

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION**

LML PATENT CORP.,

Plaintiff,

v.

JPMORGAN CHASE & CO., et al.,

Defendants.

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CIVIL ACTION NO. 2:08-CV-448

O R D E R

Before the Court is Plaintiff LML Patent Corp.’s Motion to Strike Defendants’ Supplemental Invalidity Contentions and Related Expert Opinion and Motion to Stay Deadline for Service of LML’s Supplemental Rebuttal Expert Report on Validity. Dkt. No. 991. Also before the Court are Defendants’ response, Plaintiff’s reply, and Defendants’ sur-reply. Dkt. Nos. 1012, 1023 & 1045. Having considered the briefing and all relevant papers and pleadings, the Court finds that Defendants’ motion should be GRANTED IN PART and DENIED IN PART.

I. BACKGROUND AND THE PARTIES’ POSITIONS

Plaintiff asserts United States Patent No. RE 40,220 (the “’220 Patent”), which is directed to electronic consumer payments as an alternative to paper checks, credit cards, or cash. *See* ’220 Patent, Dkt. No. 493 at Ex. 2. The Court ruled on three relevant summary judgment motions on April 25, 2011. *See* Dkt. Nos. 980, 981 & 982. Defendants served amended invalidity contentions 50 days later on June 14, 2011. *See* Dkt. No. 1012 at 1.

Plaintiff moves to strike “twenty-eight new combinations of prior art” that are based on

references previously disclosed in Defendants' September 2009 or September 2010 invalidity contentions. Dkt. No. 991 at 1 & 5 n.3; *see also* Dkt. No. 1023 at 1 n.1 (withdrawing motion as to two anticipation theories that were, Plaintiff admits, previously disclosed by Defendants). Plaintiff argues that Local Patent Rule 3-3 requires disclosure of combinations, not just references, so Plaintiff argues that the newly disclosed combinations are untimely. Dkt. No. 991 at 1-2. Plaintiff also argues that the Court's rulings on summary judgment reaffirmed various claim constructions and did not warrant any amendment under Patent Rule 3-6(a)(2). *Id.* at 2. Plaintiff cites *Finisar Corp. v. DirecTV Group, Inc.*, 424 F. Supp. 2d 896, 901 (E.D. Tex. 2006), which struck prior art references that had not been timely disclosed.

Plaintiff submits it would be prejudiced if Defendants' new combinations were allowed because fact discovery has closed and Plaintiff's validity expert, Gary Tinkel, could not address these new combinations in his expert report in January 2011. *Id.* at 6 & 11. Plaintiff also cites Federal Rule of Civil Procedure ("Rule") 37(c)(1), which addresses "Failure to Disclose or Supplement" information regarding witnesses required by Rule 26(a) and (e). *Id.* at 10. Plaintiff argues that Defendants' delay is inexcusable and, moreover, "[i]f the new prior art combinations were crucial to Defendants' defense against [Plaintiff's] claims, Defendants would have asserted them earlier rather than later." *Id.* at 12. Finally, Plaintiff "requests an Order staying its deadline to serve its rebuttal expert report on validity until its motion to strike is resolved." *Id.* at 13.

Defendants respond that "certain combinations of [their] references became highly relevant in light of the Court's recent rulings." Dkt. No. 1012 at 1. Defendants argue that *Finisar* is distinguishable because there the defendants attempted to add fifty-eight new prior art references—not merely new combinations of previously disclosed references, as is the case here.

Id. at 9; *see* 424 F. Supp. 2d at 897. Defendants argue that Plaintiff will suffer no prejudice here because: (1) Plaintiff is already familiar with the references at issue and has had an opportunity to take discovery regarding them; and (2) the parties agreed that expert reports could be supplemented after the Court lifted the stay of the above-captioned case as to Phase II and Phase III.¹ Finally, Defendants argue that Rule 37(c)(1) does not justify exclusion because Defendants have been diligent, the new combinations are “highly relevant,” and Plaintiff will suffer no unfair prejudice. *Id.* at 10-11.

