

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 11-1406 JVS (ANx) Date January 14, 2013

Title Applied Medical Resources Corp. v. Tyco Healthcare Group LP

Present: The Honorable James V. Selna

Karla J. Tunis
Deputy Clerk

Not Present
Court Reporter

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

Proceedings: (IN CHAMBERS)
Order Granting Defendant’s Motion to Modify Scheduling Order and for Leave to Amend and Motion to Supplement Invalidity Contentions (fld 12-10-12)

The Court, having been informed by the parties that they submit on the Court’s tentative ruling previously issued, hereby GRANTS the defendant’s motions referenced above and rules in accordance with the tentative ruling as follows:

This action arises out of a patent for a surgical access device. Defendant Tyco Healthcare Group LP d/b/a Covidien (“Covidien”) moves this Court to modify the scheduling order and for leave to file a first amended answer, and separately moves to supplement its invalidity contentions. (LTA Mot., Docket No. 68; Mot. to Suppl., Docket No. 69.) Plaintiff Applied Medical Resources Corp. (“Applied”) opposes both motions. (LTA Opp’n, Docket No. 98; Suppl. Opp’n, Docket No. 97.) For the following reasons, the Court GRANTS both motions.

I. Background

Applied filed this action on September 13, 2011, alleging that Covidien’s SILS Port device infringes United States Patent No. 8,016,755 (“the ‘755 patent”). (Docket No. 1.) The ‘755 Patent discloses a surgical access device that facilitates sealed access with surgical instruments, such as a surgeon’s hand, during minimally invasive surgery. (See Docket No. 58.) On November 3, 2011, Covidien filed an answer, affirmative defenses, and counterclaims. (Docket No. 11.) On February 2, 2012, the Court issued its scheduling order, setting the cut-off dates for fact and expert discovery for October 29, 2012, and January 28, 2013, respectively. (See Docket No. 21.) The last day to file motions to add parties or to amend pleadings was April 2, 2012. (Id. at 1.) On October

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2, 2012, the Court granted the parties' joint request and stipulation to extend the cut-off dates for fact discovery to November 30, 2012, and expert discovery to February 15, 2013. (Docket No. 64.) Covidien filed this instant motion to modify the scheduling order and for leave to file a first amended answer on December 11, 2012, after the deadline for filing amended pleadings had passed. (See Docket No. 68.)

On March 22, 2012, Covidien served its initial disclosure of invalidity contentions. (Mot. to Suppl. Br. 2.) Also before the Court is Covidien's motion to supplement its invalidity contentions pursuant to Patent Local Rule 3-6,¹ following the discovery of new material and prior art. (See Mot. to Suppl.)

II. Legal Standards

A. Leave to Modify Scheduling Order and Leave to Amend Pleadings

A party seeking to amend pleadings after a scheduling deadline must satisfy the standard for modifying the scheduling order under Rule 16(b) of the Federal Rules of Civil Procedure. Johnson v. Mammoth Recreations, Inc., 975 F.2d 604, 607–08 (9th Cir. 1992). A party must show "good cause" for relief from a scheduling order. Fed. R. Civ. P. 16(b)(4). The good cause standard "primarily considers the diligence of the party seeking the amendment." Johnson, 975 F.2d at 609. The court may grant relief from a scheduling deadline if the deadline could not "reasonably be met despite the diligence of the party seeking the extension." Id. While a court may consider prejudice to the opposing party, "the focus of the inquiry is upon the moving party's reasons for seeking modification." Id. If that standard is met, the moving party must still meet the general limitations on the filing of amended pleadings, in this instance Federal Rule of Civil Procedure 15(a)(2).

Rule 15(a)(2) provides that a "court should freely give leave when justice so requires." Fed. R. Civ. P. 15(a)(2). In the absence of an "apparent reason," such as undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by prior amendments, prejudice to the opposing party, or futility of amendment, it is an abuse of discretion for a district court to refuse to grant leave to amend a complaint. Foman v.

