbitration to be filed in any district that would have jurisdiction, but for the arbitration agreement. It is unclear whether this would enable a default arbitration to be held in a locale other than that designated in the agreement.	9 USC §4 Court ordered arbitration in default under an agreement shall be in the district in which the petition for such action is filed.	

CHECKLIST FOR DRAFTING PATENT ARBITRATION AGREEMENTS

Item	Comment	Applicable Status	Related AAA Commercial Arbitration Rule
1.—Arbitrators number of arbitrators	The practice of using two party appointed arbitrators and a third, neutral arbitrator appears to be declining in favor of a single arbitrator selected by a neutral agent, or a greater number similarly selected in particularly large or complex cases.	9 USC §5 —if the court is requested to appoint an arbitrator under this section, a single arbitrator will be appointed unless otherwise provided in the arbitration agreement	Section 17 Unless otherwise specified, one arbitrator will be used unless the AAA, in its discretion, directs that a greater number be appointed.
—procedure for appointment of arbitrators	In providing for possible vacancies during a proceeding, consideration should be given as to whether the entire matter should be reheard if a vacancy occurs. AAA Rules opt for a full rehearing unless the parties agree otherwise.	9 USC §5 —if no method is provided for in the arbitration agreement, or if there is a lapse in the naming of an arbitrator or filling a vacancy, the court will appoint an arbitrator if so requested 9 USC §206 —district courts may appoint arbitrators under the terms of agreements coming under the UN Convention	Section 13 Appointment from panel Section 14 Direct appointment by parties Section 15 Appointment of third, neutral arbitrator Section 18 Notice to arbitrator Section 20 Vacancies
—qualifications of arbitrators	It is often desirable to establish the requisite qualifications or bars for the qualification of prospective arbitrators. For example, a degree of familiarity with patent law should be required. Future controversies can be further avoided if the parties precisely designate acceptable candidates or classes of candidates (eg., all partners of a given law firm)	9 USC §10 —partiality of arbitrator is grounds for vacation of award	Section 5 AAA National Panel of Arbitrators Section 12 Qualifications of arbitrator Section 16 Nationality Section 19 Disclosure of circumstances likely to affect impartiality. AAA determines if arbitrator shall be disqualified

6—Set of other administrative rules —General	Rules such as the AAA Rules are convenient and may be designated, but parties are free to structure arbitrations to meet their own needs. The following areas might be considered	Section 1 AAA Rules are deemed part of an agreement providing for arbitration by the AAA or under the Rules. Rules apply in the form current at the initiation of the arbitration
	A pre hearing conference in the absence of the arbitrator to settle administrative problems, exchange information, and define issues may be useful, particularly in arbitrations arising from a future conflicts clause.	Section 10 Pre hearing conference at the request of the parties or the discretion of the AAA
	Both the procedure for commencing an arbitration and the form of the demand should be set out in a future disputes contract.	Section 7 Initiation under a contract Section 9 Initiation under a submission
	The exchange of briefs in a prescribed, limited format with copies to the arbitrator are not normally required, but can help focus arguments and expedite the hearing in a proper case	
	Transcripts of hearings are not typically made, particularly in view of very limited grounds for petitions to vacate or modify. May be useful in cross examining witnesses	Section 21 Stenographic record will be made if requested by a party
	Reasonable time limits should be set to expedite the hearing. Parties may want to simply empower the arbitrator to set such limits, especially in an ad hoc situation where no administering agency or rules are involved	Various Sections Time limits for responses by parties are generally set at 7 days. Section 41 Arbitration award to be made within 30 days Section 39 Parties may modify any time period AAA may grant extensions, except for the time to make the award

CHECKLIST FOR DRAFTING PATENT ARBITRATION AGREEMENTS

Item	Comment	Applicable Status	Related AAA Commercial Arbitration Rule
—Discovery and evidence	Parties may want to limit their discovery to certain subject matter, witnesses, time period, etc. The arbitrator's subpoena powers might be similarly restricted, for example, to protect confidential matters not directly at issue. Adherence to the Federal Rules of Evidence is not necessary, but parties may want to incorporate them, perhaps in a modified form. It may be useful to expressly grant the arbitrator the power to order confidentiality and grant injunctions. A closed hearing may also be prescribed or be made an option for the parties.	9 USC 17 —arbitrators have subpoena powers supported by the district courts	Section 11 —Arbitrator may subpoena upon his own initiative or upon the request of a party. —Arbitrator shall be the judge of relevancy and materiality, and conformity to legal rules of evidence is not necessary. Section 32 Evidence of witnesses by affidavit shall be received and considered. Section 34 Arbitrator may issue orders necessary to safeguard the property at issue.
—Termination after settlement	Provision should be made to terminate the arbitration if the parties so desire after arriving at a settlement.		Section 44 Upon parties' request, the arbitrator may enter terms of an agreed settlement in an award.
7—How the costs are to be borne	Equal shares for common expenses is typical. Parties may want to make arrangements for costs of producing requested documents or witnesses.		Section 50 Except for expenses of witnesses and of transcripts, all other expenses are to be borne equally unless otherwise agreed to, or unless arbitrator assesses expenses in his award. Section 48 Administrative fees set by the AAA based on the amount of the claims and counter claims involved.
	To facilitate obtaining the services of highly qualified patent arbitrators, parties are advised to provide for payment of an appropriate hourly billing rate or other form of compensation.		Section 41 Arbitrators from the AAA National Panel serve without fee, unless parties agree otherwise.

8—Award Enforcement Provisions	Language from 9 USC §9 should be included in the arbitration agreement to enable court confirmation of an award. Parties can specify the court which is to confirm the award. Once entered, an award can be enforced as a judgment of the court. Note that foreign arbitral awards under the UN Convention can be confirmed up to 3 years after the award, as compared to one year for domestic awards.	9 USC §9 If the parties in their agreement have agreed that a judgment of a court shall be entered upon an award, then any party may apply within one year to confirm the award and the court shall do so unless it is vacated, modified or corrected under 9 USC §10 or §11 9 USC §13 A judgment so entered is to be enforced as if it had been rendered in an action by the entering court 9 USC §207 Awards under the UN Convention may be confirmed within 3 years unless grounds under Convention Art. V are present for refusing recognition and enforcement are present.	Section 47(c) Consent of the parties is deemed to have a judgment entered upon the award
	The arbitrator's award is normally in a "bottom line" format to settle the matter without second guessing and to decrease costs and delays. The arbitrator can be required to formulate findings of fact and conclusions of law, although their value is not thought to be great since grounds for vacation and modification of an award do not normally include complexities of law or fact. See 11 Am. J. of Int'l Arb. 1998 for a discussion. Note that under UN Convention Art. V 2, awards can be refused based on the public policy of the enforcing country	9 USC §§10 and 11 Define limited grounds for the vacation, modification or correction of arbitral awards UN Convention Art. V Grounds for refusing recognition and enforcement of an award	

CHECKLIST FOR DRAFTING PATENT ARBITRATION AGREEMENTS

Item	Comment	Applicable Status	Related AAA Commercial Arbitration Rule
	The non patent owning parties to an arbitration agreement may want to include language allowing for a subsequent modification of an unfavorable award under §294(c).	35 USC §294(c) Parties may agree that an award be modified in the event an underlying patent is later found to be invalid or unenforceable by a court from which no appeal can or has been taken.	
	Patent owner or licensee initially has a duty to file a required notice at the PTO, but if it is not filed, any party may provide it. There are no time limits specified, but the award is unenforceable in the interim.	35 USC §294(d), (e) An award shall be unenforceable under §294(c) until notice specified by §294(d) is received by the Commissioner of the PTO.	
9. Multinational Transactions	The Convention on the Recognition and Enforcement of Foreign Arbitral Awards and corresponding Sections 201 to 208 of Title 9, United States Code, generally correspond to sections of Title 9 dealing with domestic awards, but both should be reviewed. Consideration should be given to such normal matters in multinational agreements as the language for the hearings, currency in which the award is to be made, procedural rules, etc.	9 USC, Chapter 2 UN Convention Both deal with the entry, modification, vacation, and enforcement of foreign arbitral awards and arbitration agreements.	UNCITRAL Rules The UN Commission on International Trade Law sponsors a set of arbitration rules to be used on a worldwide basis. The AAA and other agencies are prepared to serve as appointing agency under these rules.

AAA Mini-Trial Procedures

The mini-trial is a structured dispute resolution method in which senior executives of the parties involved in legal disputes meet in the presence of a neutral advisor and, after hearing presentations of the merits of each side of the dispute, attempt to formulate a voluntary settlement. The following procedures have been developed by the American Arbitration Association to facilitate the use of the mini-trial in business disputes. They are available for the use of any business organization or governmental agency. Any provision, including those relating to the use of a neutral advisor and the imposition of costs, may be altered if the parties so agree.

1. The mini-trial process may be initiated by the written or oral request of either party, made to any regional office of the AAA, but will not be pursued unless both parties agree to resolve their dispute by means of a mini-trial.

2. The course of the mini-trial process shall be governed by a written agreement between the parties.

3. The mini-trial shall consist of an information exchange and settlement negotiation.

4. Each party is represented throughout the mini-trial process by legal counsel whose role is to prepare and present the party's "best case" at the information exchange.

5. Each party shall have in attendance throughout the information exchange and settlement negotiation a senior executive with settlement authority.

6. A neutral advisor shall be present at the information exchange to decide questions of procedure and to render advice to the party representatives when requested by them.

7. The neutral advisor shall be selected by mutual agreement of the parties, who may consult with the AAA for recommendations. To facilitate the selection process, the AAA will make available to the parties a list of individuals to serve as neutral advisors. If the parties fail to agree upon the selection of a neutral advisor, they shall ask that the AAA appoint an advisor from the panel it has compiled for this purpose.

8. Discovery between the parties may take place prior to the information exchange, in accordance with the agreement between the parties.

9. Prior to the information exchange, the parties shall exchange written statements summarizing the issues in the case, and copies of all documents they intend to present at the information exchange.

10. Federal or state rules of evidence do not apply to presentations made at the information exchange. Any limitation on the scope of the evidence offered at the information exchange shall be determined by mutual agreement of the parties prior to the exchange and shall be enforced by the neutral advisor.

11. After the information exchange, the senior executives shall meet and attempt, in good faith, to formulate a voluntary settlement of the dispute.

12. If the senior executives are unable to settle the dispute, the neutral advisor shall render an advisory opinion as to the likely outcome of the case if it were litigated in a court of law. The neutral advisor's opinion shall identify the issues of law and fact which are critical to the disposition of the case and give the reasons for the opinion that is offered.

13. After the neutral advisor has rendered an advisory opinion, the senior executives shall meet for a second time in an attempt to resolve the dispute. If they are unable to reach a settlement at this time, they may either abandon the proceeding or submit to the neutral advisor written offers of settlement. If the parties elect to make such written offers, the neutral advisor shall make a recommendation for settlement based on those offers. If the parties reject the recommendation of the neutral advisor, either party may declare the mini-trial terminated and resolve the dispute by other means.

14. Mini-trial proceedings are confidential; no written or oral statement made by any participant in the proceeding may be used as evidence or in admission in any other proceeding.

15. The fees and expenses of the neutral advisor shall be borne equally by the parties, and each party is responsible for its own costs, including legal fees, incurred in connection with the mini-trial. The parties may, however, in their written agreement alter the allocation of fees and expenses.

16. Neither the AAA nor any neutral advisor serving in a mini-trial proceeding governed by

these procedures shall be liable to any party for any act or omission in connection with the mini-trial. The parties shall indemnify the AAA and the neutral advisor for any liability to third parties arising out of the mini-trial process.

MINI-TRIAL FEE SCHEDULE

Administrative Fee

Parties initiating a mini-trial under these procedures will make arrangements with the AAA regional office for administrative fees and neutral advisor compensation.

Bibliography

Guide to Patent Arbitration, New York Patent, Trademark and Copyright Law Assoc., Inc., Edited by T. Creel, BNA Books, 19__.

Alternative Dispute Resolution for Patent Cases, Tom Arnold,

Model ADR Procedures—ADR in Technology Disputes, CPR Legal Program, Center for Public Resources, 1987.

Forms for Mini-Trials

Mini-Trial Agreement (Form 1)[1]

1. (Plaintiff's name) and (Defendant's name) (the "parties") agree to follow the Schedule set forth in Attachment A, which will culminate in a Mini-Trial to be held on (date set for mini-trial). The purpose of this meeting is to inform management representatives of both sides of the theories, strengths, and weaknesses of the parties' respective positions. Accordingly, at the meeting each side will have the opportunity and responsibility to present orally its "best case" on the specific issues of (statement of the issues to be discussed at the mini-trial).

2. Business representatives, including (name of managerial representative of plaintiff) and (name of managerial representative of defendant), of Plaintiff and Defendant will attend the Mini-Trial. Their roles and the names and roles of other representatives will be finalized one week before the Mini-Trial and exchanged by the parties. In addition, (name of neutral advisor) will attend as a mutually selected "Neutral Advisor." Shortly after the conclusion of the Mini-Trial and in accordance

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[1]This form was used in the Telecredit/TRW mini-trial. Forms 1 and 2 and their attached schedules and statements have been reprinted from *Corporate Dispute Management*, copyright 1982 by Matthew Bender & Co., copyright 1986 by the Center for Public Resources, eliminating names and dates of original parties and indicating in parentheses material to be filled in.

with the attached Schedule, the Advisor may be asked to advise the parties concerning the relative strengths and weaknesses of their positions.

3. The fees and expenses of the Neutral Advisor will initially be borne equally by both sides. However, in the event this case is not settled and instead proceeds to a court determination, the Advisor's fee and expenses shall be treated as a legal cost and shall be apportioned in accord with the court order for costs of trial.

4. The Neutral Advisor will be provided with copies of this Agreement, the attached "Advisor-Statement of Function," the Schedule, and various other source material, statements, and exhibits as set forth herein or in the attached Schedule. Neither party nor anyone on behalf of either party shall unilaterally approach, contact, or communicate with the Advisor.

5. The parties represent and warrant that they have made a diligent effort to ascertain all prior contact between themselves, their employees, agents, and attorneys on the one hand and (name of neutral advisor) on the other hand and that all such contacts have been disclosed to counsel for the opposing party.

6. No later than (date about six weeks before the mini-trial), the parties will enter into a stipulation setting forth a schedule for expedited discovery to be taken prior to the Mini-Trial and extending the time to respond to all other outstanding discovery to (date on which discovery will terminate) or to 15 days after termination of the pursuit of the Schedule, whichever is earlier. Discovery taken during the period prior to the Mini-Trial shall be admissible for all purposes in this litigation, but it is agreed that the pursuit of expedited discovery during this period shall not restrict either party's ability to take additional discovery at a later date. In particular, it is understood and agreed that partial depositions may be necessary to prepare for the Mini-Trial. If this matter is not resolved informally as a result of this procedure, more complete depositions of the same persons may be necessary. In such case the partial depositions taken during this interim period shall in no way foreclose additional depositions of the same person into the same or additional subject matter at a later date.

7. During the period prior to the Mini-Trial, the parties will mutually strive to resolve discovery issues relevant to the meeting. If the parties are unable to resolve any such matters,

they may by mutual agreement seek the advice and assistance of (name of neutral advisor).

8. Shortly after his appointment, mutually agreed upon basic source material will be jointly sent to (name of neutral advisor) to assist him in familiarizing himself with the basic issues of the case. This material will consist of non-argumentative neutral matter, such as (background information; in the case of patent litigation, this material may include patents, patent file wrappers, and technical manuals, for example). By (date about three weeks before the mini-trial) the parties will exchange all exhibits they plan to use at the Mini-Trial, and copies thereof will be promptly sent to (name of neutral advisor). Shortly before the Mini-Trial, if he so desires and if the parties agree, (name of neutral advisor) may confer jointly with counsel for both parties to resolve any outstanding procedural questions. If (name of neutral advisor) wishes to consult with the parties' technical experts on substantive issues prior to or after the Mini-Trial, he may outline his general areas of inquiry and, on agreement by both sides, he may submit written questions jointly to the parties' technical experts.

9. All interim discovery for the purposes of the Mini-Trial will end on (date about four weeks before the mini-trial), and on (date about three weeks before the mini-trial) the parties will exchange all exhibits which they plan to use at the presentations. All offered exhibits which reveal information designated by the opposing party as confidential under the Protective Order in force in this case shall be deemed approved by the opposing party for disclosure to all participants at the Mini-Trial unless that party objects to such disclosure within 5 days of receipt of the exhibits. Any designated information or documents disclosed pursuant to this paragraph may be used only for the purposes of this Mini-Trial and may not be disclosed to any persons not participating in the Mini-Trial.

10. By (date about two weeks before the mini-trial) the parties will exchange and submit to (name of neutral advisor) introductory statements which are to be no longer than twenty-five 8½" × 11" double-spaced pages.

11. The presentations at the Mini-Trial will be informal. The rules of evidence will not apply. In addition to asking clarifying questions, (name of neutral advisor) may moderate the presentations. However, (name of neutral advisor) will not preside like a judge or arbitrator, nor have the power to limit

the scope or substance of the parties' presentations. The presentations will not be recorded, but either party may take notes of the proceedings.

12. After the Mini-Trial and to the extent reasonable, the parties will make their business representatives available for discussions; however, if the parties are unable to resolve the dispute themselves based upon a good faith evaluation of the presentations, to assist the parties in further discussions the advisor will render his response in writing on the issues of (statement of the issues to be discussed at the mini-trial) and on the likely outcome of the dispute should it proceed to trial. Thereafter, the business representatives of the parties will meet and be reasonably available for discussions including at least one conference.

13. No reference to the court may be made of any aspect of the Mini-Trial or even that it occurred. Further, written submissions prepared specifically for the Mini-Trial and oral statements made during the Mini-Trial by the opposing party shall be inadmissible at the trial of this matter for any purpose, including impeachment. However, evidence that is otherwise admissible shall not be rendered inadmissible as a result of its use at the Mini-Trial.

Any violation of these rules by either party will seriously prejudice the opposing party and be prima facie grounds for a mistrial or disqualification motion. Moreover, notwithstanding the provisions of Paragraph 3 above, any violation of these rules by either party will entitle the opposing party to full compensation for its share of the Advisor's fees and expenses, irrespective of the outcome of any trial.

14. (Name of neutral advisor) will be disqualified as a trial witness, consultant, or expert for either party, and his advisory response will be inadmissible for all purposes in this or any other dispute involving the parties hereto. (Name of neutral advisor) will treat the subject matter of the presentations as confidential and refrain from disclosing any trade secret information disclosed by the parties.

15. If either party desires to reveal information designated by the opposing party as "confidential" under the Protective Order in force in this case to participants not qualified under the Protective Order, it must submit a list of such information and documents to the opposing party 5 days prior to any planned revelation, along with an identification of those to whom the

information is to be provided. If the responding party does not object to disclosure of such information or documents to the identified participant(s) within 5 days, such designated discovery may be revealed to the identified participant(s) but may be used only for the purposes of the Mini-Trial. Such information may not be disclosed to any other person or used for any other purpose.

Dated:

By: (Name of managerial representative of plaintiff)

APPROVED AS TO FORM AND CONTENT:

By: Attorneys for (name of plaintiff)

Dated:

By: (Name of managerial representative of defendant)

APPROVED AS TO FORM AND CONTENT:

By: Attorneys for (name of defendant)

Attached Schedule for Mini-Trial Agreement

(Six weeks before Mini-Trial)—Parties execute Mini-Trial agreement, serve letter requests outlining interim discovery desired and suggested schedule, and enter into stipulation extending time to respond to other outstanding discovery to 15 days after termination of the pursuit of this schedule.

(Six weeks before Mini-Trial)—Plaintiff proposes list of basic source material to be given to the Advisor in advance for preliminary review. This material will consist of non-argumentative, neutral material.

(Five weeks before Mini-Trial)—Defendant proposes additional basic source material to be given to the Advisor in advance.

(Six to four weeks before Mini-Trial)—Reserved period for interim discovery.

(Four weeks before Mini-Trial)—All interim discovery ends. Parties agree on the basic source material to be given to the Advisor in advance and basic source material is sent to the Advisor.

(Three weeks before Mini-Trial)—Parties exchange all exhibits which they plan to use at the presentations.

(Two weeks before Mini-Trial)—Parties exchange and submit to the Advisor their introductory statements, which are to be no longer than twenty-five 8½" × 11" double-spaced pages.

(One week before Mini-Trial)—Parties finalize the participants and their roles at the presentations. If necessary, parties and their experts jointly communicate with the Advisor to resolve any outstanding technical and procedural questions.

(First day of Mini-Trial)—1:00–5:00 p.m.—Plaintiff's case-in-chief.

(Second day of Mini-Trial)—9:00–10:30 a.m.—Defendant's rebuttal.

10:30–11:00 a.m.—Plaintiff's response.

11:00–12:00 noon—Open question and answer exchange.

1:30–5:30 p.m.—Defendant's case-in-chief.

(Third day of Mini-Trial)—9:00–10:30 a.m.—Plaintiff's rebuttal.

10:30–11:30 a.m.—Defendant's response.

11:00–12:00 noon—Open question and answer exchange.

2:00–5:00 p.m.—Reserved for negotiations (without Advisor).

(Five weeks after Mini-Trial)—If necessary, Advisor's response is submitted to the parties.

(Three weeks after Mini-Trial)—Reserved for negotiations (with Advisor).

Attached Statement of Function of Advisor

I. *Purpose*

The Advisor should understand that the purpose of the Mini-Trial is to reveal the theories, strengths, and weaknesses of their opposing positions to the two parties as an aid to the resolution of this dispute. However, the Advisor's role is not to mediate or effect a compromise of this dispute, but rather to advise in writing his opinion of the likely outcome of this litigation should it proceed to trial so that the parties themselves can determine whether and on what basis the dispute may be resolved informally.

II. *Continuing Responsibilities*

At no time before, during, or after the Mini-Trial will the Advisor consult with or discuss the case or any of the presen-

tations with representatives of either party without the explicit consent of the other party.

The Advisor will treat any information conveyed to him as confidential and will refrain from disclosing any confidential or trade secret information. The Advisor will be disqualified as a trial witness, consultant, or expert for any party, and his advisory response will be inadmissible for all purposes in this or any other dispute involving the parties hereto.

III. *Prior to the Mini-Trial*

During the course of concluding the modified discovery prior to the Mini-Trial, any discovery matters which cannot be resolved between the parties may, by mutual agreement, be submitted to the Advisor, who may render advice and assistance on such questions.

The Advisor will receive certain preliminary basic source material, introductory statements, and exhibits prior to the Mini-Trial and will become familiar with such papers to the extent he feels it appropriate.

Prior to the presentations, the Advisor may talk jointly with counsel to resolve procedural questions. If the Advisor wishes to consult with the parties' technical experts on substantive issues either prior to or after the presentations, he will outline his general areas of inquiry and, on agreement by both sides, he may submit written questions jointly to the parties.

IV. *During the Mini-Trial*

The Advisor will moderate the presentations and attempt to keep things moving. However, he will neither preside as a judge nor an arbitrator, nor will he have the power to limit the parties in their presentations. The rules of evidence will not apply during the Mini-Trial. The Advisor may ask any clarifying questions which he feels are appropriate, knowing that the primary purpose of the presentations is to inform management representatives of the parties of the relative strengths and weaknesses of the parties' positions.

V. *After the Mini-Trial*

If necessary and in accordance with the Schedule, the Advisor will render advice to assist the parties in resolving this dispute. The advice will consist of a written response that addresses the specified issues discussed at the Mini-Trial. The

Advisor's response should assess which party is likely to prevail at a trial on the merits with regard to each issue and may (but need not) take the form of an opinion defined in terms of percentage likelihood.

Mini-Trial Agreement (Form 2)

1. (Plaintiff's name) and (defendant's name) agree to engage in a non-binding, advisory Mini-Trial to determine the liability of (defendant's name), if any, with respect to (list issues to be covered in the mini-trial), now the subject matter of litigation styled (caption of litigation). The Mini-Trial shall take place (date set for the mini-trial).

2. The purpose of the Mini-Trial is to inform management and counsel of (plaintiff's name) and (defendant's name) of the strengths and weaknesses of the parties' respective positions on the question of (list the issues to be covered in the mini-trial). To this end the parties agree to present their best cases on this question and to submit summaries of their evidence, data, witnesses and arguments to the other side and to a neutral third-party Advisor for consideration and questioning.

3. (Name of neutral advisor) shall serve as the Neutral Advisor at the Mini-Trial. His functions and responsibilities are as set forth herein and in Exhibits A and B [Neutral Advisor-Statement of Functions and proposed engagement letter] attached hereto, and as the parties agree in writing to modify said terms with the assent of the Advisor.

4. The parties agree to follow the tentative Schedule attached hereto. The timetable and procedural steps set forth in the Schedule may be modified by written consent of both parties and with the assent of the Advisor.

5. In accordance with Exhibits A and B, the Advisor may be asked to evaluate and advise the parties concerning the relative strengths and weaknesses of their respective presentations on the merits of the case.

6. The terms of the Advisor's compensation will be agreed to in advance by the parties. The Advisor's fee and expenses will be borne equally by both sides.

7. The Advisor will be provided with copies of this agreement, the Tentative Schedule, the attached Exhibits A and B, and various other material as set forth herein or in the attached Exhibits. Neither party nor anyone acting on behalf of either party shall unilaterally approach, contact or communicate, directly or indirectly, with the Advisor during the pendency of this process.

8. The parties represent and warrant that they will make a diligent effort to ascertain all prior contact between themselves, their employees, agents, and attorneys on the one hand and the Advisor on the other and that all such contacts will be disclosed to counsel for the opposing party.

9. Six weeks prior to the Mini-Trial, the parties will exchange and submit to the Advisor a joint statement of the specific issues to be presented at the Mini-Trial. The parties will also at this time submit to the Advisor general background information on these issues which the parties feel will be helpful to the Advisor. Such matters may be of a technical or legal nature. Thereafter, the Advisor may direct to the parties written questions seeking additional general information or sources of material related to the specified issues, and the time within which such information shall be exchanged and transmitted to him.

10. On (date about one week before the mini-trial) the parties will meet to exchange and formulate summary statements of position on all issues to be addressed by them at the Mini-Trial. These statements will be transmitted to the Advisor. At the same time, the parties shall exchange and transmit to the Advisor copies of all exhibits to be offered at the Mini-Trial and a description of any models, tests, chalks, or experiments to be presented.

11. No transcript or recording should be made of this proceeding. All aspects of the Mini-Trial, including without limitation, all written material prepared or oral presentations made between or among the parties and/or the Advisor for the purposes of the Mini-Trial are confidential to all persons, including the court, and inadmissible as evidence, whether or not for purposes of impeachment, in the pending civil action or in any litigation which directly or indirectly involves the parties. However, evidence which would be otherwise admissible if this Mini-Trial did not take place shall not be rendered inadmissible by its presentation at the Mini-Trial.

12. The Advisor will be instructed to treat the subject matter of this proceeding as confidential and refrain from disclosing any of the information exchanged to third parties. The Advisor is disqualified as a witness, consultant or expert for either party in this and in any other dispute between the parties. His advisory response, if any, is inadmissible for all purposes in this or any other dispute involving the parties.

13. The parties will make their undersigned representatives available for the times scheduled on (date set for the mini-trial) and such other times as the parties may agree upon to discuss in good faith their respective positions and to seek a basis for the resolution of their differences.

14. Subject to this Memo of Understanding and the Exhibits hereto, the parties shall be free to present at the Mini-Trial whatever information they desire, without regard to the rules governing the admissibility of evidence at trial.

15. Unless otherwise agreed to by both parties, all other proceedings in this litigation are suspended until (date about two weeks after the mini-trial) at which time the parties will report to the court the results of this process.

(Plaintiff's name)	(Defendant's name)
(Business representative of plaintiff)	(Business representative of defendant)
(Plaintiff's attorney)	(Defendant's attorney)

Attached Schedule for Mini-Trial Agreement (Form 2)

(One week before the Mini-Trial)—Parties will meet to exchange specific issues and their introductory statements. Parties exchange all exhibits to be used at the presentations, designate all technical experts to be called, and describe all experiments, tests, etc. to be used. As soon as practical, statements with exhibits are transmitted to Neutral Advisor.

(Three days before the Mini-Trial)—Parties finalize the participants and their roles at the presentations. If necessary, parties and their experts jointly communicate with the Advisor to resolve any outstanding technical and procedural questions.

(First day of Mini-Trial)—9:00–10:00 a.m. —Opening statements by each side (½ hour each)

10:00–12:30 p.m.—Plaintiff's case-in-chief

2:00–3:30 p.m.—Plaintiff's case-in-chief con't.
3:30–5:00 p.m.—Defendant's rebuttal to Plaintiff's case-in-chief
(Second day of Mini-Trial)—9:00–9:45 a.m.—Plaintiff's surrebuttal
9:45–10:45 a.m.—Q & A on Plaintiff's case-in-chief
11:00–12:30 p.m.—Defendant's case-in-chief
2:00–4:00 p.m.—Defendant's case-in-chief con't.
4:00–5:00 p.m.—Plaintiff's rebuttal to Defendant's case-in-chief
(Third day of Mini-Trial)—9:00–9:45 a.m.—Defendant's surrebuttal
9:45–10:45 a.m.—Q & A on Defendant's case-in-chief
11:00–5:00 p.m.—Meeting between principals, with Neutral Advisor, if desired.

Mini-Trial Agreement (Form 3)[1]

The question of whether A's patents owned by A Company (hereinafter A) are infringed by a X being used and marketed by B Corporation (hereinafter B) has been discussed extensively within A and also with patent representatives of B. The particular A patents under consideration are X. The following Agreement defines a method to attempt to resolve the patent infringement and patent validity questions without resorting to litigation in Federal Court.

Terms of Agreement

A and B agree to enter into a non-binding mini-trial proceeding involving a Neutral Advisor in an attempt to resolve the controversy relating to the patent infringement and patent validity issues. A recognizes that a negotiated settlement of this dispute could include a nonexclusive license or immunity, without the right to sublicense, to make, have made (except by

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[1]This form was prepared under the direction of T.J. O'Brien, chief patent counsel of Union Carbide Corporation, and reprinted from *Alternatives to the High Cost of Litigation*, Vol. 2, No. 7, July, 1984, with permission from Prentice Hall Law & Business

a customer for the catalyst so made), use or sell the subject matter of the patents in question, together with the right to extend an immunity to its customers to use the purchased catalysts for their intended uses. At B's request, A agrees to enter into negotiations for the grant of such a license under the above X Patents and any reissue thereof and both parties agree to negotiate such license in good faith. The license negotiations would commence at the conclusion of the proceeding or such earlier time as may be agreed by the parties. It is expressly understood and agreed that should the parties fail to reach agreement on terms of a license, that this Agreement shall not be used as a basis to compel A by court action or other proceeding, to grant a license to B. It is also expressly understood and agreed that both A and B shall have the right to inform their customers and potential customers for X of their respective positions concerning the patent dispute by oral or written communication as considered necessary or desirable. Provided, however, that nothing in this Agreement shall give A or B the right to make any statements which are not factually correct and neither party shall disclose during the mini-trial proceeding to such customers or potential customers or others the fact that the parties have agreed to or are engaging in a mini-trial.

Detailed Description of Terms

The principal terms of this Agreement are the following:

1. It is agreed that the Neutral Advisor for the mini-trial proceeding contemplated by this Agreement shall be Esquire, subject to his making a full disclosure of any prior dealings with the parties and his prior experience with X. The expenses (both fee and out-of-pocket) of the Neutral Advisor, shall be equally divided between A and B.

2. The Neutral Advisor shall execute a secrecy agreement in the form attached as Annex 1 to the Confidentiality Agreement of even date herewith between the parties.

3. Each party shall present its case to the other party and to the Neutral Advisor as described below. However, the Neutral Advisor may during the proceeding request in writing or call a conference of counsel to answer specific questions or produce additional documents. All communications to and from the Neutral Advisor shall be directed to both parties.

4. On or before June 13, 1983, B shall disclose to A in writing, subject to the Confidentiality Agreement between A

and B of even date herewith, (i) relevant facts regarding the actual composition of its commercial X their selectivities and efficiencies under a set of representative test conditions then known to and used by B for each such commercial X; (ii) a set of representative B data on the chemical characterization of B's X in terms of Y and how each characterization was made; (iii) any characterization then being relied upon for non-infringement; and (iv) the conditions employed in making X all in sufficient detail that A can assess the issues of infringement.

5. On or before June 21, 1983, the parties shall exchange letters advising each other (i) of the kinds of reports, dated after January 1, 1966, in their possession relating to X's and (ii) gross estimates of the volume of the types of those reports relating to X's comprising and containing alone or in combination with one or more Y. The parties agree to the exchange on or before July 14, 1983, of reports appropriate to reveal the overall nature and direction of their own programs since January 1, with respect to such X's and their preparation.

6. On or before July 13, 1983, A shall submit to the Neutral Advisor and B in writing, its allegations as to B's infringement of A's patents or state in writing that it does not persist in a charge of infringement. A will, at that time, present a particular recitation of its charges of infringement, detailed claim by claim, together with whatever arguments and evidence it is then aware of to support any such charges of infringement it may make.

7. On or before August 4, 1983, B shall submit to the Neutral Advisor and to A its written reply to A's allegations of infringement and shall have the right to rely on all defenses which could be relied upon in a Federal court to support a defense of non-infringement and invalidity. Such written reply by B shall be accompanied by whatever arguments and evidence it is then aware of (and has not previously supplied to A under Paragraph 4) to support any of its defenses.

8. On or before August 11, 1983, each party shall submit to the other a written set of requests for admissions and or proposed stipulations of facts, effective for this proceeding only, to which the other party will respond on or before August 25, 1983, in an effort to narrow the issues involved. Such submission shall not preclude any subsequent request for admissions and/or proposed stipulation of facts.

9. On or before July 25, 1983, each party shall produce to the other every document, other than privileged documents,

in its possession which in any way refers to, or evidences awareness of the United States Patent No. _____ including any research based on the subject matter disclosed therein. Documents as to which privilege is asserted shall be listed by date, author(s), addressee(s) and type of document.

10. On August 31, 1983, counsel for A and B shall meet and promptly reach agreement on:

(a) a final response to any outstanding requests for admissions and/or stipulations of facts,

(b) matters remaining for additional discovery (documents and depositions),

(c) a time schedule for the completion of such additional discovery by October 8, 1983, and

(d) the issues to be tried in the mini-trial proceeding.

11. Counsel will promptly report the results of the August 31, 1983 meeting to their clients. Either A or B may in its own discretion at the time terminate this proceeding by written notice to the other party and to the Neutral Advisor on or before September 7, 1983. If the proceeding is so terminated, such termination shall not affect the parties' obligation to share the expenses of the Neutral Advisor. If the proceeding is not so terminated it shall continue in accordance with the following provisions.

12. On or before October 24, 1983, A shall present in writing to B and the Neutral Advisor its case in rebuttal, including any additional supporting evidence.

13. On or before November 7, 1983, B shall present in writing B's case in surrebuttal to A and the Neutral Advisor, including any additional supporting evidence.

14. On or before November 21, 1983, the parties shall meet and agree on and then submit to the Neutral Advisor a list of the fact issues and a list of the witnesses they wish to present live at the mini-trial and their briefs for mini-trial, which shall be limited to a maximum of fifty single space typewritten, 8½ x 11 inch pages or the equivalent thereof. Each party shall then submit reply briefs on or before December 2, 1983. The reply briefs shall be limited to thirty (30) pages, 8½ x 11 inch-single space pages or the equivalent thereof. At the mini-trial on December 14, 1983, opening arguments and live testimony, if any, shall be presented to the Neutral Advisor and Messrs. (A repr.) and (B repr.) (or their designees having decision making authority). Rebuttal and surrebuttal, if any, will be presented on December 15, 1983.

15. At the two-day mini-trial, A shall have the morning half day (about 3½ hours) of the first day for its live testimony (including designated A, third party or B witnesses) and oral argument; B shall have the afternoon half day (about 3½ hours) for its live testimony (including designated B, third party or A witnesses) and oral argument. The second morning, A and B will each have up to one hour for rebuttal and surrebuttal, respectively, if any. Thereupon, the businessmen attendees may ask questions of counsel following which the businessmen shall, at their discretion with or without private consultation with their counsel and/or non-attendees, retire for deliberation together, and the Neutral Advisor shall then retire to his deliberations alone. After two hours of deliberation and unless the businessmen agree otherwise, the Neutral Advisor shall be called in and asked to render two opinions for each claim in issue. The first opinion shall be the probability (expressed as a percentage) that a court of competent jurisdiction would find each such claim valid. The second opinion shall be the probability (expressed as a percentage) that a court of competent jurisdiction would find each such claim infringed, presuming for the purpose of this second determination only that such claim is valid. The opinion shall not include additional explanatory information of any kind. The opinion if oral shall be confirmed in writing.

16. Each party shall have the right to take discovery by document request, by request for admissions, or by written interrogatories to the other party, and oral deposition of the other party's employees or third parties possessing relevant information. Answers will not be unreasonably withheld. Reasonable requests for documents and depositions of witnesses prior to October 8, 1983 shall be granted. Discovery shall be limited to matters of infringement and validity of the X patents. Each party shall promptly respond, or object, to each inquiry and request of the other party. In the event a significant new issue is raised in A's case in rebuttal an additional one (1) week period for discovery will be allowed to B limited to the new issues so raised.

17. All discovery shall be conducted informally where possible, to expedite the proceeding, but should be generally not inconsistent with the Federal Rules of Civil Procedure and each deposition shall be taken under oath (unless waived by the party taking the deposition) and shall be transcribed by a court reporter. Discovery by written interrogatories should be avoided

if there is a likelihood that such information can be obtained by stipulations. Discovery of records and reports shall be handled informally and dispensed with dispatch. Each party shall be reasonable in requests from the other party for extensions of the time limits set forth herein to complete discovery and prepare its case for final oral argument. However, requests for extensions should be held to a minimum and all discovery handled with dispatch. Stipulations should be used to handle non-controversial facts and depositions should be avoided when they are likely to delay proceedings and alternatives should be sought.

In case of any disputes over discovery matters, the parties shall attempt to amicably resolve them, but in the case resolution is not possible, they shall submit the matter to the Neutral Advisor for resolution. The Neutral Advisor shall promptly decide on such matters and the decision of the Neutral Advisor shall be final.

18. There is no obligation on the parties to reach an agreement and both parties reserve the right to employ other means (including litigation in a court of competent jurisdiction) to resolve the infringement and validity issues if the parties cannot agree on resolutions of the issues and/or a negotiated settlement cannot be reached. Any negotiated settlement shall not become final until reviewed by counsel for A and B.

19. Whether or not a negotiated settlement is reached, the opinion of the Neutral Advisor shall be confidential and shall not be disclosed other than by court order. Neither party shall be allowed to call the Neutral Advisor as a witness or conduct discovery of the Neutral Advisor in any subsequent litigation. Moreover, in any subsequent litigation no reference will be made to the fact that a non-binding mini-trial has occurred (except in response to a question by the judge in chamber) and no statement regarding the result or any other aspect (including settlement negotiations) of the mini-trial proceeding will be admissible or offered for admission. However, evidence obtained in this mini-trial proceeding that would otherwise be admissible in any litigation if the mini-trial proceeding had not taken place, can be used in such litigation, and shall not be rendered inadmissible as a result of discovery or use by either party in the mini-trial proceeding. Stipulations and requests for admission in the mini-trial shall not be admissible in any judicial proceeding.

20. Either A or B may terminate these proceedings at any time without cause by providing written notice to the other party and to the Neutral Advisor. However, if either party causes early termination of the proceeding after September 7, 1983 they shall be solely liable for the expenses of the Neutral Advisor.

A
Date: June 6, 1983

B
Date: June 2, 1983

Annex I
SECRECY AGREEMENT

I hereby acknowledge that I may receive information designated as CONFIDENTIAL emanating from (name of party) and certify my understanding that such information is provided to me pursuant to the terms and restrictions of the Confidentiality Agreement between A and B of April, 1983. That I have been given a copy of and have read the said Confidentiality Agreement, that I am fully familiar with the terms of the said Confidentiality Agreement, and that I agree to comply with and be bound by the terms thereof.

I understand that I am to retain all copies of any of the material that I receive so designated in a locked cabinet or other such place, and that all copies are to remain in my personal custody until I have completed my assigned duties, whereupon the copies are to be returned and any writings prepared by me containing any of said confidential information are to be destroyed or otherwise eliminated from existence. I further agree to notify any stenographic or clerical personnel who are required to assist me of the terms of said Confidentiality Agreement.

_____

Date: _____

CONFIDENTIALITY AGREEMENT

A (including its divisions) and B desire to maintain confidentiality of certain information exchanged between them dur-

ing the course of the proceeding as set forth in the Agreement for Mini-Trial of _____ of even date herewith.

If in the course of said proceeding, either party undertakes to disclose what it, the disclosing party, contends is confidential or proprietary technical or scientific information, (hereinafter "confidential information"), the following procedure shall be employed:

1. Subject to the provisions of Paragraph 8 below, information obtained by other in the course of the proceeding may be used only for the purposes of this proceeding and under appropriate protective order in any litigation of the same issues on the same U.S. patents between the parties and shall be otherwise treated as confidential information to be disclosed only to those authorized to receive the same hereunder. All documents themselves produced by one party to the other in the course of this proceeding may be used only for the purposes of this proceeding and under appropriate protective order in any litigation of the same issues on the same U.S. patents between the parties. No tests of any kind shall be made by the receiving party utilizing information received from the disclosing party without the express written consent of counsel of the disclosing party, except such tests as are deemed appropriate for this proceeding and which are to be used only for a determination of, or to provide evidence in respect of, the infringement or non-infringement or validity of any patent in controversy.

2. For purposes of this Confidentiality Agreement, confidential information shall mean any disclosure in writing or other tangible form (or confirmed in writing within thirty (30) days subsequent to disclosure, if initially disclosed orally) which is designated as "CONFIDENTIAL" by the disclosing party and shall include any document, tangible thing, transcript of oral testimony or recorded statement of counsel, such as by way of example, and not limitation, transcripts, affidavits, briefs, summaries, notes, abstracts, drawings, company records and reports, and any instrument which comprises, embodies, or summarizes matter which the disclosing party considers confidential and desires not to be made public.

3. All confidential information, including exhibits, affidavits, transcripts, briefs, and other documents, in the possession of the receiving party or filed with the neutral advisor which have been designated "CONFIDENTIAL", or which contain information so designated, shall be mailed, or except for hand

delivery, otherwise transmitted, in sealed envelopes and filed or stored in appropriate sealed containers on which shall be endorsed the identity of the proceeding, an indication of the nature of the contents of such sealed envelope or container, the words "CONFIDENTIAL", and a statement substantially in the following form:

> "This _____ (envelope) (container) contains confidential information filed in a mini-trial proceeding between A and B by (name or party) and is not to be opened nor the contents thereof to be displayed or revealed except for purpose of that proceeding."

4. The following definitions shall be applicable:

(a) the term "counsel" shall refer in the case of A to _____ and in the case of B to _____ as well as necessary clerical and paralegal support personnel.

(b) the term "technical adviser" shall refer to any person or persons, including but not limited to a proposed expert witness, with whom counsel may deem it necessary to consult or use concerning technical aspects of this proceeding.

(c) the term "businessmen" shall refer to _____ of B or his designee, and _____ of A or his designee.

5. Each of the Neutral Advisor, designated counsel, paralegal support personnel, technical advisers and businessmen shall sign a written instrument in the form attached there as Annex I, prior to receiving any of the furnishing party's confidential information, and an executed copy of each such written instrument shall be delivered to the other party prior to that individual's receiving such confidential information.

6. Subject to the condition of Paragraph 5 above, confidential information received from the other party and designated CONFIDENTIAL, and such copies thereof as are reasonably necessary for this proceeding, may be furnished and disclosed to the Neutral Advisor, counsel for the receiving party, including clerical and paralegal support personnel, not more than two (2) technical advisors requested by counsel for each party to assist in this proceeding, and the businessmen.

7. Documents may be made available for initial inspection by counsel for the requesting (receiving) party prior to the furnishing party producing copies of selected items. Such documents shall be inspected only by counsel (including paralegals) for the receiving party. The furnishing party shall then have

an opportunity to designate the documents as CONFIDENTIAL pursuant to the provisions of paragraph 2 hereof, prior to furnishing copies to the receiving party. Such initial inspection shall not constitute a waiver of the attorney-client privilege or work product immunity with respect to any document so inspected.

8. Except with respect to the restriction on the use of documents themselves in paragraph 1, the restrictions set forth in foregoing paragraphs 1–7 shall not apply to any information, including information contained in a document, which:

(a) at the time of the disclosure hereunder is available to the public;

(b) after disclosure hereunder becomes available to the public through no act, or failure to act, on behalf of the receiving party;

(c) the receiving party can show (i) as a matter of written record was already known to the receiving party; (ii) as a matter of written record was independently developed by the receiving party; or (iii) applies only to the extent the receiving party shall have the right to use and disclose such information of such third party in accordance with any understanding with said third party.

9. Any party disagreeing with the designation of any information received from the furnishing party as CONFIDENTIAL and desiring to disclose or to permit disclosure of the same other than for the purposes specified in paragraph 1, shall so notify the furnishing party by certified mail. The party desiring disclosure shall thereafter make or permit no disclosure unless agreed to by the parties. The receiving party, if unable to obtain agreement from the furnishing party that such limitation should be removed, may, in the case of any document so designated, move a court for an order removing the CONFIDENTIAL designation, which motion shall be granted unless good cause for continuing such designation is shown by the furnishing party. In any event, information designated CONFIDENTIAL received from the other party shall be treated as such by both parties until otherwise agreed to by the parties as ordered by a court.

10. The parties will use reasonable care to avoid designating any documents or information as CONFIDENTIAL which is generally available to the public.

11. This Confidentiality Agreement shall be without prejudice to either party's right to assert at any time that any par-

ticular information or document(s) is (are) subject to discovery or production on any grounds in any legal proceeding.

12. A failure of either party to expressly challenge a claim of confidentiality shall not constitute a waiver of the right to assert at any subsequent time that the same is not in fact confidential for any reason included in this Confidentiality Agreement.

13. If the dispute between the parties is resolved by this proceeding, each party or other person subject to the terms hereof shall be under an obligation to assemble and return to the originating source all materials and documents containing confidential information and all copies, summaries and abstracts thereof received from the other party and to destroy or otherwise eliminate from existence all other materials, memoranda, work notes or documents embodying such confidential information, with certification to the originating source of such return, destruction or elimination. If the dispute between the parties is not resolved by this proceeding, all such materials and documents, etc. may be retained in confidence by the parties and their counsel for use in any litigation, but shall at the conclusion of such litigation be returned, destroyed or eliminated, with certification to the originating party as provided above.

The effective date of this Confidentiality Agreement shall be the date of signature of the last party to sign.

B
Date: June 2, 1983

A
Date: June 6, 1983

"DEFENDANT'S OPENING STATEMENT AND ITS PROFOUND NEW IMPORTANCE"

James W. Geriak, Esq.
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I. AN HISTORICAL PERSPECTIVE

It was not so long ago that patent infringement cases were tried to the Court in an atmosphere of hostility to patents. That hostility was grounded in the notion that patents were socially noxious "monopolies" which should rarely, if ever, be allowed to persist. In addition, the trial judge was usually a member of that school of thought which held patents to be contrary to the public good.

In this atmosphere, an opening statement for the defendant required no particular skill. In these circumstances, an opening statement on behalf of the defendant might as well have been as follows:

> "This man has a patent. Let us stretch and strain the evidence until we find in it a basis for holding that patent invalid. In addition, let us also search the evidence for some basis for maligning the inventor's character."

In today's world in which patent cases are tried to a jury, in which the jury instructions are loaded with such concepts as the presumption of validity, the need for clear and convincing evidence to invalidate a patent, and various expressions of Federal Circuit precedent favoring patentees; in which the social, economic and, most importantly, judicial, attitude toward patents has swung from strongly negative to substantially positive; in which multi-million dollar patent infringement jury verdicts are reported frequently in the newspapers, e.g.,

Honeywell v. Minolta (thereby conditioning the man in the street to the non-uniqueness of very substantial recoveries in patent infringement cases); and in which an over-worked Patent and Trademark Office (PTO) grants a certain percentage of patents which should never see the light of day; you may well ask why there is any present value in harking back to the earlier era. The value in doing so is to make the important point that the presentation of a case on behalf of defendant in today's world is not simply the counterpart of representing a patentee in the earlier era.

Why is this so? Answer: BECAUSE THE PATENTEE PRESENTS HIS CASE FIRST. Thus, in the earlier era, although the scales were unbalanced against the patentee, he had the right to present his evidence first and had a fighting chance to rebalance the scales before the favored party's evidence was heard. Thus, the intelligent lawyer for the patentee could, by recognizing that the presumption of validity was given absolutely no weight at that time, construct a presentation in which the infringers' defenses were anticipated and, in effect, a rebuttal case was put in as an opening case. In today's era, the defendant, who is now the disfavored party, has no such opportunity to present his case first. What is left? DEFENDANT'S OPENING STATEMENT.

Thus, in present trial practice, the presentation of a patent infringement defendant's opening statement to the jury is of crucial importance.

II. SOURCES OF GUIDANCE

In what other areas of the law are defendants at a serious disadvantage? There are several, product liability defendants being one. However, that area of the law in which the representation of disfavored defendants has given rise to extensive study of jury behavior is that most unfamiliar territory for patent lawyers, the criminal law. The similarities in position are great between the criminal defendant who has a notional presumption of innocence, but is usually saddled with a de facto sense on the part of the jury that he is probably guilty or else he would not be in the courtroom, and the patent infringement defendant who, in some ways, is even worse off because, rather than even a notional presumption of innocence, there is a statutory presumption that the patent is valid. Furthermore, in more than 50% of the patent infringement cases, the real contest is over validity, not infringement.

All trial lawyers, whether they try patent cases or any other type of case, should study and restudy the works of the masters, i.e., the writings of the great trial lawyers. One such work is "The Art of Advocacy" by Lloyd Paul Stryker. During the school year of 1952-53, Stryker delivered a series of 14 lectures at the Yale Law School on the subject of advocacy. His book is a compilation of these lectures and is indispensable reading for every trial lawyer. Stryker was a phenomenally active trial lawyer in New York City and tried hundreds of cases, both civil and criminal. As to opening statements for the defendant, he said:

"Strange as it may appear, there is nothing more difficult in the art of advocacy than to effectively open a case to a jury. The proof of this is the rarity of the exhibition. How few of our advocates accomplish it to the entire satisfaction of a critical listener! How few possess the faculty of marshalling facts in their natural order, and taking up an so interweaving distinct threads of a story as to form a clear, intelligent narrative."

Speaking in terms of presenting an opening statement on behalf of a criminal defendant, Stryker describes the atmosphere in the courtroom as follows:

"This is the first chance you have had to be heard. Your participation in drawing of the jury has been negligible. The jury has hardly heard your voice. You are just one of the anonymous people at the counsel table, and if the jury have thus far noticed you at all, it was to let you share in the cold, furtive looks of disapproval they have been casting on your client.

You must do something now, at once, to dispel the poisonous aroma of your adversaries speech. Now is your chance. Now! You are all too aware of the surcharged atmosphere of the courtroom. As though furnished with antennae, you sense all the overtones of the case, the hatred of the crime and the consequent hatred of your client, although he stands as yet merely

charged with its commission. All this and much else has intensified the contagion of prejudice. You must dispel it and you must do it now."

These admonitions should be taken to heart by counsel for defendant in a patent case, but, after driving home the point that defense counsel has exclusive possession of a very tough job, what is one to do about it? We shall address here the effective accomplishment of this task in a patent infringement trial, but, first, one more word from Stryker:

> "There is never a case in which there is not some unanswerable fact or circumstance that is strong against you. Face it boldly, bravely, at the start. It will sound far less damaging for you to tell it. 'Why, this can't be so bad' the jury is saying to itself, 'or why should the man's own lawyer be telling us about it?' So tell it, tell it all, even as you would pluck out a splinter from an infected finger. It is over and done with then and it will become a stale and twice told story when your adversary mentions it."

III. OPENING STATEMENTS GENERALLY

It must always be remembered that the ground rules for presenting an opening statement are fundamentally different from those which apply to presentation of a closing argument. In the former, excessive overt advocacy will be curtailed by the Court because the procedural purpose of an opening statement is to

present the jury with an overview of the evidence that the defendant will present and not to persuade the jury to decide the case in favor of the lawyer's client. However, as a practical matter, some reasonable latitude is permitted by most judges with regard to the inclusion of some advocacy in an opening statement. Since most patent trial lawyers try cases all over the United States, they, unlike trial lawyers in many other areas of the law, do not appear frequently before the same judge and are always faced with the difficulty that they have no feel for the judges degree of leniency in this regard.

Thus, the best rule of thumb for a patent trial lawyer is to plan to use a modicum of advocacy in his opening statement and to make such adjustments as may be necessary if the judge starts to grumble. Some guidance can, of course, be gleaned from any reaction that the judge might have to the plaintiff's opening statement, but there is often a very low degree of consistency on the part of the judge in this regard because she hears it differently than does the lawyer. Another major problem for defendant in this regard: Whether to object during presentation of plaintiff's opening statement if he believes that plaintiff's opening statement is getting out of hand. The best advice that can be given here, and it is hardly infallible, is to grit your teeth for as long as you can and rise to object only as a last resort. Since many judges will not intervene during an opening statement unless an objection is made, you will need to take the initiative if you think it is imperative. However, when you

object, you run the risk of incurring the wrath of the judge and of suggesting to the jury that you are afraid of something being said. Both of these, are obviously disadvantageous to your client.

In addition, the question of how much patent law to include in an opening statement must be considered. This is an area where the lawyer runs more of a risk in encountering controversy with the judge rather than opposing counsel. A judge who has presided over multiple patent cases will typically be comfortable giving the jury a "pre-charge", i.e., something akin to jury instructions prior to trial. However, many judges decline to pre-charge a jury and expect the lawyers to be neutral in their statements of the law to the jury. In this regard, it is helpful to the jury and probably comforting to the Court to advise the jury early on in an opening statement that it is the judge's statement of the law which will control.

IV. THE STORY MODEL

The "story model" theory as it relates to jury deliberations has been widely studied by both lawyers and behavioral scientists. The single most important work relating to jury deliberations remains "The American Jury" by H. Kalven and H. Zeisel. In it, these University of Chicago professors discuss the factors which influence jury deliberations with much of their work being based on interviews with actual jurors in cases which were observed during trial by the authors. At pages 193-218,

they discuss the competing factors comprising a typical juror's capability for making common-sense logical deductions and the jurors vulnerability to be influenced by sentiment-evoking evidence.

However, serious thinking about the "story model" theory did not come in to public view until the early 1980's when "Reconstructing Reality in the Courtroom: Justice and Judgment in American Culture" by W. Bennett and M. Feldman was published in 1981. The "story model" theory is simply the notion that jurors will, if provided in an opening statement with a framework for putting together the evidence which they hear into a story which is consistent with their own experiences in life, be much more likely to adopt that view of the evidence. Thus, according to this theory, the absence from the opening statement of a story model will create a much higher degree of unpredictability with regard to the jury outcome and, rather plainly, in a case in which one party presents an acceptable story model and the other party presents no story model or an unacceptable story model, the scales will, at the close of opening statements, tip in favor of the party who presents an acceptable story model.

The past 10 years of scholarship relating to story model research are intelligently discussed in Pennington and Hastie, A Cognitive Theory of Juror Decision Making: The Story Model, 13 Cardozo L. Rev. 519 (1991).

In this article, Pennington and Hastie discuss at some length the empirical research conducted with mock juries with

regard to a case in which the principal issue was whether the defendant in a murder case was carrying a knife for self defense because he had previously been battered and threatened by the murder victim or whether, subsequent to the battery and threats, he had obtained a knife and sought out the victim for the purpose of exacting revenge. It is clear from this empirical research that jurors from different walks of life had sharply differing views on whether it was reasonable to conclude that the defendant would carry a knife for self protection. More importantly, there was substantial basis for concluding that an effective opening statement with regard to the circumstances in the defendant's community, i.e., knife-carrying not all that unusual, had a significant impact on the ability and or willingness of the jury to accept trial evidence on that point.

In other words, if the opening statement on behalf of the defendant was simply that he acted in self-defense, the evidence of self-defense was less likely to be believed than if the opening statement provided a more fulsome description of the customs observed in the defendant's community.

Pennington and Hastie are behavioral scientists and their focus was on juror behavior. Viewed from the perspective of lawyers and judges, it is fair to say that what they were assessing was "credibility." The most difficult of experiences for lawyers is to find that the jury has not believed a witness whom the lawyer knows is telling the truth. Thus, by focusing on jurors and their willingness to believe, Pennington and Hastie

add some valuable insight with regard to the manner in which lawyers can influence, for better or for worse, the "credibility" of their witnesses, i.e., the willingness of the jury to believe those witnesses.

How do we apply all of this to patent infringement cases? It is that to which we turn next.

V. DEFENDANT'S OPENING IN A PATENT CASE

A. What To Do With the Bad Stuff?

Typically, the single most difficult problem for a defendant to deal with in a patent case is an allegation of copying. This is because, of course, even though copying per se is in no way illegal, i.e., absent some legally protected right attaching to that which is copied, jurors intuitively take a dim view of copying. Furthermore, if any basis for asserting copying exists, it is a certainty that the jury will hear about it in the patentee's opening statement. Thus, if there is meaningful evidence that copying did not occur, this evidence should be stressed early on in the defendant's opening statement and should be mentioned again at the conclusion of the opening statement. In those cases where copying did occur, stress must be placed on the fact that this, alone, does not give rise to liability and, indeed, happens every day in the commercial world outside of the courtroom. For example, Volkswagen pioneered the market for mini-vans with its Vanagon about 10 years ago. Today, there is

hardly any automotive manufacturer who does not offer a mini-van. This is competition and is beneficial to the public.

The next to worst thing your opening statement can do is ignore the copying issue. The worst thing you opening statement can do is make a baseless denial of copying. This denial will be demolished to your client's great detriment.

Another difficult fact which often arises for defendants is an all too quotable statement by some representative of the defendant that is laudatory with regard to the patented subject matter. Such statements may or may not be referred to in the plaintiff's opening statement. If they are, explaining them in defendant's opening statement is an obvious necessity and must be done in a manner that makes sense to a person of ordinary intelligence. If plaintiff's counsel is clever enough not to mention such statements in his opening statement, you are left with what appears to be the Hobson's choice of being the first to bring such statements to the jury's attention or of hearing the statements quoted to the jury from documents or deposition testimony during plaintiff's opening case. In virtually every instance, it is preferable to make reference in defendant's opening statement to the need for the jury not to be unduly swayed by such statements until they have heard all of the evidence which, presumably, will include important information not known to the maker of the laudatory statement.

B. Chronological Narrative

While exceptions will always abound because of the need to place emphasis on facts of critical importance, it nevertheless remains imperative for the jury to hear a chronological development of the evidence in an opening statement. This seems self-evident when opening statements are discussed in the abstract, but any person who has heard a reasonable number of opening statements in the courtroom will know that the presentation of real-life opening statements rarely includes a chronological development. Rather, the tendency for defense counsel to tell the jury that they cannot do to the defendant that which the plaintiff asks for a litany of reasons is the usual practice. For example, most defense counsel in patent cases will rise and tell the jury that the patent is invalid for a basket full of reasons which fly far over the jury's head. Such opening statements are highly unlikely to be retained by the jurors and are unpersuasive in the extreme.

C. Comprehensibility

The single most frequent cause for defective trial presentation in all areas of the law is over-familiarity with the subject matter of the case on the part of counsel. It is more acutely seen in patent cases than most others. What is the risk factor that is inherent in over-familiarity? It is that the lawyer speaks in sentences and paragraphs which are a model of crystal clarity to someone, like him, who has spent months and

years becoming conversant with the facts (and, of great importance in patent cases, the terminology) in a case that his level of discussion rises to a point where it becomes impenetrable mud to the person listening to the lawyer. This is, of course, lethal.

This does not mean that one should speak down to the jury. What it does mean is that the lawyer can never lose sight of his role as an educator of the jury so that he can bring their level of understanding up to a point where they can discharge their function effectively. One of the saving graces of patent trials in this regard is that they are usually lengthy enough to provide an effective lawyer with sufficient time to educate the jury.

This education must start with the opening statement. A discussion of the fundamentals of the technology must be accomplished effectively in a time short enough to avoid sending the jury into a state of somnolence. This can only be done by focusing on those few technological facts which are critical to the outcome of the case and pounding home a working knowledge of those few facts.

D. Coverage

In order for a story model to be truly effective, it must cover all of the significant fact issues which are expected to arise at the trial. In other words, a story model which neglects to take into account a fact favorable to the plaintiff will be in some trouble. Thus, if you are aware that the plaintiff will

present some facts which are superfluous to the story model which you believe to best represent reality, it will usually be desirable to explain why those facts are irrelevant. In patent cases, commercial success having absolutely no connection to the patented subject matter is frequently asserted by plaintiffs and its lack of materiality should be explained.

E. Coherence

Coherence derives from consistency and plausibility. In other words, it is not enough that you, the lawyer, want the jury to believe your story model, the story model must be internally consistent and must be plausible to the jury. Inconsistency most frequently arises by an ill-advised attempt to explain away unfavorable facts in a manner which collides with other facts which the lawyer knows will be undisputed. For example, an attempted denial of copying when the defendant had prior knowledge of the plaintiff's product and/or patent and when the products of plaintiff and defendant are substantially similar, will create an insurmountable inconsistency if it is argued that the similarity is accidental.

Plausibility requires that the story model be one which is either reflective of strong evidence that certain events took place or is compatible with the experience of most people when only sketchy circumstantial evidence is available.

F. The Use of Exhibits and Testimony

Obtaining pre-admission into evidence of exhibits and testimony is invaluable to an effective opening statement. If the Court will permit you to point to evidence already admitted rather than telling the jury what the evidence will be, the increase in effectiveness of the opening statement is incalculable. Thus, in a case where your prior art is strong, getting it in front of the jury during your opening statement should be your objective. In so doing, it should go without saying that you will want to use an overhead projector, over-size enlargements of exhibits, etc., so that the jury will have the greatest opportunity to understand the points you are making.