Plaintiff replies that whereas Defendants argue that the Court’s summary judgment rulings rendered the new obviousness combinations “highly relevant,” the standard is whether Defendants were in good faith surprised by the Court’s claim constructions, not whether the prior art combinations became more “relevant.” Dkt. No. 1023 at 2. As to prejudice, Plaintiff argues that whether the contentions have decreased in overall size is irrelevant. *Id.* at 3 (citing *Tyco Healthcare Group LP v. Applied Med. Res. Corp.*, No. 9:06-CV-151, 2009 WL 5842062 (E.D. Tex. Mar. 30, 2009)). Plaintiff argues that although Defendants rely on their previous disclosure of the references at issue in the new combinations, “Defendants initial and first amended invalidity contentions identified 172 separate prior art references,” which under Defendants’ argument would mean Plaintiff’s expert “would be expected to have reasonably anticipated tens of thousands of combinations.” Dkt. No. 1023 at 3. Plaintiff also urges that Defendants’ arguments about lack of prejudice should be rejected because Defendants have plainly violated the disclosure requirement of Local Patent Rule 3-3, which requires disclosure not just of

¹ The Court separated the above-captioned case into three phases for trial. *See* 1/19/2011 Order, Dkt. No. 817. All of the Phase I Defendants settled before their March 2011 trial setting. Phase II and Phase III are on the Court’s October 2011 trial docket. *See id.*

references but of the asserted *combinations*. *Id.* at 4. As to the parties' agreement regarding supplementation of expert reports, Plaintiff submits that "[t]he parties' agreement was never intended to facilitate an end-run (by either side) around the Court's Local Patent Rules." *Id.* at 5.

In sur-reply, Defendants reiterate their responsive arguments and note that Plaintiff deposed Defendants' invalidity expert, William Nelson, on August 4, 2011, and "asked Mr. Nelson extensive questions about his supplemental expert report." Dkt. No. 1045 at 1.

II. DISCUSSION

Local Patent Rule 3-3 provides:

3-3. Invalidity Contentions.

Not later than 45 days after service upon it of the "Disclosure of Asserted Claims and Infringement Contentions," each party opposing a claim of patent infringement, shall serve on all parties its "Invalidity Contentions" which must contain the following information:

...

(b) Whether each item of prior art anticipates each asserted claim or renders it obvious. If a combination of items of prior art makes a claim obvious, each such combination, and the motivation to combine such items, must be identified;

Local Patent Rule 3-6, in turn, permits amendment of contentions under certain circumstances:

(a) Leave not required. Each party's "Infringement Contentions" and "Invalidity Contentions" shall be deemed to be that party's final contentions, except as set forth below.

...

(2) Not later than 50 days after service by the Court of its Claim Construction Ruling, each party opposing a claim of patent infringement may serve "Amended Invalidity Contentions" without leave of court that amend its "Invalidity Contentions" with respect to the information required by P. R. 3-3 if:

(A) a party claiming patent infringement has served "Infringement Contentions" pursuant to P. R. 3-6(a), or

(B) the party opposing a claim of patent

infringement believes in good faith that the Court's Claim Construction Ruling so requires.

Defendants rely on subsection (B) based on the Court's rulings on claim construction disputes as part of ruling on motions for summary judgment.

Defendants cite four of the Court's summary judgment rulings that addressed claim construction, which Defendants summarize as follows:

- “account information” (Claims 67 and 68): The Court previously construed the term “account information” to mean “information relating to an account, including at least an account number.” . . . [T]he Court held that “an account number” is not “ABA number,” “bank number,” “routing number,” or “transit number.” (Dkt. No. 980 at 11; Dkt. No. 981 at 9; Dkt. No. 982 at 8.) By doing so, the Court rejected [Plaintiff's] long-standing infringement contention that “an account number” necessarily includes a routing number under the Court's original construction.

- “verifying the account information” (Claim 67): The Court previously construed the term “verifying the account information” to mean “confirming that the account information is accurate.” . . . [T]he Court . . . rejected [Plaintiff's] arguments that the following infringement theories fall within the scope of “verifying the account information”: (1) ACH file format verification (Dkt. No. 980 at 11; Dkt. No. 982 at 8); and (2) customers' contractual obligations to comply with ACH Rules and providing correct account information (Dkt. No. 980 at 13). The Court also clarified that “verifying the account information” does not require determining whether “the transaction is accepted or rejected” or any other information regarding “approv[al] by the receiving bank.” (Dkt. No. 980 at 10.)

