IN THE UNITED STATES DISTRICT COURT
IN AND FOR THE DISTRICT OF DELAWARE

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LEADER TECHNOLOGIES, INC., a Delaware corporation, : CIVIL ACTION
:
Plaintiff, :
:
v. :
:
FACEBOOK INC., a Delaware corporation, :
: NO. 08-862 (LPS)
Defendant.

- - -

Wilmington, Delaware
Wednesday, March 23, 2011
TELEPHONE CONFERENCE

- - -

BEFORE: HONORABLE **LEONARD P. STARK**, U.S.D.C.J.

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APPEARANCES:

POTTER ANDERSON & CORROON, LLP
BY: JONATHAN A. CHOA, ESQ.

and

KING & SPALDING
BY: PAUL J. ANDRE, ESQ.
(Redwood Shores, California)

Counsel for Leader Technologies, Inc.

BLANK ROME, LLP
BY: STEVEN L. CAPONI, ESQ.

and

Brian P. Gaffigan
Registered Merit Reporter

APPEARANCES: (Continued)

COOLEY GODWARD KRONISH, LLP
BY: MARK R. WEINSTEIN, ESQ., and
MICHAEL G. RHODES, ESQ.
(Palo Alto, California)

Counsel for Facebook, Inc.

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P R O C E E D I N G S

(REPORTER'S NOTE: The following telephone conference was held in chambers, beginning at 2:31 p.m.)

THE COURT: Good afternoon, everybody. This is Judge Stark. Who is there, please?

MR. CHOA: Good afternoon, your Honor. This is Jonathan Choa from Potter Anderson & Corroon for Leader Technologies. With me is Paul Andre from King & Spalding.

THE COURT: Okay.

MR. CAPONI: Your Honor, Steve Caponi from Blank Rome. And I have with me Mike Rhodes and Mark Weinstein from Cooley for Facebook.

THE COURT: All right. For the record, and I do have a court reporter with me, this is our matter of Leader Technologies Inc. versus Facebook Inc., our Civil Action No. 08-862-LPS. The purpose of today's call is to discuss the issue regarding Rule 54(b) that has arisen between the parties and as set out in the letter of March 22nd.

Basically, I view it as essentially Leader moving for entry of partial judgment pursuant to Federal Rule of Civil Procedure 54(b). So Leader being the moving party, we'll hear from you first.

MR. ANDRE: Thank you, your Honor. This is Paul Andre for Leader Technologies.

I think as your Honor is well aware and as the parties agree, this is within the Court's discretion to certify the jury verdict and the Court's orders of March 14th under Rule 54(b). Judicial economy in this case really dictates that these orders stand, the jury verdict should be certified. As your Honor is aware, all the issues of liability have been decided in this case. There are no issues regarding infringement or validity that remain outstanding.

At this point, if the Federal Circuit Court of Appeals were to affirm your Honor's judgments that were entered, then this case would be essentially done, thus mooting any need to go through unenforceability claims of an invalid patent.

If, on the other hand, the case was remanded back for any reason to your Honor's court for further proceedings, you could at that point handle the inequitable conduct claims with the other issues that would be remanded back, thus having the economies weigh very heavily in favor

of certifying them under 54(b).

Just from a pure practical matter, if the Federal Circuit does remand anything back for your Honor, it is highly likely that once those issues will be decided, there will be a second appeal nonetheless. So by certifying this now, instead of going through another trial with your Honor, which would take several days obviously for the trial and another round of post-trial briefing, your Honor could be done with this. There would be no more drain on this Court's time. The Federal Circuit could make its determinations as to the validity or whatever other claims it would have outstanding.

If it does come back, then it will come back regardless. So economy is a strong factor in dictating 54(b) certification is correct, and this case is ripe for that type of certification.

A secondary consideration or a secondary factor we should look at are the uncertain legal standards at this time. The Federal Circuit has taken up the inequitable conduct issue on an en banc panel, and they're looking at several issues as to how you approve inequitable conduct. This is the Therasense case.

So, at this point, the only thing certain about inequitable conduct is the legal standard will likely change. If we were to take the case on before that decision

came down from the en banc court, then whatever decision would be made, it would be highly likely that that would be based on law that is out of date.

If we do immediately thereafter or right with the Therasense case, it would deprive the parties in the case and the Court the opportunity to have some case law interpretations, further interpretation of panels of the Federal Circuit. So that is another factor weighing in certifying at this point.

Finally, the last reason to certify at this point is the prejudice to Leader by making Leader to go forward with a trial at this point. As your Honor is aware, this claim of inequitable conduct did not come up in this case until the very last minute. Leader did not have a chance to really do much along this lines. It didn't have a chance to put forth an expert analysis, expert reports of any kind. We addressed, to some degree, a preventive measure in one of our expert reports because Facebook put forward an expert report along this line, materiality, but when they did so, the claim was not in the case, it was still pending.

We also didn't have a chance to file summary judgment. We think if this did go forward, this issue would be ripe for summary judgment, saving the parties and the Court significant resources in preparing for trial and going

forward in trial.