VI. USING THE OPENING STATEMENT DURING TRIAL

We cannot leave a discussion of opening statements without making the point that the only purpose of the opening statement is to give you a tool which will increase the remainder of your trial preparation. This means that, as much as possible, your cross-examination of plaintiff's witnesses, the direct testimony of defendant's witnesses, your closing argument, the interrogatory form to be used by the jury in reaching its verdict and, if permitted by the Court, even voir dire, should be tailored to conform to your opening statement.

Once again, even though all trials involve witnesses whose testimony goes only to one or more fragments of the case, cross-examination which disrupts continuity and the need to address

some facts which have no chronological significance, e.g., terminology, PTO procedure, etc., structuring your trial presentation so that it will develop, to the extent possible, as a chronological narrative should be an important objective. The harder you work to accomplish this, the less hard the jury will need to work to decide in your clients favor.

VII. CONCLUSION

As stated in Lempert, "Telling Tales in Court: Trial Procedure and the Story Model" 13 Cardozo L. Rev. 559,564 (1991):

> "Some students of the jury have claimed that a case is virtually resolved with the opening statement meaning by this that if jurors could be polled throughout the trial their final verdicts would almost always be the verdicts they heard after the opening statement. The story model tells us why mock jury data might suggest this even if no decisions are in fact reached on the basis of opening statements."

When you represent a patent infringement defendant, the message of the story model theory is that it is plainly not enough to as the jury to keep an open mind until they have heard all of the evidence. This statement, ever-present in opening statements by counsel for defendants, is always (a) a repetition of what the judge has already said and (b) nothing more than a request that the trial be permitted to go to a conclusion before the hanging occurs. What is needed, because the patent

infringement defendant is so disadvantageously situated, is an explanation to the jury of why the evidence to be presented, taken as a whole, fits together in a manner which carries the day for defendant.

ETHICAL ISSUES FACING THE PRIVATE INTELLECTUAL PROPERTY PRACTITIONER

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ETHICAL ISSUES FACING THE PRIVATE INTELLECTUAL PROPERTY PRACTITIONER[1]

by

Jerome G. Lee[2]

I. INTRODUCTION

When I first started in this business the largest general law firms in New York such as Dewey Ballantine and Sullivan & Cromwell had about eighty to hundred lawyers. Today we have intellectual property law firms that size including my own.

Law firms that size have many clients with potential for ethical conflicts. In addition, our clients are themselves getting much larger and more diverse with acquisitions and mergers. Parent corporations now own subsidiaries in completely different lines of business. These conglomerates also produce conflicts. The old joke about representing both sides in a law suit is no longer a joke.

The MODEL CODE OF PROFESSIONAL RESPONSIBILITY (1980) and the MODEL RULES OF PROFESSIONAL CONDUCT (1987) provide the general principles for resolution of conflict issues.

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Canon 5 of the Model Code and Rule 1.7 of the Model Rules set forth a duty of undivided loyalty and address the conflicts that arise from simultaneous representation of multiple clients.

Canon 4 of the Model Code, sets forth the duty to preserve client confidences, and Rule 1.9 of the Model Rules provide guidelines for conflicts issues that arise from former representation.

II. REPRESENTING ADVERSE CLIENTS SIMULTANEOUSLY

A. Caught in the Middle Between Parent Corporation and Subsidiary

Several years ago I represented a defendant accused of patent infringement in Newark. I was successful in getting a summary judgment of patent invalidity. On appeal, the Federal Circuit reversed and remanded because they believed there were several issues of fact that should be tried. As I was getting ready for the trial, the party on the other side (the plaintiff) was acquired by a large client of my firm. I not only represented the defendant but now I also represented the parent of the plaintiff.

In Emle Industries, Inc. v. Patentex, Inc., 478 F.2d 562, 570-75 (2d Cir. 1973), the Court of Appeals for the Second Circuit held that an attorney who had previously represented Burlington

Mills could not represent a client suing a subsidiary of Burlington Mills.

My case was worse because I not only previously represented the parent of the plaintiff but also I still represented and was active for the parent of the plaintiff in other courts.

Another pertinent precedent was Gould, Inc. v. Mitsui Mining & Smelting Co., 738 F.Supp. 1121 (N.D. Ohio 1990). There it was held that Jones, Day could represent both plaintiff and a wholly owned subsidiary of defendant only if it received the consent of plaintiff and defendant. Disqualification was deemed inappropriate, however, in part because the conflict was created by defendant's acquisition of the subsidiary after the case began, not by any affirmative act of Jones, Day.

Similarly, in my case the conflict was created by my major clients acquisiton of the plaintiff after the case began and not by any affirmative act of Morgan & Finnegan. However, unlike the Jones, Day case, I did not have consents from both sides. Indeed, I was afraid to even ask for a consent.

In a recent advisory opinion issued by the Standing Committee on Professional Responsibility and Conduct of the State Bar of California [Formal Opinion No. 1989-113 (1990)], the Committee considered whether it was ethically permissible for an attorney to undertake a

representation adverse to a wholly owned subsidiary of an existing corporate client.

The Committee concluded that as long as the attorney does not represent the subsidiary, it is ethically permissible. However, the parent must not be the alter ego of the subsidiary and the subsidiary must not have imparted confidential information to the attorney with the expectation that the information would not be used adversely to the subsidiary.

That opinion is a good legal nicety but as a practical matter it did not help me.

My situation was very uncomfortable. In my view, there was no way I could go ahead with full devotion to the defendant (my client) knowing I was directly acting against a large important subsidiary of one of my firm's biggest clients.

I tried to withdraw. I asked the defendant to get a new lawyer, but the defendant refused.

I retained prominent Newark Counsel to bring a motion before the Federal Judge to resign. The defendant opposed. They wanted me to try the case. Either that or they demanded return of all the fees they had paid me which at that time were about $200,000.

Ultimately, my Newark Counsel persuaded the court to let me resign and I was out of the case without repaying the fees.

Later, the defendant called me and said that we were still good friends and the whole thing was just an unfortunate situation.

B. The Roche Case

Another example of what can happen from acquisitions of subsidiaries is a case involving Hoffman LaRoche.

Hormone Research Foundation ("HRF") and Hoffman-LaRoche ("Roche") were sued by Genentech, Inc. in California for patent infringement. HRF owned the patent and Roche was the exclusive licensee. A New York law firm (not my firm) represented both HRF and Roche in the trial in California and the appeal in the Federal Circuit.

Shortly after the Federal Circuit rendered its opinion, Roche's parent corporation, Roche Holding Ltd., acquired 60% of Genentech's stock. Plaintiff Roche and defendant Genentech were now subsidiaries of the same parent corporation.

HRF obtained new counsel but Roche wanted the original New York counsel and Genentech's original counsel to continue to represent those parties. Was it ethical?

We were asked to give an opinion as outside counsel. We consulted the California rules of ethics and found that Rule 3-310 was controlling. (RULES OF PROFESSIONAL CONDUCT

OF THE STATE BAR OF CALIFORNIA RULE 3-310 (23 WEST'S ANN. CAL. CODES, PT. 2 (1991 SUPP.) P.551). It was entitled "Avoiding the Representation of Adverse Interests".

It provided in pertinent part:

> 1. A member shall not concurrently represent clients whose interests conflict, except with their informed written consent.
>
> 2. A member shall not accept employment adverse to a client or former client where, by reason of the representation of the client or former client, the member has obtained confidential information material to the employment except with the informed written consent of the client or former client.

Moreover, the comment to Rule 3-310 stated:

> Paragraph (A) is intended to apply to all types of legal employment including the representation of multiple parties in litigation or in a single transaction or other common enterprise or legal relationship.

In light of these rules, we advised Roche that all parties had to give their informed written consent including co-plaintiff HRF.

HRF advised Roche that it would not consent. So Roche had to get new counsel.

III. CHINESE WALLS

Usually this problem comes up when a partner or associate switches employment from one law firm to another.

It is a fundamental rule of ethics that an entire law firm may be disqualified if one of its members was involved in a prior relationship with the opposing party in a law suit.

This is because there is a presumption of shared confidences, namely that attorneys within a firm share each other's confidences so that the knowledge is imputed from one attorney to another. This presumption is generally regarded as rebuttable.

When a lawyer leaves another firm and comes to your firm, it can become touchy if you sue a client of the former firm. The lawyer who left the former firm to join you may taint you. You may be disqualified.

Some firms have tried to avoid disqualification of the entire law firm by isolating the tainted lawyer from others in the firm. They set up a Chinese Wall. The Wall isolates the disqualified lawyer from the case that his involvement could taint. Sometimes the firm bars him from sharing in the firm's profits from that case.

In 1988 the Sixth Circuit became one of the first court of appeals to formally hold that the presumption of shared confidences might be rebutted "by demonstrating that specific institutional screening mechanisms have been implemented to effectively insulate against any flow of confidential information form the quarantined attorney to other members of his present firm.", Manning v.

Waring, Cox, James, Sklar & Allen, 849 F.2d 222 (6th Cir. 1988).

As the Court noted a "Chinese Wall" is most likely to be judicially accepted if there is: (a) a showing of hardship by the party whose counsel is sought to be disqualified; (b) institutional safeguards are timely implemented, so that the "infected" attorney is immediately screened; and (c) a provable, absolute prohibition on communication to, from or by the "infected" lawyer.

We have such a Chinese wall in place in my firm between the two largest computer manufacturers in the world -- with their consent. Each client has its own attorneys, secretaries and paralegals within my firm. There are big signs in the word processing department to prevent papers from going to the wrong place. It's like Barrister Chambers in London.

IV. TURNING AWAY CLIENTS BECAUSE OF ETHICAL CONFLICTS

About ten years ago the Watson Levenworth firm broke up in New York. That was a wonderful old establishment firm which I guess had existed for close to 100 years. They had many excellent clients and some of them had to find new attorneys. One was a large tobacco company with much intellectual property law business. They asked us to do their work.

Unfortunately, about a month earlier a small German company asked us for an opinion as to whether they should sue the cigarette company. The opinion was in mid-stream.

It was a plain conflict. It also was a tough ethical dilemma. It is one thing to talk about ethics on high. You can be very proper. It is another thing when it hits you real hard in the pocketbook. This was that kind of a case. We tried very hard to resolve the dilemma. How could we represent both companies?

In the end, we realized we had to tell the large cigarette company that we couldn't take its work. We recommended them to another law firm in New York. A few weeks later the German company decided not to sue the cigarette company and we never heard from them again. We lost both clients.

However, there was a happy ending. About a year later another big tobacco company asked us to represent them. We accepted and represent them today.

V. PRO BONO CONFLICTS

In one of our pro bono cases, the client refused to go through with a settlement he had previously authorized. It was a super settlement. The client would have received most of what he would have achieved from victory in the case. The client refused the settlement.

He also refused to give a reason. We speculated he wanted his day in court. He wanted vindication.

We tried to do what we could to resign and withdraw but the judge denied our motion to withdraw. We had to try the case and represent the client to the utmost -- the same obligation is owed to a pro bono client as to a paying client. The award was about the same as was the settlement offer.

VI. REPRESENTING CLIENTS TO THE UTMOST

Underlying the American legal system is the fundamental principle that the attorney-client relationship is founded on trust and "undivided loyalty". Given this fiduciary obligation, the client's interest should be put before the attorney's interest.

A. Good Samaritan Conflict

In this case, the client was a small New Jersey company, struggling to survive in the business of manufacturing hospital beds, a business which was founded upon a patent our firm solicited.

We managed to win an interference proceeding with another inventor located in the Bronx. Then, an infringer surfaced in the Dallas, Texas area. We brought suit in the Northern District of Texas. It settled quickly with the infringer taking a Consent Judgment,

consenting to the validity and infringement of the patent and an injunction against further infringement.

Several years later, the Texas firm again started infringing the patent with a colorable modification of the earlier enjoined infringing bed structure.

We filed a motion for contempt with the Dallas court.

In the meantime our client had become very ill and his business had become virtually defunct. He still owed us oney from the past and the bill got bigger from the contempt motion.

While our client was still very ill, the Texas District Court decided the motion for contempt in our client's favor. But the other side didn't give up. They appealed. We also faced more proceedings to determine damages. What should we do? Our client couldn't pay us.

As "good samaritans", we continued to press the damages portion of the case without payment. We couldn't get out of it anyway.

The opposition was tough. New counsel was hired by the other side. A major effort to overturn the contempt ruling had to be beaten back including an appeal and the damages discovery and proofs were litigated with vigor. All the while, our firm's unpaid billings continued to

mount. As we reached the damages trial stage, the unpaid bill was about $300,000.

Now we come to the really difficult part of ethical conflict. On the eve of the damages trial, we received a settlement offer from the opponent. They would pay $300,000. The settlement offer would have cleaned up our outstanding bill. But our client rejected the settlement offer out-of-hand. There was nothing in it for him.

The ethical dilemma: We had voluntarily carried on with our client's cause without any arrangement whatever as to who would have control over the acceptance or rejection of a settlement offer. Out client had nothing to lose and no money to pay. He was content to have our firm spare no expense and litigate to the hilt. In our judgment the $300,000 settlement offer was reasonable. It was far from certain that our client would receive even that amount from the Court in damages.

As a matter of Ethics we decided we had to go ahead with the damages trial. Our obligation of first loyalty to the client had to prevail.

Fortunately, Judge Hill of the Northern District Court of Texas awarded over $600,000 in damages, plus $100,000 in punitive damages for willful disregard of the Consent Judgment. We recovered all of our fees and expenses. The client was very happy. The damage award

entered by Judge Hill is reported at 224 U.S.P.Q. 679 (N.D. Tx. 1984).

That case had a happy ending. Not so with another situation where our obligation of trust and loyalty to the client was pushed to the limit or beyond.

B. The Death Threat Conflict

In a case we had in Arizona about five years ago the two opposing parties got together to discuss settlement. The lawyers were not present. The opposing party said he had powerful friends in Phoenix who knew how to deal with and "take care of" obstreperous persons. He said our sides' lead lawyer had caused a lot of trouble. He would be taken "care of". The tone and the context made it a clear death threat. The lawyer in question was one of my partners -- Jim Gould.

My partner Jim Gould wanted to go to the judge trying the case and protest, but the client refused to permit it. The client felt that the report of this death threat to the judge would ruin the chances for success in the settlement.

The client ordered my partner to say nothing and threatened to fire him if he went to see the judge.

This certainly was a test of how far the lawyers obligation of undying loyalty to the client goes. Now I know what "undying" loyalty means.

My partner went to the judge anyway -- with the client in hand and with opposing counsel. The judge was furious. He called in the U.S. Attorney and the FBI. The death threat was never carried out.

There were two defendants in that case. The defendant who made the death threat did settle. The settlement did go through. The other defendant insisted on trial and appeal. My partner won at both levels.

After the case was over and my partner had been successful he was never again hired by the client involved in the death threat. That was five years ago.

VII. CONFLICT WHEN THE ATTORNEY ACTS AS BOTH ADVOCATE AND FACT WITNESS

When a lawyer solicits a patent in the PTO and litigates the patent to enforce it in an infringement action, he is vulnerable to an ethical conflict.

There is an advocate-witness disqualification rule, contained in the Model Code and Model Rules. It provides guidance, not binding authority, for courts in situations in which they are asked to disqualify a lawyer who might be needed as a witness.

MODEL CODE OF PROFESSIONAL RESPONSIBILITY DR 5-101 AND DR 5-102 (1980) prohibit a lawyer from acting both as trial counsel and as a witness, subject to exceptions relating to inconsequential testimony or situations whereby

disqualification of counsel would cause substantial hardship to the client.

MODEL RULES OF PROFESSIONAL CONDUCT 3.7 (1987) is similar. Under its exceptions a lawyer may continue as advocate and also testify if the testimony is uncontested or relates to the nature and value of legal services; or if disqualification of counsel would create a substantial hardship to the client.

The Electric Box Case

Several years ago we had a case for infringement of a patent on a very successful electrical outlet box. This box was less expensive to manufacture and more quickly and easily installed in a building wall than prior boxes. My partner Bob Paulson was trial counsel. He was the same attorney who had solicited the patent from the Patent Office.

On the eve of trial, after four years of pretrial discovery, the other side moved to disqualify not only my partner Bob Paulson but our whole law firm. The other side said they had discovered a prior invention defense. They said Bob Paulson would be an important fact witness because he allegedly knew about it and should have called it to the attention of the Patent Office. He was a fact witness on the prior invention defense and inequitable conduct defense. This was on the eve of trial.

Judge M. Kausey of the Southern District of New York denied the motion to disqualify. The Judge was mad at the other side for waiting so long to raise these issues and to move to disqualify our firm.

Even though the Judge had denied the motion to disqualify, there was still an ethical conflict. It was a jury case. How could our partner handle the case and still put his credibility on the line as a fact witness. On the other hand, it would have been a hardship to the client to delay the trial and educate another attorney. We were wrestling with that question when the management of the two parties got together on their own and settled the case.

VIII. DISCOVERY DILEMMAS

In the "cookie wars" case we fought to get the case to trial for almost four years. It was a huge case. There were many delays and adjournment of one trial date after another. About 200,000 pages of discovery documents had been produced by my side. Over 100 fact witnesses and about 36 expert witnesses had been deposed.

Finally after the close of discovery, and shortly before the case was going to go to trial for sure, we learned that 38,000 pages of discovery documents had not been produced by my side to the other side. Our client told us they were overlooked.

We reviewed the documents and came to the conclusion that almost all of them were innocuous. Few of them added anything to the 200,000 pages already produced by our side. But if we disclosed the failure to produce these documents, we knew the trial date would be adjourned yet again and we would look bad in the eyes of the court.

Failure after four years to locate and turn over THIRTY EIGHT THOUSAND DOCUMENT PAGES was highly inflammatory. Witnesses who had authored these documents would have to be deposed all over again. There would be extra expenses and certainly sanctions.

Did we have a duty to the Court, and to the other side, to disclose the existence of these previously unproduced documents even though they had marginal relevance and had not come to light until after the discovery period had closed? Did we have a conflicting ethical duty to our client not to risk loss of the trial date?

We elected to produce them to the other side and take the consequences. In my view there was little or no choice because the documents were called for by the discovery order.

I asked the Court to hold a prompt telephone conference. I offered to produce the documents and witnesses as soon as possible, explained how the mistake

had probably happened, as best I could, and I offered to pay reasonable expenses to the other side for their inconvenience.

This did result in delay of the trial. About twenty more depositions were taken. It did give our opposition the opportunity to denigrate us and our client. An investigation was made to see if there was bad faith. None was found.

I believe we made the correct decision from an ethical standpoint. At the same time, we demonstrated our honesty and loyalty to the court as officers of the court. Our personal credibility and standing with the court was not tarnished. If anything I think the court trusted me and the client even more because we had been put to the test and we did the right thing.

Ultimately, it all worked out. The trial was reset. We sailed through the final Pre-Trial conference ready to go.

On the very eve of trial, the other side agreed to a consent judgment holding our patent valid and infringed plus payment of $125 million in damages.

IX. SUPPOSE THE CLIENT MAY COMMIT PERJURY

I had a trademark situation about ten years ago that was nasty. It was a series of unfolding conflicts, a lawsuit and threatened lawsuits, on a trademark that was

a family name. It was a well known household name. The witnesses were unreliable. Some of them said they had been cheated by my client. One partner of the client had run off with another partner's wife. In addition to disputes over the trademark there were internal disputes about money and cheating among the partners.

You could not entirely believe anybody. There were few records of any consequence to be found.

At one point I was reluctant to let one of my witnesses testify because I feared he might lie. The client wanted him to testify because he had persuasive evidence.

From an ethical standpoint, do you have a duty to your client to let his witness testify in such circumstances?

It is a dilemma. There is a conflict between the lawyer's duty of zealous representation to the client and his obligation to the integrity of the profession and to the court. If the lawyer cannot satisfy the conflict in his own mind he can try to withdraw from the case. But that is easier said than done.

The authorities on this subject require a high threshold point at which the attorney justifiably may withdraw from a case because he believes the client or client's witness will commit perjury. The attorney must have a firm factual basis for believing that the perjury

is imminent. But at the same time, it is also said counsel must remember that they are not triers of fact, but advocates. In most cases credibility of a witness will be a question of fact for the jury.

The ABA published Formal Opinion 87-353 on this subject. This opinion prohibits a lawyer from knowingly offering false testimony. The attorney has a duty to inform the tribunal if his client or a witness intends to testify falsely despite the attorney's best efforts to dissuade the client or witness from lying.

There are exceptions according to the Opinion. An attorney is allowed to presume his client or witness will not lie, if the attorney has told them to tell the truth.

The opinion offers withdrawal as an option, but recognizes that it would be difficult for the attorney to take such a step as a practical matter.

In my case I let the witness testify after telling him that he must stick to the truth. So far as I can remember now he was loose with half truths and speculation. He may have "filled in" with what probably happened when he wasn't sure what actually had happened. He may have testified as to what could have happened when he had no actual knowledge. But I cannot say for sure that he committed perjury.

It was an unpleasant time for me. I don't think the defect is in the judicial system or in our ethics. The

defect is in our species -- some humans will lie. As long as we have to rely on human witnesses we will always have this problem.

X. CONFLICTS ON ISSUES

Sometime you or you and one of your partners find yourselves on both sides of the same legal question although in different cases for different clients. That happens.

Again you are in the middle.

Ethical?

Not unless you get approval from both clients.

[Abraham Lincoln did it.]

XI. NEW DEVELOPMENTS IN THE FIELD OF ETHICS AND PROFESSIONAL RESPONSIBILITY

This is a time of change. Many efforts are being made to upgrade lawyers' professional conduct and sense of responsibility to their clients and to the public.

For example, Chief Judge Helen Nies of the Federal Circuit has made several speeches and chaired several panels in an effort to expose so-called RAMBO strong arm tactics. Similarly, the Court of Appeals for the 7th Circuit has created a Special Committee on Civility. It released a report in June which proposed new higher standards of professional conduct not only for lawyers

but also for judges. This civility report has been the subject of much discussion.

The 7th Circuit Civility Committee was chaired by U.S. District Judge Marvin E. Aspen and began its work in 1989. It surveyed more than 1500 lawyers and judges in the 7th Circuit, the majority of whom reported that civility in litigation had eroded in recent years. Various causes for this erosion were suggested including protracted discovery, sanctions under Federal Circuit Civil Procedure 11, and the increasing size of the Bar that has severely reduced a sense of collegiality among lawyers. The Committee concluded that discovery was the area in which uncivil conduct was most likely to arise.

The Bar Association of the City of New York also had a committee investigate this matter. This committee found there was a widely shared perception that there has been a significant increase in legal nastiness. It was found that lack of civility in law practice took many forms such as refusal of requests for inconsequential adjournments or extensions of time, in which briefs and other papers are filled with acrimony and personal attacks, pretrial discovery and motions to disqualify are used as a weapon in a fight of attrition, and papers are served by FAX at the very last moment on the eve of a holiday or weekend so as to cause inconvenience for the adversary.

Many thoughtful observers also believe that the public esteem for lawyers is at a new low because of what is perceived to be a shift to goals based upon greed and self interest. This is at a time when the general public also is disgusted with politics and politicians.

In an effort to reverse these trends many movements are afoot. For example in New Jersey there is an effort by the State Ethics Panel to make disciplinary procedures against lawyers public. In New Jersey such proceedings have been conducted in secret.

New Jersey recommends that disciplinary procedures be open to the public and on public record from the time the initial complaint is filed. The theory is that clients and prospective clients have a right to know if there are serious complaints against the lawyer who may represent them.

In addition, the ABA Commission On Evaluation of Disciplinary Enforcement is considering proposals that would plow new ground in elevating the professionalism of lawyers. The Commission has recommended many changes. The changes include regulation of lawyers more directly by the judiciary through an agency or branch of the court with an investigative staff and budget, the imposition of mandatory arbitration of fee disputes, non-lawyers would be given a significant role, disciplinary proceedings would be public, absolute immunity would be given to

complainants, summary procedures would be proper, expedited procedure would be available including interim suspension and discipline, lawyer trust accounts would be audited randomly, mandatory malpractice insurance might be required and the whole scope of regulation would be widened beyond ethics to include such things as fee disputes and substance abuse.

The ABA also is considering further action against RAMBO tactics although the current ABA Disciplinary Rules should long since have barred RAMBO tactics.

The Ethical Consideration and Disciplinary Rules under Canon 7-37 of the Lawyer's Code of Professional Responsibility states that ill feeling between clients "should not influence a lawyer in his conduct, attitudes, and demeanor towards an opposing lawyer." It warns against "unfair or derogatory personal references" and "haranguing and offensive tactics." EC 7-38 tells lawyers to be "courteous to opposing counsel" And DR 7-102A prohibits, among other things, a lawyer from taking any action "on behalf of his client when he knows or when it is obvious that such action would serve merely to harass or maliciously injure another."

It is possible that the deterioration of professionalism is due to larger changes occurring in our society. The Bar has grown at an astronomical rate and now consists of about 800,000 lawyers. It has been

predicted that by the year 2000 the United States will have one million lawyers.

In addition, the growth of large factory type law firms may have a bearing on lack of collegiality and mutual respect.

Whatever the causes, the low public perception of lawyers has set in motion strong counter forces. The courts and the Bar Associations and even the White House are bound to take steps for elevating the practice of law and making it more responsible to the public interest. All of us must be prepared to take more responsibility inside our law firms, in our law schools and in our corporate law departments to teach a higher standard of professionalism and to implement it in our law practice.

Thank you.

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ATTORNEY DISQUALIFICATION: RECENT DEVELOPMENTS & CURRENT ISSUES

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Attorney Disqualification: Recent Developments & Current Issues

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I. INTRODUCTION

"Tactics" and "ethics" state the concepts underlying a powerful litigation tool -- the motion to disqualify an opponent's counsel. Few things are as disconcerting to a litigant as the potential loss of access to regular or special trial counsel in a case of any size, all the more so when the matter truly is one of "bet the company" magnitude, a now-frequent occurrence in the current climate of rigorous enforcement of intellectual property rights. And while it may rarely be admitted to be so, few things are as diverting, embarrassing, emotionally disconcerting, and potentially devisive to trial counsel and to the attorney-client relationship as the potential forced withdrawal from representation of a client in any case.[1/]

It is because of these potential effects that a motion to disqualify must be considered whenever facts exist in a matter that provide basis for such a motion under controlling precedent, ethical rules and proscriptions.[2/] A frivolous motion to disqualify, however, may do more damage to the movant than to the challenged counsel, both in tactical and in monetary terms.[3/]

The proper balance of tactics and ethics presented by disqualification questions has always been a difficult one. In view of the modern tendency of major corporations to use a number of outside law firms and, in some instances, to "shop around" a matter before selecting counsel, taken with the long time frame which intellectual property matters and particularly patent litigation often involve, the opportunities to make a disqualification motion stick are proliferating.[4/] As pressure to "win at all costs" mounts both on in-house counsel and outside trial counsel, and on the business person/litigant/client, him (or her) self, the bringing-on of such motions will likely increase.

This paper does not attempt to survey the truly massive case precedent in existence regarding a lawyer's ethical responsibilities under the Code of Professional Responsibility, the Model Rules of Professional Conduct, applicable state and administrative statutes and rules and various local court rules. Rather, an overview approach is adopted, wherein the principal issues are identified, the general rules of law are stated with appropriate qualification, and illustrative precedent in the intellectual property law

context -- especially in regard to patent litigation -- is addressed. The availability of appellate review, and mechanisms which need be followed, are also addressed. Tactical considerations and practice hints are interspersed as the author felt were appropriate.

Because of the volume of precedent and the evolution that disqualification concepts are going through,[5] a thorough review of the latest case law, together with ethical opinions issued by local and state bar associations, *must* be undertaken whenever a motion to disqualify is being considered or brought on.[6] This article is intended to serve only as a guide to, not a substitute for, that necessary effort.

II. WHO DECIDES MOTIONS TO DISQUALIFY TRIAL COUNSEL

Almost without exception, a motion to disqualify trial counsel will be brought by the aggrieved party in the forum in which a contested proceeding and/or litigation is either pending or contemplated.[7] In most intellectual property-based matters, that means either a federal district court or the Office. Another venue may present itself as well, which is often overlooked: the appropriate state and/or local bar association, with whom a complaint charging unethical conduct may be lodged.

Because of the generally rigorous standard which must be satisfied upon appellate review of grant or denial of a motion to disqualify, the decision of the trial judge or appropriate Office official is likely to stand, barring an intervening change in fact or controlling law. The maxim about "knowing your audience" -- the faults, foibles, tendencies and leanings of that particular trial judge -- applies doubly when contemplating a disqualification motion. Local counsel must be queried in depth as to the trial judge's previous track record on such motions, together with information as to that judge's experiences before assuming the bench in regard to disqualification issues. Research specific to that judge or official, through use of appropriate database search services, should be done, with particular care paid to ferreting out unpublished opinions. And the literature should also be searched for commentary reaching to disqualification and/or related issues.[8]

This gathering of intelligence will enable counsel contemplating a motion to gauge not only his chances of success, but also the breadth and depth of the showing that will be required, and how best to put forward that showing. Once served with a disqualification motion, the respondent should immediately engage in these same activities to enable prompt, thorough preparation of opposing pleadings (if merited).

The impact on the trial judge of an unsuccessful motion to disqualify must always be considered. Nothing tends to fall as flat as a supercharged, overwrought motion to disqualify steeped in ethical indignation and precedential jargon, which simply is not proven or which does not rise to the level of granting disqualification even if a technical violation exists. Depending upon the individual, the failed attempt could poison or dramatically shift trial counsel's standing in the Court's eyes -- a risk, where the Court is the finder of fact, rather than a jury, which usually proves too great to risk running.[9]

III. CHOICE OF CONTROLLING LAW

There is little disparity between the various Code of Professional Responsibility-based ethical systems, on a state-to-state basis. There are a number of marked differences between the Model Rules and the Code, however. And an administrative body may have carried out its own "fine-tuning" of certain Code or Model Rules provisions or may have dropped certain Disciplinary Rules or Ethical Considerations, before establishing its ethical scheme. Knowing which law will be applied is thus critical.

The solution is fairly straightforward: the ethical requirements governing the conduct of trial counsel in the forum, on a local and state level, are usually those applied in either a state or federal trial court or before an administrative body.

The United States Court of Appeals for the Federal Circuit (the "Federal Circuit") does not view disqualification motions to raise any issue particular to the patent laws. The Federal Circuit has ruled repeatedly that it will apply the law of the originating circuit, and hence the local and state law where the action is pending, when reviewing a disqualification determination.[10]

In *EZ Paintr Corp. v. Padco, Inc.*,[11] the Federal Circuit did suggest that it could synthesize and apply a rule in accordance with the general weight of authority, if the regional circuit had no stated law on a point.[12] More properly, as stated in *Panduit*,

> Where the regional circuit court has spoken on the subject, we must apply the law as stated. Where the regional circuit court has not spoken, we need to predict how that regional circuit would have decided the issue in light of the decisions of that circuit's various district courts, public policy, etc.[13]

Such a prediction is improper, however, unless it is essential to the disposition of the appeal.[14]

The specific precepts applied by the trial court way vary from district to district. For example, the United States District Court for the Northern District of Ohio does not have a local rule specifying the controlling rules of conduct before the court. The Ohio Supreme Court, however, through its Rule IV(1), Supreme Court Rules for the Government of the Bar of Ohio, provides that the Code of Professional Responsibility, as adopted by the Court on October 5, 1970, "shall be binding upon all persons admitted to practice law in the State of Ohio."[15] Consideration of the Model Rules of Professional Conduct is also appropriate, in the Sixth Circuit's view.[16]

In contrast, by local rule and by precedent, the Utah Code of Professional Responsibility is applicable in proceedings before the United States District Court for the District of Utah.[17] Similarly, the United States District Court for the Northern District of Texas, provides in Local Rule 13.2 that "All attorneys practicing before the Courts of this District shall be governed by the Rules of Disciplinary Enforcement set forth in Miscellaneous Order No. 24".[18]

IV. GENERAL PRECEPTS

A. Canons 4, 5 And 9; Model Rules Complements

The key ethical proscriptions appear in Canons 4, 5 and 9 of the Code, which are applied by the bulk of currently extant precedent (although this is changing as more Model Rules based decisions are published):

> Canon 4. A lawyer should preserve the confidences and secrets of a client.
>
> Canon 5. A lawyer should exercise independent professional judgment on behalf of a client.
>
> Canon 9. A lawyer should avoid even the appearance of professional impropriety.
>
> The Model Rules of Professional Conduct do not contain a Canon 9 equivalent, but do carry forward the concepts of Canon 4 and Canon 5.[19]

With regard to Canon 4, it has been repeatedly held that courts will, as a general rule, disqualify counsel in an adversary proceeding when (1) the moving party was previously represented by the attorney whose disqualification he now

seeks; (2) the matters embraced within the pending suit are substantially related to the matters or the cause of action for which the attorney previously represented the moving party; and (3) the attorney is representing an adversary of the movant party in the pending suit. Canon 4, has primary application in former client conflict situations.[20]

Canon 5 has application to conflicts arising in two major areas: where a simultaneous representation occurs,[21] and where the lawyer involved, or a member of his/her firm, may testify or be called to testify at trial.[22]

Canon 5 and DR 5-105 are intended to prevent simultaneous adverse representation, particularly the filing of a lawsuit by a firm's client Y against its other existing client X.[23] The *Unified Sewerage* rule bars avoidance of the prohibition of Canon 5 and DR 5-105 through conversion of an existing client to a former client, thereby securing the application of the Canon 4 "substantial relationship" test.[24] To that end, *Unified Sewerage* prevents a firm, when representing client X and being approached by Y, who wants to sue X, from withdrawing from X's representation and simultaneously or subsequently taking up Y's case and filing suit against X.

Disqualification under the attorney witness rule of DR 5-102(A) as trial counsel generally does not bar a lawyer from continuing representation in pre-trial proceedings.[25] There is also a "substantial hardship" exception available under DR 5-102(A). But there is no such exception available under DR 5-102(B), and disqualification under DR 5-102(B) requires withdrawal from all proceedings, including pre-trial activities. It is most likely that DR 5-102(B) would be applied by an accused infringer, and the issue presented would be one of whether patentee's counsel's testimony, when called by his adversary, might be prejudicial to the patentee.

Under the Model Rules, there is no affirmative/adverse dichotomy -- the DR 5-102(A) vs. (B) distinction has been dropped.[26] One cannot, under the Model Rule, act personally as an advocate at trial where he is likely to be a necessary witness.

In discussing this question, Spahn notes that:

> Now that orders disqualifying civil trial counsel are not immediately appealable, it is worth remembering that most courts apply the witness-advocate rule strictly.
>
> Unfortunately, there are no simple rules for avoiding witness-advocate

> problems. To the extent that a lawyer has been a witness to and participant in his client's transactions, he must be very wary. If he could be called to give testimony adverse to his client's interest, the lawyer should not attempt to represent the client in any ensuing litigation. If the lawyer's testimony would help the client, the decision is more difficult.
>
> The safest course would be for the lawyer never to undertake litigation on behalf of a client for whom he has acted as counselor, but such self-restraint is not demanded by the Code and could be bad for business. Generally, if the lawyer played a peripheral role in the underlying transaction or his knowledge would be cumulative, he can represent his client in related litigation. If the lawyer concludes that his client would be best served by having him appear as a witness, however, then the lawyer should refrain from litigating the case. Under the Code such a decision would result in withdrawal of the lawyer's entire firm.[27]

A substantial relationship between issues is not necessary under Canon 5.[28]

Under now-outmoded Canon 9, which warns against impropriety and its appearance, even when improper acts have not in fact occurred, there must be at least a reasonable possibility that some specifically identifiable impropriety did in fact occur. As the court in *International Electric Corp. v. Franzer* [29] stated:

> Canon 9 . . . should not be used promiscuously as a convenient tool for disqualification when the facts simply do not fit within the rubric of other specific ethical and disciplinary rules.[30]

Some decisions do, however, support reliance on a Canon 9 "appearance of impropriety" as providing sufficient basis for disqualification.[31] When evaluating the public's view in considering whether Canon 9 should be called into play, if available in that jurisdiction, "we must be careful not to accept the view of the most cynical as the true voice of the public."[32] Rather, "the Court must consider what it believes would be the view of the average layman."[33]

Further, due consideration must also be given to a client's interest in retaining the counsel of his choice, an interest which the courts have not regarded as insignificant. The courts have given additional weight to this factor where, as in most intellectual property causes, the subject matter of the litigation is specialized.[34]

A well-stated overview of the issues raised by a disqualification motion was recited by Judge Duffy in *Chateau de Ville Productions, Inc. v. Tams-Witmark Music Library, Inc.*:[35]

> The ABA Code of Professional Responsibility sets forth nine guiding principles of professional conduct. One of these basic tenets is that an attorney owes his client the duty of unimpaired loyalty. Thus, where a conflict of interest exists, as for example where the same attorney seeks to represent more than one client with adverse or potentially adverse concerns, disqualification will be required unless the attorney can show "that there will be no actual or apparent conflict in loyalties or diminution in the vigor of his representation." . . . It is also necessary, however, when considering a disqualification motion, to be mindful of the recent spate of such motions and their use as "'tools of the litigation process.'" . . . Our Court of Appeals has adopted a cautious approach to questions of disqualification, examining the problems sought to be met by the Code, the reality of those problems in practice and "'whether a mechanical and didactic application of the Code to all situations automatically might not be productive of more harm than good, by requiring the client and the judicial system to sacrifice more than the value of the presumed benefits.'"[36]

B. Precedential "Rules of Thumb"

The tactical choices presented by attorney disqualification, have been bounded by certain "rules of thumb" that have evolved over time. While not universal among all state and federal courts, these "rules" tend to represent majority views on basic concepts, at least from a historical perspective. Their existence does not *per se* constrict or mandate counsel's course when considering a motion to disqualify, nor provide dispositive defense to such a motion

when brought. But they must be considered and either distinguished or embraced, as the case may be.

1. Disqualification Is Sui Generis; Reflexive Disqualification Ill-Serves All Involved

Apparent response to the terms of a Canon or Model Rule, or Disciplinary Rule, precedent teaches, should not induce blind, mechanical and reflexive disqualification. In denying a motion to disqualify a law firm, where one plaintiff was co-executor of an estate which owned the building in issue, as well as being a partner in the firm representing the plaintiffs, the court in *Ross v. Great Atlantic & Pacific Tea Co.*,[37] stated:

> The Disciplinary Rules, however, are not per se mandates calling for literal application. . . . On the contrary, even where a Disciplinary Rule is by its terms applicable, we must examine the facts of a claimed violation of the Code and attempt to shape a remedy which will assure fairness to the parties and integrity to the judicial process. . . . Disqualification is a drastic step which should be avoided if possible.

The court fashioned an alternative remedy that allowed counsel to remain in that case, which, it noted, "guarantees plaintiffs their valued right to counsel of their choice, a right of which we must be particularly solicitous".[38]

Specifically addressing Canons 5 and 9, the court in *Black v. Missouri*,[39] stated:

> While these venerable guidelines must be given considerable weight, they should not be applied inflexibly or without consideration of "realities of which fair decision would call for judicial notice." . . . . Those realities include society's interest in the most expedient resolution of matters which affect the public at large, and a client's interest in retaining his chosen counsel. *See* . . . *City of Cleveland v. Cleveland Elec. Illuminating Co.*,. . . . . Therefore, the unique facts of each case must be tested against not only the canonized principles of the Code, but also the broad backdrop of "[e]thical experience."[40]

Each disqualification motion is *sui generis*, and should be addressed and resolved with the guidance of precedent and the flexibility mandated by the importance of preserving a party's choice of counsel while honoring the ethical norms.

2. Disqualification Does Not Per Se Enhance The Public Perception Of The Legal Profession

Disqualification of an attorney or of a law firm does not necessarily enhance the public perception of the legal community, nor foster the highest actual ethical standards.[41] The *Titan Pacific* court made that point in reliance upon the Federal Circuit's decision in *Panduit*:

> "[J]udges must exercise caution not to paint with a broad brush under the misguided belief that coming down on the side of disqualification raises the standard of legal ethics and the public's respect. The opposite effects are just as likely -- encouragement of vexacious [sic] tactics and increased cynicism by the public."
>
> *Panduit Corp. v. All States Plastics [sic] Mfg. Co.*, 744 F.2d at 1576-77. The fact that disqualification may discredit the legal system obligates the Court to closely scrutinize allegations that a conflict of interest exists, while carefully avoiding the harsh and unnecessary consequences of an overly-broad construction of ethical norms.[42]

This need for careful scrutiny to avoid kneejerk reaction is always present in disqualification situations, because of the constantly evolving nature of all matters of legal ethics:

> When dealing with ethical principles, it is apparent that we cannot paint with broad strokes. The lines are fine and must be so marked. Guide-posts can be established when virgin ground is being explored, and the conclusion in a particular case can be reached only after painstaking analysis of the facts, and precise application of precedent.[43]

The fact-specific nature of disqualification heightens this need for rational application of principle.[44]

3. Purely Tactical Use Of Disqualification Is Not Condoned

While not to be read too broadly, the courts have long warned against the tactical use of disqualification motions. In *Dalrymple v. National Bank & Trust Co.*,[45] for example, the trial court noted that:

> In determining whether disqualification of counsel on grounds of conflict of interest is required. . . . . The Court must . . . be sensitive to tactical considerations which may impel a party to seek disqualification of a particularly competent or formidable opponent.[46]

The tactical, purely strategic use of disqualification motions caused Chief Judge Foley to sagely note in *Rossworm v. Pittsburgh Corning Corp.*,[47] that:

> Such caution would seem to indicate an examination is in order to seek the actual fact situation underlying the appearances. In my judgment, appearances should succumb to actual facts that after painstaking analysis are to the contrary, nor to my mind should appearance in itself be allowed to lead conclusively to the final determination and conclusion that affects so many interests.[48]

4. Disqualification Should Be Applied With Discrimination Only To Prevent Tainted Litigation

The Second Circuit, whose precedent stands as a persuasive voice in many disqualification decisions, has stated that the guiding principle in considering motions to disqualify counsel is the safeguarding of the integrity of court proceedings, with disqualification resulting only to eliminate the threat that the litigation will be tainted. *Board of Education of City of New York v. Nyquist.*[49]

Similarly, the court in *Bodily v. Intermountain Health Care Corp.*,[50] stated that even conduct which violates the Code of Professional Responsibility does not mandate disqualification where "the alleged misconduct does not prejudice an opposing party and taint the litigation in which he is appearing".[51] The *Bodily* court did not bandy words in describing the litigation-taint requirement, nor in stating that no *per se* disqualification rule exists:

> The sanction of disqualification of counsel in litigation situations should be

> measured by the facts of each particular case as they bear upon the impact of counsel's conduct upon the trial . . . . The essential issue to be determined in the context of litigation is whether the alleged misconduct taints the lawsuit.[52]

5. Time: A Simultaneous Representation May Cease, Mooting Any Question Of Conflict

Precedent addresses a variety of time-related factors in Canon 5 situations, which must be considered. The court in *Ransburg Corp. v. Champion Spark Plug Co.*,[53] held that the determination of whether a client is a present or former client of the firm in question ". . . should be determined at the time the complaint is filed". It relied upon *United Sewerage Agency Etc. v. Jelco Inc.*,[54] because "To hold otherwise would allow such unethical behavior to continue unrestricted because a law firm could always convert a present client to a former client merely by seeking to withdraw *after* suing a present client".[55]

In *Unified Sewerage*, Jelco had dismissed the law firm in question, and the law firm argued that that rendered the "present client" approach inapplicable. The Ninth Circuit disagreed:

> Jelco correctly cites *Fund of Funds, Ltd. v. Arthur Andersen & Co.*, 435 F. Supp. 84, 95 (S.D.N.Y.), *aff'd in part rev'd in part on other grounds*, 567 F.2d 225 (2nd Cir. 1977), for the proposition that the present-client standard applies if the attorney simultaneously represents clients with differing interests. This standard continues even though the representation ceases prior to filing of the motion to disqualify. If this were not the case, the challenged attorney could always convert a present client into a "former client" by choosing when to cease to represent the disfavored client.[56]

Fund of Funds, Ltd., also involved he same circumstances:

> Milgrim Thomajan argues that the relationship of Arthur Andersen to Morgan Lewis should be considered to be that of a former client, because Morgan Lewis, having been told by Andersen to withdraw from all representation of Andersen shortly before this attorney disqualification motion was brought, no longer represent Andersen.

> Andersen contends that the existing client standard should be applied, because it was an existing client at the time Morgan Lewis "accepted employment" from the liquidator and at the time of the investigation and filing of the Andersen complaint.
>
> Andersen was an existing client of Morgan Lewis at the time of the investigation and filing of the instant complaint when the alleged conflict of interest arose. Accordingly, the Court finds that Andersen should be considered an existing client for purposes of this motion.[57]

The effect of withdrawal of a firm from the allegedly conflicting simultaneous representation during the consideration of a disqualification motion has been addressed. In *Etlinger v. Cranberry Hill Corporation*,[58] voluntary withdrawal of the firm's appearance while the motion to disqualify was under advisement did not result in application of the former client/"substantial relationship" test. Other courts have found that withdrawal of challenged counsel will moot the motion.[59] *Bodily v. Intermountain Health Care Corp.*, involved a withdrawal of counsel. The court appeared to bootstrap itself into an answer in *Bodily*:

> Counsel for Howard firm argued that since Johnson withdrew as counsel in the *Wilson* case in January, by the time the Motion to Disqualify was filed in March its only representation was in the *Bodily* case, and hence Wilson was a *former* client. It is clear, however, that the operative facts occurred when the Howard firm was representing Bodily against IHC and IHC against Wilson simultaneously. The court regards this matter as a case of simultaneous, not prior, representation. Counsel for the Howard firm cites *Beck v. Board of Regents*, 568 F. Supp. 1107 (D. Kan. 1983) in support of its argument that *Wilson* should be regarded as a *former* client since that is how it was regarded in a somewhat similar situation in *Beck*, even though there had been simultaneous representation prior to the hearing on the motion for disqualification in that case. One major distinction as between that case and this case, however, is that in *Beck* the court found no violation of the Code of Professional

> Responsibility because of the simultaneous representation of "possibly adverse clients." The focus of the analysis in *Beck* was successive representation under Canon 4, but the court found no violation of Canon 5 "under the facts of this case." We have the reverse situation here.[60]

Two cases originating from the Tenth Circuit have also addressed timing issues, with divergent results.[61] In *E.E.O.C. v. Orson H. Gygi Co., Inc.*,[62] Barker represented Gygi in an E.E.O.C. sexual discrimination charge brought by Ms. Rich. Barker and the E.E.O.C. engaged in conciliation efforts and continued in communication until January 12, 1982. Between January 25, 1982 and May 17, 1982, Barker represented Ms. Rich in her annulment. On October 12, 1982, the E.E.O.C. sued Gygi, charging sexual discrimination. Only then did Ms. Rich learn that Barker had been representing Gygi in connection with E.E.O.C. matter. Ms. Rich had divulged confidences to Barker that could be used against her in the E.E.O.C. suit.[63]

Under those circumstances, the court found a concurrent representation. Even though the settlement negotiations on the E.E.O.C. charges had ended *before* Barker began to represent Rich in the annulment, the charges had ". . . remained alive", and there was continued representation of Gygi during the period in issue. The court then stated that Canon 5 and DR 5-105 applied ". . . even though Mr. Barker's simultaneous representation had ended before the E.E.C.C. filed its motion to disqualify", *citing Unified Sewerage Agency*.[64] The factual differences between *Unified Sewerage Agency* and the circumstances in issue were apparently ignored by the Tenth Circuit.

Beck v. Bd. of Regents of State of Kan.,[65] reached the opposite conclusion:

> At the outset, the court notes that when plaintiffs' counsel accepted employment in the Beck and Williams cases, they were simultaneously representing Dr. David Waxman as a defendant in an unrelated employment discrimination action. Although the court disapproves of simultaneous representation of possibly or potentially adverse clients, and believes that such dual representation may in some instances indeed be a violation of the Code of Professional Responsibility, the court does not find, under the facts of this case, such a violation requires disqualification of plaintiffs' counsel.

> Moreover, the court notes *that since the filing of the motion for disqualification, the date for the filing of a timely appeal in the Peterburg case has expired.* Hence, Dr. Waxman's position as it relates to the law firm of Schnider, Shamberg & May, Chartered, *is that of a former client,* and it is in this posture that the court will address the merits of the motion presently before this court.[66]

The Tenth Circuit did not consider *Beck* in *E.E.O.C.*

The policy issue that these cases address - which, in every instance, is not allowing a firm to take on simultaneous representation and then, when caught in the act, terminate one of the multiple relationships to select the easier Canon 4 "substantial relationship" test, which is not applicable to a Canon 5 analysis -- is arguably not violated by consideration of what has occurred after a simultaneous representation develops. Nor, it seems, is the *Beck* treatment violative of any such principle.

Disqualification exposure may even rear its attenuated head when an argument is made that a history of engagements exists, even though no ongoing projects or matters may exist.

In *International Business Machines Corp. v. Levin*,[67] the Third Circuit disqualified a law firm from further representation of plaintiffs in a private antitrust action, although permitting the firm to turn over its past work on the case to substitute counsel with consultation, even though the firm had no specific assignment from the corporate defendant on hand on the day the complaint was filed.

The trial court had found that CBM had to have obtained IBM's consent after full disclosure to proceed in the antitrust action, a position with which the Third Circuit voiced agreement:

> *The court found as a fact that all relevant times CBM had an ongoing attorney-client relationship with both IBM and the plaintiffs.* This assessment of the relationship seems entirely reasonable to us. *Although CBM had no specific assignment from IBM on hand on the day the antitrust suit was filed* and even though CBM performed services for IBM on a fee for service basis rather than pursuant to a retainer arrangement, *the pattern of repeated retainers,* both before and after

> the filing of the complaint, *supports the finding of a continuous relationship.*
>
> The court also found that although the services required of CBM by IBM dealt consistently exclusively with labor matters, this was not the result of any special arrangement between them and that *at any time IBM*, unaware of CBM's participation in the plaintiffs' action, *might have sought CBM's assistance in legal matters more closely related to the lawsuit.* Thus, it was perhaps fortuitous that CBM, as the court found, never acquired any confidential information from IBM useful in the prosecution of the antitrust suit.
>
> These findings, with which we agree, support the district court's conclusion, which seems to us reasonable and just, that CBM was obligated in these circumstances at the very least to disclose fully to IBM the facts of its representation of the plaintiffs and obtain its consent.[68]

A *caveat* to *IBM* likely exists in the situation where a lawyer whose involvement with a former client was substantial but who never handled a matter "substantially related" to the matter in issue, is challenged on the basis of too much inside knowledge of how the client works.

O'Malley et al. believe that, in most cases, the challenge could prove to be successful. In *Selected Conflict of Interest Issues*,[69] they stated that:

> The Committee on Professional and Judicial Ethics of the Michigan State Bar in Opinion RI-35 (11/9/89), 5 Law. Man. Prof. Conduct 443, said . . . [the lawyer could not oppose his former client] stressing the lawyer's greater insight and understanding of the former client's *modus operandi* and decision-making processes. That is also the gist of the Restatement § 213, Comment d, Illustration 3, and Hazard and Hodes § 1.9:106-107. See also *Chugach Elec. Ass'n. v. U.S. District Court*, 370 F.2d 441 (9th Cir. 1966).
>
> The same rule should apply in the case of an outside lawyer who had represented the former client in numerous cases of one sort and then attempts to oppose the former

client in the same type of case (but not in a related matter). See *Crawford W. Long Mem. Hospital v. Yerby*, 373 S.E. 2d 749 (Ga. 1988) (lawyer who had defended eighteen malpractice cases for former hospital client could not bring a new and different malpractice case against the hospital).

> The foregoing conclusions are buttressed by the proscription of Model Rule 1.9(c) against a lawyer using information relating to the prior representation to the disadvantage of the former client.[70]

The theory behind this position, they maintained, was quite straightforward:

> Basically what the courts and ethics committees seem disposed to hold in these types of cases is this: even though the subsequent representation is on a matter that is not 'substantially related' (as one would ordinarily understand that term) to the previous matter, it will be deemed to be a 'substantially related matter' within the meaning of Model Rule 1.9(a) if the totality of the circumstances surrounding the lawyer's association with the former client provides the lawyer in that second matter with a perceptible advantage that would not be available to any other lawyer who was counsel in that second matter.[71]

Once wedded to a client, divorce may prove difficult, and the degree of "living in sin" that will allow disengagement later is impossible to gauge with surety.

In *Maritrans G.P. Inc. v. Pepper, Hamilton & Scheetz*,[72] the Supreme Court of Pennsylvania reached a decision which the *ALAS Loss Prevention Journal*,[73] stated to be, "On the surface, . . . an unusual and decidedly unwelcome result." Broadly read, *Maritrans* stands for the proposition that a firm may be prohibited from representing economic competitors of a former client, because the firm was privy to confidential information of the former client. While the Court applied the "substantial relationship" test in so ruling, it did so

> primarily on the facts that (i) there had been a long and close relationship between Maritrans and pepper on extraordinarily sensitive labor relations tactics and strategy, (ii) Maritrans would be severely damaged if any of that sensitive information leaked to its competitors,

> (iii) Maritrans' competitors would obtain an unfair competitive advantage vis-a-vis Maritrans by virtue of their access to Pepper's talents and knowledge developed over the course of its many years of relationship with Maritrans; and (iv) Pepper's previous conduct created doubt about the reliability of Pepper's assurances that it would not use or reveal Maritrans' secrets and confidences in its subsequent representation of Maritrans' competitors.[74]

The Court did note, however, that violations of the Code of Professional Responsibility do not *per se* give rise to legal actions that may be brought by clients or other private parties.[75]

The Court, taking the facts in a light most favorable to Maritrans, because it had been successful before the trial court in having an order entered enjoining the firm from acting as labor counsel for seven of Maritrans' New York-based competitors (602 A.2d at 1279, 1280), drew the picture as follows.

Maritrans was a Philadelphia-based public company in the business of transporting petroleum products along the East and Gulf coasts of the United States by tug and barge. Maritrans competed in the marine transportation business with other tug and/or barge companies, including a number of companies based in New York. Pepper was an old and established Philadelphia law firm. Pepper and Messina [a partner in the firm] represented Maritrans or its predecessor companies in the broadest range of labor relations matters for well over a decade. In addition, Pepper represented Maritrans in a complex public offering of securities, a private offering of $115 million in debt, a conveyance of all assets, and a negotiation and implementation of a working capital line of credit.

During the course of their labor representation of Maritrans, Pepper and Messina became "intimately familiar with Maritrans' operations" and "gained detailed financial and business information, including Maritrans' financial goals and projections, labor cost/savings, crew costs and operating costs." This information was discussed with Pepper's labor attorneys, and particularly with Messina, for the purpose of developing Maritrans' labor goals and strategies. In addition, during the course of preparing Maritrans' public offering, Pepper was furnished with substantial confidential commercial information in Maritrans' possession -- financial and otherwise -- including projected labor costs, projected debt coverage and projected revenues through the year 1994, and projected rates through the year 1990. Pepper and Messina, during the course of their decade-long representation of Maritrans, came to know the complete inner-workings of the company along with

Maritrans' long-term objectives, and competitive strategies in a number of areas including the area of labor costs, a particularly sensitive area in terms of effective competition. In furtherance of its ultimate goal of obtaining more business than does its competition, including the New York-based companies, Maritrans analyzed each of its competitors with Pepper and Messina. These analyses included an evaluation of each competitor's strengths and weaknesses, and of how Maritrans deals with its competitors.[76/]

While still representing Maritrans, and having access to this information, Pepper and Messina undertook to represent several of Maritrans' New York-based competitors in their labor negotiations, albeit with a different union, during which the New York companies sought wage and benefit reductions in order to compete more effectively with, i.e., to win business away from, Maritrans.

In September, 1987, Maritrans learned from sources outside of Pepper that Pepper and Messina were representing four of its New York-based competitors in their labor relations matters. Maritrans objected to these representations. Pepper and Messina took the position that this was a 'business conflict,' not a 'legal conflict,' and that they had no fiduciary or ethical duty to Maritrans that would prohibit these representations.

To prevent Pepper and Messina from taking on the representation of any other competitors, especially its largest competitor, Bouchard Transportation Company, Maritrans agreed to an arrangement proposed by Pepper whereby Pepper would continue as Maritrans' counsel but would not represent any more than the four New York companies it was then already representing. In addition, Messina -- the Pepper attorney with the most knowledge about Maritrans -- was to act not as counsel for Maritrans but, rather, as counsel for the New York companies, while two other Pepper labor attorneys would act as counsel for Maritrans; the attorneys on one side of this 'Chinese Wall' would not discuss their respective representations with the attorneys on the other side. Maritrans represented that it agreed to this arrangement because it believed that this was the only way to keep Pepper and Messina from representing yet more of its competitors, especially Bouchard.

Unbeknownst to Maritrans, however, Messina then 'parked' Bouchard and another of the competitors, Eklof, with Pentima, a labor attorney then at another law firm, at the same time that Messina was negotiating with Pentima for Pentima's admission into the partnership at Pepper. Notwithstanding Pepper's specific agreement not to represent these other companies, Messina for all intents and purposes was representing Bouchard and Eklof, as he was conducting joint

negotiating sessions for those companies and his other four New York clients. On November 5, 1987, Maritrans executives discussed with Pepper attorneys, *inter alia*, Maritrans' plans and strategies of an aggressive nature in the event of a strike against the New York companies. Less than one month later, on December 2, 1987, Pepper terminated its representation of Maritrans in all matters. (The manner of its accomplishing this was not explained by the Supreme Court). Later that month, on December 23, 1987, Pepper undertook the representation of the New York companies. Then, on January 4, 1988, Mr. Pentima joined Pepper as a partner and brought with him, as clients, Bouchard and Eklof. In February, 1988, Maritrans filed a complaint in the trial court against Pepper and Messina.[77]

The trial court, reversing his initial refusal to grant an injunction, found that Pepper had breached its fiduciary duties by violating the substantial relationship/former client test. The trial court held that a substantial relationship existed between Pepper and Messina's former representation of Maritrans and their current representation of the competitors, entities whose interests were materially adverse to the interests of Maritrans in the current representation. The trial court also found that Pepper breached its obligation, which was fortified by a specific promise, to keep from Messina that which was learned after the erection of the 'Chinese wall.'

The Superior Court, the intermediate appellate court, reversed, to be in turn reversed by the Supreme Court. The main fault in the Superior Court's analysis, the Supreme Court held, was the failure to analyze the situation under common law principles of fiduciary duty; the focus on Pennsylvania Rules of Professional Conduct 1.7 and 1.9 was too narrow.[78]

Analyzing the common law of fiduciary responsibility in this area, the Court made several initial points, taking the Superior Court to task and effectively reading the Code and Rules off into irrelevance, as it went along:

> At common law, *an attorney owes a fiduciary duty to his client; such duty demands undivided loyalty* and prohibits the attorney from engaging in conflicts of interest, and breach of such duty is actionable. . . . *The Superior Court here emasculated these common law principles, in effect turning the ethical or disciplinary rules governing lawyers into a grant of civil immunity for conduct which has been condemned from the immemorial.* . . . By ignoring the common law principles of fiduciary duty, the Superior Court elevated attorneys above the law and granted to them greater rights and protection than are enjoyed by any other fiduciaries in this Commonwealth. . . . Adherence to those fiduciary

duties ensures that clients will feel secure that everything they discuss with counsel will be kept in confidence. . . . Pepper and Messina, as attorneys, had a duty to administer properly their responsibilities to respect the confidences of Maritrans.[29]

The Court continued to further condemn the Superior Court for too much reliance on the Code and Rules:

> Contrary to the arguments raised by Pepper and Messina, *we conclude that the Superior Court badly confused the relationship between duties under the rules of ethics and legal rules that create actionable liability apart from the rules of ethics.* The Superior Court correctly recognized that simply because a lawyer's conduct may violate the rules of ethics does not mean that the conduct is actionable, in damages or for injunctive relief. The court was also correct in saying that the trial court's finding of violation of the ethical rules concerning misuse of a client's confidences is not as such a basis for issuing an injunction. These propositions are correct under either the Code of Professional Responsibility or the Rules of Professional Conduct.
>
> However, *the Superior Court then stood this correct analysis on its head. That court held that the trial judge's reference to violation of the rules of ethics somehow negated or precluded the existence of a breach of legal duty by the Pepper firm to its former client.* The court also held that the presumption of misuse of a former client's confidences, developed in the law of disqualification, is inapplicable because the present case involves an injunction. *Both of these propositions involve serious confusion in the law governing lawyers.*
>
> Long before the Code of Professional Responsibility was adopted, and before the Rules of Professional Conduct were adopted, the common law recognized that a lawyer could not undertake a representation adverse to a former client in a matter "substantially related" to that in which the lawyer previously had served the client. . . .
>
> The legal obligation of a lawyer to refrain from misuse of a client's confidences goes even further back, predating the ABA

> Canons of Professional Ethics promulgated in 1908. . . . The threatened violation of this duty thus has been recognized as the basis for an injunction for at least virtually a century, as stated in the leading treatise on attorneys of about the same vintage. . . .
>
> *The Superior Court seems to have the idea that because conduct is not a tort simply because it is a disciplinary violation, then conduct ceases to be a tort when it is at the same time a disciplinary violation. This is an inversion of logic and legal policy and misunderstands the history of the disciplinary rules. . . . As regards misuse of a former client's confidences, the disciplinary rules derive from the lawyer's common law duties, not the other way around.*[80]

If this analysis presages a trend, courts will have ready access to a way back to the Canon or Standard whenever they choose to invoke it, simply by "discovering" a common law duty which exists independently of but ranges superior to, the Code and Rules.

The Court reviewed the precedent which gave rise to civil liability for an attorney's breach of duty to his or her client at common law, and further provided that equitable relief was also available.[81] *No abuse of discretion was found in the trial court's granting of the motion and entering the injunction.*

Turning then to Peppers' main argument against the imposition of the injunction, the Court stated that:

> *Pepper and Messina argue that a preliminary injunction was an abuse of discretion where it restrains them from representing a former client's competitors, in order to supply the former client with a "sense of security" that they will not reveal confidences to those competitors where there has been no revelation or threat of revelations up to that point. We disagree. Whether a fiduciary can later represent competitors or whether a law firm can later represent competitors of its former client is a matter that must be decided from case to case and depends on a number of factors. One factor is the extent to which the fiduciary was involved in its former client's affairs. The greater the involvement, the greater the danger that confidences (where such exist) will be revealed.* Here, Pepper and Messina's

> involvement was extensive as was their knowledge of sensitive information provided to them by Maritrans. *We do not wish to establish a blanket rule that a law firm may not later represent the economic competitor of a former client in matters in which the former client is not also a party to a law suit. But situations may well exist where the danger of revelation of the confidences of a former client is so great that injunctive relief is warranted. This is one of those situations.* There is a substantial relationship here between Pepper and Messina's former representation of Maritrans and their current representation of Maritrans' competitors such that the injunctive relief granted here was justified.[82]

The general rule, now effected in Model Rule 1.9, (a) & (c), is that a lawyer may represent competitors of a former client, even on the same type of matters as were involved in the former representation, so long as the attorney neither reveals nor uses the former client's confidential information. *Maritrans* is plainly stating an exception of, potentially, enough breadth to swallow up the rule itself. In view of *IBM*, the Third Circuit, particularly Pennsylvania, continues to be a strict environment for simultaneous representation conflicts.

