BNA's

# PATENT, TRADEMARK & COPYRIGHT

BNA Employee-Owned Since 1947

JOURNAL



PATENTS

The Federal Circuit recently held that the scope of a protective order against a patent infringement plaintiff's attorneys should be assessed on a counsel-by-counsel basis. By clarifying the standards, the court's decision resolves a split among district courts and allocates the relevant burdens, but finding a balance may be difficult for litigants and the courts.

## Federal Circuit Establishes Standards For Patent Prosecution Bars in Protective Orders

By Lynn C. Tyler

*Lynn C. Tyler is a registered patent attorney and partner with Barnes & Thornburg, Indianapolis, concentrating his practice in patent litigation. Any opinions expressed are solely those of the author.*

Amidst the clamor over the Supreme Court's recent decision in *Bilski v. Kappos*, 129 S. Ct. 2735, 95 USPQ2d 1001 (2010) (80 PTCJ 285, 7/2/10) and the Federal Circuit's decision in *Pequignot v. Solo Cup*, No. 2009-1547 (Fed. Cir., June 10, 2010) (80 PTCJ 223, 6/18/10), another recent Federal Circuit decision of some practical importance appears not to be garnering much attention.

 ISSN 0148-7965

*In re Deutsche Bank Trust Company Americas*, 605 F.3d 1373 (Fed. Cir. 2010) (80 PTCJ 160, 6/4/10), allocated burdens of proof and set forth standards for determining whether a protective order should include a patent prosecution bar for attorneys who obtain access to confidential information during a case and, if so, the scope and duration of the bar. This can be a contentious issue when, as is often the case, the parties to a patent case are competitors. District courts have taken different approaches to the issue, so the Federal Circuit's resolution is important to clarify and settle the law.

## Counsel-by-Counsel Standard.

The case arose when Deutsche Bank Trust Company Americas and another firm were sued for patent infringement by Island Intellectual Property LLC and other companies. Deutsche Bank sought a protective order that included a patent prosecution bar for all of the plaintiffs' counsel who had access to certain confidential information. The bar was to last for the duration of the case and a limited period thereafter.

A magistrate judge for the U.S. District Court for the Southern District of New York granted the motion, but excluded the plaintiffs' lead trial counsel from the patent prosecution bar. The magistrate judge entered an interim protective order that included a patent prosecution bar while Judge Victor Marrero considered Deutsche Bank's objection to the magistrate judge's ruling, and eventually the Federal Circuit continued the interim protective order in effect pending its decision on Deutsche Bank's mandamus petition.

After identifying clear abuse of discretion as the applicable standard of review and deciding that Federal Circuit law governed the issue, the Federal Circuit began its analysis of the merits by reviewing its decision in *U.S. Steel Corp. v. United States*, 730 F.2d 1465 (Fed. Cir. 1984). In *U.S. Steel*, the court held that the propriety of patent prosecution bars must be decided on a ''counsel-by-counsel basis'' depending on the extent of each counsel's involvement in ''competitive decisionmaking'' with its client. *Id*. at 1468. The court cited pricing and product design as non-exclusive examples of competitive decisionmaking. *Id*. at 1468 n.3.

The court then noted that there is a concern over inadvertent disclosure by trial counsel of confidential information subject to a protective order when the trial counsel also participates in patent prosecution on behalf of the same client. 2010 U.S. App. LEXIS 10837, at *11. An obvious example is where in litigation the adversary's proposed designs for new products are produced subject to the protective order, giving trial counsel the opportunity to ensure that any pending patent applications include claims that will cover the new designs.

The court cited one line of district court cases which hold that patent prosecution inherently involves competitive decisionmaking, and another line holding that trial counsel's participation in patent prosecution, standing alone, does not raise a presumption of inadvertent disclosure. *Id*. at **12-13. The court then sided with the latter, stating that ''it is shortsighted to conclude that every patent prosecution attorney is necessarily involved in competitive decisionmaking.'' *Id*. at *13.

