Doc. 22

Case No. 3:11-cv-02402-EMC

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Masterobjects, Inc. v. Microsoft Corp

under the patent laws of the United States, including 35 U.S.C. § 271. This Court has subject matter jurisdiction over this matter under 28 U.S.C. §§ 1331, 1338(a), 1367, 2201 and 2202. All parties are subject to the Court's jurisdiction, and Microsoft has been served.

### 2. Facts:

#### (a) MasterObjects' Statement:

This is a suit for the alleged patent infringement of U.S. Patent No. 7,752,326, entitled "System and Method for Utilizing Asynchronous Client Server Communications Objects," which issued on July 6, 2010. The inventions of this patent were conceived and reduced to practice by Inventor Mark Smit, the CEO of MasterObjects, plaintiff herein. MasterObjects alleges that Microsoft makes, uses, and sells products and technologies, including Microsoft's Bing Internet search engine with the Suggestions feature that, as the user begins to type in a search query, asynchronously suggests complete queries, and provides "instant" search results, that infringe Plaintiff's '326 Patent.

Microsoft, in its statement below, makes an extended statement on issues regarding the priority date of the patent, inventorship, and damages. MasterObjects submits that an extended statement of these issues is unnecessary in this joint statement. Suffice it to state, at this stage, that the evidence will not support Microsoft's defenses regarding the priority date of MasterObjects' patents and concerning the inventorship of these patents. Regarding pre-issuance damages, MasterObjects has informed Microsoft that it does not presently intend to pursue such damages. Nevertheless, discovery during the pre-issuance period is necessary and appropriate. Regarding the priority date issue, while MasterObjects disputes any challenge to its claimed priority date, MasterObjects does not necessarily object to an early summary judgment procedure on this issue.

# (b) Microsoft's Statement:

#### Microsoft's '911 Patent

On September 8, 1999, the PTO issued U.S. Patent No. 5,805,911 ("the '911 Patent"), entitled "Word Prediction System." Microsoft is the assignee of the '911 Patent, which claims various methods and for application independent text prediction. Microsoft believes that in 2004,

MasterObjects introduced a software product called "QuestFields," that includes functionality that suggests completions and additional related terms to refine a search query entered by a user.

Microsoft alleges that MasterObjects makes, uses, and sells products and technologies, including MasterObjects' QuestFields, mobile QuestFields, and ProductFinder QuestFields that infringe Microsoft's '911 Patent.

#### MasterObject's '326 Patent

According to MasterObjects, it has a single employee, Mr. Smit, the sole named inventor on the '326 patent, who resides in the Netherlands. The technology at issue relates to computer client/server technology, and MasterObjects accuses functionality such as Microsoft's Suggestions feature, which is a feature that offers queries as a user types the query within a search box. MasterObjects has accused Microsoft's Bing.com website, internet explorer, windows phone, browser toolbars, and mobile applications.

Microsoft denies all allegations that it infringes the '326 patent and has counterclaimed for declaratory judgment of non-infringement and invalidity.

Priority Date. The '326 patent was filed on October 25, 2005, which is the presumptive date of the alleged invention for purposes of claim construction and invalidity. However, the '326 patent is a continuation-in-part of U.S. Application 09/933,493 ("Parent application"), filed August 20, 2001, and entitled "System and Method for Asynchronous Client Server Session Communication." MasterObjects has informed Microsoft that it contends that it is entitled to claim priority to the 2001 Parent application for the claims of the '326 patent, which, if so, would shift the priority date of the claims of the '326 patent back to August 20, 2001. The priority date of the claims of the '326 patent is a threshold issue in this case as it determines the date of alleged invention for each claim, as well as what references might constitute prior art for purposes of validity. Such a determination will be relevant to the parties' claim construction analysis, since the claims must be construed from the standpoint of the hypothetical person of ordinary skill as of the date of the alleged invention. Microsoft's analysis of the priority date issue is in progress, and for now, as discussed in Section 4, Microsoft reserves the right to move for an early determination

that any one or more of the as-yet-to-be-asserted claims the '326 patent are not entitled to the earlier priority date of August 20, 2001.

Inventorship and Standing. Microsoft further observes that the earlier 2001 Parent application listed two named inventors: (1) Stefan M. van den Oord as the first named inventor, and (2) Mr. Smit as the second named inventor. On information and belief, Mr. van den Oord left MasterObjects' employ in 2003. In prosecuting the continuation-in-part application that eventually issued as the '326 patent, MasterObjects, however, elected not to name Mr. van den Oord as an inventor. Consequently, in discovery, Microsoft will further be investigating issues relating to inventorship, standing, and potential inequitable conduct, based on MasterObjects decision to seek the earlier 2001 priority date, yet to drop Mr. van den Oord, who was no longer an employee, as an inventor from the later application that issued as the '326 patent.