C. Mechanics of Disqualification

The motion to disqualify carries with it certain peculiarities of procedure and substance.

1. Need for Hearing; Burden of Proof

In certain circuits, a factual dispute, in the context of a disqualification motion, must be resolved via an evidentiary hearing, unless the parties agree to handle the matter on submission.[83]

The burden, on a motion to disqualify, is upon the moving party.[84] In certain circuits, a "tie goes to the runner" rule is in place, to the effect that "any doubt is to be resolved in favor of disqualification",[85] which aids in carrying the burden. The burden of proof on a party attempting to disqualify his opponent's trial counsel may prove quite high.[86]

2. Who Can Bring A Disqualification Motion?

One would expect that only the party litigant whose present or former counsel has apparently transgressed the ethical bounds, could move for counsel's disqualification.

O'Malley et al.,[87] posed a scenario which might lead to a different belief. The scenario was stated thusly:

> Corporation A, a long-time client of your firm, engages in a stock purchase transaction with Corporation B. In the transaction, Corporation A purchases the stock of C, formerly a wholly-owned subsidiary of B. The sale price was based in part upon a report by Corporation B's investment banker D, also a client of your firm (on matters not related to this transaction). A now asks you to sue B on the theory that B failed to disclose certain material facts, which would have decreased the price of the stock, if disclosed. A tells you that it believes investment banker D (your client on other matters) was duped by B's misrepresentation, just as A was, and A does not intend to name D as a defendant. However, A intends to accuse D of stupidly letting itself be used by B as a pawn in B's scheme.
>
> The issue is whether your anticipated allegation that your current client, D, who is not a party to this suit and who has not sought your disqualification, was duped and used as an instrument of B's fraud can be the basis of a motion by B's counsel to disqualify you.[88]

The answer? As stated by O'Malley et al., it may be:

> In *In Re Appeal of Infotechnology, Inc. Shareholder Litigation*, 582 A.2d 215 (Del. 1990), the Delaware Supreme Court, reversing the trial court, held that a non-client had no standing to raise a conflict of interest, absent a showing that the judicial proceedings had been somehow tainted by the lawyer's conduct. In *Telesat Cablevision, Inc. v. Opryland USA, Inc., No. 90-137-CIV-ORL-19 (M.D. Fla. 1990)(unreported opinion), the court disqualified counsel due to a conflict of interest with a third party, thus inferentially recognizing the right of a non-client (the defendant in the litigation) to raise a disqualification issue.*
>
> *These cases continue the long-standing split among the courts on this issue. A*

number of courts have allowed non-clients to raise conflict of interest issues. See, e.g. Kevlik v. Goldstein, 724 F.2d 844 (1st Cir. 1984); U.S. v. Clarkson, 567 F.2d 270, 271 n.1, (4th Cir. 1977); Brown & Williamson Tobacco Corp. v. Daniel International Corp., 563 F.2d 671 (5th Cir. 1977); In Re Gopman, 531 F.2d 262, 265 (5th Cir. 1976). Courts taking this position have often reasoned that a lawyer has an obligation to bring violations of the ethics rules to the court's attention. That argument was accepted by the trial court in In Re Infotechnology, but rejected by the Delaware Supreme Court.

Other courts have disagreed, holding that only a client has standing to raise a conflict of interest on the part of its counsel or former counsel. See, e.g., In Re Yarn Processing Patent Validity Litigation, 530 F.2d 83, 88-90 (5th Cir. 1976); Loew v. Graves, 404 So.2d 652, 653 (Ala. 1981); Fisher Studio v. Loew's Inc., 232 F.2d 199, 204 (2d Cir. 1956); E.F. Hutton & Co. v. Brown, 305 F. Supp. 371, 377 (S.D. Tex. 1969).[89]

O'Malley et al., in view of the split of authority, advised that:

Perhaps the most important lesson from Infotechnology and Telesat is that all parties to a transaction having interests adverse to your client should, to the extent feasible, be put into your conflict of interest database, for purposes of conflict analysis (there is also an obvious client relations issue in these situations). It is always possible that the non-party client will seek to intervene and object to your representation. See, e.g., Estates Theatres, Inc. v. Columbia Pictures, Inc., 345 F. Supp. 93 (S.D.N.Y. 1972). Proper analysis of the potential conflict begins with identification of the potential conflict.

Restatement § 201, Comment e(ii), contains a balanced analysis of this general issue:

> The costs associated with disqualification require that standing to seek disqualification ordinarily be limited to present or former clients who would be adversely affected by the continued representation. Such present or former clients have standing *whether or not they are parties to the present litigation*, but tribunals should not ordinarily permit parties who are not directly affected to act as volunteers to protect the putative interests of an absent client. Concern about the fairness of the processes of tribunals, however, may require that tribunals in some cases raise conflicts issues on their own motion or permit a party who otherwise lacks standing to raise the issue. (Emphasis added.)[90]

3. Waiver, Effect of Delay, Consent

a. Waiver, Delay

Conflicts of interest may be waived or consented to, Judge Clark explained, in *Black v. State of Missouri*:[91]

> A waiver of conflict of interest or consent to adverse representation might be accomplished through the use of a letter of consent or some similar document, but a documentary manifestation of consent is not necessary. The courts have recognized that consent may be implicit in the client's failure to object to his former attorney's representation of his current opponent. . . . As the Ninth Circuit has noted "[w]aiver refers to the voluntary or intentional relinquishment of a known right" and "emphasizes the mental attitude of the actor". . . . Conduct is often the most reliable manifestation of that mental attitude.[92]

Delay in bringing on a motion to disqualify risks a finding of waiver.[93] Action inconsistent with seeking disqualification will also support a contention of waiver.

Waiting too long led to the denial of a motion to disqualify in *Eli Lilly and Company v. Genentech, Inc*,[94] Lilly and Genentech had entered into a contract

regarding the synthetic production of human insulin in 1978 (the "Insulin Agreement"). Dr. Buting, then a Lilly patent lawyer, negotiated the agreement for Lilly. A controversy, and a contract action was filed over activities allowable under the agreement later arose. Also, Lilly and Genentech were embroiled in a related patent infringement case, where Lilly sought a declaratory judgment that several Genentech patents were invalid and noninfringed. Dr. Buting had prosecuted and/or assisted in the prosecution of the involved patents.

Dr. Buting, who served as a Lilly patent lawyer from 1965 through 1984, accepted a position as Chief Patent Counsel of Genentech on February 24, 1984. While realizing that "potential conflicts" of interest were inevitable in his new employment, the only constraint Lilly placed on Buting's future employment was that he carefully examine "where he got what and of the line between Lilly trade secrets and other confidential information. . . ."[95/]

After Buting joined Genentech, the court found that Lilly officials were aware that he was engaged in activity substantially similar to his former duties at Lilly which was potentially adverse to Lilly. In fact, Lilly contacted Buting directly as Genentech's legal representative on at least two occasions regarding such activity. Lilly contacted Buting in 1985 to resolve questions of interpretation under the 1978 Insulin Agreement. In 1986, Lilly officials again contacted Buting to inform him that Lilly had moved to revoke Genentech DNA patents in the United Kingdom (U.K.) which were parallel to the patents-in-suit. Buting told Lilly's counsel that he assumed Lilly would have no objection to his participation in the U.K. revocation proceedings. Lilly did not dispute Buting's recollection, but claims that it only agreed that Buting could play a "peripheral" role in the U.K. proceedings.

Lilly asserted that Buting breached duties that he owed to it under the rules of professional responsibility through his legal work for Genentech. As a result, Lilly demanded that Buting, Genentech's in-house legal counsel and outside litigation counsel be disqualified from representing Genentech in the co-pending cases. Genentech responded by claiming that Lilly breached Rule 11, F.R.Civ.P. by filing its disqualification motion.[96/]

The rule in issue was Indiana Rules of Professional Conduct Rule 1.9, which provided that:

> A lawyer who has formerly represented a client in a matter shall not thereafter: (a) represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless

> the former client consents after consultation; or (b) use information relating to the representation to the disadvantage of the former client except as Rule 1.6 would permit with respect to a client or when the information has become generally known.

The Court denied the motion, on the ground of waiver - that Lilly, the former client, was aware of its attorney's representation of an adversary, but had failed to raise its objection promptly.[97] The exhibits offered by the parties demonstrated to the court that Lilly had consented and acquiesced to Dr. Buting's potential adverse activity on Genentech's behalf - both in prosecuting the Genentech patents-in-suit and in monitoring the 1978 Insulin Agreement:

> Although it realized potential conflicts of interest were inevitable, the only constraint Lilly placed on Buting when he left its employ was that he refrain from disclosing Lilly confidential information. Under these facts, Lilly waived its right to raise disqualification because it knowingly failed to make a prompt objection to Buting's activities on behalf of Genentech.[98]

Lilly argued that the precedent relied upon by the court in support of its findings of acquiescence and waiver was inapplicable because the parties were *not* on the eve of trial. The court disagreed:

> Lilly's rejoinder is not persuasive for two reasons. First, as Genentech correctly notes, proximity of the trial to the disqualification motion is only one of several factors taken into account in the above cited caselaw. Second, considering the fact that a trial date has not yet been set in the co-pending cases against Genentech would elevate form over substance because Genentech has already invested approximately $5 million in its present counsel. *Central Milk Producers Co-op*, 573 F.2d at 992 (A disqualification motion should not be allowed "to deprive [an] opponent of counsel of his choice after substantial preparation has been completed"); *Accord Jackson*, 521 F.Supp. at 1034-35. Since disqualification motions sound in equity, the Court may weigh the hardship which would

be imposed on Genentech if the motion were granted given the substantial preparation already completed by its counsel.[99]

The court was also not taken with Lilly's attempt to support its disqualification motion by using *ex parte* "evidence":

> Lilly has also filed a motion asking the Court to review *in camera* "confidential exhibits" submitted in support of its reply brief on the disqualification issue. Because most of these exhibits were not submitted to opposing counsel for their review and reply, the Court has not considered them in ruling on Lilly's disqualification motion. Accordingly, Lilly's motion for *in camera* review of *ex parte* exhibits and Genentech's motion to strike the same are both rendered moot. *Briscoe v. Kusper*, 435 F.2d 1046, 1057 (7th Cir. 1970) (Reliance upon *ex parte* evidence considered *in camera* is "fundamentally inimical to due process." Preventing copying and inspection of such documents "severely curtailed [the opposing party's] ability to ascertain the exact claims at issue and their opportunity to respond to those claims.") (Cummings, J.).[100]

As a matter of fact, Judge Dillin also found that Dr. Buting had not been shown to have represented or advised Genentech with respect to the co-pending lawsuits in any substantive way, except as a potential fact witness regarding the patent prosecution he had done for Genentech. In aid of that finding, the court made particularly mention of the fact that Genentech, as a matter of precaution in the litigations, had screened Dr. Buting from participation, to insure that no Lilly confidential information was disclosed (17 USPQ2d at 1536). It ordered, however, that Genentech continue to screen Dr. Buting from any litigation role as part of its holding that disqualification under Rule 1.9(b) was also improper.

The Court then turned to Genentech's Rule 11 charges. Judge Dillin was less than pleased with what he read, and made no bones about letting his displeasure be known:

> In their Rule 11 papers, the parties have largely bypassed any discussion of whether Lilly conducted a reasonable prefiling inquiry into the law and the facts which may have supported its

disqualification motion. Accordingly, the Court is unable to find that Lilly is liable for Rule 11 sanctions under the "frivolousness clause".

Instead of focusing on whether Lilly's prefiling activities met the standards set by Rule 11, both parties have used their Rule 11 papers to reargue their respective positions on the disqualification issue. *In short, in the Rule 11 papers each party accuses the other of seeking to mislead this Court by "cropping" quotations from key exhibits and otherwise "distorting" the evidence in their disqualification briefs.* Apparently, Genentech repeats its litany of Lilly's alleged "distortions" as a means of showing that Lilly filed its disqualification motion purely for tactical reasons in violation of the "improper purpose clause" of Rule 11.

Genentech's argument is unavailing. Lilly did not use "half truths and direct misstatements of fact" in an effort to "trick and mislead this Court" as Genentech alleges, citing *Dreamlite Holdings Ltd. v. Kraser*, 890 F.2d 1147, 1149 [13 USPQ2d 1076] (Fed. Cir. 1989). *Instead, in the disqualification briefs both parties emphasized those portions of relevant documents which supported their respective positions while either ignoring or seeking to minimize the importance of those documents on which opposing counsel relied. In this process, both parties sought to "put a spin" on the evidence in their favor.*

While this selective quotation of documents - coupled with the repeated criticism of opposing counsel's similar technique - *is rather annoying*, it does not rise to the level of a Rule 11 violation. *Although Rule 11 clearly prohibits the misrepresentation of facts by counsel, Frazier v. Cast*, 771 F.2d 259 (7th Cir. 1985), *it is not meant to suppress this form of zealous, albeit occasionally misguided, advocacy. FDIC v. Tekfen*, 847 F.2d 440, 444 (7th Cir. 1988). For these reasons, the Court is unable to find that Lilly is liable for Rule

11 sanctions under the "improper purpose clause".[101]

The tolerance for selective quotation displayed by the court should in regard to evidence documents be contrasted with the Federal Circuits' views regarding "clipping" quotations from case precedent cited to support a parties' contentions in briefing.

b. Consent

Waivers often prove to be difficult or impossible to secure, once the blood is up amongst the various lawyers, clients and other players. As a result, the securing of advance consent - blanket consent - should be considered to avoid foreseeable conflict problems.

O'Malley *et al.*,[102] discussed in some detail the concept surrounding advance consent to simultaneous adverse representation on an unrelated matter. First, they set the "scenario" for consideration:

> A prospective new client is a relatively large organization (e.g., a city or country government or multi-national corporation) of a kind that is likely, if not certain, to create a future conflict with other existing or prospective clients. The new matter appears to be a one-shot job without much prospect of developing an ongoing relationship. A variation on this is that, as an accommodation to an important existing client, a firm is asked to represent in a matter one or more other large organizations who have essentially the same interests in that matter as the firm's existing client. If, as a condition to undertaking the representation, the law firm requests, and the new client agrees, *in advance* to simultaneous adverse representation by the firm at a later date on unrelated matters, is that relatively broad form of advance consent enforceable?[103]

O'Malley *et al.* maintain that the following provision in an engagement letter should be effective to grant advance consent:

> As we have discussed, you are aware that we are a relatively large law firm, and that we represent many other companies and individuals. It is possible that some of

> our present or future clients will have disputes with [name of this client] during the time that we are representing [name of this client]. Therefore, as a condition to our undertaking this matter for you, you have agreed that this firm may continue to represent or may undertake in the future to represent existing or new clients in any matter that is not substantially related to our work for [name of this client], even if the interests of such clients in those other matters are directly adverse to [name of this client]. We agree, however, that your prospective consent to conflicting representation contained in the preceding sentence shall not apply in any instance where as the result of our representation of [name of this client] we have obtained sensitive, proprietary or other confidential information of a non-public nature that, if known to any such other client of ours, could be used in any such other matter by such client to the material disadvantage of [name of this client].[104]

A contrary view as to the enforceability of such advance consents is expressed in 4 Geo. Jour. of L. Ethics, 273, 306 (1990).

Key to the viability of advance consent is that the matters must truly be unrelated one to the other, *and* that no confidential information has come across in matter A that could be used to the client's detriment in unrelated matter B.

O'Malley *et al.* make that point, and state what they believe to be inherent limitations on the concept, in closing their discussion of the point:

> Certainly, if the client who gives such consent is a large organization advised on this issue by its own inside counsel (as would normally be the case), in most instances there should be little question about the validity of such consent, provided the subsequent adverse matter is in fact not substantially related and there is no danger of misuse of the first client's confidential information. Nevertheless, *such advance consent probably should not be relied upon in the subsequent adverse matter if* (i) the law firm is alleging fraudulent or criminal conduct or similar egregious

> wrongdoing on the part of the management of the existing client, or (ii) the personnel of the client with whom the firm is dealing on the first matter would also necessarily be involved adverse to the firm in the second matter (e.g., the first matter and the second matter are both of such importance that the general counsel of the organization is personally and frequently involved in both matters). *A lawyer cannot act on Monday as the loyal legal advisor to the company's general counsel, then reappear on Tuesday as that general counsel's table-pounding adversary.*[105]

With both advance consent and waiver, the second client's consent must be obtained as well (*see, e.g.*, Model Rule 1.7(b)) -- and that client may be unwilling to be represented by a lawyer who simultaneously represents its opponent, even in a substantially unrelated matter.

V. FEDERAL CIRCUIT AND OTHER ILLUSTRATIVE INTELLECTUAL PROPERTY-BASED DISQUALIFICATION DECISIONS

Intellectual property matters, particularly patent litigation, tend to present the same basic issues where attorney disqualification questions are presented. This precedent is invaluable as both guideline and source for extension/expansion of the law in this area.

A. Attorney Witness

One frequently invoked area for disqualification under the Code of Professional Responsibility or the Model Rules of Professional Conduct in patent litigation is the attorney witness rule, which may be available when the patentee's trial counsel prosecuted the patent application for the patent-in-suit or, possibly, rendered an opinion as to the validity and enforceability of that patent.[106]

Two major subcategories of action presented under this rule are thus cases where an inequitable conduct defense is advanced, and cases where trial counsel prosecuted the patent in suit.

1. Inequitable Conduct Defenses

If a defense of unenforceability for inequitable conduct and/or violation of the (statutory) duty of disclosure is raised, or if a defense or counterclaim based upon allegations of bad faith litigation or violation of the

antitrust laws is raised, disqualification may be possible under DR 5-102(A) and (B).[107]

An instructive case on this issue is *Connell v. Clairol, Inc.*[108] In that case, the accused infringer filed a motion to disqualify two of plaintiff's counsel in a patent infringement action. Although the court did not fully describe the scope of the prospective testimony, it was apparent that one of the counsel would be called by the accused infringer to testify concerning an allegation of inequitable conduct during the pendency of the patent application for failure to disclose relevant prior art. The court held that this attorney's disqualification was "clearly required" under DR 5-102(B) because the defendant had a "legitimate need for the testimony of [the attorney]" and because the inequitable conduct defense, if viable, would render the patent unenforceable. To avoid the over-use of such a device as a "purely tactical" maneuver, the court cautioned that, before ordering disqualification, any court "should determine whether counsel's testimony is, in fact, *genuinely needed*."[109] Under the facts of the case, the declaration by the accused infringer to the effect that it intended to call opposing counsel on the inequitable conduct defense, established to the court's satisfaction a genuine need for his testimony. Finally, the court noted that because the attorney was sought as a witness for the accused infringer, his withdrawal from representation might also be required under DR 5-102(A) as well, because of the likely need by the plaintiff to call upon him as a rebuttal witness.

Under the standard employed in *Connell v. Clairol*, it appears that minimal requirements of a good faith allegation of inequitable conduct accompanied by an affidavit or declaration stating an intent to call that counsel as a witness on that issue are sufficient to meet the "genuine need" standard enunciated in that case. One might question whether more should be required.

A second particularly instructive case on this issue is *Nintendo of America, Inc. v. Magnavox Co.*[110]

Apparently, a motion was filed to disqualify Magnavox's counsel, the Neuman, Williams firm, based in part upon the presence of a charge of inequitable conduct in the procurement of the two patents (the '507 and '305 reissue patents) which were the subject of Nintendo's declaratory judgment action seeking a declaration of invalidity and noninfringement. The Neuman, Williams firm had procured the '507 reissue patent, and had represented Magnavox in all litigation concerning the patent.

To consider the disqualification, the Court elected to bifurcate the action for purposes of trial and first hold a

hearing on the threshold issue of whether the '507 and '305 patents were unenforceable because of the alleged inequitable conduct by Magnavox during the patent application process.[111] Judge Sand, after stating the applicable law of inequitable conduct,[112] exhaustively reviewed the evidence, which included testimony from Williams, one of the Neuman, Williams attorneys who allegedly had knowledge of a prior art game, Space War, which had not been cited to the Office during the prosecution of the '507 patent.[113] The Court found the withheld Space War game to have been material to the Office's consideration of the '507 reissue application, but, relying upon Williams' testimony, found that knowledge of the materiality of that prior art was lacking.[114]

The Court reached an identical conclusion with respect to the '305 patent.[115] No inequitable conduct having been found, the issue underpinning the disqualification motion was moot. Dismissal of the motion to disqualify resulted.[116]

To reach that result, the Neuman, Williams firm had represented Magnavox throughout the inequitable conduct hearing, with Williams being examined by one of his partners. The inequitable conduct bifurcation resulted in the issue being heard solely by the trial judge, which obviated the usual concerns of jury confusion and/or prejudice which form the theoretical basis behind the attorney-witness rule. *Nintendo* demonstrates how tactics may overcome, "fair and square", alleged ethical problems.

The lawyer-witness rule was effective to secure disqualification in *Summagraphics Corp. v. Sanders Associates, Inc.*[117] Summagraphics had sued Sanders for patent infringement, whereupon Sanders sued Summagraphics in Massachusetts for infringement of a Sanders patent. The Massachusetts case was transferred to Connecticut. After what was apparently a successful motion for recusal by the original trial judge, Judge Eginton, the case was transferred to Judge Dorsey. The motion to disqualify was filed about fifteen (15) months after the Connecticut suit had been filed by Summagraphics.

The court succinctly set the procedural and substantive issues:

> On September 1, 1989, Summagraphics moved, pursuant to Rule. 3.7(a) of the Rules of Professional Conduct and Rule 33(b) of the Local Rules to disqualify Nutter, McClennan & Fish ("Nutter") as trial counsel on the basis that *Sanders' in-house counsel, William Porter, and two attorneys from Nutter, Thomas O'Konski ("O'Konski") and William Cammett ("Cammett"), allegedly*

> committed inequitable acts in connection with the prosecution of the applications for reissue and reexamination of the Rodgers Patent and were likely to be called as witnesses regarding Summagraphics' affirmative defense of patent unenforceability. Judge Eginton denied the motion "with leave to renew if any counsel will be called as a material witness at trial." Order dated September 11, 1989. Summagraphics has renewed its motion to disqualify Cesari & McKenna as trial counsel. Sanders opposes the renewed motion and cross-moves for a separate trial of any instances of inequitable conduct to be held immediately after the jury trial on liability and damages. For the reasons stated below, the motion to disqualify is granted and the cross-motion to bifurcate is denied.[118]

Local Rule 33(b)(2) was substantially identical to DR 5-102(B), ABA Code of Professional Responsibility. It applies, said the court, where a lawyer's testimony would contradict or undermine his client's position. Summagraphics contended that that would result when it called O'Konski at trial, in support of its claim that the Rodgers patent-in-suit was invalid, because O'Konski acted inequitably in the prosecution of a reissue application and a request for reexamination.[119]

But these motions are rigorously reviewed, as Judge Dorsey pointed out:

> Motions for disqualification of counsel under DR 5-102(B) are subject to strict scrutiny so as not to be used as a litigation tactic of delaying trial or depriving parties of their choice of counsel . . . . Because of the potential for abuse, courts have applied a "restrained approach" and have required more than a showing that the testimony is relevant, material and necessary . . . . Counsel's testimony must be prejudicial to his client. Rice v. Baron, 456 F.Supp. 1361, 1371 (S.D.N.Y. 1978). Prejudicial within the disciplinary rule means that:
>
> > 'the projected testimony of a lawyer or firm member must be sufficiently adverse to the factual assertions or account of events offered

> on behalf of the client, such that the bar or the client might have an interest in the lawyer's independence in discrediting that testimony. Furthermore the moving party bears the burden of demonstrating specifically how and as to what issues in the case the prejudice may occur and that the likelihood of prejudice occurring is substantial.'
>
> *Lamborn [v. Dittmer]*, 873 F.2d at 522, 531 (2d Cir. 1989) quoting *Rice*, 456 F.Supp. at 1371.

Attacking the facts, the Court found that O'Konski's testimony would fall afoul of the rule:

> As counsel responsible, in part, for the filing of the application for reissue and request for reexamination, *O'Konski participated in the decision-making process regarding the prosecution of the Rodgers Patent and this litigation.* It is reasonable to conclude that he was intimately involved in the events relevant to this litigation. *Summagraphics*, however, *must show that O'Konski's testimony would be prejudicial to Sanders.*
>
> Summagraphics alleges that *O'Konski made representations of fact in the reexamination request which directly conflict with representations made in his 1986 opinion letters and constitute misrepresentations.* Specifically, Summagraphics contends that in his opinion letters to Sanders, dated December 2, 1986 and December 13, 1986, O'Konski [made certain misrepresentations, in view of advice contained in the letters regarding the Anderson prior art patent].
>
> Consistent with this advice, Sanders filed a reissue application, prepared in part by O'Konski. On December 22, 1988, Sanders abandoned the reissue application and simultaneously filed a request for reexamination.
>
> In its request for reexamination, also prepared by O'Konski and Cammett, Sanders argued that claims 1-6 and 11-13, previously

found to read on the Anderson patent, were valid over Anderson. . . .

> Consistent with Sanders' explanation in the request for reexamination, *O'Konski has testified that by 1988 he had changed his opinion of 1986 and that he believed Rodgers was valid over Anderson.* In explaining the inconsistency between his opinion in 1986 and 1988, O'Konski testified that in 1986 he was asked by Sanders' in-house counsel to give a conservative opinion regarding validity and infringement of the Rodgers and Anderson patents. . . .
>
> *Contrary to Sanders' contention, this proposed testimony, as well as other evidence, is prejudicial to Sanders.* While O'Konski has attempted to reconcile the conflict, *the opinions are nonetheless inconsistent and antagonistic to Sanders' claims and defenses.* . . .
>
> Counsel's roles as advocate and witness create the possibility that the jury will blur the two and view arguments as testimony or, because of his participation as counsel, give greater credence to his testimony. . . . Finally, the hardship on Sanders of securing substitute counsel is reduced by the fact that it was aware of the possibility of disqualification in September of 1989, when the original motion was filed, if not from the inception of the litigation, when it, knowing of the two opinions, relied on the same counsel to prosecute the patent and litigate those lawsuit.[120/]

Apparently having read or "heard" about the way counsel in *Magnavox* lodged the same silver bullet, Sanders attempted to avoid disqualification by seeking to bifurcate the case. The court bluntly refused to do so:

> Nor can Sanders avoid disqualification by seeking to bifurcate the trial, pursuant to Rule 42(b), Fed.R.Civ.P. *The issue of inequitable conduct is so intertwined with the other legal issues in the case, that separate trials would result in duplicative litigation and would not eliminate the potential prejudice claimed by Sanders.* As Judge Eginton noted, in denying Sanders previous motion for a separate and early trial of the inequitable conduct issues:

> [i]n this action, the court finds that common to both defendant's legal defense of patent invalidity and defense of inequitable conduct are the factual issues underlying anticipation and obviousness.
>
> Ruling dated June 5, 1989 at 2. He further concluded that those factual issues had to be tried first to the jury before the trial on the inequitable conduct. *Id.* Thus, *the evidence of inequitable conduct is inextricably tied to other claims and defenses in the case and may be admissible in the main trial.* A separate trial of the inequitable conduct defense would result in undue delay, confusion, and needless duplication of judicial efforts rather than serve judicial economy and minimize litigation costs. . . .[121]

With the continued viability of the inequitable conduct/violation of the (statutory) duty of disclosure defense, involvement in patent prosecution of the case in suit will continue to present substantial disqualification risk to trial counsel from that quarter.[122]

2. Prosecution Of The Patent In Suit

The Federal Circuit addressed the effect of having previously prosecuted the patent in question to allowance in *Sun Studs, Inc. v. Applied Theory Associates, Inc.*,[123] and *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*[124]

In *Sun Studs*, the respective parties moved to disqualify each other's trial counsel - and the trial court granted both motions, although it allowed each of the disqualified firms to represent their clients in the appeals.[125]

The action which Sun Studs filed against ATA included a charge of infringement of three patents: U.S. Patent No. 3,736,968 to Mason and Sohn (the "'968 patent"); U.S. Patent No. 3,746,065 to Mason (the "'065 patent"); U.S. Patent No. 3,852,579 to Sohn, Hunter, and Holmes (the "'579 patent"), and breach of an agreement dated May 21, 1971 between Sun Studs and Applied Theory Associates, Inc. ("ATA").

H. C. Mason & Associates, Inc. ("HCMA") was hired by Sun Studs to help design an automated sawmill. During the course of that work, HCMA's principal, Howard C. Mason, and Fred Sohn (owner of Sun Studs) made the invention of the '968

patent. Mason was a client of the Kolisch firm. In 1970, Thomson, then an associate in the Kolisch firm, prepared and filed in the Office the patent application, for Mason, naming Mason as sole inventor which resulted in the '968 patent. Upon learning of the preparation of the application, Sun Studs asserted its right to an assignment and to control prosecution of the application. The rights in the application were assigned to Sun Studs before the Office took any action, and prosecution of the application was taken over by Sun Studs' patent counsel, Chernoff. Inventorship was eventually corrected to include Sohn as a joint inventor. Thus, the Kolisch firm prepared and filed the patent application while the Chernoff firm prosecuted the application to issuance.

Mason made the invention of the '065 patent during the course of his work at HCMA for Sun Studs. The application which matured into the '065 patent was prepared, filed in 1971, and prosecuted through issuance by Thomson of the Kolisch firm on behalf of Mason. Several years after issuance, the '065 patent was assigned to Sun Studs.

The subject matter of the '579 patent arose from consulting work done by Hunter (president of ATA) for Sun Studs. Sun Studs had engaged Hunter in 1971 to develop computer-controlled sawmill equipment. ATA retained Holmes as a consultant to assist it on the Sun Studs project.

Sun Studs requested Chernoff to draw up agreements with ATA and other independent contractors to protect Sun Studs' interests in the inventions and confidential information arising from these projects. Chernoff met with Sohn and Hunter to that end in February 1971. The business arrangement that was worked out at the meeting was that Sun Studs would pay for and become the sole owner of any invention and patent which might issue as a result of the development work, and ATA and Holmes would receive 50 percent of any royalties paid by licensees to Sun Studs. It was also ATA's understanding that if Sun Studs failed to commercially exploit the invention, ATA had a reversionary interest in any patent which issued. Sohn suggested to Hunter that the understanding reached between Sun Studs and ATA be set forth in a written agreement to be prepared by Chernoff. Hunter agreed. Chernoff prepared a draft agreement which did not contain a clause giving ATA a reversionary interest. Hunter refused to sign the agreement. Chernoff revised the agreement to include a reversionary interest clause and on May 21, 1971 the parties executed the agreement, Hunter for ATA, and Sohn for Sun Studs.

The agreement contained an invention rights clause under which title to all domestic and foreign patents on inventions arising out of the consulting work under the contract would be assigned to Sun Studs. ATA also agreed to disclose such inventions to Sun Studs and to fully assist Sun

Studs in obtaining patents for Sun Studs' exclusive benefit. It was under this agreement that the invention of the '579 patent was developed.

Although Hunter knew that Chernoff was Sun Studs' patent attorney, and Chernoff did not bill ATA for his services, Hunter said it was his belief that Chernoff was representing both parties. According to Hunter, Chernoff never suggested to Hunter that Chernoff was solely representing Sun Studs or that ATA should have its own counsel to protect its interests. Chernoff said that he believed that he was acting solely on behalf of Sun Studs and that neither Sohn nor Hunter requested that he act on behalf of ATA or Hunter. While Hunter did not bring an attorney with him to the meeting, Chernoff understood that Hunter and ATA were represented by a general attorney named Mix, and that Hunter had simply elected not to have Mix present.

The patent application which resulted in the '579 patent was prepared and prosecuted by the Chernoff firm. The named inventors were Sohn of Sun Studs, as well as Hunter and Holmes. The inventors executed the oath as inventors which included an appointment of Chernoff and members of his firm as: "our attorneys, jointly and individually, to prosecute this application and to transact all business in the Patent Office connected therewith." During the course of the prosecution, Chernoff consulted with Hunter concerning the technical aspects of the case. In response to a rejection of the claims based on prior art, Chernoff made certain representations to the PTO to distinguish the invention sought to be patented from the prior art. Thereafter, the claims of the patent application were allowed.[126]

As noted, the trial court granted both motions to disqualify. On the disqualification of the Kolisch firm, the trial court said that at all material times, Mason was the client of the Kolisch firm. Although Mason said he did not object to Kolisch representing ATA, and ATA said it would not attack the validity of the '968 and '065 patents on 35 U.S.C. § 112 grounds (disclosure requirement and failure to point out and distinctly claim), the trial court said the ethical problems of the case were not thereby solved. The problem perceived by the trial court was that the Kolisch firm, who prosecuted the application which matured into the '065 patent, would now be arguing to a jury that the patent was invalid for obviousness. The court concluded:

> While the Kolisch firm is not taking a position which is adverse to a former client, *it is taking a position which is totally contrary to the work it performed for its former client. It is now questioning the validity of one of the*

> *patents it helped create.* I find that the impropriety of its continued representation of ATA is such that disqualification is warranted.[127]

As for the Chernoff firm, the trial court said:

> Whether or not Chernoff represented ATA and Hunter in 1971 is disputed. The best that can be said is that an 'inherent ambiguity' exists as to whether he acted solely on behalf of Sun Studs. . . . Because of this ambiguity, I find that Chernoff should not represent Sun Studs on its breach of contract claim against ATA. (Citation omitted.)
>
> This same ambiguity exists regarding the patent claim. Although Chernoff argues he did not represent Hunter and ATA, it is undisputed that Hunter signed a power of attorney appointing Chernoff to prosecute the patent for him. It is also undisputed that Chernoff made certain statements to the Patent Office that he must now disavow or distinguish in order to prove ATA has infringed the '579 patent. The appearance of impropriety is as strong here as it is in the case of the Kolisch firm."[128]

Turning first to the question of disqualification of the Kolisch firm, the Court had little problem in agreeing with the trial court that disqualification was well within its discretion:

> The crux of the problem regarding the Kolisch firm's representation of ATA/ATI in the present litigation is that the Kolisch firm prosecuted the '065 patent application to issuance. *The Kolisch firm now wishes, however, to argue to a jury that the '065 patent is invalid for anticipation or obviousness.* . . .
>
> On the merits, ATA/ATI assert that the Kolisch firm was erroneously disqualified because "it is well recognized that attorneys frequently take positions contrary to their former clients." ATA/ATI also contend that representation by the Kolisch firm does not give the appearance of impropriety. . . .

> Mason had no independent right to inventions or to prosecute patent applications which he acknowledged were equitably owned by Sun Studs. While no Oregon precedent can be found on the point, *we do not believe any court would hold that it is within the bounds of propriety to permit a law firm to assist a client in obtaining a patent which was equitably owned by another and then to lead the attack against the patent's validity once it is transferred to its rightful owner. Accord, Hooper v. Steelplank Corp.*, 215 U.S.P.Q. 829 (E.D. Mich. 1981). While the Kolisch firm is not taking a position adverse to Mason's present interest, *any attack on the patent is totally contrary to its work for Mason as an inventor which at the time inured to Sun Studs' benefit.* Contrary to the argument by Kolisch, this situation is not comparable to advancing a legal theory for one client and taking a contrary position for another in unrelated proceedings. The substantial relationship between the prior work and the instant proceedings is admitted. Thus, whether it is theorized that Mason and his counsel must be considered to have been acting for Sun Studs or that public perception of the legal system would be damaged, the impropriety is clear.[129]

The Court's refusal to allow the side-switching where a jury was involved was not surprising.

The Court did not concur in the disqualification of Chernoff firm on the basis of Canon 9's appearance of impropriety, but had to reach far to support its view:

> We conclude that there was no sound basis for the district court to disqualify the Chernoff firm. Neither Hunter nor ATA could have reasonably expected, from Chernoff's conduct during the negotiations or from Hunter's power of attorney, that Chernoff was acting in such a relationship with them that he would subsequently be precluded from representing Sun Studs' interests with regard to the assignment of rights (the invention rights agreement) and the '579 patent. Since we have been unable to find controlling Ninth Circuit precedent on the specific "relationship" issues raised

by Chernoff's representation, we look to more general principles which are consistent with Ninth Circuit law.[130]

It was the position taken when these "general principles" were considered that is of some question, particularly the starting contention that the relationship between an inventor and his assignee's patent counsel is *not* an attorney-client relationship:[131]

> General principles of agency law indicate that a power of attorney does not ipso facto create an attorney-client relationship. For example, one who grants a power of attorney for the benefit of a third person does not create an attorney-client relationship between the grantor and the attorney. . . .
>
> The relationship between inventor and his assignee's patent counsel who is appointed to prosecute the patent application must be considered in conjunction with the patent laws governing the acquisition and assignment of rights to inventions.
>
> An inventor, who is hired or employed by a company, and who develops an invention in the course of his work which he has agreed to assign to the company, is required to execute whatever papers are necessary for the company's patent counsel to prosecute a patent application on behalf of the company. Thus, it is routine for an inventor to execute an application appointing the attorneys who prepared the application at the direction of the party to whom the application must be assigned and on whose behalf it will be prosecuted. The choice of attorneys, like the filing, is a decision by the assignee, not the inventor. . . .
>
> Should the company later find it necessary to sue on the patent, it is to be expected that the company would choose its regular patent counsel for representation whom the inventor designated on its behalf. Where the former relationship between the inventor and the patent counsel was solely technical in nature, and where the patent counsel in the former relationship was

> chosen by and at all times was working on behalf of the company rather than the inventor, it should not serve as automatic disqualification that the defendant is the inventor or a company with which he is associated.[132]

The Court concluded its position on the point by stating that:

> Thus, when Hunter, as a joint inventor with Sohn and Holmes, appointed the Chernoff firm to prosecute the application, he was merely fulfilling his obligation to assist Sun Studs, who had the sole right of prosecution. An appointment of Sun Studs' attorneys to prosecute on his own behalf would have been contrary to the agreement. The Chernoff firm appointment merely evidences the unequivocal understanding of the parties that Sun Studs beneficially owned the patent application which was formally transferred two days later. Thus, Sun Studs was the party who effected Chernoff's appointment, and was the only party with an attorney-client relationship with Chernoff. Hunter's power of attorney was given for the benefit of Sun Studs, not for his own or ATA's benefit.[133]

The ultimate party benefitted by the attorney-client interaction, thus was effectively construed to be the client, through careful if not tortuous weaving of a path through the technicalities of inventor/assignee practice.

And how did the Court view Chernoff's potential statements at trial concerning the '579 patent, which he would need to make to prove infringement but which would repudiate statements he had made to the PTO during prosecution? With seeming approval:

> The trial court in the present case was also influenced by the fact that "Chernoff made certain statements to the PTO [during prosecution] that he must now disavow or distinguish in order to prove ATA has infringed the '579 patent." The trial court's reference to ATA/ATI's assertion that the scope of a claim in the '579 patent is limited by prosecution history estoppel is irrelevant to the disqualification issue. That an attorney distinguishes arguments made to the PTO in a subsequent

> infringement action is clearly not improper. Chernoff's position is not contrary to Hunter's role as an inventor. On the contrary, Chernoff is seeking to uphold the interest of Hunter and the other joint inventors. The trial court therefore erred by relying on prosecution history estoppel which ATA/ATI expects to assert, as a basis for the Chernoff's firm's disqualification.[134]

Query whether the Canon 9 - style attack on the Kolisch firm should succeed, where a Canon 4 - type attack on the Chernoff firm was found to fail.

In *Telectronics*, the trial court had denied a motion to disqualify, but had certified a controlling question of law for interlocutory appeal.[135]

The dispute in question had begun in August 1983 with an International Trade Commission ("ITC") investigation denominated *In re Certain Cardiac Pacemakers and Components Thereof, ("Cardiac Pacemakers")*. Medtronic sought relief under 19 U.S.C. § 1337 for alleged infringement by Telectronics of Medtronic's four patents - the '707, '116, '355, and '242 patents.

In November 1983, Telectronics filed the declaratory judgment action at bar seeking a declaration of patent invalidity, unenforceability, and noninfringement with respect to the '707, '116, and '355 patents. Medtronic counterclaimed for infringement of those three patents and the '242 patent, and sought a declaration that the four patents were valid, infringed and enforceable. Because Medtronic put the '242 patent at issue, Telectronics filed a First Amended and Supplemental Complaint requesting that all four patents be declared invalid and unenforceable, and that Telectronics be declared not to have infringed the patents.

Medtronic moved to disqualify. It argued that Nealon and Rackman, Telectronics' counsel, had served as in-house and outside counsel respectively, for American Optical Corporation ("AO"), the original patent holder, and that they had participated in the prosecution of the '242 patent for AO. Medtronic urged that it was improper for Nealon and Rackman to challenge the validity of the '242 patent.

Medtronic claimed the status of "former client" for itself, as assignee of the '242 patent. It also claimed this for its employee, Berkovits, the inventor of the '242 patent, who was employed by AO when the patent was prosecuted. On that basis, Medtronic contended that representation of Telectronics by Rackman and Nealon was contrary to the ethical requirements

of Canons 4, 5, 7, and 9 of the Code of Professional Responsibility.

The trial court denied Medtronic's motion to disqualify, conditioned upon Telectronics' not raising an issue of fraud or misconduct regarding the prosecution of the '242 patent, and upon restricting its proof of obviousness to art discovered after the issuance of the patent.[136]

The Court, after noting that Second Circuit law controlled "this procedural question", and mandated an abuse of discretion standard of review, stepped through each of the alleged bases for disqualification raised by Medtronic, starting with Canon 4. The Court concurred in the trial court's rejection of Medtronic's claim of "former client" status as the assignee of AO, and the rejection of Medtronic's claim that the inventor Berkovits himself was a "former client" of:

> Berkovits was not the alter ego of AO. The patent was not issued to Berkovits, but to the original patentee, AO. Berkovits, as an employee of the corporation, merely assisted AO's attorneys in preparing and prosecuting the patent application, including the routine execution of a power of attorney appointing the attorneys chosen by AO. . . . Any confidences imparted to AO's attorneys were shielded solely by AO's attorney-client privilege, which was waived by AO's successor, WLT. Although Berkovits stated that Rackman had free access to his files and that he considered Rackman his lawyer, the district court found that Berkovits could not have reasonably expected that any information he conveyed to Rackman would have been withheld from AO. In sum, we hold there was no abuse of discretion in the district court's conclusion that Canon 4 was not violated because no attorney-client relationship existed between Medtronic or Berkovits, and Rackman or Nealon.[137]

A stronger argument based upon the lawyer-witness concept of Canon 5 and DR 5-102(A) was also presented by Medtronic, but the Court did not accept it:

> *The district court concluded that Canon 5 was inapplicable to Nealon because he will not actually participate at trial.* The court interpreted the Code of Professional Responsibility as precluding a dual role for an attorney only when he will

testify, and is also involved in "the conduct of the trial." DR 5-102(A).

> Medtronic contends that *Rackman must be disqualified because he will be a witness* on the issue of "new prior art." Because the *issues of fraud or misconduct in the prosecution of the patent were absent from the case*, the district court determined that Rackman's necessity as a witness depended on the evidence to be considered in the factual evaluation of obviousness. After careful consideration of the nature of the evidence to be introduced on the issue of obviousness, and *because the obviousness issue relates solely to newly discovered prior art and not to whether the patents were properly procured in the first instance*, the district court found that Rackman was not an attorney who "*ought* to be called as a witness in the proceeding. . . . The phrase '*ought* to be called as a witness' has been narrowly construed to refer to an attorney 'who has crucial information in his possession which must be divulged' in the course of a trial." . . .
>
> The district court also concluded that *Rackman's testimony was not required on the infringement issue because the file wrapper contains all pertinent information required to determine the scope of the claim*. Based upon the above discussion, we hold that the district court did not abuse its discretion in concluding that disqualification of Nealon and Rackman would be inappropriate under Canon 5.[138]

An innovative claim under Canon 7 led to no greater success in regard to securing disqualification:

> Medtronic claims *Telectronics' pleadings demonstrate professional "taint" because Nealon and Rackman omitted claims and defenses that, if included, would have required their withdrawal for ethical considerations*. Specifically, Medtronic asserts that Telectronics: (1) omitted the '242 patent from the declaratory judgment action; (2) waived possible legitimate affirmative defenses under 35 U.S.C. § 112 . . .; (3) failed to assert that "new

prior art" should have been disclosed to the patent office, thus making Rackman and Nealon parties to a fraud; and (4) used ambiguous pleadings by alleging that the '242 patent is invalid because the invention was anticipated and obvious when made.

The district court found that the omission of the '242 patent from the original complaint could not be viewed as unreasonable in light of Telectronics' successful license defense to the '242 patent in the ITC proceeding. As to Medtronic's remaining arguments concerning the decision of Telectronics' lawyers to prove invalidity of the '242 patent by showing only obviousness based on newly discovered prior art, the district court found that these tactics did not indicate that Telectronics' attorneys were unreasonable or ineffective. "In his representation of a client, a lawyer may . . . [w]here permissible, exercise his professional judgment to waive or fail to assert a right or position of his client." DR 7-101(B).

Accordingly, the district court did not abuse its discretion in concluding that Rackman and Nealon are entitled to structure the case according to their own professional judgment by selecting the defenses to be made against the '242 patent. Nor did it abuse its discretion in finding no showing that Rackman and Nealon were not vigorous in the representation of their client.[139/]

Finally, the Court turned to Medtronic's Canon 9 allegations - which, it stated, "presents to us, and presented to the district court, the most difficulty". Troubled or not, the Court worked through the Second Circuit's Canon 9 precedent, and again concluded that the trial court had acted properly in refusing to disqualify:

> Having failed to establish the existence of any attorney-client relationship with itself or Berkovits, Medtronic asks this court to apply the vague standard of an "appearance of impropriety" in the guise of a rule "unique to the practice of patent law," and to disqualify counsel where there is no actual impropriety exhibited. We will not do this. . . .

> Telectronics does concede that it would be unusual to have counsel impeaching their own work product. But that is not this case. Rackman and Nealon's continued representation *is subject to the condition that the proof of invalidity of the '242 patent will be limited to prior art that was not known at the time that the application was prosecuted.* No change in any position taken during the prosecution of the '242 patent is required to recognize the significance of that art. Similarly, no change in position is required on the infringement issue because Telectronics' allegedly infringing products were not first produced until some time after the issuance of the '242 patent. *Although counsel for Telectronics may have to testify when a particular piece of prior art became known to them, patent owners and attorneys are often asked that question during discovery, and no disqualification is required.*
>
> . . . .
>
> *Medtronic, furthermore, made no showing that Rackman or Nealon obtained actual confidences that would give Telectronics an unfair advantage.* Although Medtronic asserts that during Berkovits' relationship with Rackman and Nealon, important decisions were made encompassing the scope and content of the prior art, the arguments to be made in support of nonobviousness, and the sufficiency of the disclosure, no specifics of the unfair advantage were set fourth before the district court. Medtronic submits, however, that it has no burden to show the existence of specific confidences because the court must *assume* that during the prior representation confidences were disclosed. This assumption might well be valid if there had been a previously existing attorney-client relationship. . . . Here the district court found no such relationship existed, and therefore, the assumption is not applicable. Accordingly, the district court did not abuse its discretion.[140/]

While closer than the situation with the Chernoff firm in *Sun Studs*, the specifics of the defenses that Rackman

substantial relationship test and the questior knowledge. He began by considering the applic overall standard applicable, and found that it wa Fifth Circuit:

> In deciding patent-related disqualification issues, this Court mus precedent of the United States Court of for the Fifth Circuit. *See Panduit All States Plastic Mfg. Co.*, 744 F.: 1573-75 (Fed. Cir. 1984) (district cou apply the substantive patent laws as set the Federal Circuit and the general law forth by their regional circuit court *standard for attorney disqualification Fifth Circuit is not based on a m application of the attorney disqual rules*; rather, district courts must examine the precise nature of the pre former representations to determine disqualification is actually appropriat *Johnston v. Harris County Flood Contrc* 869 F.2d 1565, 1569 (5th Cir. 1989 *denied*, 493 U.S. 1019 (1990). *Close is necessary because disqualificatio severely disfavored remedy. See* F *Covington Cty. Bank*, 537 F.2d 804, Cir. 1976). In considering disqual motions, a court's primary responsibili safeguard the integrity of court prc Thus, the punitive result in disq counsel in litigation situations is mei the facts of each particular case as upon the impact of counsel's conduct trial. Because of the competing conc surround the issue of disqualificatior need to preserve the confidences o clients versus freedom of choice of lega -- *the essential issue this Court mus is whether the alleged misconduct so ta litigation that disqualification is recourse left to cure it. Atasi Corp. v Technology*, 847 F.2d 826, 832 (F 1988).[159]

particula infringem

The court then turned to the Fifth Circuit law on former representation-based disqualif keeping a weather eye out for the Federal Circui *Panduit*:

> A party seeking to disqualify counsel on the ground of a former repre must *first establish* an actual attor

relationship between the moving party and the attorney he seeks to disqualify. . . . Moreover, the Fifth Circuit requires the moving party to prove not only the existence of a prior attorney-client relationship, but the genuine threat that confidences revealed in the former representation will be divulged to the party's present adversary. . . .

Second, the movant must prove a substantial relationship between the subject matter of the former and present representations. . . .

> Only when the moving party delineates with specificity the subject matters, issues, and causes of action presented in former representation can the district court determine if the substantial relationship test has been met. Merely pointing to a superficial resemblance between the present and prior representations will not substitute for the careful comparison demanded by our cases.

Duncan [v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 646 F.2d 1020 (5th Cir. 1981)] at 1029.

Once these factors have been established, *the court may presume that confidential information relevant to the present litigation was disclosed to the attorney who actually worked on the substantially-related matter* during the former period of representation. *Panduit Corp.*, 744 F.2d at 1577; *Duncan*, 646 F.2d at 1028. Moreover, because of the shared client confidences among firm members, *all members of an ongoing partnership are imputed with knowledge* of this confidential information and may be barred from participating in a case from which one partner is disqualified. *Panduit Corp.*, 744 F.2d at 1577; . . .

This presumption of shared confidences within a firm, however, *may be rebutted* if the opposing party proves that no confidences were, in fact, divulged. *See Panduit Corp.*, 744 F.2d at 1564. The ABA's Model Rules of Professional Conduct, adopted in 1983 and amended in 1989 ("ABA Rules"), and the Texas Disciplinary Rules of Professional Conduct, adopted by the Texas Supreme Court in 1990 and revised in 1991

("Texas Rules"), both prohibit representation adverse to a former client only if the two representations are substantially related and the attorney was personally involved in both representations. Rule 1.09 of the Texas Rules emphasizes that an attorney who leaves a firm and was not personally involved in a prior representation is no longer imputed with knowledge of the prior firm's other representations. *See* Texas Rules, Rule 1.09, Comment. The ABA Rules contain essentially the same prohibitions regarding former clients. *See* ABA Rules, Rule 1.9, Comment. *Therefore, under Texas Rules, ABA Rules, and Fifth Circuit precedent, an attorney who was not personally involved in the former representation or who had not acquired material confidential information about his former firm's client may, at a later firm, provide representation adverse to that client.*[160]/

Nothing too unusual here, just a clean, concise exposition of the controlling precedent.

The court then addressed the Turner situation, and held disqualification to not be appropriate. Having so ruled, it then turned to consider Mr. Harris's plight. There, the result was quite to the contrary, and quite surprisingly so, in that Harris had not even been a member of Hubbard Thurman in 1987:

B. William Harris

Surgikos argues that Turner selected William Harris as an expert because of Hubbard Thurman's prior representation of Surgikos on the same subject matter. *Jones Day counters that Harris has been retained to testify as an expert witness,* pursuant to Fed. R. Evid. 702, *to aid the Court in understanding the process of obtaining a patent and the steps which actually occurred in acquiring Amsco's patent.* Counsel for Jones Day has testified that Harris's involvement has been limited to a review of the publicly available patent file and the pleadings in this case.

Although Harris submitted an affidavit stating that he does not know anything about the 1987 patent application, he has never seen the file, and has never had any communication regarding Tucker's and Brown's representation of Surgikos, *this Court finds that Harris should be disqualified.* Harris, as an ongoing

> partner at Hubbard Thurman, has the *imputed knowledge* necessary to disqualify him from legally representing Amsco. *Although Amsco argues that Harris should not be disqualified because he is not acting as a legal representative and his testimony will only pertain to the activities of the inventors and their attorney, not those of Surgikos, this Court does not find Amsco's arguments to be persuasive.* It is undisputed that Harris is an attorney who has been retained by Jones Day and Amsco to render legal opinions for Amsco's benefit in this action. *Whether or not he actually appears as counsel, or presents his legal arguments from the witness stand, he remains a significant part of Amsco's legal team. His participation is clearly legal representation.* Surgikos has effectively laid a basis for disqualifying Harris.[161]

The evidentiary showing apparently sufficed to counter imputation, but the Court summarily found otherwise, without explaining why the Harris affidavit was faulty in that regard. That Mr. Harris was to serve as an expert witness -- a patent law expert, as it were -- was not found persuasive by the court as obviating his dual status as an attorney member of Hubbard Thurman. The court's conclusion, without more, that Mr. Harris's participation was ". . . clearly legal representation" begs the question somewhat, but, in the context of the court's refusing to disqualify Mr. Turner, the Harris result may be considered to fall within the context of Solomonic justice and be left at that.

C. Client Merger Issues

The effect of a client merger upon attorney disqualification was in issue in *Pennwalt Corp. v. Plough, Inc.* [162]

Pennwalt involved an alleged conflict arising from a merger-related situation. A firm, DP&R, beginning in 1978, defended Scholl in the *Shoe Barn* case. On April 2, 1979, Schering-Plough acquired Scholl. As Plough was already a wholly-owned subsidiary of Schering-Plough, Scholl and Plough became sister corporations. On May 11, 1979, DP&R filed the case at issue on behalf of Pennwalt, against Plough.[163]

Only after the filing, at the end of May 1979, did DP&R learn that Scholl had been purchased by Schering-Plough. DP&R never informed either Scholl or Pennwalt that it was acting on behalf of one sister corporation and against the other. Schering-Plough's general counsel learned of DP&R's representation of Scholl in October 1979.[164]

Thereafter, in a rapidly escalating series of events, Schering-Plough had another firm raise the matter of the alleged conflict with DP&R; DP&R, not agreeing that there was a conflict, offered to withdraw as counsel for Scholl in *Shoe Barn*; Schering-Plough requested that DP&R withdraw from representing Pennwalt in the *Pennwalt* litigation, but did not request that it withdraw in the *Shoe Barn* litigation; DP&R responded that it no longer wished to represent Scholl; Schering-Plough contended that DP&R had violated the Code of Professional Responsibility, which it could cure only by withdrawal from representation of Pennwalt, and refused to permit DP&R to withdraw in *Shoe Barn*; and DP&R then filed a motion to withdraw in *Shoe Barn*.[165]

During argument on the *Pennwalt* motion to disqualify DP&R admitted that "it would inevitably be in a conflict situation in the future if it were not permitted to withdraw in the Scholl litigation." Subsequently, Scholl's response to the DP&R motion in *Shoe Barn* was to request deferral of ruling on the withdrawal request until the *Pennwalt* court ruled on Plough's disqualification motion. DP&R's motion to withdraw in *Shoe Barn* was granted on December 28, 1979.

Plough urged a rule of *per se* disqualification, absent DP&R having obtained consent from Pennwalt and Scholl. Pennwalt urged that the disqualification motion was a litigation ploy; DP&R stated that it had violated no ethical duty, and asserted that Schering-Plough had purchased a conflict when it bought Scholl, for which Pennwalt should not pay by suffering disqualification of its counsel.[166]

Judge Schwartz denied the motion to disqualify. Analysis, in the court's view, required application of Canon 4, Canon 5 and DR 5-105, and Canon 9 of the Code of Professional Responsibility. The selected analytical mechanism was designed to determine whether the complained-of conduct violated the ultimate objective of each Canon separately and of the Code considered in its entirety. It involved the careful sifting of all of the facts and circumstances, and then weighing them against the specific goals and objectives of the Canons. In other words, *Pennwalt* applied a balancing test.

The *Pennwalt* court found no Canon 4 problem, because, analogizing to the substantial relationship test, it found that the *Shoe Barn* subject matter was not related to the *Pennwalt* litigation.[167]

Canon 5 analysis produced the same result. First, the court noted that DP&R's conduct *before* moving to withdraw in *Shoe Barn* showed no sign of the failings against which DR 5-105 was intended to protect:

> *Until it moved to withdraw as* Scholl's counsel, *the record conclusively demonstrates that DP&R provided both Pennwalt and Scholl with nothing less than undivided and undiluted loyalty* with no "actual or apparent conflict in loyalties or diminution in vigor . . . of representation." . . . Scholl and Plough did not become sister corporations until May 1979, ten months after DP&R undertook the defense of Scholl. . . . . Under these circumstances, *it is highly unlikely that as of the date of DP&R's withdrawal of representation of Scholl there was any adverse effect on DP&R's exercise of its independent judgment on behalf of either Pennwalt or Scholl* by reason of DP&R's adversary posture toward Scholl's sister corporation, Plough.[168]

Then, the court considered what effect on the duty of loyalty DP&R's withdrawal had:

> *If DP&R were not permitted to timely withdraw as counsel for Scholl, it volunteered at oral argument that it would eventually find itself in a conflict position.* . . . Having met its burden with respect to the absence of an actual conflict and the *withdrawal from the Scholl litigation precluding a conflict certain to occur in the future*, DP&R has satisfied its burden that it has not violated Canon 5 under the peculiar facts and circumstances of this case. In arriving at the holding that Canon 5 has not been violated, *the Court does not suggest that counsel may eliminate an existing conflict merely by choosing to represent the more favored client and withdrawing its representation of the other.* Such conduct is expressly disfavored. Here, no conflict yet existed. DP&R's withdrawal from Shoe Barn simply obviated the occurrence of a conflict certain to arise in the future by virtue of the evolving assimilation of Scholl into the Schering-Plough division which contains Plough.[169]

Finally, the court applied Canon 9, and again found no basis upon which to order disqualification.[170]

In closing, the *Pennwalt* court noted the existence of certain acts by Scholl which it condemned for their essentially tactical motivation:

> On the other hand, Scholl's refusal to permit DP&R to withdraw from the *Shoe Barn* case, coupled with its request that the court in *Shoe Barn* defer its ruling on DP&R's motion to withdraw until this Court ruled on the instant motion, is more troubling. . . . In light of the disintegrating relationship between DP&R and Scholl evidenced by their correspondence . . . one obvious, though not necessarily correct, conclusion would be that Scholl's request for deferral of a ruling in *Shoe Barn* was a Plough-Scholl coordinated attempt to dictate the outcome, . . . of, a decision on the instant motion. If that was the case, an otherwise proper and responsible effort to enforce the Canons was converted into a litigation tactic directly relating to the work of two federal courts.[171]

Scholl's attempt to trap DP&R into a conflict was not, Judge Schwatz plainly felt in line with the spirit of the Canons, even if an attenuated argument could be made that it was within the letter thereof.

A further variation of this theme, involving a client acquisition of a subsidiary, was presented in *Gould, Inc. v. Mitsui Mining & Melting Co., et al.*[172]

Gould filed suit in 1985 against, among others, Pechiney, alleging unfair competition and unjust enrichment resulting from alleged misappropriation of Gould's trade secrets. Gould also alleged RICO violations, but that claim was subsequently dismissed. When suit was filed in 1985, Gould was represented by Leydig, Voit & Mayer (the "Leydig Firm") which was designated as lead counsel, and by Jones, Day, Reavis & Pogue ("Jones Day") designated as local counsel. Both firms signed the complaint.

Pechiney had been represented by McDougall, Hersh & Scott ("MH&S") with regard to all patent matters in the United States prior to 1987. MH&S did not, however, represent Pechiney with regard to any matters at issue in the case. In 1987, Jones Day and MH&S merged. Jones Day informed Pechiney of the representation of Gould as "local counsel" in the pending litigation, asked Pechiney to consent to the representation and provided for implementation of a "Chinese wall" to protect client confidences. Pechiney consented to the representation, and the now-merged Jones Day continued to represent Pechiney as to patent matters.

In July 1989, Pechiney acquired a subsidiary. Jones Day had represented the new subsidiary, IG Technologies, Inc. ("IGT"), before that time and continued to represent IGT as to various contract, licensing and related matters, none of which were connected to the case. According to the court, Jones Day did not inform IGT nor obtain consent from IGT for the firm's concurrent representation of Gould in the litigation against the IGT's parent, Pechiney.

In 1990, Gould filed a motion for withdrawal of the Leydig Firm and substitution of Jones Day as sole counsel for Gould. Pechiney did not object, and the motion was granted. The parties stipulated to an amendment to the 1988 order allowing Jones Day to have access to confidential information developed through discovery.

Three weeks later, Pechiney filed a motion to disqualify Jones Day as counsel for plaintiff, after Jones Day refused to withdraw on Pechiney's request. Pechiney argued that a conflict of interest existed both as to representation by Jones Day of Gould in the case and concurrent representation of Pechiney and Pechiney's subsidiary IGT. Pechiney asserted that the consent given to Jones Day in 1987 applied only to representation as local counsel, not as lead counsel. Furthermore, Pechiney argued that IGT had not consented to the concurrent representation by Jones Day.

Jones Day responded that the 1987 consent applied to representation both as local counsel and lead counsel because no distinction separates the two. Jones Day also maintained that Pechiney's consent extended to IGT and that it had "the consent of all interested parties to its continued representation of Gould . . ., therefore it has acted in accordance with governing ethical standards."

The trial court denied the motion to disqualify, but held that Jones Day had to withdraw from representation of either Gould or IGT to avoid a conflict of interest.

