Western District NEWS

NEWSLETTER OF THE

WESTERN DISTRICT OF WISCONSIN
BAR ASSOCIATION

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Dean Kenneth Davis to Deliver Keynote at April 20 Western District Bar Luncheon

The Western District Bar Association is pleased to announce that University of Wisconsin Law School Dean Kenneth B. Davis, Jr. will be the keynote speaker at its annual meeting and luncheon to be held on April 20, 2006 at the Inn on the Park. This year's event will have an international flavor as Dean Davis will speak about the law school's work on international outreach, highlighting in particular, the school's relationship with a law school in China. The UW Law School has also, since 1983, held a popular five-week summer course in United States Law and Legal Institutions for foreign lawyers.

A graduate of the University of Michigan and Case Western Reserve Law School, Dean Davis has been a member of the faculty at the University of Wisconsin Law School since 1978. His teaching specialties, for which he has received numerous awards, include Business Organization and Securities Law. He was named Dean of the UW Law School in December of 1997.

In keeping with the theme of Professor Davis's remarks, we are delighted to host at the luncheon the Dean and Associate Dean of the University of International Business and Economics Law School in Beijing, China.

Following the luncheon, the WDBA will put on its annual Continuing Legal Education program in Room 250 of the Federal Courthouse. We will cover a wide swath of federal practice with six presentations on such topics as Intellectual Property, Patent Law, the Federal Tort Claims Act, and a look at the civil and criminal law opinions by the new Supreme Court justices. To end the day, United States Clerk Magistrate Theresa Owens will introduce attendees to the new court room technology, and the Western District judges will hold a question and answer session with attendees. A reception at the courthouse will follow.

Members Asked to Complete Survey on WDBA Services

The Western District Bar Association has, as part of its mission statement, the goal of providing services to association members, the Court, and the community. The Western District Bar Association and the Court are interested in learning whether those services which are currently being provided are useful to the Association's membership.

Additionally, the Association and Court are interested in learning what additional services practitioners in the Western District believe would assist counsel in their practice before the Court. We would appreciate members and non-members' responses to the survey inserted into this newsletter. Please complete and forward the survey by fax, e-mail or regular mail to:

Michael Modl
Axley Brynelson, LLP
P.O. Box 1767
Madison, WI 53701-1767
Fax: (608) 257-5444
E-mail: mmodl@axley.com

Updates From Clerk of Courts

Electronic Availability of Transcripts of Court Proceedings

The U.S. District Court of the Western District of Wisconsin is participating in a pilot project regarding the electronic availability of transcripts. The pilot project will apply to all transcripts of proceedings or parts of proceedings ordered on or after February 13, 2006, regardless of when the proceeding took place. The Judicial Conference policy establishes a procedure for counsel to request the redation from the transcript of specific personal data identifiers before the transcript is made electronically available to the general public. Detailed information on the pilot project and procedural guidance is located on the court's website at www.wiwd.uscourts.gov/e-transcripts.

Video Presentation System

The video evidence presentation systems in courtrooms 250 and 260 were replaced in January. Counsel will be able to display information through a new presentation cart that includes a document camera, DVD and VHS capability, and input for a laptop computer. All equipment is operated by touch screens located on the presentation cart and clerk's desk. Fifteen inch LCD flat panel monitors replaced CRT monitors located on the counsel tables, jury box, and judge's bench. Touch panel monitors will allow the witness and counsel to annotate evidence. Additional components include a portable projector and 100 inch diagonal screen and a 42 inch LCD monitor for the public gallery. Realtime reporting capability has been added to courtroom 250. Contact Erica Clark at erica.clark@wiwd.uscourts.gov or 608-261-5715 to schedule a training session.

Jury Management System

In March 2006 the court will implement a new automated-jury management system (JMS). The software application facilitates all aspects of jury management from the creation and maintenance of a jury pool, to panel creation, jury selection, reports, seating charts, and payment. Although the system does not create the master jury wheels, it allows for the automated random selection of jurors, a bar coding system for more efficiently taking juror attendance and tracking juror status, and a seating chart for voir dire. The estimated term of service for a federal juror will be three months.