Pre-Issuance Damages. The '326 patent issued on July 6, 2010. MasterObjects has represented that it "does not presently intend to seek pre-patent issuance damages." To the extent that MasterObjects changes its position, then Microsoft reserves its right to move for an early determination as to this issue to obviate unnecessary and unduly burdensome discovery Microsoft reserves the right to file a separate summary judgment motion, addressing liability, at a later time if appropriate.

#### 3. Legal Issues:

(a) *MasterObjects' Statement*: : MasterObjects contends that Microsoft has directly infringed the claims of the Patent-In-Suit at least by making, using, selling or offering to sell, the accused instrumentalities. MasterObjects further contends that Microsoft has induced, and contributed to the infringement of others, conduct that constitutes infringement under 35 U.S.C. § 271(b), (c). MasterObjects denies that it has directly infringed the claims of the '911 Patent, denies that it has induced, or contributed to the conduct of others, that constitutes infringement under 35 U.S.C. Section 271(b) or (c), and contends that the '911 patent is invalid and unenforceable.

(b) *Microsoft's Statement*: Microsoft contends that MasterObjects has directly infringed the claims of the '911 Patent at least by making, using, selling or offering to sell, the accused instrumentalities. Microsoft further contends that MasterObjects has induced, and contributed to the infringement of others, conduct that constitutes infringement under 35 U.S.C. § 271(b). Microsoft denies all allegations that it infringes the '326 patent and has counterclaimed for declaratory judgment of non-infringement and invalidity.

- 3.1 Disputed Points of Law:
- (a) The meaning and scope of the asserted claims of the '326 patent and '911 patent.
- (b) Whether any of Microsoft's accused products directly infringe any of the asserted claims of the '326 patent.
- (c) Whether Microsoft has induced, contributed to, encouraged or aided others' indirect infringement of any of the asserted claims of the '326 patent.
  - (d) Whether any of the claims of the '326 patent are invalid or unenforceable.
- (e) Whether MasterObjects has dedicated to the public any of the claimed subject matter asserted against Microsoft.
  - (f) Whether MasterObjects has standing to assert the '326 patent.
- (g) Whether any of MasterObjects' accused products directly infringe any of the asserted claims of the '911 patent.
- (h) Whether MasterObjects has induced, contributed to, encouraged or aided others' indirect infringement of any of the asserted claims of the '911 patent.
  - (i) Whether any of the claims of the '911 patent are invalid or unenforceable.
  - (j) Whether the Court should declare the case exceptional under 35 U.S.C. § 285.
  - (k) Whether and what damages and/or other relief would be appropriate.
  - 4. <u>Motions</u>:

The parties anticipate that summary judgment motions will be filed at least on the issues of infringement or non-infringement, invalidity, and/or unenforceability. MasterObjects does not oppose an early hearing on summary judgment on the priority date of the '326 patent.

## (a) MasterObjects' Statement:

At this time, Plaintiff has no motions pending and does not anticipate filing any motions in the immediate future.

## (b) Microsoft's Statement:

As discussed in Section 2 above, Microsoft reserves the right to move for an early determination as to (1) no pre-issuance damages; and (2) the proper priority date for the as-yet-to-be-asserted claims.

# 5. <u>Amendment of Pleadings</u>:

The parties do not anticipate any amendments at the present time. Microsoft reserves the right to amend its Answer and to assert additional counterclaims as allowed by the Federal Rules of Civil Procedure and Local Rules of this Court.

#### 6. Evidence Preservation:

The parties confirm that they have taken steps to preserve evidence related to the issues presented by the action, including electronically stored information.

#### 7. Disclosures:

The parties have agreed to exchange their initial disclosures on August 23, 2011, and each party reserves its right to amend such disclosures as discovery progresses.

#### 8. Discovery:

#### **Depositions**

The parties have agreed to limit depositions in this case to a certain number of hours for each side, excluding experts, but disagree as to the particular limit (see below). Additional deposition hours may be provided subject to agreement or upon order of court for good cause.

#### (a) MasterObjects' Statement:

MasterObjects proposes that depositions be limited to 100 hours per side, because this is a complex case, with patent infringement being alleged both by MasterObjects in its complaint, and by Microsoft in its counterclaims.

#### (b) Microsoft's Statement:

Per the Federal Rules of Civil procedure, Microsoft proposes that depositions be limited to 70 hours per side. Microsoft's agreement to the above 70-hour deposition limit is based on MasterObjects' representations that MasterObjects currently has only a single employee, Mark H. Smit (CEO of MasterObjects and named inventor of the '326 patent), and there have been only twelve other employees or consultants over the life of the company.