¹ The Court has adopted the Local Patent Rules of the Northern District of California.

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Davis, 371 U.S. 178, 182 (1962); Moore v. Kayport Package Express, Inc., 885 F.2d 531, 538 (9th Cir. 1989). The consideration of prejudice to the opposing party “carries the greatest weight.” Eminence Capital, LLC v. Aspeon, Inc., 316 F.3d 1048, 1052 (9th Cir. 2003).

B. Supplement Invalidation Contentions

Under Patent Local Rule 3-6, a party may amend its preliminary invalidity contentions “only by order of the Court upon a timely showing of good cause.” The “good cause” inquiry “first considers whether [the] plaintiff was diligent in amending its contentions and then considers prejudice to the non-moving party.” CBS Interactive, Inc. v. Etilize, Inc., 257 F.R.D. 195, 201 (N.D. Cal. 2009) (citing O2 Micro Int’l Ltd. v. Monolithic Power Sys., Inc., 467 F.3d 1355, 1366–68 (Fed. Cir. 2006)). “The party seeking to amend its contentions bears the burden of establishing diligence.” Id. (citing O2 Micro, 467 F.3d at 1366–67). The moving party must show not only that it was diligent in moving to amend its preliminary invalidity contentions, but also that it “was diligent in discovering the basis for the proposed amendment.” West v. Jewelry Innovations, Inc., No. C 07-01812 JF (HRL), 2008 WL 4532558, at *1 (N.D. Cal. Oct. 8, 2008). To satisfy the diligence requirement, the moving party must offer specific facts to explain why there was a delay in discovering the prior art. See C & C Jewelry Mfg. v. West, No. 5:09-cv-01303-JF, 2011 WL 835821, at *1 (N.D. Cal. Mar. 4, 2011).

“Unlike the liberal policy for amending pleadings, the philosophy behind amending claim charts is decidedly conservative, and designed to prevent the ‘shifting sands’ approach to claim construction.” Id. (internal quotation marks omitted). Nevertheless, the Patent Local Rules are “not a straitjacket into which litigants are locked from the moment their contentions are served. There is a modest degree of flexibility, at least near the outset.” Comcast Cable Commc’ns Corp., LLC v. Finisar Corp., No. C06–04206, 2007 WL 716131, at *2 (N.D. Cal. Mar. 2, 2007).

III. Discussion

A. Proposed Allegations and Invalidation Contentions

The following proposed amendments apply to both motions. Covidien now seeks to include two additional factual bases in support of its affirmative defense and

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counterclaim based on Applied’s inequitable conduct before the United States Patent and Trademark Office (“PTO”) during prosecution of the ‘755 patent. (LTA Mot. Br. 1, 3–6.) These same facts form the bases for two new grounds for invalidity of the ‘755 patent. (See Mot. to Suppl. Br. 2–3.)

1. Gaya Arbitration Information

First, Covidien claims that the ‘755 patent’s prosecuting attorneys intentionally withheld from the PTO highly material information relating to an arbitration between Applied and Gaya Limited (“Gaya”). (LTA Mot. Br. 3.) This information shows that Applied misappropriated Gaya confidential information in developing both its own GelPort product and the subject matter disclosed and claimed by the ‘755 patent. (*Id.*) For example, Covidien claims that the idea of a gel or foam seal for use as a hand port is described in detail in Gaya’s notebooks. (*Id.*) Moreover, many of the ‘755 patent’s figures are “substantially similar” to drawings in the notebooks Gaya showed to Applied. (See *id.* at 3–6.) To support a finding of inequitable conduct, Covidien contends that Applied intentionally withheld from the PTO information regarding the arbitration and the fact that subject matter of ‘755 patent was derived from Gaya’s confidential information. (*Id.* at 6.) Further, the derivation itself is grounds for patent invalidity. (Mot. to Suppl. Br. 2.)