So in looking at all three of these factors, it weighs very heavily in favor of 54(b) certification and nothing that Facebook put forward in their letter would dictate otherwise.

The case law that they cited is not on point. The Ortho-McNeil case, for example, is one where validity and infringement issues were still outstanding. That is not the case here. That just reaffirm the fact it was within the Court's discretion. And, there, the Supreme Court affirmed the District Court's discretion in certifying under 54(b).

So there is no good reason at this point to go forward to try to find unenforceability of claims that have been found to be invalid.

THE COURT: Okay.

MR. ANDRE: Thank you, your Honor.

THE COURT: Thank you. Let me hear from Facebook, please.

MR. RHODES: Your Honor, this is Mike Rhodes. I'm going to let Mr. Weinstein argue. I just wanted to express Ms. Keyes' disappointment she could not attend today. She had a family emergency. I just wanted to express our apologies for that.

THE COURT: I hope everything is okay. Thank you.

Mr. Weinstein, you can go ahead.

MR. WEINSTEIN: Thank you, Your Honor. I'll address Mr. Andres' points in the order in which he presented them which I think tracks what was presented in his letter.

On the judicial economy point, your Honor, I think there is a fundamental disconnect here on what Mr. Andre was saying. He is saying, if your Honor's decision on the on-sale bar was to be affirmed, there would be no inequitable conduct issue because the patent is invalid.

That is not true. The reason the inequitable conduct claim is ripe and valid is because under Section 285 of the Patent Act, if there had been inequitable conduct in connection with the procurement of the patent, which we believe there has been, which is why we pled the claim, basically it would be entitled to seek recovery of its attorneys fees in connection with the defense of this case.

The inequitable conduct finding would also, in addition, provide an alternative basis, an additional basis to affirm your Honor's judgment. So the claim is completely valid.

And even if the Federal Circuit were to affirm the invalidity finding based on the on-sale bar, we still have a ripe and valid claim for inequitable conduct based on the exceptional case and its recovery fees.

The second point on judicial economy, your Honor, is that there is an extraordinary high degree of overlap between the on-sale bar issues that were adjudicated in the first trial and which would be the subject of Leader's appeal and the inequitable conduct claim. In fact, I would be hard pressed to identify any issue that they seek to appeal that is more intertwined with inequitable conduct than the on-sale bar issue that they seek to appeal.

We're talking about the same offers for sale, the same public demonstrations of Leader2Leader, the same witnesses, the same evidence that was presented in the first trial.

So if your Honor were to certify this and then we had a second appeal with respect to the inequitable conduct claim, we would essentially have two panels of the Federal Circuit at different times essentially considering the same evidence twice: one in the context of the on-sale bar and one in the context of the inequitable conduct claim.

Under the Curtiss-Wright case and the Ortho-McNeil case, that just doesn't make any sense to put the Court of Appeals through that kind of effort. And that is consistent with your Honor 's directions at the pretrial conference where you told the parties you intended to try the remainder of the case prior to any appeal.

On the legal standard issue, I think this is

also a red herring. The Therasense case has actually been pending for some time. Oral arguments were completed in November. It's fully briefed. So in most cases -- I did some analysis this morning and asked a couple of colleagues who were Federal Circuit clerks. In most cases, the Federal Circuit gets en banc cases out within six-to-eight months after the oral argument. We're already four months into Therasense on the oral argument, so it is exceedingly likely that by the time your Honor's scheduled court trial here on inequitable conduct, we would have a decision in the Therasense case.

As a more fundamental matter, just generally the parties have to take the law as they find it in any case. I mean if we stop adjudicating cases because there was a case before an appellate court, we would have the situation come up all the time.

But I suspect that we're going to have a decision. I mean no one can predict for sure, but I looked at the last six or seven en banc decisions and I couldn't find any case in which the Federal Circuit took more than seven months to decide the en banc decision after the oral argument was completed.

And the third point, your Honor, on prejudice that Mr. Andre addresses. This was not a claim that was brought into the case last minute. Your Honor found that we

were diligent and found good cause to allow the amendment under Rule 16(b) when you allowed leave to amend. We moved shortly after Mr. McKibben's deposition.

As far as the prejudice goes, I think your Honor already answered that question. In connection with granting leave to amend when your Honor noted that the evidence here is really in Leader's possession.

With respect to experts, they did put in portions of their expert report from Herbsleb on the issue of materiality. They deposed our expert Mr. Hughes on the issue of materiality. So the discovery and even the motion in limine with respect to this claim are all complete. So I don't think there is going to be any prejudice that they can cognizably point to with respect to that claim.

I think overall, your Honor, just, there is no perfect in certifying this case. It is just going to create essentially a second duplicative and piecemeal appeal which is contrary to the purpose of the 54(b).

Thank you, your Honor.

THE COURT: Okay. Thank you, Mr. Weinstein.

Mr. Andre, any response?

MR. ANDRE: Yes. Just very quickly, your Honor.