- “transmitting the account information and transaction event information to a financial institution to initiate an electronic funds transfer” (Claim 67): The Court previously construed this term to mean “sending the account information and the transaction event information to a financial institution to begin an electronic funds transfer.” . . . [T]he Court resolved the dispute by holding that (1) the word “begin” in the Court's construction cannot mean merely to “facilitate” or “enable” and (2) the word “begin” in the Court's construction does not refer to the beginning of any particular electronic funds transfer step, such as those specified by ACH Rules. ([Dkt. No. 981] at 16-17.)

- “financial institution” (Claim 67): The Court previously construed the term “financial institution” to mean “a state or national bank, a state or federal savings

and loan association, a state or federal mutual savings bank, a state or federal credit union, or any other person who, directly or indirectly, holds an account belonging to a consumer. The term also includes any person who issues an access device and agrees with a consumer to provide electronic fund transfer services.” . . . In the recent summary judgment orders, the Court resolved the dispute between the parties concerning the scope of this claim term by holding that the phrase “who, directly or indirectly, holds an account belonging to a consumer” does not only modify “or any other person,” but all the entities identified before this modification in the construction. (Dkt. No. 981 at 18.)

Dkt. No. 1012 at 3-4. All but two of these rulings were in Defendants’ favor. Defendants nonetheless argue that the rejection of “a number of [Plaintiff’s] long-standing infringement arguments . . . significantly narrowed and clarified [Plaintiff’s] infringement contentions” such that “Defendants believed in good faith that the Court’s new rulings required supplementation of the invalidity contentions.” *Id.* at 8. As set forth below, Defendants have not shown that these rulings in good faith necessitated adding the twenty-eight new obviousness combinations.

When determining whether to exclude evidence based on a party’s failure to comply with the Patent Rules, a non-exclusive list of factors considered by courts includes:

1. The danger of unfair prejudice to the non-movant;
2. The length of the delay and its potential impact on judicial proceedings;
3. The reason for the delay, including whether it was within the reasonable control of the movant;
4. The importance of the particular matter, and if vital to the case, whether a lesser sanction would adequately address the other factors to be considered and also deter future violations of the court’s Scheduling Orders, Local Rules, and the Federal Rules of Civil Procedure; and
5. Whether the offending party was diligent in seeking an extension of time, or in supplementing discovery, after an alleged need to disclose the new matter became apparent.

Tyco, 2009 WL 5842062, at *1-*2.

As to prejudice, Defendants repeatedly argue that Plaintiff will suffer none because Defendants have not added any new references and because Plaintiff's expert has had adequate time to respond to the new combinations. On one hand, Defendants served Plaintiff with their new combinations more than three months before the trial setting, which would appear to allow Plaintiff sufficient time to analyze them and respond before trial. On the other hand, Patent Rule 3-3(b) requires disclosure of combinations, not just references, and thus does not expect the patentee to consider every possible combination of the references disclosed. P.R. 3-3(b) ("If a combination of items of prior art makes a claim obvious, each such combination, and the motivation to combine such items, must be identified."); *see also Realtime Data, LLC v. Packeteer, Inc.*, Civil Action No. 6:08-CV-144, 2009 WL 4782062 (E.D. Tex. Dec. 8, 2009), at *3 (finding that disclosing over 500 references while purportedly "reserv[ing] the right to combine" them "result[ed] in an impossibly high number of combinations to reasonably serve the notice function contemplated by the Patent Rules."). Further, requiring Plaintiff to respond to the twenty-eight new combinations—served after the close of discovery and less than four months before the trial setting—is a significant, unexpected burden, particularly given that the schedule for motions to strike expert testimony has now begun and the trial setting is less than two months away. *See* 7/11/2011 Order Granting Agreed Motion to Amend Docket Control Order, Dkt. No. 1000; *Tyco*, 2009 WL 5842062, at *3 (noting close of fact discovery as a consideration). On balance, this factor weighs in favor of striking the new combinations.