The trial court noted the concurrent representation of Gould in this litigation and Pechiney in patent matters resulted in a conflict of interest under DR 5-105. ("There is no dispute that Jones, Day's representation of Gould against Pechiney in this litigation, along with its representation of Pechiney in patent matters, constitutes a conflict of interest as envisioned by DR 5-105"). Pechinery, in accordance with DR 5-105(C), however, had consented to its continued representation as "local counsel" for Gould, in May 1987. Pechiney's argument that the consent did not apply to representation as lead counsel was rejected:

> "Although the term 'local counsel' at one time may have meant less responsibility on

> the part of attorneys so designated, it is clear to the court, and should be to every lawyer who litigates in this country, that in the last ten years developments in the law have invalidated this prior meaning."

The Federal Rules of Civil Procedure and local rules impose the same obligations on all counsel signing pleadings under F.R. Civ. P. 11. No real distinction exists between "lead counsel" and "local counsel." The trial court concluded that Pechiney's consent applied to representation by Jones Day as sole counsel.

As to the IGT subsidiary acquired by parent Pechiney, the court found that the concurrent representation of Gould in litigation against the parent of the subsidiary and representation of the subsidiary in unrelated matters constituted a conflict of interest prohibited by DR 5-105, citing *Pennwalt*.[173/] Jones Day had not obtained Pechiney's consent as to the dual representation of the subsidiary and Gould in the case. The consent to dual representation given by the Pechiney in 1987, the court found, did not extend to the IGT subsidiary acquired in 1989.

The trial court, therefore, concluded that Jones Day had violated DR 5-105 by not obtaining consent of the clients to the dual representation of Gould and IGT, Pechiney's subsidiary. This raised the question of whether Jones Day should be disqualified. The trial court noted that in turn involved balancing the competing interests of "the prerogative of a party to proceed with counsel of its choice and the need to uphold ethical conduct in courts of law," citing *Panduit v. All States Plastic Mfg. Co.*, 744 F.2d 1564 (Fed. Cir. 1984).

The trial court stated that:

> Courts must exercise extreme caution not to act under the misguided belief that disqualification raises the standard of legal ethics and the public's respect; the opposite effect is just as likely -- encouragement of vexatious tactics, which increase public cynicism about the administration of justice. *Panduit*, 744 F.2d at 1576-77. . . .
>
> The explosion of merger activity by corporations during the past fifteen years, and the corresponding increase in the possibility that attorney conflicts of interest may arise unexpectedly, make it appropriate for a court to adopt a perspective about the disqualification of

> counsel in ongoing litigation that conforms to the problem. This means taking a less mechanical approach to the problem, balancing the various interests. The result is that the courts are less likely to order disqualification and more likely to use other, more tailored measures to protect the interests of the public and the parties. As an example, the Second Circuit has taken what it calls a "restrained approach" to disqualification motions, granting them only where the ethical violation poses a significant risk of tainting ongoing proceedings. In all other cases, remedies for unethical conduct are left to the disciplinary machinery of the state and federal bar. *Bottaro v. Hatton Assoc.*, 680 F.2d 895, 896-97 (2d Cir. 1982); *Glueck v. Johnathan Logan, Inc.*, 653 F.2d 746, 748 (2d Cir. 1981).

The factors presented which weighed against disqualification included: no evidence indicated any prejudice to Pechiney resulting from the dual representation; no evidence that confidential information relating to the IGT subsidiary had passed to Gould as a result of dual representation by Jones Day; disqualification would significantly delay the litigation; the effect on the progress of the litigation would be considerable because of the complicated trade-secrets issues involved; and, most importantly, the conflict arose because of Pechiney's acts, not because of any affirmative act by Jones Day. The court concluded disqualification was plainly not appropriate under these facts.

The court, however, ruled that in the absence of Pechiney's consent to the dual representation of Gould and IGT, Jones Day had to withdraw from representation of either Gould or IGT, those with Jones Day being allowed to make the choice of who did continue to represent. Allowing Jones Day to make the choice of who it would continue to represent, the court realized, appeared to run contrary to *Picker Int'l v. Varian Assoc. Inc.*,[174] which did not allow such a choice to be made by the firm and other similar precedents.

For the most part, the *Gould* court read the *Picker* line of cases as directed to situations in which the firm being disqualified created the conflict:

> The court believes, however, that the present case is distinguishable, and its facts justify an exception to this rule. These other decisions, in large part, are based on the premise that courts should not

allow a law firm to profit from a conflict of interest which it created. This is the potential result when a law firm discards a less profitable relationship in contemplation of taking on a more profitable, conflicting representation, or when a merger between law firms creates a conflict and the firms delay calling attention to the conflict. In such cases, law firms will not be permitted to drop one client in favor of another at the late date when it is called to the attention of the court.

Here, Jones, Day did not create the IGT conflict. Rather, the conflict was created by an acquisition of the client for legitimate business reasons. The improper action on Jones, Day's part was its failure to call this conflict to Pechiney's attention at the earlier point in time required by DR 5-105(C), and to either obtain Pechiney's consent or indicate that because of the conflict, it would withdraw from further representation of IGT. While not the situation in this case, it is clear that courts would not permit one party in a case to create a conflict which forces the disqualification or withdrawal of opposing counsel by buying up companies which opposing counsel represent. Nothing indicates that Pechiney has been prejudiced by Jones, Day's failure to notify. The court fails to see how the rules of ethics will be furthered by forcing Jones, Day to withdraw as counsel for Gould, or why the rules will not be served as well by giving Jones, Day a chance to choose how to extricate itself from a conflict it did not create, but to which it was unethically slow in responding.

Jones, Day was not "let off the hook," however; the trial court elected to make use of one of the alternate disciplinary bodies to determine whether punishment was appropriate, and referred the matter to the state bar authorities.

By letter dated July 6, 1990, the Disciplinary Counsel of the Supreme Court of Ohio responded to the trial court's reference to it, regarding Jones, Day's conduct. In pertinent part, the Disciplinary Counsel wrote that:

You have also found, and our review likewise indicates, that there was disclosure to and consent by Pechiney in 1987. Under our disciplinary rule 5-105(B) and (C), lawyers cannot continue multiple representation unless the clients consent after full disclosure. So far as our disciplinary rules concerned, the relevant issue is not whether there has been a past "waiver", but whether the client continues to consent. It is evident in this instance that Pechiney no longer consents. Under the circumstances Jones Day can no longer continue the multiple representation.

We note the opposing affidavits submitted by the legal ethics experts in this case. There is no doubt that the acquisition of a subsidiary corporation created new potential conflicts. Pechiney, however, certainly knew, at some level of its organization, about the acquisition, and Jones Day's conflict clearance procedures would not normally identify conflicts created by a client's acquisition of a subsidiary. In the absence of a clear requirement, we are not willing to assume that a law firm must establish conflict clearance procedures that would impose a duty on the firm to disclose facts which ought to be known to the client, such as the client's acquisition of a subsidiary, in order to obtain continuing consent.

We agree with your determination that there is, so far as consent to multiple representation is concerned, no substantial difference between lead counsel and co-counsel -- both must make full disclosure and obtain consent. There is no indication, however, that Jones Day did anything improper in failing to disclose its position as lead counsel to Pechiney -- again, there is no independent duty to disclose a fact that is obvious to a client in order to obtain continuing consent. Pechiney could, for purposes of our disciplinary rule, at any time withdraw its consent to continuing multiple representation, whether or not there had been the changed circumstances of Pechiney's acquiring IGT or of Jones Day's becoming lead counsel.

> Jones Day has informed us that it has, since Pechiney will not give consent to continued multiple representation, withdrawn from further representation of both Pechiney and IGT. It agreed to do so immediately upon being informed by us that it could not continue to represent both clients without consent. That Jones Day has resisted a motion for disqualification in a particular case does not mean that its failure to withdraw earlier from representing Pechiney constitutes a disciplinary violation. The question of disqualification in a particular case is a different question from whether there has been a disciplinary violation, and in the absence of a willful failure to withdraw upon being lawfully required to do so by the appropriate judicial officer, we are unable to conclude that such conduct constitutes a disciplinary violation.
>
> In view of the fact that Pechiney could have at any time withdrawn its consent to continued multiple representation, and that Jones Day has withdrawn upon being informed that Pechiney has done so, we are unable to conclude, despite the fact that Jones Day's continuing multiple representation would have, as you correctly concluded, constituted a violation of our DR 5-105, that there has been a willful breach of our disciplinary rules.

Gould is significant for several reasons. First, it articulates clearly the lack of distinction, in the law, between "lead" and "local" counsel. Second, the case squarely holds that a conflict exists when a firm represents a corporation, and engages in an unrelated representation adverse to a separate corporation affiliated with its client by ownership (i.e., a parent or subsidiary corporation). Finally, the court's declination to disqualify the firm because the conflict was "thrust upon" the firm by corporate action, creates a significant new rule in regard to simultaneous representation disqualification situations.

Gould reinforced the *Pennwalt* view that a simultaneous representation conflict purchased or otherwise created by the client should not lead to disqualification. It also added weight to the position that a simultaneous representation conflict may exist when a firm represents a corporation and engages in an unrelated representation adverse to another corporation affiliated with its client by ownership, such as a subsidiary/parent relationship. The solution posited

by *Gould* -- withdrawal from one of the representations, the election being made by the firm -- continues the trend away from mechanical application of rigid, proscriptive rules to a balancing, real world consideration and solution.

Client mergers should continue to be handled in such a manner, with the challenged firm being allowed to move to withdraw from one of the matters to remove the source of the simultaneous representation and to allow it to continue to act as counsel in those remaining matters.

Stratagem Development Corporation v. Heron International N.V., et al.,[175] involved another twist on the simultaneous representation problem. There, plaintiff's counsel, Epstein Becker, was representing a wholly-owned subsidiary of Heron, FSC, in regard to the "Bevona" matters in late 1989. The Bevona matters involved several labor law litigation and arbitration matters having nothing to do with the subject matter in issue. Mr. Goldberg of Epstein Becker was the attorney-contact for Heron in regard to the Bevona matters.

On June 27, 1990, Heron terminated an agreement it had with Stratagem relating to Heron Tower II, which was the subject matter in dispute in *Stratagem*. Two weeks later, Goldberg wrote to his contact at Heron, noting that, because of the "recent unfortunate developments between Heron and Stratagem ... we must raise the question of our continued representation of [FSC] ... in connection with this labor matter"[176] Yet another letter was sent by another Epstein Becker lawyer, Mr. Kelly, to Mr. Goldberg's contact on August 3, 1990, which read in pertinent part that:

> We will soon commence an action against Heron.... Unless we hear otherwise from you, we plan to resign as Heron's counsel in the federal action and arbitration on the day we file Stratagem's complaint.[177]

From there, as these matters tend to do, the exchanges of correspondence accelerated in volume and speed, and deteriorated in tone. On August 8, 1990, FSC's Mr. Kompaniez wrote back to Kelly, informing him that bringing the threatened action would violate the New York Code of Professional Responsibility. To this, another Epstein Becker lawyer, one Samuel Goldman, replied on August 14, 1990, that:

> From the tone and tenor of your letter, it is apparent that you would feel uncomfortable if we were to continue to represent Fidelity Service Corp. in the captioned litigation. Accordingly, we hereby notify you that we are withdrawing as counsel to Fidelity in this lawsuit.

* * * * * *

> As you are aware, we have represented Stratagem Development Corp. in all of its dealings with Heron since the inception of the relationship between these two companies. There is no conflict in our continued representation of Stratagem."[178]

Additional letters were then exchanged. By September 4, 1990, a Mr. Delikat of Baer Marks had contacted Epstein Becker to advise that it would take over the representation of FSC in the Bevona matters. During that conversation, as related in a confirming letter from Mr. Delikat to Mr. Goldberg, Mr. Delikat indicated that he would "prepare a formal substitution and forward same to you under separate cover. In the meantime, I would appreciate receiving a copy of the entire file at your earliest convenience." The contemplated exchange of files and substitution forms did not take place at that time. Less than a month later, on October 2, 1990, Epstein Becker filed the complaint in this action.

On October 9, 1990, Heron's counsel wrote to the court, indicating its intention to file the present motion; that same day, Epstein Becker sent the files in the Bevona matter to Baer Marks. Two days later, Mr. Goldberg forwarded to Baer Marks a substitution of counsel form, which had not been filed as of the court's decision.

The court approached the motion as a strict Canon 5 issue. First, the court addressed the parent-subsidiary issue, concluding that Epstein Becker's representation of FSC impressed upon it a duty of undivided loyalty towards Heron, as well:

> Where an attorney takes part in a suit against an existing client, the propriety of the conduct '... must be measured not so much against the similarities in litigation, as against the duty of undivided loyalty which an attorney owes to each of his clients.' *Cinema 5, Ltd. v. Cinerama, Inc.*, 528 F.2d 1384, 1386 (2d Cir. 1976). *The duty applies with equal force where the client is a subsidiary of the entity to be sued. See Glueck v. Jonathan Logan, Inc.*, 512 F. Supp. 223, 227 (S.D.N.Y.), *aff'd*, 653 F.2d 746 (2d Cir. 1981) (firm representing trade association could not also represent individual client in suit against corporation belonging to association); *see also Rosman v. Shapiro*, 653

F. Supp. 1441 (S.D.N.Y. 1987) (disqualifying defendant's attorneys because firm represented closely held corporation in which plaintiff and defendant each held 50% of the stock). In the case at bar, *the relationship between the two entities represented by Epstein Becker, that of parent and wholly-owned subsidiary, is even closer than the between the parties in Glueck and Shapiro, because the liabilities of a subsidiary corporation directly affect the bottom line of the corporate parent.* A *fortiori*, the duty of undivided loyalty, as set forth in Canon 5, attaches in this case. As the *Glueck* Court noted: 'the Bar has an independent interest in avoiding even the appearance of impropriety, and that interest mandates a clear margin of protection against potentially conflicting arrangements.... [A]ny doubt in the disqualification situation is to be resolved in favor of disqualification.'[179]/

The next issue to be resolved was whether the representation of the clients by Epstein Becker was concurrent or simultaneous:

> There are two different standards by which courts evaluate disqualification motions because of alleged dual representation; which standard to apply depends on whether the representation of the two clients is simultaneous or successive. When the firm concurrently represents both parties, Courts are to apply a *per se* prohibition; but if the case involves former clients of the firm, the Court will inquire into whether there is a 'substantial relationship' between the two matters....
>
> Defendants in the present case argue that Epstein Becker did not effectively withdraw from its representation of FSC in the *Bevona* matters until at least October 9, when it finally sent the file to Baer Marks, and perhaps later, because the substitution form has not been filed to this day. They therefore advocate the application of the *per se* rule. Equally predictably, plaintiffs argue for application of the 'substantial relationship' test, stating that FSC 'has

> not been Epstein Becker's client since September 4, 1990,' approximately one month before the instant complaint was filed.[180]

Here comes the twist. Noting that the parties were vigorously disputing precisely when, if at all, Epstein Becker effectively withdrew from representing FSC, the court pointed out that Epstein Becker had conceded that it represented FSC as late as September 4, 1990. That did it, according to the court:

> Accordingly, the record is undisputed that *the Firm was clearly contemplating, if not actively planning, litigation against its client's parent corporation as early as July 13, 1990.* *See* Goldberg-Panciera Letter of 7/13/90, *supra*. The Court must therefore conclude that the Firm was still in FSC's employ when it investigated and was drafting the complaint against FSC's parent company. *See Fund of Funds, supra*, 435 F. Supp. at 94 (deeming Arthur Andersen [the client] an 'existing client' because Morgan Lewis [the firm] represented it at the time of the investigation and filing of the complaint). *Because Epstein Becker had not clearly terminated its representation of FSC and fixed the parameters of its representation of FSC by the time preparations for the instant litigation were begun, Epstein Becker is per se ineligible to represent Stratagem in this matter.* *Cinema 5, supra*, 528 F.2d at 1387.[181]

Consent from both clients had been sought by Epstein Becker, but refused by FSC. Noting particularly the August 3, 1990 letter, and Heron's reply, listing the provisions of the New York Code of Professional Responsibility that it believed Epstein Becker was going to violate by suing Heron, the court found, "is hardly the 'knowledge and consent' that the Code requires in such a situation."[182] Absent such prior consent, "a firm is to remain with the client in the already-existing litigation and seek new counsel to represent the other, not vice versa."[183]

Epstein Becker had one final argument that gave Judge Kram the chance to contribute a catch phrase to the disqualification lexicon:

> Epstein Becker points out that Samuel Goldman has been Stratagem's real estate lawyer since 1983.... It thereby attempts to refute Heron's theory that Epstein Becker

> dropped FSC 'like a hot potato' in order to represent a more favored client.... (citing *Picker Int'l v. Varian Assocs.*, 670 F. Supp. 1363, 1365-1366 (N.D. Ohio 1987)).
>
> *Epstein Becker's obligations to Stratagem do not trump those it owes to FSC, even if they pre-dated them.* Once Epstein Becker undertook to represent FSC, it assumed the full panoply of duties that a law firm owes to its client. Epstein Becker may not undertake to represent two potentially adverse clients and then, when the potential conflict becomes actuality, pick and choose between them. Nor may it seek consent for dual representation and, when such is not forthcoming, jettison the uncooperative client. *Picker Int'l, supra*, 670 F. Supp. at 1365. Under these circumstances, Epstein Becker has no choice but to withdraw from representing either client in this case.[184]

D. Law Firm Merger Issues

The merger of law firms may give rise to particularly sticky issues of conflict of interest, which may provide basis for a disqualification motion.

In *Ransburg Corporation v. Champion Spark Plug Company*,[185] Champion filed a motion to disqualify the Willian, Brinks firm. Willian, Brinks represented Ransburg, while Champion was represented by McDougall, Hersh & Scott ("MH&S") -- the same firm later involved in *Gould* and *Picker International, Inc. v. Varian Associates*. Champion claimed that Willian, Brinks had represented both Ransburg and Champion, simultaneously, thereby violating the Code of Professional Responsibility and mandating disqualification. Ransburg had filed suit alleging that the DeVilbiss division of Champion has violated Ransburg's patent for incipient spark detection in electrostatic coating (painting) system power supplies.

Willian, Brinks opened a Toledo, Ohio office in November 1984. Barker was the managing partner of the Toledo office. In the course of Barker's legal career he had been associated with a number of firms, some of which did substantial business for Champion and/or its DeVilbiss division. Immediately before joining Willian, Brinks, Barker had been a partner at the Toledo firm of Fraser, Barker, Purdue & Clemons. When the Toledo office of Willian, Brinks was opened, Barker asked one of his former law partners, Purdue, to join him at the new firm. Purdue accepted the "of

counsel" employment opportunity and brought with him the Champion patent prosecution work from the Fraser firm. In April 1985, Purdue left his "of counsel" position at Willian, Brinks, but his services remained available to them on a contract basis. After Purdue departed, Willian, Brinks continued to represent Champion in patent matters and also began some representation of the DeVilbiss division in patent prosecution. It appeared, however, that the subject matter of Willian's representation of DeVilbiss was not directly related to the pending litigation between Champion and Ransburg. It was uncontested that at the time the complaint was filed both Ransburg and Champion (including its DeVilbiss division) were clients of Willian, Brinks. Champion terminated Willian Brinks' services after suit was filed.

The trial court granted the disqualification motion. The positions of the parties were summarized by Judge Holderman in one paragraph:

> Champion argues that Willian has breached its duty of loyalty and has created an appearance of impropriety and must therefore be disqualified from this litigation in light of canon five, canon nine and applicable case law. Willian counters that disqualification is inappropriate because there is no "substantial relationship" between the work Willian did for Champion and the subject matter of the present litigation.[186]

The court quickly disposed of the alleged lack of substantial relationship as the wrong test:

> *Willian's argument that the "substantial relationship" test governs the Court's consideration of the disqualification motion is mistaken. The substantial relationship test, developed in the canon four arena, is wholly irrelevant in this context.*
>
> Canon four provides that: "A Lawyer Should Preserve the Confidences and Secrets of a Client." The substantial relationship test finds its beginnings in this precept. In order to avoid a prophylactic rule prohibiting lawyers from ever representing adversaries of former clients, *canon four and its accompanying ethical considerations and disciplinary rules have been interpreted to allow an attorney to represent a party adverse to the interests of a former client*

so long as the subject matter of the litigation is not substantially related to the work the attorney performed for the former client. If the subject matter of the litigation is not substantially related, the confidences and secrets of the client can adequately be preserved. . . .

The *substantial relationship test does not, however, have application to canon five which concerns itself with an attorney's duty of loyalty to present clients.* . . .

Willian, Brinks argument was that because Champion terminated their services, Canon 4 was applicable and Champion should be treated as a former client. The court reacted with some heat to this "bold" position:

The fact that a client terminates its relationship with a law firm after that law firm sues it is not surprising. The termination should not, as Willian contends, shift the review of the ethical conduct to canon four. In cases factually similar to the present action, courts have found that status as a present or former client should be determined at the time the complaint is filed. See *Unified Sewerage Agency, Etc. v. Jelco Inc.*, 646 F.2d 1339 (9th Cir. 1981). . . . See also *International Business Machines Corp. v. Levin*, 579 F.2d 271, 281 (3d Cir. 1978) (holding that IBM was a present client of a law firm even though the law firm had no specific assignment on hand the day the complaint was filed and despite the fact that the law firm worked on a fee for services basis and was not under any retainer agreement with IBM).

. . . .

To hold otherwise would allow such unethical behavior to continue unrestricted because a law firm could always convert a present client to a former client merely by seeking to withdraw after suing a present client. Unified Sewerage Agency Etc. v. Jelco Inc., 646 F.2d 1339, 1345 n. 4 (9th Cir. 1981).[187] A client's right to the undivided loyalty of its attorney requires more than this. So, too, does the ethical obligations of the profession. Clients and

> the public will not repose confidence "in lawyers whom they distrust and will not trust law firms that switch sides [so] nimbly."[188]

Applying, instead, an analysis under Canon 5 and DR 5-105, the court found that:

> Simply stated, it is unethical conduct for an attorney to participate in any lawsuit against his own client without the knowledge and consent of all concerned.[189]

Attention then turned to whether Willian, Brinks had made full disclosure and obtained Champion's consent, as required by DR 5-105(C).[190] Todd, Champion's in-house counsel, stated that he had been unaware that Ransburg had been represented by Willian, Brinks until the day the pre-litigation settlement negotiations ended and suit was filed. The burden of proving full disclosure and consent rested upon Willian, Brinks, who looked to three conversations to carry it.

The court rejected Willian Brinks' arguments stating in part that:

> *It is doubtful that passing conversations at cocktail parties and in hallways is what the drafters of the ABA Code had in mind when they stated in DR 5-105(C) that "full disclosure" is required.* Moreover, all of these conversations, and particularly the last one, gloss over the fact that in 1985 Willian was engaged in a pre-litigation investigation of Champion on behalf of another client, Ransburg, without disclosure and obtaining the express consent of Champion.
>
> *Willian's repeated assertions in their memoranda and affidavits that Mr. Todd and Champion "never objected" to Willian's concurrent representation of Ransburg is unpersuasive at best and disingenuous at worst.* The affirmative duty here rests not with Mr. Todd and Champion, but with Willian and its attorneys. The standard is not did Champion or Mr. Todd object, but rather did they consent. It is clear from the record that they did not.[191]

A final plea to the preservation of Ransburg's choice of counsel, and a challenge to the motives of Champion's law firm, MH&S, were unavailing:

> In its memoranda Willian strenuously argues that Ransburg's choice of counsel must be preserved. A litigant's choice of counsel is a recognized and heavily weighted consideration in the disqualification formula. One wonders, however, what consideration Willian has given to Champion's choice of counsel. This is not to say that Willian may not represent whom they wish, but it does mean that they must make that decision before they begin pitting one client against another. Before reaching that juncture, the law firm must withdraw or seek the express consent of the clients after full disclosure.[192]
>
> . . . .
>
> Finally, Willian has attempted to characterize this motion for disqualification as vexatious and has sought to impugn the motives of Champion and its law firm, McDougall, Hersh and Scott. Whatever the nature of the motion and the motives of the parties, Willian's serious breach of the ethical obligations of the profession cannot be ignored. One's sympathy for Willian is tempered by the knowledge that this is a problem of their own creation and one which could easily have been avoided.[193]

Quite plainly, Willian, Brinks had sued one of its own clients, after the merger had brought that client into the fold. The merger was a nullity insofar as providing a reason for the simultaneous representation situation occurring; the firm had been too bold in approach, and simply reaped what it had sown.

In one of those twists of fate that has bedevilled trial counsel since the dawn of time, MH&S found itself on the other side of a motion to disqualify in *Picker International Inc.* v. *Varian Associates, Inc.*[194] (and *Gould* yet later). There, the United States District Court for the Northern District of Ohio, and the United States District court for the District of Utah, in separate patent infringement actions, ruled that Jones, Day, Reavis & Pogue ("Jones, Day"), the law firm for Picker International, Inc. ("Picker") in those actions, was subject to disqualification after it merged with a law firm representing defendant in several other, unrelated matters. Defendant Varian Associates, Inc.'s ("Varian") firm was MH&S.

On February 1, 1987, MH&S and Jones, Day merged. Prior to the merger, Jones Day had a longstanding attorney-client relationship with Picker, and MH&S with Varian. MH&S was representing Varian in *Genus v. Varian*, pending in the Northern District of California. Following the earlier announcement of the proposed merger, Varian had expressed concern to MH&S about the conflict of interest which it contended would result from the merger, since lawyers from Jones Day were representing Picker in the pending patent infringement litigation between Picker and Varian in the Northern District of Ohio and the District of Utah. (Varian was *not* represented by MH&S in either the Ohio or Utah cases.)

In a pre-merger letter dated December 31, 1986, MH & S sought Varian's consent to a screening process which would allow the merged firm to continue to represent Picker in the litigation against Varian in Ohio and Utah, and keep Varian as a client in *Genus* and other matters. Varian rejected the proposed offer of simultaneous representation. On January 14, 1987, before the merger closed, Varian filed a motion to disqualify Jones, Day as Picker's counsel in the Ohio case.

In response to Varian's refusal to consent to MH & S's proposal, MH & S wrote Varian, on January 27, 1987, that it was compelled by the Code of Professional Responsibility "to cease . . . representation of Varian in all matters as of January 31, 1987", including the ongoing *Genus* case. Varian responded on January 30, 1987, by pointing out that MH & S could not withdraw in the *Genus* case until MH & S had received leave of the district court pursuant to the Northern District of California's Local Rule 110-5. Varian requested MH & S to defer filing any motion seeking leave to withdraw in the *Genus* action until the Ohio court ruled on the disqualification motion. In addition, Varian expressed its concern that it would be left without representation in the ongoing *Genus* action. To alleviate this problem, two attorneys of the merged firm, formerly of MH & S, signed a letter allegedly in their individual capacities, dated after the merger had been completed (February 11, 1987), and not as members of the merged Jones, Day, to continue representation of Varian. Varian then moved to disqualify Jones, Day as Picker's counsel in the other patent infringement matter between Picker and Varian, the Utah case.

Both trial courts disqualified Jones, Day, but certified their decisions for immediate appeal.[195]

Judge Michel, writing for the Federal Circuit panel majority, noted that the Code of Professional Responsibility had been relied upon by both courts below. Further, in view of the *Atasi Corp.* holding, he stated that, "in considering whether district judges in the Sixth and Tenth Circuits incorrectly answered the certified questions, we will use the

law of the particular regional circuit courts where appeals from these two district courts would normally lie."[196] The panel majority noted that both the Sixth and Tenth Circuits followed the clearly erroneous rule on review of findings of fact, about which there was no controversy.

With respect to the burden on the rulings themselves, however, there was sharp disagreement between the parties. Picker maintained, based upon the Sixth Circuit's *General Mill Supply Co.* procedure,[197] that the Federal Circuit was required to conduct a *de novo* review of at least the Ohio disqualification order. Varian maintained, to the contrary, that an abuse of discretion standard controlled in the Sixth (and Tenth) Circuit.

The panel majority, undoubtedly aware of the complexities that would result if two different standards were applied in a consolidated appeal from two decisions from two different circuits, based on substantially the same facts, found that:

> For rulings on disqualification motions, the standard in the Sixth Circuit is abuse of discretion. *See D. H. Overmyer Co., Inc. v. Robson*, 750 F.2d 31, 34 (6th Cir. 1984) (Bankruptcy court decided not to admit attorney *pro hac* vice because attorney had conflict of interest under DR 5-101(A)). "The judge's reasoning for his decision is supported by the record and in accordance with well-settled legal principles. Therefore, it simply cannot be deemed an abuse of discretion." *Id.* For rulings on disqualification motions in the Tenth Circuit, the standard is also abuse of discretion unless the question of disqualification is purely legal.[198]

The panel majority's conclusion was that:

> Upon careful *but not de novo* review of both records and decisions, *we conclude neither court abused its discretion* in disqualifying Jones Day. Although the sanction of disqualification does not follow automatically from a violation of DR 5-105, i.e., no per se rule of disqualification, *see Bodily v. Intermountain Health Care Corp.*, 649 F. Supp. 468, 477 (D. Utah 1986), a court may disqualify firms if it finds a violation of DR 5-105 and concludes that the sanction of

> disqualification should apply because the particular facts in the case warrant such action.[199]

The panel majority's DR 5-105(B) analysis was based upon a presumption of adverse effects when an attorney litigates a lawsuit against a present client.[200] The panel majority stated that "MH & S's planned merger with Jones Day would certainly result in the merged firm taking a position adverse to a present client, Varian, because the merged firm, if it followed the wishes of its merging predecessors, wanted to continue to represent Picker in its action against Varian, as well as represent Varian in the *Genus* action."[201]

Applying DR 5-105(B) and (C), the panel majority found that both trial courts had acted well within their discretion:

> Before merging with Jones, Day, MH & S sought such consent from Varian in the letter dated December 31, 1986. Clearly within its prerogative and also during the pre-merger period, *Varian rejected the proposed offer of simultaneous representation* in the letter to MH & S dated January 9, 1987. Having failed to obtain Varian's consent to the overlapping representation, MH & S attempted to legitimize the continuing representation of Picker in these two cases by trying to withdraw its representation of Varian in all outstanding matters. However, *MH & S's unilateral attempt to terminate Varian as a client was not complete and thus could not resolve the conflict problem posed by the impending merger.* MH & S's and Jones Day's actions have therefore violated DR 5-105. Moreover, the district courts acted within their discretion in concluding that only disqualification would suffice to resolve the conflict.[202]

The lack of completion of withdrawal by MH & S resulted from its failure to file a motion with the Northern District of California in the *Genus* case, seeking leave to withdraw -- an action which was not taken because Varian had explicitly requested that MH & S refrain from doing so. The panel majority worked its way out of this quandary by concluding that MH & S was duty-bound to ignore that request.[203] The panel majority plainly blessed Varian's tactical ploy of freezing MH & S in place, while recognizing that MH & S, pursuant to DR 2-110(B)(2), had to withdraw from the *Genus* representation.[204]

The panel majority found a clear violation of the undivided duty of loyalty mandated by Canon 5:

> The propriety of an attorney's conduct under DR 5-105(B) is "'measured not so much against the similarities in litigation, as against the duty of undivided loyalty which an attorney owes to each of his clients.'" . . . Since clients of the same firm with conflicting or differing interests are protected by the consent and obviousness conditions of DR 5-105, and since Varian never gave its consent to the newly merged firm for the firm to represent Picker in the action against Varian, Jones Day's continuing representation of Picker in these two cases violated the undivided duty of loyalty that it owed to Varian. As the Ohio district court points out, while the firm may represent clients with inconsistent interests if the criteria of DR 5-105 are met, the firm may not choose to represent only one.[205]

Picker had maintained that *Manning v. Waring, Cox, James, Sklar and Allen*, representing controlling Sixth Circuit precedent, demonstrated that no conflict of interest existed in the particular merger situation at bar. The panel majority disagreed:[206]

> *Although the Manning case did involve a lawyer joining another firm,* the Court of Appeals for the Sixth Circuit analyzed the conflict in that case *according to the principles behind Canon* 4 of the Model Code of Professional Responsibility, i.e., the duty owed by a law firm to a former client, instead of Canon 5, i.e., the duty of undivided loyalty a law firm owes existing clients. The court was also concerned about a potential violation of DR 5-105 based on an actual conflict of interest, but determined that a confused factual record prevented a ruling on that issue. The case was remanded to clarify the facts. We do note, however, that the Court of Appeals for the Sixth Circuit stated that if an actual conflict existed and knowing consent was not given by both clients, then the district court's decision of disqualification would stand affirmed.[207]

The panel majority noted that law firm mergers were not isolated events in this era, but stated their strong belief that the firms could not be left to their own choice of who should continue to receive representation after the merger:

> We recognize that conflicts of interest between clients arising under DR 5-105 may increase as mergers between law firms become more common. . . . To allow the merged firm to pick and choose which clients will survive the merger would violate the duty of undivided loyalty that the firms owe each of their clients under DR 5-105. . . . If clients with conflicting interests do not consent to simultaneous representation, then the newly merged firm must follow the standards in DR 2-110.
>
> DR 2-110 recognizes the right of a court to create rules to require attorneys to gain leave of court in both permissive and mandatory withdrawal situations before they can withdraw their representation of clients in proceedings before that tribunal. As in any other case involving withdrawal, the newly merged firm must follow any applicable local rules relating to DR 2-110. The newly merged firm of Jones Day failed to follow the standards set forth in DR 2-110.[208]

Judge Archer dissented, maintaining that a balancing test should have been applied to the facts as they existed at the time of appeal. He noted that all of the Varian matters referred to had been settled or disposed of with the exception of one patent application.[209]

He also pointed out the long standing caution against allowing disqualification to be used as a tactical tool, implicitly responding to what he may have felt the record demonstrated.[210] Judge Archer specifically commented on the panel majority's error in applying a *per se* rule of disqualification, to the merger-induced simultaneous representation conflict which was in issue:

> *I am convinced that the district courts erred in applying what amounted to a per se rule for disqualification under Canon 5 because no consideration was given to the detriment that Picker might suffer.* The district court did *not* balance the duties and responsibilities to both clients and their respective interests.
>
> . . . .

> DR 5-105 says that "[a] lawyer shall not continue multiple employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by his representation of another client, or if it would be likely to involve him in representing differing interests." *Under this rule, all the facts and circumstances must be considered, recognizing there is a duty of loyalty to both clients.* The language of the rule is broad and subject to flexible interpretation as indicated by the phrases "likely to be adversely affected by his representation" and "representing differing interests." This is *not* a case where a law firm desired to drop a client in order to represent another client against the abandoned one, . . ., or where a law firm finds itself representing separate clients on both sides of the same issue. . . . Rather, this case is one where a law firm by reason of a merger finds itself representing two clients on different issues; however, one of these clients with representation in the particular case by another law firm is being sued by the other client of the merged firm.[211]

His conclusion as to how the trial courts should have been told to handle the matter by the Court was that the district courts should apply a balancing test to the facts as they presently existed. The detriment each client would suffer by withdrawal should have been determined, with prejudice to the respective clients as the courts' foremost consideration, the merged law firm having a duty of loyalty to both.[212]

Judged from the situation at the time of the decision on appeal, *Picker* set a very rigorous standard of simultaneous representation conflicts, specifically in a law firm merger context. Automatic disqualification absent informed consent, in the panel majority's view, is a supportable result, without the application of balancing that the Federal Circuit had undertaken, *sua sponte*, in its earlier decisions, *Panduit* and *W. L. Gore* being examples. A single patent application project always underway at each of a number of firms, then, would appear to insulate any entity, individual or corporate, from suit by each and every one of those firms.

Other decisions, in addition to *Strategem Development*, indicate no easing of this *Picker International, Inc. v. Varian Associates, Inc.* standard, other than in the *Gould* scenario.[213] But wait -- that may not quite be correct.

Two recent but opposing views on the simultaneous but unrelated representation issue were recently noted in the ALAS Loss Prevention Journal: *Red Eagle Resources Corp. v. Baker Hughes, Inc.*[214] and *SWS Financial Fund 4 v. Salomon Brothers.*[215]

In *Red Eagle*, the Fifth Circuit reversed a trial court decision allowing, under Texas' particular version of Model Rule 1.06, an attorney to sue an existing client on an unrelated matter, while, in *SWS Financial*, the opposite result was reached under Illinois' rules:

> In *Red Eagle* the Fifth Circuit disqualified a law firm even though the applicable Texas Rule of Professional Conduct literally permitted the adverse representation. In *SWS Financial* the District Court declined to disqualify a law firm even though the applicable Illinois Rule of Professional Conduct literally prohibited the adverse representation.
>
> *Red Eagle* involved an interpretation of *Texas' unique Rule of Professional Conduct 1.06(b).* Texas -- alone among American jurisdictions -- pursuant to its Rule 1.06b) *explicitly permits representation adverse to an existing client on an unrelated matter without that client's consent. The District Court held that the Rule means what it says, and refused to disqualify a law firm from suing its existing client, Dresser Industries, while simultaneously representing Dresser in other unrelated Texas litigation. On Writ of Mandamus, the Fifth Circuit reversed* the District Court, ruling from the bench at the conclusion of oral argument that the law firm should be disqualified. The Fifth Circuit's brief Order promised that an opinion would follow, but no opinion has been issued as of May 20, 1992. *The indications are that the Fifth Circuit will hold that a lawyer may not rely on Texas Rule 1.06(h) as the basis for representation adverse to an existing client if the lawyer is alleging egregious wrongdoing by the existing client.* In the instant case, the law firm alleged that Dresser had engaged in serious violations of the antitrust laws, including fraudulent concealment.[216]

In the context of intellectual property causes, in Texas you would not be able to raise an inequitable conduct defense against the ongoing but unrelated-matter client, even though you could apparently bring suit for a declaratory judgment of invalidity and non-infringement.

As to *SWS Financial*:

> *SWS Financial* involved an *interpretation of Illinois Rule of Professional Conduct 1.7(a), which explicitly prohibits representation "directly adverse to" an existing client, even on an unrelated matter, without that client's consent.* Generally, during the past 10 years courts have been vigorous and rigorous in enforcing this well-established proscription, and have consistently disqualified lawyers who are engaged in representation adverse to an existing client, with little or no analysis of the severity of the adversity, and with little or no evaluation of whether the existing client has in fact been harmed, because this fundamental principle is based on a lawyer's duty of undeviating loyalty to an existing client.
>
> In *SWS Financial*, however, the District Court *declined to disqualify a law firm notwithstanding the Court's finding that the law firm in its capacity as plaintiffs' counsel was in violation of Illinois Rule* 1.7(a) because it was suing an existing client, Salomon Brothers. The Court may have been influenced by the following factors:
>
> (a) Salomon was *a short-term* and relatively *minor client of the law firm*,
>
> (b) the law firm had recently completed a *one-shot assignment for Salomon and did not actually have anything pending* for Salomon when it sued Salomon,
>
> (c) *the law firm's clients*, the plaintiffs, *were substantial and long-time* client of the firm,
>
> (d) the *matter in suit was unrelated to the law firm's previous work* for Salomon, and
>
> (e) Salomon clearly was no longer an existing client of the firm at the time the disqualification issue was presented to the Court.

> In any event, District Judge Duff held that flexibility was desirable "in a case involving mega-firms . . . and mega-parties (like Salomon Brothers)." He concluded by saying "this court does not believe that disqualification should be an automatic sanction," and declined to disqualify the law firm.[217]

Contrast this with the Third Circuit's outlook in *IBM*, and the distance between them is substantial -- and real.

E. Attorney Migration

Law firm mergers, once rare, are not the only type of "lawyer-in-motion" which may give rise to a question of attorney disqualification. The "cradle to grave" concept of law firm/lawyer alliance has eroded even more markedly than the growth of law firm mergers. When an attorney leaves firm A and joins firm B, disqualification exposure may follow.[218]

The Federal Circuit first addressed the effect of attorney movement between firms in *Panduit Corp. v. All States Plastic Mfg. Co.*[219] In July 1981, Panduit filed a motion to disqualify the Laff Firm. The motion was based on an alleged conflict of interest created by the merger on July 1, 1981, of the law firm of Robert F.I. Conte Ltd. with the Laff Firm, which brought Conte into the firm.

From 1965 to 1975, Conte was an attorney with Ladas & Parry in its Chicago office, working under an employment contract during the entire period. During 1969-1975, the Chicago office of Ladas & Parry was retained to handle Panduit's foreign patent work. During the period 1969-1975, the firm filed approximately 170 Panduit applications.

Chrystal, the senior partner in the Ladas & Parry Chicago office, had at all times been in charge of its work for Panduit. In the period prior to 1975, Chrystal was assisted on the Panduit matters by two other attorneys, Peterson and Streit. While with Ladas & Parry, Conte was never assigned to or worked on any Panduit matters, never reviewed or studied any Panduit files or documents, and never met with any Panduit personnel. Nor was it asserted that he was ever consulted informally on any Panduit matter.[220]

A change in Mr. Conte's employment situation eventually led to his merging his practice with the Laff Firm. During discovery in the case, All States served a subpoena upon Ladas & Parry, seeking all files it maintained on behalf of Panduit. A deposition was taken of Streit in connection with the documents, which Conte attended to gain experience in litigation. Subsequently, Panduit's counsel was informed by

telephone that Conte was coming over to inspect the 170 Ladas & Parry files which had been produced at the Streit deposition. Having learned in the interim that Conte had been with Ladas & Parry during the period when that firm had been actively handling Panduit matters, Panduit's counsel refused to permit Conte to inspect the files. In response to this objection, Laff informed Panduit's counsel that Conte would no longer be involved in the case, and he had not been, except for preparing affidavits in connection with the disqualification motion. (All States asserted that he had been "screened " since that time.) On July 27, 1981, Panduit filed a motion to disqualify the Laff Firm from further representation of All States.[221]

To support the motion before the trial court, by establishing that Conte acquired Panduit confidences at Ladas & Parry, Chrystal testified that he, Conte, and other members of the firm regularly had lunch together at the Union League Club in Chicago. Chrystal and Conte disputed the frequency of the lunches but, at a minimum during 1972-1975, when Conte was a special partner, it would have been at least once a month. Although he was unable to recall a specific instance or a specific topic discussed with Conte, Chrystal nonetheless testified that Panduit matters, especially certain overseas patent opposition proceedings, were discussed frequently because it was unusual to have so many going on at one time. Chrystal's testimony was generally corroborated by Peterson, although he too could not recall specifically that Conte was present at any of these discussions.

The trial court ruled that any specific confidences known to Chrystal could not be disclosed, recognizing that this created a dilemma to All States with respect to proving that Conte received no confidences. Chrystal was, however, permitted to identify general areas of confidences. In addition to the opposition matters, he recalled two others, one in 1969 relating to replacing a German associate whose work was not satisfactory and one relating to a French matter. He could not remember passing on these confidences, or any other, to Conte. His testimony essentially was that he must have shared Panduit confidences with Conte because of the frequency of the lunches and because he, Chrystal, was like a broken record repeatedly talking about the Panduit oppositions.

Conte testified that he did not recall ever receiving any Panduit confidences while at Ladas & Parry. In addition, he testified that he had no present recollection of any Panduit confidences, if he received any, and that he had never communicated to anyone at the Laff Firm any Panduit confidences. Laff also testified that no Panduit confidences were received from Conte.[222]

The trial court, having heard the testimony, made four findings of fact:

> One, All States *had not* proved clearly and effectively that Conte *never* received any confidential information concerning matters relevant to this case while he was with the firm of Ladas & Parry.
>
> Secondly, All States *had* proved clearly and effectively that Mr. Conte had no present recollection of any such confidential information.
>
> Third, *All States had proved clearly and effectively that Mr. Conte had not communicated to anyone at the Laff Firm any confidential information concerning Panduit which he may have received while at the Ladas & Parry firm.*
>
> Fourth, All States *had not* proved clearly and effectively that there was *no* possibility of an inadvertent use of such confidential information by Mr. Conte should he at some time in the future recollect that information.[223]

Based upon those findings, the trial court concluded that Conte and the Laff Firm had to be disqualified. The trial court noted, however, that the disqualification would impose a very substantial economic hardship on All States, and that the likelihood of actual prejudice to Panduit, if the Laff Firm remained as counsel, was very slight. Nonetheless, it granted the motion. Relying upon the CCPA's holding in *Au Ju Steel Co. v. Armco, Inc.* that a grant of a motion to disqualify counsel was immediately appealable, and finding that the same result had been reached in the Seventh Circuit in *Freeman v. Chicago Musical Instrument Co.*,[224] the Court found that it had jurisdiction to hear the immediate interlocutory appeal.[225]

With respect to the applicable law, the Court, after reviewing the Federal Courts Improvement Act of 1982, which created the United States Court of Appeals for the Federal Circuit, held that Seventh Circuit law controlled, because:

> [A]s a matter of policy, that the Federal Circuit shall review procedural matters, that are not unique to patent issues, under the law of the particular regional circuit court where appeals from the district court would normally lie.

To apply Seventh Circuit precedent, the Court first reviewed it in detail, noting the Seventh Circuit's cautious approach to disqualification:

b. **Hercules, Inc. v. Exxon Corp.**, 434 F. Supp. 136, 156 (D. Del. 1977). "In general, the voluntary waiver by a client, without limitation, of one or more privileged documents passing between a certain attorney and the client discussing a certain subject waives the privilege as to all communications between the same attorney and the same client on the same subject. . . . The underlying rationale is one of fairness. A party cannot disclose only those facts beneficial to its case and refuse to disclose, on the grounds of privilege, related facts adverse to its position . . . . The privilege or immunity has been found to be waived only if the facts relevant to a particular, narrow subject have been disclosed in circumstances in which it would be unfair to deny the other party an opportunity to discover the relevant facts with respect to that subject matter."

c. **Fonor Corp. v. Johnson & Johnson**, 227 U.S.P.Q. 886, 888 (D. Mass. 1985). "It is important to the efficient administration of justice, including the preparation and narrowing of issues for trial, that parties are not unduly inhibited from disclosing documents even though they may be privileged. A narrow construction of the scope of the subject matter as to which waiver has been made is therefore appropriate."

d. **Board of Trustees v. Coulter Corp.**, 118 F.R.D. 532, 533 (S.D. Fla. 1987). "First, COULTER has waived the privilege as to communications and documents relating to the advice given by [its attorney] by deliberately injecting the advice into this case as a defense to THE BOARD'S allegation that the alleged infringement was 'willful and deliberate.' Second, waiver exists because it would be inequitable to have COULTER present selected communications in its defense, while withholding from THE BOARD possibly damaging communications under the guise of attorney-client privilege."

> *The results, as well as the language, in these recent cases indicate that the Seventh Circuit considers the right of a party to select counsel of his choice to be a matter of significant importance, which will not be disturbed unless a specifically identifiable impropriety has occurred.* . . . A disqualification order discredits the bar generally and the individual attorneys particularly. Thus, while there can be no hesitation to disqualify where impropriety *has occurred*, as in the cases cited by the parties upholding disqualification . . . *judges must exercise caution not to paint with a broad brush under the misguided belief that coming down on the side of disqualification raises the standard of legal ethics and the public's respect. The opposite effects are just as likely -- encouragement of vexacious tactics and increased cynicism by the public.*[226/]

The Court particularly addressed the presumptions which the Seventh Circuit applied in disqualification cases, specifically noting that that court analyzes the disqualification of the firm separately from the individual and carefully weighs each step. That presumption review, applied to the facts in issue, went as follows:

> First, proof by the movant of a base fact, the existence of a so-called "substantial relationship" between past work and the suit at hand, gives rise to a presumption that an attorney who actually did the past work received confidences relevant to the present litigation. Second, there is a presumption that attorneys within a firm share each other's confidences, so that knowledge will be imputed from one to the other.
>
> In the decision under review, no clear distinction was drawn between the above two presumptions. . . . Panduit's analysis would be apropos only if Chrystal rather than Conte had moved to the Laff Firm. Proof of the substantial relationship here gave rise to a presumption against Chrystal, not Conte. Moreover, Chrystal and the client Panduit are not in an adversarial relationship . . . Chrystal's knowledge is being *imputed* to Conte. No Panduit

> confidences could have been obtained by Conte as a result of work by him on Panduit matters since he never performed such work. Further, the district court held that Panduit failed to prove that Conte actually received any Panduit confidences. *Nevertheless, based on the fact that Conte and Chrystal were in the same firm, confidences have to be imputed from Chrystal to Conte unless Conte effectively rebutted the sharing presumption.*
>
> . . . .
>
> With respect to disqualification of Conte, the district court held that the presumption against him could be rebutted if he could prove that he never received any confidential information. *At this juncture the point to be made is that Conte was disqualified vicariously because of Chrystal's work not because of his own work. The Laff Firm was then disqualified solely because of the "sharing" presumption. It is significant, however, the underlying the presumption invoked against the Laff Firm is Conte's imputed knowledge.*[227]

These presumptions were the key both to the trial court's decision and the Federal Circuit's reversal.

What was actually relied upon by the trial court, the Court thus found, in disqualifying the Laff Firm, was a re-imputing of imputed knowledge a legally unsupportable position.[228] In the alternative, the Court found that, even if the Seventh Circuit were to approve the re-imputation of imputed knowledge, the Laff Firm had rebutted that presumption by proof that no confidences had been received from Conte.[229]

One last issue of importance remained. The trial court had also held that disqualification of the Laff Firm was required because of the absence of a formal screen or wall at the time Conte arrived.[230] The Court did not find the absence of the screen to be fatal:

> As illustrated in the in banc *Novo* case, the presumption of sharing between partners of a firm can be overcome by testimonial evidence, despite the absence of screening. The district court failed to appreciate that evidence of voluntary screening procedures is simply one type of

evidence that may overcome the presumption of shared confidences. Thus, the question of the Laff Firm disqualification cannot be disposed of simply by the absence of screening. The question before the district court was whether, considering all the evidence, it was *likely* that confidences had been passed to the firm. In the face of the district court's finding that the Laff firm had *received no confidences* from Conte up to the time of the hearing, it was error to find that it was "too late" to formally endorse screening procedures.

Nowhere in Seventh Circuit opinions has proof of *formal screening* been delineated as the *sine qua non* of establishing the nonexistence of the presumed fact that confidences have been shared . . .

. . . .

In any event, in *Novo* the presumption of shared confidences was overcome despite six months of a continued partnership relationship without a wall to prevent sharing. A rule that screening is the exclusive means of rebutting the presumption that confidences have been shared, *regardless of independent evidence*, cannot rest on *LaSalle* or *Schiessle*.[231]

In closing, the Court addressed the "realities accompanying this particular disqualification," in which, *sua sponte*, the application of a balancing standard was brought out:

Thus, with each presumption in the chain utilized in this case, we must not lose sight of the Seventh Circuit's view that attorney disqualification as a prophylactic device should not be imposed unless "absolutely necessary". We must not give undue dignity to a procedural tool and fail to recognize the realities of the particular situation at hand.

One of the realities accompanying this particular disqualification is that reversal of the district court will likely result in *no prejudice* to Panduit. The district

court analyzed the prejudice to Panduit from the Laff Firm remaining in the case as follows:

> "The possibility of prejudice resides entirely in the prospect of Mr. Conte recovering whatever memory he might perchance recover concerning some confidential information he may or may not have received at some remote time in the past. The probability that any such revival of memory would materially assist Mr. Laff or any other member of the Laff firm at this stage of this litigation seems to me to be very small."

On the other hand, the prejudice to All States is catastrophic. Its long standing counsel, a relationship established before this case began, is no longer available and could not even consult on transfer of the case to another firm. The estimate of costs in 1981 for bringing in new counsel was $30,000-$50,000, no doubt now substantially more. Other pending litigation will also be affected. The balancing of interests at the time of the hearing did not require disqualification of the Laff Firm.[232]/

The *Panduit* court, then, refused to disqualify the firm which hired the moving attorney, where that attorney had no personal involvement in any of the work his old firm had performed for the patentee relating to the subject matter of the patent-in-suit in the litigation.

In *EZ Paintr Corporation* v. *Padco, Inc.*,[233]/ the Federal Circuit was again faced with a "side switching" situation, where the trial court had disqualified Padco's law firm because two newly-joined members of that firm had, immediately prior to that joinder, been partners in a law firm representing EZ Paintr as local counsel in the same case.[234]/

The underlying action, begun in February 1981, was brought by EZ Paintr Corporation ("EZ Paintr") for infringement by Padco, Inc. ("Padco") of EZ Paintr's patent for an extension handle; Padco counterclaimed that EZ Paintr had infringed Padco's patent relating to textured paint rollers. From the beginning of the case EZ Paintr was represented by Schneider and others (of Chicago) as well as by the Schroeder firm of Minneapolis. Padco was represented by the Kinney firm of

Minneapolis. Effective April 1, 1983, while the action was pending, two members of the Schroeder firm, Messrs. Silvertson and Steffey, left that firm and joined the Kinney firm.

On May 31, 1983 EZ Paintr asked the Kinney firm to disqualify itself from representing Padco. After the Kinney firm declined, EZ Paintr filed a motion for disqualification of the Kinney firm on June 3, 1983. The matter was referred to a Magistrate who recommended that the motion be granted. Padco sought review by the trial court and filed further affidavits. The District Judge made a *de novo* determination under 28 U.S.C. § 636(e)(1), and granted the motion to disqualify. She also forbade the Kinney firm from handing over to successor counsel any work product produced after April 1, 1983.[235]

The controlling rule of law in the Eighth Circuit in this situation was not clear, according to the Federal Circuit. That being the case, the Court turned to the general weight of authority:

> We are satisfied that [the Eighth] Circuit would not be less solicitous of client confidentiality than the general weight of authority which is that - where a substantial relationship is found to exist between two adverse matters (and sides) in which the challenged attorney or his firm has participated and will participate - there is a presumption (in the situation of a private lawyer's "changing sides") that confidential disclosures passed to the challenged lawyer, but that presumption is rebuttable.[236]

The Court had little trouble in affirming the disqualification on the record before it:

> No one disputes, or could challenge, the fact that there is a substantial relationship between the prior and present representation of Silvertson and Steffey. This is one continuous case, and those attorneys were first members of a law firm (the Schroeder firm) representing EZ Paintr in this case, and later became members of the partnership (the Kinney firm) representing the opposite party, Padco, in the very same litigation. Of course, if the presumption that client confidences passed to them while at the Schroeder firm is irrebuttable, that would plainly be ground for disqualification in the circumstances here. If the presumption is not

> irrebuttable but rebuttable, the District Court could properly find on this record, as it did, that the presumption had *not* been rebutted.[237]

The use of a Chinese wall to avoid disqualification had been raised with the trial court, but the Federal Circuit agreed that it was too little, too late:

> One possible way of dealing with the presumption is fully to "screen off" the attorney changing sides as soon as he joins the new firm. This is often called building a "Chinese Wall" between him and all further matters dealing at all with the litigation. . . . Here, *it was not until after the Magistrate issued his first report and recommendation* (July 13, 1983) *that appellant even suggested that it might erect such a "Chinese Wall." This was more than three months after Steffey and Silvertson had joined the Kinney firm, and of course after appellee had made its disqualification motion.* Judge Murphy held that this offer of a "Chinese Wall" was too late. We agree it was permissible for her to hold that *the screening arrangement must be set up "when the potentially disqualifying event occurred"* and the new firm knows (or must have been aware) of the problem - in this case that date was when the two attorneys first joined the Kinney firm on April 1, 1983 - and cannot fault the District Court for following that principle.[238]

The timing of the establishment of the Chinese wall or screen is thus of paramount importance to its successful use.

Delay in filing the disqualification motion was also raised as countering the propriety of disqualification - and quickly re-interred by the Court.[239]

The bottom line, the Court found, was that:

> In the end the crux of this case is that the Kinney firm did not do what it should have done-either postpone the coming of Steffey and Silvertson until the underlying litigation was finished, or place those attorneys behind a "Chinese Wall" (within the Kinney firm) as soon as it was decided that they would come there.[240]

Mobile lawyers and "side switching" were also the crux of the disqualification of counsel in *W.L. Gore & Associates, Inc. v. International Medical Prosthetics Research Associates*.[241] There, the trial court disqualified the Reed, Goldstein firm, on the basis that the Reed, Goldstein partner who was to be lead counsel for International Medical Prosthetics Research Associates ("IMPRA"), had been an antitrust litigator in the firm that had represented W. L. Gore in previous litigation against IMPRA involving a similar claim and antitrust counterclaim, and because another member of that firm had played an active role in representing W. L. Gore against IMPRA in a prior action while working for another firm. IMPRA sought to keep Reed and the firm, except for Goldstein, as its counsel asserting that the record established no conflict as to Reed, having screened Goldstein from the case.

Gore commenced the action below on April 3, 1984, accusing IMPRA of infringing its United States Letters Patent No. 4,187,390. Gore was represented by several law firms, including Martori, Meyer. IMPRA counterclaimed, alleging violation of 15 U.S.C. §§ 1 and 2 (Sherman Anti-Trust Act) in connection with marketing the subject goods of the parties. IMPRA was represented by McCabe, Polese & Pietzsch, from at least as early as commencement of suit. On April 10, 1984, IMPRA also retained Reed and Reed, Goldstein as co-counsel. Three days after IMPRA had retained Reed, Goldstein, Gore advised IMPRA orally of its objection to Reed, Goldstein representing IMPRA in the litigation. In a letter of April 18, 1984, Gore formally requested that the firm voluntarily withdraw. The subject motion to disqualify was filed on April 25, 1984, and was granted in an order dated May 18, 1984.

Gore's motion to disqualify the Reed, Goldstein firm charged that both Reed and Goldstein were tainted from their earlier employment with firms representing Gore against IMPRA in prior related litigation ("the '74 action").

Gore's complaint in the '74 action charged IMPRA and Green, a former Gore employee who is now president of IMPRA, with, *inter alia*, unfair competition by misappropriation of Gore's trade secrets relating to expanded, porous PTFE, particularly as applied to artificial vascular grafts. IMPRA's counterclaim in the '74 action charged Gore with, *inter alia*, violations of 15 U.S.C. § § 1 and 2 in connection with such products. Gore was represented in the '74 action by Martori, Meyer (one of its present counsel) and also by Brown, Vlassis & Bain ("Brown firm"). During the time of the '74 action, Reed was a litigation associate in his third and fourth years with Martori, Meyer. During the same period Goldstein was a first year associate at the Brown firm. There was no dispute, the Court stated, that, at the Brown firm, Goldstein played an active role in representing Gore against IMPRA. During the pendency of the '74 action, Goldstein corresponded

directly with Gore and its counsel. Goldstein's signature appears on requests for production of documents, responses to requests for production, answers to interrogatories, stipulations and notices of deposition. Goldstein also met personally with Gore's in-house and outside patent counsel on at least one occasion.

With respect to Reed, IMPRA disputed that Reed was tainted by his former employment. In response to the disqualification motion, Reed filed an affidavit averring that while at Martori, Meyer firm he never performed any services for Gore. He stated further that he "never saw any files, documents or other materials relating to [the Gore litigati n]," nor does he have any "present recollection" of any matters that related to the '74 action. Reed also averred that he was aware of the possible conflict regarding Goldstein even before Reed's first meeting with IMPRA, that Goldstein has had no access to the pertinent files, and that the case had not been discussed in Goldstein's presence.[242]

Because the trial court sat in the Ninth Circuit, the Federal Circuit applied Ninth Circuit law in deciding the appeal. The Ninth Circuit precedent set a very high standard of review, and, where a former representation situation was involved, the Court found that certain presumptions were set:

> The Ninth Circuit has stated that "[s]ubstantiality [of a former representation] is present if the factual contexts of the two representations are similar or related," and a substantial relation between the two cases will be presumed, "[i[f there is a *reasonable probability* that confidences were disclosed which could be used against the client in [a] later, adverse representation . . . ." Because both the fact and the appearance of total professional commitment are endangered by adverse representation in related cases, "[i]t matters not whether confidences were in fact imparted to the lawyer by the client. The substantial relationship between the two representations is itself sufficient to disqualify."[243]

The Court concurred with the trial court's findings below that substantial relationship existed between the two cases. The substantial relationship of the '74 and '84 actions, in turn, "establishes *prima facie* the case for disqualification against both Goldstein and Reed individually."[244]

IMPRA contended that the trial court's disqualification of the entire firm based upon Goldstein's prior involvement was improper because Goldstein had been effectively screened from the case: the screening, it argued, rebutted the presumption

of shared confidences between Goldstein and other members of Reed, Goldstein.

The Court stepped around this argument in a somewhat less than direct manner:

> IMPRA argues that the Ninth Circuit would . . . . allow the [sharing] presumption to be overcome. Thus, per IMPRA, the district court's disqualification of the entire firm was improper in view of the evidence assertedly showing the Goldstein has been screened. On the other hand, Gore argues that the Ninth Circuit has never approved screening and, in any event, the entire firm must, nevertheless, be disqualified on the basis of Reed's prior involvement. The truth of this latter proposition would enable us to properly resolve this appeal without exploring regions of the law not yet charted by the Ninth Circuit. Although we have stated that "[w]here the regional circuit court has not spoken, we need to predict how that regional circuit would have decided the issue," . . ., such a prediction would be improper unless essential to the disposition of the appeal. In this case it is not necessary since the presumption that Reed received confidences through his prior association with the Martori firm has not, in our view, been clearly overcome.[245]

Turning to safer ground for affirmance, the Court fashioned a status-based argument around Reed's uncontroverted affidavit, which IMPRA relied upon to rebut the shared confidences presumption:

> This affidavit, IMPRA asserts, is sufficient to dissipate any taint as to Reed under principles applied by the Ninth Circuit in *Gas-A-Tron of Arizona v. Union Oil Company of California*, *supra*, 534 F.2d 1322 (9th Cir. 1976).
>
> IMPRA is correct that in *Gas-A-Tron* the Ninth Circuit *did not disqualify a firm as a result of the hiring of an associate* who was asserted to be tainted by confidences imputed to him while an employee of another firm. *The Ninth Circuit made a pragmatic evaluation of the level of work of the associate and discounted the probability of his receiving confidences.* However, nothing in *Gas-A-Tron* requires us to alter the district court's disqualification order here. *This case has none of the flavor of the Gas-A-Tron situation where a young associate*

moved between large firms and was asserted to "taint" his new firm which was engaged in representing its regular clients. Only the most rigid and unreasoned application of the canons of ethics would require a client to be deprived of the counsel of his choice in such circumstances.