2. Nondisclosure of SILS Port as Prior Art

Additionally, fact discovery produced information showing that known prior art was not disclosed during prosecution of the ‘755 patent. Covidien alleges that claims of the ‘755 patent were drafted “in anticipation of litigation in an attempt to embrace Covidien’s SILS Port product, a product already on the market and in the office of the prosecuting attorney.” (LTA Mot. Br. 6.) The deposition of Applied’s witnesses led to the discovery that a prosecuting attorney for the ‘755 patent had samples, photographs, and drawings of Covidien’s product before drafting claims of the ‘755 patent. (Proposed Amended Answer ¶¶ 82–84, Docket No. 81.) Therefore, since Applied was aware of it, Covidien’s product constitutes prior art that should have been disclosed to the U.S. Patent Office. (LTA Mot. Br. 6.) Because Applied did not disclose this prior art, Covidien alleges that this supports a finding of inequitable conduct. (*Id.*) Moreover, this nondisclosure of prior art is an additional basis for invalidity. (Mot. to Suppl. Br. 2–3.)

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B. Leave to Modify Scheduling Order and Leave to Amend Pleadings

Per the scheduling order, any motion to amend the pleadings should have been filed and noticed by April 2, 2012. Thus the requirements of Rule 16(b)(4) to amend the scheduling order must be met in addition to the requirements to amend pleadings under Rule 15(a)(2). The Court will consider the parties' Rule 16(b)(4) and Rule 15(a)(2) arguments.

1. Rule 16(b)(4)

Covidien contends that good cause exists to modify the scheduling order because key documents related to the Gaya arbitration "were not made available to Covidien until the end of fact discovery." (*Id.* at 7.) Furthermore, Covidien did not take certain depositions until October and November of 2012. For instance, Curtis Huffmire, an attorney whom Applied had designated their corporate witness on topics concerning prosecution of the '755 patent, was not deposed until October 17, 2012. John Brustad, a named inventor of the '755 patent, was not deposed until November 13, 2012. These depositions revealed key facts that form the basis for Covidien's allegations of inequitable conduct. (*Id.*) Six days after Mr. Brustad's deposition, Covidien notified Applied's counsel of its desire to meet and confer per Local Rule 7-3 regarding Covidien's intent to amend its answer. (*Id.* at 7-8.) On December 11, 2012, Covidien filed the present motions.

Applied argues that Covidien has failed to show that it was diligent in discovering both the Gaya facts and the facts obtained from the depositions. First, it argues that it appears Covidien requested and received the notebooks from Gaya, but Covidien does not explain why it waited until well after the April 2012 deadline to do so. (LTA Opp'n Br. 8.) Applied also argues that Covidien did not provide evidence of when it first became aware of the arbitration between Gaya and Applied, or explain whether it had difficulties obtaining discovery regarding that arbitration. (*Id.* at 8-9.) Second, Applied argues that Covidien had asserted claims against Mr. Huffmire as early as November 3, 2011. However, it did not depose Mr. Huffmire until after the April 2012 deadline for amendment of pleadings even though he was available as soon as the first and only deposition notice was issued. (*Id.* at 9-10.)

The Court finds that Covidien has established good cause for modifying the

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scheduling order. Covidien's new allegations are based on facts obtained and confirmed during discovery which took place after the scheduling order's deadline for amended pleadings. The fact discovery cut-off date was November 30, 2012, and seeking amendment to add new information on December 11, 2012 was sufficiently prompt to be diligent. The fact that Covidien could have taken its depositions earlier, or asked for document production before the amendment deadline, does not in itself prove a lack of diligence. Therefore, the Court finds Covidien has demonstrated its diligence and thus, has established good cause to amend the scheduling order. Accordingly, the Court turns to whether there is reason to deny leave to amend under Rule 15(a)(2).