As to the length of delay and potential impact, motions to strike expert testimony are now being briefed and the trial setting is only two months away. *See* Dkt. No. 1000. Delay in motion

practice as to the new obviousness combinations would potentially disrupt trial preparations by the parties and the Court. This factor weighs in favor of striking the new combinations.

As to the reason for delay, Defendants do not explain how rulings in *Plaintiff's* favor could justify adding to *Defendants'* contentions. See *Finisar*, 424 F. Supp. 2d at 901 (“This exception is intended to allow a party to respond to an *unexpected* claim construction by the court.”) (emphasis added). The Court therefore focuses on the rulings that were in Plaintiff’s favor. As set forth above, one ruling in Plaintiff’s favor was in the Court’s construction of “transmitting the account information and transaction event information to a financial institution to initiate an electronic funds transfer” (Claim 67):

The Court . . . expressly REJECTS any argument by Defendants that the word “begin” in the Court’s construction must refer to the beginning of any particular electronic funds transfer step, such as those specified by ACH Rules.

Dkt. No. 981 at 17. The only other ruling in Plaintiff’s favor involved “verifying the account information” (Claim 67):

The Court . . . expressly REJECTS any argument by [Defendant] Capital One that “verifying the account information” requires determining whether “the transaction is accepted or rejected” or any other information regarding “approv[al] by the receiving bank.”

Dkt. No. 980 at 10 (citation omitted). Defendants have not explained in their briefing how their twenty-eight new obviousness combinations in good faith arose out of the Court’s rejection of these two positions advanced by Defendants.

Judge Ron Clark of this court’s district has addressed the issue of whether a claim construction ruling “in good faith” requires amending contentions:

This exception is intended to allow a party to respond to an unexpected claim construction by the court. This does not mean that after every claim construction

order, new invalidity contentions may be filed. That would destroy the effectiveness of the local rules in balancing the discovery rights and responsibilities of the parties discussed above. The Local Patent Rules exist to further the goal of full, timely discovery and provide all parties with adequate notice and information with which to litigate their cases, not to create supposed loopholes through which parties may practice litigation by ambush.

Finisar, 424 F. Supp. 2d at 901 (citation and internal quotation marks omitted).

A party cannot argue that because its precise proposal for a construction of a claim term is not adopted by the court, it is surprised and must prepare new invalidity defenses to meet claims of infringement. In the first place, courts seldom simply adopt the construction of one party or the other. Secondly, accepting such an argument would encourage parties to file narrow proposed constructions with an eye towards hiding important prior art until shortly before trial. Finally, one of the goals of the Federal Rules of Procedure and the Local Patent Rules is to speed up the litigation process and make it less expensive. A party simply can not wait until shortly before trial to prepare its case. Invalidity is an affirmative defense, and the party which does not properly investigate applicable prior art early enough to timely meet disclosure requirements risks exclusion of that evidence.

Id. at 901-02 (citing *Ferguson Beauregard/Logic Controls v. Mega Sys., L.L.C.*, 350 F.3d 1327, 1347 (Fed. Cir. 2003) (affirming enforcement of notice requirement of 35 U.S.C. § 282).

Defendants present no authority holding that new combinations are permissible simply because the constituent references were previously disclosed. Defendants cite *Realtime Data*, in which United States Magistrate Judge John D. Love granted-in-part and denied-in-part the patentee's motion to strike new invalidity theories and combinations. 2009 WL 4782062. As Defendants note, Judge Love permitted the accused infringer to assert some new obviousness combinations. *Id.* at *4. Yet, Judge Love limited the accused infringer to asserting five obviousness combinations because, in part, of the "failure to follow P.R. 3-3." *Id.* In particular, Judge Love concluded that "[l]anguage preserving a defendant an opportunity to later rely upon undisclosed combinations does not 'clearly suggest' the combination in the manner required by

Patent Rule 3-3.” *Id.* at *3. In sum, although Judge Love permitted the accused infringer to proceed with a few of the proposed new combinations in *Realtime Data*, Judge Love noted as a general matter that Patent Rule 3-3 requires timely disclosure of combinations, not merely references.