When we talk about judicial economy, I mean the fact of the matter is what Facebook has just articulated is a considerable amount of more work for your Honor in this

court. Certification at this point up to the Federal Circuit alleviates that burden on the District Court and on your Honor at this time.

The idea that the only reason you go after inequitable conduct for an invalid patent is attorney fees under Section 285 is a real thin reason to engage this Court to this level. I mean obviously you have to go through another set of pretrial issues, trial, post-trial briefing. And then if the Court did decide that there was inequitable conduct, as Facebook would intend, then you would have to have another round of motions for attorney fees.

This is something that is not in the best interest of this Court and it doesn't help the Federal Circuit at all. The economies here weigh very heavily in favor of certification.

As far as the prejudice to Leader, the prejudice is in the fact that we are, to some degree, a very small company and making us go fight the giant Facebook who is making billions of dollars a year is not something that is -- it is a great delay tactic for Facebook and will take months and months and months before we would even get to the appeal, maybe even years before we even get to the appellate level. Obviously, that is in favor of Facebook and would be prejudicial to Leader.

Thank you.

THE COURT: Okay. Thank you.

Well, as I said, I view this as a motion under Rule 54(b) by Leader, a motion for entry of partial judgment. And I'm going to grant Leader's motion.

I do think that this is a discretionary decision, and I think it's fully justified under the circumstances present here, applying the rule as it is written.

The rule, of course, states that the Court may direct entry of a final judgment as to one or more but fewer than all claims or parties only if the Court expressly determines that there is no just reason for delay.

Of course, here, it's undisputed that there is nothing left to do with respect to infringement or invalidity. All that is left is Facebook's counterclaim for unenforceability of the patent due to inequitable conduct.

I note that the Facebook false marking counter-claim is technically still out there, but Facebook has stated in its letter that that will be dropped, so the only remaining issue is the unenforceability of a patent that has been found to be invalid.

If we were to proceed in the manner that Facebook wants, there would be significant delay here for which there is no just reason. By my calculation, the delay would have to be at least six months, and perhaps much longer. And I get to that calculation first because

possibly somebody may want discovery. We've heard that the plaintiff would want a chance to move for summary judgment.

Just getting on my calender, which I can tell you is pretty full, for a two-day bench trial would take us, at best case, into the summer. I'm quite sure you would all want to file post-trial briefs following the trial. So absolute best case would get an opinion out to you maybe by the end of September. And then today, I'm hearing there might well be a motion for attorney fees to follow that.

So we are talking about quite a significant delay if this motion today were to be denied.

And as I said, I don't see any just reason for any further delay in getting this case to the Federal Circuit if that is where either party wishes to take it consistent with their rights.

Obviously, quite a lot has been done and decided in this court, so I imagine one or both sides sees numerous potential grounds for appeal. I don't see any significant prejudice to Facebook from deferring determination on the inequitable conduct counterclaim.

I do agree with plaintiff that judicial efficiency will be best served by sending this case up to the Federal Circuit now.

If the judgment down here is upheld on appeal, I hear Facebook that they're saying that they may well

nonetheless try to pursue their inequitable conduct counterclaims, but I think it would be at best largely moot, but certainly it's not an issue that is greatly pressing to determine the unenforceability or enforceability of a patent that has been found to be invalid.

And, of course, contrary, if the judgment of this court is not upheld on appeal, then it's almost certain the Court here will have to have another trial or at least certainly additional proceedings and it will be far more efficient to deal with the inequitable conduct counterclaim in a context of those subsequent proceedings.

While not a big factor, I have also considered the possibility that inequitable conduct law may be in flux. Possibly through the Therasense en banc decision, the legal standards may be changing.

I had an opportunity to review the earlier comments that I made I believe at the second pretrial conference which Facebook called out in its letter. And it's true that I said something to the effect that I intended at that time to try the remainder of the case prior to an appeal, but I can tell you, frankly, what I was focused on at that time was what would happen if Leader prevailed at the trial. It seems to me that the issue arose in that context. I think the issue was first raised by Mr. Andre at the first pretrial conference in that context

and then in the subsequent letters the parties wrote to me between the first and the second pretrial conference. The issue seemed to me mostly framed as what happens with respect to issues like willfulness and damages and also inequitable conduct if Leader were to prevail at the first trial. And so when I expressed my intent, that was at least what I had primarily in mind.

So for those reasons, I am going to grant the request to enter a partial judgment pursuant to Rule 54(b).

I'm directing that the parties meet and confer and submit to me a proposed form of judgment by this Friday, March 25th so that I can enter something and let you all move on, if that is what your intent is to do.

I don't want anymore argument, but I want to make sure I've been clear.

Are there any questions, Mr. Andre?

MR. ANDRE: No. Thank you, your Honor.

THE COURT: And Mr. Weinstein?

MR. WEINSTEIN: No, your Honor.

THE COURT: Okay. Thank you all very much. Good-bye.

(The attorneys respond, "Thank you, your Honor.")

(Telephone conference ends at 2:50 p.m.)