2. Rule 15(a)(2)

Under Rule 15(a), Covidien contends that it should be given leave to amend to add the two new factual bases. It argues that its motion is neither dilatory or made in bad faith. (LTA Mot. Br. 8.) Furthermore, allowing amendment at this time will not create undue prejudice for Applied because Applied is already in possession of facts relevant to the inequitable conduct affirmative defense. (*Id.* at 9.) Covidien argues that Applied's own actions form the basis for Covidien's amendment, and thus Applied and its counsel have been aware of such facts for years. (*Id.* at 9–10.) Lastly, it argues that the Court may grant leave to amend pleadings near or after the close of discovery. (*Id.* at 9.)

Applied argues that factors weigh against allowing the amendments, as set forth below.

i. *Gaya Arbitration Information*

Applied argues that Covidien should not grant leave to add the Gaya allegations because (1) it will face prejudice; and (2) there was undue delay in seeking to amend. First, Applied will be prejudiced because discovery would need to be re-opened to obtain discovery from Gaya, an Irish corporation. (LTA Opp'n Br. 11, 13.) Applied would need to take additional discovery regarding the materiality of the information, including (1) whether Gaya's design work had any affect on the monolithic access pad devices at issue in this case; (2) whether Gaya inventors conceived the invention of any asserted claim in the '755 patent; (3) whether there was a complete and enabling disclosure of the claimed invention to Applied; and (4) whether and under what circumstances the Gaya notebooks were made public. (*Id.* at 12.) Furthermore, Covidien added four current or former Gaya employees to its initial disclosures. (*Id.* at 12.) Applied would have to

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depose these new witnesses. Lastly, it argues that injecting the Gaya arbitration into a patent infringement trial would create “a trial within a trial” that would prejudice Applied’s ability to present a clear and understandable infringement case. (*Id.* at 13.)

Second, Applied argues that Covidien acted with undue delay in moving to amend its answer. As early as May 2012, Applied produced the Gaya arbitration decision and briefs, which contained numerous references to Gaya’s confidential notebooks. (*Id.* at 14.) However, Covidien did not request documents relating to Gaya until September 20, 2012, in an email to Applied’s counsel. (Bellinger Decl. ¶ 10.)

The Court concludes that allowing new allegations relating to the Gaya arbitration would not create undue prejudice to Applied. As Covidien points out in its reply, Applied has already engaged in extensive discovery during its arbitration with Gaya. (Reply to LTA Mot. Br. 7, Docket No. 101.) Any prejudice is not undue because Applied has been in possession of facts related to the arbitration. Moreover, such facts related to Applied’s GelPort device are pertinent to issues in this litigation.² (*See id.* at 7 n.2.) The Court is also not convinced that allowing the amendment will prejudice or distract from Applied’s ability to present its case of infringement. *See Foman*, 371 U.S. at 182 (“If the underlying facts of circumstances relied on by a plaintiff may be a proper subject of relief, he ought to be afforded an opportunity to test his claim on the merits.”).

Furthermore, Covidien did not act with undue delay in seeking to amend. Although Covidien knew about the Gaya arbitration as early as May 2012, given the complexity and volume of discovery documents, it is reasonable that Covidien would not recognize the significance of the arbitration until a few months later. And once Covidien became aware, it made prompt efforts to obtain relevant documents. (Reply, Cross Decl. ¶¶ 6–12, 18–20, Docket No. 103.)

² Applied contends that the arbitration focused on the development of the GelPort product, and not the monolithic access pad devices at issue here. (LTA Opp’n Br. 11–12.) Therefore, discovery would need to be taken regarding Gaya’s involvement with the development of those devices. (*Id.* at 12.) However, in its same opposition, Applied states that Applied’s witness statements from the Gaya arbitration are relevant because they describe Applied’s development efforts with respect to the monolithic access pad embodiment, not just the GelPort product. (*Id.* at 4; Bellinger Decl. ¶ 10.)

