

**“Playing by the Rules”
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By Michael Barclay

Effective March 1, the U.S. District Court for the Northern District of California enacted a new set of its Patent Local Rules. While the new rules contain many useful changes and include amendments that reflect recent developments in patent law, the rules also contain two notable “bugs” or procedural traps for the unwary.

In *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), the Supreme Court held that claim construction was an issue of law for the court, and not the jury. About a year following that decision, the Northern District of California enacted a set of local rules designed specifically for patent cases and claim construction. In 2001, these rules were amended and set forth in Patent L.R. 1-1 to 4-6. The Northern District’s pioneering patent local rules have been substantially adopted by several other districts throughout the country.

In October 2006, the Northern District formed a subcommittee to consider amendments to update the 2001 version of the patent local rules. After public comment, the rules were adopted on Feb. 1, 2008, effective for new cases filed on or after March 1, 2008. The 2001 rules continue to apply for cases pending before March 1, 2008. A three-page subcommittee report accompanies the new rules (both are available on the Court’s Web site).

The report noted “two major conceptual changes” and about nine additional changes to the 2001 rules. One of those major changes is the requirement that the parties identify the “10 most significant” claim terms in dispute when preparing for the claim construction hearing. That change is a good one, and has not generated much controversy. However, the other “major” change creates potential problems.

Amendments as of Right

In the 2001 rules, under Patent L.R. 3-1 and 3-3, “preliminary” infringement and invalidity contentions were usually due shortly after the initial case management conference. While these contentions were due well before any significant discovery, Patent L.R. 3-6 gave the parties some time after the claim construction ruling to amend their preliminary contentions as of right, to become their “final” contentions, if certain conditions in Rule 3-6 were met. Since the Rule 3-6 deadlines were usually at least eight months after the case management conference, this was enough time to take at least some discovery. Under the 2001 rules, parties to a patent suit therefore knew that they would probably be able to amend their “preliminary” contentions as of right based on discovery, before service of the final contentions. Further, under Rule 3-7, the 2001 rules permitted additional amendments to either preliminary or final contentions by order of the court, “upon a showing of good cause.”

The 2008 amendments to the Local Rules abolished this two-tiered structure, by eliminating the distinction between “preliminary” infringement and validity contentions in Rules 3-1 and 3-3, on the one hand, and “final” contentions in Rule 3-6, on the other hand. There are now just plain “contentions,” which are still due shortly after the case management conference (10 days for the patent owner’s infringement contentions, 55 days for the accused infringer’s invalidity contentions). More significantly, amendments as of right after the claim construction ruling are abolished entirely. Instead, former Rule 3-7 has been renumbered as Rule 3-6, and *all* amendments can *only* be made by order of the court “upon a timely showing of good cause.”

The parties cannot seek discovery until they conduct the conference required by Federal Rules of Civil Procedure 26(f), which is usually held shortly before the initial case management conference – and the “contentions” are due soon after. This wasn’t a problem under the 2001 rules when “final” contentions were not due for months afterward, but under the 2008 scheme, the initial contentions effectively *are* “final.” In a complex patent case, this is a serious problem – the patent owner often needs discovery about the confidential details of the accused infringing device to prepare its final infringement contentions, and the accused infringer often needs discovery from third parties about relevant prior art.

Plainly, the 2008 rules impose deadlines that do not permit adequate time to get detailed discovery before the contentions are initially due. Thus, the parties must file a motion or otherwise

obtain leave of court to be able to serve any amended contentions, which is subject to the approval of the individual presiding judge. The subcommittee report states that “the Committee has proposed the elimination of the unregulated right to amend contentions, with amendments instead being regulated by the well-established ‘good cause’ test.”

The difficulty with this rationalization is there is no “well-established ‘good cause’ test” under the case law interpreting Rule 3-7, so the parties are effectively left at the mercy of their assigned judge’s view on what constitutes “good cause.” Under the case law, there are widely differing opinions of what is “good cause” – the district courts have broad discretion in deciding whether to allow amendments to contentions, and the Federal Circuit will review that exercise of discretion under the lenient abuse of discretion standard. *See O2 Micro Intern. Ltd. v. Monolithic Power Systems, Inc.*, 467 F.3d 1355, 1367-69 (Fed. Cir. 2006). While new Rule 3-6 lists three non-exclusive “examples” that might “support a finding of good cause,” those examples are neither comprehensive nor controlling, and are subject to interpretation by the assigned judge.

Possible Solutions

To avoid the potential problems with the 2008 scheme for amendments, the practitioner can do several things. First, consider stipulating, before the case management conference, that each side can amend their contentions as of right around the time they file their opening claim construction briefs. (Rules 1-3 and 2-1(a)(1) provide authority for such a stipulation.) This is enough time to take discovery, but is still before the claim construction hearing. If the other side won’t stipulate, ask the court in the case management conference statement to order such right to amend anyway, and bring the issue up at the conference.

Second, be diligent in taking discovery needed to prepare “final” contentions. A party should serve initial document requests and interrogatories right after the Rule 26(f) meeting, and consider taking relevant depositions of the opposing side soon after getting responses to that discovery. For the patent owner, if there is an indirect infringement issue, take third-party discovery promptly. For the accused infringer, have your client and/or experts identify potential sources of prior art, and serve third-party prior art subpoenas quickly.

Third, if the other side refuses to stipulate to amendments, your motion to amend your contentions should carefully set forth your diligence in seeking discovery and in making your motion on a timely basis. Further, consider including in your motion a challenge to the validity of new Rule 3-6 as being inconsistent with the Federal Rules of Civil Procedure. If you have truly been diligent, under the *O2 Micro* case the 2008 rules might be invalid if they are applied to prohibit timely amendments to your Contentions.

Protective Order

The second major bug in the new Patent Local Rules concerns the protective order that is entered in virtually all patent cases. The 2001 Rule 2-2 imposed an automatic interim “Attorney’s Eyes Only” protective order, and left it to the parties to submit a more detailed order (by stipulation or motion). The 2008 Rule 2-2 substantially amends the 2001 rule. It now provides that documents cannot be withheld for confidentiality reasons and that the “approved Protective Order” on the Web site shall govern unless the court enters a different one.

The bug here is that, as of the time the 2008 rules were enacted, the “approved Protective Order” has a number of *blanks* in it and “optional” provisions in brackets that the parties need to complete before the order is submitted to the court. These include key provisions such as whether in-house counsel can see “Highly Confidential – Attorneys’ Eyes Only” information, and the procedure to be used for clearing experts. If the court were to enter the order on the Web site rather than entering a specific order tailored for an individual case, it would lead to enormous confusion due to the blanks and optional provisions.

Also, there are other problems with the form on the Web site. It has no patent prosecution restriction that protective orders often have. It has no provision for the treatment and handling of source code (or electronic discovery generally) – the form was adopted before electronic discovery became a commonplace issue.

There are ways the practitioner can solve the protective order bug. Early in the case, prepare a protective order that you and your client like – with the options filled in – and send it to the other side. Prepare to make a motion if necessary. Do this *before* the case management conference so the protective order problem can be raised there – remember, disclosures of your client’s confidential

information under Rules 3-2 and 3-4 are due soon after the conference. New Rule 2-2 requires that you make these disclosures subject only to the form protective order, and you don't want your client's confidential information to be governed by a form with blanks.

The 2008 amendments to the Patent Local Rules contain a number of worthwhile changes, and bring the rules up to date with changes in the case law. However, the new rules contain two major bugs that need to be dealt with at the start of a new patent case.

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