In this case we cannot say that the court abused its discretion by disqualifying Reed and his firm. First, in the Martori firm, Reed was a member of a small group of antitrust litigators, others of whom were actively representing Gore. *Inadvertent disclosure to him of Gore confidences cannot be ruled out, despite the fact that he never actually worked on Gore matters or looked at files. His absence of present recollection does not rebut the presumption of shared confidences.*

Further, Reed's statement is not the only consideration. Any ruling must take into account the nature of the role of the "tainted" attorney in the present litigation. *Reed is to be lead counsel in these proceedings. He is not merely an associate who is charged with tainting others.*[246]

Two final bases were advanced for affirmance: that IMPRA suffered no serious hardship because of the Reed, Goldstein disqualification,[247] and because of the alleged appearance of impropriety.[248]

In sum, the Court found, "when all factors were balanced, it could have reasonably been concluded that representation of IMPRA in this case by Reed and the Reed, Goldstein firm would adversely affect the public's perception of the integrity of the profession".[249]

"Switching sides" was also involved in *Atasi Corporation v. Seagate Technology*.[250] There, the trial court granted a motion to disqualify the Skjerven, Morrill firm from representing Atasi Corporation, and certified the order for review, pursuant to 28 USC § 1292(b), (c).

Atasi commenced the underlying action on November 20, 1984, accusing Seagate of infringing its United States Letters Patent No. 4,414,594, of breach of contract, and of unfair competition. Atasi was represented by the Skjerven, Morrill firm. Seagate was originally represented by the Flehr, Hohbach firm. Flehr, Hohbach later withdrew its representation and Seagate was thereafter represented by Limbach, Limbach & Sutton. On March 8, 1985, the proceedings and discovery in the suit were stayed pending outcome of patent reissue proceedings.

On November 17, 1986, Atasi moved to lift the stay. On that same date Seagate moved to disqualify the Skjerven, Morrill firm. Seagate charged that one of the Skjerven, Morrill firm's "of counsel" attorneys, Kallman, had previously represented Seagate in the litigation as an "of counsel" attorney to Flehr, Hohbach. Seagate argued that the Skjerven firm should be disqualified as a result of Kallman's "switching sides". There was no dispute, the Court noted, that Kallman was an "of counsel" attorney to the Flehr, Hohbach firm while it represented Seagate in this action, and that Kallman participated in the representation of Seagate. The trial court granted the motion. The Federal Circuit affirmed.

The Court based its analysis upon the familiar Ninth Circuit standard, that an order of a trial court exercising its jurisdiction and its responsibility to control the conduct of lawyers practicing before it, "will not be disturbed if the record reveals 'any sound' basis for the disqualification."[251/] It further noted that "the test for disqualification under Ninth Circuit decisions is whether the former representation by the attorney changing sides is 'substantially related' to the current representation."[252/]

The first question presented, the Court felt, was whether the presumption of shared confidences[253/] reached "of Counsel" lawyers; it held that it did:

> The applicability of this presumption to the facts before us is the key issue in the instant appeal. . . . Kallman and the Skjerven firm are governed in the instant appeal by both the California Rules of Professional Conduct and the local rules of the Northern District. . . . Disciplinary Rule 5-105(D) states that "[i]f a lawyer is required to decline employment or to withdraw from employment under a Disciplinary Rule, no partner, or associate, or any other lawyer affiliated with him or his firm, may accept or continue such employment." . . . The ABA Model Code as applied in court decisions is binding on the lawyers practicing before the Northern District.[254/] . . . Since the language of Rule 5-105(D) includes "any other lawyer associated with him" in addition to "partner or associate," we construe this language to include of counsel attorneys.
>
> In addition to the plain language of the disciplinary rules there are sound policies underlying the presumption of shared confidences. . . . The client has the right to expect that confidences disclosed to his lawyer will not be shared with others and will not be

used against him by his former lawyer or by lawyers associated with his former lawyers. The presumption that a lawyer switching sides shares confidences with his associates is essential to protecting these confidences.

This policy of preserving the client's confidences would be hindered if of counsel attorneys were excepted from the presumption of shared confidences. . . . In conclusion, we construe the plain language of the disciplinary rule to include of counsel attorneys. The policy underlying the rule requires a presumption of shared confidences and excepting of counsel attorneys from the presumption would undermine this underlying policy. Therefore, we hold the presumption of shared confidences applies to Kallman and the Skjerven firm.

In holding that the district court properly exercised its discretion in disqualifying the Skjerven firm we must observe that Kallman was more than a *de minimus* of counsel, an independent contractor working part time for the firm. His contract with Skjerven was in evidence before the district court and is before us. In brief, the contract establishes that Kallman had an active, and very close relationship with the firm.[255/]

The Court next addressed whether a Chinese wall or similar prophylactic device would serve to rebut the presumption of shared confidences. Under the Ninth Circuit precedent, although the matter was not without some doubt, the Court said "no":

Circuits which allow rebuttal of the presumption *require evidence of an effective screening of the tainted attorney from the rest of the firm* in order for the presumption to be successfully rebutted. *This is generally known as the Chinese Wall defense.* As the district court in the present case noted, the Ninth Circuit has not yet found it necessary to rule on the availability of such a defense to imputed disqualification. . . . It would be improper for this court to predict how the Ninth Circuit would decide that issue unless such a prediction was essential to the disposition of the appeal. . . . In the instant appeal, as in our decision in *W.L. Gore*, such a prediction is not essential to the disposition of the appeal since the

presumption of shared confidences has not been clearly overcome. *That is, despite the alleged oral screening* of Kallman by a Skjerven firm partner who instructed Kallman before he was hired to refrain from involvement in this litigation, the district court noted, "there is a complete lack of evidence before the court indicating that the *entire* Skjerven firm was also notified of this oral screening procedure *before* Kallman assumed his 'of counsel' position."[256]

But, Atasi argued, there are other mechanisms besides the Chinese wall, specifically, the "cone of silence" advanced in *Nemours Foundation* v. *Gilbane, Aetna, Fed. Ins. Co.*,[257] where screening was allegedly sufficient to rebut the presumption where the attorney switching firms, but not the other members of the firm, agrees not to share prior client confidences with his new associates. That, too, the Court found unpersuasive:

> As with the Chinese Wall, however, the Ninth Circuit Court of Appeals has never approved the cone of silence. Since the Ninth Circuit has yet to approve the Chinese Wall, which provides more assurance against shared confidences than the cone of silence, we do not now approve the latter method of rebuttal.[258]

Waiver comprised Atasi's final contention. It proved no more convincing.[259]

In summation, the Court again spoke of balancing, but found the balance to lie against Atasi:

> Atasi will undoubtedly suffer in time and expense as a result of the disqualification of the Skjerven firm. This is particularly unfortunate since it is the attorney's actions, not Atasi's, which resulted in the disqualification. It was Kallman and the Skjerven firm, not Atasi, who knew of the possible conflict. On the former client's side it was Limbach, not Seagate, who first learned of the conflict of interest.
>
> Though Atasi will undoubtedly suffer as a result of the imputed disqualification of the Skjerven firm, that alone is insufficient to prevent the disqualification. Again, there are competing policies affecting the disqualification rule and a balancing is

> necessary to determine which policy should have priority. Whenever a result is reached by choosing one policy over another the party in favor of the subordinated policy usually suffers. In the instant appeal the policy of preserving the former client's confidences is entitled to priority over the policy of freedom of choice counsel.[260]

The originating circuit's prospective acceptance of Chinese walls in an attorney migration-based disqualification attempt was sufficient to prevent disqualification in *Kennecott Corporation v. Kyocera International, Inc.*,[261] a recent "not for citation", *per curiam* opinion. Ninth Circuit law was applicable and controlling under the *Atasi Corp. v. Seagate Technology* rule.

In affirming denial of the disqualification motion against the Spensley Horn firm, the Court noted that the two migrating attorneys, Messrs. Guttman and Mohr, had been substantially related to the current litigation, under the standard of *Trone v. Smith*.[262] (Guttman had apparently represented Kennecott, and Mohr had been law clerk to the initial district court judge assigned to the case). Under *Atasi*, both Guttman and Mohr were personally disqualified from representing Kyocera, ". . . and the entire Spensley Horn firm is presumably disqualified."[263]

The Court then turned to the effect of the Spensley Horn firm's "Chinese wall". It first pointed out that the Ninth circuit had not yet reached the issue, but that it was the Federal Circuit's expectation that, when it did, it would allow the wall to serve to rebut the presumption.[264]

Analyzing the precautions taken by Spensley Horn, the Court found no abuse of discretion in the refusal to disqualify the firm:

> With respect to both attorneys, the law firm implemented specific mechanisms to prevent them from sharing any confidences with other lawyers at the firm. For example, upon learning of Guttman's prior representation, the firm immediately notified the other lawyers working on the case and circulated a firmwide memorandum indicating that a "Chinese wall" had been established around Guttman. Later, the firm circulated another memorandum and placed locks on the doors of the offices and storage rooms where the documents relating to the case were kept. Before Mohr was hired, both he and the firm clearly

> understood that he would be shielded from discussions concerning the case. Upon his arrival, all the Kennecott/Kyocera documents were already being stored separately from the firm's main file room. As in the case of Guttman, the firm later circulated a memorandum reminding all personnel of the "Chinese wall" around Mohr and placed locks on the file storage room containing the Kennecott/Kyocera documents. In light of these and other precautions taken by Spensley Horn, we cannot say that the district court abused it's discretion in refusing to disqualify the law firm.[265]

If the originating circuit precedent provides the proper foundation, it appears that the Federal Circuit is willing to follow the modern trend towards acceptance of a properly structured and installed "Chinese wall" to ameliorate vicarious disqualification of a lawyer's new firm.[266]

A moving lawyer again led to an attempt to disqualify in *American Sterilizer Co. v. Surgikos, Inc.*[267] There, Surgikos moved to disqualify Robert W. Turner and Jones, Day, Reavis & Pogue ("Jones Day") from acting for American Sterilizer Co. ("Amsco"), on the basis of Turner's alleged prior representation of Surgikos while a partner of the Hubbard Thurman firm.

In February 1987, Surgikos hired L. Dan Tucker, a partner at Hubbard Thurman, to meet with inventors, prepare a patent application on a hydrogen peroxide sterilization system, and file it with the United States Patent and Trademark Office ("1987 patent application"). Between that date and July 1987, Tucker and one of his associates, Brown, met several times with Drs. Jacobs and Lin at Surgikos' research and development laboratories in Arlington, Texas. In drafting the 1987 patent application, Tucker and Brown learned about Surgikos' inventions and related ongoing research and development in the field of hydrogen peroxide sterilization. Hubbard Thurman's billings for this work totalled several thousand dollars. When Surgikos received a draft version of the 1987 patent application prepared by Tucker and Brown, Surgikos decided to revise the application internally and submit it to the U.S. Patent and Trademark Office. Tucker and Brown did not represent Surgikos after mid-1987.

During the entire period of Hubbard Thurman's representation of Surgikos, Robert W. Turner was a named partner of Hubbard Thurman. At that time, Hubbard Thurman, which consisted of about twenty patent lawyers, had numerous clients and averaged about 1200-1500 new client matters each year. Like many patent firms, some members primarily

concentrated on litigation and counselling while others focused on patent drafting and prosecution. Turner's practice in 1987 was limited to litigation and counselling; he had virtually no involvement in patent application work and did not assist in any way with the preparation of the 1987 application undertaken by Tucker and Brown.

In March 1989, Amsco filed suit against Surgikos and alleged that Surgikos infringed Amsco's patent on the use of hydrogen peroxide sterilization. The law firm Kirkpatrick & Lockhart in Pittsburgh initially represented Amsco. In mid-to-late 1990, Turner left Hubbard Thurman and joined Jones Day as a partner in its patent section. In November 1990, the court granted Amsco's motion to substitute Jones Day for Kirkpatrick & Lockhart. The Jones Day litigation team consisted of Messrs. Adamo, O'Hearn, Perez, and Turner. At that time, an appeal was pending and a trial date was scheduled for February 25, 1991.

Surgikos' lead counsel first raised a question about Turner and Hubbard Thurman's prior representation of Surgikos at a March 1991 deposition. Amsco attorneys immediately informed Surgikos' counsel that Turner had no involvement with the 1987 patent application and that he knew nothing of its contents or of any communications between Surgikos and either Tucker of Brown. Nonetheless, in order to resolve what Surgikos felt to be a conflict of interest, Surgikos requested that, *inter alia*, Jones Day and Turner recuse themselves from the case. Amsco refused. A series of letters then flowed between the parties in which Surgikos maintained that Jones Day had a conflict of interest while Amsco assured Surgikos that its concerns were unfounded. On April 1, 1991, Turner sent a letter to Surgikos in an attempt to address and resolve the conflict-of-interest dispute:

> As you well know, I have had no personal participation in representing Surgikos at any time in the past, and I have never received any information at my former firm concerning Surgikos. To the contrary, I was not even aware that my former firm had ever performed any work for Surgikos, prior to becoming involved in this matter, contrary to the accusations made in your letter . . . . I assume that the information contained in this letter puts the disqualification matter to rest.

In December 1991, Surgikos' counsel conducted depositions, all of which were attended by Turner for Amsco with the only protest from Surgikos being a passing reference to its position on the disqualification issue. In an effort to put the newly-resurfaced issue to rest, Amsco's counsel advised Surgikos' counsel by letter dated January 17, 1992, that any

continued discovery would be taken as a waiver of the alleged conflict of interest.

The next week, Surgikos conducted more depositions, once again, defended by Turner. In February 1992, Amsco commenced its initial discovery regarding Surgikos' redesigned sterilizer. Because Surgikos believed that it would be forced to reveal confidential information regarding its sterilizer, Surgikos moved for disqualification and cancelled all discovery scheduled by Amsco.

The court reviewed the controlling precedent, concluded that the Fifth Circuit's rules on former representation and substantial relationship applied, and proceeded to consider the Turner/Jones Day situation under those rules:

> A. *Robert Turner and/or Jones Day*
>
> Although the 1987 patent application and this case concern the same subject matter, *this Court does not believe that defendant Surgikos has met its heavy burden of proving, in detail, a substantial relationship between the two.* Although Surgikos argues that Amsco substituted Jones Day as counsel and specially selected Turner for the litigation team precisely because of the substantial relationship between the subject matters of Hubbard Thurman's representation of Surgikos and the present representation, Turner testified that he agreed to work on the Jones Day litigation team because his calendar was free and because he was familiar with the practice in the Northern District of Texas. *Moreover, Surgikos apparently admitted, by its own statements and responses to Amsco's discovery requests, that the 1987 patent application is not relevant to the issues in the above-styled and numbered cause.* Shortly after filing suit, Amsco requested Surgikos to identify and produce each of its patent applications related to its sterilizer. Surgikos' counsel objected to producing anything other than its 1986 Jacobs patent application stating: "[t]he other patents and patent applications identified *are not believed to be pertinent to any pleaded issue in this litigation.*" (emphasis added). Surgikos never produced the 1987 patent application prepared by Tucker and Brown.
>
> Nevertheless, even if, contrary to this Court's belief, a substantial relationship does

> exist, *this Court finds that Turner had no involvement in Hubbard Thurman's representation of Surgikos and does not know anything about the 1987 patent application.* Turner, Tucker, and Brown all submitted affidavits stating that Turner did not acquire confidences regarding the 1987 patent application and that Tucker and Brown did not discuss the application or any aspect of Hubbard Thurman's representation of Surgikos with Turner.[268]

Nothing particularly startling here -- Surgikos simply failed to carry its burden.

Surgikos had another argument, however, of somewhat more ingenuity or deviousness, dependent upon one's perspective. Surgikos contended that Jones Day should have "Chinese-walled" Turner the minute he joined the firm, despite the fact, as the court found, that Turner had no idea his old firm had represented Surgikos. Having failed to do so, Surgikos said, that in and of itself was sufficient to take Turner and Jones Day off the case.

The Court disagreed:

> Despite these affidavits, Surgikos argues that Jones Day should have created a "chinese wall" to shield Jones Day from any potential confidential information held by Turner. *A chinese wall, however, is necessary only when the newly arriving attorney has actual knowledge of client confidences from his former firm's representation.* Although the parties dispute whether Turner actually knew about Hubbard Thurman's representation of Surgikos when he agreed to represent Amsco against Surgikos, it is clear that he personally has never represented Surgikos, either at Jones Day or at his former firm. *Because Turner did not, and does not, have any actual knowledge or confidential information, a chinese wall was not necessary.*
>
> This Court holds that since Turner did not personally participate in the 1987 patent application, he is not presumed to have received confidential Surgikos information. Accordingly, he did not permanently carry any imputed knowledge of confidences acquired from his former firm's representation of Surgikos to Jones Day. This Court, therefore, declines to disqualify Robert Turner or Jones Day from representing Amsco in the above-styled and numbered cause.[269]

One other issue remained. Jones Day had alleged that, because of Surgikos' dithering about disqualification, it had waived its right to do so. In a *dictum*, the Court agreed:

> Finally, this Court notes that even if disqualification of Turner and Jones Day were appropriate, which it is not, *failure of a party to move timely for disqualification may result in waiver of the right to do so.* Waiver is particularly relevant when a motion to disqualify is used in an abusive manner as a part of litigation tactics. *Atasi Corp.*, 847 F.2d at 832.
>
> *Surgikos did not file its motion for disqualification until nearly a year after first raising questions regarding the potential conflict of interest* of Turner, Jones Day, and Harris. Although Judge Belew stayed discovery in the case, the parties continued to correspond about other matters, and approximately eight months passed (April 1991 to December 1991) without a single word from Surgikos' counsel about a conflict of interest or about disqualification. Moreover, Surgikos' counsel interacted repeatedly with Turner and even conducted depositions at which Turner was Amsco's lead counsel. Finally, since the time that Amsco substituted Jones Day for its legal counsel, Jones Day attorneys have spent many hours familiarizing themselves with the extensive discovery that preceded the change of counsel, retaining and consulting with experts, attending to case preparation, and attending the depositions taken by Surgikos. At this late date, Amsco would be severely prejudiced by an order denying it the right to continue with Jones Day as its choice of counsel.[270]

F. Pre-Engagement Communications

Disqualification questions may arise even where an attorney is ultimately not retained to handle a matter, if confidential information is divulged during pre-engagement sessions with a potential client.

The effect of a pre-engagement consultation on attorney disqualification was in issue in *Kearns v. Fred Lavery Porsche Audi Co.*[271]

In March 1982, Kearns brought a patent infringement suit in the Eastern District of Michigan against Audi NSU Auto

Union, A.G. and Volkswagenwerk, A.G. (manufacturers respectively of Audi and Volkswagen automobiles), Fred Lavery Porsche Audi Co. and Wood Motors Inc. (Michigan sellers respectively of Audi and Volkswagen autos), on five United States patents directed to automobile intermittent windshield wiper systems. In August 1983 Kearns moved to disqualify Audi's attorney, Lalos, and his law firm from representing Audi, the ground asserted being that Kearns had earlier consulted Lalos for the purpose of obtaining Lalos' representation of Kearns in related patent infringement suits previously brought (in 1978) by Kearns on the same patents against Ford Motor Co. and Wood Motors (a Ford dealer).

In March 1981, Kearns approached Lalos to ascertain whether he would represent Kearns in the litigation against Ford. At their first meeting, on March 13, Kearns told Lalos that Audi was a potential defendant in another patent suit which could be brought on the same patents (a notice of infringement had already been sent to Audi). Lalos advised Kearns that he had, and did, represent Audi on patent matters, although he had not yet been retained to represent Audi on the matter at issue in the case.

While hotly contested, in the Federal Circuit's words, the trial court further found that, at that first meeting, Lalos said to Kearns that he might be able to represent him in the pending litigation against Ford if there could be a satisfactory settlement of the potential Audi case. Kearns believed that Lalos seriously considered representing him, and for the period of approximately March 13 (the date of the first meeting) until April 8, 1981, Kearns and Lalos discussed Lalos' representation of Kearns. In these discussions, the trial court found, they went into the facts of the case, both public and confidential, in great detail. Some time after the initial conference on March 13 (and before April 8th), Kearns delivered to Lalos all the documents in the Ford case that he had obtained from his prior lawyer. These documents contained, among other things, "handwritten notes of [the prior lawyer], and confidential and public records". Lalos then called the prior attorney and talked about the case. Lalos testified that he talked only about public matters, but the prior attorney's affidavit stated: "I believe I discussed various issues, and Kearns' position in respect to those issues, in some depth with Mr. Lalos because of Mr. Kearns' interest in securing Mr. Lalos' representation". The trial court specifically found that "matters related to the Ford litigation, other than those of public records, were discussed between Lalos and [the prior attorney]".

Kearns asked Lalos to undertake the representation on a contingency basis, and Lalos said that would have to be taken up with his partners. That was done and the partners "turned down a contingency arrangement". The trial court found that

these facts were borne out by two contemporaneous handwritten documents by Kearns dated April 8 and April 13.

The trial court then found (1) that the representation negotiations broke down in the second week of April 1981, after Lalos decided he would not take the case on a contingency basis, and (2) that the parties at that time started to negotiate a settlement of the Audi matter; those negotiations ultimately broke down, but were resumed after suit was brought in March 1982.

The trial court concluded that "there is no question that between March 13 and April 8, 1981, a lawyer-client relationship existed between Lalos and Kearns" in the sense that that relationship attaches when one consults a lawyer with a view to obtaining professional legal services, and therefore that "a fiduciary relationship existed". The trial court held that Lalos was disqualified from further representation of Audi "because he received confidential information concerning a case [the Ford case] which is substantially related to the instant case". Lalos' firm was also disqualified.[272]

The Court, on consideration of the record, affirmed the trial court's disqualification order. No question existed between the parties regarding the controlling legal principles.[273] The sole issue for consideration on the appeal thus was "the factual question of whether there ever was, even preliminarily, such a fiduciary relationship between Kearns and Lalos".[274] The Court, applying an abuse of discretion standard, could not find sufficient error on the trial court's part to support reversal.[275]

Care must plainly be taken to not learn too much about the confidential aspects of a potential client's case, if a retainer has not been secured.[276]

VI. APPELLATE REVIEW

A. Availability Of Appellate Review

The availability of appellate review of disqualification motions is governed by the decision of the United States Supreme Court in *Richardson-Merrell, Inc. v. Koller*.[277] Under *Richardson-Merrell*, now not only are orders refusing to disqualify counsel not immediately appealable, but orders granting a motion to disqualify counsel are not immediately appealable either.

To secure review, an interlocutory appeal upon a certified question pursuant to 28 U.S.C. § 1292(b), must be relied upon.[278]

As to which appellate court to address the petition or interlocutary appeal papers, the choice is governed by the same general jurisdictional concepts applicable to the Federal Circuit's appeal jurisdiction. The Ninth Circuit, in *Kennecott Corp. v. U.S. District Court for The Southern District of California*,[279] held that

> The *Atasi* and *Telectronics* decisions leave little doubt as to the Federal Circuit's willingness to review interlocutory appeals of a district court's order refusing to disqualify counsel. The language in *Atasi* suggests that the Federal Circuit will review procedural matters in cases within its jurisdiction to the full extent permitted by the Supreme Court. . . . In light of the Supreme Court's authorization of interlocutory review of orders refusing to disqualify counsel, *see Firestone Tire & Rubber Co. v. Risjord*, . . . and the Federal Circuit's decision in *Telectronics* . . . it seems quite likely that the Federal Circuit would review Kennecott's § 1292(b) appeal of the district court's order refusing to disqualify counsel.[280]

B. Standard Of Review

There is, arguably, some variation in the standard of review applied by the various originating circuits.

The standard of review applied by the Sixth Circuit in regard to disqualification issues is stated in *General Mill Supply Co. v. SCA Services, Inc.*:[281]

> In determining our standard of review, we note that Judge Boyle at first took the view she had discretion to some degree, at least, to disqualify when the ABA's Code did not expressly so require, if she thought it made inadequate provision to safeguard the integrity of the judicial process. There is some support for that view. . . . *On the other hand, there have been expressions that where the facts are not in dispute, trial courts have no advantage over appellate courts in the application of "ethical norms."* . . . Because the manner of fact finding below compels us to suppress whatever doubts we may feel as to whether plaintiffs' case against disqualification gained illegitimately in the telling in

> plaintiffs' affidavits, *we deem it appropriate to attack the ethical problem de novo rather than as review of a discretionary decision.* What is required of us is a balancing of the interests involved, which are three -- (a) the interest of the public in the proper safeguarding of the judicial process; (b) the interest of the defendants; and (c) the interest of the plaintiffs.

Where the issue of disqualification turns not on a disputed issue of fact, but rather on the application of ethical norms, the Sixth Circuit would apparently undertake a *de novo* review, balancing the interests of the parties and the public. *Aetna Casualty & Surety Co. v. United States*,[282] a Fourth Circuit decision to which the Sixth Circuit looked in *General Mill Supply Co.* in adopting the *de novo* review standard, is identically to the point.

Contrary authority may be found, however, indicating that the Sixth Circuit arguably reverses attorney disqualification decisions only when the trial court's decision can be characterized as an abuse of discretion.[283]

The Tenth Circuit, in contrast, reviews disqualification matters under a "judicial discretion" standard. *Redd v. Shell Oil Co.*[284] The Tenth Circuit has stated, however, that this standard does not apply to questions of law.[285]

Abuse of discretion is the predominant standard of review in the circuits.[286]

VII. UNRESOLVED BUT DIFFICULT ISSUES HAVING POSSIBLE APPLICATION TO INTELLECTUAL PROPERTY LAW MATTERS

The practice of intellectual property trial law is one that does not parse out into a "plaintiff's bar" and a "defendant's bar," as, for example, personal injury and labor litigation tends toward. The patent trial lawyer may, and often is likely, to be on one side of an issue on day 1, and on the opposite side of an identical or closely related issue on that same day for another client, or later, on day 2. The presence of the Federal Circuit as the united appeal court for *ex parte* prosecution and trial appeals potentially exacerbates the situation.

Similar potential conflict issues may also arise with respect to validity, infringement and/or unenforceability opinions, which are usually prepared before the outbreak of litigation. Counsel may be asked to prepare such an opinion

for Client A, when the patent is held by a third-tier subsidiary of client B, for whom the firm does no work, but does do work, in an unrelated area, for a second tier subsidiary of B.

These are among the knottiest, leading edge issues. O'Malley et al. have recently addressed them both, in the broad context of conflict law.

A. Issue or Positional Conflicts

The question posed by O'Malley et al. was, "When, if ever, may a law firm take opposite positions on the same legal issue for two different clients in unrelated matters?" O'Malley et al.,[287] Based on an assortment of authorities, predominately state bar committee ethics opinions, they concluded that certain points were established:

> 1. A law firm may not take opposite positions at the same time before the same tribunal.
>
> 2. If different times or different tribunals are involved, a law firm may take opposite positions provided the representation would not materially and adversely affect either client.
>
> 3. In most situations the conflict is curable with written consents from the clients involved.[288]

More attenuated is the non-simultaneous, different position, where one is taking a position in a pending matter for a new client that may later prove detrimental to another existing client of long standing with the firm, not directly involved in that matter or any related matter at that time. Here, Model Rule 1.7(b) makes plain that the firm or lawyer may only proceed if it or he/she reasonably believes they will not hold back in representing the new client in the ongoing matter to avoid setting an adverse precedent or getting a result adverse to the existing client. But what must the non-involved existing client be told -- if anything? Hazard and Hodes, § 1.7:105, contend that the consent of the non-involved client would have to be obtained, on the basis of Model Rule 1.7(b), in that the on-going representation of that client may be materially limited by the responsibility to the pending matter for the new client. As an illustration, Hazard and Hodes point out that if the firm has to decline to file an *amicus* brief on an issue at bar in the pending matter for the existing client, then the representation of the existing client has obviously been compromised and Model Rule 1.7(b) violated.

O'Malley et al. do not go along with Hazard and Hodes on that contention:

> Hazard and Hodes cite no authority (other than a somewhat vague reference to Model Rule 1.7(b)) for their statement that the bank client's consent is required. Model Rule 1.7(b) does not on its face compel that conclusion, and we believe that Hazard and Hodes have somewhat overstated the consent requirement.[289]

B. Non-litigation Potential Conflicts

Analyzing Model Rule 1.7(a), the current analog for DR5-105, O'Malley et al. point out that precedent clearly has established that a lawyer may not sue a current client without that client's consent, even on a totally unrelated matter. But what if a lawsuit is not the contemplated, allegedly adverse representation? What if it is involvement in a negotiation, or the preparation of an opinion letter?

The first question that must be resolved is, does Model Rule 1.7(a), and did DR5-105, have a "litigation-only" limitation built in? O'Malley et al. reach a different answer, Model Rule as against the Code:

> It is sometimes suggested that the prohibition of Model Rule 1.7(a) against accepting a representation 'directly adverse' to an existing client applies only to litigation, and not to negotiation. This suggestion may be founded, in part, on analogous provisions of the Model Code. Under the Code, DR5-105 prohibited multiple 'representation' which may impair the lawyer's professional judgment. However, EC5-15 drew a sharp distinction between multiple representation in litigation -- virtually always prohibited -- and in other circumstances, where it may not be. See, e.g., *City Counsel of Honolulu v. Sakai*, 58 Haw. 390, 570 P.2d 565 (1977). *But see Financial General Bankshares, Inc. v. Lance*, 523 F.Supp. 744, 770 n. 79 (___ D. ___ 1981) (where direct adversity exists, even in non-litigation, consent required).
>
> Paragraph [11] of the Comment under Model Rule 1.7 makes it clear that the Rule is intended to apply 'in contexts other than litigation.'[290]

If you're in a Model Rule jurisdiction, then, you must arguably continue the analysis.

Because this is a "duty of loyalty" issue, the situation involving a current client, the question is one of direct adversity. Assuming a commercial negotiation situation, O'Malley et al. state that:

> Basically, *the authorities agree that, in the context of a commercial negotiation, a lawyer's rep-resentation might be 'directly adverse' to another client within the meaning of Model Rule 1.7(a).* See Hazard and Hodes §§ 1.7:203 and 1.7:207. The analytical difficulty is that it all depends on the negotiation, leading to an evaluation by both lawyer and client requiring a higher degree of subtlety and subjectivity than is normally required in litigation, where it is almost always self-evident who is adverse to whom.
>
> Neither Hazard and Hodes nor the Restatement is particularly helpful on the issue posed in this Section. *Both make the point that the intensity of the adversity or the hostility,* or whatever one wants to call it, *in the negotiation context should be a key factor,* perhaps allowing, e.g., a firm to represent a seller client in a transaction with a buyer who is also a client of the firm (on other matters), but who is represented by other counsel on that transaction. The literal language of Model Rule 1.7(a), however, suggests a contrary view. It prohibits representation 'directly adverse' to an existing client. Admittedly, in multi-party transactions determining whether 'direct adversity' exists is often difficult. But some relationships, e.g., seller-buyer and borrower-lender, seem inherently adverse. It is in one party's interest for the agreement to provide greater security, flexibility, etc., and the other party's 'interest' is contrary.
>
> The existence of hostility (or lack thereof) is not irrelevant, however. *Even if a representation is adverse to an existing client, it may be undertaken with consent, provided that the representation will not 'adversely affect the relationship*

> *with [that] client.'* It is in this context that the degree of hostility, adversity, etc., likely to exist in the negotiations is particularly relevant, for it may determine whether the conflict is consentable.[291]

But how do you get your lawyer out of the adverse negotiation representation, when there's no court or judge to turn to? Persuasion, suggests O'Malley et al., which, if unsuccessful, should be replaced by brute economic force, if such is available:

> [I]t is unclear how the current client who correctly asserts his lawyer's ethical disability from representing the other party can remove that lawyer from the offending representation. The current client's threat to discharge that lawyer on all other representations of the client presumably has failed to accomplish its desired effect. If the infuriated client actually discharges the lawyer on those other matters, the conflict of interest may have disappeared, although there is considerable doubt whether the lawyer, by forcing the client's hand in that manner, can deprive the client of status as a current client. In this situation, the aggrieved client might effectively prevent the lawyer from representing the other party by steadfastly refusing to negotiate with the other party for as long as the other party chooses to be represented by a lawyer who has a disqualifying conflict of interest.[292]

There is no clean answer to this puzzlement. O'Malley et al., therefore, trot out the "when in doubt" rule, which, dependent upon the players, may prove to be the safest way in which to proceed:

> Obviously, the issue discussed in this Section is complex, and is probably more unsettled than any significant issue in the law of conflicts of interest. *When in doubt, as you often will be, do not engage in a negotiation 'adverse to' an existing client, even when that client is represented by other competent counsel in that negotiation, without seeking that client's consent.* You should not assume that merely because the 'other' client is aware of your firm's role any conflict has been

waived. Rule 1.7 requires consent 'after consultation' and knowledge is probably not consultation. *Failure to raise the issue leaves the lawyer open to a later charge by the other client (e.g., in a malpractice suit) that there was not a fully informed and voluntary waiver of the conflict, and that the lawyer (as 'lawyer for the deal') somehow breached an obligation owed to that other client.*

In any event, as noted above, in all instances you must obtain consent of the party whom you are representing in the negotiation 'adverse to' your other client. See Rule 1.7(b).[293]

VIII. CONCLUSION

The general, broad rules that should be followed to avoid disqualification trouble which, conversely, identify the areas where one looks for a problem in an opponent's camp, are:

1. Don't switch sides in a litigated matter, whether you were a law clerk, attorney advisor, local counsel or member of lead counsel's firm; if you do switch sides, do it while you're an associate, not a partner or, worst of all, not if you're going to be lead counsel after the switch;

2. Don't appear in a litigated matter or act against a former client, in a matter substantially related to that prior engagement, even if the former client fired you;

3. Don't sue one of your current clients, no matter how unrelated the litigated matter is to the matter underlying the existing representation, no matter that the divisions or subsidiaries involved are layers removed in the client's corporate structure, how many lawyers are in your firm or office, how geographically divided the office representing the client is from the one intending to file suit - unless you receive informed consent first.

   a) Don't rely upon oral consent, consent garnered in a hallway conversation, or consent gained during a train ride or cocktail party conversation;

get it in writing, preferably from the person who will be on the receiving end of the intended suit, or from your most senior client contact;

b) Don't expect that a simultaneous representation arising from a law firm merger will be looked at with any lenience;

c) Remember that even one pending patent application will be contended to be enough to warrant disqualification.

4. Don't sue someone who was a prospective client, but did not retain you, if you learned confidential information about his case in pre-engagement discussions;

5. Do establish a screen, Chinese Wall and/or cone of silence around any lawyer coming into your firm or office, who you know may be accused of switching sides; make certain that the screen, wall or cone is in place *before* the new attorney starts, and/or before the conflicting representation commences, and make certain that everyone in the firm or office is fully informed of the screen, wall or cone, how it is to operate, and who it is to effect; do the establishment and notification in writing;

6. Don't blithely accept representation in which you will be challenging a patent you prosecuted, on validity, infringement or enforceability grounds, or with respect to a patent which you prosecuted or opined upon, if inequitable conduct is likely to be alleged in defense; if you represented a corporate assignee during prosecution, you may possibly avoid Canon 4, but the attorney witness rule will still need to be confronted; and

7. Do not be afraid, cowed or browbeaten by an opponent's cries or shouts about your allegedly unethical conduct if, in good faith, you have reviewed the facts, law and applicable ethical rules, and have a supportable position, or are able to point out how the matter is open to dispute, makes new law, or the like.

With increased complexity of matters, "shopping" of matters by clients, multiple parties, attorney movement, client mergers and law firm mergers, the circumstances where tactical

advantage may be gained by a disqualification motion continue to multiply. It behooves the ethical, tactical trial lawyer to fully investigate the relationship involved, at least to insure that confidential information is not being used by an opponent to disadvantage a client.

If there is smoke, look for the fire, and be ready to fan - or douse - the flames, as the case may be.

ENDNOTES

1. Anderson, in *Motions to Disqualify Opposing Counsel*, 30 Washburn L.J. 238 (1991), an article directed specifically to disqualification issues in Kansas state and federal courts (Kansas adopted the ABA's Model Rules of Professional Conduct in 1988), opened by quoting the Bible on this subject: Genesis 4:8, ". . . and Cain rose up against Abel his brother, and slew him."

2. Each state has adopted either the Code of Professional Responsibility (the "Code"), or the newer Model Rules of Professional Conduct ("Model Rules"), originally promulgated by the ABA in 1983, by rule or, in some instances, by statutory enactment. The United States Patent and Trademark Office (the "Office") has promulgated its own code, 37 CFR § 10.1 *et seq.*, which is essentially identical to the Code of Professional Responsibility. Currently, the Model Rules have been adopted in approximately forty (40) states, and are under active consideration in many others, including the District of Columbia. Texas has adopted its version of the Model Rules as the Texas Disciplinary Rules of Professional Conduct, while California has also recently put its own new code in place, which incorporates in part some of the Model Rules elements.

The Model Rules, it should be particularly noted, have no Canon 9 equivalent, the catch-all of the Code, because the concept of "impropriety" was found to be too amorphous and imprecise by their drafters. *See* 1. G. Hazard Jr. & W. Hodes, *The Law of Lawyering: A Handbook in the Model Rules of Professional Conduct*, (2d. ed. 1990), § 1.9:107, at 297-98.

3. Sanctions under F.R. Civ. P. 11 and its brethren await trial counsel whose tactics overwhelm common sense and the letter of the rule. Rule 11 sanctions were awarded in *Original Appalachian Artworks v. May Dept. Stores*, 640 F. Supp. 751, 759-59 (N.D. Ill. 1986), where a motion had been brought seeking disqualification of May's counsel, the Laff Firm. Judge Shadur's opinion is of general interest for its analyses of Canon 4, 5 and 9 issues [*e.g.*, "In the broad sense there are two ways in which a court may "disqualify" lawyers: 1. They may be required to withdraw from representing a particular client in a particular case. 2. They may be stricken from the court's bar, effectively preventing representation of anyone in any case."], and for its particular consideration of a convoluted corporate licensee relationship chain, relied upon by movant to construct its Canon 5 argument (*see* 640 F. Supp. at 757-58). *Accord Ringling Bros. Barnum & Bailey Combined Shows Inc. v. Division Sales Inc.*, 21 USPQ2d 1234 (N.D. Ill. 1991) (motion for disqualification found frivolous, Rule 11 sanctions imposed; "In examining the motion, it appears that Gordon made little effort to inquire into either the facts or the law. The facts

are usefully vague and insufficient to support a motion to disqualify counsel. Furthermore, Gordon fails to cite a single legal authority in his motion." (21 USPQ2d at 1236).

Local federal court rules and additional state lawyer professional conduct pronouncements, such as The Texas Lawyer's Creed - A Mandate for Professionalism, must also be honored when a disqualification motion is being considered.

4. *See generally*, Kline & Doughtery, *Avoiding Conflicts of Interest In An Era of Corporate Change*, 14 AIPLA Q.J. 104 (1986); Wise, *The Attorney-Witness Rule In Patent Infringement Litigation*, 68 J. Pat. Off. Soc'y 294 (1986). For historical comment on attorney disqualification issues in intellectual property matters, from a Patent and Trademark Office viewpoint, *see* McKelvey, *Attorney Disqualification Cases In the PTO*, 62 J. Pat. Off. Soc'y 625 (1980). For historical comment on the evolution from the ABA's 1908 Canons of Professional Ethics to the 1983 Model Rules, *see* Hazard, *The Future of Legal Ethics*, 100 Yale L.J. 1239 (1991). *See also* Wilson, *Lawyer Disqualification*, Advanced Evidence & Discovery Course, EE1 (November 1989) [Texas disqualification law]; Miller et al., *Conflicts of Interest and Ethical Issues for the Inside and Outside Counsel*, The Corporate Litigator, ABA Section of Litigation (1989), p. 120; Spickelmier et al., *Client, Attorney Mobility Creates Growing Conflict of Interest Economics*, Texas Bar Journal (April 1990), p. 406; Flom et al. *Lawyer's Conflicts*, Conflicts of Interest and Disqualification: Will You Be Thrown Out of Court? *ABA Section of Litigation* (1990).

5. The extent of the changes to date may be approximated by comparing *Gould, Inc. v. Mitsui Mining & Smelting Co., et al.*, 738 F. Supp. 1121 (N.D. Ohio 1990), and *Manning v. Waring, Cox, et al.*, 849 F.2d 222 (6th Cir. 1988), with the more conservative but well-balanced opinion of Judge Weinfeld in *Estates Theatres, Inc. v. Columbia Pictures Industries, Inc.*, 345 F.Supp 93 (S.D.N.Y. 1972).

6. Disqualification issues are particularly subject to mootness resulting from changed circumstances. Failure to constantly monitor the facts directly by counsel, as required by the objective standards of Rule 11, F.R. Civ. P., may not only lead to the denial, dismissal or vacating of a disqualification motion or order, but may possibly give rise to sanctions if it is missed due to faulty investigation.

7. An action seeking declaratory relief pursuant to 28 U.S.C. §§ 2201-02, the Declaratory Judgment Act, assuming diversity or other federal question jurisdictional basis, may certainly include a motion to disqualify trial counsel from potential or actual representation if circumstances allow.

8. Such related issues include the nature of the trial judge's prior practice, activity in bar associations, nature of the firm in which the trial judge practiced, whether the trial judge had prior prosecutorial or public defender experience, and the like. This research should also be broad enough to cover any publications by the trial judge's law clerks and/or attorney-advisors to the extent they can be identified through appropriate channels of inquiry.

9. Even judges are subjected to "disqualification," through a recusal motion. In *Amicus, Inc. v. PPT Inc.*, 10 U.S.P.Q. 2d 2039 (W.D. La. 1989), a recusal motion was filed when an attempt was made to substitute, as counsel, the Court's former law clerk, who had worked on a related case while serving his clerkship. Somewhat grudgingly, Chief Judge Stagg granted the motion and recused himself:

> In *Fredonia Broadcasting Corp., Inc. v. RCA Corp., 569 F.2d 251 (5th Cir. 1978), the Fifth Circuit teaches that in similar circumstances to those found here, the judge ought to recuse himself. It is true that there are differences between the situations in the instant cases and in Fredonia,* but the court is persuaded that the principle found therein applies to the facts presented in these motions: once it appears that a party might have an unfair advantage because that party's counsel includes a lawyer who has been exposed to the trial judge's innermost thoughts about a case, the judge has no alternative to disqualifying himself. *Id.* at 255.
>
> The issue, no doubt, is a close one. This court, however, is guided by the principle that when there is doubt, a judge should exercise discretion in favor of recusal.

Id. at 2039-40.

10. *Sun Studs. Inc. v. Applied Theory Associates, Inc.*, 772 F.2d 1557, 1566, 227 U.S.P.Q. 81, 87 (Fed. Cir. 1985) ("[P]rocedural matters that are not unique to patent issues will be reviewed under the law of the particular regional circuit where appeals from the district court would normally lie"); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75, 223 U.S.P.Q. 465, 471 (Fed. Cir. 1984); *accord, Atasi Corp. v. Seagate Technology*, 847 F.2d 826, 829, 6 U.S.P.Q. 2d 1955, 1956 (Fed. Cir. 1988); *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 1335, 5 U.S.P.Q. 2d 1424, 1427 (Fed. Cir. 1988).

11. 746 F.2d 1459, 223 U.S.P.Q. 1065 (Fed. Cir. 1984).

12. 746 F.2d at 1461, 223 U.S.P.Q. at 1065-66.

13. 744 F.2d at 1575, 223 U.S.P.Q. at 472 (citations omitted).

14. *W.L. Gore & Associates, Inc. v. International Medical Prosthetics Research Associates, Inc.*, 745 F.2d 1463, 1466-67, 223 U.S.P.Q. 884, 887 (Fed. Cir. 1984). The Federal Circuit has addressed questions of disqualification of counsel in a number of cases. *Picker International, Inc. v. Varian Associates, Inc.*, 869 F.2d 578, 10 U.S.P.Q. 2d 1122 (Fed. Cir. 1989); *Atasi Corp. v. Seagate Technology*, 847 F.2d 826, 6 U.S.P.Q. 2d 1955 (Fed. Cir. 1988); *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 5 U.S.P.Q. 2d 1424 (Fed. Cir. 1988); *Sun Studs, Inc. v. Applied Theory Associates, Inc.*, 772 F.2d 1557, 227 U.S.P.Q. 81 (Fed. Cir. 1985); *EZ Paintr Corp. v. Padco, Inc.*, 746 F.2d 1459, 223 U.S.P.Q. 1065 (Fed. Cir. 1984); *W.L. Gore & Associates, Inc. v. International Medical Prosthetics Research Associates, Inc.*, 745 F.2d 1463, 223 U.S.P.Q. 884 (Fed. Cir. 1984); *Kearns v. Fred Lavery Porsche Audi Co.*, 745 F.2d 600, 223 U.S.P.Q. 881 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 1192 (1985); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1577, 223 U.S.P.Q. 465 (Fed. Cir. 1984). To date, the Federal Circuit has reversed an order disqualifying counsel in only three (3) cases: *Ah Ju Steel*, *Panduit* and *Sun Studs*.

In *Ah Ju Steel Co. v. Armco, Inc.*, 680 F.2d 751, 754 (CCPA 1982), which involved a disqualification order from the United States Court of International Trade, the Court had noted, that it recognized the trend away from disqualification based solely on Canon 9 ("As the court below appreciated, however, the trend is now away from disqualification based solely on an appearance of impropriety and towards disqualification only when continued representation will taint the underlying trial, especially where, as here, the appearance of impropriety is not very clear. *Board of Education v. Nyquist*, 590 F.2d 1241, 1247 (2d Cir. 1979)").

15. *White Motor Corp. v. White Consolidated Indus., Inc.*, 60 Ohio App. 2d 82, 395 N.E.2d 1340, 1343 (Cuyahoga Cty. 1978); *see In Re Investigative Grand Jury Proceedings*, 480 F. Supp. 162, 165 n.1 (N.D. Ohio 1979), *appeal dismissed*, 621 F.2d 813 (6th Cir. 1980), *cert. denied*, 449 U.S. 1124 (1981).

16. *General Mill Supply Co. v. SCA Services, Inc.*, 697 F.2d 704, 717 n.1 (6th Cir. 1982) ("While not as yet adopted, the proposed rules [Model Rules of Professional Conduct] offer some important guidance as to how courts may handle such issues in the future"); *see In re Dayco Corp. Derivative Sec. Litig.*, 102 F.R.D. 624, 626 n.2 (S.D. Ohio 1984).

17. Local Rule 1(g), Civil Rules of Practice of the United States District Court for the District of Utah; *see E.E.O.C. v. Orson H. Gygi Co., Inc.*, 749 F.2d 620, 621 n.1 (10th Cir. 1984); *Bodily v. Intermountain Health Care Corp.*, 649 F. Supp. 468, 473 n.6 (D. Utah 1986); *In re Roberts*, 46 Bankr. 815, 830-32 (D. Utah Bkrtcy. 1985), *modified on other grounds*, 75 Bankr. 402 (D. Utah 1987). Consideration of the Model Rules is viewed as appropriate in deciding ethical issues even where not yet adopted. *In re Roberts, supra*, 46 Bankr. at 836-37; *see also Atasi Corp. v. Seagate Technology, supra*, 847 F.2d at 832, 6 U.S.P.Q. 2d at 1959 (consideration of Model Rules of Professional Conduct, and official Comments, despite lack of adoption by courts involved, is "instructive in the instant appeal").

18. Miscellaneous Order No. 24, Order Adopting the Model Federal Rules of Disciplinary Enforcement (adopted 12-7-78, amended 4-26-79). The Southern District of Texas also has its own ethical rules and system, Appendix A., Rules of Discipline 1-14, which are part of that court's local rules.

19. The roughly concordant Model Rule provisions are Rule 1.5, relating to confidential information; Rule 1.6, which sets out the general conflict of interest provisions; Rule 1.7, which addresses conflicts arising from simultaneous representation of multiple clients; and Rules 1.9 and 1.10, which address conflict of interest with a former client and the effect of migrating lawyers.

20. If there is a substantial relationship, certain courts apparently consider there to be an irrefutable presumption that the client transmitted confidential information to the attorney. *See In re Corrugated Container Antitrust Litigation*, 659 F.2d 1341, 1347 (5th Cir. 1981).

21. The pertinent Disciplinary Rule of the Code of Professional Responsibility, DR 5-105, provides as follows:

> *DR 5-105 Refusing to Accept or Continue Employment if the Interests of Another Client May Impair the Independent Professional Judgment of the Lawyer.*
>
> (A) A lawyer shall decline proffered employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by the acceptance of the proffered employment, except to the extent permitted under DR 5-105(C).

(B) A lawyer shall not continue multiple employment if the exercise of his independent professional judgment in behalf of a client will be or is likely to be adversely affected by his representation of another client, except to the extent permitted under DR 5-105(C).

(C) In the situations covered by DR 5-105(A) and (B), a lawyer may represent multiple clients if it is obvious that he can adequately represent the interest of each and if each consents to the representation after full disclosure of the possible effect of such representation on the exercise of his independent professional judgment on behalf of each.

(D) If a lawyer is required to decline employment or to withdraw from employment under DR 5-105, no partner or associate of his or his firm may accept or continue such employment.

22. The pertinent prohibitions are set forth in DR 5-102. DR 5-102(A) states:

> If, after undertaking employment in contemplated or pending litigation, a lawyer learns or it is obvious that he or a lawyer in his firm ought to be called as a witness on behalf of his client, he shall withdraw from the conduct of the trial and his firm, if any, shall not continue representation in the trial, except that he may continue the representation and he or a lawyer in his firm may testify in the circumstances enumerated in DR 5-101(B)(1) through (4).

DR 5-102(B) states:

> If, after undertaking employment in contemplated or pending litigation, a lawyer learns or it is obvious that he or a lawyer in his firm may be called as a witness other than on behalf of his client, he may continue the representation until it is apparent that his testimony is or may be prejudicial to his client.

Even if a member of a firm ought to be called as a witness, DR 5-101(B) provides that representation may continue:

(1) If the testimony will relate solely to an uncontested matter.

(2) If the testimony will relate solely to a matter of formality and there is no reason to believe that substantial evidence will be offered in opposition to the testimony.

(3) If the testimony will relate solely to the nature and value of legal services rendered in the case by the lawyer or his firm to the client.

(4) As to any matter, if refusal would work a substantial hardship on the client because of the distinctive value of the lawyer or his firm as counsel in the particular case.

The test for disqualifying counsel under DR 5-102(A) is not whether counsel *will* be called as a witness, but whether he or she *ought* to be called as a witness in the proceeding. *MacArthur v. Bank of New York*, 524 F.Supp. 1205 (S.D.N.Y. 1981); *Eurocom, S.A. v. Mahoney, Cohen & Co.*, 522 F.Supp. 1179 (S.D.N.Y. 1981); *Bottaro v. Hatton Associates*, 528 F.Supp. 1116, 1118 (E.D.N.Y. 1981). The phrase "ought to be called as a witness" has been narrowly construed to refer to an attorney "who has crucial information in his possession which must be divulged" in the course of a trial. *Universal Athletic Sales Co. v. American Gym, Recreational & Athletic Equip. Corp.*, 546 F.2d 530, 539 n. 21 (3d Cir. 1976), *cert. denied*, 430 U.S. 984 (1977).

Model Rule 3.7 is the complement to Code DR 5-102.

23. *Unified Sewerage Agency, Inc., v. Jelco, Inc.*, 646 F.2d 1339, 1345 n. 4 (9th Cir. 1981).

24. *Cf. Cinema 5, Ltd. v. Cinerama, Inc.*, 528 F.2d 1384 (2d Cir. 1976).

25. *Norman Norell, Inc. v. Federated Department Stores*, 450 F. Supp. 127, 131 (S.D.N.Y. 1978). *But see Howes v. Atkins*, No. 83-279 (slip op.) (E.D. Ky. Jan. 29, 1986) (disqualifying outside firm from any participation in action involving one of firm's major clients).

26. Model Rule 3.7.

27. Spahn, *Dealing with the Witness-Advocate Rule*, 32 The Practical Lawyer 7, 32 (1986).

28. *Industrial Parts Distributors, Inc. v. Fram Corporation*, 504 F. Supp. 1194, 1197 (D. Kansas 1981).

29. 527 F.2d 1288 (2d Cir. 1975).

30. *Id.* at 1295.

31. *See, e.g., In re Coordinated Pretrial Proceedings in Petroleum Products Antitrust Litigation*, 658 F.2d 1355, 1360-61 (9th Cir. 1981).

32. *International Elec. Corp. v. Flanzer*, 527 F.2d 1288, 1294 (2d Cir. 1975).

33. *Price v. Admiral Insurance Co.*, 481 F. Supp. 374, 378 (E.D. Pa. 1979).

34. *Laker Airways, Ltd. v. Pan American World Airways*, 103 FRD 23, 27 (D.D.C. 1984).

35. 474 F. Supp. 223 (S.D.N.Y. 1979).

36. *Id.* at 225-26.

37. 447 F. Supp. 406, 409 (S.D.N.Y. 1978).

38. 447 F. Supp. at 410. *Accord SMI Indus. Canada, Ltd. v. Caelter Indus., Inc.*, 586 F. Supp. 808, 814, 223 U.S.P.Q. 742, 745 (N.D.N.Y. 1984) ("The reason for this judicial reluctance is that disqualification has a serious and immediate adverse effect in that it denies the client his choice of counsel."); *Jackson v. J.C. Penney Co. Inc.*, 521 F. Supp. 1032, 1034 (N.D. Ga. 1981) ("The rule of disqualification of counsel is not mechanically applied . . . . Disqualification must be tempered by the need to balance a variety of considerations and complex concepts to arrive at an equitable solution, for this is an equitable, not a legal, matter."); *Norman Norell, Inc., et al. v. Federated Dept. Stores, Inc.*, 450 F. Supp. 127, 130 (S.D.N.Y. 1978) ("It is this suggestion which the Court accepts, in deference to the admonition that any motion to disqualify an attorney requires 'judicial scrutiny to prevent literalism from possibly overcoming substantial justice to the parties.' . . . As Judge Gurfein noted, 'the disciplinary rules are not statutory; we are cautioned that ["w]hen we agree that the Code applies in an equitable manner to a matter before us, we should not hesitate to enforce it with vigor. When we find an area of uncertainty, we must use our judicial process to make our own decision in the interests of justice to all concerned.""")

39. 492 F. Supp. 848 (W.D. Mo. 1980).

40. 492 F. Supp. at 861.

41. *United States v. Titan Pacific Const. Corp.*, 637 F. Supp. 1556, 1564-65 (W.D. Wash. 1986).

42. 637 F. Supp. at 1564.

43. *United States v. Standard Oil Co.*, 136 F. Supp. 345, 367 (S.D.N.Y. 1955) (footnote omitted); *accord International Electronics Corp. v. Flanzer*, 527 F.2d 1288, 1293 (2d Cir. 1975).

44. *See* Miller, *Conflicts of Interest and Ethical Issues for the Inside and Outside Counsel*, 40 Bus. Lawyer 631, 633 (Feb. 1985).

45. 615 F. Supp. 979 (W.D. Mich. 1985).

46. 615 F. Supp. at 985.

47. 468 F. Supp. 168 (N.D.N.Y. 1979).

48. 468 F. Supp. at 172. *Accord Smith v. Whatcott*, 757 F.2d 1098, 1100 (10th Cir. 1985); *Optyl Eyewear Fashion Int'l. Corp. v. Style Companies*, 760 F.2d 1045, 1050 (9th Cir. 1985); *Freeman v. Chicago Musical Instrument Co.*, 689 F.2d 715, 722 (7th Cir. 1982); *Laker Airways, Ltd. v. Pan American World Airways*, 103 F.R.D. 22, 28 (D.D.C. 1984) ("Disqualification motions 'have become increasingly popular "tools of the litigation process, being used . . . for purely strategic purposes"' . . . Accordingly, courts have in recent years become more and more skeptical of motions to disqualify counsel, and they now approach them with cautious scrutiny"); *Simmon's, Inc. v. Pinkerton's, Inc.*, 555 F. Supp. 300, 302 (N.D. Ind. 1983). Where a specialized expertise in a narrow area of the law is held by counsel, the litigant's right to freely chosen, competent counsel is of particular importance. *See Laker Airways, Ltd. v. Pan American World Airways*, *supra*, 103 F.R.D. at 27-28.

49. 590 F.2d 1241, 1247 (2d. Cir. 1979); *see U.S. Football League v. National Football League*, 605 F. Supp. 1448, 1464 (S.D.N.Y. 1985) ("[T]hreat of taint [is] the lodestar of the law of disqualification"); *Field v. Freeman*, 527 F. Supp. 935 (D. Kan. 1981).

50. 649 F. Supp. 468 (D. Utah 1986).

51. *Id.* at 477.

52. *Id.* at 478.

53. 648 F. Supp. 1044 (N.D. Ill. 1986).

54. 646 F.2d 1339 (9th Cir. 1981).

55. 648 F.Supp at 1044 (emphasis added).

56. 646 F.2d at 1345 n.4.

57. 435 F. Supp. at 95. *See also*, involving a client discharge of counsel, *In re California Canners and Growers*, 74 B.R. 336, 334 (N.D. Cal. Bkrtcy 1987).

58. 655 F. Supp. 368, 370 (E.D. Pa. 1986).

59. *See, e.g., Huntington v. Great Western Resources, Inc.*, 655 F. Supp. 565, 570-71 (S.D.N.Y. 1987).

60. 649 F. Supp. at 473.

61. *Margulies by Margulies v. Upchurch*, 696 P.2d 1195 (Utah 1985), reached this point as well. Citing *Unified Sewerage Agency* and *Fund of Funds, Ltd.* the Utah Supreme Court pointed out that "Although Jones, Waldo has discontinued its representation in *Diversified* as a condition to being allowed to continue in the *Margulies* action, Jones, Waldo was counsel in both actions at the time the disqualification motion was filed. It is our strong view that an attorney who is simultaneously representing two clients with differing interests should not be able to avoid conforming to Canon 5 by simply dropping one of the clients at his option when a disqualification motion is filed. . . . *Otherwise, little incentive would exist for attorneys to avoid dual employment by adverse parties in the first place.* Jones, Waldo's continued representation of the Margulieses must be judged by the standards applicable at the time the trial court's order was made, namely, at the time the firm was simultaneously representing appellants in the federal action" (696 P.2d at 1202-03, emphasis added).

62. 749 F.2d 620 (10th Cir. 1984).

63. 749 F.2d at 620-21.

64. 749 F.2d at 621.

65. 568 F. Supp. 1107 (D. Kan. 1983).

66. 586 F. Supp. at 1111 (emphasis added).

67. 579 F.2d 271 (3d. Cir. 1978).

68. *Id.* at 281 (emphasis added). The Third Circuit's speculation about IBM's possible consultation of CBM in "legal

matters more closely related to the lawsuit" appeared to have no basis in the record, and was essentially a make-weight to the court's attenuated position. *See also Manoir-Electroalloys Corp. v. Amalloy Corp.*, 711 F. Supp. 188 (D.N.J. 1989) [disqualification under Model Rule 1.7, where firm had done no work for individual for four (4) years, and earlier representation entirely unrelated to current-adverse representation].

69. *ALAS Loss Prevention Journal*, Vol. III, No. 1, January 1989, p. 2, 11.

70. *Id.* at 11.

71. *Id.*

72. 602 A.2d 1277 (Pa. 1992)

73. Vol. III, Nos. 2, May 1992, p. 22.

74. *ALAS Loss Prevention Journal, Id.* at 21-22.

75. 602 A.2d at 1279.

76. (602 A.2d at 1280)

77. 602 A.2d at 1280-81.

78. 602 A.2d at 1282. The Supreme Court's holding was not based on either those rules, or the predecessor Pennsylvania Code of Professional Responsibility, which was in effect at the time Pepper began to represent the New York companies.

79. 602 A.2d at 1284-85 (emphasis added).

80. 601 A.2d at 1205-86 (emphasis added).

81. 602 A.2d at 1285-80.

82. 602 A.2d at 1286-87 (emphasis original and added). Chief Judge Nix dissented, because the majority had ignored the "Chinese Wall defense", as set forth in Model Rule 1.11, which Pepper had put into place in this matter, and Maritrans' consent to the wall's emplacement. Because Maritran had consented to the specific wall set up by Pepper and Messina, he wrote,

> It is well-settled in the field of legal ethics *that a client's consent*, upon full disclosure of a conflict of interest, *is sufficient to permit the attorney to continue the otherwise objectionable representation*. . . . Thus, while Maritrans' concerns may

> have been legitimate, their initial acquiescence must be construed as a forbearance of any objections based upon the *potential* for breach of confidentiality. Having consented to the arrangement, they are now bound by their consent until such time as an actual breach of confidentiality occurs. As was previously found by this writer, *Maritrans G.P., Inc. v. Pepper, Hamilton & Scheetz*, . . . and as Maritrans implicitly concedes, . . . no actual disclosure of confidential information has occurred. Maritrans' prior consent amounts to a waiver of their right to an objection based upon the fear of disclosure.

602 A.2d at 1290 (emphasis original). (The dissent also contains an excellent, short exposition of Chinese Wall law and lore. 602 A.2d at 1289).

83. *See General Mill Supply Co. v. SCA Services, Inc.*, 697 F.2d 704, 710-11 (6th Cir. 1982).

84. *City Consumer Services, Inc. v. Horne*, 571 F. Supp. 965, 970 (C.D. Utah 1983); *Field v. Freedman*, 527 F. Supp. 935, 941 (D. Kansas 1981). Even here, in regard to the burden of proof on a motion to disqualify, there is inconsistency in the rule in some states, between the state and federal courts. In Kansas, for example, Anderson, *supra*, noted that the state courts place the burden "with the attorney or firm who is sought to be disqualified" (*Parker v. Volkswagenwerk Aktiengesellschaft*, 245 Kan. 580, 781 P.2d 1099 (1989)), while the federal rule is exactly the contrary (*Industrial Parts Distrib. v. Train Corp.*, 504 F. Supp. 1194, 1197 (D. Kan. 1981)).

85. *Hull v. Celanese Corporation*, 513 F.2d 568, 571 (2d Cir. 1975). If an attorney's representation is against an existing client, the balance may shift significantly toward disqualification. *Heathcoat v. Santa Fe International Corporation*, 532 F.Supp. 961 (E.D. Ark. 1982).

86. *See Government of India v. Cook*, 569 F.2d 737, 739 (2d Cir. 1978) (placing "a high standard of proof on . . . one who seeks to disqualify his former counsel"); *The Vegetable Kingdom, Inc. v. Katzen*, 653 F. Supp. 917, 922 (N.D.N.Y. 1987) (a party making such a motion bears the burden of meeting a "heavy burden" before the disqualification of opposing counsel can be ordered).