Recent Supreme Court Removal Decisions Provide Warnings for the Unwary

By Andrew J. Clarkowski

A pair of recent Supreme Court decisions issued in the closing weeks of 2005 provides both reminders of potential pitfalls in removal cases, as well as the latest interpretation of procedural rules. The first case, *Lincoln Property Co., et al. v. Roach et ux.*, No. 04-712 (Nov. 29, 2005), arose from a toxic mold suit brought by plaintiffs, a husband and wife, against the manager of their apartment complex. The plaintiffs were citizens of Virginia; the named defendant, Lincoln Property Company, was identified in the pleadings as a Texas corporation. The suit was originally filed in state court in Virginia, and the defendant removed to federal court, invoking diversity jurisdiction. After the federal court issued a summary judgment decision adverse to the plaintiffs, the plaintiffs moved to remand the case to state court, alleging the absence of federal subject-matter jurisdiction, purportedly because the defendant was actually a partnership with one of its partners residing in the Commonwealth of Virginia. The district court denied the motion, and the case was appealed to the Fourth Circuit, which determined that the case should be remanded to state court because the defendant had not demonstrated the non-existence of a related Virginia entity which might have been deemed a real party in interest whose presence would destroy diversity. The Supreme Court granted *certiorari* for the purposes of resolving a division among the circuits on this issue.

The Supreme Court reversed the Fourth Circuit Court of Appeals, holding that it would be improper to place a burden on a properly joined defendant to negate the existence of a potential co-defendant whose presence in the action would destroy diversity. The Court noted that no party had been improperly or collusively named solely to create federal jurisdiction, and that the named defendant was in fact a party with a real interest in the case. The Supreme Court issued a strongly-worded warning against the Court of Appeals' attempt to look beyond the named parties to the litigation: "[i]n any event, we emphasize, the Fourth Circuit had no warrant in this case to inquire whether some other person might have been joined as an additional or substitute defendant." The Supreme Court concluded its opinion by reiterating the accepted rule that a corporation is deemed to be a citizen of any state in which it is incorporated as well as the state in which it has its principal place of business, rather than any state under which one of its affiliates may be deemed to have citizenship.

Aside from resolving the issue of whether a defendant is obligated to negate the existence of other parties whose presence would destroy diversity, *Lincoln Property Co*. serves as a useful reminder of black-letter removal principles: Complete diversity must exist among all named plaintiffs and all named defendants, and corporations shall be deemed to be citizens only of the states in which they are incorporated or which they have their principal place of business. *See* 28 U.S.C. ' 1332(c)(1).

A second case issued at the close of 2005 discussed a topic that is more ominous to practitioners, namely an award of attorney's fees. In *Martin et ux. v. Franklin Capital Corp*., No. 04-1140 (Dec. 7, 2005), new-Chief Justice Roberts issued an opinion to resolve what had been previously been a conflict between the Circuits on the issue on whether attorney's fees should be awarded under 28 U.S.C. ' 1447(c). Some Circuits (including the Seventh Circuit, see *Sirotzky v. New York Stock Exchange*, 347 F.3d 985, 987 (7th Cir., 2003)) had held that in cases of an improper removal, the plaintiff was presumptively entitled to an award of fees, while other Circuits had allowed fees only if there was no objective ground for removal. The Supreme Court chose the latter course, holding that, absent unusual circumstances, attorney's fees may be awarded only where the removing party lacked an objectively reasonable basis to seek removal; conversely, when there is an objectively reasonable basis for removal, fees should be denied. The Court emphasized, however, that district courts do retain the discretion to consider whether unusual circumstances would warrant a departure from this rule, and likewise retain the discretion to make such awards as are just. Thus, while *Martin* does articulate a standard for an award of fees in unsuccessful removal actions, the standard has been made somewhat higher than the previously-existing Seventh Circuit standard. Of course, because none of our well-informed readers would fall into the mistake of improperly removing, as a practical matter the effect of this decision will only make it harder for our clients to obtain an award of attorney's fees.