#### Interrogatories

The parties agree to the 25-interrogatory limit per party pursuant to Rule 33(a)(1) with the understanding that interrogatory subparts, whether numbered or not, that are logically or factually subsumed within and necessarily related to the primary question are counted as one interrogatory. The parties reserve the right to request additional interrogatories for good cause.

#### **Documents**

The parties agree that they will meet and confer in good faith regarding search terms and electronically stored information. Discovery shall be on a rolling basis. The confidentiality of discovery materials, pursuant to Patent L.R. 2-2 is governed by the authorized Northern District of California Protective Order for Patent Cases in the absence of a stipulated protective order. The parties are currently negotiating modifications to the standard protective order, and will either file a stipulated protective order, or a motion identifying any disagreements in the various provisions for resolution by the Court (with the understanding that the former is clearly preferable).

The parties agree to produce electronically stored information in TIFF with Optical Character Recognition (OCR) with appropriate load files, or as an alternative, in agreed cases, (for example, where it would be unmanageable or impractical to handle documents in TIFF format, such as with voluminous spreadsheets) as native files. The specific form of production, and the agreed metadata and other document data to be exchanged, are the subject of a separate stipulation the parties are negotiating.

# Agreement Regarding the Scope of Discovery From Experts: With reference to expert reports and discovery, the parties as

With reference to expert reports and discovery, the parties agree that final expert reports and materials identified by the experts as relied upon by the experts in their reports are discoverable. (If an expert indicates in deposition that he relied upon a document or source not otherwise specified in the final report, that information is discoverable. This will facilitate full disclosure from the experts.) This agreement does not supersede any testifying expert's obligation under the federal rules to disclose materials considered as part of an expert report served in this matter. Attorney communications to and from a retained expert, draft reports and notes of retained experts relating to communication to or from attorneys are specifically not discoverable and do not need to be logged in a privilege log. Further, attorney communications with an expert in preparation for the expert's deposition or trial testimony are not discoverable.

The parties agree that privileged communications dated after the filing of this lawsuit will not be logged on a privilege log, unless good cause requires the logging of specifically identified documents or categories of documents. The parties will meet and confer in good faith to determine whether good cause exists that requires the logging of certain documents dated after the filing of this lawsuit.

Other than the above agreements, the limitations on discovery imposed by the Federal Rules of Civil Procedure shall apply, absent a stipulation by the parties and the Court's approval.

- 9. <u>Class Action</u>: This is not a class action.
- 10. Related Cases:
- (a) MasterObjects' Statement:

The following cases are pending in the Northern District of California, and also concern the alleged infringement of the MasterObjects '326 Patent:

· Google, Inc., CV 11-1054 PJH (SF Div.) (Hamilton, J.) (filed March 15, 2011)

• Yahoo! Inc., No.3:11-cv-02539-JSW (SF Div.) (White, J.) (filed May 25, 2011)<sup>1</sup>(b)

*Microsoft's Statement*: Although MasterObjects has filed three other actions asserting the same patent (including a case against Amazon.com, which has recently been dismissed), this case is not related to these other actions, which are against different parties with different products than Microsoft's. Indeed, upon Amazon's motion for consideration to relate this case with the Amazon case, Judge Hamilton in the *Google* case, denied that motion seeking to recognize the *Amazon* case are related to the *Google* case. Order (June 10, 2011) (Dkt. No. 27).

#### 11. Relief:

#### (a) *MasterObjects' Statement*:

MasterObjects is seeking the following relief: (1) an entry of judgment in favor of MasterObjects and against Microsoft, of direct and indirect infringement, and that the '326 Patent is valid and enforceable; (2) an award of damages adequate to compensate MasterObjects for the infringement, but in no event less than a reasonable royalty as permitted by 35 U.S.C. §284, plus both pre-judgment and post-judgment interest; (3) an injunction enjoining Microsoft from further infringement of the '326 Patent; and (4) a finding that this case is exceptional and an award to MasterObjects of its attorneys' fees and expenses as provided by 34 U.S.C. § 285.

MasterObjects is also seeking the following relief: (1) declaratory or other judgment of non-infringement of the '911 Patent; (2) declaratory or other judgment of invalidity of the '911 patent; and (3) a finding that this case is exceptional pursuant to 35 U.S.C. § 285 and award of attorneys' fees to MasterObjects. As discovery has just begun and MasterObjects continues to investigate the allegations set forth in the Complaint, MasterObjects specifically gives notice that it reserves the right to amend to add further affirmative defenses and/or counterclaims as may become available by law, statute, or upon discovery in this case.

MasterObjects had previously filed an action, *Amazon.com*, *Inc.*, No.3:11-cv-1055-CRB (SF Div.) (Breyer, C.) (filed March 7, 2011), that has now been dismissed without prejudice pursuant to stipulation.