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Accordingly, factors do not weigh against allowing Covidien to amend its answer to add allegations relating to the Gaya arbitration.

ii. *Nondisclosure of SILS Port as Prior Art*

The Court also finds that the new information relating to nondisclosure of Covidien's SILS Port does not warrant concerns of prejudice. Applied has had the opportunity to depose its own prosecuting attorneys, Mr. Huffmire and Mr. Brustad, and presumably is in possession of facts relevant to the prosecution of the '755 patent.

Moreover, the proposed amendment is not futile. Applied argues that the amendments regarding the SILS Port will be futile because the allegations do not show an intent to deceive the PTO. (LTA Opp'n Br. 15.) The proposed pleading "alleges no specific facts from which intent to deceive can be inferred." (*Id.*) Furthermore, Applied argues that a patentee is entitled to claim its invention with the purpose of excluding a known competitor's product from the market, and thus, Covidien's allegations fail. (*Id.* at 17.)

Pursuant to Federal Rule of Procedure 9(b), inequitable conduct must be pled with particularity. "[T]he pleading must identify the specific who, what, when where, and how of the material misrepresentation . . . [and] include sufficient allegations of underlying facts from which a court may reasonably infer that a specific individual (1) knew of the withheld material information . . . and (2) withheld or misrepresented this information with a specific intent to deceive the PTO." *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1326–27 (Fed. Cir. 2009). Moreover, a court must determine if absent the inequitable conduct, "the PTO would have allowed the claim." *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1291 (Fed. Cir. 2011).

Although Applied argues that Mr. Huffmire was allowed to file a patent application for the purpose of excluding Covidien's product from the market, Covidien alleges more than that. It claims that fraud was committed in order to exclude Covidien's product. See *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988) ("Any such amendments or insertion [to exclude a competitor's product] must comply with all statutes and regulations, of course . . ."). Covidien alleges that, in order to cover the SILS Port product, Mr. Huffmire did not disclose this known prior art to the PTO, and instead cited other prior art as being the closest prior art. Covidien thus

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sufficiently pleads inequitable conduct, claiming that Mr. Huffmire intentionally withheld relevant prior art—the SILS Port—during the prosecution of the ‘755 patent, in order to misdirect the PTO. From such allegations, one can reasonably infer an intent to deceive. See Exergen, 757 F.3d at 1328–29. Furthermore, Covidien alleges that but for the failure to disclose this information, the ‘755 patent would not have issued with its current claims. (Proposed Amended Answer ¶ 91.)

Accordingly, factors do not militate against allowing Covidien to amend pleadings to add facts about the nondisclosure of the SILS Port.

In sum, Covidien has established good cause for modifying the scheduling order under Rule 16(b)(4), and there is no apparent reason to deny amending its answer to add the additional claims.

C. Supplement Invalidation Contentions

As discussed, Covidien seeks to supplement its invalidity contentions to include the additional grounds for invalidity: (1) the information relating to the Gaya arbitration; and (2) the nondisclosure of the Covidien SILS Port product as prior art. (Mot. to Suppl. Br. 2–3.) Covidien asserts that it has good cause for the proposed amendments. Under Patent Local Rule 3-6, a determination of good cause first addresses the moving party’s diligence and then looks to prejudice to the non-moving party. CBS Interactive, 257 F.R.D. at 201. Covidien’s arguments largely echo the good cause and prejudice arguments made in the previously discussed motion, which the Court found in its favor.³ The Court only addresses new issues raised by Applied.

1. Gaya Arbitration Information

Under Patent Local Rule 3-6, good cause to supplement includes “[r]ecent

³ Because of the similar inquiries under Federal Rules of Civil Procedure 16(b)(4), 15(a)(2), and Patent Local Rule 3-6, the Court adopts the above discussions regarding good cause and prejudice. See legal standards cited in Part II, *supra*. But see C & C Jewelry Mfg., 2011 WL 835821, at *1 (“Unlike the liberal policy for amending pleadings, the philosophy behind amending claim charts is decidedly conservative, and designed to prevent the ‘shifting sands’ approach to claim construction.”).