The court noted that ''patent prosecution'' activities can range from ministerial, to high-level oversight, to highly strategic, and lots of points in-between. Thus, to decide the propriety of a bar, the facts of each attorney's involvement in prosecution must be known, as well as the possibility that his or her involvement could change during the relevant time. *Id*. at **14-16. The magistrate judge or district judge must ''examine all relevant facts surrounding counsel's actual preparation and prosecution activities, on a counsel-by-counsel basis.'' *Id*. at *16.

## Risk/Harm Balance, Burdens of Proof.

After the risk of inadvertent disclosure has been assessed, the district court must balance that ''risk against the potential harm to the opposing party'' from not being able to use the trial counsel of its choice. *Id*. at *17. The Federal Circuit identified several factors relevant to assessing this harm, such as the extent and duration of counsel's prior representation of the client before the PTO (presumably in a relevant technology), the client's reliance on that prior representation, and the hardship to the client from having to use different trial counsel. *Id*. at **17-18. The court noted that the more valuable trial counsel is to its client's prosecution efforts, the greater the risk of inadvertent disclosure, creating an inherent tension in this balancing effort. *Id*. at *18.

Concluding its analysis, the court placed the burden on the party seeking the patent prosecution bar to show that information that could require the bar would be the subject of discovery and that the scope of prohibited activities, and the duration of and subject matter covered by the bar, are reasonably related to the risk of inadvertent disclosure. *Id*. at *19. The court placed the burden on the party seeking an exemption from the bar to show, on a counsel-by-counsel basis, that (1) counsel's representation of the party before the PTO was not likely to involve competitive decisionmaking and (2) potential injury to the party from not being able to use trial counsel of its choice outweighed the potential injury to its adversary from inadvertent disclosure. *Id*. at **19-20.

The court remanded the case for reconsideration based on a ''full evidentiary record'' in light of its analysis and the relevant factors.

## Potential for Delays.

Although the *Deutsche Bank* decision appears theoretically sound, its implementation may present some practical problems for district courts and parties. District courts and plaintiffs, and sometimes even defendants, are concerned to have cases proceed quickly to final resolution by one means or another.

Because discovery typically cannot begin under Fed. R. Civ. P. 26 until the parties have had their Rule 26(f) conference, in many jurisdictions district courts hold an early pre-trial conference during which deadlines are adopted for initial disclosures, other discovery, *Markman* proceedings, summary judgment and other pretrial matters, and the trial date is set. In most jurisdictions, discovery cannot really begin in earnest, however, until a protective order is in place.

If the parties have a serious dispute over whether outside or in-house counsel can have access to certain information in discovery and the terms of that access, as they often do when the parties are rivals, the whole process can be delayed. Under the *Deutsche Bank* deci-

  PTCJ ISSN 0148-7965

sion, counsel's access and the terms of it involve factual inquiries that themselves can require discovery and a hearing to resolve.

This mini-satellite litigation could easily take months or more to resolve. Indeed, in the *Deutsche Bank* case, the magistrate judge's decision on this issue came six months after the case began; the district judge's decision came eight months after the case began; and, the Federal Circuit's decision was rendered over fourteen months after the case.

All of these times are remarkably prompt under the circumstances, but still add up to considerable potential delay and the result was a remand for more fact-finding. Although the docket reveals that the parties agreed to a protective order shortly after the remand, the issue could have festered for several more months before being resolved if the parties had not reached an agreement.

## Interim Orders Could Pose Problems.

There are solutions to the potential delay that a dispute over a patent prosecution bar or other protective order terms present, but they may raise issues also. For example, one option, as used in *Deutsche Bank* itself, is for the court to enter an interim protective order to govern discovery until the patent prosecution bar issue was resolved.

If the interim order imposes an interim patent prosecution bar, a party could decide that it does not want its preferred counsel to view the restricted material until a final decision is made on the bar. If the bar turns out to have been unnecessary, the party will have suffered some impairment to its right to counsel of its choosing. Its counsel may be able to participate in the case, but without access to all relevant information.