(b) *Microsoft's Statement*: Microsoft is seeking the following relief: (1) declaratory or other judgment of non-infringement of the '326 Patent; (2) declaratory or other judgment of invalidity of the '326 patent; and (3) a finding that this case is exceptional pursuant to 35 U.S.C. § 285 and award of attorneys' fees to Microsoft. As discovery has just begun and Microsoft continues to investigate the allegations set forth in the Complaint, Microsoft specifically gives notice that it reserves the right to amend to add further affirmative defenses and/or counterclaims as may become available by law, statute, or upon discovery in this case.

Microsoft is also seeking the following relief: (1) an entry of judgment in favor of Microsoft and against MasterObjects, of direct and indirect infringement, and that the '911 Patent is valid and enforceable; (2) an award of damages adequate to compensate Microsoft for the infringement, but in no event less than a reasonable royalty as permitted by 35 U.S.C. §284, plus both pre-judgment and post-judgment interest; (3) an injunction enjoining MasterObjects from further infringement of the '911 Patent; and (4) a finding that this case is exceptional and an award to Microsoft of its attorneys' fees and expenses as provided by 34 U.S.C. § 285.

- 12. <u>Settlement and ADR</u>: The parties have met and conferred regarding ADR and have agreed to participate in private mediation before JAMS or a similar mediation practice located in the San Francisco Bay area thirty (30) days following receipt of the Court's claim construction order, but welcomes any informal discussions as between the parties at any time.
- 13. <u>Consent to Magistrate Judge For All Purposes</u>: The parties do not consent to assigning this case to a Magistrate Judge.
- 14. Other References: The parties agree that this case is not suitable for reference to binding arbitration, a special master, or the Judicial Panel on Multidistrict Litigation.
  - 15. <u>Narrowing of Issues</u>:
- (a) *MasterObjects' Statement*: MasterObjects does not believe that the issues may be narrowed at this time. As stated above, MasterObjects does not oppose an early hearing on summary judgment on the priority date issue.

- (b) *Microsoft's Statement*: As discussed in Sections 2 and 4 above, Microsoft may move for early determination with respect to the priority date issue.
- 16. <u>Expedited Schedule</u>: The parties do not believe that this type of case can be handled on an expedited basis with streamlined procedures.
  - 17. <u>Scheduling</u>: The parties propose the following dates for scheduling in this case:

MasterObject's	Microsoft's
	Proposed Dates
8/23/11	(same)
	(same)
9/13/11	(same)
10/28/11	(same)
11/14/11	(same)
12/5/11	(same)
12/23/11	(same)
1/13/12	(same)
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2/3/12	(same)
	, ,
2/24/12	(same)
3/2/12	(same)
	Subject to Court's
	availability
	Subject to Court's
	availability
	Proposed Dates 8/23/11  8/30/11 at 2:30 9/13/11  10/28/11  11/14/11  12/5/11  12/23/11  1/13/12  2/3/12

18. <u>Trial</u>: The parties have requested that this case be tried to a jury. The parties currently estimate 10-15 days for trial.

#### 19. Disclosure of Non-party Interested Entities or Persons:

MasterObjects has filed its L.R. 3-16 certification (D.E. 7).

Microsoft has filed its certification pursuant to Civ. L.R. 3-16 (Dkt. No. 13) and hereby restates that Microsoft, through the undersigned counsel, certifies that as of this date, other than named parties and their shareholders, there is no interest to report under Civ. L.R. 3-16.

20. Other Matters: The parties also discussed the following topics as set forth in Local P.R. 2-1(a):

# **Proposed Modifications of Obligations and Deadlines in Local Patent Rules:**

Scope and Timing of Claim Construction Discovery:

At this time, the parties do not anticipate relying upon expert witnesses for claim construction purposes. However, the parties reserve the right to rely upon experts, in which case each party will disclose whether it intends to use a claim construction expert witness, and will provide an expert declaration, in accordance with the deadlines provided in Local P.R. 4-2 and 4-3, and proposes that claim construction discovery (including any expert witness depositions) close in accordance with the deadline provided in Local P.R. 4-4. In the event that a party discloses an expert witness pursuant to P.R. 4-2, then the other party may designate a rebuttal expert witness by the deadline provided in Local Rule P.R. 4-3.

# **Format of Claim Construction Hearing:**

The parties do not anticipate live testimony at the Claim Construction hearing, and anticipate that MasterObjects will proceed with its argument, followed by Microsoft, for issues related to the '326 patent, and the order will be exchanged for arguments related to the '911 patent. The parties anticipate that four hours will be required for argument by all parties at the Claim Construction hearing.

# **How the Parties Intend to Educate the Court on the Technology at Issue:**

The parties propose to present the Court with a tutorial on the technology at issue the day before the claim construction hearing. The parties propose that each side be permitted 60 minutes.

#### **Agreement as to Service:**

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