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discovery of material, prior art despite earlier diligent search.” First, Applied asserts that Covidien has failed to show good cause because the Gaya arbitration is not material to the present action. (*Id.* at 8.) It argues that the access devices in the Gaya arbitration are different from those claimed in the ‘755 patent. (*Id.*) Moreover, the arbitration did not find that Applied had derived any claims asserted in the present case. (*Id.*) Therefore, Gaya never disclosed to Applied a complete invention of any asserted claim, and so the evidence is only marginally relevant. (*Id.* at 9.) On the other hand, Covidien argues that the information is material because the notebooks and documents show correlation between Gaya’s hand port inventions and embodiments now claimed in the ‘755 patent. (Reply to Mot. to Suppl. Br. 3, Docket No. 100.) And the arbitration panel did not make an express finding of what Gaya inventions are within the scope of the ‘755 patent claims, because those claims had not been drafted at the time of the decision. (*Id.* at 3–4.)

The Court agrees with Covidien. The limited holding in the arbitration does not preclude a finding of invalidity in this case. The information related to the Gaya arbitration is pertinent to the inventorship of the ‘755 patent. If in fact Applied derived claims from information it obtained from Gaya, the ‘755 patent may be invalid. *See* 35 U.S.C. § 102(f). Furthermore, as discussed previously, Applied asserted that the Gaya arbitration did cover issues relevant to this case. Accordingly, the information is material.

Second, to support a finding of prejudice, Applied asserts that claim construction has already concluded. (*Id.* at 14.) If it had known about the derivation defense, Applied might have selected different claim terms for construction. (*Id.*) However, the Court finds that Applied will not be prejudiced given Applied’s familiarity with the Gaya issues before claim construction commenced. Covidien argues that Applied had been aware of this information during the claim construction process. (Reply to Mot. to Suppl. Br. 9.) Thus, Applied will not be unduly prejudiced by the amendment and good cause exists.

2. Nondisclosure of SILS Port as Prior Art

Next, Applied sets forth one additional argument in opposition to Covidien’s new invalidity contention regarding the SILS Port—the information is irrelevant and not “material.” Applied contends that the ‘755 patent is issued from a chain of patent applications dating back to at least September 21, 2000. Thus, since Covidien does not argue that the SILS Port existed before that date, it is not prior art to the ‘755 patent.

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(Suppl. Opp'n Br. 15.) However, the issue of inventorship is in dispute in this case, since Covidien argues that Applied is not entitled to rely on earlier activities to obtain an earlier date of invention. (Reply to Mot. to Suppl. Br. 19.) Thus, the new information may prove relevant.

Even so, Applied argues that the SILS Port is irrelevant if Covidien proves its theory that the '755 claims are invalid because they lack written description support in the common specification that was first filed in September 2000. (Suppl. Opp'n Br. 15.) Yet there is no reason why Covidien cannot assert alternative grounds for invalidity in its contentions. At this time, the nondisclosure of the SILS Port may be material in deciding the '755 patent's validity.

In sum, pursuant to Patent Local Rule 3-6, Covidien has shown that good cause exists to add the two new invalidity contentions. The new information is material, Covidien was diligent in discovering the bases for the additional invalidity contentions and in moving to supplement, and Applied will not be unduly prejudiced by the amendments.

IV. Conclusion

For the foregoing reasons, the Court GRANTS Covidien's motion to modify the scheduling order and leave to amend the answer, and GRANTS Covidien's motion to supplement invalidity contentions.

To the extent that Applied believes that it is entitled to further discovery, additional Markman constructions, or other modifications in the scheduling order, it should meet and confer with Covidien. Absent agreement, Applied is free to seek relief on noticed motion.

IT IS SO ORDERED.

Initials of Preparer

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