Inequitable Conduct: The Lessons of Hoffman-LaRoche, Inc. v Promega corporation

By James R. Troupis

It is said that inequitable conduct is "oft alleged, rarely proved." Wisconsin-based Promega Corporation's long-running and recently concluded litigation against Hoffmann-La Roche is a classic demonstration of that rare case. The stakes were enormous for the scientific community, and commensurate with that importance, more than 400 news articles have appeared over the years discussing the case and its implications. *See, e.g.*, *Roche's Taq Patent 'Obtained by Deceit', Rules US Court*, 402 Nature 709 (Dec. 16, 1999); T. Riordan, *Patents: Who First Identified a Key Enzyme in Biotech Research? Hoffmann-La Roche Has Money on It*, N.Y. Times, September 16, 1996 at D2. The litigation history itself stretches back more than twelve years with five reported decisions. *See Hoffmann-La Roche, Inc v. Promega Corp.*, 323 F.3d 1354 (Fed. Cir. 2003) ("*Promega I*"); 243 F.3d 564 (Fed. Cir. 2000), 1999 WL 1797330 (N.D. Cal. 1999) ("*Promega II*"); 33 U.S.P.Q 2d 1641 (N.D. Cal. 1994) ("*Promega III*"); 319 F. Supp. 2d 1011 (N.D. Cal. 2004) ("*Promega IV*"). Because this is one of those rare successful cases asserting inequitable conduct, this article explores the legal structure and some of the proofs to provide practical hints to Western District practitioners.

Of particular importance to the practitioner within the numerous cases spawned by the Promega/Roche battles, are an exceptional series of fact pattern descriptions that may be helpful in understanding the essential elements of an inequitable conduct allegation. The Federal Circuit decision, *Promega I*, describes in some detail a variety of different types of evidence utilized by the District Court and affirmed by the Federal Circuit that might lead to a conclusion of inequitable conduct. The 1999 District Court opinion, *Promega II*, referred to in subsequent opinions of both the Federal Circuit (*Promega I*) and the District Court (*Promega IV*), describes with great particularity numerous types of evidence that the District Court believed were sufficient to form the bulwark of an inequitable conduct case.

The Federal Circuit described the review standard succinctly: "While it is difficult to prove inequitable conduct, a district court's ruling on inequitable conduct is reviewed deferentially. The court's findings on materiality and intent are reviewed for clear error, and thus, will not be overturned in the absence of a 'definite and firm conviction' that a mistake has been made." *Promega I*, at 1359. That straight-forward conclusion points to the importance of developing proofs at the District Court level. Even the Federal Circuit, with its sometimes legendary disdain for District Court decisions will defer to clearly stated findings, supported in the record. (A comparison, though, of the Federal Circuit's decision and the meticulous findings of the District Court might still lead one to question how much real deference is paid, but the standard is clear and the holding applied it, within limits.)

Too often, the allegation of inequitable conduct is made at the District Court level and then evidence is introduced without the meticulous tie of that evidence to an articulated basis for inequitable conduct. *Promega I* is divided into specific factual areas and that factual organization was, as each Court effectively acknowledged, critical to the success of such complex allegations. There is a broad division among factual areas and then each factual area is analyzed, first for materiality and then for intent but only if the materiality threshold is satisfied.

The dissent in the Federal Circuit decision cites numerous examples in other cases that are termed the "plague" of inequitable conduct. *Promega I*, at 1372 (Newman, J., dissenting). That conclusion, rejected by the majority, was more a statement of policy than reality. (Motions for rehearing and rehearing *en banc* were denied.)

The Federal Circuit's decision to analyze each and every factual finding first for materiality and then for intent is an excellent method for the practitioner and court to follow. Recall, of course, that materiality "is not limited to matters reflected in the claims of a patent." *Promega I*, at 1367. "[I]nformation is material when there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue." *Id*. There is no "but for" standard applied to materiality. The Plaintiff's burden in materiality does not require that "but for" the improper statement the patent would not have issued. Rather, a matter is material if it is something the patent examiner would have found important in analyzing the patent application.

Repeatedly in the Promega decisions, both at the District Court and Federal Circuit, the patent holder misinterpreted the issue of materiality, arguing in effect that materiality is judged against particular claims of the issued patent. This was wrong on several levels, but most importantly it was wrong because the file history revealed that the misrepresentations were items the patent examiner had specifically discussed. (*See*, *e.g*., *Promega I*, at 1368 ("Thus, the purity results reported in Example VI and the reference to them in the office action response were central enough to the prosecution to be 'within a reasonable examiner's realm of consideration.'")). Specific discussions in the file wrapper were a central theme that led each Court to the inescapable conclusion that these items were "important" to the examiner. Without such discussions, it is considerably more difficult to demonstrate materiality. It is always error to judge materiality solely on the basis of the issued claims. The patent claims change regularly during the patent prosecution and the duty of candor is no less applicable simply because a specific claim did not issue.