87. *Selected Conflict of Interest Issues*, ALAS Loss Prevention Journal, Vol. II, No. 3, September 1991, p. 2.

88. *Id.* at 13.

89. *Id.* at 13 and 14.

90. *Id.* at 14.

91. 492 F. Supp. 848 (W.D. Miss. 1980).

92. 492 F.Supp at 866 (citations omitted).

93. *Smith v. Whatcott*, 757 F.2d 1098, 1099-1100 (10th Cir. 1985) (disqualification motions must be diligently pursued to avoid waiver); *Greenbaum-Mountain Mortgage Company v. Pioneer National Title Insurance Co.*, 421 F. Supp. 1348, 1354 (D. Col. 1976).

94. __F. Supp ___, 17 USPQ2d 1531 (S.D. Ind. 1990).

95. 17 USPQ2d at 1533.

96. *Id.*

97. 17 USPQ2d at 1535.

98. 17 USPQ2d at 1536.

99. 17 USPQ2d at 1536, n. 2.

100. 17 USPQ2d at 1535, n. 1.

101. 17 USPQ2d at 1536-37 (emphasis added).

102. *Selected Conflict of Interest Issues*, ALAS Loss Prevention Journal, Vol.II, No. 3, September 1991, p. 2.

103. *Id.* at 3-4.

104. *Id.* at 5. Cited in support: American Law Institute Restatement of the Law Governing Lawyers Tentative Draft No. 4, Chapter 8 (April 10, 1991), § 202, Comment d, Illustration 3; Oregon Formal Opinion No. 533 (May 1990); Note, *Prospective Waiver of the Right to Disqualify Counsel for Conflict of Interest*, 79 Mich. L. Rev., 1074 (1981); O'Dea, *The Lawyer-Client Relationship Revisited: Methods for Avoiding Conflicts of Interest, Malpractice Liability, and Disqualification*, 48 Geo. Wash. L. Rev. 693, 730-32 (1980); Wolfram, *Modern Legal Ethics (1986)*, § 7.2.4, p. 347; *Kennecott Copper Corp. v. Curtiss-Wright Corp.*, No. 78-1295 LFM (S.D.N.Y. April 10, 1978) (unreported opinion); *Interstate Properties v. Pyramid Co.*, 547 F. Supp. 178 (S.D.N.Y. 1982); and *Unified Sewerage Agency v. Jelco, Inc.*, 646 F.2d 1339 (9th Cir. 1981).

105. *Id.* at 5 (emphasis added).

106. This concept would appear to work as readily against the accused infringer's counsel, if that counsel opined as to the patent(s)-in-suit before the commencement of manufacture, and issues of willful infringement are raised. Thus, the impact of a cross-motion must be taken into account in electing to raise the question initially.

107. *See* Spahn, *supra* at 32.

108. 440 F. Supp. 17 (N.D. Ga. 1977). *See also Pain Prevention Lab, Inc. v. Electronic Waveform Labs*, 657 F.Supp. 1486, 1497-98 (N.D. Ill. 1987)(EWL contended that Harris was subject to disqualification under Canon 5, as a potential witness; Harris allegedly had knowledge regarding which company involved in an abortive distribution arrangement had what technical knowledge at what time, was purported to be a crucial witness to events at a certain meeting, and was potentially going to be named as a defendant; court refused disqualification under either DR 5-102(A) or (B): "None of these arguments bring Harris within DR 5-102(A), which applies only when 'a lawyer learns or it is obvious that he or a lawyer in his firm ought to be called as a witness on behalf of his client'. . . The phrase 'ought to be called as a witness' is construed narrowly. . . While there may be issues as to whic . Harris could testify, EWL's assertions are too speculative to permit the conclusion that he ought to testify. Moreover, whether Harris ought to be called as a witness on behalf of PPL depends on PPL's trial strategy. The issue is largely wi hin PPL's control and it is very difficult to resolve in EWL's favor this far in advance of trial. . . The facts here do fall within Disciplinary Rule 5-102(B), which applies when 'a lawyer learns that it is obvious that he or a lawyer in his firm may be called as a witness other than on behalf of his client.' However, that section would require disqualification only where 'it is apparent that [the lawyer's] testimony is or may be prejudicial to his client.' It is not at all apparent that Harris' testimony would have any prejudicial effect on PPL. Prejudice to parties other than the lawyer's present client is not covered by this rule."); *SMI Industries Canada, Ltd. v. Caelter Industries, Inc.*, 585 F.Supp. 808 (N.D.N.Y. 1984) (Limbach's firm represented defendant, which representation was claimed to violate Canons 4, 5 and 9; Limbach had previously represented Caelter Enterprises, parent corporation of defendant and predecessor in interest of plaintiff, in patent and trademark matters; during the period in question the Limbach firm was closely involved in the process of securing for Caelter Enterprises the patents and trademarks which SMI claimed to have purchased in 1983, as a result of the bankruptcy of that entity; defendant, who was challenging the validity of these patents as well as plaintiff's ownership rights in the trademarks, had itself been a client of the Limbach firm since 1968; SMI contended that the Limbach firm's longstanding relationship with the defendant's parent

corporation gave rise to the noted ethical violations; the court rejected SMI's Canon 4 argument, that it stood "in the shoes of the Limbach firm's former client, defendant's parent corporation and its predecessor-in-interest," through its acquisition of the patent and trademark interests of defendant's parent corporation, on the basis that it had "located several cases which hold that an assignment of intellectual property does not assign the assignor's attorney to the assignee" (586 F.Supp. at 814-15, *citing In re Yarn Processing Patent Validity Litigation*, 530 F.2d 83 (5th Cir. 1976), and *Beghin - Say v. Rasmussen*, 212 U.S.P.Q. 615 (Com'r Pats. 1980)); the Canon 5 contentions, that members of the Limbach firm "ought to be called" as trial witnesses, were without factual basis: "In the instant case the court fails to see how members of the Limbach firm ought to be called as witnesses at trial. The issues raised in defendant's affirmative defenses relate to newly discovered prior art which is alleged to render the subject patents void for obviousness. Any testimony on the part of the Limbach firm with respect to why the patent office may have failed to discover the existence of any prior art references would be totally irrelevant in this case. The issue before the court is whether the patents are indeed valid, not whether the Limbach firm properly procurred the patent licenses in the first instance. The process by which the Limbach firm secured these patents is simply not relevant to any material issue in this litigation. The court also concluded that, under DR 5-101(B)(4), disqualification was not appropriate, because disqualification would work a substantial hardship upon defendant); *Norman Norell, Inc. v. Federated Dept. Stores*, 450 F.Supp. 127 (S.D.N.Y. 1978).

109. *Id.* at 18 n.1 (emphasis added).

110. 707 F. Supp. 717, 10 U.S.P.Q. 2d 1504 (S.D.N.Y. 1989). *Nintendo* illustrates the power of F.R.Civ.P. 42(b), as applied by the Court in *Gardco Manufacturing, Inc. v. Hersh Lighting Co.*, 820 F.2d 1209, 2 U.S.P.Q. 2d 2015 (Fed. Cir. 1987). *Gardco* held that issues of inequitable conduct could be severed and tried first, to the trial court, in an otherwise jury case, so long as the trial court did not reach and make findings concerning the patentability of the claimed invention. When Peerless queried how this could be done, the Court stated:

> While Peerless argues that inequitable conduct should not be found absent unpatentability, that is not the standard this court has adopted. . . .
>
> *The simple fact is that a patent may be valid and yet be rendered unenforceable for misuse or inequitable conduct.* Similarly, *a valid patent may be (in the*

> *abstract) infringed, that is, the accused device may fall within the scope of the claim, but there will be no liability to the patentee when the patent is unenforceable.* Thus the *conduct-of-the-applicant-in-the-PTO* issue raised in the nonjury trial and the separated infringement/validity issues are distinct and without commonality either as claims or in relation to the underlying fact issues.

820 F.2d at 1213, 2 U.S.P.Q. 2d at 2019 (emphasis added).

111. 10 U.S.P.Q. 2d. at 1505.

112. *Id.* at 1506-07.

113. *Id.* at 1507, *et seq.*

114. *Id.* at 1513.

115. *Id.* at 1515.

116. See 10 U.S.P.Q. 2d at 1516 ("Because there was no inequitable conduct, the issue which gave rise to Nintendo's motion to disqualify Neuman, Williams, Anderson & Olson from acting as defendants' trial counsel (i.e. whether members of that firm would be witnesses at the trial) has become moot and that motion is hereby denied.")

117. 19 USPQ2d 1859 (D. Conn. 1991).

118. 19 USPQ2d at 1860 (emphasis added).

119. *Id.*

120. 19 USPQ2d at 1861-62 (emphasis added).

121. 19 USPQ2d at 1862 (emphasis added).

122. Note that certain courts hold that the client cannot waive application of the attorney witness rule. *See, e.g., Supreme Beef Processors, Inc. v. American Consumer Industries, Inc.*, 441 F. Supp. 1064 (N.D. Tex. 1977); *United Pacific Ins. Co. v. Zardenetta*, 661 S.W.2d 244 (Tex. App. San Antonio, 1983, no writ).

123. 772 F.2d 1557, 227 U.S.P.Q. 81 (Fed. Cir. 1985).

124. 836 F.2d 1332, 5 U.S.P.Q. 2d 1424 (Fed. Cir. 1988).

125. 772 F.2d at 1563, 227 U.S.P.Q. at 85.

126. 772 F.2d at 1563-64, 227 U.S.P.Q. at 85-87.

127. 772 F.2d at 1565-66, 227 U.S.P.Q. at 86-87 (emphasis added).

128. *Id.*

129. 772 F.2d at 1566-67, 227 U.S.P.Q. at 88 (emphasis added).

130. 772 F.2d at 1567-68, 227 U.S.P.Q. at 88-89.

131. The devastating impact that this view might have upon any alleged attorney-client privilege arising from, during or in connection with prosecution of an assigned application was apparently not considered by the Court. Alternate theories such as a community of interest, may be available to protect such disclosures, but this precedent supplies a heretofore untapped source of ammunition for an attempt to pierce any such allegation of privilege.

132. 772 F.2d at 1568, 227 U.S.P.Q. at 89 (emphasis original and added). The Court contrasted, in footnotes 8 and 9 (772 F.2d at 1568-69, 227 U.S.P.Q. at 89-90), *Levin v. Ripple Twist Mills*, 416 F. Supp. 876 (E.D. Pa. 1976), as follows:

> 8. . . . Levin, the inventor, sought to disqualify two patent attorneys from representing a party Levin accused of patent infringement. Pursuant to Levin's power of attorney, the two patent attorneys prosecuted the application for the patent under an agreement between Levin and the accused infringer's predecessor-in-interest, Levin's exclusive licensee. Although Levin was the owner of the patent rights, and had given his power of attorney to the attorneys, he had done so pursuant to his agreement with his exclusive licensee who was entitled to engage a patent attorney of his choice to prepare and prosecute the application. The court's view of the situation was that the patent attorneys, who had a preexisting relationship with the licensee, acted as counsel of record only so long as it was in the licensee's interest. The trial court said:
>
> > "We cannot presume that the technical attorney-client relationship between Levin and Neuman's attorneys induced Levin to share any information which he was not contractually obligated to disclose to them in any event. Under

> these circumstances, we do not think the Levin/Edelson-Udell relationship, in connection with the patent prosecution, should be considered a "prior representation" within the meaning of the substantial relationship test."

416 F. Supp. at 885 (emphasis added).

> 9. In Levin, the court found the relationship between the inventor and the attorney hired by the party in control to be technical in nature, even where the patent rights were owned by the inventor (not the case here), since the inventor had conveyed the right to prepare and prosecute the patent application to another. There was no creation of a prior representation which would conflict with the attorney-client relationship already existing between the patent attorney and the party controlling prosecution. In the present case there was not even a "technical" attorney-client relationship between Chernoff and Hunter, because of the prior agreement that all rights in the invention belonged to Sun Studs.

Emphasis added.

133. 772 F.2d at 1569, 227 U.S.P.Q. at 90 (emphasis added).

134. 772 F.2d at 1569, 227 U.S.P.Q. at 90. The equities and the lateness of the disqualification motion also supported reversal: "The equities also weigh against disqualification. The Chernoff firm has represented Sun Studs for over 14 years, has conducted the litigation since its inception in 1978 which includes over three years of discovery, and has undoubtedly acquired knowledge and expertise relating to the technology and events involved in the suit. Further, even ATA/ATI's first motion was made late in the proceedings, despite full knowledge of the facts, and the second, without any new facts, was made five years after the first trial judge had denied such a motion and the Oregon State Bar had found no evidence of professional misconduct" (*Id.* at 1569-70.)

135. 836 F.2d at 1333, 5 U.S.P.Q. 2d at 1425. The controlling question was stated as:

> Whether, consistent with the Code of Professional Responsibility of the American Bar Association or the Model

> Rules of Professional Conduct, a patent attorney can work with a corporate inventor to draft or prosecute a patent application to issuance of a patent and subsequently, despite the objection of both the corporate inventor and a later assignee of the patent, represent interests seeking to invalidate or narrowly construe the self-same patent.

Id.

136. 836 F.2d at 1333-34, 5 U.S.P.Q. 2d at 1425-26.

137. 836 F.2d at 1336-37, 5 U.S.P.Q. 2d at 1427-28.

138. 836 F.2d at 1337, 5 U.S.P.Q. 2d at 1428 (emphasis original and added).

139. 836 F.2d at 1337-38, 5 U.S.P.Q. 2d at 1428 (emphasis added).

140. 836 F.2d at 1338-39, 5 U.S.P.Q. 2d at 1429 (emphasis added). *See also Pain Prevention Lab, Inc. v. Electronic Waveform Labs*, 657 F. Supp. 1486 (N.D. Ill. 1987) (EWL claimed Harris represented it, in preparing patent application intended to cover device in issue; PPL and EWL discussed distribution agreement pursuant to which PPL would pay for application; Harris prepared application, using information from EWL; court found that Harris was not acting for EWL, thus no attorney-client relationship: "Nevertheless, we think it was unreasonable for EWL to believe that Harris was acting as its attorney solely on the basis of his work in preparing the patent application. An attorney/client relationship does not arise where one consults an attorney in a capacity other than as an attorney. . . . *Communicating technical information to an attorney primarily to enable the attorney to prepare a patent application does not in itself call for the attorney to render any legal advice. . . . Nothing suggests that EWL ever independently sought any legal advice from Harris, that EWL exercised any control over Harris' activity, or that EWL ever paid Harris for his work. EWL's contact with Harris was initiated by PPL and EWL sent much of the information it disclosed directly to PPL, who then forwarded it to Harris. Moreover, EWL apparently was prosecuting its own patent application on its signal generator alone and had retained a different patent attorney. Under the circumstances it was unreasonable for EWL to believe [that] an attorney/client relationship existed. See also Beghin-Say v. Rasmussen*, 212 U.S.P.Q. 614 (Commissioner of Patents and Trademarks 1980) (no attorney/client relationship between inventor's attorney and inventor's assignee, even though the attorney prosecuted the patent application after it had been assigned). Therefore

Canon 4 does not apply, and Harris cannot be disqualified on that basis," 657 F. Supp. at 1497 (emphasis added).

141. 11 U.S.P.Q. 2d 1233 (Com'r Pats. 1989).

142. *Id.* at 1234. The Commissioner noted that the answers by counsel had later been ratified by an employee on Domino's behalf.

143. *Id.* at 1235 (citation omitted).

144. *Id.*

145. *Id.*

146. 19 USPQ2d 1779 (E.D. Va. 1991).

147. 19 USPQ2d at 1780.

148. *Id.*

149. 19 USPQ2d at 1780-81.

150. 19 USPQ2d at 1781.

151. *Id.* (emphasis added).

152. *Id.*

153. 19 USPQ2d at 1781-82.

154. 19 USPQ2d at 1782.

155. 19 USPQ2d at 1782-83 (emphasis added).

156. 19 USPQ2d at 1783.

157. Civil Action No. 4-89-238-4, slip op. (N.D. Texas June 12, 1992).

158. Slip op. at 1-2.

159. Slip op. at 5-6 (emphasis added).

160. Slip op. at 7-8 (emphasis added).

161. Slip op. at 10-11 (emphasis added).

162. 85 F.R.D. 264 (D. Del. 1980).

163. 85 F.R.D. at 265-66.

164. 85 F.R.D. at 266.

165. 85 F.R.D. at 267.

166. 85 F.R.D. at 268.

167. 85 F.R.D. at 270.

168. 85 F.R.D. at 272 (emphasis added).

169. *Id.* (emphasis added). Note the importance of the timing of the withdrawal motion, which, however, was far less delineated regarding the existing conflict than the court was apparently willing to state.

170. 85 F.R.D. at 273 (emphasis added).

171. 85 F.R.D. at 274 (footnote omitted).

172. 738 F. Supp. 1121 (N.D. Ohio 1990).

173. *Accord, Teradyne, Inc. v. Hewlett-Packard Co.*, 20 U.S.P.Q.2d 1143 (N.D. Cal. 1991).

174. 670 F. Supp. 1363 (N.D. Ohio 1987), *aff'd* 869 F.2d 578 (Fed. Cir. 1989).

175. 756 F. Supp. 789 (S.D.N.Y. 1991).

176. 756 F. Supp. at 790-91.

177. 756 F. Supp. at 789.

178. 756 F. Supp. at 791.

179. 756 F. Supp. at 792 (emphasis added).

180. 756 F. Supp. at 792-93.

181. 756 F. Supp at 793 (emphasis added).

182. 756 F. Supp. at 793-94.

183. 756 F. Supp. at 794.

184. 756 F. Supp. at 794 (emphasis added).

185. 648 F. Supp. 1040 (N.D. Ill. 1986). *See also Manning v. Waring, Cox, James, Sklar & Allen*, 849 F.2d 222 (6th Cir. 1988) (in state court action, Waring, Cox represented by Heiskell, Donelson firm; Hatzenbuehler of Boone, Wellford firm represented Fort Deposit Bank in a federal court action; Hatzenbuehler changed firms in April 1984, joining Heiskell, Donelson; in October 1984, Fort Deposit Bank decided to join Waring, Cox in the federal action, and Hatzenbuehler terminated

his relationship with the bank; Boone, Wellford took up Fort Deposit's defense in the federal court action, Waring, Cox was joined and retained Heiskell, Donelson to defend in that action; Fort Deposit moved to disqualify Heiskell, Donelson, because of Hatzenbuehler's prior involvement with the case; Hatzenbuehler had been screened or "Chinese-walled" from Heiskell, Donelson's efforts on behalf of Waring, Cox, as soon as he joined firm; the trial court disqualified Heiskell, Donelson; the Sixth Court reversed and remanded, holding that screening devices were available to rebut any presumption of shared confidences; its analysis was performed upon a Canon 4, former client/representation basis, due to Hatzenbuehler's resignation of the Fort Deposit Bank representation; balancing test applied in Sixth Circuit's analysis: "Consequently, these new realities [of law firm size and lawyer involvement] must be at the core of the balancing of interests necessarily undertaken when courts consider motions for vicarious disqualification of counsel"); *Harte Biltmore Ltd. v. First Pennsylvania Bank, N.A.*, 655 F. Supp. 419 (S.D. Fla. 1987) (Dilworth firm represented First Pennsylvania Bank in federal action; lawyers leave, joined BFE&M firm, continue representation of bank; BFE&M previously had undertaken representation of Harte in a state court action; BFE&M moved to withdraw from state court action; Harte opposed but the motion was granted; Harte then moved to disqualify BFE&M in federal action, arguing that disqualification was proper -- despite the state court approved-withdrawal -- because BFE&M breached its duty of undivided loyalty; federal court granted motion, finding that duty of undivided loyalty applied despite BFE&M's state court-approved withdrawal prior to filing of motion to disqualify; the withdrawal itself was held to be breach of duty of loyalty; the court's analysis was under Canon 5 and Canon 9: "As mergers between law firms become more common, attorneys are increasingly likely to find themselves opposing a client after a merger. Public confidence in lawyers and the legal system must necessarily be undermined when a lawyer suddenly abandons one client in favor of another. This is true regardless of the nature and extent of the representations of the clients involved and the size of the firm, how many separate offices it may maintain, or the number of jurisdictions in which the firm or its members may practice" (655 F. Supp. at 422)).

186. *Id.* at 1043.

187. This is the famous *Unified Sewerage* footnote 4:

> 4. Teeples & Thatcher argue that the "present-client approach" is inapplicable here because Jelco has dismissed Kobin & Meyer from its employ. Jelco correctly cites *Fund of Funds Ltd. v. Arthur Andersen &*

> *Co.*, 435 F. Supp. 84, 95 (S.D.N.Y.), *aff'd in part, rev'd in part on other grounds*, 567 F.2d 225 (2nd Cir. 1977), for the proposition that the present-client standard applies if the attorney simultaneously represents clients with differing interests. This standard continues even though the representation ceases prior to filing of the motion to disqualify. If this were not the case, the challenged attorney could always convert a present client into a "former client" by choosing when to cease to represent the disfavored client.

188. *Id.* at 1043-44.

189. *Id.* at 1045.

190. Leave to withdraw may be extremely difficult to obtain if consent for simultaneous representation is refused and counsel thereafter moves to withdraw from one of the litigated matters. *Johns-Manville Sales Corporation v. State University Construction Fund*, 434 N.Y. Supp. 2d 830, 831 (3d Dept. 1980) ("While plaintiff refused to consent to respondent's simultaneous representation or withdrawal from the lawsuit, such does not constitute good cause").

191. *Id.* at 1046 (emphasis added). In a footnote discussing the Todd/Walton conversation, the court pointed out that what was "Most interesting to the Court about this conversation is Willian's apparent reliance on outsiders to fulfill Willian's obligation of full disclosure and consent" (*Id.* at 1046, n. 6)

192. *Id.* at 1407 n. 7.

193. *Id.* at 1407.

194. 869 F.2d 578, 10 U.S.P.Q. 2d. 1122 (Fed. Cir. 1989). The author of this article represented Picker International, Inc. in the two infringement actions below, and before the Federal Circuit on appeal. Jones, Day and MH&S were also involved in *Gould*, *supra*. *Cf. Hartford Accident & Indemnity Co. v. RJR Nabisco, Inc.*, 721 F. Supp. 534 (S.D.N.Y. 1989). *See also, In Re Eastern Sugar Antitrust Litigation*, 697 F.2d 524 (3d Cir. 1982) (court held that disclosure of the possibility of a merger between two opposing law firms was required to be made to the trial court not later than the time when relatively formal discussions (as distinguished from casual, informal "feelers") began. The court held that the punishment for failure to make a timely

disclosure was forfeiture of the fees accrued after the date on which the disclosure should have been made. That case had been virtually concluded by the time the conflict was brought to the trial court's attention, so the obvious "punishment" -- disqualification -- was not an issue.)

195. 869 F.2d at 579-80, 10 U.S.P.Q. 2d at 1123-24. The certified questions were:

> From the Northern District of Ohio:
>
> In order to avoid a conflict of representation between two clients and comply with Disciplinary Rule (DR) 2-110 and DR 5-105, may a merging law firm (a firm consisting of two law firms which are about to merge) withdraw from representing one of those clients in all matters, even if the conflict between the clients exists as to only one matter?
>
> From the District of Utah:
>
> In light of Jones Day's pre-merger attempt to obtain Varian's consent to dual representation and McDougall's pre-merger attempt to terminate its representation of Varian, which it delayed pending a decision on whether Jones Day would be disqualified from representing Picker, is post-merger Jones Day disqualified under DR-5-105, or any other provision of the Code of Professional Responsibility, from further representation of Picker in this case?

196. 869 F.2d at 580-81, 10 U.S.P.Q. 2d at 1124.

197. *See General Mill Supply Co. v. SCA Services, Inc.*, 697 F.2d 704 (6th Cir. 1982).

198. 869 F.2d at 581, 10 U.S.P.Q. 2d at 1124-25. The question of disqualification had also been maintained by Picker to be one of pure law under the Tenth Circuit standard, as there was no controversy over the facts at bar. The panel majority, however, applied an all-around abuse of discretion standard.

199. 869 F.2d at 581, 10 U.S.P.Q. 2d at 1125 (emphasis added).

200. The panel majority relied upon *Harte Biltmore*, a Southern District of Florida case, to support this holding, which case was heavily cited throughout its opinion.

201. 869 F.2d at 581-82, 10 U.S.P.Q. 2d at 1125. The basis for the panel majority's conclusion that MH & S wanted to continue to represent Varian in the *Genus* action is not clear, in view of MH & S's cessation of representation in all matters, including *Genus*, which the panel majority itself pointed out, after rejection of MH & S's December 31, 1986 proposal.

202. 869 F.2d at 582, 10 U.S.P.Q. 2d at 1125-26 (emphasis added).

203. 869 F.2d at 582-83, 10 U.S.P.Q. 2d at 1126 (emphasis added).

204. It is of interest to speculate whether the filing of a withdrawal motion in the Northern District of California would, even if granted, have made any actual difference. The court in *Harte Biltmore*, which the panel majority placed heavy reliance upon, disqualified BFE&M despite the state court's having granted its motion for leave to withdraw, which obviated the simultaneous representation conflict there.

205. 869 F.2d at 583, 10 U.S.P.Q. 2d at 1126 (emphasis added).

206. *Id.* Picker had also maintained that *Manning* mandated the application of a balancing test in deciding whether a simultaneous representation conflict supported disqualification as a remedy. The Ohio court had explicitly refused to engage in such balancing (670 F. Supp. 1363, 1367 (N.D. Ohio 1987)).

207. 869 F.2d at 583, 10 U.S.P.Q. 2d. at 1126-27 (emphasis added). Somehow, the panel majority appeared to have failed to recall that a Canon 4 analysis had been applied because Hatzenbuehler had resigned from his representation of Fort Deposit Bank when the potential conflict arose, thereby converting the bank into a former client by the time the allegedly conflicting representation commenced (see discussion of *Pennwalt supra*). MH & S, from that perspective, had acted in an identical fashion. *Manning* plainly took a different view of such a resignation than the Ninth Circuit did in *Unified Sewerage*, and than the Southern District of Florida did in *Harte Biltmore*.

208. 869 F.2d at 583-84, 10 U.S.P.Q. 2d at 1127. This result and view was plainly contrary to Judge Joiner's holding in *Gould*, rendered in the face of *Picker*.

> The panel majority briefly addressed the relative harm resulting from disqualification: "While the Ohio court was aware that its decision might injure Picker (although it retained alternative counsel),

> through no fault of Picker's, the court noted that a different result would injure Varian, also through no fault of Varian's. The Ohio judge also reviewed the timing of the conflict in the litigation. In addition, the judge looked at Jones Day's unwillingness to recognize an 'unavoidable' conflict and to take measures that would have proved beneficial to its client Picker, i.e., to step aside when the conflict arose so that new counsel could become acquainted with the case."

209. 869 F.2d at 584-85, 10 U.S.P.Q. 2d at 1128. Judge Archer, too, did not report on any events of "second class level of clienthood" suffered by Varian in that period in the handling and/or resolution of those matters.

210. 869 F.2d at 585, 10 U.S.P.Q. 2d at 1128 (emphasis added).

211. *Id.* (emphasis added).

212. 869 F.2d at 585, 10 U.S.P.Q. 2d at 1128-29. The "then-pending" application referred to issued as a United States Letters Patent several weeks before the panel majority handed down its decision. A divisional application had been filed, however, by the former MH & S lawyers, prior to issuance of that patent, which divisional remained pending.

213. *See Advanced Micro Devices, Inc. v. Gazelle Microcircuits, Inc.*, Civil Action No. C-88-20529-WAI (N.D. Cal. September 29, 1989) and *Advanced Micro Devices, Inc. v. Atnel Corp.*, Civil Action No. C-88-20528-WAI (N.D. Cal. September 29, 1989), the Wilson, Sonsini firm was disqualified from representing defendants Atnel Corp. and Gazelle Microcircuits, Inc. in two patent infringement actions brought by Advanced Micro Devices ("AMD"). AMD moved to disqualify Wilson, Sonsini on grounds that the firm was representing AMD (or its wholly owned subsidiary Monolithic Memories, Inc.) in at least two pending matters (*Monolithic Memories Inc. v. Accutest Corp.*, ND CA, San Jose Div., No. C86-20084-RPA, and *Threshum Associates Inc. v. Monolithic Memories Inc.*, Santa Clara Cty., CA Super. Ct., No. 616581). "Under California Rule of Professional Conduct 5-102(B), 'A member shall not represent conflicting interests, except with a written consent of all parties concerned,'" Judge Ingram said, "California and Ninth Circuit law prohibits an 'attorney from accepting any case in which he would have to oppose a current client in a lawsuit, unless the client consents.' In this case, Wilson has undertaken to represent a party adverse to a present client and thus, must be disqualified." (*Computer Industry Litigation Reporter*, October 23, 1989, pp. 10262.)

214. C. A. No. H-91-627 (S.D. Tex. 1992), *rev'd*, _____ F.2d _____, Appeal No. 92-2199, slip op. (5th Cir. March 30, 1992).

215. 1992 U.S. Dist. Lexis 5677 (N.D. Ill. 1992).

216. *ALAS Loss Prevention Journal*, Vol. III No. 2, May 1992 at 19 (emphasis added).

217. *ALAS Loss Prevention Journal*, *id.*, at 20 (emphasis added).

218. *See generally*, O'Malley et al., *Selected Conflict of Interest Issues*, ALAS Loss Prevention Journal, Vol. II, No. 3 September 1991, pp. 2, 7-12 [a detailed overview, in question and answer format, of imputed disqualification resulting from law firm personnel changing firms, including lawyer and non-lawyer personnel]. Under the Model Rules (Rule 1.10(b)), the substantial relationship test for disqualification of counsel for former clients has two parts: first, it must be shown that the two representations are in the same or substantially related cases, and second, it must be shown that the lawyer has actually acquired material, confidential information.

219. 744 F.2d 1564, 223 U.S.P.Q. 465 (Fed. Cir. 1984).

220. 744 F.2d at 1568-69, 223 U.S.P.Q. at 466.

221. 744 F.2d at 1569-70, 223 U.S.P.Q. at 466.

222. 744 F.2d at 1569-70, 223 U.S.P.Q. at 467.

223. 744 F.2d at 1570, 223 U.S.P.Q. at 468 (emphasis added).

224. 689 F.2d 715 (7th Cir. 1982).

225. 744 F.2d at 1571-72, 223 U.S.P.Q. at 468-69.

226. 744 F.2d at 1576-77, 223 U.S.P.Q. at 472-73 (emphasis added).

227. 744 F.2d at 1577-78, 223 U.S.P.Q. at 473-74 (emphasis original and added).

228. 744 F.2d at 1578-79, 223 U.S.P.Q. at 474 (emphasis original and added). The Court noted that, while the Seventh Circuit had not expressed itself specifically on the imputation of knowledge from one firm to another through a vicariously disqualified attorney, the *Freeman* court had cited *American Can* with approval, which refused to allow double imputation to lead to disqualification ("However, new partner's of a vicariously disqualified partner, to whom knowledge has

been imputed during a former partnership, are not necessarily disqualified: they need show only that the vicariously disqualified partner's knowledge was imputed, not actual . . . If these ethical principles are applied to the instant case, it becomes evident that disqualification of Miller and the Covington firm is unnecessary. Indeed, resort to so drastic a measure would not only be unwise, but would also set dist rbing precedent. If the Prossers' rationale were acc pted, imputation and consequent disqualification could continue *ad infinitum*. It is not surprising, then, that the courts have carefully limited their travels in this area.

229. 744 F.2d at 1579-80, 223 U.S.P.Q. at 474-75. The Court contrasted the Laff Firm situation with that in the *Novo* case:

> There, a partner in a firm, Mr. Cook, worked for a particular client (Baxter-Travenol). Upon leaving the firm six months later, Cook filed suit on behalf of Baxter-Travenol against Novo. Novo hired Cook's former firm, and Baxter-Travenol moved for the firm's disqualification. With respect to the six month interim, the presumption of shared confidences was applied. It would have been impossible to hold with certainty that confidences were not inadvertently disclosed to the firm by Cook. Indeed, Cook's affidavit averred that some client confidences were passed on . . . A panel of the court, which first heard the appeal, resolved doubts in favor of disqualification. The Seventh Circuit, in banc, overturned the holding on the basis of affidavits from the firm members that they received no confidences. There was no evidence from Cook that they did, specifically with respect to the subject matter of the suit. The presumption was held to be overcome. *Here, we have comparable, if not stronger, facts for no disqualification. The presumption against the Laff Firm would not be as difficult to overcome as in Novo since one of the circumstances which affects the likelihood of confidences being passed on is that Conte was not shown to have any confidences. His taint is vicarious.* Cook's taint was direct. In any event, Laff, like Cook's former partners, credibly testified, per the district court, that no confidences were received.

Id. (emphasis added).

230. The screen or wall, in the patois of attorney disqualification, is usually referred to as a "Chinese wall", for reasons left best to the reader's imagination particularly when the historical effectiveness of the real Great Wall of China is reviewed.

231. 744 F.2d at 1580-81, 223 U.S.P.Q. at 475-76. The question of Conte's disqualification was substantially mooted by the Laff Firm's promise to isolate him from the case, which led the Court to state that "if it were urged that Conte be allowed to stay in the case, we would have to remand for reconsideration because an incorrect legal presumption was applied against him. However, in view of All States' position on appeal, we remand to the district court for an appropriate order formalizing procedures which will screen Conte from involvement in these and related proceedings."

232. 744 F.2d at 1581, 223 U.S.P.Q. at 476.

233. 746 F.2d 1459, 223 U.S.P.Q. 1065 (Fed. Cir. 1984). The trial court was the District of Minnesota, which was located in the Eighth Circuit.

234. 746 F.2d at 1460, 223 U.S.P.Q. at 1065.

235. 746 F.2d at 1460-61, 223 U.S.P.Q. at 1065.

236. 746 F.2d at 1461, 223 U.S.P.Q. at 1065-66.

237. 746 F.2d at 1461-62, 223 U.S.P.Q. at 1066.

238. 746 F.2d at 1462, 223 U.S.P.Q. at 1067 (emphasis added, citations omitted). The Court noted that the members of the Kinney firm had sworn that they received no confidential material from the two lawyers, but the trial court had plainly not been moved by that submission: "Judge Murphy could properly refuse to accept that subjective assurance as sufficient. For one thing, lawyers are not always aware of their receipt or use of confidential information. . . . As the District Court said, 'objective and verifiable evidence' (such as, for instance, a "Chinese Wall") is called for. That does not exist in this case."

239. 746 F.2d at 1462-63, 223 U.S.P.Q. at 1067 (footnotes omitted). A question of availability of work product was also raised on appeal. The trial court had entered an order allowing the Kinney firm to pass along work product which had been prepared prior to April 1, 1983, the date when the two lawyers had joined the Kinney firm, but denied it as to subsequent work product. The Court refused to reverse the denial of post April 1, 1983 turn-over: "In its previous

decision the District Court had determined, and we have just upheld that ruling . . . that appellant has not rebutted the presumption that EZ Paintr's confidences and secrets had been received by the two lawyers while with the Schroeder firm, and also that those confidences and secrets very well may have been passed on (perhaps inadvertently) to the Kinney firm after April 1st. On that basis, it was not clearly erroneous or an abuse of discretion for the court to hold that 'there is a significant danger that work product prepared after April 1, 1983 contains confidences' and also that 'it cannot be concluded that there is no reasonable possibility that the work product produced by the Kinney firm contains confidential information.' Those conclusions lead, of course, to prohibition of the turn-over of all work product prepared after April 1st." The Court distinguished *First Wisconsin Mortgage Trust v. First Wisconsin Corp.*, 584 F.2d 201 (7th Cir. 1978), in which turn-over of all work product was ordered, "because in that case '[t]here is no challenge to defendants' assertion that the preparation of the loan file summaries [the work product involved] was not aided by any confidential information acquired by the Foley lawyers through their prior relationship with Trust. Indeed, it appears that the summaries are no different than they would have been if made in their entirety by lawyers who were strangers to all of the parties.'"

240. 746 F.2d at 1464, 223 U.S.P.Q. at 1068. As a result of this matter, Padco apparently charged Kinney & Lange with malpractice. *See Padco Inc. v. Kinney & Lange*, 444 N.W.2d 889 (Minn. App. 1989) (affirming summary judgment in favor of the Kinney firm). Besides running a risk of malpractice litigation, the attorney simultaneously representing the conflicting interests may be ordered to disgorge all fees, irrespective of whether the client establishes either damage or causation. *Eriks v. Denver*, 118 Wash.2d 451, 824 P.2d 1207, 1213 (Wa. 1992).

241. 745 F.2d 1463, 223 U.S.P.Q. 884 (Fed. Cir. 1984). The trial court was the District of Arizona, which is located in the Ninth Circuit.

242. 745 F.2d at 1464-65, 223 U.S.P.Q. at 885-86.

243. 745 F.2d at 1465-66, 223 U.S.P.Q. at 886.

244. 745 F.2d at 1466, 223 U.S.P.Q. at 886.

245. 745 F.2d at 1466-67, 223 U.S.P.Q. at 886-87. The Court pointed out that the Ninth Circuit, in *Paul E. Iacono Structural Engineering, Inc. v. Humphrey*, 722 F.2d 435, 442 (9th Cir. 1983), had "expressly left open the question of whether firmwide disqualification would be necessary if screening procedures were used" (745 F.2d at 1466 n. 5).

246. 745 F.2d at 1467, 223 U.S.P.Q. at 887 (emphasis added).

247. Finally, we are convinced that disqualification of the Reed, Goldstein firm will impose no serious hardship on IMPRA. IMPRA has been represented throughout this proceeding by the McCabe firm. This is not a case where disqualification will result in significant lost time and expense in bringing new counsel "up to speed." IMPRA was notified immediately of the potential conflict and the matter was swiftly pursued to a final disqualification judgment only a few weeks after the firm was hired.

745 F.2d at 1467, 223 U.S.P.Q. at 887-88.

248. Appellant was confronted by the heavy burden of proving the absence of "any sound basis" in the record to support the district court's conclusion. Considering the entirety of the record before the district court, we conclude that disqualification of Reed and his firm was necessary because of what clearly seems to us to be a strong appearance of professional impropriety. Both representations involved Gore suing IMPRA. Goldstein worked directly for Gore, and Reed was a member of a firm which represented Gore in the prior action. Now both attorneys are partners in the small firm that IMPRA seeks to use as its counsel. The technical subject matter of each suit is the same. The Martori firm which Reed left is representing Gore in this litigation. Under these circumstances, Gore's motion clearly was a legitimate attempt to preclude a representation which threatened to adversely affect its interests and was not contrived for purposes of harassment.

745 F.2d at 1468, 223 U.S.P.Q. at 888.

249. *Id.*

250. 847 F.2d 826, 6 U.S.P.Q. 2d 1955 (Fed. Cir. 1988). The trial court was the Northern District of California, which is located in the Ninth Circuit.

251. 847 F.2d at 829, 6 U.S.P.Q. 2d at 1956.

252. *Id.*

253. Atasi attempted to avoid the presumption in the first instance, without success: "On this point Atasi argues Kallman was only minimally involved in the case while he was of counsel to the Flehr firm. Therefore, *Atasi argues, he did not receive any significant confidential information.* However, the rule does *not* require that the lawyer changing firms should actually have received confidences in the former representation. . . . The disqualification rule is designed to preserve the confidences of the former client. To require an

actual disclosure before disqualification would be improper, since it would require the very disclosure the rule is intended to protect against. . . . *Thus the test does not depend on whether actual confidences were received or on the length of the former representation. The test only depends on whether the former and current representations are substantially related.* This test is met, since here the former representation is the same action at law as the current representation. The possible harshness of this rule is mitigated by the "peripheral representation" standard. . . . Under this standard an attorney previously associated with a firm that handled matters substantially related to those in which the attorney's disqualification is sought may avoid disqualification by showing he had no personal involvement in the matters. . . . *On the facts of the instant appeal the peripheral representation defense fails.* As we have previously noted, *Kallman's signature appeared on a pleading for Seagate, he helped prepare a brief, and he twice visited a Seagate facility.* Kallman, therefore, was personally involved in the matter. Once one of the law firm's members is found to have been counsel for an adverse party in a substantially related matter the entire firm must be disqualified. . . . The disqualification applies whether or not the other lawyers of the firm were actually exposed to the confidential information possessed by the attorney switching firms. . . . Thus, a presumption exists that the other members of the firm shared in the confidential information" (847 F.2d at 829-30, 6 U.S.P.Q. 2d at 1956-57, emphasis added).

254. In footnote 4 (847 F.2d at 830, 6 U.S.P.Q. 2d at 1957), the Court noted the existence of the Model Rules, but found it unnecessary to consider them: "The Model Code of Professional Responsibility was superseded by the ABA Model Rules of Professional Conduct in 1983. Rule 1.10 of the Model Rules covers imputed disqualification. However, it is unnecessary to consider the applicability of Model Rule 1.10 since Model Code Rule 5-105(D) as applied in *Iacono* is still binding on lawyers practicing before the Northern District of California."

> The Court later noted (847 F.2d at 832 n. 9, 6 U.S.P.Q. 2d at 1959 n.9) that, "The Model Rules have not been adopted by California or the Northern District of California but Rule 1.10 relating to imputed disqualification and the official comments thereto are instructive in the instant appeal."

255. 847 F.2d at 830-31, 6 U.S.P.Q. 2d at 1957. Why the last comment was necessary, if the Court believed in what it was saying, is unclear, as it implies than a "*de minimus* of counsel" exception might exist.

256. 847 F.2d at 831, 6 U.S.P.Q. 2d at 1958 (emphasis original and added).

257. 632 F. Supp 418, 428 (D. Del. 1986) (self-imposed silence by the attorney switching firms is a more appropriate screening mechanism than the Chinese wall, since the members of the legal profession should be credited with a certain level of integrity).

258. 847 F.2d at 832, 6 U.S.P.Q. 2d at 1958.

259. 847 F.2d at 832, 6 U.S.P.Q. at 1958-59.

260. 847 F.2d at 832-33, 6 U.S.P.Q. 2d at 1959.

261. Misc. Docket No. 252, slip op. (Fed. Cir. March 19, 1990).

262. 621 F.2d 994 (9th Cir. 1980); slip op. at 3.

263. Slip op. at 3.

264. Slip. op. at 3-4.

265. Slip op. at 4-5.

266. *But see Petroleum Wholesale, Inc. v. Marshall*, 751 S.W.2d 295 (Tex. App. Dallas 1988, no writ history), where, in a situation in which migrating counsel had actual knowledge of confidential information, the new firm was disqualified, on the basis of an irrefutable presumption of shared confidences, despite the presence of a properly-established "Chinese wall"). *Cf. American Can Company v. Citrus Feed Co.*, 436 F.2d 1125 (5th Cir. 1971), refusing to "doubly impute" knowledge from a vicariously disqualified attorney to his new partners and firm, where he had no actual knowledge of confidential client information.

267. Civil Action No. 4-89-238-4, slip op. (N.D. Texas June 12, 1992).

268. Slip op. at 8-9 (emphasis original and added).

269. Slip op. at 9-10 (emphasis added).

270. Slip op. at 11-12 (emphasis added).

271. 745 F.2d 600, 223 U.S.P.Q. 881 (Fed. Cir. 1984). The trial court was in the Eastern District of Michigan, which is located in the Sixth Circuit.

272. 745 F.2d at 602-03, 223 U.S.P.Q. at 881-82.

273. 745 F.2d at 603, 223 U.S.P.Q. at 882.

274. *Id.*

275. 745 F.2d at 604-05, 223 U.S.P.Q. at 883-84 (emphasis added). An allegation of a "too tard[y]" disqualification motion was also raised, but did not convince the Court of error below: "This action was begun in March 1982 but the disqualification motion was not formally made until August 1983 (apparently the issue was raised informally in May 1983). The trial court did not view that lapse of time as an obstacle because (a) 'counsel for plaintiff [Kearns] did correspond with defense counsel [Lalos] seeking an explanation of the confidential information Lalos may have obtained', and (b) negotiations looking to settlement of this actual litigation began (in November 1982) and continued for several months, and 'the disqualification motion was brought relatively promptly after settlement negotiations broke down'. The Court found those conclusions to be reasonable and obviously do not constitute an abuse of the District Court's discretion."

276. *See also B. F. Goodrich Co. v. Formosa Plastics Corp., 638 F. Supp. 1050 (S.D. Tex. 1986) [attempt to remove opposing counsel, based on previous pre-retainer interview with attorney concerning possible representation; despite absence of attorney client relationship, disqualification possible if establish existence of fiduciary obligation, prove confidential information exchanged, and counsel would breach fiduciary duty if able to use information in later case; evidence did not establish that confidential information had been disclosed in interview process; disqualification refused)]; Garwin, Beware of Beauty Contests,* ABA Journal (January 1992), p. 84.

> Disqualification issues may also arise in the context of licensing transactions, usually engendered by how many of the various parties to the deal were being represented by which lawyer, or by questions of whether counsel involved in the patent prosecution process could later appear for a party to the agreement challenging the patent. *See New York Institute of Technology v. Biosound, Inc.*, 658 F. Supp. 759 (S.D.N.Y. 1987) (licensee's attorney involved in patent prosecution; later, representing licensee in litigation where patent alleged to be invalid, motion to disqualify filed; Canon 9 appearance of impropriety relied upon to ground disqualification; disqualification refused: "It is not at all unforeseeable that a licensee may end up in litigation with a patentee with whom the licensee has a royalty arrangement. 'Licensees may often be the only individuals with enough economic incentive to challenge the patentability of

an inventor's discovery.' . . . Given the inherent tension in the licensor-licensee relationship, the situation presented here is not one which warrants disqualification solely on the basis of an appearance of impropriety. Under the facts of this case, public confidence in the integrity of the system in not undermined by Durlacher's continuation as patent co-counsel for the defendants. . . . Moreover, because Durlacher himself did not prosecute the patents-in-suit to issuance, this case presents perhaps less justification for disqualification than *Ripple Twist*, in which the challenged attorney prosecuted the patent at issue. By contrast and by way of example, had NYIT's attorney, who prosecuted the patents-in-suit, sought to represent the defendants in an attack on the validity of those patents, the ethical problem would be more acute" (658 F. Supp. at 762-63)); *Levin v. Ripple Twist Mills, Inc.*, 416 F. Supp. 876 (E.D. Pa. 1976) (as result of licensing agreement, Edelson/Udell prosecuted Levin patent; arrangement between parties soured, after deaths and transfer of license through other entities; breach of contract action filed, which, under certain circumstances, potentially would put patent infringement in issue (validity had been admitted); court refused to disqualify Edelson/Udell, "on the very special circumstances of this case"; despite court's comments that "[h]owever, we think the possibility that an inventor's confidence could become useful in file wrapper estoppel litigation is large enough that we must consider a patent prosecution to be substantially related to a file-wrapper defense in a suit for infringing the same patent. In most circumstances an attorney may not represent the alleged infringer over the objection of his former client, the patentee" (416 F. Supp. at 884-85); the finding that there was no attorney-client relationship between Levin and Edelson/Udell barred disqualification: "If, during the prosecution of the Levin patent, there had been a normal attorney-client relationship between Edelson/Udell and Levin, our analysis now would be at an end and we would have to grant the disqualification motion. The facts are otherwise. During the

> relevant time period, *Newman, the defendant's predecessor, always was Edelson/Udell's primary client.* Edelson/Udell acted as counsel of record on the patent application only so long as it was in Newman's interests, and it always should have been clear to Levin that to the extent he then was Edelson/Udell's client, he was their secondary client in this matter, and that Levin might at some future time be litigating against their primary client. *Under the Agreement, Newman had the right to prosecute patents in Levin's name, and Levin was obligated to cooperate with attorneys of Newman's choosing so long as Newman actively pursued the application. . . . We cannot presume that the technical lawyer-client relationship between Levin and Newman's attorneys induced Levin to share any information which he was not contractually obligated to disclose to them in any event.* Under these circumstances, we do not think the Levin-Edelson/Udell relationship in connection with the patent prosecution should be considered a 'prior representation' within the meaning of the substantial relationship test." (416 F. Supp. at 885) (emphasis added).

277. 475 U.S. 424 (1985).

278. The Court has interlocutory jurisdiction. *See* 28 U.S.C. §§ 1292(c), 1295. In *Telectronics Proprietary, Ltd. v. Medtronic, Inc.*, 836 F.2d 1332, 5 U.S.P.Q. 2d 1424 (Fed. Cir. 1988), the District Court for the Southern District of New York denied a motion to disqualify counsel and subsequently certified the issue for interlocutory appeal. The Federal Circuit, with little comment, determined that it would review the appeal in accordance with 28 U.S.C. § 1292(c)(1). *Id.* at 1335, 5 U.S.P.Q. 2d at 1427.

> The Federal Circuit has held that it has no *mandamus* authority in this area. *CPC Partnership v. Nosco Plastics*, 719 F.2d 400 (Fed. Cir. 1983).

279. 873 F.2d 1292, 10 U.S.P.Q. 2d 1794 (9th Cir. 1989).

280. *Id.* at 1793-94.

281. 697 F.2d 704, 711 (6th Cir. 1982) (emphasis added).

282. 570 F.2d 1197, 1200 (4th Cir.), *cert. denied*, 439 U.S. 821 (1978).

283. *Kearns v. Fred Lavery Porsche Audi Co.*, 745 F.2d 600, 605, 223 U.S.P.Q. 881, 884 (Fed. Cir. 1987) (conclusions regarding timeliness of disqualification motion "are reasonable and obviously do not constitute an abuse of the District Court's discretion"). *See also D.H. Overmyer Co., Inc. v. Robson*, 750 F.2d 31, 34 (6 Cir. 1984) (citing *Hull v. Celanese Corp.*, 513 F.2d 568 (2 Cir. 1979)).

284. 518 F.2d 311, 314 (10th Cir. 1975).

285. *E.E.O.C. v. Orson H. Gygi Co.*, *supra*, 749 F.2d at 621. "It is well settled that the question of whether or not counsel should be disqualified due to an alleged conflict of interest in violation of the Code of Professional Responsibility is a legal one." In re *Roberts*, *supra*, 46 Bankr. at 838, 75 Bankr. at 412.

286. *See Cheng v. GAG Corp.*, 631 F.2d 1052, 1055 (2d Cir. 1980), *vacated*, 450 U.S. 903 (1981) (abuse of discretion standard); *W.T. Grant Co. v. Haines*, 531 F.2d 671 (2d Cir. 1976) (disqualification in discretion of district court); *Central Milk Producers Cooperative v. Sentry Food Stores, Inc.*, 573 F.2d 988, 991 (8th Cir. 1978) (district court has discretion to disqualify); *LaSalle National Bank v. County of Lake*, 703 F.2d 252, 256 (7th Cir. 1983) (abuse of discretion standard); *Paul E. Iacono Structural Engineer, Inc. v. Humphrey*, 722 F.2d 435, 438 (9th Cir. 1983), *cert. denied*, 464 U.S. 851, 104 S. Ct. 162 (1983) (decision is upheld on "any sound" basis; that is, absent abuse of discretion of misperception of law); *cf. Norton v. Tallahassee Memorial Hospital*, 700 F.2d 617 (11th Cir. 1983) (findings of fact reviewed under clearly erroneous standard, combined with a review of the law involving careful examination of the trial court's interpretation and application of relevant ethical standards).

287. *Selected Conflict of Interest Issues*, ALAS Loss Prevention Journal, Vol. III, No. 1, January 1992, p. 2, 5.

288. *Id.* at 5 [also citing Restatement § 209, Comment f; Model Rule 1.7, Comment[9] (mentions same *appellate court*); Hazard and Hodes, *The Law of Lawyering: A Handbook on the Model Rules of Professional Conduct* (2d ed. 1990), §§ 1.7:104-106; *Fiandaca v. Cunningham*, 827 F.2d 825 (1st Cir. 1987) (applying New Hampshire Rules of Professional Conduct, primarily Rule 1.7(b)); and *Estates Theatres, Inc. v. Columbia Pictures Industries, Inc.*, 345 F. Supp. 93 (S.D.N.Y. 1972) (applying the New York Code of Professional Responsibility, primarily DR5-105(B))].

289. *Id.* at 6.

290. *Id.* at 14.

291. *Id.* (emphasis added).

292. *Id.* at 14-15.

293. *Id.* at 15 (emphasis added).

RULE 11 AND OTHER SANCTIONS IN INTELLECTUAL PROPERTY LITIGATION

Breton August Bocchieri, 1992
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Representing Kawasaki Motors Corporation, U.S.A. and DAK Industries, Mr. Bocchieri was the principal litigation counsel responsible for the precedent-setting Refac v. Hitachi, et al. decisions reported in the New York Times, Wall Street Journal, Los Angeles Times and industry journals, in which the plaintiff was ordered to prove patent infringement by 118 defendants in discovery. Refac's case was dismissed, and attorneys fees as well as Rule 11 sanctions of over 1.4 million dollars were levied for its failure to adequately define infringement.

A Rutgers College graduate, his technical background is in electronics. He has worked with leading companies in the computer industry to protect frontier technology such as enhanced computer graphics systems for computer aided design and manufacturing.

Mr. Bocchieri is a graduate of Franklin Pierce Law Center. He is the author of "The Trap of Willful Patent Infringement: A Corporate Dilemma," published in Idea: The Journal of Law and Technology: Vol. 29, and New Matter, Official Publication of the State Bar of California, Intellectual Property Sections, Vol. 14, No. 9, and cited twice in Chisum's well-known treatise on patent law. Mr. Bocchieri also lectures at legal associations and seminars on the subject of intellectual property litigation.

RULE 11 AND OTHER SANCTIONS IN INTELLECTUAL PROPERTY LITIGATION

by Breton August Bocchieri

I. INTRODUCTION

In 1983, Congress enacted the present version of Rule 11 to "revitalize the Rule by encouraging the use of sanctions where appropriate." *Zaldivar v. City of Los Angeles*, 780 F.2d 823, 828 (9th Cir. 1986). The rule has seen infrequent effective use in intellectual property cases. In one patent infringement case, however, Rule 11 sanctions of over 1.4 million dollars were imposed. In a recent copyright case, Rule 11 sanctions of dismissal and an award of attorney's fees were approved by the Supreme Court. These and other precedents provide significant opportunity for litigants in intellectual property cases to obtain compensation for opposing baseless, frivolous or improper filings. Other corresponding fee shifting mechanisms can also be successfully employed based on the same facts that would trigger Rule 11. Given the high cost that defending or prosecuting an intellectual property case usually involves, all groundless, vexatious and bad faith filings and conduct should be examined in light of the clear Congressional intent to deter such actions and to compensate the abused parties. Each of these points, as well as the new proposed changes to Rule 11, are discussed in more detail below.

II. RULE 11 SANCTIONS IN A PATENT INFRINGEMENT CONTEXT

The *Refac v. Hitachi* Legacy and Rules 11 and 37

In September, 1987, Refac International Limited ("Refac"), an entity nationally renowned for purchasing and litigating patents, sued 118 companies in the Central District of California. The complaint alleged infringement of three patents, all of which claimed different

supporting circuitry for liquid crystal displays ("LCD").[1] Refac asserted, and its experts later declared, that *all* current LCD products required bi-directional current in order to work properly and therefore infringed at least one of its basic LCD circuit patents.

Eleven months after the complaint was filed, the court was persuaded to order Refac to identify "which elements of which claim are present in the accused devices," both literally and under the doctrine of equivalents. *Refac International Limited v. Hitachi, et al.*, 921 F.2d 1247, 1251 (Fed. Cir. 1990). Refac responded with a claim chart which it entitled "An Element-By-Element Analysis of Why Patent No. 3,744,049 is Infringed by Each Product Listed in the Case" *Id.* at 1251. As the Federal Circuit later held, however, this claim chart "did not identify the elements of any specific product corresponding with the patent claim elements . . ." *Id.* at 1251.

In February, 1989, DAK Industries Inc. and Kawasaki Motors Corp. U.S.A. ("Kawasaki") filed a motion seeking sanctions, including dismissal and attorney's fees pursuant to F.R.Civ.P. 11, 37 and 28 U.S.C. § 1927. The motion was brought before the magistrate that had issued the discovery order. Kawasaki argued: 1) that Refac's failure to provide an infringement analysis of the defendants' circuits was an attempt to reverse the burden of proof by forcing the defendants to prove non-infringement; 2) that Refac was in violation of the court's discovery order because it failed to properly answer infringement interrogatories; and 3) that Refac's complaint was not based on an actual comparison of the accused products to the asserted patent claims. *Id.* at 951. Afterwards, other defendants joined in this motion. Refac argued that it had sufficiently defined infringement for purposes of discovery and that each defendant could decide whether to fight or settle.

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[1]United States Patent Nos. 3,855,783 (the "'703 patent"), 3,744,049 (the "'049 patent") and 3,955,355 (the "'355 patent").

The magistrate agreed with Kawasaki and held that Refac had failed to meet its duty as a plaintiff because it had failed to particularly identify exactly why each defendant infringed. He found that this required the defendants to labor "under a cloud" and that it "would be unjust to allow this action to continue." *Refac International, Ltd. v. Hitachi Ltd., Kawasaki Motors Corp., et al.*, 1989 U.S. Dist. *LEXIS* 17173 (Cent. Dist CA Feb. 22, 1989). The magistrate therefore recommended dismissal of the case, a finding of non-infringement pursuant to Rule 37 and an inquiry as to whether or not Rule 11 had been violated. He also awarded the attorneys fees for the motion before the him. The district judge affirmed the magistrate's findings and adopted his recommendations, with the exception that he declined to sanction Refac pursuant to Rule 11.

Refac appealed the case to the Federal Circuit. *Refac International, Ltd. v. Hitachi Ltd*, 921 F.2d 1247 (Fed. Cir. 1990). Kawasaki cross-appealed the court's refusal to impose Rule 11 sanctions. The Federal Circuit affirmed the sanctions of dismissal, non-infringement and attorney's fees awarded further fees and double costs under F.R.A.P. 38 and remanded the case for a determination of the Rule 11 issue. The Federal Circuit commented that sanctions for an unfounded complaint under Rule 11 would "normally be of greater impact than the sanctions imposed below." *Id.* at 1257.

Kawasaki and the other defendants then renewed the original Rule 11 motion. Pursuant to the remand and the Federal Circuit's urging, the district court found that Refac was "guilty of a Rule 11 violation for filing the complaint without first making a reasonable factual inquiry." 19 U.S.P.Q. 2d 1855 (C. D. 1991).[2] The district court held that Refac had owed a duty to "reverse engineer" or otherwise examine

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[2]See Table of Corrections for 19 U.S.P.Q. 2d 1855.

the accused LCD circuits before filing.[3] The court held that Refac simply had not:

> engaged in any successful reverse engineering or inspection of circuit diagrams of accused products. In fact, Refac appears to admit a total lack of reverse engineering of subject products by asserting that in connection with another suit it had attempted unsuccessfully to reverse engineer some products of the defendants. It failed in this, but the record shows that it could have succeeded if it had purchased and used certain equipment. As an alternative, plaintiff could have demanded circuit diagrams from defendant, their vendors or the suppliers of the latter, but did not.

Id. at 1858.

* * *

> The insufficiency of Refac's precomplaint investigation is shown by its inability (or disinclination) to obey the order of this Magistrate Judge to, in the words of the Federal Circuit, 'spell out a proper basis for charging infringement more than a year after bringing suit.' 921 F.2d at 1255. [*Id.* at 1858.]

The court found that the "appropriate sanction" for the Rule 11 violation would be "all of the expenses including attorney's fees incurred by each defendant." *Id.* at 1859. The fees later awarded

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[3]Interestingly, the court found that Refac's attorneys were not guilty of violating Rule 11 because they were following the instructions of Refac, a very sophisticated patent litigator.

totalled over *1.4 million dollars.*[4] The *Refac* case serves as one of the most dramatic examples of the extent to which sanctions can be imposed pursuant to Rules 11 and 37 and how both statutes can turn upon the same facts.

The ramifications of the *Refac* decision were extensively reported in the *New York Times*, the *Wall Street Journal*, the *Los Angeles Times* and discussed in industry journals. As one industry commentator noted:

> "Let those who use the threat of legal action to harass others into acquiescence take notice: a precedent has been set, a line has been drawn."[5]

III. RULE 11 IN THE CONTEXT OF COPYRIGHT INFRINGEMENT

In *Business Guides v. Chromatic Communications, Inc.*, _ U.S. _, 111 S.Ct. 922, 931-33 (1991), the plaintiff held copyrights in certain business directories. Plaintiff Business Guides had a practice of intentionally planting "seeds" (incorrect listings) in its directories so that the presence of seeds in a competitor's directory would prove copying. Business Guides alleged the presence of ten "seeds," in Chromatic's directory and sought a TRO supported by an affidavit signed by its president.

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[4] *See, also, Loctite v. FelPro*, 667 F.2d 577 (7th Cir. 1981) holding that a plaintiff in a patent infringement action has a "duty to identify" the infringement with particularity in discovery and that dismissal is an "especially appropriate" sanction for failing to meet this duty. But compare *Cambridge Products, Ltd. v. Penn Nutrients, Inc.* 22 U.S.P.Q. 2d 1577, and 134 (N.D.Ind. 1990) [patent infringement suit filed after review of documentary material alone and without physical inspection of accused products did not violate Rule 11].

[5] Editorial, "Drawing the Line" by David Lieberman, *Electronic Engineering Times*, July 1, 1991, p. 25.