On balance, Defendants’ explanation that the new combinations became “highly relevant in light of the Court’s recent rulings” (Dkt. No. 1012 at 1) satisfies neither the plain language of Patent Rules 3-3 and 3-6(a)(2)(B) nor the rationale for those Rules as set forth in *Finisar* and discussed in *Realtime Data*. The “reason for delay” factor therefore weighs in favor of striking the new combinations.

As to importance, Defendants argue that the new combinations are “highly relevant” (Dkt. No. 1012 at 1) but have not shown that the new combinations are “vital to the case.” *Tyco*, 2009 WL 5842062, at *1-*2. Even had such a showing been made, the Court does not find how any sanction short of exclusion would adequately deter future violation of the Patent Rules and rectify the unfair prejudice to Plaintiff and the potential disruption to the Court’s schedule. To find otherwise would be to “create [a] loophole[] through which parties may practice litigation by ambush” any time the Court issues any ruling that bears on claim construction. *Finisar*, 424 F. Supp. 2d at 901. This factor therefore weighs in favor of striking the new combinations.

Finally, the diligence factor is either neutral or inapplicable because if Defendants had met the requirements of Patent Rule 3-6(a)(2)(B), the new combinations would have been timely under that provision, which permits amendment within “50 days after service by the Court of its Claim Construction Ruling.” This factor therefore does not apply to any extent not already considered in analyzing Defendants’ explanation for delay.

On balance, the exclusion of the twenty-eight new combinations is necessary and appropriate in order to meaningfully uphold the Local Patent Rules. The *Tyco* case analyzed analogous circumstances and found exclusion appropriate:

The Local Patent Rules and this court’s Scheduling Order are clear: [the defendant] was required to disclose any combination of, or motivation to combine, prior art it was asserting against a particular claim in its Invalidity Contentions. Failure to do so, unless substantially justified or harmless, means the evidence will be excluded. While the court takes [the defendant’s] point that experts should “not be required to copy the defendant’s invalidity contentions verbatim into their expert reports,” neither should they be permitted to opine on obviousness combinations or motivations to combine that were never disclosed for a particular claim in those Invalidity Contentions. This is especially true when the expert’s revelation is revealed for the first time in his report, well after the fact discovery period has closed.

Tyco, 2009 WL 5842062, at *3.

Plaintiff’s motion to strike should therefore be **GRANTED** as to the twenty-eight new obviousness combinations.² As to Plaintiff’s request to stay its deadline to serve its rebuttal expert report on validity, Plaintiff’s request should be **DENIED AS MOOT** as to the twenty-eight new combinations, which the Court has stricken by this Order.

Finally, Plaintiff has not shown or argued that it could not timely serve its rebuttal expert report as to the invalidity theories that were timely disclosed. *See* Dkt. No. 991 at 12-13. The briefing is not entirely clear on, for example, whether all but the new combinations were already addressed by the expert report that Plaintiff served in January 2011. To whatever extent Plaintiff requests a complete stay of the deadline as to all invalidity theories, not just the new combinations stricken by this Order, Plaintiff’s request should be **DENIED**.

² Plaintiff’s motion also sought to exclude two purportedly new anticipation theories, but Plaintiff acknowledged in its reply brief that Defendants had timely disclosed them. *See* Dkt. No. 1023 at 1 n.1 This Order therefore does not address those two anticipation theories.

III. CONCLUSION

Plaintiff LML Patent Corp.'s Motion to Strike Defendants' Supplemental Invalidity Contentions and Related Expert Opinion and Motion to Stay Deadline for Service of LML's Supplemental Rebuttal Expert Report on Validity (Dkt. No. 991) is hereby **GRANTED IN PART** and **DENIED IN PART**: Plaintiff's motion is hereby **GRANTED** as to the twenty-eight new obviousness combinations. Plaintiff's request to stay its deadline to serve its rebuttal expert report on validity is hereby **DENIED AS MOOT** as to the twenty-eight new combinations. To whatever extent Plaintiff requests a complete stay of the deadline as to all invalidity theories, not just the new combinations stricken by this Order, Plaintiff's request is hereby **DENIED**.

IT IS SO ORDERED.

SIGNED this 10th day of August, 2011.



DAVID FOLSOM
UNITED STATES DISTRICT JUDGE