Having properly separated materiality from intent, each of the courts that analyzed the Promega cases then sought to determine the kinds of proof that would be required to demonstrate "intent." The District Court provided extensive findings reflected in more than 180 separate findings of fact and 36 conclusions of law, which form the bulwark of the record reviewed by the Federal Circuit. *Promega II*. While the specific life science issues addressed in those findings may be important to practitioners in that field, the overall structure (*i.e*., materiality then intent) and the meticulous evidentiary review encompassed by so many specific findings of fact was far more important to the Federal Circuit conclusion.

It is axiomatic that "intent" can be demonstrated by a variety of proofs. Indeed, "intent . . . . is typically proved inferentially, *Molens PLC v. Textron, Inc*., 48 F.3d 1172, 1180, 33 U.S.P.Q. 2d 1823, 1828 (Fed. Cir. 1995), and a finding of intent does not require a confession from the stand by the inventor or the prosecuting attorney." *Promega I*, at 1371. Again, the standard to prove intent, often ignored by those attempting to uphold a patent, is common sense to an experienced trial lawyer. The trial of inequitable conduct, and the determination of what may constitute "intent" can be approached just as it is approached in many other contexts – by inference from a plethora of facts.

The District Court decision in *Promega II* can be extraordinarily helpful to practitioners and judges as they reflect on what type of evidence may prove intent (and to a lesser degree, materiality) in an inequitable conduct case. The Findings of Fact are a virtual encyclopedia of factual circumstances that may demonstrate intent in an inequitable conduct case and that list may certainly be helpful to anyone pursuing or defending inequitable conduct allegations. Among the areas discussed:

• Inventors direct verifications (as in all Applications) that they read the Application and the statements were true to the PTO (*Promega II*, Finding of Fact ("FF") 8, 17).

• Prosecuting attorney testimony that he relied on verifications of the inventors (*Promega II*, at FF 20).

• Inventors' testimony verifying review of the Application (*Promega II*, at FF 21, 58, 108).

• Custom of attorneys to rely on the technical expertise of the scientific inventors (*Promega II*, at FF 24).

• Summary Judgment findings previously made by the court (*Promega II*, at FF 30, 57, 79, 97).

*(See **CONDUCT** on page 6)*

CONDUCT

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• Intelligence – scientific acumen – of the inventors meant they had to know the statements were wrong (*Promega II*, at FF 34, 52).

• Response to Office Action (*Promega II*, at FF 26-27, 45, 107, 132).

• Prosecuting attorney's explanation that the Office Action Response was written to overcome objections (*Promega II*, at FF 46).

• Expert testimony that is credible (*Promega II*, at FF 50, 74, 92, 116, 139).

• Internal documents, memoranda, scientific notebooks (*Promega II*, at FF 61, 85-91, 95).

• Conflicts of testimony demonstrated during cross-examination (*Promega II*, at FF 63, 135).

• Failure of inventors to replicate prior art (*Promega II*, at FF 100).

• Documented conclusions, known to the inventors, from those outside the inventors labs (*Promega II*, at FF 111).

Importantly, intent is proved by the sum of a variety of evidence, not a single smoking gun. The practitioner must not build a case with an expectation that a single item of evidence will control the outcome, nor should the court expect to hear such a case.

There remain many important issues discussed in the Promega cases that will be analyzed in articles and court decisions for years to come. The importance of *Promega I*, in particular, to the ongoing development of theories of inequitable conduct is only beginning to be understood by practitioners.

James R. Troupis is a partner at Michael Best & Friedrich LLP and was the 2004-2005 President of the Western District Bar Association. He was lead trial counsel in the Promega litigation.

The Price of Asking Too Much

By Sarah A. Zylstra

The Court of Appeals for the Seventh Circuit is known for calling things like it sees them. Indeed, the court's barbs are a source of amusement for those local attorneys not on the receiving end. In a recent opinion, the court took aim at a counsel's request for attorney fees. The court's opinion offers important lessons for those appearing not only before the Seventh Circuit, but also before district courts in Wisconsin.