The seed information was filed *in camera*. Chromatic objected to the *in camera* filing since it had no opportunity to rebut or verify the charge. After an investigation, it was found that nine of the seeds were actually legitimate addresses. 119 F.R.D. 685, 688 (N.D.Cal. 1988). The tenth seed had apparently been sent to Chromatic by a Business Guides employee. The magistrate recommended Rule 11 sanctions of dismissal and attorney's fees because the plaintiff "knew or should have known" that its evidence of infringement was unreliable. *Id.* at 687 (N.D.Cal. 1988). Sanctions in the form of dismissal and attorney's fees were awarded by the court against Business Guides, the represented party. 121 F.D.R. 405

The case was appealed and the Ninth Circuit affirmed in pertinent part.[6] The Supreme Court affirmed the Ninth Circuit and held that represented parties, as well as counsel and unrepresented parties, are subject to sanctions for violating Rule 11 under the same objective standard. *Business Guides v. Chromatic Communications, Inc.*, _ U.S. _, 111 S.Ct. 922, 933 (1991). The Court affirmed the imposition of sanctions on the plaintiff for the TRO affidavit in addition to, or instead of, the attorney. *Id.* at 932-933. The Court noted that quite often the client is in the better position to investigate the facts and the attorney may reasonably rely on the factual representations of an experienced corporate client. *Id.*

Business Guides illustrates that the severe sanctions of dismissal and attorney's fees in a copyright case may be justifiably imposed under the mandates of Rule 11. *See, also, Lloyd v. Schlag,*

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[6]The Ninth Circuit affirmed the lower court's finding that the documents filed in that action violated Rule 11 but reversed the finding that certain oral representations made in court, in and of themselves, also violated Rule 11. Because the Ninth Circuit did not know if this would affect the sanctions imposed by the lower court, it remanded only for reconsideration of the sanctions awarded. *Business Guides v. Chromatic*, 892 F.2d at 814. The district court then reaffirmed the dismissal and attorney's fees award.

884 F.2d 409 (9th Cir. 1989) [Rule 11 sanctions imposed for lack of investigation into the failure to record a copyright transfer which was dispositive of the case], but compare *Princess Fabrics, Inc. v. CHF, Inc.*, 922 F.2d 99 (2d Cir. 1990)[Rule 11 sanctions not imposed even though plaintiff's failed to investigate the dispositive issue of lack of copyright notice].

IV. ELEMENTS OF F.R.CIV.P. 11

Rule 11 provides in relevant part:

> The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation.
>
> * * *
>
> If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred

> because of the filing of the pleading, motion, or other paper, including a reasonable attorney's fee.

Under the rule, signing the "pleading, motion, or other paper" certifies that the attorney has read the document and has made a reasonable prefiling inquiry into both the facts and the law. Pleadings are judged as of the time of filing.

Rule 11 includes an objective standard of professional conduct, "put bluntly, a pure heart no longer excuses an empty head." *Lancellotti v. Fay*, 909 F.2d 15, 20 (1st Cir. 1990). Inexperience or incompetence as well as willfulness can trigger Rule 11 sanctions. *Cruz v. Savage*, 896 F.2d 626, 631 (1st Cir. 1990). At least one court has interpreted this objective standard as requiring a "knew or should have known" analysis. *Business Guides v. Chromatic Comm. Ent.*, 119 F.R.D. 685, 687, *affirmed in pertinent part*, 892 F.2d 802 (9th Cir. 1989) and _ U.S. _, 111 S.Ct. 922, 931-33 (1991).

Under Rule 11, a document may not be interposed for an improper purpose, regardless of support in fact or law. *Cooter & Gell v. Hartmarx Corp.*, 110 S.Ct. 2447, 110 L.Ed. 2d 359 (1990); *In re Grantam Bros.*, 922 F.2d 1438, 1441 (9th Cir. 1991) (sanctions are proper where either element of Rule 11, paper poorly grounded or interposed for improper purpose, is satisfied).

A. Reasonable Inquiry

Whether or not a reasonable inquiry has been made depends on several factors:

> Whether the signer of the documents had sufficient time for investigation; the extent to which the attorney had to rely on his or her client for the factual foundation underlying the

> pleading, motion, or other paper; whether the case was accepted from another attorney; the complexity of the facts and the attorney's ability to do a sufficient pre-filing investigation; and whether discovery would have been beneficial to the development of the underlying facts.

Lebovitz v. Miller, 856 F.2d 902, 905 (7th Cir. 1988); Advisory Committee notes, 97 F.R.D. 165, 199 (1983). As discussed *supra*, in *Refac v. Hitachi, et al.*, 19 U.S.P.Q. 2d 1855-58 (C.D.Cal. 1991) [and Table of Corrections] the patent holder failed to reverse engineer the circuitry at issue or obtain circuit diagrams for inspection and thus failed to fulfill the reasonable inquiry standard.

B. Improper Purpose

The improper purpose element of Rule 11 may stand alone as the basis for sanctions. The filing of any document for abusive purposes, such as delay, harassment, or to increase the costs of litigation, may invoke sanctions under Rule 11. *In re Grantam Bros.*,922 F.2d 1438, 1441 (9th Cir. 1991); compare *Sheet v. Yamaha Motor Corp.*, 891 F.2d 528 (5th Cir. 1990) (sanctions may be imposed for well-grounded paper filed for improper purpose, although such sanctions would require very unusual circumstances). Rule 11, however, generally rests upon an "objective standard, focusing on what a reasonably competent attorney would believe." *McMahon v. Shearson/American Express, Inc.*, 896 F.2d 17, 22 (2d Cir. 1990). The improper purpose element of Rule 11 can also justify a fee award under 28 U.S.C. § 1927. *McMahon*, 896 F.2d at 23

C. Proper Measure of Sanction

The central purpose of Rule 11 is to deter baseless filings. *Cooter & Gell v. Hartmarx Corp.*, 110 S.Ct. 2447, 110 L.Ed.2d 359

(1990). Other purposes of the Rule are compensation of the abused party as well as punishment for the litigation abuses. Courts, however, frequently state that deterrence is the most important purpose of Rule 11 sanctions. *McMahon v. Shearson/American Express, Inc.*, 896 F.2d 17, (2d Cir. 1990); *Brown v. Federation of State Medical Boards of the U. S.*, 830 F.2d 1429 (C.D. Cal 1991). In *Business Guides v. Chromatic Comm. Ent., supra*, the Supreme Court held Rule 11 monetary sanctions should not replace tort damages and that the compensation should focus on the discreet event of the offending filing, *Business Guides, supra*, at 111 S.Ct. 934. However, if a complaint is ungrounded it can be successfully argued that fees for the entire action are warranted. Thus, the "discreet event" can be the filing of a complaint, core issue interrogatories responses, answers to requests for admissions or even document demand responses.

In *Business Guides*, the court dismissed the case and awarded the defendant its attorney's fees. In *Refac, supra*, $1.4 million in fees and costs were awarded. In *Mercury Service, Inc. v. Allied Bank of Texas*, 117 F.R.D. 147 (C.D.Cal. 1987) *affirmed without opinion*, 907 F.2d 154 (9th Cir. 1990), however, the court determined that monetary sanctions of $1,500 were sufficient to punish a plaintiff for filings that cost $75,000 to prove violative of Rule 11. Thus, the legal standards aside, the severity of the sanction is dependant upon the advocacy of the sanction seeker and the discretion of the sanctioning judge.

V. SANCTIONS UNDER FED. R. CIV. PROC. 37

Fed. R. Civ. Proc. 37 is the main sanctioning arsenal of the Rules of Civil Procedure. Rule 37(b)(2) provides in relevant part:

> (2) the court . . . may make such orders . . . as are just, and among others the following:

> (A) An order that . . . designated facts shall be taken to be established for the purposes of the action . . . ;
>
> (B) An order refusing to allow the disobedient party to support or oppose designated claims or defenses, or prohibiting that party from introducing designated matters in evidence;
>
> (C) An order striking out pleadings or parts thereof, or staying further proceedings until the order is obeyed, or dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party;

F.R.Civ.P. 37(d) provides for sanctions for failure to respond to discovery requests without the requirement of a prior order. *Minnesota Min. & Mfg. Co. v. Eco Chem, Inc.*, 737 F.2d 1256, 1260-61. Rule 37 also mandates that the court "shall" award attorney's fees and costs against the violating party or his counsel unless circumstances make an award unjust. Rule 37 sanctions as severe as dismissal can be applied without bad faith and on the basis of mere "gross negligence." *Cine Forty-Second Street Theatre Corp. v. Allied Artists Picture Corp.*, 602 F.2d 1062, 1066 (2d Cir. 1979). This standard comes close to the objective standard of Rule 11. Although Rule 37 is most often applied to orders to compel discovery, the Advisory Notes make clear that protective orders are within the scope of Rule 37(b)(2). Thus any violation of a protective order can trigger Rule 37 sanctions.

In litigation, a causal connection between discovery sanctions under Rule 37 and sanctions pursuant to Rule 11 can be construed. A party's inability to answer written discovery requests to support its

complaint can at once justify both Rule 37 sanctions as well as sanctions under Rule 11. *See Refac Int'l, Ltd. v. Hitachi, Ltd.*, 921 F.2d 1247, 1256-7 (Fed. Cir. 1990).

Rule 37(b)(2)(A) is a seldom used but very deadly sanctioning tool since it allows for the court's "deeming" certain facts admitted. *Insurance Corp of Ireland v. Compagnie des Bausites de Guinee*, 456 U.S. 694, 709 (1982). Whenever a discovery violation relates to a pivotal fact, 37(b)(2)(A) sanctions should be sought. In *Refac, supra*, this mechanism was used to have the "fact" of non-infringement deemed admitted. 921 F.2d 1247-52. The sanction of excluding evidence pursuant to 37(b)(2)(B) should also be considered.

VI. THE COURT'S INHERENT POWER TO SANCTION

In addition to the courts' sanctioning power under Rules 11 and 37, Federal courts possess an inherent power to sanction bad faith litigation conduct. *Chambers v. NASCO*, 111 S.Ct. 2123, 2136 (1991) (district court not required to exhaust all other sanctioning avenues before exercising its inherent power). *See, also, North American Watch v. Princess Ermine Jewels*, 786 F.2d 1447, 1451 (9th Cir. 1986).

VII. ATTORNEYS FEES PURSUANT TO 35 U.S.C. § 285

Attorney's fees can be awarded to a prevailing party in a patent case under 35 U.S.C. §285 whenever the case is proven to be exceptional.[7] Exceptional circumstances include "inequitable conduct during prosecution of a patent, misconduct during litigation, vexatious or unjustified litigation or a frivolous suit." *Bayer*

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[7]Attorney's fees and costs are also recoverable under Section 1117 of the Lanham Act in situations analogous § 285 awards. Section 504 of the Copyright Act allows for the award of fees "at the discretion of the court."

Aktiengesellschaft v. Duphar Int'l Research B.V., 738 F.2d 1237, 1246 (Fed. Cir. 1984); *See, also, Refac Int'l v. IBM Corp.*, 710 F.Supp. 569 (D.N.J. 1989) [*citing Bayer* and awarding fees for the filing of a patent suit on a patent that the plaintiff "knew or should have known was invalid."]

The purpose of 35 U.S.C. § 285 is to compensate. *Albermarle Paper Co. v. Moody*, 422 U.S. 405, 418-419; 95 S.Ct. 2362, 2372 (1975)

> "The general rule is that when a wrong has been done, and the law gives a remedy, the compensation shall be equal to the injury . . . The injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed." *Albermarle*, 422 U.S. at 418-419, 95 S.Ct. at 2372.

When used in connection with Rule 11, "frivolous" connotes a filing which is both baseless and made without a reasonable and competent inquiry. *Townsend v. Holman Consulting Corp.*, 929 F.2d 1358, (9th Cir. 1991). The definition of "frivolous" pursuant to 35 U.S.C. § 285 and Rule 11 are very similar: The filing and maintaining of an infringement suit which the patentee knows (or after a reasonable investigation should have known) is baseless constitutes grounds for declaring a case exceptional under 35 U.S.C. § 285 and awarding attorney fees and expenses to the accused infringer. *Eltech Systems Corp. v. PPG Industries, Inc.*, 710 F.Supp. 622, 636 (W.D. La. 1988), *affirmed* 903 F.2d 805 (Fed. Cir. 1990).

Thus, when arguing frivolousness under § 285, one should also consider seeking fees under F.R.Civ.P. 11 as well as fees for any failure to provide substantiating discovery under Rule 37.[8]

VIII. FEDERAL RULE OF APPELLATE PROCEDURE 38

An appeal is frivolous where "'no basis for reversal in law or fact can be or is even arguably shown.'" *Octocom Systems v. Houston Computer Services, Inc.*, 918 F.2d 937, 943 (Fed. Cir. 1990), *citing Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1554 (Fed. Cir. 1983). This objective standard is reminiscent of the language of Rule 11, notwithstanding the lack of an "improper purpose" element.

Rule 11 and Rule 38 sanctions can turn on the same facts. In *Refac Int'l Ltd. v. Hitachi, Ltd.*, 921 F.2d 1247 (Fed. Cir. 1990) [discussed *supra*] the court awarded attorney's fees to defendant-appellees and doubled the costs for the appeal based on essentially the same foundation facts that later supported sanctions under Rule 11. *See, also, Constant v. United States*, 929 F.2d 654 (Fed.Cir. 1991), cert denied _ U.S. _ , 111 S.Ct. 2779 (1991). [Plaintiff was warned that he "could be sanctioned under Rule 11 of the Federal Rules of Civil Procedure or Rule 38 of the Federal Rules of Appellate Procedure."]

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[8] In *Loctite Corp. v. Fel-Pro, Inc.*, 667 F.2d 577, 583 (7th Cir. 1981) the court imposed the sanction of dismissal for failing to obey a court order and "produce an essential element of the case, the specification of the infringing ingredients." The court also awarded the defendants attorney's fees pursuant to §285. The court held, however, that because nearly all the fees awarded flowed from the plaintiff's failure to obey the court's discovery order and identify the infringing ingredients in the defendant's product, the award was also justified under Rule 37. *Id.* at 585.

IX. 28 U.S.C. § 1927

Section 1927 of title 28 of the United States Code mandates sanctions, including excessive costs, expenses and attorney's fees against any attorney who multiplies the proceedings "unreasonably and vexatiously." 28 U.S.C. § 1927 applies only to attorneys.

Sanctions under § 1927 can be imposed upon establishing that the attorney's conduct is in bad faith, *Romero v. Pomona*, 883 F.2d 1418, 1429 (9th Cir. 1989), thus, satisfying the required showing of unreasonable and vexatious conduct. *Soules v. Kauaians*, 849 F.2d 1176, 1185 (9th Cir. 1988); *see, also, Optical Eyewear v. Styles Co. Ltd.*, 760 F.2d 1045, 1048 (9th Cir. 1985). Courts have upheld the award of sanctions under § 1927 against any attorney who has unnecessarily driven up the cost of litigation. *See, e.g., Lone Ranger Television, Inc. v. Program Radio Control Corp.*, 740 F.2d 718 9th Cir. 1983).

Section 1927 requires a showing of bad faith, whereas Rule 11 is judged by an objective standard. Rule 11 applies only to documents filed with the court whereas Section 1927 is not necessarily tied to any particular document and applies to conduct throughout the litigation. In that sense, section 1927 is similar to 35 U.S.C. §285. Comprehensive sanctions might be harder to obtain under section 1927 in view of the subjective bad faith standard which applies. *Dreiling v. Peugeot Motors of America, Inc.*, 850 F.2d 1373 (10th Cir. 1988) (a merely frivolous or improvident case is insufficient to invoke 28 U.S.C. § 1927). Nevertheless the same violations that would satisfy Rule 11 could also meet the requirement of the section 1927 bad faith standard. For example, the filing of a "baseless" document could present circumstantial evidence of a vexatious intent.

X. PROPOSED AMENDMENTS TO RULE 11

The Advisory Committee on Civil Rules has proposed significant changes in the language and scope of Rule 11. The certification duty, which presently is measured only at the time the paper is signed, would become a continuing duty. The signer would be subject to sanctions for maintaining a position no longer warranted by law or fact, regardless of the merit the position had at the time the paper was signed. Claims or defenses must be abandoned if they become meritless. The Advisory Committee's Notes suggest that this continuing duty is sufficiently broad to reach claims or defenses raised in state court before removal to federal court.

Certification will include a representation that alleged or denied facts have, *or will likely have*, evidentiary support. Although this change allows litigants to allege a fact in the hopes of proving it later, if the necessary evidentiary support is not obtained after a reasonable opportunity, the proposed Rule requires litigant to withdraw the allegation or denial.

The proposed Rule 11 sanctions "shall be limited to what is sufficient to deter comparable conduct by persons similarly situated." Significantly, monetary sanctions would not be awarded *unless* the court determines that the filed paper was interposed for an improper purpose. This is a marked shift from the present Rule which arguably encourages the award of monetary sanctions. Under the proposed amendment, *solely* nonmonetary sanctions may be awarded for papers which merely put forward unwarranted legal arguments or factual assertions. The Committee Notes include a nonexclusive list of nonmonetary sanctions, such as striking the offending paper or reprimanding the offending party.

The proposed amendment would allow sanctions to be assessed against the law firms, attorneys, or parties responsible for the violation, whether or not they signed the offending paper. This

change would remove the limitations of the present Rule, as interpreted by the Supreme Court in *Pavelic & LeFlore v. Marvel Entertainment Group*, 493 U.S. 120 (1989).

The new Rule would also allow an opportunity to cure. The proposed amendment would require at least 21 days notice before sanctions could be imposed. During this period, the alleged offender would have an opportunity to correct the alleged violation. The Advisory Committee refers to this proposed amendment as a "safe harbor" provision, which would allow a party to withdraw a claim or defense without being sanctioned.

While the court maintains its power to sanction on its own initiative, under the new rule it must do so by way of an order to show cause. Although this does not provide a "safe harbor" for a litigant to withdraw a claim or defense, the Notes to the proposed change urge that withdrawal should, however, be considered by the court in assessing sanctions. Finally, the new proposed amendment would eviscerate the financial compensation aspect of the current Rule 11. Under the new rule, any monetary sanction assessed would be made payable to the court.

CONCLUSION

The Congressional and judicial intent of deterrence and compensation, as embodied in various sanctioning or compensating statutes and case law, provide opportunities for abused litigants that should not be overlooked. Facts supporting a violation of a discovery order going to a core issue in an intellectual property case can justify sanctions pursuant to Rules 11 and 37 and an award of attorneys fees under 35 U.S.C. § 285. Bad faith is not an absolute requirement, but if it is present and distinct it can also support an award under Rule 37, 35 U.S.C. § 285, 28 U.S.C. § 1927 or the improper purpose element of Rule 11. Although the Supreme Court has stated

that Rule 11 should not be used as an outright fee-shifting mechanism, if the violation or abuse relates to a complaint or fundamental discovery issues, fees can be awarded for the entire action. Properly advocated, Rules 11 and 37, as well as § 285 can become powerful levelling factors in what is usually an expensive form of litigation.

JURY TRIALS OF PATENT CASES

"No warrant appears for distinguishing the submission of legal questions to a jury in patent cases from such submissions routinely made in other types of cases. So long as the Seventh Amendment stands, the right to a jury trial should not be rationed, nor should particular issues in particular cases be treated differently from similar issues in other types of cases." *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542, 1547, 220 USPQ 193, 197 (Fed. Cir. 1983).

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JURY TRIALS OF PATENT CASES

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JURY TRIALS OF PATENT CASES

V. Bryan Medlock, Jr.*

I. SCOPE OF PAPER

Factors which affect the decision to demand a jury trial and trial techniques which can be employed to present patent issues to a jury are described. Patent issues which can be decided by the jury and those which are to be decided by the court are identified. The jury charge and interrogatories are discussed and argument techniques and post-trial procedures in a patent jury trial are treated.

II. THE RIGHT TO A JURY TRIAL

A. If damages are requested, either party to a patent infringement action may demand a jury trial. U.S. Const. amend VII; Fed.R.Civ.P. 38; *Ross v. Bernhard*, 396 U.S. 531, 90 S.Ct. 733 (1970); *Dairy Queen, Inc. v. Wood*, 369 U.S. 469, 82 S.Ct. 894 (1962); *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 79 S.Ct. 948 (1959); *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 220 USPQ 193 (Fed. Cir. 1983). Jury trials of patent cases are not of recent origin. The original Patent Act of 1790 provided only for "such damages as shall be assessed by a jury." Act of April 10, 1790, Ch. 7, § 4, 1 Stat. 109. Until the waiver of jury trials was permitted by the Act of March 3, 1865, Ch. 86, § 4, 13 Stat. 501, all cases at law were triable to a jury.

B. Some small chance exists under the three-part test of *Ross v. Bernhard*, *supra*, that the court may order that a jury trial cannot be had in a particular case. In *Ross* the court indicated that a trial court should consider:

1. the custom of the court prior to the merger of law and equity in 1938. As noted above, patent cases have been, by statute, triable to a jury since 1790;

2. the nature of the remedy sought by the litigants, that is, whether equitable or legal; and

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3. the practical abilities and limitations of a jury.

> One reported attempt to argue that a patent case exceeded the abilities of a jury did not succeed. *Tights, Inc. v. Stanley*, 441 F.2d 336 (4th Cir.), *cert. denied*, 404 U.S. 852 (1971).
>
> Despite the complexity of the case, however, it appears that the Federal Circuit will endorse jury trials to resolve them. *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707 (Fed. Cir. 1984); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985).

C. The jury trial must be demanded within 10 days of the service of the last pleading directed to the issue to be tried by the jury. Fed.R. Civ.P. 38(b). However, a trial court may, in its discretion, upon a motion, grant a jury trial when no timely demand has been made. Fed.R.Civ.P. 39(b); *Swofford v. B&W, Inc.*, 336 F.2d 306 (5th Cir. 1964). The demanding party may identify the issues upon which a jury trial is requested. If fewer than all issues are identified, the other party can request a jury trial on any other or all of the remaining issues of fact. Fed.R.Civ.P. 38(d).

E. Care should be taken in making the decision to demand the jury trial because once demanded, the demanding party may not withdraw the demand without the consent of the other party or parties. Fed.R.Civ.P. 38(d).

III. ONLY SOME OF THE ISSUES RAISED IN MOST PATENT CASES ARE PROPERLY TRIABLE BY A JURY.

The line between law and fact is a blurred one, especially in patent law, where mixed law-fact findings are common. Rule 52(a) does not furnish good guidance in distinguishing law from fact. *Pullman Standard v. Swint*, 456 U.S. 273, 288, 102 S.Ct. 1781, 1789 (1982).

> To draw a distinction between fact and law is difficult if not impossible at times, and in pleading the profession has long been accustomed to the use of terms which are mixed conclusions concerning propositions of fact and law. Rule 52(a), on the other hand, following the old equity practice distinguishes between fact and law for it provides that the trial "court shall find the facts especially and state separately its conclusions of law thereon." A scientific distinction between fact and law is not workable. Nor would such a distinction serve the purpose behind Rule 52 which is to aid the trial court in making a correct appraisal of the evidence and the law to the end that a sound decision is made, to show what had been adjudicated for future purposes of *res*

judicata and estoppel by judgment, and to aid the appellate court where an appeal is taken. 5A Moore's Federal Practice, ¶ 52.05[1].

Notwithstanding the lack of a bright line between law and fact, various patent issues have been pigeonholed as law or fact as follows:

A. The following are fact issues triable by a jury:

1.	Utility	*Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 956, 220 USPQ 592, 596 (Fed. Cir. 1983), *cert. denied*, 469 U.S. 835, 225 USPQ 232 (1984).
2.	Infringement (literal)	*SRI International v.* Matsushita Electric Corp., 775 F.2d 1107, 1125, 227 USPQ 577, 589 (Fed. Cir. 1985) (*in banc*); *SSIH Equipment, S.A. v. U.S. ITC*, 718 F.2d 365, 218 USPQ 678 (Fed. Cir. 1983); *Thomas & Betts Corp. v. Litton Systems, Inc.*, 720 F.2d 1572, 220 USPQ 1 (Fed. Cir. 1983).
3.	Prosecution history estoppel	*Carmen Industries, Inc. v. Wahl*, 724 F.2d 932, 220 USPQ 481 (Fed. Cir. 1983); But see *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 870, 228 USPQ 90, 96 (Fed. Cir. 1985).
4.	Willful infringement	*Underwater Devices, Inc. v. Morrison-Knudson*, 717 F.2d 1380, 1389, 219 USPQ 569, 576 (Fed. Cir. 1983); *Shiley, Inc. v. Bentley Laboratories, Inc.*, 794 F.2d 1561, 230 USPQ 112 (Fed. Cir. 1986).
5.	Anticipation	*Lindemann Maschinenfabrik GMBH v. American Hoist & Derrick Co.*, 730 F.2d 1452, 1458, 221 USPQ 481, 485 (Fed. Cir. 1984); *Carmen Industries, Inc. v. Wahl*, 724 F.2d 932, 220 USPQ 481 (Fed. Cir. 1983).
6.	Obviousness and the factual findings upon which to base a conclusion of obvious-ness (*Graham*	*Richardson v. Suzuki Motors Co.*, 868 F.2d 1226, 9 USPQ2d 1452, 1458, 221 USPQ 481, 485 1913 (Fed. Cir. 1989); Loctite Corp. v. Ultraseal *Ltd.*, 781 F.2d 861, 872, 228 USPQ 90, 97 (Fed. Cir. 1985); *White v. Jeffrey Mining Machinery Co.*, 723 F.2d 1553, 1558, 220 USPQ 703, 705 (Fed. Cir. 1983); *Connell v. Sears Roebuck &*

	v. John Deere issues)	*Co.*, 722 F.2d 1542, 1547, 220 USPQ 193, 197 (Fed. Cir. 1983).
7.	Section 112 (equivalents)	*Palumbo v. Don-Joy Co.*, 762 F.2d 969, 975, 226 USPQ 5, 8 (Fed. Cir. 1985).
8.	Section 112 (sufficiency of written description)	*Ralston Purina Co. v. Far-Mar-Co.*, 772 F.2d 1570, 1575, 227 USPQ 177, 179 (Fed. Cir. (Fed. Cir. 1985).
9.	Degree of materiality and intent to support a conclusion of fraud	*State Industries, Inc. v. Rheem Manufacturing Co.*, 769 F.2d 762, 764, 227 USPQ 375, 376 (Fed. Cir. 1985).
10.	Patent misuse	*Bio-Rad Lab, Inc. v. Nicolet Inst. Corp.*, 739 F.2d 604 (Fed. Cir. 1984).
11.	Damages	*TWM Manufacturing Co., Inc. v. Dura Corp.*, 789 F.2d 895, 898, 229 USPQ 525, 526 (Fed. Cir. 1986) (damages involve law and fact); *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1555, 218 USPQ 481, 484 (Fed. Cir. 1983).
12.	Public use (legal conclusion based on factual findings)	*Milliken Research Corp. v. Dan River, Inc.*, 739 F.2d 587, 599, 222 USPQ 571, 581 (Fed. Cir. 1984).
13.	Experimental use	*Milliken Research Corp. v. Dan River, Inc.*, 739 F.2d 587, 599, 222 USPQ 571, 581 (Fed. Cir. 1984).

14.	Industry customs (customs among patent lawyers)	*In re Mark Industries*, 751 F.2d 1219, 1222, 224 USPQ 521, 523 (Fed. Cir. 1984).
15.	Doctrine of equivalents	*Chaney v. Veterans Administration*, 906 F.2d 697, 702 (Fed. Cir. 1990); *Hormone Research Foundation v. Genentech, Inc.*, 904 F.2d 1558, 1564 (Fed. Cir. 1990); *Loctite v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985).

B. The following issues are probably not triable to a jury.

1.	Laches	*Refac Int'l Ltd. v. Matsushita Electric Corp.*, 17 USPQ2d 1293 (Fed. Cir. 1990).
2.	Obviousness-type double patenting	*Refac, supra.*
3.	Fraud on the PTO or, as now called, "inequitable conduct"	*American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1364, 220 USPQ 763, 774 (Fed. Cir. 1984); Cf. *State Industries, Inc. v. Rheem Manufacturing Co.*, 769 F.2d 762, 764, 227 USPQ 375, 376 (Fed. Cir. 1985). Failure to timely object to submitting inequitable conduct to the jury can serve as consent to trial by the jury. *Modine Manufacturing Co. v. Allen Group, Inc.*, 14 USPQ2d 1210 (Fed. Cir. 1989).

4. purely equitable defenses such as unclean hands, although basic facts to support or negate such a finding have been put to the jury for decision. *State Industries, Inc. v. Rheem Manufacturing Co.*, 769 F.2d 762, 764, 227 USPQ 375, 376 (Fed. Cir. 1985). Further, note that the Seventh Amendment right to trial by jury must be preserved and issues common to legal and equitable claims must be tried by a jury if demanded. *Thermo-Stitch, Inc. v. Chemi-Cord Processing Corp.*, 294 F.2d 486 (5th Cir. 1961). Nor should legal issues be denied jury determination as simply incidental to an equitable issue. *Ross v. Bernhard*, 396 U.S. 531, 90 S.Ct. 733 (1970); *Beacon Theatres, Inc. v. Westover*, 359 U.S. 500, 79 S.Ct. 948 (1959). "As long as any legal cause is involved, the jury rights it creates control." *Minnesota Automotive, Inc. v. Stromberg Hydraulic Brake & Coupling Co.*, 167 USPQ 165 (D. Minn. 1970). It is to be emphasized that the inquiry is not whether the issue

is factual or not, but whether the issue is legal or equitable. A factual issue does not *per se* create a right to trial by jury. *Shubin v. United States Dist. Ct. for Southern Dist. of Cal., Central Div.*, 313 F.2d 250 (9th Cir. 1963). Similarly, focus on the usage of the term "right," and note that classification of an issue as equitable does not preclude trial by jury. See Fed.R.Civ.P. 39(c);

5. right to injunctive relief;

6. entitlement to attorney fees; and

7. a civil action in an interference case. *Swofford v. B&W, Inc.*, 336 F.2d 406 (5th Cir. 1964); *Panther Pumps & Equipment Co. v. Hydrocraft, Inc.*, 468 F.2d 255 (7th Cir. 1972); *Tights, Inc. v. Stanley*, 441 F.2d 336 (4th Cir. 1971).

IV. CONSIDERATIONS BEARING ON THE ELECTION TO DEMAND A JURY.

A. Prior decisions of the trial judge in intellectual property cases should be studied with particular attention being given to the judge's prior handling of jury verdicts. Study the trial judge's prior charges and determine the type of verdict he has used in prior patent cases. Of equal importance is the judge's prior treatment of motions for judgment n.o.v. If he regularly grants such motions, you should take that into consideration in making your decision.

B. Of equal importance to the attitude of the trial judge toward jury trials in patent cases is the attitude of the Federal Circuit toward jury verdicts. Judge Markey observed in *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1515, 220 USPQ 929, 937 (1984):

> "The comparatively recent resurfacing of jury trials in patent cases, though productive of discomfort for some judges and commentators, may or may not be wise or welcome; it forms no basis for creation of special or unauthorized rules, or for the consequent risk of effectively denying the constitutional right spelled out in the first clause of the Seventh Amendment."

Judge Rich, less approvingly, stated:

> "While we regret having to order a new trial before an already overburdened district court, a new trial is mandated, and this case is a good illustration of the difficulties inherent, generally, in the use of juries to

> resolve patent disputes and, specifically, in allowing the use in such cases of general verdict forms unaccompanied by interrogatories on the controlling facts." *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1356 (Fed. Cir. 1984).

C. Usually a jury will give a hometown party the benefit of any doubt, and, if the adversary is an out-of-town party, particularly an out-of-state party, a jury trial may favor the local party.

D. The size and reputation of the parties is of importance. Normally, juries will feel empathy for an individual or small party against the large corporation and will favor a party with a distinguished public image over one with no public image or an unfavorable image. While juries may lean toward an individual as opposed to a large corporation, they will generally grant smaller damage awards to an individual than to a large corporation.

E. Before making the jury trial decision, investigate to determine the story of the making of the "invention." If the invention was made by an individual who faced difficult obstacles and was made after great personal sacrifice, then a jury trial is indicated. If, however, the invention resulted from a concentrated corporate effort engaged in by numerous researchers, none of whom can be said to have made a significant "personal" contribution, then trial to the court is indicated.

F. Additionally, facts concerning the nature of the infringement are important to the jury trial decision. If former employees of the patent owner are involved in the infringing activity or there has been any type of plagiarism, a jury trial is indicated. Independent development of the "invention" and the absence of any elements of willful or wanton conduct militate against the jury demand.

G. Juries, like all of us, tend to judge the people involved in the trial as well as the facts of the controversy. Therefore, consider the personality and appearance of your key witnesses. Particularly consider the appeal of the expert you plan to use because the technical experts are the most important witnesses in most trials, as important as the inventors. Don't forget to consider your own personality and courtroom demeanor and that of your adversary counsel. While trials are not popularity contests, if all other things are equal, they can become such a contest.

H. Remember that juries consist of people who, while willing to perform the public service of sitting on the jury, have jobs and families which are important to them. With this in mind, consider how long the proof of your case and that of your opponent is going to take. If your opponent can put on

its case in a relatively short time and your case will require many days, you may not want a jury because you are more likely to antagonize them by taking so much more of their time than does your adversary. When preparing your case, if you have selected the jury, also bear in mind that you must take only as much time as is absolutely necessary to present your case. You must not ever waste the time of the jury. They will resent it and hold it against you and your client.

I. The degree of sophistication of the technology involved also has a bearing on the jury trial decision. The more complex the technology, the longer it will take to explain it to a lay jury. In such a case, a bench trial may be better than a jury trial. This is also true because the trial judge and appellate court will probably give less weight to the jury verdict in the more complicated technology case.

J. The need for a prompt decision favors a decision to demand a jury. Seldom will a jury "hang" on a decision in a patent case. Normally, a jury verdict is returned within a few days of having submitted the case to the jury. While a judgment will probably not be entered until the losing party has made its motion for judgment n.o.v., which normally follows an unfavorable verdict as a matter of course, a judge normally takes less time to make a decision on the motion for judgment n.o.v. than to make findings of fact and conclusions of law which are necessary in a bench trial. Rule 52(a), Fed.R.Civ.P. Preparation of findings of fact and conclusions of law necessarily take more of the judge's time.

Incidentally, there is no basis for the belief that jury trials take longer than trials to the court. According to the records of the Administrative Office of U.S. Courts, between 1954 and 1974 the average time for the trial of jury and non-jury patent cases was 3 days. No jury trial took less than 1 day and only 3 took more than 20 days. By comparison 59 non-jury cases took more than 20 days to try. While jury trials may take less time because the complex technology cases are not normally tried to a jury, I suggest that they are also shorter because the trial counsel for the parties pare the evidence in jury trials to avoid antagonizing the jury by wasting its time.

In 1968 less than 2% of the patent trials were jury trials, whereas in 1982 more than 20% were jury trials. Of interest will be the long term effect on jury trials of the establishment of the Federal Circuit in 1982. As the attached tables reflect, many patent cases are now being tried to juries. While no recent statistical study has been made, it is believed that a greater percentage of patent trials are to juries than was the case before the creation of the Federal Circuit.

V. NUMBER OF JURORS AND MAJORITY VERDICT.

A. SELECT ALTERNATE JURORS.

When selecting the jury, consider selecting alternate jurors because patent cases normally take several days to try. It often happens that one or more of the jurors will to have to leave the jury panel due to illness or an urgent business problem. Usually pick at least 2 alternate jurors; thus, you will impanel 14 in those courts which will allow 12 jurors or 8 in those courts now trying cases with 6 jurors. In a patent case, your odds of obtaining a knowledgeable, bright, technically educated juror who might understand the case are doubled if you can persuade the court to impanel 12 jurors. Some judges are inclined to grant such a request when the case is an important one.

B. STIPULATE WITH RESPECT TO NUMBER OF JURORS AND MAJORITY VERDICT.

Consider entering into a stipulation with opposing counsel before the trial commences that if a full complement of jurors is not present at the conclusion of the case, then the jurors who remain can decide the case. This may be advisable because an adversary whose case has not gone well may use the fact of a less than full complement of jurors to request a new trial. Such a stipulation is contemplated by the federal rules. Rules 47 and 48, Fed.R.Civ.P.

VI. VOIR DIRE OF JURY PANEL FED.R.CIV.P. 47(a).

A. OBTAIN INFORMATION ABOUT THE JURORS.

Before asking you to pick the jury, most courts will provide the parties with information about the prospective jurors. The information normally includes the names of the jurors, the city in which the juror resides, the juror's occupation and the name of each juror's employer. Some judges will also permit you access to the questionnaires which each of the prospective jurors have completed. A common procedure is for the court, on the morning of the trial, to hand counsel a list of some 40 prospective jurors with the brief information mentioned above. Next, the judge calls about 18 of the jurors in front of the rail and directs questions on voir dire to these jurors. These voir dire questions have usually been submitted to the judge by counsel. Most judges will then permit counsel to direct a few additional questions to the panel. The typical questions which the judge will ask on a jury trial include: Are you familiar with the parties or any of the counsel for the parties? The witnesses present will be asked to stand, and the court will inquire if anyone is familiar with the witnesses. Do you have relatives who might be employed by

any of the parties? Further questions include: Have you ever dealt with the Patent and Trademark Office or have you ever owned a patent? Have you ever had a patent in litigation? What is the industry or technology with which you work? Do you have any opinions about patents? Do you think patents are good or bad or have a particular feeling one way or the other? Do you have a technical background? If so, what is it?

B. USE A SEATING CHART.

As the court calls a juror behind the rail, note that juror's name on a seating chart which you have previously prepared. The chart can comprise a simple grid which contains room for at least 18 names. Be sensitive to the fact that jurors may resent your making notes about them as you talk to them. Let someone else on your team make the notes.

C. USE THE JURORS' NAME WHEN ADDRESSING REMARKS TO THEM.

The court will normally permit counsel at the end of the court's voir dire to address a few questions to the panel. When doing so refer to the seating chart and with the juror use the juror's name. It will be appreciated by the prospective juror.

D. GET THE JURORS TO TALK TO YOU.

When the court permits you to ask voir dire questions, take advantage of the opportunity. Don't ask questions which are going to get a "yes" or "no" response because those answers don't give you much information about the juror. Ask a question which is going to require a narrative answer so you can evaluate whether or not this person is a knowledgeable and intelligent person. Ask a question which will elicit a narrative response such as "I see here that you are collections clerk for Big Tex Credit Company, would you please tell me what your duties are?" This question can't be answered with a "yes" or "no" and will give you insight into the prospective juror.

E. CHALLENGES FOR CAUSE AND PEREMPTORY CHALLENGES. 28 U.S.C. § 1870.

After the voir dire questions have been answered, each party has the right to assert an unlimited number of challenges for cause. For example, if while the judge is asking voir dire questions, one of the jury panel leans forward and cups his ear, you should ask the judge to inquire about that juror's ability to hear. Neither party wants a juror who cannot hear the testimony and he may be challenged for cause. You may find some other impediment that requires a juror to be struck for cause. For example, a juror may work for a company

that sells equipment to the defendant and he would therefore not be inclined to support a verdict against the defendant because it might impair his company's sales to the defendant.

After striking all jurors for cause, each party gets 3 peremptory challenges. Each counsel takes the list of jurors that the judge has given to him, and strikes through the appropriate number of names that, for any reason, the party does not want on the jury. Pursuant to Fed.R.Civ.P. 49(b), one additional peremptory challenge is provided as to every 2 alternate jurors to be selected. The peremptory challenges for prospective jurors and alternate jurors are to be kept separate and applied only to the group to which they apply. The list is then handed to the clerk and those persons struck will be dismissed from the panel.

Now, there's all sorts of psychology involved in making peremptory challenges. What you want to do is try to identify that man or woman on the panel who you think is going to be the foreperson. Before the start of trial in 3 out of 4 cases, an experienced jury lawyer can identify the foreperson. Decide if he or she is the type who might be favorably inclined toward your client's side of the case or the other side of the case. If he or she is not going to be favorably disposed, you'd better get your pen out and strike that juror.

VII. OPENING STATEMENT.

A. EXPLAIN THE FUNCTION OF THE JURY.

After you've selected your jury, explain to them what their function is. Check first, however, to see what was covered by the court during jury indoctrination. Don't repeat anything they have already been told. Tell them what they're going to be asked to do. Cover the issues that are going to be decided by this jury and what the contentions of your client are on each of the issues.

B. DON'T OVERSTATE WHAT YOU CAN PROVE.

In stating contentions be specific, but don't overstate what you can prove because your adversary will call it to the jury's attention in closing and make you look unbelievable.

C. ASK THE COURT TO READ A PRELIMINARY CHARGE TO THE JURY BEFORE THE EVIDENCE IS PUT IN.

Juries often sit through an entire week or two of trial without having any idea of the law which will govern the case, which party has the burden on what

issue or what the burden of proof will be on each issue. Do them and your client a favor. Ask the court to pre-charge the jury on the basic principles of law governing the case and to identify for the jury the issues they are going to be asked to decide. It will help them immensely and improve the odds of obtaining a well reasoned and intelligent verdict.

VIII. PROOF OF THE CASE.

A. HAVE EXHIBITS PRE-MARKED AND WITNESS OUTLINES READY.

After both parties have made their opening statements, the court is going to ask the plaintiff to proceed with proof of his case-in-chief. It is very important for the plaintiff to be prepared. Have the evidence outlined, know what you want to prove, have the exhibits pre-marked and organized by the witness who is going to identify or testify about them. Move the case along. Don't bore the jury or the judge. You should know in what order your witnesses are going to come on the stand and have their questions, if not typed, at least outlined. Keep the exhibits which are needed for a witness in a stack near you so you're not turning around and running back and forth to the counsel table to locate exhibits. The judge and jury will appreciate your preparedness.

B. USE DEMONSTRATIVE EVIDENCE.

Use as much demonstrative evidence as you can. People enjoy seeing evidence. They enjoy charts, particularly if the charts are colored, to assist them in understanding how things work. Studies indicate the average person retains up to eight times more information presented visually than information presented orally.

C. PROVIDE JURORS WITH KEY EXHIBITS, A GLOSSARY OF TERMS AND PAPER AND PENCIL FOR NOTES (IF PERMITTED).

If the court will permit, provide each of the jurors with a notebook which has a copy of the patent and, as you introduce them, copies of the key exhibits and charts so that they can personally inspect them. Even provide a glossary of terms which are going to be used in the case. This glossary will prove helpful as the juror considers the evidence. Provide the jury with the tools they need to understand what, to them, will be a very technical case. Give them paper, pencil and a notebook so they can take notes. The judge will normally give them some instructions concerning the keeping of notes, indicating that they are for personal use only and are not to be read to or by the other jurors. You should ask for an instruction that notes are only for personal use of the jurors and are not to be read to other jurors during deliberation.

D. MAINTAIN PROPER DECORUM.

Keep a neat and orderly counsel table. Avoid the appearance of being disorganized. Instruct your associates to sit up, pay attention, and avoid rustling paper. Be judicious about the passing of notes among counsel and whispering into the ears of your co-counsel and experts. Avoid approaching the bench to discuss problems. Jurors think you are hiding something and resent it.

E. DO NOT BE CONDESCENDING.

While on occasion it will be necessary to be ill-tempered with an adversary witness who is not being candid, do not be condescending to judge, jury, witness or opposing counsel. Jurors and judges resent it and think less of you and of your case. You are a professional -- act like one.

F. BE FAMILIAR WITH THE RULES OF EVIDENCE.

Do not hesitate to make proper objections when they should be made. Jurors are familiar with the fact that evidence may not be proper and will not think ill of counsel who makes timely and proper objections. Indeed, you will gain the respect of the jury if your objections seem to be properly made and are sustained by the court. They will gain confidence in you as a lawyer and in the client who chose you as its representative.

G. REVEAL THE BAD IN YOUR CASE BEFORE YOUR ADVERSARY DOES.

There is a great temptation to avoid mention of the shortcomings in your case, and all cases have them or you would not be in trial. However, if your adversary is the first to call these shortcomings to the attention of the jurors, they will lose respect for you because you did not tell them the whole truth. Your entire case can become suspect in their mind unless you are completely candid with them. Remember that a trial is a proceeding for ascertaining the truth. Disclose the relevant truth, good or bad, and the confidence of the jurors in you will increase.

H. ASK YOUR WITNESSES TO SPEAK LOUDLY.

All witnesses should be asked to speak loudly enough to be heard and to direct their comments to the jury. If the witnesses are not heard by the jury, how can the jury consider their testimony in reaching the verdict?

I. BE BRIEF.

Don't bore the jury. Be brief.

IX. EXPERT SELECTION.

A. SELECT THE BEST EXPERT AVAILABLE.

Probably the most important thing you're going to do in preparing a case for a jury trial is the selection of your experts. That jury is going to pay more attention to the expert than anyone else in the case. You want an expert who's knowledgeable, credible, and who was "there" in the art at the time the invention was made.

B. OBTAIN AN UNBIASED PRELIMINARY OPINION FROM THE EXPERT.

One effective technique for selecting an expert is to send the expert a copy of the patent-in-suit, but don't identify which side of the controversy you're on. If possible, also provide the expert with the accused device. Ask whether in the expert's opinion the patent is valid, based upon the expert's knowledge of the art (and provide the best art of which you are aware), and whether there is infringement. Be sure and let the expert know how much time and money you wish to spend on this stage of the study. If the expert returns a favorable opinion to your side of the case and meets all the other criteria for a good expert, the value of the expert has been increased because when the expert's testimony is adduced at trial, it's going to come out that the opinions were formed before knowing which side of the case the requesting attorney represented. It makes the opinion much more credible to the judge and the jury. All people know experts are paid and once an expert starts getting paid he can't help but color his testimony just a little bit for the party that's paying his fees. If the expert's opinions are formed before the employing party is known, it makes the testimony more credible.

C. DETERMINE THE EXPERT'S STATE OF HEALTH.

If you have an elderly expert, remember that some of these cases aren't going to go to trial for 3 or 4 years. Inquire about health. Ask the expert to be candid about any health problems because a great deal is at stake. Explain that you're going to be investing a lot of time and money in the expert, and your client deserves to know if there is any reason that the expert will not be healthy at trial time.

D. PROVIDE THE EXPERT WITH KEY MATERIALS.

In getting the expert ready, provide abstracts of the key depositions in the case and copies of the key exhibits. Go over the materials so there will be no surprises in anything that is said or done by either party at trial. Have the expert read the pretrial order and the jury charge so he is familiar with the issues. Discuss the evidence which is pertinent to the issues about which the expert will testify. However, do not use the expert in a manner which will give the expert a partisan appearance. Don't ask the expert to sit at the counsel table with you unless it's absolutely necessary, and request that no notes be passed to you unless very important. Otherwise, the expert looks like a part of your advocacy team. Also, don't allow the expert to hand you exhibits or whisper to you. It makes the expert look biased. Let the expert sit alone and converse with the expert during recess about impressions of the testimony. The jury expects the lawyer to try the case. That's the lawyer's function. They want the experts to be as neutral as possible.

X. MOVE FOR DIRECTED VERDICT AT THE CLOSE OF THE ADVERSARY'S CASE. FED.R.CIV.P. 50.

A. STATE SPECIFIC GROUNDS.

At the close of your adversary's case, always remember to make a motion for a directed verdict. Unless you make a motion for a directed verdict at the close of the adversary's case-in-chief, you have no right to make a motion for judgment n.o.v., should the jury return a verdict against you. It's very important, therefore, that you make that motion at the close of your adversary's case.

B. AVOID THE TEMPTATION TO MAKE A CLOSING ARGUMENT.

State specific grounds for your motion, but avoid the temptation to make a full closing argument. You're only going to give your adversary counsel an advance look at your closing argument if you go into too much detail.

XI. EXAMINING ADVERSARY WITNESSES.

A. EXPLAIN HOW YOU ACQUIRED DAMAGING INFORMATION.

While you're rebutting the adversary's case, as for example by cross-examining his witnesses, avoid any suspicion of the jury by telling the jury how you came into possession of facts that you're using to cross-examine this witness. Believe it or not, some jurors are suspicious of a man who just tears the witness up on cross-examination by pulling out all sorts of documents

which came out of the witness's files. They wonder, how did you get those documents? Where did you get that information? You must have used some improper means to get all the "nitty gritty" on this witness. They wonder what kind of lawyer you are. As you approach this witness, say "Mr. Witness, are you aware that your company produced documents for us from your company files, because the court rules require that both parties give each other copies of important documents? I want to ask you some questions about the documents." Now, the jury knows that you legitimately came into possession of all this information which appears to be secret and proprietary, and they won't object to your use of it in examining a witness.

B. BE JUDICIOUS IN SELECTING PRIOR TESTIMONY TO USE ON AN ADVERSARY WITNESS.

Be careful in examining adversary witnesses. Inevitably when that witness is brought to trial by your adversary counsel, it's because your adversary has thoroughly prepared the witness. The witness has been through any prior deposition many times since it was taken. The witness and his lawyer have figured out ways to neutralize those juicy little tidbits you got out of the witness during the deposition. Make sure when you're crossing the witness that he's got to give you the answer you're seeking, because the odds are that he will wiggle out of it about 90% of the time. That's why he's there. He's been preparing for days to explain why you've got the wrong impression about what he said. So, make sure you can hang the witness before you cross-examine on prior testimony.

C. DON'T EXPECT TO PROVE YOUR CASE THROUGH ADVERSARY WITNESSES.

In most instances, you cannot prove your case out of the mouths of the adversary witnesses. Don't expect to. They're prepared for you. They're not on your side. Prove your case with your own witnesses.

XII. PREPARATION OF THE JURY CHARGE AND WRITTEN INTERROGATORIES.

A. GENERAL VERDICTS ARE INAPPROPRIATE IN PATENT CASES.

There are different types of verdicts which juries can reach and one is called a general verdict. With such a verdict the jury simply finds for the plaintiff or for the defendant. While permissible, this type of verdict is not best in a patent case. *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 220 USPQ 193 (Fed. Cir. 1983). More specifically, the defendant in a patent case may have defended on grounds that the patent is invalid under Sections 102 and 103, the claims are not infringed, and the patent has been misused. If the jury

returns a general verdict for the defendant, the question becomes, "on what grounds?". The judge doesn't know how to review the verdict on a motion for judgment n.o.v., and the appellate court doesn't know how to review the trial court judgment. A general verdict is inappropriate in a patent case and I don't think you'll find any court that will require you to submit a general verdict in a patent case.

B. SPECIAL VERDICTS ARE MORE APPROPRIATE.

With a special verdict there's a special finding on each contested fact issue in the case. For example, you may submit an issue to the jury on the novelty of the invention. You must make a request in writing to the court for the type of verdict and for the charge to be given the jury. A recommended set of special verdicts found in *Railroad, Dynamics, Inc. v. Stucki, supra*, is reproduced here:

Interrogatories

(MARK YES OR NO)	YES	NO
1. Is the _____ article within the scope and content of the prior arts?	☐	☐
2. Did the impedance associated with the low pass filter of the phase locked loop in the _____ Stereo Tuner have substantially equal charge and discharge constants?	☐	☐
3. Does the _____ Stereo Tuner constant driving impedance?	☐	☐
4. Does the term "constant driving impedance," as used in U.S. Patent No. _____ ("the reissue patent") teach a person of ordinary skill in the art how much variation that impedance can have and still be constant?	☐	☐
5. Was Claim 1 of the reissue patent broadened in some respect from its scope in the original patent?	☐	☐
6. Did the inventor listed in the reissue patent act with bad faith or gross negligence when he made the statements of fact to the United States Patent and Trademark Office regarding the operation of the _____ Stereo Tuner?	☐	☐
7. Does the _____ chip have the following elements (which are set forth in each of the asserted claims 3, 4 and 5):		
A first filter means?	☐	☐
A second filter means?	☐	☐
A constant driving impedance?	☐	☐
8. With respect to asserted claim 3, does the _____ article disclose:		
a. "a method of attaching a _____ lead of a _____ to a _____"	☐	☐
b. "obtaining access to the _____"	☐	☐
c. "screwing a free end of the _____ lead into the _____"	☐	☐
9. Is the level of ordinary skill in the pertinent art that of a _____?	☐	☐
10. Is the level of ordinary skill in the pertinent art that of the combination of skill and knowledge of a _____ together with the expertise of a _____ engineer having a mechanical or electrical aptitude or engineering degree?	☐	☐

From the Federal Circuit cases decided to date, the following rules on submitting the obviousness question to a jury may be gleaned:

1. The obviousness question is a question of law with underlying facts. *Connell, supra.*

2. It may be submitted to the jury without interrogatories directed to the *Graham* factual inquiries, although it is preferred that the jury decide the *Graham* factual inquiries. *Connell, supra*; *White v. Jeffrey Mining Machinery Co.*, 723 F.2d 1553 (Fed. Cir. 1983), *cert. denied*, 469 U.S. 825 (1984).

3. The trial judge participates in the obviousness issue in response to a motion for judgment n.o.v. *Connell, supra.*

4. When doing so, the trial judge may presume that the jury found the *Graham* factual inquiries, as well as others material facts, as necessary to support the verdict. *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888 (Fed. Cir.), *cert. denied*, 469 U.S. 857 (1984).

5. The trial judge in examining the obviousness issue can adopt the legal conclusion of the jury without explicit analysis. *White*, *supra*.

6. On appeal, the lack of *Graham*-type interrogatories or a written opinion of the trial judge will not affect the manner in which the Federal Circuit reviews the judgment. The Federal Circuit will presume the jury found the facts necessary to support the verdict and apply the "substantial evidence" test. *Perkin-Elmer*, *supra*; *Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 1038 (1985).

C. SUBMIT A COMPLETE JURY CHARGE, PREFERABLY ANNOTATED.

When submitting a proposed jury charge and verdict to the court, submit a complete one. That is, cover not only the instruction to the jury on the issues of law raised by your pleadings but include also the issues of law in which your adversary is interested. Let me explain why. If you are a judge and one party submits half a jury charge while the other party submits a complete jury charge, which one do you choose to work with? Additionally, annotate the jury charge. If you submit a complete annotated jury charge and your adversary does not, the judge is going to sit down with counsel, look at your adversary and say what's wrong with this proposed charge? I'm going to work with this one, yours just doesn't cover everything. What's wrong with this one -- start telling me? That puts a big burden on the adversary particularly if its a 40-page charge with 12 interrogatories. You can see the box you can put yourself into if you don't do a good job of preparing the charge. Don't try to stretch the statements of law to benefit your case. The adversary is going to point out to the court that the case you cited really doesn't support the proposed charge. Be candid with the court as to what law should be charged to the jury, and don't color the language. If you are fair, you're going to improve the likelihood of your charge getting accepted by the judge.

D. PREPARE THE CHARGE BEFORE TRIAL.

Prepare the jury charge and the special verdict or special interrogatories before you go to trial. The jury charge and interrogatories ought to be the first document you prepare for trial. Only if you know the issues that the jury is going to have to decide do you know what evidence you're going to have to

put in to convince the jury to decide those issues in your favor. Only then will you know what rules of law the jury is going to follow in deciding those issues. Your whole case is going to revolve around that jury charge. Do it beforehand, and as explained before, annotate it.

E. OBTAIN CHARGES PREPARED BY YOUR ADVERSARY IN OTHER CASES.

Have copies of your adversary's charges in other cases available. He may have requested in another case, and obtained, a charge contrary to that which he's urging to your court. It's always helpful to pull out his earlier charge and say: "Wait a minute, Judge, in a case he tried six months ago he said this was what the description of prior art ought to be, and it's completely different than what he's telling you now." This approach can be very effective.

F. STRIVE TOWARD CLARITY IN PREPARING THE CHARGE AND INTERROGATORIES.

Strive toward clarity in drafting the special verdicts or interrogatories in support of a general verdict so the jury understands them and the judge understands them.

XIII. CLOSING ARGUMENT.

A. ADVISE THE JURY WHAT THEY WILL BE ASKED TO DECIDE.

In federal court, the closing arguments are before the charge is read to the jury. Advise the jury what it is they're going to be asked to decide. The easiest way to do that is to say "You're going to be asked to decide" and go to question 1 of the interrogatories which the court has advised it is going to put to the jury. The parties will have agreed upon this charge, or maybe not agreed, but the judge will have agreed upon it and you're going to have a copy of it in your hand even though the jury hasn't seen it yet. Read the interrogatories to the jury and provide them with the evidence they need to answer the interrogatory.

B. SUMMARIZE THE EVIDENCE ON BOTH SIDES OF THE ISSUE.

Explain what evidence bears on the questions to be answered. Mention the bad evidence as well as the good. Be candid with the jury. If you've failed on an issue, admit it. Explain that you hoped and thought you could prove that this particular question should have been answered "yes" but, frankly, the evidence failed on this point, and you think the answer should be "no." If you

can't prove it, you can't prove it, and it is a mistake to try to convince a jury of something they know is not true.

C. DON'T BE OBSEQUIOUS.

Don't be obsequious in making your closing argument to the jury. One counsel in a patent infringement case, as he concluded his argument, dropped his voice very low, and with hands turned white from the pressure of hand wringing, implored the jury to go back in that jury room and do something that would make them "proud to be an American." The facial expressions of the jurors revealed their dislike for the uncalled-for drama. After all, it was a patent case, not a treason case. Don't be obsequious. Get up and tell them what the facts are that support your contention and why you think your position is more credible. Then sit down. Be brief.

XIV. OBJECTION TO IMPROPRIETIES OR OMISSIONS IN THE JURY CHARGE.

A. OBJECT BEFORE THE JURY RETIRES FED.R.CIV.P. 51.

Following argument the judge will read the charge to the jury. Object to any improprieties in that charge before the jury retires.

B. BE SPECIFIC IN STATING OBJECTIONS.

Be specific in your objections to the charges and make them in writing or state them to the court reporter out of the presence of the jury. *Barney v. Staten Island Rapid Transit Ry. Co.*, 316 F.2d 38 (3d Cir. 1963), *cert. denied*, 375 U.S. 826; *Siegfried v. Kansas City Star Co.*, 298 F.2d 1 (8th Cir. 1962).

XV. MOTION FOR JUDGMENT N.O.V. AND MOTION FOR NEW TRIAL.

If the jury comes in with an adverse verdict, the losing party has 10 days after the judge enters judgment or within such additional time as the court grants, to file a motion for judgment n.o.v., provided that the motion for directed verdict was made back at the close of the winning party's case. A motion for new trial can be joined with the motion for judgment n.o.v., if there are grounds.

XVI. POLLING THE JURY.

Consider polling the jury when they have come back with their verdict. I've never found polling very useful. When you ask "Is that your verdict?", they're all going to look at you and say "Yes". However, in one case where the parties agreed to let the alternates vote and the jury returned a 6-2 verdict, the fact that there were 2 dissenters helped in supporting a motion for judgment n.o.v.

XVII. POST-TRIAL INTERVIEW.

After the judge releases a jury, talk to them, if permitted by the court (some courts will not permit it). Ask the jurors what impressed them most, either about what you did or what the other side did. What did they find helpful? What did they not find helpful? Inquire if any of your mannerisms irritated them for any reason. You'll be surprised at some of the answers you'll get. Some jurors don't like a lawyer rattling papers while the other lawyer's trying to ask questions. They think that's unfair tactics, it distracted their attention, and they think that you are doing it intentionally. Or they didn't like some of your jokes. When involved in a 10-day trial, you often try to drop a humorous remark every now and then. Often jurors may not think it's so funny, and they'll tell you so. Ask them about your expert. What did they think about him? Did they believe him? What impressed them most about the man?

There's also another source of information about what is important to the jurors. Talk to the bailiff of the court. It is his duty to conduct these juries in and out of the court room, and he does it routinely. He hears more that jurors say about attorneys, judges and witnesses than you'll ever hear in your lifetime because he's with them almost every day. Ask him, if you're getting ready to try a jury case in a particular jurisdiction, what seems to be important to juries with which he has worked.

XVIII. JUROR PERCEPTIONS

During trial of patent cases, it is important to consider juror perceptions and be prepared to deal with them during *voir dire*, presentation of evidence, and in closing arguments. Given the cultural diversity of the populace of most metropolitan areas where patent litigation occurs, it is not possible to identify perceptions which are common to all jurors or to all communities. However, it is helpful to be aware of certain conclusions expressed by those who have studied jurors. Jurors are said to have the following views:

A. There must be some credibility to the plaintiff's case; otherwise, the judge would have thrown it out.

B. Because many patent claims are said to be infringed, at least one of them must be, i.e., where there is smoke, there must be fire.

C. While 66% of jurors believe a lawyer is likely to lie to them in court, less than 60% believe plaintiff's lawyers are likely to lie while 75% believe defendant's lawyers will lie.

D. Nearly 60% feel it is more important to do what is morally right than what is legally correct.

E. Jurors are disturbed by the amount of time lawyers waste.

F. Sixty-six percent (66%) believe that the side with the most money has the best chance of winning.

G. Ten (10) times as many jurors are likely to believe an individual's version of events than they are a corporation's version.

H. Sixty percent (60%) of jurors believe a judgment of a million dollars against a corporation is "just a slap on the hand."

I. Eighty-nine percent (89%) of jurors believe a large company will use unfair techniques to squeeze out small competitors.

J. Eighty-five percent (85%) of jurors believe corporations take advantage of independent inventors.

K. Jurors typically hold the Patent Office in high regard and, while the Patent Office may make mistakes, it is the exception - not the rule.

L. Thirty-six percent (36%) of jurors believe the Patent Office has a technical library and labs used to test inventions and most remaining jurors, while not knowing, assume that must be the case.

M. Jurors tend to make device-to-device comparisons, not patent claims-to-device comparisons.

N. Most jurors believe that the patent system is beneficial and inventors are entitled to the 17-year period of exclusivity, but become concerned if the patent is to be used to drive significant competitors out of the market, particularly if it affects their well-being as by depriving them of a product they use.

O. Jurors complain about the patent system granting so many patents (the prior art) in such similar-looking devices and feel that patents should be reserved for quantum leaps ahead in technology.

P. If jurors do not understand the technology, they look at the "big picture" to decide the case. The "big picture" includes such items ad corporate behavior and motivation.

Q. Fifty-five percent (55%) believe a corporation will try to suppress new technology developed by a competitor.

R. Sixty-eight percent (68%) feel a company should never be allowed to gain a monopoly.

S. Seventy-nine percent (79%) feel a patent gives its owner a monopoly.

T. Seventy percent (70%) feel the applicant has no duty to search for prior art before filing the application for patent and 65% feel it is the patent examiner's job to find the prior art.

U. Eighty-nine percent (89%) believe inventors can come up with the same thing independently of each other.

V. Eighty-four percent (84%) believe things can look alike but function differently.

W. Seventy-nine percent (79%) believe a company will copy an invention and change it slightly so it doesn't violate any patents.

X. Fifty-three percent (53%) believe that once a patent is granted, it can be taken away.

Y. Seventy percent (70%) believe it is moderately easy to get a patent.

XIX. CONCLUSION

Jury trials, particularly for lawyers with Thespian blood, are a lot of fun, and perhaps the most enjoyable aspect is that you don't have to wait long for the "reviews."