If potentially dispositive steps, such as *Markman* proceedings, take place in the interim, the party could lose substantive rights during that time. If the interim order does not impose a prosecution bar, and one turns out to have been necessary, the party and counsel will have to deal with an unanticipated restriction on counsel's practice and the other party may have suffered harm in the interim from disclosure or use of its confidential information. All of these outcomes are bad.

## Dealing With Fact-Based Inquiry.

Another potential problem also arises out of the factual nature of the inquiry. Counsel seeking unrestricted access to the most confidential information in discovery—typically denominated ''Attorneys' Eyes Only,'' ''Outside Counsel Only,'' or words to that effect—often submit an affidavit asserting that they do not participate in ''competitive decisionmaking'' for the party and offering varying amounts of supporting detail. These affidavits are presumably true as far as they go, but may present the facts in a favorable light.

A party that would prefer to keep its adversary's outside and/or in-house counsel from having access to its most confidential information, or at least have the counsel's practice be restricted if they obtain access, has a difficult decision to make about how much time and money to devote to seeking a patent prosecution bar. Should the party seek documents bearing on the issue? Review file histories of its adversary's patents in an attempt to gauge the extent of the relevant counsel's involvement? Should the party seek to depose any and all counsel submitting such affidavits? There could be several in any sizable case, so if nothing else the process could be expensive.

Further, many courts do not care for the bickering between counsel that would likely ensue. The dilemma gets worse, however, when one considers that Fed. R. Civ. P. 30(a)(2)(A)(i) establishes a presumptive limit of ten depositions per side in a case.

Few parties would want to use too many depositions on a protective order issue without any guarantee that the court will allow additional depositions on the merits of the case. A deposition of the adverse party or counsel under Rule 30(b)(6) may reduce the number of depositions necessary to address the issue, but then the risk is that the court may not allow any other depositions of the adverse party given that Rule 30(a)(2)(A)(ii) establishes a presumptive limit of one deposition per ''deponent.''

## Striking a Balance.

These are all potentially serious problems, but they could pale in comparison to having the details of your next generation product turned over to your adversary's counsel and allowing them to cover it with claims in a pending patent application.

These issues will also be difficult for district courts to decide because they are inherently speculative, as the *Deutsche Bank* court itself recognized. *Id*. at *18. How does a judge quantify the risk of inadvertent disclosure?

The *Deutsche Bank* court cites favorably to another court's statement that ''[i]t is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so.'' *Id*. at *9 (quoting *FTC v. Exxon Corp.,* 636 F.2d 1336, 1350, 205 U.S. App. D.C. 208 (D.C. Cir. 1980). If so, then the risk of inadvertent disclosure must be close to 100 percent as long as the counsel participates substantively in prosecution and the discovery actually contains competitively-sensitive information.

It is hard to imagine how district courts otherwise will be able to quantify the risk (apart from cases of no risk) in a reasoned manner. Similarly, how will district courts quantify the potential harm to the disclosing party if its information is used improperly despite the protective order? What is the harm if a next generation product becomes covered by a patent, which it otherwise would not have been, through the misuse of confidential discovery? The lost profits discounted to present value (an inherently speculative calculation) plus the future costs of the litigation (ditto)? On the other side, what is the harm to the party opposing the bar if it has to proceed with its second choice of counsel?

There are many excellent lawyers, so will the drop-off be that great? The party may argue that its first choice has a thorough knowledge and understanding of its business, so the drop-off could be severe notwithstanding the availability of other fine lawyers, but as the *Deutsche Bank* court noted that argument can be a double-edged sword. *Id*. at *18. None of these questions can be answered with any precision, so the balancing required may be crude and potentially arbitrary.

District courts often have to strike difficult balances or otherwise resolve close questions, so these points are not intended as criticisms of the *Deutsche Bank* deci-

sion. Rather, hopefully they will highlight some of the practical issues that must be considered when courts and litigants are confronted with a dispute over the propriety of a patent prosecution bar.

The *Deutsche Bank* decision is a valuable contribution to patent jurisprudence because it resolves the split between the district courts on the issue, allocates the parties' burdens, and identifies the relevant factors for the courts and parties to address.

  PTCJ ISSN 0148-7965