In Budget Rent-a-Car System, Inc. v. Consolidated Equity LLC, 428 F.3d 717 (7th Cir. 2005), Consolidated Equity appealed a decision of the District Court for the Northern District of Illinois. Shortly after the filing of the notice of appeal, the Seventh Circuit ordered Consolidated Equity to file a memorandum addressing why the court should not dismiss the appeal for lack of jurisdiction. After Consolidated Equity submitted its memorandum, Budget filed a four-page response. Budget also filed a motion for its attorney fees and costs. Following these submissions, the court determined that it did not have jurisdiction and dismissed the appeal. The court then ordered sanctions against Consolidated Equity for filing a frivolous appeal pursuant to Federal Rule of Appellate Procedure 38.[1]

Budget's counsel submitted a statement of fees of $4,626.50 for preparing its response memorandum. The fees represented 3.3 hours for partners at $425 per hour and 10.4 hours for associates at $310 per hour. Counsel also submitted a second statement for its fees and costs in preparing the motion for sanctions. The second statement sought an additional $4,354, which contained 1.2 partner hours and 12.4 associate hours.

[1] *Federal Rule of Appellate Procedure 38 provides:*
If a court of appeals determines that an appeal is frivolous, it may, after separately file motion or notice from the court and reasonable opportunity to respond, award just damages and single or double costs to the appellee.

Finally, Budget sought costs of $198.30, bringing the total amount requested to $9,178.80.

The court called Budget's statement of its fees and costs "exorbitant." Id. at 718. It then took aim at the jurisdictional memo Budget submitted, noting that Budget cited only five cases and that "for so modest a product, 13.7 hours of high-paid professionals' time [were] too many." Id. Finally, the court said it was "inconceivable" that this was "the going market price for such exiguous submissions." Id.

The court not only found fault with Budget's attorney fees, but also its statement of costs. Budget improvidently listed a $165 filing fee as one of its costs. The court quickly noted that it charges no "filing fee" for filing a motion for sanctions or responding to a jurisdictional memorandum. Id. After some short detective work, the court determined that the fee was actually for the admission for one of Budget's attorneys to the Seventh Circuit. The court did not mince words, calling Budget's listing of the fee as a filing fee a "mischaracterization." Id.

Not surprisingly, the story did not end well for Budget. The court, in a published opinion, noted that a number of cases "authorize the denial of an otherwise warranted request for an award of fees because the request is for an exorbitant amount." Id. Interestingly, however, none of the cases that the court cited for this proposition involved an appellate court's denial of fees for a frivolous appeal. Rather, the cases generally involved an appellate court's review of a trial court's decision to deny fees. The lack of case law on point may have led the court to add several citations to Rule 11 cases in support of its decision to revoke its original award of attorney fees to Budget. The court stated that under the old version of Rule 11, which required an award of attorneys fees be made, trial courts would issue two separate sanctions when counsel submitted an exorbitant fee request (one for the Rule 11 misconduct and one for submitting an excessive fee request). The two awards would then cancel each other out.

Regardless of the legal path, the Seventh Circuit vacated its original order for attorney fees, declaring in no uncertain terms that "[w]hen an award of fees is permissive, denial is an appropriate sanction for requesting an award that is not merely excessive, but so exorbitant as to constitute an abuse of the process of the court asked to make the award." Id. By submitting a request for fees that the Seventh Circuit considered excessive, Budget lost its opportunity to collect any fees for Consolidated Equity's frivolous appeal.

The Seventh Circuit's decision to vacate its order of fees in this case already has been cited by two trial courts within its district. See R.C. Samanta Roy Inst. of Science & Tech., Inc. v. Lee Enters., Inc., No. 05-C-422, slip op. at 8 (E.D. Wis. Jan. 18, 2006) (ordering fees but cautioning counsel to ensure that its statement of fees is reasonable before submission); Smith v. Shipping Utils., Inc., No. 05-500-GPM, 2005 U.S. Dist. LEXIS 30396, *12 (S.D. Ill. Nov. 23, 2005) (same). Therefore, counsel would be wise to take care when submitting a request for attorney fees and costs in the Seventh Circuit and the district courts within its district. A judicious exercise of self-restraint on a statement of fees may not only save counsel from an acerbic tongue lashing, but also from losing recovery of its fees entirely.

Western District NEWS

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