PATENT JURY TRIALS

Suggested Reading

1. Figari, Jury Trials in a Patent Context, 12 Patent Law Annual 189 (1974)

2. Federal Practice and Procedure, Committee Report, 1977 Committee Report - Section of Patents, Trademark and Copyright Law, American Bar Association (Robert L. Rohrback, Chmn.) (Model jury charge in patent and trademark cases)

3. Mathes, Jury Instructions and Forms for Federal Civil Cases, 28 F.R.D. 401, 502 (1962)

4. Medlock, The Patent Jury Trial, Am. Pat. L. Assoc. Institute Proceedings, January 1978, LaCosta, California

5. Newitt and Nelson, The Patent Lawyer and Trial by Jury, 1 John Marshall Journal of Practice and Procedure 59 (1967)

6. Pravel, Jury Trials in Patent Cases, 8 Patent Law Annual 23 (1970)

7. Redish, Seventh Amendment Right to Jury Trial: A Study in the Rationality of Rational Decision Making, 70 Northwestern University Law Review 486 (1975)

8. Ropski, Constitutional and Procedural Aspects of the Use of Juries in Patent Litigation, 58 J. Pat. Off. Soc'y 609, 673 (2 parts) (1976). This article is highly recommended.

9. Wetzel and Ward, The Changes in Patent Litigation and the New Federal Rules of Evidence, 57 J. Pat. Off. Soc'y 519 (1975)

10. Zarley, Jury Trials in Patent Litigation, 20 Drake L. Rev. 242 (1971)

11. Hofer, The Obvious Issue: The Jury Takes Over, an unpublished 1988 update of an article which originally appeared in 12 AIPLA Q.J. (1984)

12. Calvetti and Venturino, Patent and Trademark Workshop Strategies for Appeals from Administrative Agencies and District Courts, Ct. of App. for the Fed. Cir. Newsletter Vol. III, No. 5, p. 162 (Aug. 1986 - May 1987)

May 1, 1991 - V. Bryan Medlock, Jr.

Table I: Summary of CAFC disposition of JNOV grant or denial*

Jury Finding	JNOV denied (D. Ct.)	CAFC disposition	JNOV granted (D. Ct.)	CAFC disposition
valid	23	16 aff'd 4 rev'd 2 remanded 1 moot	6	1 aff'd 3 rev'd 1 moot 1 remanded
invalid	12	7 aff'd 3 rev'd 2 remanded	2	2 aff'd
total (valid + invalid)	35	23 aff'd 7 rev'd 4 remanded 1 moot	8	3 aff'd 3 rev'd 1 moot 1 remanded
infringed	24	17 aff'd 3 rev'd 4 remanded	4	2 aff'd 2 rev'd
not infringed	5	3 aff'd 2 not raised	0	-
total (infringed + not infringed)	29	20 aff'd 3 rev'd 4 remanded 2 not raised	4	2 aff'd 2 rev'd

*See Table II for Summary of all cases individually.

Table II: Summary of CAFC Decisions on Jury Verdicts

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Sjolund v. Mueland, 847 F.2d 1573 (6/1/88)		valid infringed	denied (p. 1576) -	rev'd denial of jnov (p. 1582) -
Unidisco, Inc. v. Schattner, 824 F.2d 965 (7/29/87)		valid infringed	- denied (p. 967)	- rev'd denial of jnov (p. 968)
Fonar Corp. v. Johnson & Johnson, 821 F.2d 627 (6/16/87)	Claims 1, 2	valid infringed	denied (p. 630) granted (p. 630)	validity not reached; moot aff'd grant of jnov (p. 633)
	Claims 7, 8, 10	invalid not infringed	- -	No jnov on these claims. A motion for a new trial was denied and the CAFC affirmed the denial.
Vieau v. Japax, Inc., 823 F.2d 1510 (6/16/87)		valid infringed	granted (p. 1511) granted (p. 1512)	validity not reached; moot aff'd grant of jnov (p. 1517)
Verdegaal Brothers, Inc. v. Union Oil Co. of California, 814 F.2d 628 (3/12/87)		valid infringed	denied (p. 631) -	rev'd denial of jnov (p. 634) -

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Data Line Corp. v. Micro Technologies, Inc., 813 F.2d 1196 (3/2/87)		valid infringed	- denied (p. 1200)	- aff'd denial of jnov (p. 1202)
Orthokinetics, Inc. v. Safety Travel Chairs, Inc., 806 F.2d 1565 (12/5/86)	'586 patent	valid infringed	granted (p. 1570) denied (p. 1570)	rev'd grant of jnov (p. 1575) aff'd denial of jnov (p. 1578)
	'867 patent	valid infringed	granted (p. 1570) denied (p. 1570)	rev'd grant of jnov (p. 1578) aff'd denial of jnov (p. 1578)
DMI, Inc. v. Deere & Co., 802 F.2d 421 (9/30/86)		invalid -	denied (p. 425) -	aff'd denial of jnov (p. 427) infringement not reached; moot
Mainland Industries, Inc. v. Standal's Patents, Ltd., 799 F.2d 746 (8/20/86)	'326 patent	valid infringed	- denied (p. 747)	- aff'd denial of jnov (p. 749)
	'312 patent	valid infringed	- denied (p. 747)	- aff'd denial of jnov (p. 749)
Medtronic, Inc. v. Intermedics, Inc., 799 F.2d 734 (8/15/86)	'501 patent	valid infringed	denied (p. 738) -	aff'd denial of jnov (p. 739) -
	'366 patent	valid infringed	denied (p. 738) denied (p. 738)	aff'd denial of jnov (p. 740) aff'd denial of jnov (p. 742)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Glaros v. H.H. Robertson Co., 797 F.2d 1564 (7/22/86)		valid infringed	denied (p. 1567) denied (p. 1567)	aff'd denial of jnov (p. 1572) aff'd denial of jnov (p. 1572)
Shiley, Inc. v. Bentley Laboratories, Inc., 794 F.2d 1561 (6/16/86)	'264 patent	valid infringed	denied (p. 1564) denied (p. 1564)	aff'd denial of jnov (p. 1568) aff'd denial of jnov (p. 1568)
	'288 patent	valid infringed	denied (p. 1564) denied (p. 1564)	aff'd denial of jnov (p. 1568) aff'd denial of jnov (p. 1568)
Witco Chemical Corp. v. Peachtree Doors, Inc., 787 F.2d 1545 (3/24/86)	'347 patent	valid infringed	denied (p. 1547) denied (p. 1547)	jnov motions not considered; case remanded for a new trial on all the issues
	'975 patent	valid infringed	denied (p. 1547) denied (p. 1547)	
Power Lift, Inc. v. Lang Tools, Inc. et al. 774 F.2d 478 (10/7/85)		infringed valid	denied	aff'd denial of jnov and new trial (p. 481)
Shatterproof Glass Corp. v. Libbey-Owens Ford Co., 758 F.2d 613 (3/29/85)	'506 patent	valid infringed	denied (p. 618) denied (p. 618)	aff'd denial of jnov (p. 619) aff'd denial of jnov (p. 626)
	'182 patent	valid infringed	denied (p. 618) denied (p. 618)	aff'd denial of jnov (p. 619) aff'd denial of jnov (p. 626)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Jamesbury Corp. v. Litton Indus. Products, Inc. 756 F.2d 1556 (3/12/85)		invalid -	denied (p. 1557) -	rev'd denial of jnov (p. 1564) -
Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc., 750 F.2d 1552 (12/20/84)	'497 patent	invalid -	denied (p. 1558) -	aff'd denial of jnov (p. 1561) -
	'099 patent	invalid -	granted (p. 1562) -	aff'd grant of jnov (p. 1563) -
Structural Rubber Products Co. v. Park Rubber Co., 749 F.2d 707 (11/21/84)	'051 patent	invalid	denied (p. 712)	rev'd denial of jnov (remanded for new trial on other issues) (p. 713)
		infringed	denied (p. 712)	not considered in view of remand (p. 724)
	'977 patent	invalid	denied (p. 712)	rev'd denial of jnov (remanded for new trial on other issues) (p. 713)
		infringed	denied (p. 712)	not considered in view of remand (p. 724)
Quaker City Gear Works, Inc. v. Skil Corp., 747 F.2d 1446 (11/14/84)		valid infringed	granted (p. 1451) -	aff'd grant of jnov (p. 1453) -

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Weiner v. Rollform, Inc., 744 F.2d 797 (9/17/84)	'590 patent	valid	denied (p. 803)	not raised on appeal (p. 804)
		not infringed	denied (p. 803)	not raised on appeal (p. 804)
	'644 patent	valid	denied (p. 803)	aff'd denial of jnov (p. 806)
		infringed	denied (p. 803)	aff'd denial of jnov (p. 806)
	'095 patent	invalid	denied (p. 803)	aff'd denial of jnov (p. 810)
		-	-	-
	'580 patent	invalid	denied (p. 803)	aff'd denial of jnov (p. 810)
		-	-	-
Kinzenbaw v. Deere & Co., 741 F.2d 383 (8/7/84)		not infringed	denied (p. 5)	aff'd denial of jnov (p. 6)
		invalid	denied (p. 5)	aff'd denial of jnov (p. 6)
Nestier Corp. v. Menasha Corp., 739 F.2d 1576 (8/1/84)		not infringed	counsel failed to make motion for jnov (p. 3)	jury findings stood because counsel failed to preserve error. (p. 9)
		valid		
Bio-Rad Laboratories v. Nicolet Instruments Corp., 739 F.2d 604 (7/12/84)		infringed	denied (p. 671)	rev'd denial of jnov (p. 676)
		valid	denied (p. 671)	aff'd denial of jnov (p. 676)
McGill Inc. v. John Zink Co., 736 F.2d 666 (4/27/84)		infringed	denied (p. 671)	rev'd denial of jnov (p. 676)
		valid	denied (p. 671)	aff'd denial of jnov (p. 676)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Perkin-Elmer Corp. v. Computervision Corp., 732 F.2d 888 (4/6/84)		infringed valid	-	aff'd denial of jnov (p. 899)
Envirotech Corp. v. Al George, Inc., 730 F.2d 753 (3/19/84)		not infringed invalid	denied (p. 9) denied (p. 9)	aff'd denial of jnov (p. 14, 17) remanded (p. 20, 21)
Railroad Dynamics, Inc. v. A. Stuck, 727 F.2d 1506 (1/25/84)		infringed valid	denied (p. 1509) denied (p. 1509)	aff'd denial of jnov (p. 1309, 1313) aff'd denial of jnov (p. 1509, 1513)
American Hoist & Derrick Co. v. Sowa & Sons, 725 F.2d 1350 (1/12/84)		- invalid	- (unreported) (p. 1352)	- remanded (erroneous jury instructions) (1352, 1356)
White v. Jeffrey Mining Machinery Co., 723 F.2d 1553 (12/7/83)		infringed valid	denied (p. 1554) denied (p. 1554)	infringement not raised on appeal (p. 1554) rev'd (p. 1560)
Connell v. Sears, Roebuck & Co., 722 F.2d 1542 (11/23/82)		- valid	- granted (p. 1545)	- aff'd grant of jnov (p. 1548, 1555)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Allen Organ v. Kimball Intl., 839 F.2d 1556, 5 USPQ2d 1769 (2/12/88)		invalid	denied (p. 1560)	aff'd denial of jnov (pp. 1565, 66)
Brantingson Fishing v. Shimano Am., 8 USPQ2d 1669 (10/19/88)		valid infringed	denied (p. 1670) denied (p. 1670)	aff'd denial of jnov (p. 1676) aff'd denial of jnov (p. 1676)
Dana Corp. v. IPC Ltd., 860 F.2d 415, 8 USPQ2d 1692 (10/26/88)		valid infringed	denied (p. 417) denied (p. 417)	rev'd denial of jnov (p. 420) rev'd denial of jnov (p. 420)
Devices for Medicine v. Boehl, 822 F.2d 1062, 3 USPQ2d 1288 (6/24/87)		no damages	counsel failed to make motion for jnov (p. 1063)	jury findings aff'd (p. 1069)
Lummus Industries Inc. v. DM&E Corp., 862 F.2d 267, 8 USPQ2d 1983 (11/23/88)		infringed	-	aff'd (p. 275)
Newell Companies v. Kenney Mfg., 864 F.2d 757, 9 USPQ 2d 1417 (12/29/89)		valid infringed	granted (p. 759)	aff'd grant of jnov (p. 769)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Snellman v. Ricoh Co., 862 F.2d 283, 8 USPQ2d 1996 (11/25/88)		infringed	denied (p. 285)	aff'd denial of jnov (p. 290)
Spectra-Physics v. Coherent, 827 F.2d 1524, 3 USPQ2d 1737 (8/17/87)	'600 claims 2, 5, 17, 18	valid infringed	- -	aff'd district court's withdrawal of jury verdict and ruling of invalidity (p. 1538)
	'328 claim 10	valid infringed	- -	
Sun-Tek Ind. v. Kennedy Sky Lites, 848 F.2d 179, 6 USPQ2d 2017 (6/6/88)	'414	invalid not infringed	- -	validity not reached; moot (p. 183)
	'261	not infringed	-	validity not reached; moot (p. 183)
	'776 claim 10	valid	-	enforceability not reached;
	claims 1-9, 11	invalid	-	moot (p. 183)
	'200 claim 7	valid	-	enforceability not reached;
	claims 1-6	invalid	-	moot; (p. 183)
Sun Studs v. ATA Equipment Leasing, Inc., 872 F.2d 978, 10 USPQ2d 1338 (3/31/89)		valid (981-82)	denied (982)	aff'd denial of jnov (1988)
		infringed (984-85)	granted (985)	rev'd jnov (988)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
Senmed, Inc. v. Richard-Allen Medical Industries, 888 F.2d 815, 12 USPQ2d 1508 (10/18/89)		valid & infringed (816-17)	denied (817)	rev'd denial of jnov (817)
Moxness Products v. Xomed, Inc., 891 F.2d 890, 13 USPQ2d 1169 (12/6/89)		valid & infringed (892)	granted for on-sale & pub. use denied on obviousness (892)	rev'd jnov (893) aff'd denial of jnov (893-94)
Deks v. Atlas Bolt & Screw Co., unpublished CAFC dec., 14 USPQ2d 1077 (10/3/89)		invalid not infringed (1078)	denied (1078)	aff'd denial (1078)
Mentor Corp. v. Cox-Uphoff, unpublished CAFC dec., 15 USPQ2d 1159 (11/9/89)		valid & infringed (1159)	granted (1159)	rev'd grant of jnov (1159)
IVAC Corp. v. Terumo Corp., unpublished CAFC dec., 15 USPQ2d 1456 (2/1/90)		willfulness of infringement (1456)	granted (1456)	rev'd grant of jnov (1457)

Case Name	Patents in Suit	Jury Finding(s)	J/NOV Motion	CAFC Decision
New Idea Farm Equipment Corp. v. Sperry Corp. and New Holland, Inc., 916 F.2d 1561, 16 USPQ2d 1424 (10/12/90)		invalid (1562)	denied (1565)	aff'd (1568)
Modine Manufacturing Co. v. The Allen Group, 917 F.2d 538, 16 USPQ2d 1622 (10/22/90)		valid & infringed (540)	denied (540)	aff'd (540)
Jurgens v. McKasy and CBK, Ltd., 927 F.2d 1552, 18 USPQ2d 1031 (4/5/1991)		valid & infringed 18 USPQ2d at 1034	denied (1035)	aff'd (1041)

"The Federal Circuit: An Insider's View on Evolving Issues"
By Judge Paul R. Michel
Advance Outline of Remarks for the Fifth Annual
Intellectual Property Litigation Series
"Patent Litigation: Tactics and Tools"
September 16, 1992
Four Seasons Hotel, Boston, Massachusetts
Sponsored by the Franklin Pierce Law Center
Concord, New Hampshire

I. Deference to Jury Verdicts

A. Requirement for pre and post-trial motions--Biodex
B. Importance of proposed and issued instructions and objections thereto -- Biodex
C. Special rules: Malta -- opening & closing statements
-- witness examination
D. Obviousness
How separable is the underlying Graham fact finding from the legal conclusion? -- Newell

II. Validity

A. Obviousness -- "suggestion" or "motivation" to combine references
what, exactly, is required?
from where?
what about "common sense"?
B. On sale/public use bar
What is completed conception?
embodiment?
experimental use?
importance of trial of device in its intended environment and establishing its durability? -- Paramount
C. Review of judgment on validity if noninfringement finding is affirmed.
-- Court has jurisdiction and discretionary authority to reach the validity issue but not mandatory; and, usually, if it does not, it will vacate the lower court judgment -- Morton. But see Vieau; Munsingwear.
-- Must argue case equities and policy reasons in favor of reaching issue to influence court's exercise of discretion

III. Infringement

A. Claim construction
Product by process claims -- Atlantic & Scripps
B. Section 112/6 "equivalent structures" for "identical functions"

C. Equitable doctrine of equivalents
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Atlantic Thermoplastics Co. v. Faytex Corp., 23 USPQ2d 1481, reh'g in banc denied, U.S. App. LEXIS 19151 (Fed. Cir. 1992)

Biodex Corp. v. Loredan Biomedical, Inc., 946 F.2d 850, 20 USPQ2d 1252 (Fed. Cir. 1991)

Graham v. John Deere Co., 383 U.S. 1, 148 USPQ 459 (1966)

Malta v. Schulmerich Carillons, Inc., 952 F.2d 1320, 21 USPQ2d 1161 (Fed. Cir. 1991)

Manville Sales Corp. v. Paramount Sys., 917 F.2d 544, 16 USPQ2d 1587 (Fed. Cir. 1990)

Modine Mfg. Co. v. Allen Group, Inc., 917 F.2d 538, 16 USPQ2d 1622 (Fed. Cir. 1990)

Morton Int'l, Inc. v. Cardinal Chem. Co., 959 F.2d 948, 22 USPQ2d 1231, reh'g in banc denied, 967 F.2d 1571, 23 USPQ2d 948 (Fed. Cir. 1992)

Newell Cos., Inc. v. Kenney Mfg. Co., 864 F.2d 757 (Fed. Cir. 1988)

Read Corp. v. Portec, Inc., 23 USPQ2d 1426 (Fed. Cir. 1992)

Scripps Clinic & Research Foundation v. Genetech, Inc., 927 F.2d 1565, 18 USPQ2d 1001 (Fed. Cir. 1991)

UMC Elec. Co. v. United States, 816 F.2d 647, 2 USPQ2d 1465 (Fed. Cir. 1987)

United States v. Munsingwear, 340 U.S. 36 (1950)

View v. Japax, Inc., 823 F.2d 1510, 3 USPQ2d 1094 (Fed. Cir. 1987)

Wilson Sporting Goods Co. v. David Geoffrey & Assocs., 904 F.2d 677, 14 USPQ2d 1942 (Fed. Cir. 1990)

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SANCTIONS AND FRIVOLOUS APPEALS: The Federal Circuit Perspective

Jennifer A. Tegfeldt

Fitzpatrick, Cella, Harper & Scinto

presented at

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SANCTIONS AND FRIVOLOUS APPEALS: The Federal Circuit Perspective

Jennifer A. Tegfeldt*

I. Frivolous Appeals and the Challenge to Appellate Advocacy

Not so long ago, frivolous appeals under Fed. R. App. P. 38 ("Rule 38") would not have attracted much interest by litigators. After all, if the case filed in the trial court met the requirements of Fed. R. Civ. P. 11, as being "well grounded in fact" and "warranted by existing law or a good faith argument" that existing law should be changed, then an appeal would be considered a matter of right to the party who lost. As one treatise notes, the imposition of sanctions under Rule 38 is "highly unusual". 16 Charles A. Wright, Arthur R. Miller, Edward H. Cooper & Eugene Gressman, Federal Practice and Procedure § 3984 (1977).

But the terrain of federal court litigation is changing; sanctions are no longer "highly unusual" in the appellate arena. Even appeals involving close questions of

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law may be considered sanctionable if the way in which they are presented is deemed improper. Lawyers and clients may be held equally liable for damages and costs of the appeal.

The reason for increasingly stronger stands against frivolous appeals was explained by Judge Posner of the Seventh Circuit:

> As should be evident to any regular reader of federal court decisions, the frequency with which federal judges are imposing sanctions for abuse of federal court process has increased markedly in recent years. The reasons are systemic. As the federal courts become more and more over-loaded, the costs imposed on ethical and responsible litigants when judicial resources are diverted to the processing of frivolous claims and defenses mount higher and higher. Moreover, as the bar and the judiciary both expand, the incentive for self-regulation by lawyers that comes from appearing regularly before the same judges diminishes, making judicial regulation by sanctions increasingly necessary. We are in a transitional period, and some members of the bar still do not realize that the judicial attitude toward attorney misconduct has stiffened. They had better realize it.

Hill v. Norfolk and Western Railway Co., 814 F.2d 1192, 1203 (7th Cir. 1987).

This approach has been adopted by the Court of Appeals for the Federal Circuit. Very early in its history, the Court cautioned practitioners appearing before it that "the injury inflicted on the administration of justice by frivolous appeals" would not be lightly taken. Asberry v. United States Postal Service, 692 F.2d 1378, 1382 (Fed. Cir. 1982). Although only about 63 of the approximately 6,000

cases decided by the Court of Appeals for the Federal Circuit in the last ten years acknowledged frivolousness, the significant proportion of these cases resulted in sanctions.

Judge Paul Michel, in his remarks before the District of Columbia Bar Association, Patent and Trademark Section in the spring of this year, cautioned that the number of frivolous appeals before the Federal Circuit is actually ten times the number acknowledged by the court. In his view, the number of appeals sanctioned as frivolous will most likely increase, even as the total number of appeals filed in the court increases on a projected basis of at least 10% each year. Not levying sanctions permits appeals deemed frivolous to delay thorough appellate review and timely disposition of arguably meritorious appeals, and compromises jurists' trust in counsel appearing before them. Thus, frivolous appeals have been deemed a "crisis of mutual mistrust".

The issue of frivolous appeals is an uncomfortable one, particularly for intellectual property law attorneys who are widely recognized as having the highest calibre of professional responsibility. Certainly, the filing of appeals that waste judicial resources and impede access by those with meritorious cases deserves the swiftest discouragement. But at the same time, the very heart of American dispute resolution is partisan advocacy and confrontation. Drawing the line between creative legal argument advancing the law and the press of frivolous cases

that abuse the legal system creates controversy; the proper placement of the line requires a careful balance.

Practitioners are bound by their ethical obligations to fully advocate their clients' positions -- a duty that may require some legal inventiveness in patent cases that frequently involve complex issues of fact and law. Sometimes this means pressing novel arguments and challenging established precedent. Sanctions are considered to have a "chilling effect" on such efforts to press the envelope of the law outward. In the context of professional responsibility before the Federal Circuit, Judge Pauline Newman noted:

> Lawyers have expressed concern that the imposition of sanctions on lawyers personally will deter them from offering creative arguments and challenging established precedent, to the client's disadvantage. This is the so-called "chilling effect." It's important for judges not to stifle evolution of the law. Even entrenched precedent may warrant modernization, or at least review on new facts. In our philosophy as a nation, access to the courts is deliberately made easy, to provide a peaceful mechanism for resolving disputes, to encourage recourse to the legal system instead of self help. The great virtue of the common law is its adaptability to social change. An assault on stare decisis, if that's what you feel you must do, does require creativity and the right to say the law is wrong and should be changed.

Judge Newman's comments before the Annual Meeting Breakout Session, American Intellectual Property Law Association, October 18, 1991, AIPLA Bulletin, pp. 41-45.

However, Judge Newman also cautioned that the fine line between aggressive advocacy and unprofessional behavior is constantly being redrawn by counsel. Accusations of sanctionable behavior have become a litigation tactic, with parties moving for sanctions "for not citing a precedent, sanctions for citing a non-precedent, sanctions for taking an appeal, sanctions for requesting sanctions". Id. at 45.

How then to encourage creative advocacy without sharp practice, while preserving judicial resources for cases in which searching appellate review is required? Judge Michel has called for a partnership -- an open dialog with educated criticism, mutual agreement and shared responsibility between the Federal Circuit and those who practice before the court, in order to respond to the crisis of frivolous appeals. In the interest of such a partnership, an appropriate first step is a consideration of the precedent.

II. Statutes and Rules for Allocation of Costs and Damages

Generally, costs on appeal are taxed under the provisions of Fed. R. App. P. 39. Under appropriate circumstances, the rules and statutes provide for the shifting of liability, and multiplication of costs or determination of damages.

Rule 38, entitled "Damages for Delay", provides that:

> If a court of appeals shall determine that an appeal is frivolous, it may award just damages and single or double costs to the appellee.

The companion to this Rule is 28 U.S.C. § 1912, which permits a court to "adjudge to the prevailing party just damages for his delay, and single or double costs" when a judgment is affirmed.

While Section 1912 is directed to appeals undertaken for the purposes of delay and does not provide for attorney fees, Rule 38 is not so limited. Notwithstanding the title of Rule 38, the Advisory Committee Note states that "the courts of appeals quite properly allow damages, attorney's fees and other expenses incurred by an appellee if the appeal is frivolous without requiring a showing that the appeal resulted in delay." Notes of Advisory Committee on Appellate Rules, Fed. R. App. P. 38. The award of damages is charged to the court's discretion.[1/]

Counsel may also be held personally liable for excessive costs, expenses and reasonable attorney fees under 28 U.S.C. § 1927 for conduct that "so multiplies the proceedings in any case unreasonably and vexatiously". The classic application of Section 1927 is in circumstances of conduct that "viewed objectively, manifests either

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1/ Awards of damages under Rule 38 do not include interest. Interest may be obtained on judgments pursuant to Fed. R. App. P. 37, for example.

intentional or reckless disregard of the attorney's duties to the court". Julien v. Zeringue, 864 F.2d 1572, 1575 (Fed. Cir. 1989), quoting Braley v. Campbell, 832 F.2d 1504, 1512 (en banc)(10th Cir. 1987). In Julien, the conduct of counsel included missed deadlines, requests for at least 10 extensions of time to file briefs, and submission of a joint appendix 11 months after receiving extensive instruction on its preparation.

The Federal Circuit has construed Section 1927 to permit awards and sanctions only for expenses that are actually incurred in responsive or defensive actions to opposing counsel's misconduct. A. Hirsh, Inc. v. United States, 948 F.2d 1240, 1250-51 (Fed. Cir. 1991) As a result, even in circumstances where bad faith could be concluded on the part of an appellant's counsel, and an appeal violates Section 1927, the remedy is not available when the offended party is an amicus who appears before the court "solely as a volunteer". Id.

In addition to Rule 38 and 28 U.S.C. § 1927, the court can also impose sanctions in exercise of its "inherent powers" to expeditiously dispose of pending cases. Id. at 1248 n.9. In Cambridge Products, Ltd. v. Penn Nutrients, Inc., 962 F.2d 1048, 1052 (Fed. Cir. 1992), for example, the court held that although the appeal was not frivolous, appellant's misrepresentation of the record merited an award of reasonable attorney fees incurred on the appeal, with the appellant's counsel held personally liable. In a curious

case that began with an order for counsel of both sides to rewrite the appellate briefs, Laitram Corp. v. Cambridge Wire Cloth Co., 905 F.2d 386, 387 (Fed. Cir. 1990), the Federal Circuit noted an "Alice in Patentland" approach to the arguments and personally sanctioned both counsel under its inherent power the sum of $1000 payable to the United States Treasury, Laitram Corp. v. Cambridge Wire Cloth Co., 919 F.2d 1579, 1583-84 (Fed. Cir. 1990).[2/]

III. Early Warnings

Barely six weeks into its existence, the Federal Circuit issued its first warning with respect to frivolous appeals. Asberry v. United States Postal Service, 692 F.2d 1378 (Fed. Cir. 1982), was a non-intellectual property case and involved the appeal of a Postal Service employee from an agency order denying review of an earlier decision dismissing his appeal because of a settlement agreement. The Federal Circuit affirmed, noting no abuse of discretion in the order, and the appellant's voluntary acceptance of the settlement. The Federal Circuit further held the appeal frivolous, based on analysis of appellant's contentions considered lacking in evidentiary basis. Writing for the court, Chief Judge Markey cautioned:

> The filing of and proceeding with clearly frivolous appeals constitutes an unnecessary and unjustifiable burden on

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2/ Counsel were afforded 14 days to show cause why they should not be required to make payment of the sanction. Laitram Corp., 919 F.2d at 1584.

> already overcrowded courts, diminishes the opportunity for careful, unpressured consideration of nonfrivolous appeals, and delays access to the courts of persons with truly deserving causes.

Id. at 1382.

Under Rule 38, costs and attorney fees in the amount of $500 were to be assessed in favor of the government and jointly and severally against the appellant and his lawyer. However, this award was remitted because neither of the predecessor courts of the Federal Circuit had adopted Rule 38 (or any other such rule), nor had entered any award for an appeal deemed frivolous. Subsequent to the date of Asberry, the court warned that the filing or proceeding with frivolous appeals would result in the imposition of damages and costs under Rule 38. Id.

The import of this warning is brought to the attention of every party filing an appeal in the Federal Circuit. As a matter of course, once a case is docketed for appeal, the Clerk's Office mails to each of the parties a copy of the "Rules of Practice before the Court of Appeals for the Federal Circuit", which includes the Federal Circuit's practice notes. The Practice Note for Rule 38 not only advises as to potential liability for frivolous appeals, but also the responsibility of opposing parties to challenge an appeal believed frivolous:

> Warning against filing or proceeding with frivolous appeals or petitions. The court's early decision in Asberry v. United States, 692 F.2d 1378 (Fed. Cir. 1982), established the policy of enforcing this rule vigorously. Since

> then, many published opinions have included sanctions under the rule. Damages, double costs, and attorney fees, singly or varying combinations, have been imposed on counsel, parties, and pro se petitioners and appellants for pursuing frivolous appeals.
>
> Challenging frivolous appeals. Appellees and respondents are expected to challenge frivolous appeals and petitions for review in their principal brief. A party whose case has been challenged as frivolous is expected to respond to the challenge in the reply brief or to voluntarily request dismissal of the case.

Less than a year after Asberry, the Federal Circuit returned to the question of frivolous appeals in C.P.C. Partnership v. Nosco Plastics, Inc., 719 F.2d 400 (Fed. Cir. 1983). Appellees moved for dismissal and asserted that the appeal from an order refusing a disqualification motion was frivolous, based on Supreme Court precedent holding such orders non-appealable. Interestingly, the court granted the motion for dismissal on grounds raised by neither party, and noted that although the appeal "represents the outer limits of advocacy, it cannot be said to have been clearly frivolous." Id. at 401.

Shortly thereafter, the Federal Circuit issued its first decision involving a frivolous appeal in a patent case. In Connell v. Sears, Roebuck & Co., 722 F.2d 1542, 1545 (Fed. Cir. 1983), the jury found the patent in suit valid, enforceable, and infringed. The district court judge granted JNOV, holding the patent invalid for obviousness, and not infringed on the ground that the jury's related findings were

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unsupported by substantial evidence. The Federal Circuit affirmed, and found the appeal frivolous. Under the provisions of Rule 38 and 28 U.S.C. § 1912, the court awarded double costs and $500 against Connell, considering the "entire scenario" that the appeal was one of five cases involving an uncommercialized patent whose monetary "success" lay in filed and dropped lawsuits, and that the patent was fraudulently obtained and asserted against devices virtually identical to the prior art. Id. at 1553, 1555. Moreover, in support of his position on appeal, Connell could only cite to opinion testimony as a basis for the jury's findings of nonobviousness. Id. at 1554. With respect to Connell's conduct on appeal, the Federal Circuit explained:

> The definition of what constitutes a frivolous civil appeal is difficult. Courts must guard against an oversensitivity to what may be only an apparent abuse. It is clear that appeals having a small chance of success are not for that reason alone frivolous. One may legitimately argue, for example, that even overwhelming contrary precedent should be overruled or distinguished. In the present case, however, Connell disputes no law or precedent or the applicability of either.

Id. at 1554. In the absence of any cognizable legal error on which reversal could be based, and the lack of factual support, the court concluded the appeal unwarranted, and that "if ever there were a case in which a grant of JNOV was necessary and compelled, it is this case." Id. at 1555.

Notably, in Connell, the district court did not disturb the jury's determination that the patent was not

unenforceable despite the evidence of concealed prior art during prosecution. Nor was the Federal Circuit shown grounds on which to reverse the district court on this point. However, fraud in prosecution became one of the factors considered by the Federal Circuit in awarding sanctions. From Connell, one could predict that although general guidelines may be established for better identifying whether an appeal is "frivolous", the Federal Circuit will determine frivolousness on a case-by-case basis, considering the "entire scenario". Thus, even in circumstances where an appeal would appear meritorious because it is based on a jury verdict set aside on motion for JNOV, frivolousness can nevertheless lie.

IV. The Evolution of the Frivolous Appeal

In the body of precedent built by the Federal Circuit since its first year, the court has endeavored to define what makes an appeal frivolous, what constitutes the award of sanctions, and who may be held liable.

A. Guidance for Identification -- Finch and State Industries

One of the most exhaustive discussions on frivolousness is provided in Finch v. Hughes Aircraft Co., 926 F.2d 1574 (Fed. Cir. 1991), in which a pro se appellant challenged the district court's dismissal of his law suit. The Federal Circuit affirmed on the basis that his complaint was duplicative, that he waived the right to contest dismissal by failing to oppose the motion, and that each

count was barred by res judicata. Id. at 1577-1578. The court granted Hughes' request for sanctions, awarding Hughes double its costs but declining to award attorney fees under the circumstances of this case where Finch proceeded pro se. Id. at 1578, 1583.

In discussing the nature of frivolous appeals, Judge Michel, writing for the court, noted that appeals having a small chance for success are not for that reason alone frivolous, and that questionable appeals may simply be due to the overzealousness or inexperience of counsel. Id. However, the court must also conserve its scarce resources. "The diversion of resources in our considering a frivolous appeal, 'on the possibility that a non-frivolous contention might have been found lurking,' delays access to the court by deserving litigants." Id., quoting Bowen v. Department of Transportation, FAA, 769 F.2d 753, 756 (Fed. Cir. 1985). Sanctions under Rule 38 are viewed as serving two important purposes: (1) compensating the prevailing party for the expense of defending a meritless appeal, and (2) by deterring frivolous cases from being filed, the appellate calendar is preserved for cases truly worthy of consideration. Id.

Appeals can be frivolous in two ways, with the court emphasizing that either one alone would support sanctions. Id. In the first, termed "frivolous as filed":

> the judgment by the tribunal below was so plainly correct and the legal authority contrary to appellant's position so clear that there is really no appealable issue.

Id. at 1579. In such cases, the very filing of the appeal justifies sanctions. In the second, called "frivolous as argued", genuinely appealable issues may exist but the appellant's contentions in presenting the appeal are frivolous. Id.

In Finch, the appeal was deemed frivolous as filed, but the court was careful to explain that where an appeal is frivolous under this category, such that no non-frivolous arguments can made to support it, then the appeal is also frivolous as argued. Id. at 1580. In this case, arguments considered as sanctionable conduct included a failure to address or rebut authority against the argument, a failure to explain the absence of any opposition to the motion to dismiss before the trial court, an absence of any reasoning why the complaint was not duplicative, as well as distortions of the record and governing law. Id. at 1580-82.

Nine months after the issuance of Finch, the court further considered the nature of frivolous appeals in State Industries, Inc. v. Mor-Flo Industries, Inc., 948 F.2d 1573 (Fed. Cir. 1991). Although awarded damages for patent infringement, State Industries appealed the district court's denial of enhanced damages under 35 U.S.C. § 284. The Federal Circuit affirmed, and concluded that sanctions were appropriate under Rule 38 because the appeal was frivolous as filed and as argued. Id. at 1575.

With respect to appeals deemed frivolous as filed, the court advised that a statutory right to appeal does not

preclude the possibility of sanctions. Accordingly, prospective appellants were cautioned that they must be sure that a nonfrivolous argument can be made for reversal before an appeal is filed. Id. at 1578. As in this case, where the question of enhanced damages is charged to the sound discretion of the trial court, and a showing of reversible error is difficult to make, counsel were advised to be particularly cautious in filing an appeal. State Industries could not point to clear error in the willfulness finding, which, the court noted, even if overturned would not require reversal of the district court's exercise of discretion in denying enhanced damages. State Industries' appeal was deemed frivolous as filed because "[n]o legally cognizable error on which a reversal of the appealed judgment could possibly be based appears anywhere in the record." Id. at 1579.

The court then considered State Industries' post-filing conduct in the appeal. The appeal was deemed frivolous as argued where the record was distorted, contrary authority was disregarded or mischaracterized, and illogical deductions were drawn from the facts and the law. Id. at 1579.

State Industries did not challenge the charge of frivolity. However, in imposing sanctions, the Federal Circuit was careful to explain that although State Industries' prior conduct throughout the litigation may have been proper, and it had prevailed at the liability trial,

obtained a sizeable award of damages, and substantially prevailed on two prior appeals, such prior history did not preclude sanctions in the present appeal. Id. at 1580. Neither bad faith nor wrongful intent are required for sanctions under Rule 38. "The standard for Rule 38 is objective, not subjective and 'has nothing to do with the mental state of the person sanctioned.'" Id. at 1581, quoting Romala Corp. v. United States, 927 F.2d 1219, 1226 (Fed. Cir. 1991).

On all of these bases, Mor-Flo was awarded $5,000, for which State Industries and its counsel were held jointly and severally liable.

In these cases and others, the Federal Circuit has catalogued some of the conduct considered sanctionable, as in the following examples. As these cases show, a nonfrivolous appeal must be based on a well supported question of fact or law establishing some reasonable ground for reversal, untested in other appellate courts, fairly presented and responsive to precedent as well as to the other side's arguments, and where guidance from the Federal Circuit resolves open questions, particularly where further litigation may be required.

1. Appeals Frivolous as Filed

-- United States v. Atkinson, 748 F.2d 659, 662 (Fed. Cir. 1984)(sanctions appropriate where there is no factual or legal basis for an appeal's filing or maintenance; the long established

many courts, with one characterizing a prior appeal as "completely frivolous").

-- Sun-Tek Industries, Inc. v. Kennedy Sky Lites, Inc., 856 F.2d 173, 177 (Fed. Cir. 1988)(appeal challenging only one part of a finding that a party's counsel did not comply with an order, but not the other portion in which the party itself was found noncompliant "leaves no doubt that the moving party in this frivolous appeal was not [the party] but its counsel.").

-- Dreamlite Holdings Ltd. v. Kraser, 890 F.2d 1147, 1148-49 (Fed. Cir. 1989) (appeal taken from enforcement order and grant of seizure and attachment remedies in case where defendant disregarded injunction against infringing patent in suit and court orders compelling discovery, Federal Circuit affirmed, awarding sanctions: "[t]hat appellants found it necessary to misrepresent the facts and the law confirms the frivolousness of this appeal.").

-- In re Perry, 918 F.2d 931, 934-35 (Fed. Cir. 1990), cert. denied, 112 S. Ct. 49, and cert. denied, 112 S. Ct. 50 (1991)(one-nonfrivolous argument would not preclude sanctions; "When an appeal is a 'complete loser,' most of which is 'patentably groundless,' sanctions should be imposed under Rule 38).

-- Octocom Systems, Inc. v. Houston Computer Services, Inc., 918 F.2d 937, 943 (Fed. Cir. 1990)(where there was no reasonable basis for arguing error in the appealed decision of the Patent and Trademark Office, Trademark Trial and Appeal Board, and where party disregarded long established authority and raised arguments without factual foundation, sanctions are appropriate).

-- Eltech Systems Corp. v. PPG Industries, Inc., 903 F.2d 805, 811-12 (Fed. Cir. 1990)(in case where patentee was held not to have proven infringement, district court had granted costs, fees and expenses under 35 U.S.C. § 285 for bringing infringement charge without

reasonable basis; Federal Circuit affirmed, awarding sanctions under Rule 38 for unmerited appeal lacking basis, although Rule 11 was not treated by the lower court, and the standards applicable to patentees under Section 285 were an open question prior to this appeal).

Compare:

-- Hodosh v. Block Drug Co., 790 F.2d 880, 881-82 (Fed. Cir.), cert. denied, 479 U.S. 827 (1986)(motion to vacate decision and request for sanctions based on a panel member's spouse having a financial interest in one of the parties, discovered after the decision issued, denied; movant should have known there was no appearance of impropriety, failed to cite authority for vacation of prior decision, and failed to show that it or the appeal was actually prejudiced; "[s]anctions are reserved for matters more serious than mere oversight having no effect on the administration of justice.").

-- Vieau v. Japax, Inc., 823 F.2d 1510, 1517 (Fed. Cir. 1987)("There is a difference between advancing a losing argument and prosecuting a frivolous appeal"; appeal was not frivolous under circumstances where the jury had made some conflicting findings, and the judge entered a verdict contrary to some of those findings).

-- MGA, Inc. v. General Motors Corp., 827 F.2d 729, 735 (Fed. Cir. 1987), cert. denied, 484 U.S. 1009 (1988)(appeal deemed not frivolous where the district court, after extensive briefing on the preclusive effect of a state court judgment, resolved the issue by "resorting to logic rather than doctrine", and where appeal was pursued to obtain a decision with "delineated legal reasoning").

-- Huston v. Ladner, No. 91-1515 (Fed. Cir. Sept. 1, 1992)(award of sanction declined where losing party was trying to restore a case in which it failed to make its best showing in a lower tribunal;

where argument had "shred of potential" for expanding law, sanctions not awarded).

2. Appeals Frivolous as Argued

Circumstances in which the appellant's contentions have been considered frivolous in presenting the appeal have included the following, Finch, 926 F.2d at 1579:

> --submitting rambling briefs that make no attempt to address the elements required to obtain reversal;
>
> --filing numerous documents containing irrelevant arguments and authority;
>
> --seeking to relitigate issues already adjudicated;
>
> --failing to explain how the lower tribunal erred or to present clear or cogent arguments for reversal;
>
> --failing to exclude from the appeal individual opponents as to whom there is no basis for appeal;
>
> --rearguing frivolous positions for which sanctions had already been imposed in the trial forum;
>
> --citation of inapplicable or irrelevant authorities.

Sanctionable conduct can further include:

> --the misrepresentation of facts or law to the court, as in Laitram Corp. v. Cambridge Wire Cloth Co., 919 F.2d 1579, 1583-84 (Fed. Cir. 1990)(briefs included statements of fact without record support, reliance on attorney argument and unsworn fact statements, citation of questions and reference to products not before the district court, irreconcilable positions taken by the same party, citation of inapplicable authority); Pac-Tec, Inc. v. Amerace Corp., 903 F.2d 796, 801, 804-05 (Fed. Cir. 1990), cert.

denied, 112 S. Ct. 49, and cert. denied, 112 S. Ct. 50 (1991)(appeal deemed frivolous where briefs failed to point to claim language that did not read on the accused structure, mischaracterized record, and asserted bias of the trial judge without basis); and Romala Corp. v. United States, 927 F.2d 1219, 1223-24 (Fed. Cir. 1991)(appeal frivolous as argued where opposing party's argument mischaracterized, lower court decision and facts misrepresented);

--distortion of fact or authority by omitting language contrary to position taken on appeal, as in Porter v. Farmers Supply Service, Inc., 790 F.2d 882, 887 (Fed. Cir. 1986)(quote distorted by omission of language "devastating" to position taken on appeal, ignoring distortion pointed to by opposing party), and Amstar Corp. v. Envirotech Corp., 730 F.2d 1476, 1486 (Fed. Cir.), cert. denied, 469 U.S. 924 (1984) (quotation from file wrapper history cropped, estoppel argument presented based on distortion);

--failing to cite authority and ignoring opposing party's cited authority, as in Amstar Corp. v. Envirotech Corp., 730 F.2d 1476, 1486 (Fed. Cir.), cert. denied, 469 U.S. 924 (1984)(brief relied on reverse statement of the law of infringement, ignores unanimous contrary authority cited by opposing party).

B. The Character and Knowledge of the Party Does Not Affect Whether an Appeal Is Considered Frivolous

Under Rule 38, a showing of "bad faith" is not required in order for sanctions to be applied. "The standard under Rule 38 is an objective one and has nothing to do with the mental state of the person sanctioned." In re Perry, 918 F.2d 931, 934 (Fed. Cir. 1990), cert. denied, 112 S. Ct. 49, and cert. denied, 112 S. Ct. 50 (1991). See also State

Industries, Inc., 948 F.2d at 1580-81. Where attorneys are often held to a higher standard of conduct, because of their role as officers of the court, see Finch, 926 F.2d at 1583, the Federal Circuit has taken care to warn pro se appellants, "whose improper conduct may be attributed to ignorance of the law and proper procedures", Constant v. United States, 929 F.2d 654, 658 (Fed. Cir.), cert. denied, 111 S. Ct. 2799 (1991), of their liability for sanctions under Rule 38.

In In re Nilssen, 851 F.2d 1401, 1402 (Fed. Cir. 1988), for example, in which an inventor appeared pro se challenging the rejection of the claims of his application, arguing inter alia that the Board of Appeals was not competent in his area of technology, and that the hypothetical person with knowledge of all prior art was not "reality-based", the Federal Circuit affirmed the Board. With respect to these collateral attacks, which had been similarly raised in prior appeals and adversely ruled upon, the court cautioned Nilssen that "failure to comply with this court's directive [not to reargue these issues in future appeals] may subject him to sanctions". Id. at 1402 n.1.

But merely appearing pro se does not prohibit sanctions. Where there has been a long history of litigation, and where repeating warnings have been given that prior conduct was frivolous, and could be sanctionable if repeated, sanctions have been awarded. See Constant, 929 F.2d at 658-59 (sanctions appropriate "where even a non-lawyer should have been aware that his conduct was

frivolous", and where two warnings were given that prior conduct was frivolous); Beachboard v. United States, 727 F.2d 1092, 1094-95 (Fed. Cir. 1984)(although small amount of cost alone does not require a finding of frivolousness, circumstances showing that appellant was engaged in "recreational litigation" does support sanction award).

C. What Can Be Awarded Under Rule 38

Rule 38 provides for an award of "just damages and single or double costs". What constitutes "damages", the treatment of attorney fees on appeal, and who pays has been a matter of refinement for the Federal Circuit.

1. "Damages" Can Include Attorney Fees

In Shelcore, Inc. v. Durham Industries, Inc., 745 F.2d 621, 629-30 (Fed. Cir. 1984), in which the Federal Circuit affirmed a district court's judgment that claims of a utility patent were invalid, and a design patent was not infringed, appellee requested costs and attorney fees under Rule 38 and pursuant to Asberry. The court explained that although a frivolous appeal results in the imposition of damages and costs, which may include attorney fees as in Asberry, there is no requirement that "damages and costs" include attorney fees or that damages must necessarily equal attorney fees. In this case, the request for attorney fees was treated as a request under 35 U.S.C. § 285, where fees are recoverable in an "exceptional" case. Because the appeal

was neither frivolous nor "exceptional" under this Section, the request for costs and attorney fees was denied.

Since Shelcore, however, the Federal Circuit has awarded, as damages under Rule 38, attorney fees incurred by the appellee during the appeal. See Refac International, Ltd. v. Hitachi, Ltd., 921 F.2d 1247, 1256 (Fed. Cir. 1990)(appellant ordered to pay attorney fees and double costs, exclusive of costs and attorney fees incurred in cross-appeals); Pac-Tec, Inc. v. Amerace Corp., 903 F.2d 796, 804-05 (Fed. Cir. 1990), cert. denied, 112 S. Ct. 49, and cert. denied, 112 S. Ct. 50 (1991)(appellee awarded its attorney fees and double costs incurred during appeal); Devices for Medicine, Inc. v. Boehl, 822 F.2d 1062, 1069 (Fed. Cir. 1987)(appellee awarded attorney fees on appeal); Sun-Tek Industries, Inc. v. Kennedy Sky-Lites, Inc., 865 F.2d 1254, 1255 (Fed. Cir. 1989)(appellee awarded attorney fees and costs incurred in defending appeal).

In awarding costs and "damages" under Rule 38, the Federal Circuit has requested the submission of documentation in order to establish the amount. Octocom Systems, Inc. v. Houston Computer Services, Inc., 918 F.2d 937, 944 (Fed. Cir. 1990). There is no requirement for the court to inquire into the "reasonableness" of the attorney fees or costs.

> Ordinarily the only inquiry in determining the propriety of the amount of attorney fees to be paid as damages by an appellant who has filed a frivolous appeal is whether the appellee actually incurred the fees sought in defending against the appeal.

Sun-Tek Industries, Inc., 865 F.2d at 1255. If it desires, in order to spare the appellee from proving its costs and attorney fees and to spare the court further litigation over the amount of the fees, the court can award a fixed sum. See State Industries, Inc., 948 F.2d at 1582 (on the basis of its own knowledge and experience, the court awarded $5,000 as a sanction).

2. Parties and their Attorneys Can Be Liable

Under Rule 38, parties can be held liable for the awarded damages, attorney fees and costs, Refac International, Ltd., 921 F.2d at 1256, and counsel also are within the scope of Rule 38, Toepfer v. Department of Transportation, FAA, 792 F.2d 1102, 1103 (Fed. Cir. 1986). Under circumstances such as where the appeal is deemed frivolous as filed and as argued, the party and his attorney can be held jointly and severally liable for attorney fees and costs. Pac-Tec, Inc., 903 F.2d at 804-05. Moreover, where an attorney's conduct in filing and maintaining the appeal is determined to be an abuse of judicial process, the attorney can be held personally liable for sanctions. See Des Vignes v. Department of Transportation, FAA, 791 F.2d 142, 146 (Fed. Cir.), cert. denied, 479 U.S. 853 (1986)(counsel held personally liable for penalty of $1,000 payable to the government); Toepfer, 792 F.2d at 1103.

Note that in a pro se case, in which the court concluded that although the pro se appellant's conduct

justified the imposition of attorney fees, under the circumstances of the case the court limited the award under Rule 38 to double costs. Finch, 926 F.2d at 1583. The court cautioned, however, that such a decision was premised only on the particular facts of that case, and did not intimate any view with respect to the future liability of pro se litigants for the payment of attorney fees as a sanction. Id.

3. A Partial Award of Damages and Costs Is Possible

As a general rule, the court will not divide a case into non-frivolous and frivolous claims for the purposes of awarding attorney fees, In re Perry, 918 F.2d at 935, and presumably costs. In Mathis v. Spears, 857 F.2d 749, 761 (Fed. Cir. 1988), the court departed from this general rule, awarding attorney fees and costs to the appellee only for the portion of the appeal deemed frivolous, and excluding that portion presenting a novel question to the court for decision.

Although total sanctions would appear justified where a party's arguments lacked any merit, the Federal Circuit has not made such an award where other factors were at play. For example, in Beghin-Say International Inc. v. Ole-Bendt Rasmussen, 733 F.2d 1568, 1573 (Fed. Cir. 1984), the court noted "differences between excessive advocacy and inexperience on the one hand and clear frivolity on the other", the pendency of other suits, and an opportunity to provide guidance in subsequent trial conduct in refusing the

request for total sanctions, including attorney fees and damages, even though the arguments had "a total absence of merit" and the appeal bordered on "the ragged edge of frivolity". Interestingly, the court ordered the appellant to reimburse the appellee his costs on appeal, which Rule 39 would appear to provide for in cases such as this where the appeal was dismissed.

4. Lower Court Actions With Respect to Awards Are Considered But Are Not Binding

District court actions, such as granting sanctions under Rule 11 and 28 U.S.C. § 1927, are apparently considered by the Federal Circuit when weighing the propriety of the appeal and imposition of sanctions. See In re Oximetrix, Inc., 748 F.2d 637, 644 (Fed. Cir. 1984). However, an affirmance of a district court's denial of attorney fees will not preclude the Federal Circuit from awarding to appellees the costs and attorney fees incurred by a frivolous appeal. Porter v. Farmers Supply Service, Inc., 790 F.2d 882, 887 (Fed. Cir. 1986).

5. Sanctions As Compensation

The goal of Rule 38 is to compensate the prevailing party for the costs of having to defend a frivolous appeal, in addition to freeing the appellate calendar for cases worthy of consideration. Constant, 929 F.2d at 659. In the absence of incurred expenses, no sanction will be awarded.

For example, in Maier v. Orr, 758 F.2d 1578, 1583-84 (Fed. Cir. 1985), involving a motion to vacate and for rehearing on the basis that the judge who authored the opinion should have recused himself, the Federal Circuit held the motion frivolous where it was filed without reasonable inquiry. Because the opposing party did not respond to the motion, no award under Rule 38 was ordered. See also A. Hirsh, Inc., 948 F.2d at 1250-51 (where party appeared as an amicus, costs cannot be said to have been incurred because of the frivolous conduct in taking the appeal).

Minimizing incurred cost also does not protect the appeal from a determination of frivolousness. If parties waive oral argument and submit the case on the briefs, the court recognizes that its burden is reduced and the cost to the appellee is lessened, but for the goals of Rule 38, no distinction is drawn between appeals orally argued and those submitted on brief. "Waiving oral argument may have lessened somewhat the degree of damage done, but it has by no means eliminated it." Constant, 929 F.2d at 659 (emphasis in original). See also Romala Corp., 927 F.2d at 1225.

D. The Burdens in Charging Frivolousness

Assertions that an appeal is frivolous are considered by the court to be a serious matter. As a result,

> an assertion by an appellee than an appeal is frivolous should be accompanied by citation to the opposing brief and the record below, and clear argument as to why those citations established the allegedly frivolous nature of the appeal.

Biodex Corp. v. Loredan Biomedical, Inc., 946 F.2d 850, 863 (Fed. Cir. 1991), cert. denied, 112 S. Ct. 2957 (1992). In Biodex, in which sanctions were not awarded, the court noted that charges of frivolousness with only incantations of Rule 38 have become the "fashion", "thereby printing a ticket to what appellees may perceive as a frivolity lottery in hopes of recouping the expenses of an appeal." Id. Even as the Federal Circuit's Practice Note to Rule 38 indicates that appellants are expected to respond to the challenge of frivolousness or voluntarily request dismissal, so too are appellees expected to fully support an assertion of frivolousness.

In a case issued in April of this year, the Federal Circuit warned that those who charge frivolity must do so specifically, or the charge itself will be found frivolous. Olde Tyme Foods, Inc. v. Roundy's, Inc., 961 F.2d 200, 206 n.3 (Fed. Cir. 1992). Barely three months later, in Atlantic Thermoplastics Co. v. Sullivan, 23 U.S.P.Q.2d 1481, 1492 (Fed. Cir. 1992), the Federal Circuit made good on its promise, charging costs to the defendant/cross-appellant Faytex where it raised "unsupported and unsupportable allegations" that Atlantic's appeal was frivolous. But one day later, the court denied an appellee's motion for sanctions, and did not levy sanctions against the appellee even though it failed to meet its obligations as a movant. No sanction was awarded against the appellee despite the court's recognition that the unsupported sanctions motion

required the appellant to defend its right to bring the appeal and to defend its good faith "against a vague and unsupported inference of bad faith". Opryland USA Inc. v. The Great American Music Show, Inc., 23 U.S.P.Q.2d 1471, 1476 (Fed. Cir. 1992).

Of course, sanctions for frivolous appeals can also be awarded by the court sua sponte, without requirement for motion or request, when it deems the circumstances appropriate. Wright v. United States, 728 F.2d 1459, 1460 (Fed. Cir.), cert. denied, 469 U.S. 844 (1984). See also Romala Corp., 927 F.2d at 1225-26 (where appeal is frivolous as argued, court is free to award sanctions against counsel and client sua sponte without necessity for further briefing).

E. Notice and Hearing Requirements Under Rule 38

Fundamental due process requires that parties be given notice and an opportunity to be heard. See, e.g., Mullane v. Central Hanover Bank & Trust Co., 339 U.S. 306, 313 (1950).

In the context of Rule 38, "notice" of liability for sanctions in frivolous appeals is considered satisfied by the requirement of practitioners before the Federal Circuit to know and follow the Federal Rules of Appellate Procedure and the court's precedent. In re Perry, 918 F.2d at 935. Parties and counsel are thus held to be knowledgeable of Rule 38, its Practice Note, and the Federal Circuit precedent in

which sanctions under Rule 38 have been awarded. The Federal Circuit has further held that "notice" is provided by the appellee's assertion that the appeal is frivolous, and by prior sanctions from appellate courts for conduct repeated in the appeal. Id. See also A. Hirsh, Inc., 948 F.2d at 1249-50 (counsel informed by trade court's decision that motion lacked merit, by precedent, and by amicus' brief requesting sanctions).

There is no requirement for an evidentiary hearing before sanctions are awarded under Rule 38. In re Perry, 918 F.2d at 935. The first "opportunity to be heard" is provided by Rule 38's Practice Note, in which the court notes its expectation that a party whose case has been challenged as frivolous will respond in the Reply Brief or request dismissal of the case. A party may also respond to the charge of frivolousness at oral argument. Id.; Finch, 926 F.2d at 1583. Because the conduct considered frivolous appears in the record, the briefs, and in oral argument, a further oral or written explanation would "not develop or illuminate new relevant factual issues and would not aid this court." In re Perry, 918 F.2d at 934. Additional briefing or an oral hearing,

> would impose on the opposing party and on the court an even greater burden in dealing with a frivolous appeal and entirely defeat the purpose of Rule 38.

Finch, 926 F.2d at 1583, quoting Toepfer, 792 F.2d at 1103.

There is no difference in such considerations when counsel are sanctioned. In one of the earliest cases in

which the Federal Circuit discussed due process and Rule 38, Toepfer, 792 F.2d at 1103, counsel had been sanctioned under Rule 38 in the amount of $100. Counsel moved for a hearing and other relief, on the basis that pursuant to Fed. R. App. P. 46(c), they were entitled to a specific notice of imposition of disciplinary action and to show cause why sanctions should not be imposed. The Federal Circuit denied the motion, holding that Rule 46(c), which relates to disciplinary actions against attorneys, has no applicability to the award of sanctions under Rule 38, and that a hearing would defeat the purposes of Rule 38, the scope of which includes both parties and attorneys. Id.

The same due process considerations under Rule 38 apply when excess costs, expenses and attorney fees are awarded pursuant to 28 U.S.C. § 1927. A. Hirsh, Inc., 948 F.2d at 1250. See also Julien, 864 F.2d at 1575 (before sanctioning under Section 1927, the court must give the attorney notice and an opportunity to be heard, but the particular procedural safeguards will depend on all the circumstances).

V. Conclusion -- and a Proposal

Although the Federal Circuit has, in recent years, undertaken to provide greater guidance with respect to sanctionable conduct, some legal commentators express concern that the court may have gone too far in its treatment of frivolous appeals, having a chilling effect on legitimate

advocacy. See Robert L. Harmon, Patents and the Federal Circuit, § 15.2(d)(2d ed. 1991). Indeed, there are some inconsistencies that are difficult to reconcile. Consider, for example, the denial of sanctions in Vandenberg v. Dairy Equipment Co., 740 F.2d 1560, 1569 (Fed. Cir. 1984), in which the court stated that "it is difficult to hold that an appeal is frivolous when it is partially successful" and where close questions were presented. The court noted that appellants are entitled to protect their rights under a validly issued patent to the full extent of the law. Id. Partial sanctions were nonetheless awarded in another litigation characterized as "vexatious and unwarranted", with damages and costs excluded for an issue deemed a close question. Mathis, 857 F.2d at 758-59. Notably, the court divided on the propriety of the partial award because of the close question raised, with the dissent noting that

> [i]n view of the absence of direct precedent, and the substantial sum involved, I believe that this issue alone justified the taking of this appeal.

Id. at 762.

Similarly difficult to reconcile are the awards of sanctions in view of a panel member's dissent from such an award. See Amstar Corp., 730 F.2d at 1486; Devices for Medicine, Inc., 822 F.2d at 1068-69; Mathis, 857 F.2d at 762. If even one judge feels that the objective standard for frivolousness has not been met, then can it be fairly said that the appeal was not in some measure successful in raising

an issue of merit, even though the final outcome may be against the appellant?

At the appellate level, issues revolve around the law, and there is a recognized special obligation on the part of counsel to provide a balanced citation of the law and thorough knowledge of the record. But there is also a special obligation on the part of the court to maintain an open mind with respect to creative advocacy, even when it pushes traditional legal views beyond established boundaries, and appears, at least on the surface, "frivolous".

It is suggested, therefore, that the benefit of the doubt should weigh in favor of encouraging advocacy and protecting a party's rights under the full extent of the law, even in a lost cause. In circumstances where one judge on the panel objects to the award of sanctions, such sanctions should be not be awarded.

The court may also consider amending its standard operating procedures to allow for an additional safeguard where appeals are deemed frivolous, without resorting to full court participation[3/]. In such case, the briefs, arguments and opinion circulated to the full court would be submitted to a fourth judge for consideration. If the determination is

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[3/]Another proposal suggested by a legal commentator involves the preparation of a bench memorandum summarizing the issues and arguments presented by the appellant, and circulation of that memorandum to all of the active sitting judges for a straw vote. If one of the judges concludes that the appeal is not clearly hopeless or without basis in law or fact, then the appeal is deemed to be nonfrivolous. Robert L. Harmon, Patents and the Federal Circuit §15.2(d) at 589 (2d ed. 1991).

unanimous, then sanctions are awarded; if not, then the appeal is not frivolous.

Selection of the fourth judge can be accomplished through a mechanism in the Federal Circuit that is already in place. Each month, a motions panel is designated, with a lead judge primarily shouldering the time commitment for resolution of motions questions. Either of the remaining designated panel members could be requested to review the appeal considered "frivolous". In this way, the responsibility for additional review of frivolous appeals would not greatly add to the work already before the court, while significantly, it is believed, contributing to the careful balance of preserving creative advocacy while sanctioning conduct that abuses judicial resources.

In dissent to an award of sanction under Rule 38, one judge of the Federal Circuit cautioned:

> The eye of the bench falls upon many erroneous, inartful, specious, often exotic arguments, perhaps the last gasp of an appellant facing the awesome burden of an appeal, and set against the sweet reason with which the appellee supports the judgment appealed from. Appellant's counsel should not be personally impugned for taking an appeal, as of right, and presenting losing arguments, as here.

Devices for Medicine, Inc., 822 F.2d at 1069. Certainly, attorneys must be keenly vigilant in detecting appeals or arguments that cross the line of frivolousness, for the harm vests equally in the attorney, his client, and the court. Education and clear guidelines by the court are the first step. But the partnership between the Federal Circuit and

the Bar in dealing with the problem of frivolous appeals must also not lose sight of the very nature of our litigation process, and the historic development of precedent that has occurred because one party or an attorney undertook to ask a novel question or raise a novel issue.

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